BT Index High Growth Fund

Monthly report – 31 December 2021

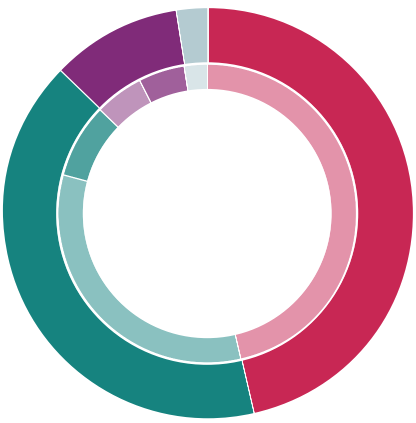
Fund overview

Inception date	1 August 2016
APIR code	WFS0592AU
Fund size (AUD millions)	$472.87
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 review[2]

Period ending 31 December 2021	1 month	3 months	1 year	3 years	5 years	Since inception
	%	%	%	% pa	% pa	% pa
Total return	2.65	5.11	22.75	16.26	11.63	11.48
Growth return	2.28	4.74	16.02	11.21	5.34	5.66
Distribution return	0.36	0.37	6.73	5.05	6.29	5.82

Actual asset allocation %[3]



Equity – Australian Listed – 46.54%
- BT Australian Shares Index Fund – 46.54%

Equity – International Listed – 40.89%
- BT International Shares Index Fund (Unhedged) – 32.89%
- Blackrock Index Hedged International Equity Fund – 8.00%

Property – International and Australian Listed – 10.12%
- BT Property Securities Index Fund – 5.09%
- Blackrock iShares Global Listed Property Index Fund – 5.04%

Cash – 2.44%
- Advance Cash Multi-Blend Fund – 2.44%

Please refer to the end of this report for the footnotes

Market update

2021 was a whirlwind of central bank policy, inflation, supply chain disruption, geopolitical tension, and climate change activity. December was no exception, with a raft of positive economic data showing the progress of our path to recovery. We now look to 2022 and the next phase of the pandemic.

Australia

At the December RBA Board Meeting, Governor Lowe noted "The emergence of the Omicron strain is a new source of uncertainty, but it is not expected to derail the recovery. The economy is expected to return to its pre-Delta path in the first half of 2022". This hawkish commentary was further supported by key macro data releases over the month including Unemployment, Inflation, House Prices and Consumer & Business confidence.

As lockdowns lifted across the east coast, the Australian labour market well and truly rebounded with the re-opening of many service-orientated business. Australia's seasonally adjusted unemployment rate fell to 4.6% in November 2021 from 5.2% in October and below market estimates of 5%. The participation rate advanced 1.4 points to 66.1%, beating estimates of 65.5%. The underemployment rate was down 2 points to 7.5%, and the underutilization rate decreased 2.6 points to 12.1%.

As for businesses, the NAB business confidence index in Australia dropped sharply to 12 in November from a reading of 20 a month earlier. While the post-lockdown impact was less pronounced, the latest reading stayed well above the long-run average, with sentiment remaining high across states and industries. Meanwhile, key factors making up the index, including business conditions, improved further. Employment jumped to 11 vs 6 in October, with sales edging up to 16 vs 15, profitability remained unchanged.

For consumers, it has been hard to miss the headlines of the strong residential real estate market, specifically in the east coast capital cities. The House Price Index (YoY) in Australia increased to 21.70% in Q3 from 16.80% in Q2.

Finally, Q3 GDP coming in at -1.9%, far exceeded the market expectations of -2.7%. While it does appear a distant memory, the July-September quarter was plagued by the Delta outbreak and subsequent prolonged lockdowns in both Melbourne and Sydney. Household consumption fell for the first time in five quarters (-4.8% vs 1% in Q2), dragged down by spending on services. On a yearly basis, the economy grew 3.9%, after a marginally revised strong 9.5% growth in Q2.

Australian markets ended the year strong, despite a slow start to the month with the ASX300 Accumulation returning 2.65% for December and 17.54% for the calendar year.

United States

The United States a similar picture of stronger economic conditions - despite rising Covid-19 case numbers. The US Federal Reserve (Fed) continued to echo tones of hawkishness at their December meeting, stating they would end the pandemic-era bond purchases in March, paving the way for three interest rate hikes by the end of 2022. The minutes further noted it may become warranted to increase the federal funds rate sooner, or at a faster pace, than previously anticipated. To many, this is no surprise given the strong employment data and rising inflation.

