Monthly Commentary - February 2019

Earnings season at home sees strongest monthly gains in markets since mid-2016. Optimism lifted as the US extends a trade truce with China. Progress on the Brexit front as PM May opens up on a vote to block a no-deal exit and a possibility of an extension of Article 50's end-date.

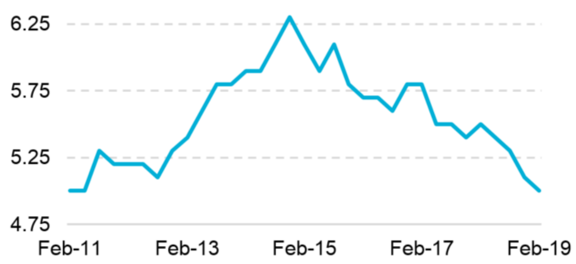
Developments in the global economy

Australia

The cash rate remained unchanged at 1.5% in February despite the Reserve Bank's downward revision of GDP growth outlook to 3.0% in 2019 and 2.75% in 2020, as accumulating downside risks around slowdowns in global growth remains an ongoing concern. Likewise, the negative wealth effect associated with falling house prices continues as a pressing source of uncertainty.

The unemployment rate remained flat at 5.0% in January despite the solid lift in total employment (+39.1k), with gains in full-time employment (+65.4k) only partially offset by a loss in part-time employment (-26.3k).

Chart 1: Australian Unemployment Rate



Source: BTIS/Bloomberg

Consumer sentiment rose 4.3% to 103.8 in February, recovering from a fall into pessimistic territory of 99.6 in the earlier month. The NAB business survey reported only a modest rebound in business conditions by 4 points to +7 points, bringing it back in line with the long-run average. Business confidence remained little changed edging up 1 point, remaining below average at +4 points, confirming a downtrend.

The number of housing loans extended to owner occupiers and investors (including refinancing) contracted by 6.1% and 4.8% in December, respectively. The tightening of credit continues to place downward pressure on the cooling housing market, as national dwelling values across the 8 combined capital cities slid by 7.6% in the year to February.

Despite deteriorating conditions faced by some major trading partners, Australia further expanded manufacturing activity as the AiG performance of manufacturing index rose to 54.0 in February in contrast to 52.5 in January. Private capital expenditure was revealed to have risen by 2.0% in the December quarter as future spending plans estimations were further revised upwards at $118.4 billion, suggesting a 0.7% increase in 2018-19 from 2017-18.

US

A call for a national emergency to build the Mexican border wall was made, which will be contested by the Democrats. Trade concerns eased as the US President put on hold the scheduled tariff increase, suggesting constructive progress towards a deal with China. Recent negotiations with North Korea's leader in Hanoi to denuclearise the Korean Peninsula in exchange for lifting US sanctions ended without agreement.

In US data, the economy grew at a 2.6% annual pace in the December quarter. The trade deficit widened to $59.8 billion in December, underscored by a 1.9% fall in exports and a 2.1% rise in imports from an improvement in domestic demand.

The Chicago Fed National Activity Index came in at a weak -0.43 in January suggesting below trend economic growth. However, manufacturing activity continues to expand in the US, despite a slip to 53.0 in February from a reading of 54.9 in January (a reading above 50 indicates expansionary activity). The services sector similarly continued to expand with the Markit services at 56.0 for the month, up from 54.2 in January.

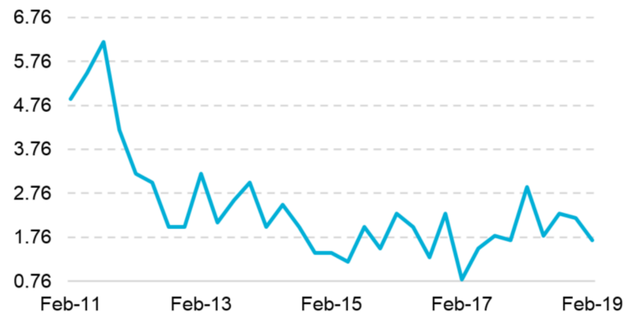
US residential property market began to respond to the support from a recent drop in mortgage rates with dwelling price growth rising 0.2% in December. The labour market remains tight with unemployment rates rising to 4% in January, but consumer sentiment improved to a level of 93.8 in the month following from 91.2.

