BT Index Growth Fund

Monthly report – 30 September 2021

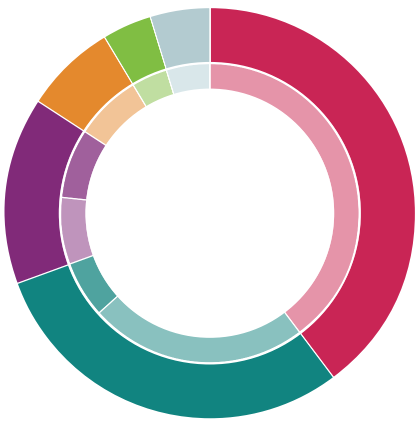
Fund overview

Inception date	1 August 2016
APIR code	WFS0591AU
Fund size (AUD millions)	$389.37
Investment objective	Seeks to deliver predominantly moderate to high growth and some income returns, which tracks the overall return of a diversified portfolio of underlying investments.
Recommended investment timeframe	6 years
Minimum initial investment	$500,000
Distribution frequency	Quarterly
Management costs (%) pa[1]	0.33
Buy/sell spread (%)	0.08 / 0.08

Performance review[2]

Period ending 30 September 2021	1 month	3 months	1 year	3 years	5 years	Since inception
	%	%	%	% pa	% pa	% pa
Total return	(2.41)	2.02	24.30	9.50	9.90	9.25
Growth return	(2.87)	1.54	18.15	4.66	4.20	3.76
Distribution return	0.47	0.49	6.15	4.85	5.71	5.49

Actual asset allocation %[3]



Equity – Australian Listed – 39.82%
- BT Australian Shares Index Fund – 39.82%

Equity – International Listed – 29.67%
- BT International Shares Index Fund (Unhedged) – 23.78%
- Blackrock Index Hedged International Equity Fund – 5.89%

Property – International and Australian Listed – 14.86%
- BT Property Securities Index Fund – 7.43%
- Blackrock iShares Global Listed Property Index Fund – 7.43%

Fixed Income – Australian – 7.03%
- BT Australian Fixed Interest Index Fund – 7.03%

Fixed Income – International – 3.99%
- BT International Fixed Interest Index Fund – 3.99%

Cash – 4.62%
- Advance Cash Multi-Blend Fund – 4.62%

Please refer to the end of this report for the footnotes

Market update

Markets this month were hit by a large mixed bag of events: from energy pricing pressures, nuclear diplomacy, name-calling in the US senate and the 'wait and see' credit crisis of China's property giant, Evergrande. Europe and China began to roll out policy to cool down a tightening energy market over concerns of expected winter surges in demand. An AUKUS alliance was formed between Australia, the UK and the US which included the building of nuclear submarines for Australia, while France was left out in the cold.

Overseas, the United States announced that they will now be allowing quarantine-free travel for vaccinated international passengers in a bid to increase tourism. Data released at the end of the month by the Centre for Disease Control showed that the Delta variant's resurgence in the US might be softening as a 29% decrease in two weeks was reported.

In Australia, vaccinations continued to dominate COVID conversations. The Federal government continued to seek out countries with which to expedite vaccine swaps, after successfully securing a shipment of 4 million Pfizer doses from the UK. NSW continued to lead the charge in expediting restriction rollback policy anchored by vaccination rates. The state government released a roadmap at the end of the month that detailed a staggered full re-opening of the economy, segmenting activity freedoms to those fully vaccinated from those not vaccinated. In Victoria, protests erupted in Melbourne – sparked from a two-week construction halt, as evidence emerged three quarters of construction sites were breaking COVID rules. The state saw a surge in cases, finishing the month reporting daily case numbers totalling in the thousands.

Australia

This month Australia signed a monumental defence deal with the US and the UK, which included Australia now building nuclear-powered submarines for the first time. This has been an intentional alliance to counter China's growing influence in the area. China has responded negatively and called the agreement "extremely irresponsible" and calls out the trio for intensifying a regional arms race. Other relations hurt through this deal have been that of Australia and France. Despite former Prime Minister Malcolm Turnbull having signed a major deal with France in 2019 to build 12 submarines, this new 'AUKUS' pact means the existing deal has been torn up. So far this has significantly damaged relations between the two allies, as France has made it clear in the media that they were alerted to this in an offensively flippant manner. The French ambassador to Australia was swiftly flown home in the wake of this deal's announcement.

In monetary policy news, the RBA showed some softening of its monetary policy in response to Delta's resurgence. Governor Lowe announced that the bank will be delaying the monthly purchase rate reduction to February 2022 instead of September. This has been a welcome surprise to economists – though still does not completely quell concerns over the planned reduction in bond buying.

