BT Index Growth Fund

Monthly report – 30 November 2021

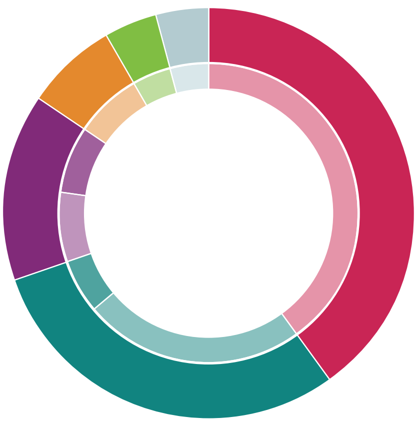
Fund overview

Inception date	1 August 2016
APIR code	WFS0591AU
Fund size (AUD millions)	$406.78
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 November 2021	1 month	3 months	1 year	3 years	5 years	Since inception
	%	%	%	% pa	% pa	% pa
Total return	0.94	(0.55)	16.90	12.28	10.33	9.34
Growth return	0.94	(1.03)	11.12	7.31	4.60	4.01
Distribution return	0.00	0.47	5.78	4.97	5.73	5.33

Actual asset allocation %[3]



- **Equity – Australian Listed – 40.06%**
  - BT Australian Shares Index Fund – 40.06%
- **Equity – International Listed – 29.81%**
  - BT International Shares Index Fund (Unhedged) – 23.96%
  - Blackrock Index Hedged International Equity Fund – 5.85%
- **Property – International and Australian Listed – 14.83%**
  - BT Property Securities Index Fund – 7.55%
  - Blackrock iShares Global Listed Property Index Fund – 7.28%
- **Fixed Income – Australian – 7.13%**
  - BT Australian Fixed Interest Index Fund – 7.13%
- **Fixed Income – International – 4.05%**
  - BT International Fixed Interest Index Fund – 4.05%
- **Cash – 4.12%**
  - Advance Cash Multi-Blend Fund – 4.12%

Please refer to the end of this report for the footnotes

Market update

Fears over the emergence of the Omicron variant dominated the global economy throughout November as a fourth wave of COVID-19 rushes through Europe. Inflationary concerns continued throughout the world as most central banks reaffirmed that interest rates will not increase before 2023 despite market expectations for 2022. Volatile oil prices were also a major theme of November, with the Biden administration's plan to release strategic oil reserves along with China and Japan only temporarily helping the situation.

Australia

November marked the return of international travel for fully vaccinated Australian citizens and permanent residents. Travellers returning to NSW and Victoria will no longer have to undertake hotel quarantine if they are vaccinated with an TGA approved vaccine. Fully vaccinated Australian citizens and permanent residents may also leave Australia without an outwards travel exemption. Additionally, from December 15 (this was delayed two weeks with the emergence of Omicron), fully vaccinated eligible visa holders, including international students and skilled workers, will be able to travel to Australia without an exemption. It is expected that the return of temporary visa holders will help ease labour shortages in several sectors, including retail and hospitality.

Google mobility data revealed foot traffic surrounding retail and recreational venues has rebounded sharply in NSW and Victoria in the days following the lifting of Delta-related lockdowns. Although the virus continues to circulate in the community, this data demonstrates that consumers have not been deterred from recommencing their 'normal' activities. Accordingly, Melbourne Institute's monthly consumer sentiment index edged up 0.6% to 105.3 in November, following a decline of 1.5% in October, to hold above the long-run average of 101.3. Consumer sentiment has been resilient through the delta lockdowns relative to 2020, supported by solid vaccination rates and roadmaps which have provided a path out of lockdowns.

November's RBA board meeting indicated the beginning of the end of emergency stimulus measures and suggested that we might see an increase in interest rates prior to 2024. Additionally, the RBA revealed that they would be abandoning their 3-year yield curve target of 0.10%. Prior to the board meeting, financial markets had aggressively priced in almost four rate hikes in 2022. While the RBA is still committed to not increasing the cash rate until inflation moves within the target range of 2-3%, forecasts point to this potentially occurring at some point in 2023.

