Monthly commentary - April 2017

Over the month of April we saw global equities continue their momentum driven rally, shrugging off mixed economic data releases and worries over the outcome of the French election and geopolitical issues surrounding North Korea and Syria. Having said this, there is a 'wall of worry' building off the back of softening Chinese data, the continuation of the fallout from Brexit, the US government's ability to push through promised tax and infrastructure reforms, and locally, falls in commodity prices and upward inflationary pressures against the backdrop of record low wage growth and housing (un)affordability.

Developments in the global economy

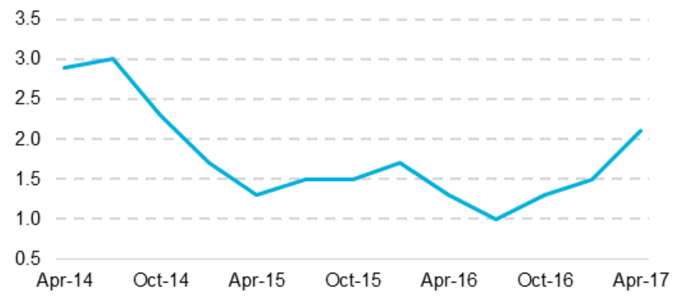
Australia

At its April meeting, the Reserve Bank (RBA) maintained the cash rate at 1.5%. Data released over the month indicated that headline inflation rose to 2.1% in the March quarter, putting it back in the RBA's 2-3% target range - for the first time since Q3 2014.

Despite inflation being back within the target range, the RBA is expected to maintain cash rates at their current level and may look more to 2018 to consider raising rates. This is due to a number of economic indicators such as continuing low underlying inflation pressure at a time of high underemployment, record low wage growth, a high Australian dollar and the condition of the housing sector.

Australia's trade balance recorded a surplus of $3.1b in March, slightly lower compared to February's surplus of $3.7b. The largest increases in Australia's goods exports came from non-monetary gold (+$443m), metals, ores and minerals (+$359m) and general merchandise (+$290m), while coal, coke and briquettes (-$341m) saw a large decline on February's figures.

Chart 1: Australian CPI – last three years



Source: BTIS/Bloomberg

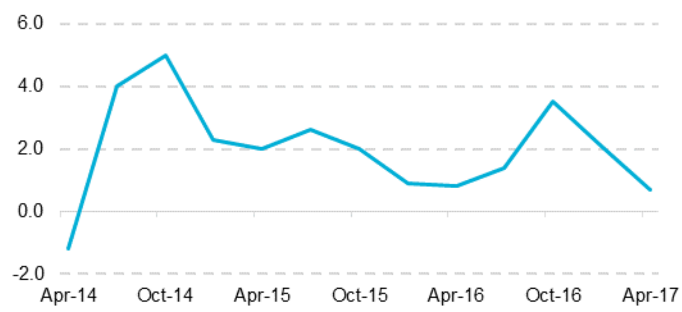
US

The month of April saw the S&P 500 advance 0.9% against headwinds of mixed economic data, which included a lower than expected Q1 GDP number and a slightly lower manufacturing purchasing managers' index (PMI) which fell from 57.7 in February to 57.2 in March. Markets also reacted to the lessening hopes around the economic stimulus expected to support significant infrastructure spending.

US consumer prices saw further moderation in March, with the CPI falling overall after rising only slightly in February. Prices for all items fell by 0.3% in March, the first monthly fall in the index since February 2016. The index for all items less food and energy fell 0.1%, marking its first decline since January 2010. Energy prices fell 3.2%, with the largest fall coming from gasoline, which fell 6.2% following February's fall of 2.8%.

The core PCE index, the Federal Reserve's preferred inflation measure, fell to an annual rate of 1.6%, down from 1.8% in February and moving slightly further from the Fed's 2% target.

Chart 2: US GDP – last three years



Source: BTIS/Bloomberg

China

China's economy has lost momentum over the last two months with business activity, measured by the PMI, falling from 54.4 in March to 52.6 in April, suggesting GDP could slow further over the coming months, and may signal that China's economic growth has peaked.