Labour statistics this month continued to reflect lockdowns across the country as Australian jobs disappointingly dropped more than expected in August. Though the unemployment rate shrunk last month, this has been attributed to a reduced participation rate as more people stop looking for work. Hours worked fell this month by a sizeable 3.7%, as employers continued to reduce hours to better help in lockdown resilience.

Consumer sentiment improved as the path out of lockdown became more visible. The Melbourne Institute's monthly consumer sentiment index increased by 2.0% to 106.2, to remain above its long-run average. Consumer confidence has been more resilient through this latest round of lockdowns, compared to the national lockdown in 2020 and the extended Victorian lockdown in late 2020. The improvement in consumer sentiment is supported by the vaccine rollout. People who have had or are planning to get vaccinated are much more confident than those who are unwilling or undecided. Sentiment lifted strongly in Queensland (up 8.4%) as the state came out of a lockdown in early August. Sentiment also rose by 5.3% in NSW, undoubtedly helped by the state government announcing its roadmap to easing restrictions. Sentiment also rose in Tasmania. Sentiment fell in other states, led by falls in WA and SA down -9.1% and -4.3% respectively. Sentiment in Victoria, which extended its sixth lockdown, was broadly flat at 0.1%.

Australian markets were mixed this month as the ASX300 Accumulation returned -1.89%.

United States

The US finished September with high tensions in government over the country's tolerance for debt as a possible government shutdown looms. At the Senate Banking Committee hearing both the US Secretary of the Treasury Janet Yellen and Fed Chair Powell called for an increase of the US debt ceiling as the country will reach this limit in mid-October. Both public servants have warned on the ramifications of if the US were to face a default, calling out examples of older adults receiving delayed social security payments, uncertainty for when soldiers would receive pay cheques and rises in credit, auto and mortgages loan rates. So far, many Republicans have already come out and said they will not be voting for this increase as they only see it as an enabler for Biden's pro-spend approach to policy. However, given the ramifications if not completed, it gives the Grand Old Party a powerful bargaining chip to play when needed.

Also coming out from the Senate Banking Committee hearing were comments from Senator Elizabeth Warren calling Jerome Powell a "dangerous man" who has actively weakened the country's financial system through diluting post GFC bank regulations. Senator Warren called out the Fed's ability to support COVID recovery and navigate May's Archegos Capital collapse should be attributed to luck and has urged President Biden not to renominate Powell when his term is up in February 2022.

In monetary policy, the US still has not reached the Fed's required threshold to increase interest rates. August's unemployment rate shrunk by 20 basis points to 5.2%, the lowest level since March 2020. This reduction was in line with market expectations as businesses continue re-opening. The jobless rate remains above pre-COVID levels, however markets are still optimistic that a decline is pending in this metric. Inflation saw a mild reduction in August reporting 5.3%, a 10-bps decline. The used car

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market showed some signs of cooling down after previously being a dominant driver of high inflation.

Though these current indicators point to the Fed holding interest rates as they are, Powell has conversely clearly signalled upcoming changes in other monetary policy tools. The Fed signalled that within the next two months a plan to reduce government backed security purchases could be announced. This clear movement away from pandemic crisis mode has analysts watching markets closely, as the removal of these purchases have the textbook ability to drive-up long-term government bond yields, while pushing stock prices lower as larger companies will find it more expensive to borrow and operate. The pairing of this uncertainty with a possible impending government shutdown puts a spotlight on the US banking system and possible spill over effects into other markets.

The NASDAQ saw -5.27% returns, Dow Jones reported -4.20% and the S&P500 reported -4.65%.

Asia

The world watched China this month as the country's second largest property developer Evergrande danced around a Lehman sized default. Listed in Hong Kong, Evergrande is part of the global 500 while employing about 200,000 people and estimated to sustain 3.8 million jobs each year. With its investment portfolio ranging from theme parks and artificial islands to soccer teams and training academies, Evergrande's aggressive approach to return caught up with them as their more than US$300billion of liabilities gave them the infamy of China's most indebted developer. Pairing its over-diversified business model with a compressing residential property market in China, Evergrande landed in hot water this month with the prospect of default, the speculation sending ripples into the global economy. On 14 September the company brought on financial advisers to help them navigate through their debt crisis, announcing on the 27th that they would sell a US$1.5billion stake in a local bank to raise cash. Year to date, the company's share price has fallen almost 85%. As major rating agencies revised down their credit quality and outlook at the beginning of the month.

