# BT Wholesale Multi-manager Fixed Interest Fund

*Monthly report – 28 February 2021*

## Fund overview

| | |
|---|---|
| **Inception date** | 26 April 2006 |
| **APIR code** | BTA0260AU |
| **Fund size (AUD millions)** | $42.37 |
| **Investment objective** | To provide consistent income and relatively stable returns with low potential for capital loss in the short term. |
| **Recommended investment timeframe** | 3 years |
| **Minimum initial investment** | $500,000 |
| **Distribution frequency** | Quarterly |
| **Management costs (%) pa[1]** | 0.50 |
| **Buy/sell spread (%)** | 0.23 / 0.00 |

## Performance review[2]

| Period ending 28 February 2021 | 1 month | 3 months | 1 year | 3 years | 5 years | Since inception |
|---|---|---|---|---|---|---|
| | % | % | % | %pa | %pa | %pa |
| Total Net return | (2.93) | (3.28) | (0.77) | 3.96 | 3.38 | 5.12 |
| Growth return | (2.93) | (4.06) | (5.70) | (0.02) | (0.75) | (0.14) |
| Distribution return | 0.00 | 0.78 | 4.93 | 3.98 | 4.13 | 5.26 |
| Benchmark~ | (2.77) | (3.30) | (1.74) | 4.09 | 3.38 | 5.93 |

~ Composite of Bloomberg AusBond Composite 0+ Yr IndexSM and Barclays Global Aggregate Bond

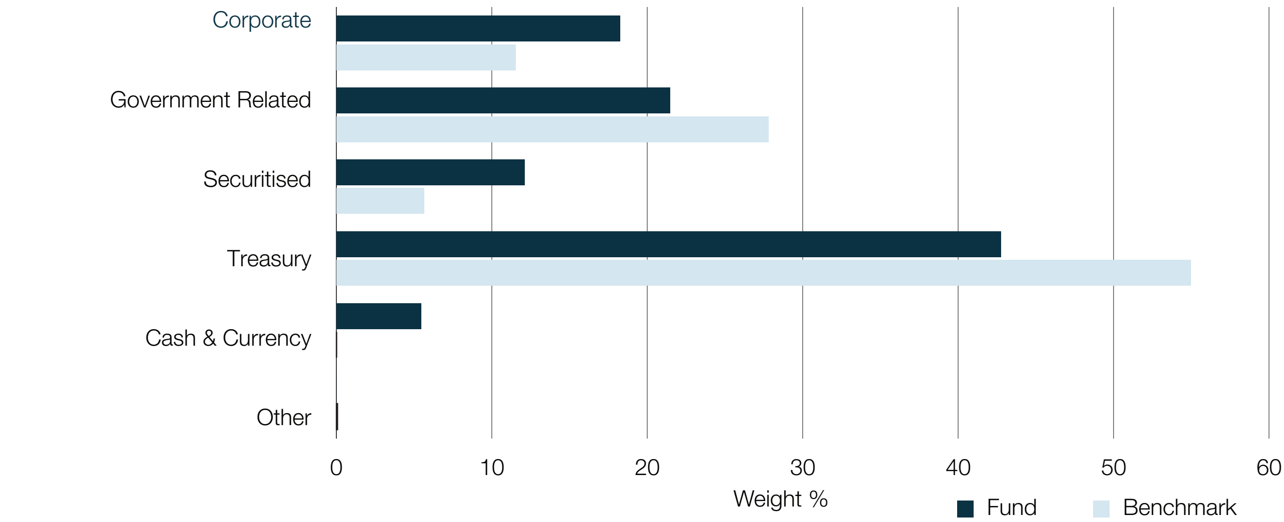
## Top 5 Issuers

| | Fund % | Benchmark % |
|---|---|---|
| Government of Australia | 12.20 | 34.14 |
| Government of the United States of America | 5.22 | 5.53 |
| New South Wales Treasury Corp. | 4.99 | 3.79 |
| Government of Japan | 4.34 | 5.11 |
| Treasury Corporation of Victoria | 3.20 | 3.33 |

