

BT Wholesale Partner International Shares Core (Wellington) Fund

Quarterly report – 30 June 2020

Fund overview

Inception date	15 June 2004
APIR code	BTA0248AU
Fund size (AUD millions)	\$38.19
Investment objective	To provide a return (before fees and taxes) that exceeds the benchmark over the medium to long term. The Fund invests in international shares with a core investment style, and is currently managed by Wellington.
Recommended investment timeframe	5 years
Minimum initial investment	\$500,000
Distribution frequency	Quarterly
Management costs (%) pa¹	1.05
Buy/sell spread (%)	0.20 / 0.20

Current investment manager

Wellington was established in 1928 and is one of the world's largest independent investment management firms.

The fund is a composite portfolio using 3 highly differentiated underlying active strategies. The fund was specially constructed for BT and provides a well-diversified, core portfolio.

The three underlying strategies are:

- Wellington Durable Enterprises
- Wellington Global Opportunistic Value
- Wellington Global Quality Growth.

Performance review²

Period ending 30 June 2020	3 months	1 year	3 years	5 years	Since inception
	%	%	% pa	% pa	% pa
Total Net return	1.94	3.97	8.24	8.45	8.01
Total Gross return	2.21	5.06	9.38	9.58	9.17
Benchmark [~]	5.94	5.18	10.76	9.37	7.22

[~] MSCI World ex Australia Standard (Net Dividends) in AUD.

Fund update³

The BT Wholesale Partner International Shares Core (Wellington) Fund underperformed the MSCI All Country World ex Australia Net benchmark during the quarter. Over the quarter, Global Quality Growth outperformed, Durable Enterprises produced positive returns however still underperformed the benchmark and Global Opportunistic Value underperformed the benchmark. The portfolio's factor exposure contributed to performance during the period with the modest overweight to higher beta securities and its smaller cap footprint contributing most. This was only partially offset by the underweight exposure to momentum which detracted.

The Global Quality Growth portfolio outperformed the index for the quarter. Sector allocation, a result of our bottom-up stock selection process, was a driver of relative outperformance. Allocation effect was driven by our overweight to information technology, underweight to consumer staples and lack of exposure to utilities, but partially offset by our overweight to health care and underweight to materials. Stock selection also contributed to returns. Strong selection in communication services, information technology and consumer staples was partially offset by selection in consumer discretionary.

At the issuer level, our top two relative contributors were overweights to PayPal and Teradyne, while our top two relative detractors were overweights to AIA and Ross Stores. Shares of PayPal rose during the period despite first-quarter results trailing expectations. The company experienced improving trends driven primarily by PayPal and Venmo checkout. News on PayPal's plans to help merchants to accept crypto payments provided additional tailwinds. Shares of AIA Group ended the period modestly higher after sliding in May. Toward the end of the quarter the CBIRC officially approved the conversion of AIA's Chinese mainland branches into a China subsidiary, giving the company the ability to apply for access to other regions.

Durable Enterprises delivered positive returns over the quarter however underperformed the benchmark. Industrial and Health care were the top contributing sectors, while utilities and information technology were the bottom contributing sectors. At the issuer level, our top two absolute contributors were Sony Financial Holdings and Hologic, while our top two absolute detractors were Guangdong Investment and Novartis.

Shares of Sony Financial rose on the announcement that Sony Corporation was taking its finance unit private buying out its most profitable business. The offer price for the outstanding shares represented a 26% premium to the closing price on the day prior to the announcement. Shares of Guangdong Investment fell over the period. The company announced first quarter results that showed a slight increase in revenues while net profit declined significantly.

Global Opportunistic Value underperformed over the June quarter. The best-performing sectors of the portfolio, summing allocation, stock selection and currency effects, were consumer staples, health care, financials, and energy, while performance was detrimental principally in the information technology, consumer discretionary, and real estate sectors. Specific positions contributing the most to relative total return were spread across multiple regions: Chinese medical device manufacturer Shandong Weigao, Italian asset manager Anima, US-based cruise ship operator Royal Caribbean, Spanish cellular telecoms provider MasMovillbercom, and US asset manager BlackRock. Four of the five (with the exception of BlackRock) demonstrated exceptional returns of more than 40% during the period. BlackRock, on the other hand, was purchased in size on a deeply-discounted offering by exiting long-time shareholder PNC Financial, which led to large BTAMinvestor returns in a very short holding period. In the case of Shandong Weigao, investors became comfortable with the net impacts of regulated price cuts on certain products, as share gains for the company would seem to offset declining ASPs. In addition, COVID-19 influences steered market participants towards medical products stocks within China, and the company's H-shares benefited from Southbound Connect flows attracted by the valuation discount to A-share listed peers.

