

BT Index Defensive Fund

Monthly report – 31 October 2022

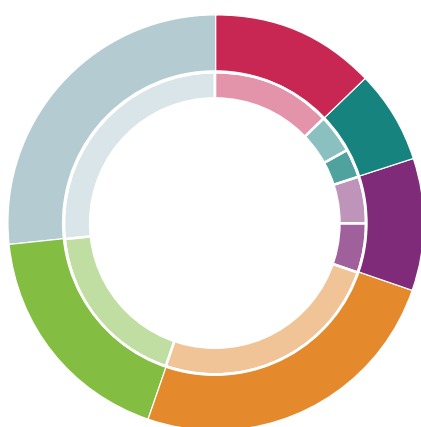
Fund overview

Inception date	1 August 2016
APIR code	WFS0588AU
Fund size (AUD millions)	\$238.07
Investment objective	To provide investors with predominantly income and some growth returns, with a low probability of loss over the short term which tracks the overall return of a diversified portfolio of underlying investments.
Recommended investment timeframe	3 years
Minimum initial investment	\$500,000
Distribution frequency	Quarterly
Management costs (%) pa¹	0.34
Buy/sell spread (%)	0.06 / 0.06

Performance review²

Period ending 31 October 2022	1 month	3 months	1 year	3 years	5 years	Since inception
	%	%	%	% pa	% pa	% pa
Total return	2.18	(2.89)	(6.64)	(0.18)	2.36	2.44
Growth return	2.18	(3.13)	(9.82)	(3.59)	(1.07)	(0.92)
Distribution return	0.00	0.24	3.18	3.42	3.43	3.36

Actual asset allocation %³



- Equity – Australian Listed – 12.98%**
 - BT Australian Shares Index Fund – 12.98%
- Equity – International Listed – 7.15%**
 - BT International Shares Index Fund (Unhedged) – 3.99%
 - Blackrock Index Hedged International Equity Fund – 3.16%
- Property – International and Australian Listed – 10.29%**
 - BT Property Securities Index Fund – 5.11%
 - Blackrock iShares Global Listed Property Index Fund – 5.17%
- Fixed Income – Australian – 25.05%**
 - BT Australian Fixed Interest Index Fund – 25.05%
- Fixed Income – International – 17.88%**
 - BT International Fixed Interest Index Fund – 17.88%
- Cash – 26.66%**
 - Advance Cash Multi-Blend Fund – 26.66%

Market update

Markets rallied over October against a strong headwind of a tighter US rate rise trajectory, mixed economic data across the globe, a new UK prime minister and still no let-up of the Chinese leadership's zero-COVID policy. Concerns remain over energy supply as Europe moves towards the winter months and whilst on the topic of Europe, the impacts of their central banks' October rate rise to combat record levels of inflation being reported in that region. As we look ahead, global recession remains a front-of-mind topic of discussion.

Australia

Producer price inflation continued to increase through the September quarter. The Producer Prices Index (PPI), which measures the average change over time in the selling prices received by domestic producers for their output, accelerated 1.9% over the quarter. This brought the index's rise to 5.6% over the year to September. This suggests that inflationary pressures are still building in the pipeline.

Headline inflation continued to accelerate rapidly in the September quarter, surging to 7.3% - the highest annual pace in over 32 years.

While global supply-chain disruptions and energy price shocks are major drivers of inflation, pressures continue to spread across a range of spending categories. Strong domestic demand is marking up against constrained supply, leading to further increases in prices. Of all the spending categories and sub-categories measured by the Bureau of Statistics, over 85% grew at an annual pace of more than 2.5% (the mid-point of the RBA's 2-3% target band). The last time more than 85% of categories and sub-categories grew at an annual pace of over 2.5% was in 1990.

On the back of this, core (trimmed mean) inflation accelerated to 1.8% in the September quarter, reaching a fresh annualised high of 6.1%. The quarterly run rate has now been above 1.0% for four consecutive quarters. The last time this occurred was pre-GFC 2007-08.

Given that domestic drivers of inflation are still heating up rapidly, it's of considerable concern for the RBA who weighted its decision to slow the pace of hikes this month on "the potential for inflation to subside quickly".

It was announced on October 20th that September's unemployment rate remained at 3.5% (labour statistics come in with a lag). The labour market could be showing signs of easing with the large employment gains since the end of the Delta lockdowns. Though while there are some early signs of that easing, the labour market remains incredibly tight as employers may be taking a wait-and-see approach. This may be due to the 'right skills' being harder to come by with the unemployment rate close to a 50 year low.

The jobs market is likely to continue to remain tight until we see economic activity slacken. It is expected that this is to happen near the backend of 2023 as higher interest rates and increases in the cost-of-living weigh on spending.

Export prices posted their first quarterly fall since 2020 over the September quarter. Export prices declined 3.6% over the quarter, driven by weaker iron ore prices on softening Chinese demand. This follows a massive 10.1% increase in

export prices over the June quarter. Meanwhile, import prices increased for a 7th consecutive quarter, jumping 3.0% on the back of rampant global inflation. This followed a 4.3% quarterly increase in import prices over the June quarter.

