Monthly commentary - February 2017

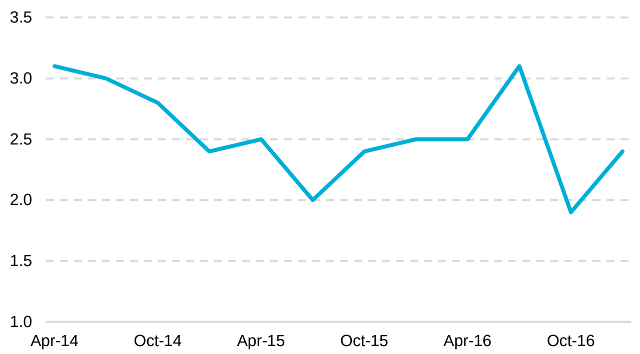
With twists and turns a continuing theme as we move through Q1, 2017, February finished strongly positive for the major share market indices. Supported by the daily news headlines of 'Trumponomics', the Dow was pushed to record levels. In Australia, we saw mixed economic data, which was offset somewhat by positive company results towards the end of the December quarter's reporting season. The resources sector took a breather over February, albeit commodity prices remained strong. This was off the back of a FYTD index return of 26%, which in turn aided an upside result in our trade balance.

Developments in the global economy

Australia

After the Q3 2016 GDP results showed a decline of 0.5%, the fourth quarter GDP figure expanded at an annualised pace of 2.4%, which was ahead of the consensus expectation. This number is still below the potential or long-run average for growth. Good news is that the Australian economy has now notched 102 consecutive quarters of growth (or 25½ years) without a recession and this run is likely to continue through 2017.

Chart 1: Australian GDP (%)



Source: BTIS/Bloomberg

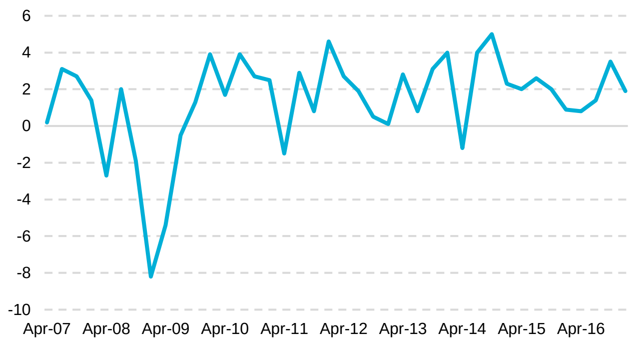
A further supporting factor for the GDP result was the terms of trade (ratio of export to import prices) which soared 9.1% in the December quarter, reflecting a further increase in commodity prices. It was the largest jump in the terms of trade since the June quarter 2010, boosting the income component of the national accounts.

In other data released over the month, building approvals rose 1.8% in January, only partially reversing a 2.5% decline in December. Despite the rise in the month, a downward trend remains clearly intact. On an annual basis, building approvals are down 12.0%. In trend terms, building approvals have been in decline for eight consecutive months.

US

Over the month of February we saw more positive data coming out of the US economy. The question being asked of the Fed now is when will the next rate hike be, which appears to be at the March 15th meeting based on the consensus belief of many economists that have now placed an over 80% probability of a March hike. Although there were positive data releases, with upside news from both consumer confidence, and consumer discretionary spending releases, the US is still going through the slowest recovery since the Great Depression. In play as well is the effect of the yet to be released detail around President Trump's tax and infrastructure policies, which may still be some time coming.

Chart 2: US GDP (%)



Source: BTIS/Bloomberg

China

China's Purchasing Managers' Index (PMI) came in at 51.3 against an expectation of 51.2 at the start of February. At the end of the month, the PMI rose to 51.6 against an expectation of 51.1. A number above 50 demonstrates optimism.

China's CPI however grew against last year's measure by 1.4% in February, well below the target of 3%. This result was driven by a decline in food prices which account for nearly a third of the price metric used for the CPI measure.

The National People's Congress announced during the month that they are aiming to expand the economy by around 6.5% in 2017. This comes as they continue to implement a proactive fiscal policy and maintain a prudent monetary policy.

China's leaders are prepared to tolerate a slight decline in growth over 2017 to give them more room to push through reforms to deal with the build-up in debt within their economy.