Other data available for April showed exports rose 8% in US dollar terms, missing market expectations of 11.3%, while imports rose 11.9%, compared with expectations of 18%. Analysts have attributed slower growth in trade numbers to a slowdown of global economic growth and the downturn in commodity prices.

This slowdown has also begun to impact the labour market which saw unemployment rising in April - a direct effect of Chinese businesses shedding employees as cost-cutting measures to support margins.

Europe

Good news out of Europe over the month enabled markets to continue their strong run with the broad STOXX 600 index up 1.6% for the month, maintaining its 20 month high. For investors, the major market event was the result of the first round of the French presidential election, which saw both the French and German markets soar to all-time highs. Other positives were continued improvement in economic data with the overall purchasing managers index (PMI) expanding to 56.8, and Germany's business confidence index rising to its highest level since July 2011.

In the UK however, markets fell during the month, driven by a rebounding currency that in turn impacted overseas earnings following Prime Minister May's call for a snap election on 8 June. The month also saw a reported slowdown in GDP where the Q1 result of an expansion of 0.3% was sharply less than the previous quarter's 0.7%. Rational behind this result was a fall in retail sales, declining 1.4% over the quarter. This is an apparent consequence of higher inflation against a backdrop of flat wage growth.

Developments in financial markets

Australian shares

The S&P 200 Accumulation Index gained 1.0% over the month, which helped the index deliver a strong gain of 17.1% for the financial year to date. The monthly gain was supported by a turnaround in fortunes for listed property, with the A-REIT index up 2.6%.

Industrials were up 1.5%, however this was offset by a -1.6% fall in the resource sector driven by falling commodity prices, which saw BHP Billiton and Fortescue Metals fall 1.3% and 14.8% respectively.

Chart 3: ASX 200 – financial year to date

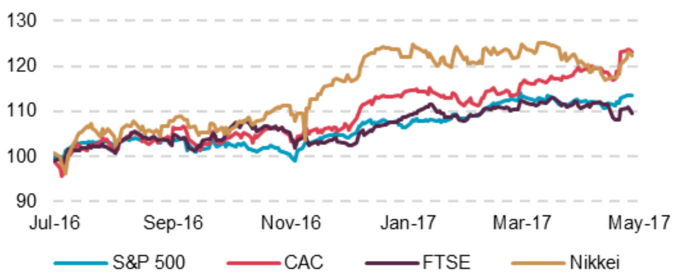
Source: BTIS/Bloomberg

International shares

The US market rally continued through April, with the S&P 500 gaining 0.9%. Gains came from the Information Technology and Consumer Discretionary sectors. Industrials also had a strong month. Interestingly, equity market gains have coincided with a fall in yields in major markets, as well as a fall in the US dollar. However, the energy sector underperformed over the month as a result of falling crude oil prices against the backdrop of the US increasing output. Big news for the month was the technology sector (Nasdaq Composite) index passing through 6,000 for the first time, mainly driven by tech giants Apple, Facebook, Amazon and Microsoft. With valuations starting to look stretched however, investors are holding out for the President's proposed tax cuts to be made law, which are needed to consummate the reflation trade.

Globally, the MSCI World Index gained 3.6%, boosted by Europe and emerging markets. The Stoxx 600 Index rose 1.6%, with aircraft manufacturers Safran and Airbus leading the gains. Across Europe, the French CAC 40 advanced 2.83% in April, following a mid-month low as Emmanuel Macron firmed as the likely victor in the French presidential election. In the UK, the FTSE 100 Index gained 4.1% in AUD terms, but was down in sterling terms, losing 1.6%. In Asian markets, the Nikkei 225 Index gained 1.5% while the Hang Seng Index rose 2.1%. The MSCI Emerging Markets Index rose 4.2%, supported by gains from the Taiwanese and Indian markets.