Regarding sentiment, the consumer sentiment index declined to 83.7 in October from 84.4 in September. Sentiment remains deeply entrenched in negative territory, though pundits think the fall could have been much worse.

Consumers surveyed prior to the RBA's smaller-than-expected rate hike of 25bps, recorded an average read of 77.4, the second lowest since the early 1990s. Interestingly, subdued sentiment has not yet translated into weaker spending. However, a slowdown in spending is inevitable as rate hikes eventually begin to bite. Until this slowdown in spending materialises, it is likely that business conditions will remain favourable alongside the strength in consumer demand.

The ASX300 Accumulation Index rose 5.96% over the month, bringing the 1-yr rolling return up to -2.61%.

United States

US equities remained volatile over the month as corporate America's earnings season played out, while consumer confidence tumbled to a 3-month low as widespread inflation and growing concerns about the economic outlook weighed on American households.

The Consumer Confidence Index declined to 102.5 in October from September's 107.8. This was the largest one-month decline in the index since May 2022, and was considerably softer than consensus which expected a more modest drop.

The S&P Manufacturing PMI declined to 49.9 in October, meaning that manufacturing activity moved into contractionary territory (an index reading below 50) for the first time since June 2020. This followed a 52.0 outcome in September and was below consensus expectations of 51.0. New orders declined while output remained resilient as firms worked through their backlog of orders.

Services activity also weakened in October, remaining in contractionary territory for the 4th consecutive month. The S&P Services PMI declined to 46.6 in October, from 49.3 in September. This was below consensus expectations of 49.5.

The 1-year ahead inflation expectations measure slipped to 5.0% (est. 5.1%, prior 5.1%), but the much longer-term 5-10-year inflation expectations gauge remained at 2.9% (as expected). The employment cost index for Q3 rose 1.2%, as expected by consensus, for a 5.0% annual pace. The annual rate is a tad lower than Q2's pace of 5.1%, which was a 32-year high.

GDP in Q3 rose at an annualised pace of 2.6% vs consensus estimates of 2.4%. The GDP Chain-type Price Index slowed to 4.1% annual growth from 9.0%, and the personal consumption expenditure price index slowed to 4.2% from 7.3%.

The housing market showed further signs of slowing as aggressive interest rate hikes and fears of an economic slowdown contributed to reduced activity. Existing home sales fell for an 8th consecutive month, declining by 1.5%.

This Homes Sales read was not as bad as the consensus view of a 2.1% drop. The fall extended the length of declines to the longest since the housing market downturn in 2007, sparking the Global Financial Crisis. Further falls are likely as the Fed continues to aggressively hike rates to control elevated inflationary pressures.

As for construction, confidence among single-family homebuilders fell for the 10th straight month in October as soaring mortgage rates and bottlenecks for building materials made new housing less affordable for many first-time buyers. The National Association of Home Builders/Wells Fargo Housing Market (NAHB) index dropped 8 points to 38 this month. Except for the short-lived plunge during the spring of 2020 when the country locked down during the first wave of COVID, this was the lowest reading since August 2012. A reading above 50 indicates that more builders view conditions as good rather than poor.

The S&P500, NASDAQ, and Dow Jones made up earlier losses to finish October up 8.10%, 3.94%, and 14.07% respectively. These results pull the 1-yr rolling returns further 'up' to -14.61%, -28.56%, and -6.74%.

Asia

Japan's CPI rose 3.0% over the year to September, unchanged from August's reading. The result was stronger than consensus expectations for a 2.9% annual increase. Core inflation, which excludes food and energy items, rose 1.8% in annual terms, up from 1.6% in August. When excluding the impact of sales tax hikes, this was the fastest annual pace of core inflation since March 1998.

Growth in industrial production was finalised at 3.4% in August, up from a preliminary reading of 2.7%. This follows a 0.8% increase in industrial production in July. In annual terms, growth was finalised at 5.8%, up from 5.1% previously. This was the strongest annual increase in industrial production in 12 months.

In China, industrial profits declined 2.3% over the three quarters to September as the property slump continues to take its toll on materials producers. This is despite government investment aimed to prop up manufacturing output.

The Caixin Services Purchasing Managers' Index (PMI) fell to 49.3 in September, from the 55.0 recorded in August. This reversal came as COVID-19 containment measures dented already fragile demand. The Input prices sub-index increased further on the back of higher raw material and labour costs. The Caixin composite PMI, which includes both manufacturing and services activity, fell to 48.5 in September from the 53.0 recorded in August. This read signals a renewed fall in overall Chinese business activity.

China held the quinquennial China Communist Party Congress in October, and unwittingly, the event concluded with the market engaging in a violent sell-off.

