BT Index Balanced Fund

Monthly report – 28 February 2022

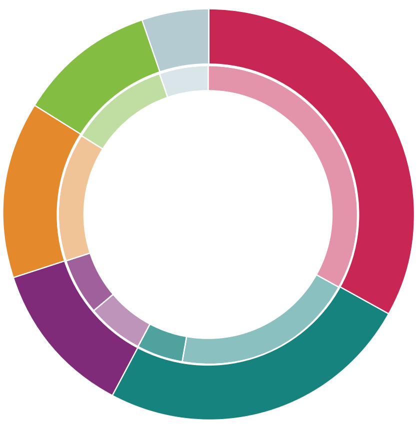
Fund overview

Inception date	1 August 2016
APIR code	WFS0590AU
Fund size (AUD millions)	$791.05
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 (%)	0.07 / 0.07

Performance review[2]

Period ending 28 February 2022	1 month	3 months	1 year	3 years	5 years	Since inception
	%	%	%	% pa	% pa	% pa
Total return	(0.96)	(3.05)	9.35	7.75	7.67	7.36
Growth return	(0.96)	(3.34)	3.88	3.41	2.56	2.77
Distribution return	0.00	0.29	5.47	4.34	5.11	4.60

Actual asset allocation %[3]



Equity – Australian Listed – 33.06%
- BT Australian Shares Index Fund – 33.06%

Equity – International Listed – 24.93%
- BT International Shares Index Fund (Unhedged) – 19.84%
- Blackrock Index Hedged International Equity Fund – 5.09%

Property – International and Australian Listed – 12.06%
- BT Property Securities Index Fund – 6.09%
- Blackrock iShares Global Listed Property Index Fund – 5.97%

Fixed Income – Australian – 13.87%
- BT Australian Fixed Interest Index Fund – 13.87%

Fixed Income – International – 10.94%
- BT International Fixed Interest Index Fund – 10.94%

Cash – 5.12%
- Advance Cash Multi-Blend Fund – 5.12%

Please refer to the end of this report for the footnotes

Market update

February saw continued equity market volatility due to concerns surrounding inflation, supply chain constraints, monetary policy, and rising bond yields. February also saw an escalation in geo-political tensions with Russia invading Ukraine adding further uncertainty to markets. Only time will tell what this will mean for central bank policy, economic growth, and financial markets in general.

Australia

While global events plagued what is normally a busy month for Australian companies, February marks half year and full year reporting for most listed Australian companies. Over the month of February, 164 of the ASX200 companies had reported their earnings results (138 companies reported half-year results to December 31, and 26 companies issued full-year results):

- 67% of the companies that reported half-year results lifted profits which is above the 60% long-term historical average.
- 88% of the 138 companies reported a statutory profit – the most in two years and in line with the long-term average.
- Aggregate cash holdings lifted 60%. While cash holdings of all 164 companies stood at a record AU$246 billion at 2021 calendar year end.
- 81% of companies issued a dividend – short of the 85% long-term average. Aggregate dividends lifted by 5.9%.

Costs have risen over the past six months; however, pressures haven't dramatically weighed on profitability. Cost pressures remain a dominant concern for chief executives from earnings rhetoric.

These results paint a strong picture of corporate Australia.

In addition to this, other key economic data points released over the month supported this story of a healthy and improving Australian economy. Wages grew at the fastest quarterly pace in nearly eight years, up 0.7% over the December quarter, to be 2.3% higher over the year. There are clear signs momentum in wage growth is building as wages growth stepped up to 2.5% in six-month annualised terms in the December quarter. A key indicator on which the RBA is keeping a close eye.

Furthermore, the latest national accounts revealed the Australian economy sprung back into action in the final quarter of 2021. Q4 GDP bounced back 3.4%, after a Delta-induced contraction of 1.9% in Q3. The recovery at the end of 2021 meant the economic expansion for the calendar year printed at 4.2%. The economy at the end of 2021 was 3.4% larger than prior to the pandemic. With consumer spending driving a large part of the recovery. The household savings ratio fell to 13.6%, as household consumption surged 6.3%, piercing the pre-pandemic level for the first time.

For 2022, the BT (Westpac) house view is expecting another leg up in economic output of around 5.5%, although this year isn't without its challenges. The Omicron wave is likely to have sidelined economic activity in the early part of this year.

The floods in Queensland will hurt economic activity before the rebuilding effort adds to growth. The highly uncertain and fluid developments in Ukraine will continue to wane on sentiment in the immediate term.

The Reserve Bank (RBA) kept the cash rate on hold at its March 1 meeting at 0.10%, where it has been since November 2020. The RBA has underscored the need for patience because of two key factors:

- Uncertainty over how long global supply-chain disruptions will persist, and
- Wages growth is not yet at a level the RBA considers appropriate.