Asia

China's trade surplus shrunk in January to US$39.2bn, from US $57.1bn in December. Exports rose 9.1% reversing a 4.4% drop in the month prior, while imports decreased 1.5% to USD $178.4bn, still significantly less than the 7.6% decline in December.

Inflationary pressures remain muted as easing in price growth was seen through annual CPI and PPI figures down 1.7% and 0.1%, respectively. The weakness points to the falling industrial profits and weaker factory activity. The Caixin China General Manufacturing PMI indicator reached a three month high in February at the 49.9 mark. This is in contrast to January's recent low of 48.3, the improvement driven by renewed rise in output following a pick-up in domestic demand, but still remains below 50, signalling contraction.

Chart 2: China CPI (Annualised)



Source: BTIS/Bloomberg

Average prices of new homes in China rose by 10% year on year in January, making it the strongest annual gain since June 2017. However the weaker monthly increase of 0.6% from December's 0.8% rise was reflective of the tighter measures since March 2017 to cool the property market.

The Japanese Nikkei PMI tipped into contractionary territory for the first time in two and a half years to 48.9 from 50.3 in January. Industrial production slid 3.7% in January, further highlighting the loss of momentum. Japan's trade deficit widened in that month with the underlying annual pace of growth in exports contracting -8.4% from -3.9% in December. Import growth was similarly weak, slowing to -0.6% in the year to January, following an increase of 1.9% in the year to December.

The Japanese unemployment rate slightly increased to 2.5% in January, just above 2.4% in the month prior. However, the job availability ratio remained unchanged at 1.63, suggesting a strong supply of jobs.

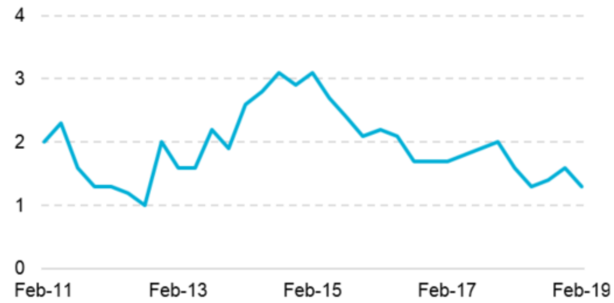
Europe

Subdued Eurozone growth continued to prove difficult highlighted by a string of weaker German data. German factory orders slumped 1.6% in December indicating a further loss in momentum in Europe's largest economy. German Industrial production contracted 0.4% following on from a 1.3% decline in November. Overall, no growth was observed in the German economy for the final quarter of 2018.

More broadly, the European Commission cut its forecasts for economic growth for this year and the next, with the expectation to slow to 1.3% in 2019, citing slower car production in Germany, social tensions in France and uncertainty over budget policies in Italy. Industrial production in the broader Eurozone region fell 0.9% in December, taking the annual rate of contraction from 3.0% to 4.2%. Consumer confidence in February improved slightly, but remained in negative territory. The Eurozone manufacturing PMI for February fell further to 49.3 from 50.5, while improvement in the services PMI saw a rise from 51.2 the month prior, to 52.3. The unemployment rate held at 7.8% in January.

Over in the UK, the Bank of England left the cash rate unchanged at 0.75%, cutting growth forecasts from 1.7% to 1.2% for the year, with expectations that slower growth from weaker production and construction output observed in the close of 2018 will carry through. The Markit Services PMI fell to a reading of 50.1 in January with businesses citing Brexit as a source of weaker demands. Similarly the Markit Manufacturing PMI lowered to 52.0 in February from 52.6 in January. In both cases, the readings remain above 50, indicating expansionary activity.