Global concerns regarding inflation have been prevalent this month, however, Governor Lowe has indicated that the inflationary outlook is different in Australia compared to other advanced economies. Firstly, the starting point for inflation and wages was much lower in Australia. Secondly, labour market participation rebounded very quickly in Australia unlike other economies, which places less upward pressure on wages. Thirdly, the impact of supply-chain disruptions and energy price shocks has been less pronounced in Australia.

Interestingly, the RBA's Tony Richards addressed the increasing hype around cryptocurrency investments. Richards signalled that there are "plausible scenarios" where a significant amount of the recent price increases could be unwound. The RBA does expect global central banks will establish control over digital currency by issuing its own form of digital money.

Retail data for the September quarter was released in November, highlighting a 4.4% decrease across the country. This was unsurprising due to the extensive lockdowns in NSW, Victoria and the ACT which individually saw a move of -11.6%, -4.53% and -13.92% respectively. Conversely, all other states experienced sales growth over the quarter.

Australian markets were slightly down this month as the ASX300 Accumulation returned -0.53%. After a strong October of earnings, most sectors within the ASX300 were down this month.

United States

The United States share markets experienced growth at the beginning of November boosted by strong October jobs data, robust corporate earnings, and great progress on the Biden infrastructure spending bill worth over US$1 trillion. A large announcement from the White House confirmed that President Biden has prioritised consistency and tapped Jerome Powell for a second term as Chairman of the Federal Reserve as well as Lael Brainard as Vice Chairwoman of the Federal Reserve's board of governors.

Over the month, the Federal Reserve said it would begin scaling back its massive USD$120bn monthly bond-buying programme by USD$15 billion. This decision was widely expected and clears the way for rate hikes to begin mid to late 2022. The central bank will cut Treasury purchases by $10 billion and Mortgage Back Securities (MBS) by USD$5 billion. The tapering process will begin in the middle of this month, which suggests the stimulus programme would cease in June 2022. The purchases would be reduced by the same amount in December and further reductions were deemed to "likely be appropriate" each month thereafter. The Fed committee said it was "prepared to adjust the pace" of the tapering process "if warranted by changes in the economic outlook". Reacting to this news, US markets soared to fresh record highs after the Fed's tapering plan matched investor expectations.

October CPI data indicated the highest growth in US inflation in 31 years causing markets to sell off. This high level of reported inflation pushed US government bond yields higher and brought down growth stocks. Consumer confidence was also adversely impacted on the back of this negative news, with the University of Michigan's November sentiment index dropping 4.3% to 67.4. The index is at its lowest level since the end of 2011, showing signs consumers are becoming increasingly uneasy about surging inflation.

Please refer to the end of this report for the footnotes

At the end of the month, markets sank further after the Omicron variant of COVID-19 was declared a variant of concern and potentially vaccine resistant. President Biden implemented restrictions on travellers from Southern Africa. In response to this emerging variant, Fed Chair Powell said to the US Congress, “The recent rise in COVID-19 cases and the emergence of the Omicron variant pose downside risks to employment and economic activity and increased uncertainty for inflation.” Additionally, Powell cautioned that inflation might not be transitory, as once believed, and that the Federal Reserve might have to “wrap up” the bond purchase tapering prior to originally planned.

Another major theme in November was the ‘Great Resignation’ as the quit rate increased to 3% while there were up to 11 million job openings over the month. This number sits substantially higher than the 7.4 million unemployed workers across the United States, it also indicates a skill imbalance.

Rising petrol prices were another issue that the world face in November, with President Biden announcing a coordinated plan to release strategic oil reserves, along with two other developed countries, to curb an increasing oil price. This only provided a temporary relief in prices, however in an unplanned sense, prices fell towards the end of the month due to Omicron fears.

Overall, global markets experienced weak performance this month. After a very solid October, US Markets finished November flat - with the S&P returning -0.69%, the NASDAQ +0.33% and the Dow Jones -3.50%.