One of the key announcements made was that the government will embark on an ambitious jobs plan, ensuring that every family has at least one breadwinner, which is key as jobs are being cut in many state-owned enterprises. The government says it expects 11 million new urban jobs will be created this year, however according to analysts, this is well short of the 15 million new workers the government estimates will enter the market.

Europe

At the European Central Bank meeting on the March 9th rates were left on hold. This was not a surprise given it was quite close to the Dutch and French elections, as well as the latest Brexit vote on March 7th. There was evidence from the meeting of an outlook of far less accommodative monetary policy. Annual inflation is expected to be 2.0% in February 2017, up from 1.8% in January 2017, according to a flash estimate.

March will mark the end of the first stage of the UK's withdrawal from the European Union. On March 7th, the House of Lords will commence final debate on Brexit, where it is assumed that the House of Lords will pass the Brexit bill. The failure of the unelected body to follow the will of the people would probably result in a constitutional and political crisis in the UK. However, amendments could be made to the bill, which would require another vote in the House of Commons and, as such delay the process.

Progress has been made with Greece's latest bailout review negotiations on 20th February, suggesting that the Greek debt saga may not end in tragedy after all. The government agreed to implement IMF-mandated reforms including lowering the threshold of tax-free income and amending the pension system. These measures are a large climb-down by Prime Minister Alexis Tsipras as they had previously been red-lines for the government, but are a step in the right direction towards a successful bailout review.

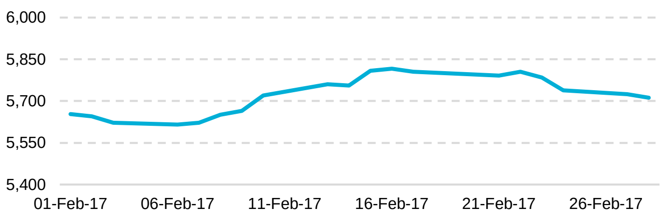
Developments in financial markets

Australian shares

The ASX 200 delivered a strong gain of 2.25% during the month, aided by a bounce back of the REIT's sector (4.15%), although weighed down by the Resource Sector (-3.36%).

The reporting season concluded during February, the results being broadly positive, with over 45% of companies beating earnings expectations and near 60% of companies beating their results from a year ago, indicating a positive upside in business confidence.

Chart 3: ASX 200 return over the month – February 2017



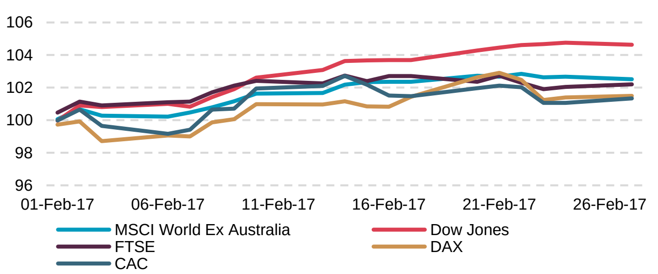
Source: BTIS/Bloomberg

International shares

With market volatility at the lowest levels seen since 1929, the Dow rallied strongly during the month to post a 4.77% gain – driven by strong economic data and the lead up to President Trump's State of the Union speech on February 28th.

Other major markets also performed strongly over the month with more positive economic news coming out of Europe, we saw the FTSE, DAX and the CAC, each up 2.31%, 2.59%, and 2.31% respectively. These results are impressive considering the political risks presently within the EU.

Chart 4: Major market indices – February 2017



Source: BTIS/Bloomberg

Fixed interest

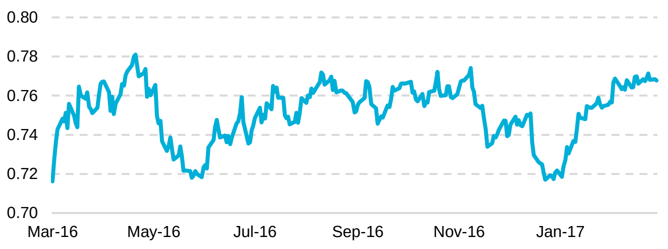
With all eyes on US interest rates, the Fed began the month with neutral messaging after its meeting, which increased the market probability of a March rate to around 80%, with continued messaging from the Fed being even more hawkish off the back of solid employment data and rising inflationary pressures.

Despite the general hawkish sentiment across the global central banks, Government bond indices delivered positive returns in February. UK gilts and German Bunds led the way, gaining 3.3% and 1.57%, in local currency respectively. The Australian Government Bond Index delivered a small return, in comparison, of 0.14%.