President Xi extended his term to a third 5-year period and consolidated his political power by stacking the Politburo Standing Committee (China's seven most senior leaders) with close loyalists. The National Congress emphasised modernisation, high-quality economic development, common prosperity, technological innovation, green transition, and national sovereignty and security. It was thought that supportive measures for the struggling

property market would be mentioned, though they were not - to the disappointment of many investors.

The Korean KOSPI ended October in green territory, up 6.41% and the Japanese Nikkei 225 up 6.37%. The KOSPI's 1-yr rolling return is now -22.79%. China suffered through October, with the Chinese Shanghai Composite and Hong Kong's Hang Seng continuing to fall, closing the month down 4.33% and 14.72% respectively. Both are under a large amount of strain for the year with their 1-yr rolling returns at -18.43% and an eye watering -42.13% respectively.

Europe

Deterioration in economic conditions was evident across the EU through October, as elevated inflation - driven by high energy prices given the war in Ukraine and supply-chain disruptions have continued to hamper economic activity in the region.

Activity, as measured by purchasing manager indices (PMIs) weakened in October and remained in contractionary territory. The indices showed that business activity was contracting at its fastest pace in nearly two years.

The manufacturing PMI declined to 46.6 in October, down from 48.4 in September. This was below consensus expectation of a fall to 47.9. Services activity also weakened in the month, with the services PMI falling to 48.2 from 48.8 in September.

Investor confidence deteriorated by more than anticipated in October. The Sentix investor confidence index fell to -38.3 in October from -31.8 in September. This compares to consensus expectations for a more modest fall to -34.7. The result was the weakest reading since May 2020 as surging prices, the war in Ukraine, energy instability and tightening monetary policy all continue to weigh heavily on the region.

Following the political turmoil in the UK, Prime Minister Liz Truss resigned on October 20th after only 44 days in office - the shortest Prime Ministership in UK history. The resignation came after significant market backlash after the announcement of the Government's 'Mini-Budget' in late September. Rishi Sunak was then signed in as the next UK Prime Minister after the remaining challenger, Penny Mordaunt, pulled out of the race.

Cost-of-living concerns continue to impact UK households, in addition to tighter monetary policy settings and the continued impacts of supply-chain disruptions and higher energy prices.

Despite this, the UK's consumer sentiment improved marginally in October, beating consensus expectations for a further deterioration. The GfK Consumer Confidence Index rose marginally to -47 in October, from a record low of -49 in September. However, confidence remains deeply entrenched in pessimistic territory reflecting the scale of headwinds facing consumers, including surging inflation, political and geopolitical instability, rising interest rates and energy insecurity.

The STOXX Europe 600 Total Return Index jumped 6.28%, bringing the rolling 1-yr to -13.31%. The French CAC 40 gained 8.75%, the German DAX 9.41%, and the UK FTSE100 followed with a 2.91% bump. Their 1-yr rolling returns are now posted at -8.25%, -15.52%, and -1.98% respectively.

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



The information in this document has been prepared by Westpac Financial Services Limited ABN 20 000 241 127 AFSL No. 233716 ('WFSL'). The information shown in this document is general information only. It does not constitute any recommendation or advice. It has been prepared without taking into account your personal objectives, financial situation or needs and so you should consider its appropriateness having regard to these factors before acting on it. You should consider obtaining independent advice from a professional financial adviser before making any financial decisions in relation to the matters disclosed hereto.

WFSL is the responsible entity of the BT Index Defensive Fund, ARSN 611 895 437 ('Fund'). A Product Disclosure Statement ('PDS') is available for the Fund and can be obtained by calling the Contact Centre on 1800 819 935, or visiting bt.com.au. The Financial Services Guide ('FSG') for WFSL can also be obtained via the Product Disclosure Statement page on bt.com.au. Any investor should obtain and consider the PDS for the Fund and the FSG before deciding whether to acquire, continue to hold or dispose of units in the Fund. For the Target Market Determination for this product please refer to bt.com.au/tmd.

WFSL is a subsidiary of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 (Westpac). An investment in the Fund is not an investment in, deposit with, or other liability of Westpac or any other company in the Westpac Group. An investment in the Fund is subject to investment risk, including possible delays in the payment of withdrawals and loss of income and principal invested. No member of the Westpac Group (including WFSL) stands behind or otherwise guarantees the capital value or investment performance of the Fund.

To the maximum extent permitted by law, WFSL, and its affiliates and related bodies corporate, and their respective officers, directors, employees, professional advisers and agents do not accept any responsibility or liability in relation to the accuracy or completeness of this information or for any loss arising from its use. Past performance is not an indicator of future performance. No representation or warranty is given as to the accuracy, likelihood of achievement or reasonableness of any forecasts or returns contained in the information set out in this document. Any projections are predictive in character. Whilst we have used every effort to ensure that the assumptions on which the projections are based are reasonable, the projections may be affected by inaccurate assumptions or may not take into account known or unknown risks and uncertainties. The actual results actually achieved may differ materially from these projections.

© Westpac Financial Services Limited – A part of Westpac Banking Corporation

BT40663 1122sx