Chart 4: Major market indices – financial year to date (rebased to 100)



Source: BTIS/Bloomberg

Fixed interest

Global yields fell in April, continuing a downward trend started in the previous month. While rates have been trending higher since October 2016 and yield curves have steepened, investors have appeared to embrace duration again, reflected in longer-term fund flow.

The US 10-year Treasury yield fell from 2.39% to 2.28%, off the back of promising recent CPI releases in both Europe and the US. The numbers have however moderated in recent months, with core inflation remaining below many central bank targets. The return on US corporate investment grade bonds was 1.03% in April, while US high-yield debt returned 1.17%. Global bonds, measured by the Barclays Global Aggregate TR Index, returned 0.74% in April (in AUD hedged terms). Returns on Australian corporate bonds were 0.62% while government bonds returned 0.79%.

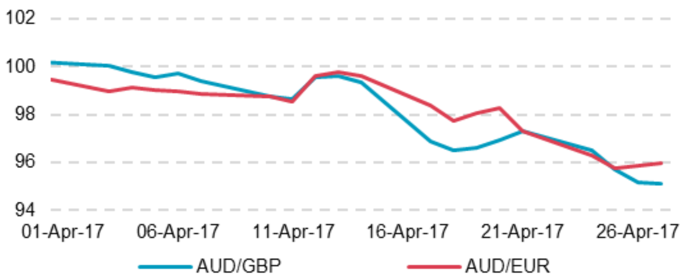
The Australian 10-year Treasury yield fell 12 bps from 2.70% to 2.58%, after reaching a low of 2.46% – the lowest level since November 2015 but still above the historic low of 1.87%. The UK 10-year Gilt yield fell from 1.14% to 1.08% in April which is softer since its post-Brexit high of 1.51% in January. The German 10-year Bund yield was steady at 0.32%, while the 5-year Bund remained around -0.39%. The Japanese 10-year yield fell from 0.07% to 0.01%.

Currencies

The Australian Dollar (AUD) fell 1.9% against the US Dollar (USD) in April, hitting a late month low of 0.7465. The AUD fell 2.6% in trade-weighted terms, losing against most major currencies, including EUR (-4.0%), JPY (-1.7%), and the GBP (-4.9%).

The US Dollar Index closed the month 1.3% lower, falling against major currencies including EUR (-2.2%), GBP (-3.1%), CHF (-0.8%) and gaining against JPY (+0.1%). After gaining in the wake of the US election, the USD stabilised through Q1 2017, and began a downward trend in April despite the market's expected rate path in 2017. The EUR fell against the USD early in the month but recovered heading into the final round of French presidential election voting.

.Chart 5: AUD/GBP and AUD/EUR – one month (rebased to 100)



Source: BTIS/Bloomberg

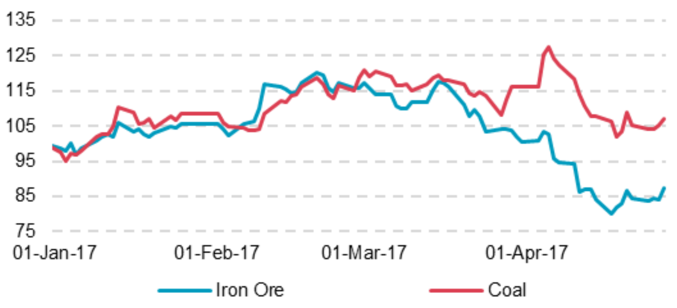
Commodities

Over the month, ore prices continued their price retreat falling 20%, which equals a 30% fall since the February peak in prices, putting this commodity into a technical bear market. Drivers of this fall relate to a rise in Chinese stockpiles, and speculative investors who are contributing to the pace of both the previous rises and current falls in ore prices.

Coal prices spiked over 15% during the month as a result of tropical cyclone Debbie before falling 9% at month's close, reaching their highest level since December 2016. Estimates are that as a result of Debbie, 4%-6% of global exports have been lost.

Brent Crude oil prices appreciated over the month by 1.9%, but remained under pressure as underlying concerns of global over-supply weighed on market confidence, compounded by doubts over OPEC's compliance with their own agreement to reduce output.