Markets reacted as the world watched the Chinese government for any indication that they would intervene. The country's central People's Bank of China started injecting some cash, as the month began to close, to keep liquidity in the financial system. In a statement the bank vowed to "maintain the healthy development of the real estate market and safeguard the legitimate rights and interests of housing consumers". As uncertainty pervades but at a shallower pace, markets are conscious of the large aftermath that would happen if Evergrande were to default. However, optimism remains that President Xi's risk averse attitude will play a role in prevention of this event.

For the first time since February 2020, China's manufacturing PMI contracted, reporting at 49.6 points -0.4 points lower than the 50-point threshold for contraction/expansion. Spurred on by continued Delta outbreaks, higher material costs and production bottlenecks, the index faced a further headwind of electricity rationing at month-end. As thermal coal futures in China hit all-time highs on 27 September, the Chinese government imposed rationing across multiple provinces while trying to encourage railway companies and energy administrators to increase coal transportation for winter. Run on effects of these management policies clearly felt within manufacturing measures were also seen anecdotally across the country, as residents fear the economic and political implications if power prices can't be managed in time for winter.

In India, it was monsoon season this month as rain increased by 30% in September compared to the same time last year. This acts as a healthy signal to the future strength of the country's farming sector, nearly half of which is left fully dependent on annual monsoon rains rather than irrigation.

Japan's Prime Minister Yoshihide Suga stepped down this month after only serving one year in office. Japanese equity markets reacted positively to this news, as Suga's approval ratings hit an all-time low following a huge resurgence of COVID-19, a slow vaccination rollout and the heavily critiqued decision to go ahead with hosting the Olympic games. Japan's consumer confidence also fully recovered, reaching a 4-month high of 37.8 points, driven through improvement in overall livelihood, income growth and employment perceptions.

Over the month the Hang Seng returned -5.04%. Korea saw a -4.08% monthly return for the KOSPI. The Shanghai Composite reported a muted positive return of +0.68%. The Japanese Nikkei 225 had a booming month, reporting a +5.50% return.

Europe

Energy bills have been the headline concern across Europe in September. Driven by low stock levels, competing high Asian demand, high carbon prices in the EU and outages, natural gas prices have felt the pressure, with the fall out expected to heavily impact both households and small businesses. The Dutch gas benchmark rose more than 250% since January, while German and French benchmarks both doubled. In the UK, two energy suppliers that service ~3% of the domestic market stopped trading mid-month as they felt the pricing heat. The UK, Spain, France and Greece, among others, have already started considering policy responses, ranging from household subsidies and vouchers to states loans to energy companies. The EU has yet to release their promised "toolbox" to manage this, as they aim to balance the pricing pressures and upcoming increased Winter demand, while maintaining the bloc's current approach to the electricity market.

As a result, energy has been a consistent driver of inflation across the region. The German inflation rate reached a 28 year high of 4.1%, Spanish inflation reached a 13 year high of 4% and French inflation climbed to 2.1%. These readings further validate ongoing concerns around the EU's loose monetary policy, and possibly increase the mandate for the EU to aid constituents on navigating electricity woes.

The UK's manufacturing PMI fell this month by 7% to 56.3 from 60.3 in August. This six-month low was driven by shortages in materials and fading demand, as supply chain issues lead to many manufacturers increasing their output prices. The country's services PMI marginally fell by 0.4 points to 54.6 where its relative stability reflected an increase in business activity and improving consumer confidence in the ongoing COVID recovery. The UK reported an August inflation rate of 3.2%, a large jump from July's 2%, as well as a nine year high.

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However, this statistic becomes more diluted when considering the base effect from August 2020 when the government incentivised discounted restaurant and café prices. The Bank of England left its monetary policy unchanged, however noted that August's high inflation rate had strengthened the Bank's argument that some tightening might be necessary to manage inflation back to the target 2%.

In Germany, political change was in the air as voters took to the polls to elect a successor to Angela Merkel's 16-year reign. The Social Democrats pulled ahead of the conservatives (CDU/CSU), however a narrow margin exists for a coalition to be formed and claim a government mandate. A clear outcome from the election is the shift of the German political compass as Merkel's conservative party received 8.9% of the vote compared to 2017. Markets had a relatively soft response to the election results – analysts are watching this space as the Social Democrats campaigned on promises of higher minimum wage, stable pensions, more affordable housing and a carbon-neutral economy.

In Europe negative returns were seen as the Europe 600 STOXX reported -3.41%, the French CAC 40 -2.40%, and the German DAX -3.63%. The FTSE100 Reported more muted negativity of -0.47%.

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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