

BT Index Balanced Fund

Monthly report – 31 October 2021

Fund overview

Inception date	1 August 2016
APIR code	WFS0590AU
Fund size (AUD millions)	\$779.94
Investment objective	Seeks to deliver predominantly moderate growth and some income returns, which tracks the overall return of a diversified portfolio of underlying investments.
Recommended investment timeframe	5 years
Minimum initial investment	\$500,000
Distribution frequency	Quarterly
Management costs (%) pa ¹	0.33
Buy/sell spread (%)	0.08 / 0.09

Performance review²

Period ending 31 October 2021	1 month	3 months	1 year	3 years	5 years	Since inception
	%	%	%	% pa	% pa	% pa
Total return	0.45	0.27	19.92	10.29	9.26	8.27
Growth return	0.45	(0.12)	13.98	5.74	4.12	3.42
Distribution return	0.00	0.39	5.94	4.55	5.14	4.86

Actual asset allocation %³



- **Equity – Australian Listed – 32.74%**
 - BT Australian Shares Index Fund – 32.74%
- **Equity – International Listed – 25.31%**
 - BT International Shares Index Fund (Unhedged) – 20.21%
 - Blackrock Index Hedged International Equity Fund – 5.10%
- **Property – International and Australian Listed – 12.03%**
 - BT Property Securities Index Fund – 5.96%
 - Blackrock iShares Global Listed Property Index Fund – 6.07%
- **Fixed Income – Australian – 13.84%**
 - BT Australian Fixed Interest Index Fund – 13.84%
- **Fixed Income – International – 11.04%**
 - BT International Fixed Interest Index Fund – 11.04%
- **Cash – 5.03%**
 - Advance Cash Multi-Blend Fund – 5.03%

Market update

Climate change concerns and energy woes dominated the global economy this month as nations prepared for the UN's Climate Change Conference (COP26) and continued to respond to a tightening energy market. Focus on China continues as investors keep their eyes on the property sector, looking for any further indications of instability after September's Evergrande "almost-crisis". Financial markets, spurred on by strong September quarter earnings, sparked the bulls across Australia, the US and Europe.

Australia celebrated meaningful milestones during October as the country's vaccination rate surpassed Israel, the poster child for the COVID-19 vaccine rollout. States began to launch and fulfil re-opening plans as vaccine milestones were hit. Prime Minister Scott Morrison announced plans to reopen the international border following the completion of home quarantine trials in NSW and SA.

In NSW, the resignation of Gladys Berejiklian in the face of an ICAC investigation and subsequent appointment of Dominic Perrottet as premier at the beginning of the month has seen an acceleration of the states re-opening. Following Perrottet's speeding up of NSW restriction rollbacks, fully vaccinated people were allowed back at NSW pubs and beauty salons as well as able to play community sport and gather in large groups. Victoria saw a similar end to stay at home orders as the state reached its 80% vaccination rate a week ahead of schedule.

Internationally, COVID began to take more of a backseat in policy agendas. Japanese case numbers plummeted to the lowest in nearly a year this month however health experts remain vigilant as the threat of a winter rebound still exists. COVID cases in eastern Europe surpassed 20 million this month as more than 40% of those cases were reported in Russia where only 36% of the population has had at least one vaccine shot. The region continues to grapple with the worst outbreak since the pandemic started, as their inoculation efforts lag and morgues begin to reach full capacity. Ukraine extended their state of emergency until the end of the year to aid in reining in infection rates.

Australia

Housing became the hot topic this month for Australian regulators as October dwelling prices grew 1.5% - hitting a cumulative 21.6% growth over the year. Being the strongest annual growth since 1989, it seems some early signs of geographical divergence are beginning to appear as Perth prices fell -0.1% for the first time since June 2020. Growth across the two largest markets of Sydney and Melbourne has also slowed from the pace seen earlier in the year reporting 1.5% and 1% respectively.

As concerns increase over the level of sustainability for housing growth, multiple regulators have begun putting eyes on the market. The Australian Prudential Regulation Authority (APRA), Australia's banking regulator announced an increase in the serviceability buffer from 2.5% to 3%. This measure, that increases the buffer that lenders must use to assess the borrowing capacity of prospective borrowers, will formally come into place on 1 November.