Chart 6: Iron Ore and Coal –year to date (rebased to 100)



Source: BTIS/Bloomberg

Funds update

Diversified Multi-Blend Funds

The Diversified funds returned a positive absolute performance for the month with most financial markets up over the period. Underlying manager performances for the funds were positive across all asset classes resulting in solid outperformance against the Funds' benchmarks over the period. Exposure to commodities was one of the only blemishes for the period as Iron Ore prices fell heavily though were a marginal impact overall on the portfolios. Positive contributions were evident from all other major asset class. Asset allocation positioning remained neutral to the Funds' strategic target.

Australian Shares Multi-Blend Fund

Australian equity markets advanced for a third consecutive month in April, with the ASX 300 Index gaining 1.0% as a broad based rally across the industrials (+4.1%) and IT (+3.5%) sectors offset another deep sell-off in iron ore (-14.4%) and fall in the materials sector (-0.3%). The Fund outperformed its benchmark by 0.4% with a return of 1.4%. Relative outperformance was driven by Bennelong, who was the top performing manager as a result of positive stock and sector contributions. Stock selection within the consumer discretionary sector was the main source of alpha during the month, with overweight holdings in Aristocrat Leisure and Domino's Pizza providing the most benefit, with the stocks rallying 9.3% and 5.2% during the month respectively. The allocation to smaller companies was the only detractor to the performance of the Fund during the month, with the Small Ords Index declining 0.3%.

International Shares Multi-Blend Fund

Equity markets around the word continued to climb in April, with the MSCI World ex Australia Index in AUD hitting an all-time high towards the end of the month on its way to returning 3.6%. The Fund outperformed this benchmark by 0.9%, delivering a gain of 4.5%. Outperformance was driven by T. Rowe Price with both stock and sector allocations contributing to outperformance, while holdings in North America and emerging markets also supported relative returns. Holdings in the IT sector, coupled with an overweight position, contributed the most to T. Rowe Price's relative return. Shares in PayPal, the leading pure-play digital wallet, gained ground after reporting solid first-quarter results across a broad range of metrics, including strong total payment volume and revenue growth and improved operating margins.

Property Securities Multi-Blend Fund

Global REITs climbed higher in April with the FTSE EPRA NAREIT Developed Hedged AUD Index up 1.0%. Domestically, the ASX300 A-REIT Index enjoyed an even larger gain, rising 2.6% on the back of confirmation from Amazon Inc that it would enter the Australian marketplace and optimism from investors that this will push up rental on warehouse/distribution centres. The Fund performed roughly in line with its benchmark during the period with a return of 1.5%. The primary driver of the positive performance was Heitman, which benefited from positions in Brandywine Realty Trust which continued to show stronger growth than office peers, Equinix as the data centre sector continued to outperform on the back of improving growth, and Essex Property Trust which has seen a strong coastal apartment market thus far in 2017.

Australian Fixed Interest Multi-Blend Fund

The Fund outperformed its benchmark in April gross of fees. Pleasingly, all managers exceeded their respective benchmarks for the month. In particular, AMP delivered a strong result with the portfolio's interest rate positioning the primary contributor to positive performance. Overall, the Fund is conservatively positioned with an overweight to high quality investment grade credits and modestly neutral in interest rate positioning relative to its benchmark.

International Fixed Interest Multi-Blend Fund

The Fund outperformed its benchmark in April and for the year gross of fees. Standish outperformed its benchmark over the month and was also the sole contributor to excess performance with Wellington marginally lagging behind its benchmark. The Fund is underweight longer maturity bonds relative to its benchmark as the likelihood of rising bond yields in particular the US remains the consensus outcome. Credit quality has also improved compared to the beginning of this year. The Fund has shifted to a relatively more conservative bias given the persistent contraction in credit spreads has seemingly run its course.

Defensive Yield Multi-Blend Fund

The Fund outperformed its benchmark in April and for the year gross of fees. All managers outperformed their respective benchmarks for the month. Standish was the standout performer delivering a strong result. Outperformance was driven from almost all active strategies including sector allocation, FX positioning and interest rate positioning. BTIM also performed well for the month, whilst Kapstream marginally outperformed its benchmark.