The S&P/ASX300 Accumulation returned 2.09% for the month, bringing the one year rolling return to 10.25%.

United States

As we addressed in last month's commentary, the year started with a very strong focus on the strength of the US economy (particularly inflation) and expectations around the Federal Reserve (Fed) policy response.

While expectations have now tempered from a 50bps point rise to a 25bp rise in the Fed funds rate at their March meeting, inflation continues to be a very real problem facing the US economy, regardless of any additional geopolitical pressures.

During the month, US Fed Chair Jerome Powell told a House panel that he backs a quarter-point move, but he left open the possibility of a larger hike if inflation remains elevated. Powell said he will "proceed carefully" with hikes, emphasising the "need to be nimble in responding to incoming data and the evolving outlook". He also acknowledged the uncertainty posed by the war in Europe but reiterated the need to remove pandemic support had not changed and is open to a "series of rate increases" in 2022.

As for economic data, ADP employment in February was stronger than expected. Employment rose 475k in February, well above consensus expectations for an outcome of 375k. Most job gains were in services and hospitality as the economy continued to reopen.

The ISM manufacturing index rose to 58.6 in February, which was above consensus expectations and the 57.6 result in January. Furthermore, US retail sales rose 3.8% in January, the most in 10 months and beating estimates. The biggest gains were amongst non-store retailers, furniture, and autos.

In the latest beige book released in February, it was noted economic activity in the US has expanded at a modest to moderate pace since mid-January. It noted that many districts reported that the surge in Covid-19 cases temporarily disrupted business activity, as firms faced heighted absenteeism.

Over the month the S&P returned -2.99%, the NASDAQ was down – 3.35% and the Dow Jones -3.29%, bringing annual returns to 16.39%, 4.92%, and 11.59% respectively.

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Asia

In China data reports showed inflation pressures eased in January, despite recent expansionary policy changes from the Peoples Bank of China (PBOC). The result gives the central bank more leeway to ease policy settings and stimulate the slowing economy.

Furthermore, China's National Development and Reform Commission (NDRC) said inflation risks will fall this year for China. The NDRC expects shifting monetary policies abroad to weaken the global commodities rally. It also expects lingering Covid and global-supply concerns to ease.

The producer price index (PPI) increased by 9.1% in the year to January. This is down from a 10.3% annual increase in January and below consensus expectations of a 9.5% rise.

The Consumer price inflation also slowed. The CPI jumped 0.9% over the year to January, down from a 1.5% increase over the year to December.

The Japanese Nikkei 225 and the Hong Kong Hang Seng both finished the month down, reporting -1.71% and -4.58% respectively. The Korea KOSPI and Shanghai composite bucked the trend ending up 1.35% and 3.00% respectively.

Europe

As for Europe and the UK, the immediate economic risk from the conflict in Ukraine appears to be the most significant given its geographical proximity and reliance on trade.

In the UK, January Inflation data surprised to the upside. The CPI index jumped 5.5% over the year to January. This is the fastest annual pace of inflation since March 1992. However, the pace of increase of CPI pulled back 0.1% over the month of January, providing some indication that inflation pressures may be slowing given the recent rate rises.

Core CPI, which excludes volatile items such as food and energy, increased by 4.4% over the year to January, this is up from a 4.2% annual rise in December and is the fastest annual pace since May 1992.

Produce prices also rose in January. The Producer Price Index (PPI) jumped 1.2% in January, following a 0.3% rise in December. In annual terms, producer prices surged 9.9% in January, up from 9.3% in December. It is expected this will lend further support to calls for the Bank of England (BoE) to hike rates further at their next meeting in March. The BoE was the first of the major developed countries to raise rates in December 2021.

Across the Eurozone, producer price inflation spiked in January following slightly softer results over the previous two months. Producer prices jumped 5.2% in the month, up from a revised 3.0% in December. The result was well above consensus expectations of a 2.8% rise. In annual terms, producer prices surged 30.6%. This is the fastest annual pace of growth in the history of the series, going back to 1982.

The unemployment rate fell to its lowest level since records began in April 1998. The unemployment rate hit 6.8% in January, falling from 7.0% in December.

While the services PMI came in at 55.5 in February, this is solidly above January's result of 51.1. While this data paints an optimistic picture of growth, we will have to wait and see the impact extent of the Russian conflict - and flow on effects - to energy prices and supply chains, in order to determine the full impact to the UK & European economies.

The Europe 600 STOXX reported a loss of -3.36%, the French CAC 40 -4.86%, the German DAX -6.53% and the UK's FTSE100 ended nearly flat -0.08%.

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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

bt.com.au | 1800 819 935 | investorservices@btfinancialgroup.com

GPO Box 2675, Sydney, NSW 2001

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