

BT Index High Growth Fund

Monthly report – 30 June 2022

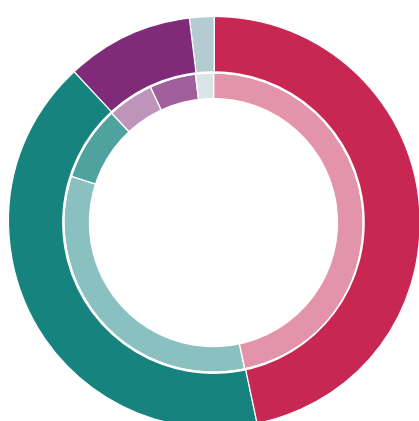
Fund overview

Inception date	1 August 2016
APIR code	WFS0592AU
Fund size (AUD millions)	\$413.32
Investment objective	Seeks to deliver predominantly high growth returns, which tracks the overall return of a diversified portfolio of underlying investments.
Recommended investment timeframe	7 years
Minimum initial investment	\$500,000
Distribution frequency	Quarterly
Management costs (%) pa ¹	0.33
Buy/sell spread (%)	0.08 / 0.08

Performance review²

Period ending 30 June 2022	1 month	3 months	1 year	3 years	5 years	Since inception
	%	%	%	% pa	% pa	% pa
Total return	(7.33)	(11.43)	(7.37)	4.63	7.56	7.71
Growth return	(14.61)	(18.38)	(15.82)	(2.06)	0.93	1.06
Distribution return	7.27	6.95	8.45	6.68	6.63	6.65

Actual asset allocation %³



- **Equity – Australian Listed – 46.88%**
 - BT Australian Shares Index Fund – 46.88%
- **Equity – International Listed – 41.26%**
 - BT International Shares Index Fund (Unhedged) – 33.30%
 - Blackrock Index Hedged International Equity Fund – 7.95%
- **Property – International and Australian Listed – 9.99%**
 - BT Property Securities Index Fund – 5.01%
 - Blackrock iShares Global Listed Property Index Fund – 4.98%
- **Cash – 1.87%**
 - Advance Cash Multi-Blend Fund – 1.87%

Market update

To end off an eventful second half of the 2022 financial year we saw dire global economic and market headwinds not seen since the GFC over a decade ago. With the US, the largest economy in the world, teetering on falling into a 'hard' or 'soft' landing recession we also saw its share market post its worst start to a calendar year in over half a century. Investors holding traditional defensive assets, in the form of long maturity bonds, have also felt the pain of large negative returns over the year – something not seen for over 30 years.

Australia

In June we saw the release of NAB's Business Confidence and Conditions surveys that saw a decline in business confidence of 4 index points to +6 in May. A range of factors are weighing on confidence among businesses, including elevated inflationary pressures, labour shortages, and supply-chain disruptions. The fall in consumer sentiment and increases in interest rates from the RBA are also likely weighing on business confidence. The prospect of continued pressure on global supply chains as China implements its zero-COVID policy, and the risk of a slowdown in global economic growth alongside central bank policy tightening, may impact confidence in the months ahead.

Business conditions fell to +16 from a revised +19 in April. However, conditions remain elevated and well above the long-run average of +7.

The decline reflected a fall in the profitability and trading sub-indices. However, while both sub-indices pulled back from recent ten-month highs, they remain elevated and were at their second highest level in 11 months. Profitability and trading conditions had been improving over much of 2022 as restrictions across the country lifted and consumers adapted to living with COVID.

Employment conditions improved slightly over the month to be more than five times higher than the long-run average. Labour demand is strong, and the job market has become increasingly tight as the economy recovers. Businesses are finding it more difficult to find the right kind of labour as slack across the job market is absorbed. Reports of skills shortages are widespread with the unemployment rate falling to a near 48-year low of 3.9%, and as such, wage pressures are building.

Despite a range of challenges, business conditions and confidence has remained resilient as leading indicators point to continued economic momentum in the near term. Business investment is also likely to be supported by generous tax incentives which remain in place until June 2023.

Dwelling prices declined for the second consecutive month, dropping by 0.6% in June following a 0.1% decline in May. The falls come after the RBA's interest rate hikes over May and June. Momentum in the housing market has continued to slow since the monthly 2.8% peak of growth in March 2021. June's 0.6% drop was the largest monthly decline since July 2020, when dwelling prices fell for several

months early in the pandemic. The fall in June was driven by decreases in Sydney (-1.6%) and Melbourne (-1.1%). Prices have declined for five consecutive months in Sydney, and the drop in June was the largest monthly fall since December 2018. While in Melbourne, prices have declined for four of the past seven months. The June fall was the largest since August 2020.