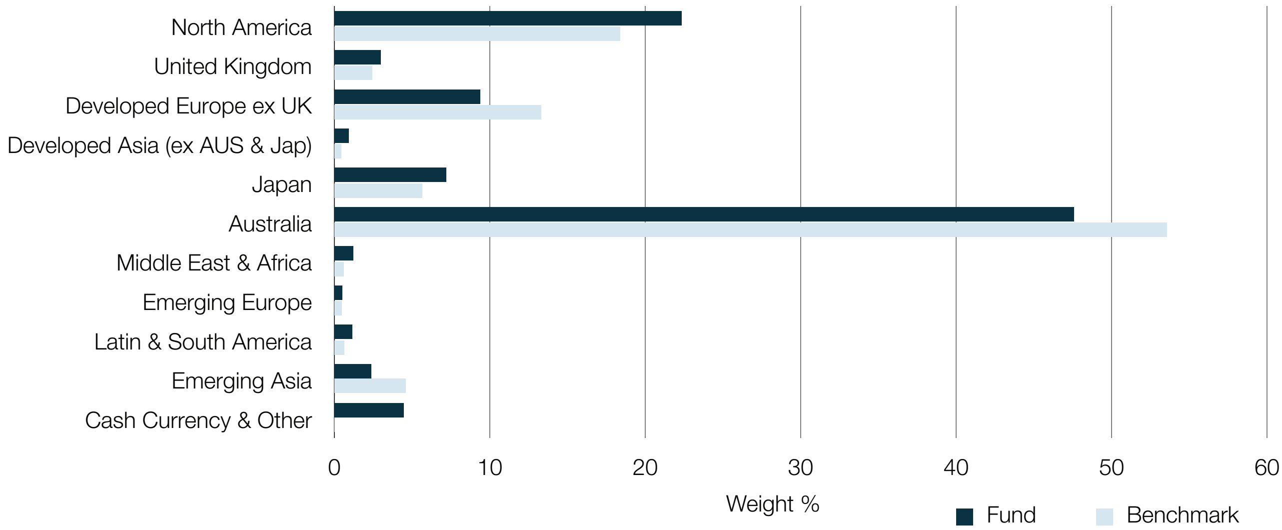


Please refer to the end of this report for the footnotes

## Sector allocations[3,4]




## Regional allocations[3,4]




## Credit quality[3,4,5]

| | Fund % | Benchmark % |
|---|---|---|
| AAA | 34.45 | 53.44 |
| AA | 18.55 | 22.73 |
| A | 20.71 | 14.23 |
| BBB | 21.88 | 9.41 |
| Sub Investment Grade | 2.48 | 0.19 |
| Not Rated | (3.53) | 0.00 |
| Cash & Derivatives | 5.45 | 0.00 |

## Characteristics[6]

| | Fund | Benchmark |
|---|---|---|
| Effective Duration (Contribution) | 6.19 | 6.45 |
| Years to Maturity (Years) | 10.53 | 8.33 |
| Effective Yield (%) | 1.47 | 1.11 |



Please refer to the end of this report for the footnotes

# Fund update

The BT Multi-manager Fixed Interest Fund underperformed the benchmark over February. Within the International Fixed Interest sectors, managers performance was mixed. Wellington was the only manager that outperformed. Their macro driven duration and currency strategies contributed, while country and yield curve strategies were neutral. Wellington held underweight positions in major sovereign markets which benefitted amid the bond selloff.

PIMCO was broadly flat versus the benchmark as a number of its country trades (e.g. underweight German Bunds) benefited from the moves across the yield curve, whilst others detracted (e.g. overweight Australian Bonds). At the same time, the strategy benefited from the continued contraction in credit spreads.

WAM had a modestly negative month as its country allocation strategies detracted alongside its currency positions. Standish benefited from its rates positions but minor underperformance from its securitised sectors saw the fund deliver a flat outcome for the month of February.

Within the Australian Fixed Interest sectors, manager performance was mostly negative with AMP and Janus Henderson both detracted whilst Pendal generated returns that were in line with the index.