The US December monthly unemployment rate dropped to 3.9%, the lowest since February 2020. In line with the Fed commentary this is pointing to a sustained recovery in the job market helped by a fast-recovering economy and strong demand for labour. While the unemployment rate was still slightly above pre-crisis levels amid reports of severe labour shortages, it is expected to decline further in the coming months as companies fill widespread vacancies. During the month the number of unemployed individuals decreased by 483,000 to 6.3 million. Furthermore, nonfarm employment has increased by 18.8 million since April 2020 but is still down by 3.6 million, or 2.3%, from its pre-pandemic level in February 2020.

The annual inflation rate in the US accelerated to 7% in December, a fresh high since June of 1982. Energy was the biggest contributor to the gain, but the rise was smaller than in November (29.3% vs 33.3%), with gasoline prices surging 49.6% vs 58.1%. As we have spoken about in previous months, inflation spiked in 2021 due to pandemic-induced supply constraints, soaring energy costs, labour shortages, increasing demand and a low base effect from 2020. Inflationary pressures are likely to continue well into the middle of 2022 and Fed Chair Powell recently pledged to do what is necessary to contain an inflation surge including increasing interest rates.

In the major US markets the S&P returned 4.48%, the NASDAQ 0.74% and the Dow Jones 5.53%. This brought annual returns to 28.71%, 22.18% and 20.95% respectively.

Asia

China continued to face the fallout of a slowing recovery after an initial strong snapback in 2021. This was further highlighted to the market when the Caixin Manufacturing PMI entered contractionary territory in November with a reading of 49.9. This was the second time since April 2020 the index has reported a sub-fifty reading, amid frequent Covid-19 outbreaks and weak demand. However, the index has since rebounded to 50.9 in December, beating market estimates of 50.0. This was the highest reading since June.

Of the key factors that make up the index, output grew the most on the back of easing supply constraints, new orders went up for the third time in the past four months, and buying levels returned to growth. Meanwhile, export sales shrank for the fifth straight month, with employment also falling for the fifth month in a row and at the fastest rate since February. On prices, input cost inflation eased to a 19-month low, amid lower prices for some raw materials.

Asian markets reversed some of the November pain with the Japanese Nikkei 225, Shanghai Composite and Korean KOSPI all finishing up, reporting 3.62%, 2.13% and 4.88% respectively. Despite this, Hong Kong listed companies struggled with the Hang Seng finishing slightly negative at -0.33% and down -14.08% for the year.

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Europe

Europe took a slightly different tack to other western counterparts, with several economies re-entering lockdown over November and December due to rising Omicron case numbers. As for macro data points, the annual inflation rate in the Euro Area accelerated for the sixth straight month to a record high of 5% in December from 4.9% in November. Energy has had the highest annual rate rise at 26%. This is followed by food, alcohol & tobacco 3.2%, non-energy industrial goods 2.9% and services 2.4%. December also marks the sixth straight month of inflation above the ECB's target of 2% as the common issues of supply chain disruptions and high energy costs continue to weigh on concerns - although ECB policymakers continue to reiterate the current spike is temporary.

For employment, the Euro-area seasonally adjusted unemployment rate edged down to 7.2% in November, coming in-line with market expectations, and the lowest level since March 2020. The number of unemployed decreased by 222,000 to 11.829 million, as demand for labour strengthened. Meanwhile, the youth unemployment rate fell to 15.5% in November from 15.8% in the previous month. This fall is a promising sign as youth unemployment in pockets of Europe has been a major issue for over decade.

Across the channel, the UK reimposed restrictions on social interaction across households in the leadup to Christmas in a bid to keep pressure of the healthcare system. Akin to Australia, there has been a big push towards the roll out of vaccine booster shots, with the UK first to bring the timeframe between initial vaccination rounds and boosters forward, to three months, to improve overall herd immunity. The major headline leading up to Christmas was the BoE move to increase interest rates by 15bps to 0.25% in response to rising inflation pressures. While some were caught off guard by the rise of Omicron, this was the first rate move of the major developed countries. We expect further developed-nation central banks to follow suit in 2022.

The BoE also revised down their expectations for the level of UK GDP in 2021 Q4 by around 0.5% leaving GDP around 1.5% below its pre-Covid level. They also stated they expect the UK unemployment is expected to fall to around 4% in 2021 Q4, compared with the 4.5% projection in November.

Despite ongoing restrictions and lockdowns to fight rising case numbers, in Europe the 600 STOXX reported a gain of 5.37%, the French CAC 40 6.43%, the German DAX 5.20% and the UK's FTSE100 4.61%.

Please refer to the end of this report for the footnotes

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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