Asia

Data released in November revealed some modest growth across an array of economic indicators in China. Industrial production was up 3.5% on a year earlier, following a 3.1% rise over the year to September. The growth comes alongside easing energy shortages. Power supply has improved 11.1% on a year ago. In other data, retail sales beat consensus expectations, rising 4.9% over the year to October, following a 4.4% annual increase in September. Mining was the strongest performing sector over the month, increasing by 4% as commodity prices rose alongside respite from the debt-heavy property market. Media reports indicate that China’s financial regulators asked numerous Chinese banks to issue additional loans for property projects, to ease liquidity strains without resuming housing speculation. Concerns on China’s slowing growth were prevalent this month. Notwithstanding the fact that exports increased by 27.1% compared to the previous year and imports by 20.5%, headwinds to national growth are becoming more frequent. China’s economy is struggling with harsh COVID-19 restrictions as fresh outbreaks arise throughout the country. Additionally, nationwide power shortages have considerably affected factory production.

Following on from negative economic growth in Q3, Japan is positioned for a more positive performance this quarter. Markets reacted positively to Prime Minister Fumio Kishida winning the Liberal Democratic Party majority in the recent elections. The country’s outlook is far more positive following this win with additional fiscal stimulus support measures all but guaranteed. On November 19, a 55.7 trillion Yen fiscal stimulus package was approved by Kishida’s cabinet which was still yet to gain parliamentary approval by month-end. One aspect of this stimulus is designed to enhance consumer spending by providing cash handouts to citizens as well as placing a moratorium on consumption tax rises which to date, have constrained spending. The second part of the proposed stimulus includes increased funding for universities as well as the digitization of rural areas to boost productivity growth. Additionally, the measures will provide significant investment into the country’s semiconductor manufacturing capacity, to improve Japan’s economic security.

Finally, November saw India successfully reach a major milestone in their COP-21 commitments, reaching 40% of their installed electricity generational capacity originating from non-fossil fuel energy sources.

Asian markets also struggled with the Hang Seng operating considerably lower with its -7.49% November return, the Japanese Nikkei 225, Shanghai Composite and Korean KOSPI all finished negative, reporting -3.7%, 0.50% and -4.43% respectively.

Europe

Europe’s precarious economic recovery reached a dangerous point in November, with their fourth wave of COVID-19 dominating headlines and seeing an increasing number of restrictions implemented across the continent. Austria has taken the strongest response, implementing a nationwide lockdown and mandating vaccinations. However, economic activity will be limited across the continent with Switzerland and France now strictly enforcing the requirements for vaccine passports in most settings and Belgium mandating a work from home requirement at least four days per week. These surprising setbacks come a mere two months after economists unknowingly declared that Europe had reached a turning point with Covid-19.

Notwithstanding the worsening fourth wave, the Sentix investor confidence for November was quite strong, increasing from 16.9 to 18.3. This is the first time this metric has increased since July. While inflationary pressures and supply chain issues are still prevalent across the continent, Sentix notes that consumers believe these issues to be short term and therefore, remain confident about the future. National PMIs also surprised with slight increases over November, with manufacturing increasing to 58.6 from 58.3 in October and services rising from 56.5 to 54.6.

ECB President Christine Lagarde has reaffirmed that market expectations of a 2022 rate hike are incorrect. Lagarde noted that the three conditions required to be met before a rate increase is implemented are unlikely to be satisfied by next year.

Additionally, the Bank of France’s Governor, François Villeroy de Galhau confirmed that the ECB was on track to finish its emergency bond buying program in March. He noted that each wave of COVID-19 has less of an economic effect on Europe and the continent-wide vaccination rates will prove to be an advantage over the coming months.

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The Bank of England made the decision not to increase rates this month, surprising markets and causing a decrease in bond yields. Consumer confidence also saw an increase in the United Kingdom, with the metric rising to -14 from -17 in October. This follows three consecutive months of drops spurred on by the incredibly high levels of inflation across the country. Notwithstanding this surprising result, the confidence indicator still lies in negative territory. This slight rise in consumer confidence was highlighted through the increase in retail spending. Christmas shoppers appear to be starting their annual spend earlier than usual, with data this month revealing a 0.8% increase in October. This is the first-time retail spending has risen since April and was half a percent higher than expected. This result was driven primarily by non-food stores which saw a 4.2% increase over the month.

Finally, the UK government increased their terror threat level to severe in November. This increase came after a terrorist exploded a taxi outside a hospital in England.

Europe had a weaker run than the US given the worsening COVID-19 situation and increased restrictions, as the Europe 600 STOXX reported -2.6%, the French CAC 40 -1.6%, the German DAX -3.75% and the UK's FTSE100 -2.46%.

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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