Core inflation for the September quarter was released this month – surprising markets as it reached its highest levels in the last 6 years. Data from the Australian Bureau of Statistics (ABS) showed the headline consumer price index (CPI) rose 0.8% in the third quarter and 3.0% for the year, much as expected. However, the trimmed mean measure of core inflation favoured by the RBA rose 0.7% in the quarter, above forecasts of 0.5%. This gave capital to the RBA critics, as supposedly evidencing the stance that the RBA is behind the curve on inflation and monetary policy tightening should happen earlier than planned.

Unemployment was also a theme for the month as Australian media outlets reacted to PWC and Deloitte's report coining a post-COVID easing era as 'The Great Resignation'. The consultants published that almost 40% of workers in Australia are planning to change jobs within the next 12 months, following the phenomenon seen already in the US. The September unemployment rate was reported this month, citing a 10-basis point increase reaching 4.6%. As employment declined across the country, economists have attributed this predominantly to Victoria where the state absorbed nearly 90% of the fall in national jobs.

Australian markets were mixed this month as the ASX300 Accumulation returned 0.10%. Earnings announcements defined the tides of sectors, as Healthcare returned a strong (+3.05%) spurred on by companies such as CSL and ResMed beating their quarterly estimates. Financials, Consumer Discretionary and Materials all had solid months, returning (+2.78%), (+2.15%) and (+2.49%) respectively. Energy saw a downturn (-0.36%) as markets reacted to Australia's Energy Security Board announcing their forecasting that coal powered energy to be off the grid by 2030.

United States

Government spend was the primary theme of US events this month following the tensions in September over the debt ceiling. In the middle of the month, the House of Representatives gave final approval on the Senate passed bill to temporarily raise the government's borrowing limit to US\$28.9trillion. This temporary rise has quelled concerns – at least for now as it will delay the risk of default until early December. Lawmakers will have until 3rd of December to pass spending legislation to prevent a government shutdown.

The US has not been immune to energy woes as natural gas prices surged this month. The country's manufacturing purchasing managers' index (PMI) sunk 2.3 points this month to 58.4 as material shortages coupled with higher electricity prices saw a seven-month low of this metric. Energy prices contributed to an uplift of inflation in September as it edged up to 5.4% - a 13 year high.

September's unemployment rate dropped 40 basis points to 4.8%, the lowest rate since March 2020. However, economists have warned that this drop should be predominantly attributed to people leaving the labour force as the negative effects of Hurricane Ida and COVID's summer spike continue to be felt.

The Federal Reserve's (the Fed) Chair, Jerome Powell, announced that there is still ground to cover to reach maximum employment and therefore satisfy one of the two major hurdles for the central bank to raise rates. However, some action was seen from the Fed on the monetary policy front as it announced a decision to taper asset purchases. Criticism continues of the Fed's inflation stance (the second hurdle to raise rates) as commentators continue to analyse the "transitory" branding.

In news further south of the US, Venezuela opened their borders to Colombia for the first time in nearly three years. Venezuela closed the border in February 2019 as the Venezuelan opposition, backed by Bogota and Washington, attempted to bring humanitarian aid into the country through its land border with Colombia against the wishes of President Nicolas Maduro. Colombia prepared for this opening by deploying 14,000 troops to the border to monitor this activity. Venezuela will be hoping that this border opening will help boost cooperation and trade between the two countries as it continues to battle with a multi-year, hyperinflationary economic collapse.

US markets showed fully recovery from September spookiness, booming as the S&P returned 7.01%, the NASDAQ 7.29% and the Dow Jones 5.93%.

Asia

China reported its September quarter GDP numbers this month which disappointed market expectations and led to further uncertainty on the road ahead. The National Bureau of Statistics reported an annual growth of 4.9%, underperforming expectations for a 5.2% expansion. This puts China's GDP growth rate back on its bearish run that it held pre-pandemic. Underpinning this, was an additional disappointing quarter for industrial production underpinned by the tightening energy market.

This was mirrored in China's manufacturing PMI as a decrease was recorded in October to 49.2, deepening the contraction below the 50-point threshold first breached in September. Power shortages and higher costs in materials dragged this metric down, as underlying metrics of factory output, new orders and export sales all declined this month. For non-manufacturing PMI, though declining in October, showed robust recovery from August's sharp contraction. The country's consumer confidence for August was released this month reporting a 10-month low, as the government urged citizens to keep stores of daily needs ahead of what is predicted to be a tough winter.