Advance Diversified Multi-Blend Fund Performance

Net (after fee) Wholesale performance of the Advance Diversified Multi-Blend Funds to end April 2017 against benchmarks are as follows.

	1 Mth %	3 Mths %	1 Yr %	3 Yrs %	5 Yrs %	7 Yrs %
Defensive Multi-Blend	**0.95**	**2.60**	**5.91**	**3.91**	**4.86**	**5.14**
Benchmark	0.96	2.61	5.59	5.15	5.67	5.90
Moderate Multi-Blend	**1.40**	**3.82**	**8.77**	**5.26**	**6.60**	**6.22**
Benchmark	1.23	3.64	8.49	6.36	7.45	6.97
Balanced Multi-Blend	**1.74**	**4.85**	**11.59**	**6.51**	**8.27**	**7.10**
Benchmark	1.49	4.62	11.37	7.55	9.12	7.83
Growth Multi-Blend	**1.97**	**5.58**	**13.41**	**7.11**	**9.16**	**7.45**
Benchmark	1.66	5.35	13.63	8.33	10.23	8.35
High Growth Multi-Blend	**2.19**	**6.23**	**14.97**	**8.12**	**10.46**	**8.10**
Benchmark	1.84	6.03	15.67	9.24	11.53	8.90

April Market Data

Australian shares	1 Month	3 Months	1 Year	3 Years	5 Years
S&P/ASX 200 Accumulation	1.03%	6.74%	17.77%	7.27%	11.01%
S&P/ASX 200 Industrials	1.52%	9.03%	17.39%	9.80%	15.11%
S&P/ASX 200 Resources	-1.58%	-4.26%	19.85%	-4.06%	-3.27%
S&P/ASX 200 AREIT	2.61%	7.53%	5.82%	15.54%	16.24%
S&P/ASX Small Ords	-0.25%	3.75%	10.04%	6.80%	2.42%

Global shares	1 Month	3 Months	1 Year	3 Years	5 Years
MSCI World ex Australia A$	3.58%	6.99%	16.93%	13.70%	17.66%
EPRA/NAREIT Developed Index Hedged A$	1.05%	2.80%	5.73%	8.98%	11.32%
STOXX Europe 600	1.56%	7.49%	13.36%	4.64%	8.51%
S&P 500 Composite	0.91%	4.62%	15.44%	8.17%	11.27%
Nikkei 225	1.52%	0.82%	15.18%	10.30%	15.06%

Fixed interest	1 Month	3 Months	1 Year	3 Years	5 Years
Bloomberg AusBond Bank Bill Index	0.15%	0.43%	1.88%	2.27%	2.60%
Barclays Global Aggregate TR Hedged A$	0.74%	1.69%	2.60%	5.53%	5.76%

Commodities	Month End Price	1 Month	3 Months	1 Year	3 Years	5 Years
Bloomberg Commodity Index	84.0128	-1.57%	-4.09%	-1.76%	-15.21%	-9.87%
Generic Brent Crude Oil	51.73	-2.08%	-7.13%	7.48%	-21.77%	-15.41%
Generic WTI Crude Oil	49.33	-2.51%	-6.59%	7.43%	-20.92%	-14.00%
Gold US$/oz	1268.28	1.53%	4.75%	-1.95%	-0.61%	-5.29%
Iron Ore	68.8	-14.42%	-17.45%	3.86%	-13.39%	-14.08%

Currencies	Month End Price	1 Month	3 Months	1 Year	3 Years	5 Years
AUD/USD	0.7488	-1.85%	-1.28%	-1.51%	-6.93%	-6.41%
EUR/USD	1.0895	2.28%	0.90%	-4.86%	-7.73%	-3.82%
USD/JPY	111.49	0.09%	-1.16%	4.69%	2.93%	6.91%
GBP/USD	1.2951	3.20%	2.96%	-11.37%	-8.44%	-4.42%

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