Broadly speaking, the manager's active duration component had a negative month in February. The Australian Fixed Interest portfolio was adversely impacted in absolute terms by sharply rising bond yields and a dramatic steepening in the yield curve. However, the physical holdings in credit instruments and non-government bonds continue to outperform with our managers benefiting from an overweight towards those sectors.

Interestingly, these managers have begun to take an increased position in government bonds – with the view that markets have overpriced the outlook on rates and inflation.

Globally, Optimism over the global growth outlook continued to rise in February as COVID-19 infections, hospitalizations and deaths slowed, shifting the focus to progress on vaccination programs. Growing expectations for fiscal stimulus in the US also put additional upward pressure on developed market government bond yields. As a result, many fixed income sectors generated negative total returns as global sovereign yields rose substantially.

US Treasury nominal yields moved higher, led by real yields. Fed Chair Powell acknowledged the move as a sign of confidence in the US economic recovery. UK gilt yields and breakevens soared supported by hawkish remarks from the Bank of England. At the same time, most major central banks maintained their asset purchase programs. Fed Chair Powell maintained a dovish rhetoric but stated that economic outlook had improved. All other major central banks kept their policy rates unchanged.

Spread sectors tightened on the back of the higher rates, while inflation expectations continued to rise. Global credit bonds outperformed duration-equivalent government bonds. Within the securitized sectors, commercial mortgage-backed securities and asset-backed securities outperformed, while agency mortgage-backed securities underperformed.

The risk-off tone saw the US dollar strengthen versus most currencies. The Bloomberg Barclays Global Aggregate Bond Index returned a negative -1.56% over the month, bringing the one year performance to -0.18%.

Locally, the Reserve Bank of Australia (RBA) also surprised the market at its February meeting when announcing that Quantitative Easing (QE) would be extended once the initial $100bn program has been used up by mid April. The RBA will buy a further $100bn at a rate of $5bn per week, taking QE through until early September. They also released their Statement on Monetary Policy (SoMP), with underlying inflation not forecast to reach the bottom end of their target band over the forecast horizon. The cash rate was left unchanged at its meeting in early March and it was reiterated that they will not raise the cash rate until actual inflation is sustainably within the 2 to 3% target band. The RBA does not expect this to occur until 2024 at the earliest.

In light of the above, Australian 10 year bond yields traded in an 82 basis points (bps) range, selling off aggressively late in the month on inflation concerns globally and position liquidation. Australian 10 year bonds ended the month 76bps higher at 1.87%. 3 month implied rates for 2024 and 2025 peaked at 1.36% and 2.04% (from 0.66% and 1.02% in January), implying a cash rate that is closer to 1% and 1.75%. US 10 year bonds traded in a 48bps range, ending the month 33bps higher at 1.40%.

Credit spreads performed well in February. Risk markets continued to rally on positive sentiment on Covid-19 vaccine rollouts, fall in new global cases and hospitalisations, expectation of an increased size of US stimulus, and central banks remaining determined not to suggest any tightening of monetary policy in the near term. However, bond markets felt the pinch with yields increasing during the month on positive growth and inflation outlooks, as well as commodity prices rising. This saw some weakness in equity markets and credit spreads late in the month due to the pace of the increase in yields driving market uncertainty.

The Australian iTraxx index (Series 34 contract) traded in a 7bp range finishing the month unchanged at +63bps, whereas physical credit spreads outperformed - tightening 3bp on average. The best performing sectors were infrastructure, real estate and resources tightening 17, 12 & 7bps respectively. The worst performing sectors were domestic banks that widened 2bps and supranationals that were unchanged. Semi government bonds underperformed, widening 2bps relative to commonwealth government bonds.

The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, was down -3.58% over the month. Over the past year, the Australian bond market has returned -2.80%.



**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.
4. The credit quality has been determined based on the Standard & Poor's credit rating tiers. Where a negative number is shown, this may indicate the use of derivatives and physical securities to create short positions in the portfolio. Allocations may not equal 100% due to rounding.
5. Calculated using weighted average.

## For more information

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