Currencies

The strong positives gained from the releases over February of company profit data, and the holding up of commodity prices maintained the AUD/USD around $0.76 for the month.

Chart 5: AUD/USD – one year



Source: BTIS/Bloomberg

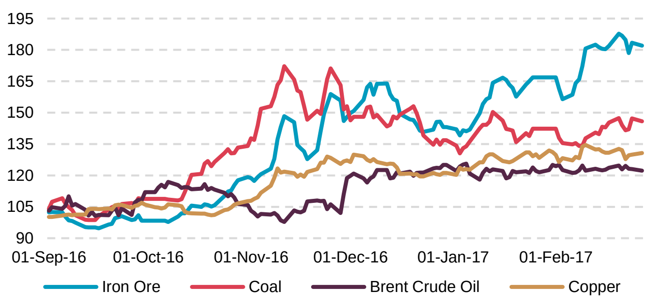
For other currencies, the AUD fell 3% against the Euro and 2.4% against the Pound. This result was driven by the release over February of improving economic conditions in those regions, being stable unemployment, improving inflation, and positive news of PMI and Retail sales data.

Commodities

Over the month commodities continued their upward momentum, driven by Chinese demand and expectations of outcomes from President Trump's proposed $USD 1tn infrastructure spend. These factors primarily saw Iron Ore rally over 9% over the month, with Coal continuing its run with a 3% gain.

Oil however dipped 0.2%, owing to Russia not appearing to reduce production as promised, and in the US, more oil rigs coming back into production. As a result of the overall price increases over recent months has seen a 12 month price increase of over 52% in $USD terms. Copper prices, also driven by primarily Chinese demand, rose in $USD terms, 1% in February, adding to the 6 month gain of 30% for this commodity.

Chart 6: Commodities rally – last 6 months



Source: BTIS/Bloomberg

Funds update

Diversified Multi-Blend Funds

The Diversified funds returned a positive absolute performance for the month with equities and bonds both rallying over the period. Despite this, the funds marginally underperformed on a relative basis as manger selection across equities negatively impacted on relative returns. The funds continued exposure to REIT's has since recovered some of the underperformance experienced towards the end of 2016, though the stronger AUD has marginally limited the absolute performance of some of the international exposures of the funds so far this year.

Australian Shares Multi-Blend Fund

Following a disappointing slide in January, the ASX 300 bounced back into positive territory in February rising 2.2%. The Fund however underperformed its benchmark by 0.4% with a return of 1.8%. Relative performance was negatively impacted by Schroders, who underperformed as a result of an overweight position towards the materials sector which endured its first negative monthly return since May 2016. The allocation to smaller companies also detracted from the Fund during the month, with the Small Ords Index advancing only 1.3%. Alphinity was the best performing manager within the Fund during the month, delivering a return of 2.3% on the back of holdings in Goodman Group, Costa Group Holdings and Aristocrat Leisure.

International Shares Multi-Blend Fund

February saw global stocks climb to record peaks with positive price momentum in US markets helping drive sentiment globally. The Fund however underperformed its benchmark in February with River and Mercantile, Ramius and T Rowe Price contributing most to negative alpha. On the other hand, Lansdowne was the best performing manager due to positive stock selection in financials, as the sector experienced a strong corporate earnings season and rising prospects of a US rate hike, and positive stock selection in Industrials.

Property Securities Multi-Blend Fund

Global property stocks drove higher in February backed by good economic data across regions. The Fund also outperformed its benchmark in February. The best performing manager was Principal driven by strong stock selection, while BlackRock and Heitman were laggards. The overweight to AREIT's (vs. Global REIT's) was a positive for the Fund with the ASX 300 Property Accumulation Index up 4.13%. This was coupled with positive relative performance by AREIT manager Phoenix.

Australian Fixed Interest Multi-Blend Fund

The Fund outperformed its benchmark in February gross of fees. It was another solid result with all managers delivering above benchmark performance gross of fees. Credit positioning again dominated managers' excess performance this month with credit spreads narrowing across the board. It was a relatively calm period for Australian Government bonds with yields ending the month largely unchanged. As such, interest rate strategies were overall a marginally positive contributor to Fund performance.