Holdings that had a negative impact on performance in the quarter were primarily listed in Hong Kong, including telecommunications infrastructure concern China Tower, natural gas transmission provider China Gas, car and truck assembler/OEM Guangzhou Automotive and diversified lender China Construction Bank. China Tower was caught up in the sentiment sell-off for 5G wireless rollout participants in the country, as the political fight between the US and China over national champion Huawei raised the risk of export restrictions on key components used in Huawei's base stations. Overall, we don't believe the US efforts will materially slow a rollout which is such a high priority for the Chinese government, and have retained the position given extraordinarily cheap valuations in the absolute on fiscal 2022 estimates (and even more so versus global tower comparables): 5x EV/EBITDA, P/ AFFO of 7x, and an equity FCF yield above 8%. China Gas, the country's largest natural gas distributor, saw negative impacts from COVID-19 due to regional lockdown affecting its Hubei operations, volume effects from a warm winter season, and a cautious guide for the new year of 15% sales volume growth versus pre-COVID forecasts of 25%. We continue to hold the shares, on the basis that new guidance appears beatable. A stepped-up focus on working capital management should also push the company more definitively towards free cash flow generation, de-emphasizing pure volume and earnings growth.

The cumulative weighting in the more economically-sensitive areas of the market (energy, materials, industrials, consumer discretionary, financials and information technology) declined during the quarter to the lowest benchmark relative exposure since inception of the BTAM GOV portfolio. Using the new benchmark of the MSCIWorld ex-AU to which we switched as of July 1, the portfolio held 56.9% of its weight in these sectors, versus 62.4% for the benchmark. On the other hand, due to the increase in volatility in certain segments of the market, including for many companies which had heretofore been thought of as stable growers (e.g. the US food distributor Sysco, whose beta to the World ex-AU has ballooned to 1.6 amidst uncertainty about the health of its restaurant customer base) the BTAM portfolio beta has increased during the quarter to 1.07 as of this writing. Due to the necessity of funding outflows from the portfolio, our team made net sales across most sectors this quarter, with the two exceptions being consumer staples and utilities; this thanks to purchases of Sysco in April, and new initiations of holdings in coffee and carbonated beverage maker Keurig DrPepper in May and New York regulated utility Consolidated Edison in June. Largest sources of funding came from reductions to the communications services and consumer discretionary areas.

Market commentary³

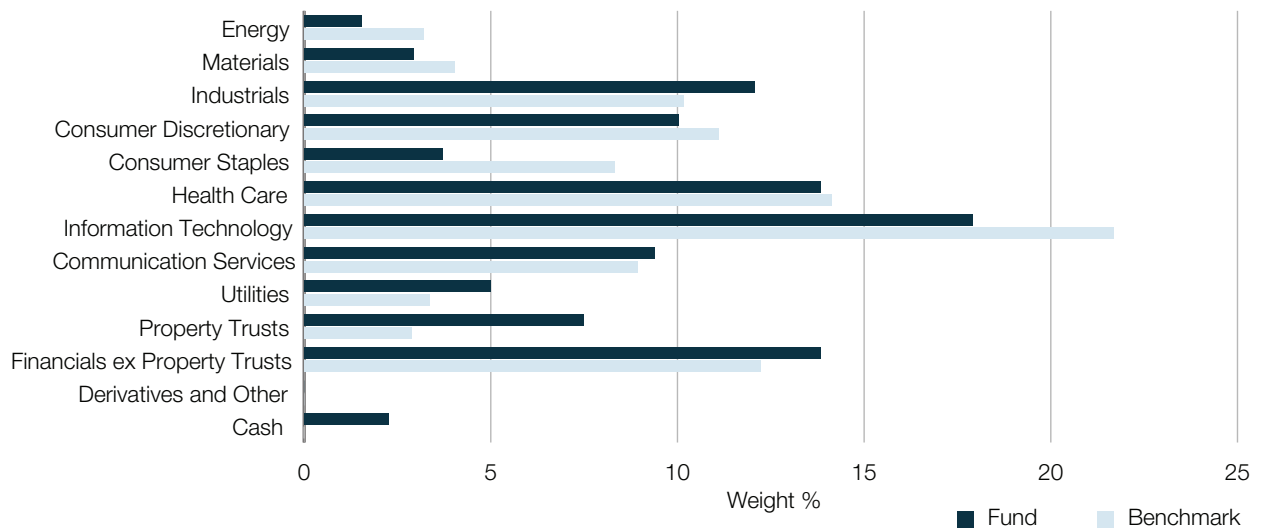
Global equities (+18.4%, in USD terms) surged to their best quarterly return since December 1999. Markets were fueled by optimism about successful early-stage trials for a potential coronavirus vaccine, ongoing fiscal and monetary stimulus, and signs that global economic activity is improving. As new infections declined in most countries, governments shifted their focus toward gradually lifting lockdown restrictions and supporting the recovery of their economies; however, new cases rose sharply in some areas of the US, while India and much of Latin America struggled to bring the virus under control.