In Japan, the newly elected Prime Minister Fumio Kishida got to work, announcing multiple new policy objectives. These include voicing a need for an economic stimulus package worth at least US\$282 billion to cushion the impact of the COVID pandemic. As well as this, Japan announced that it will begin to use its foreign reserves to buy ESG securities to combat climate change, as the country was not immune to the tightening energy market, recording power prices hitting a 10-month high for October.

India's headlines followed a similar flavour of responding to energy pressures as the world's biggest coal miner, Coal India, temporarily stopped auctioning coal to non-power customers. Customers such as aluminium smelters, cement manufacturers and steel plants had to look internationally for coal which translated into the country's second largest trade gap being recorded in October. Through sourcing this resource internationally, Indian manufacturers showed robustness this month as the manufacturing PMI increased by 2.2 points continuing the metric into its 4th month of expansion.

Asian markets reported mixed returns as while the Hang Seng showed strength in its 3.26% October return, the Japanese Nikkei 225, Shanghai Composite and Korean KOSPI all finished negative, reporting -1.89%, -3.20% and -0.58%

Europe

Energy and inflation remained the central themes for European activities this month, as Russian President Vladimir Putin attributed the tightening energy market to green energy transitions. The country, which provides Europe a third of its gas, is seemingly capitalising on energy concerns as it wagers additional gas shipping capacity to Europe for the approval of use of a pipeline crossing the Baltic Sea to Germany. Strong opposition of this approval being granted to Russia is from the Ukraine who answered a call to arms and announced that they will offer an additional 55 billion cubic meters of gas to Europe. As demand continues to surge for energy in Europe as nations continue to re-open and Winter approaches, economists remain concerned that price hikes will be passed onto consumers and ultimately boost inflation.

The IMF's European department voiced their view that the tightening energy market is a simple supply demand mismatch and should fade out during 2022 and therefore should have short lived effects on long term inflation. As the consumer price increases without underlying wages increasing too due to slack labour markets, the IMF expect there to be some impact on short term inflation.

However, the monetary policy story and inflation views seems to be diverging within Europe as emerging economies (predominantly in Eastern Europe) have seen stronger surges in price growth and higher levels of inflation. Czech Republican, Polish and Hungarian central banks all raised their rates within the past year to tackle inflation making it clear that they do not believe high inflation in this European block is transitory. Hungary is planning more drastic measures, including a nearly 20% increase of their minimum wage next year.

Annual inflation in the UK shrunk marginally by 0.1% for September as base effects saw a slowdown in restaurant pricing from last year's Eat Out to Help Out government scheme rolled out to encourage dining out. Consumer credit increased in September to -1.8% from -2.4% in August, however, still remains weak as increased credit card debt failed to balance repayments made on auto finance and personal loans.

Challenging supply chain headwinds continued this month in the UK impacted by rising energy prices and shortages of workers (notably tanker drivers). However, business metrics steered through robustly as the country's manufacturing PMI rose for the first time in five months in October, reaching 57.8 points – a fair recovery from September's seven month low of 57.1. Strength was also seen in the services sector as that PMI jumped to 58 in October, up from 55.4 the previous month showing that the effects of re-opening efforts are still being felt today.

Germany had a mixed bag of events, ranging from migrant influxes from Belarus to an outbreak of bird flu from a goose farm. Meanwhile ministers from the Bundestag responded to the energy issues assuring that Germany does not have a gas supply shortage but instead an organic withdrawal of reserves triggered by moving into winter. Following last month's election, a coalition has still not yet been formed with talks of early December being when a new chancellor will be finalised. These continued negotiations have opened up discussions of "what ifs" as researchers try to piece together possible policy outcomes based on the possible combination of parties in the coalition.

Europe had a weaker bull run than the US but still showed overall strength, as the Europe 600 STOXX reported 4.55%, the French CAC 40 4.76%, the German DAX -2.81%.

Footnotes

- 1 The Management Costs included in this fact sheet are inclusive of the Management Fee and any Performance Fees and includes the effect of GST (net of RITC). They do not include other indirect costs. Refer to the Product Disclosure Statement and online disclosures for further information.
- 2 Past performance is not a reliable indicator of future performance. Performance returns are calculated net of management fees and costs. Growth and distribution returns may not equal the total net return due to rounding.
- 3 Allocations may not equal 100% due to rounding.

For more information

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