Higher levels of supply continue to contribute to price declines in Sydney and Melbourne. Listings across the two cities are around 7% above levels seen a year ago and well-above their respective five-year averages. However, it should be noted that the increase in supply reflects a decline in sales volumes rather than an increase in new listings - this is reflected by a decline in the sales volumes to new listings ratio. The softening in housing market activity is also reflected by a fall in auction clearance rates.

With more tightening to come from the RBA this year and possibly into early next year, dwelling prices are set to slide further, and the price declines will broaden out across capital cities and regional areas.

In annual terms, dwelling prices rose 11.2% over the year to June, which is the slowest rate of annual growth since May 2021. The annual growth rate continues to decline as the earlier months with high rates of growth drop out of the annual growth calculation.

Retail sales climbed 0.9% in May to a new record high, marking the fifth consecutive month of growth. Sales were 10.4% higher over the year, the strongest annual growth since April 2021. This is despite growing headwinds for consumers. Household budgets are being squeezed by red-hot inflation which has run well ahead of wages growth, as well as the fact that interest rates are also rising. The retail sales result was stronger than projected by consensus forecasts, and suggests consumer spending, so far, has been more resilient than expected. Retail sales have increased in eight of the past nine months and are now 23.3% higher than their pre-pandemic level in December 2019.

The ongoing strength of retail sales is in notable contrast to consumer sentiment, which paints a clear picture that households are feeling particularly pessimistic. In fact, sentiment hit a 22-month low in June, not far above the levels it reached in the dark, early days of the pandemic. At that time, there were credible fears that our health system would be overwhelmed, and the unemployment rate would hit double digits. Sentiment is also nearing levels last seen during previous crises, such as the GFC and the early 1990s recession.

The S&P/ASX300 Accumulation Index ended the month down 8.97%, bringing the 1-year rolling return into red territory closing the financial year at -6.78%.

United States

During June the US Fed hiked the federal funds rate by 75bps to a range of 1.50% to 1.75%. The hike was the largest since 1994, reflecting the extent of inflation concerns amongst policymakers. The move followed the hotter-than-expected consumer price index reading in May, which showed inflation hitting its highest level since 1981.

Further aggressive hikes from the Fed are on the cards. Fed Chair Powell has emphasised that the central bank is “acutely focused on returning inflation to our 2% objective”. There is a long way to go to get inflation back to that target, and another 75bps hike in July is certainly a possibility. Indeed, some Fed officials have voiced their support for another 75bps increase next month. Interest-rate markets are currently priced for the fed funds rate to be 70bps higher at the July meeting, with expectations of another 200bps of tightening over the rest of the year.

Inevitably, higher interest rates will slow economic growth. The key question is, will it be a soft landing? In other words, can the Fed steer a slowdown in growth while avoiding a recession and normalising inflation? A US recession would cause a slowdown in global growth, which in turn would lower demand for Australian exports. It would also lower investors' willingness to take risk, resulting in tighter global financial conditions.

For the US markets, the S&P500, the NASDAQ, and the Dow Jones Industrials Average were all smacked in June. They closed the month -8.25%, -8.65%, and -6.56% respectively. Annual returns were -11.62%, -23.43% and -9.05% respectively.

Asia

In late June, the Chinese government announced that its pandemic-led quarantine and test requirements for COVID are to be adjusted to a more ‘relaxed’ mode. Some cities have already relaxed testing frequency and reopened schools and restaurants. This government announcement covers the whole country, suggesting that the latest COVID peak has passed, which hit a positive note for the market. Regardless, this relaxed stance will see the GDP target of 5.5% for 2022 being achieved.

China's annual inflation rate was at 2.1% in May 2022, unchanged from April's five-month high figure and comparable with market forecasts of 2.2%. Prices of food rose the most since September 2020, up for the second straight month (2.3% vs 1.9% in April) as consumption strengthened following an easing of the COVID-19 restrictions.

The Caixin China General Manufacturing PMI climbed to 51.7 in June 2022 from 48.1 in May, topping market forecasts of 50.1. The latest figure marked the first expansion in factory activity since February and the steepest pace since May 2021, again attributed to the easing of COVID-19 lockdowns. Both new orders and foreign sales returned to expansion, and buying activity rose modestly. Meanwhile, employment fell for the third month in a row on the back of a renewed fall in backlogs of work. Delivery times shortened for the first time in two years as logistics issues eased. In the meantime, confidence was at a four-month high in an anticipation of further increases in output and demand as infections recede.