The European Commission (EC) announced a proposal for a €750 billion recovery fund to provide grants and loans to eurozone economies that have been devastated by the coronavirus pandemic. Tensions between the US and China escalated during the quarter after China's decision to impose a controversial national security law on Hong Kong invoked a host of retaliatory responses from the US and increased concerns about the city's future as a global financial centre. After plummeting to historic lows in April amid a pandemic-induced collapse in demand, oil rebounded later in the quarter as the global economy began to recover.

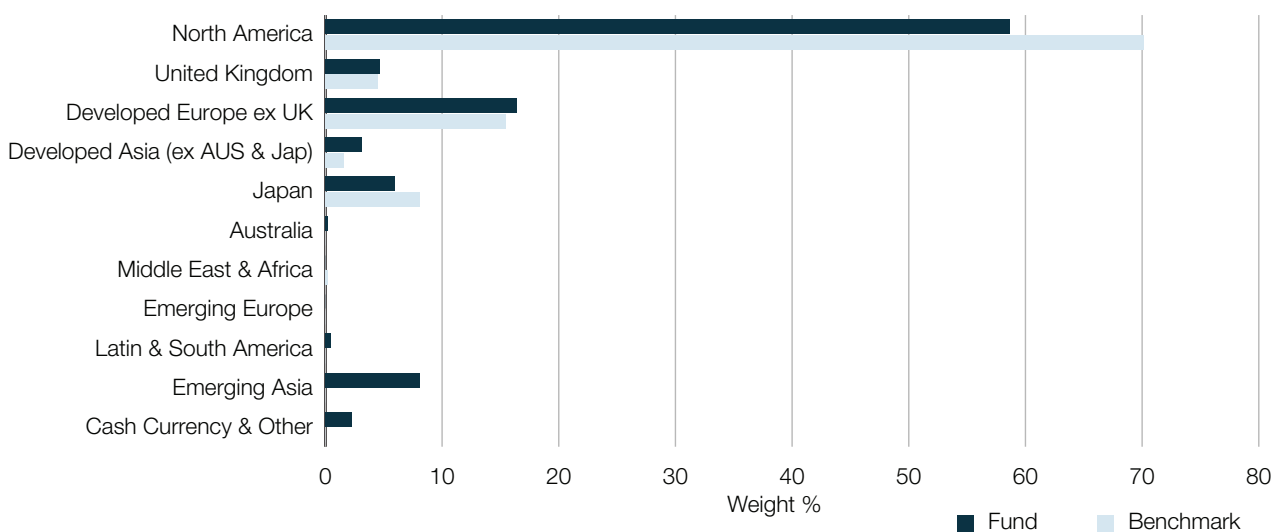
Top 10 holdings

Holding	Fund %	Benchmark %
American Tower Corporation	1.92	0.28
Novartis AG	1.76	0.46
Intact Financial Corporation	1.66	0.03
Fidelity National Information Services, Inc.	1.46	0.20
T-Mobile US, Inc.	1.40	0.14
TD Ameritrade Holding Corporation	1.19	0.02
Medical Properties Trust, Inc.	1.18	0.02
Fortive Corporation	1.17	0.05
Motorola Solutions, Inc.	1.15	0.06
Danaher Corporation	1.13	0.27

Sector allocations⁴



Regional allocations⁴



Key contributors

Holding	Contribution %
Ball Corporation	0.22
Intact Financial Corporation	0.22
American Tower Corporation	0.18

Key detractors

Holding	Contribution %
Bank of Ireland Group Plc	(0.16)
Canadian Natural Resources Limited	(0.13)
Apple Inc.	(0.13)

Manager history

Manager	Appointed	Replaced
Wellington Management Company	January 2019	
MFS Institutional Advisers, Inc.	May 2007	January 2019
Wellington Management Company	July 2004	May 2007

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. The Total Net returns is calculated net of management costs and pre tax. The Total Gross return is calculated pre management fees and pre tax.
- 3 Provided by Wellington Management Australia Pty Ltd.
- 4 Allocations may not equal 100% due to rounding.

For more information

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