International Fixed Interest Multi-Blend Fund

The Fund marginally underperformed its benchmark in February gross of fees. Performance was somewhat distorted as February involved the transitioning of Franklin Templeton's portfolio following their formal termination in January. The transition was completed successfully with all assets transferred to Wellington. Wellington's performance for the month was marginally down against its benchmark. Standish Mellon outperformed for the month benefiting from credit spread contraction.

Defensive Yield Multi-Blend Fund

The Fund outperformed its benchmark in February gross of fees. Both Kapstream and Standish Mellon posted strong results with broad credit positioning driving outperformance. Overweight positions in financials and select asset backed securities performed particularly well during the month. BTIM modestly underperformed its benchmark as the manager's interest rate strategies worked against the portfolio over the month.

Diversified Fund Performance

Net (after fee) Wholesale performance of the Advance Diversified funds to end February 2017 against benchmarks are as follows.

	1 Month	3 Months	1 Year	3 Years	5 Years	7 Years
Defensive Multi-Blend	0.89%	2.04%	5.75%	3.61%	4.79%	5.23%
Benchmark	1.00%	2.09%	5.99%	4.91%	5.66%	5.93%
Moderate Multi-Blend	1.22%	2.92%	8.50%	4.57%	6.42%	6.28%
Benchmark	1.34%	2.99%	9.20%	5.90%	7.36%	7.02%
Balanced Multi-Blend	1.52%	3.74%	11.32%	5.44%	7.96%	7.14%
Benchmark	1.66%	3.86%	12.39%	6.83%	8.94%	7.88%
Growth Multi-Blend	1.76%	4.38%	13.04%	5.81%	8.76%	7.49%
Benchmark	1.93%	4.61%	14.87%	7.44%	9.98%	8.42%
High Growth Multi-Blend	1.94%	4.79%	14.27%	6.52%	9.97%	8.10%
Benchmark	2.17%	5.22%	17.25%	8.14%	11.21%	8.98%

February Market Data

Australian shares	1 Month	3 Months	1 Year	3 Years	5 Years
S&P/ASX 200 Accumulation	2.25%	5.88%	22.13%	6.47%	10.64%
S&P/ASX 200 Industrials	3.42%	5.96%	18.17%	8.85%	15.15%
S&P/ASX 200 Resources	-3.36%	5.51%	48.64%	-3.90%	-3.90%
S&P/ASX 200 AREIT	4.15%	5.85%	7.88%	15.82%	16.58%
S&P/ASX Small Ords	1.31%	2.40%	16.77%	5.11%	1.78%

Global shares	1 Month	3 Months	1 Year	3 Years	5 Years
MSCI World ex Australia A$	1.45%	3.49%	12.37%	10.79%	17.33%
EPRA/NAREIT Developed Index Hedged A$	3.29%	6.44%	13.44%	10.27%	12.37%
STOXX Europe 600	2.81%	8.26%	10.88%	3.08%	6.97%
S&P 500 Composite	3.72%	7.50%	22.33%	8.33%	11.60%
Nikkei 225	0.41%	4.43%	19.29%	8.81%	14.48%

Fixed interest	1 Month	3 Months	1 Year	3 Years	5 Years
Bloomberg AusBond Bank Bill Index	0.13%	0.44%	1.98%	2.32%	2.70%
Barclays Global Aggregate TR Hedged A$	0.91%	1.01%	3.08%	5.69%	5.84%

Commodities	Month End Price	1 Month	3 Months	1 Year	3 Years	5 Years
Bloomberg Commodity Index	87.7388	0.17%	2.02%	15.53%	-13.16%	-9.93%
Generic Brent Crude Oil	55.59	-0.20%	10.14%	54.55%	-20.12%	-14.64%
Generic WTI Crude Oil	54.01	2.27%	9.24%	60.03%	-19.25%	-12.79%
Gold US$/oz	1256.3	3.77%	6.92%	1.97%	-1.70%	-6.11%
Iron Ore	91.27	9.52%	26.62%	83.94%	-8.24%	-8.55%

Currencies	Month End Price	1 Month	3 Months	1 Year	3 Years	5 Years
AUD/USD	0.7678	1.43%	3.85%	7.38%	-4.90%	-6.55%
EUR/USD	1.0608	-1.63%	0.08%	-2.46%	-8.41%	-4.50%
USD/JPY	111.94	-0.94%	-1.92%	-0.88%	3.12%	6.68%
GBP/USD	1.2417	-1.22%	-0.65%	-10.75%	-9.46%	-4.87%

For more information on market activity and investments, please contact your BT relationship manager.