Japan's retail sales rose 3.6% (yoy) in May (vs 4.0% market consensus), and the previous month's data was revised up to 3.1% (vs 2.9% preliminary). Retail sales have risen now for three months in a row.

The Bank of Japan's index for large manufacturers' sentiment fell to 9 in the second quarter of 2022 from 14 in the previous quarter, hit by rising input costs and supply disruptions caused by the war in Ukraine and China's strict COVID-19 lockdowns. This latest figure also came in below the expectations for a reading of 13 and is the lowest since March 2021. The mood softened mainly among firms producing ships and heavy machinery (-19), motor vehicles (-19), food & beverages (-11), textiles (-10), pulp & paper (-7) and iron & steel (-6).

Japan's economy likely stalled in the current quarter, with recent data showing the country's factory output fell the most in two years in May. The Tankan will be among data scrutinized at the Bank of Japan's upcoming rate-setting meeting on July 20-21, when the Board produces fresh quarterly growth and inflation projections.

For June, the Japanese Nikkei 225 ended down 3.06% and the Korean KOSPI ended down 13.15%. The Chinese Shanghai Composite and Hong Kong's Hang Seng ended the month up a comfortable 6.66% and 2.08% respectively, though both are still under pressure for the year with their one-year returns at -5.36% and -24.17%.

Europe

The ECB stated that it “will continue its policy normalisation path and will go as far as necessary to bring Euro Area inflation back to the 2% target”, President Lagarde said during a speech at the ECB's annual forum in Portugal.

Lagarde confirmed that net asset purchases will end on July 1st and interest rates will be raised by 25bps in July, the first rate hike in 11 years. At the same time, Lagarde stressed that the central bank will be flexible when net asset purchases end and could reinvest some redemptions in bond markets where orderly transmission is at risk. The S&P Global Eurozone Composite PMI rose to 54.8 in June from 51.9 in May, compared with the market consensus of 54. It was the lowest reading since a contraction in February 2021, with new orders for goods and services stagnating for the first time since the demand recovery started in early 2021. Manufacturing expanded the least in 24 months, with output falling for the first time in two years. Meanwhile, growth in the services sector slowed sharply amid slower inflows of new business.

June also saw the release of the latest preliminary consumer confidence indicators that showed the Euro area fell by 2.4 points to -23.6 in June from -21.1 in May, compared with market expectations of -20.5 and long-term average of -11.0. The reading is just short of the all-time low hit in April 2020 when COVID-19 hit Europe for the first time.

Surging inflation amid the effects of Russia's war in Ukraine and renewed supply chain issues are weighing on purchasing power. Consumer sentiment decreased by 1.9 points to -24 in the European Union as a whole. The annual inflation rate in the Euro area was confirmed at a record-high of 8.1% in May 2022, above 7.4% in each of the

previous two months and four times higher than a year earlier. There was a broad-based increase in prices, with energy (39.1%), food, alcohol & tobacco (7.5%), services (3.5%), and non-energy industrial goods (4.2%) giving the biggest upward pressure. The inflation rate in the Euro area remains well above the European Central Bank's target of 2% and underpinned consensus that the central bank will start raising borrowing costs from July to bring it back to the target.

In the UK we saw the economy expand 0.8% on quarter in the first three months of 2022, the lowest in a year, however in line with preliminary estimates. The largest contributors were information & communication and transport & storage, while production output was primarily driven by a rise in manufacturing output, and construction output rose. Also, household final consumption expenditure grew 0.6%, whereas gross fixed capital formation grew by a revised 3.8%. Still, real household disposable income fell by 0.2%, the fourth consecutive quarter of real negative growth. The UK's GDP remains 0.7% above its pre-pandemic level.

The current account deficit in the UK ballooned to GBP 51.7 billion (or 18.3% of GDP) in the first quarter of 2022 from GBP 7.3 billion in the prior period, surpassing market forecasts of GBP 39.8 billion. It was the largest current account shortfall since comparable data began in 1955, as the total trade gap broadened to GBP 33.4 billion from GBP 6.2 billion in the prior period, in part due to the soaring cost of fuel imports.

Additionally, the total primary income account returned to a deficit position of GBP 12.4 billion (or 2.0% of GDP) after recording a surplus of GBP 4.7 billion, as income from British assets abroad was more than offset by investment-related flows. The total secondary income surplus was little changed at GBP 5.8 billion. The Office for National Statistics issued a warning over the figures, saying that there was an impact of changes in post-Brexit data collection on trade in goods imports, and foreign direct investment, which it is investigating.

The Europe 600 STOXX ended the month down 8.15%, the French CAC 40 down 8.44%, the German DAX down 11.15%, and the UK's FTSE100 down 5.76%.

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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