Chart 3: UK GDP (Annualised)



Source: BTIS/Bloomberg

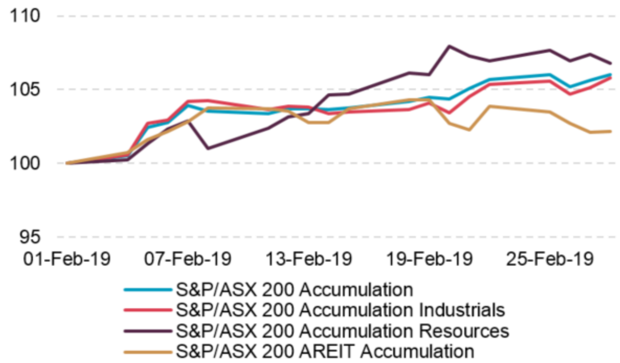
With the Brexit deadline soon approaching, the risk of a no-deal exit has been reduced significantly following a decision by PM May to allow for a Parliamentary vote to block a no-deal in the event that her current Withdrawal Arrangement be voted down again. Should a no-deal be rejected, a vote to extend the March 29 deadline will take place.

Developments in financial markets

Australian shares

Following the January momentum, February saw the strongest monthly gain since mid-2016. The local share market was boosted by strong corporate earnings and the release of Hayne's final Royal Commission Report, which was by result better than anticipated. The S&P/ASX 200 Accumulation index jumped 5.98% in the month.

Chart 5: Australian Indices (rebased to 100)



Source: BTIS/Bloomberg

On a sector basis, the strongest performers were Financials (+8.12%), Information Technology (+7.03%), Energy (+6.23%), and Industrials (+6.01%). On a total return basis, the ASX 50 outperformed (7.66%), followed by the Small Ordinaries (+6.78%) and mid-cap stocks (+5.05%).

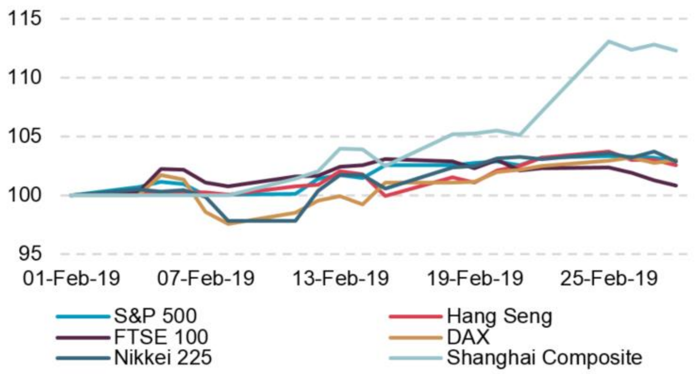
International shares

Globally it was a strong month for equity markets with the MSCI World ex Australia (Unhedged, $A) Index rising 5.56%. Positive sentiment from a dovish stance by the US Fed Reserve earlier in the year carried through still, buoyed further by progressive trade negotiations between US and China. The S&P 500 was up 3.21% and NASDAQ up 3.60%.

Likewise, European markets were stronger, extending gains through February as seen by the STOXX Europe 600 (+4.18%), FTSE 100 (+1.52%), CAC 40 (+4.96) and the DAX (+3.07%) all rising in the month.

The Asian markets performed well, particularly in China, rising on the news of a pause on planned tariff increases on Chinese goods. The Hang Seng (+2.47), the Nikkei 225 (+3.02%) and the Shanghai Composite (+13.79%) all made gains on a total return basis. On the other hand, the Korean KOSPI (-0.43%) declined much towards the end of the month following an unsuccessful summit between Trump and Kim.

Chart 6: Major Market Indices (rebased to 100)



Source: BTIS/Bloomberg

Fixed Interest

The Australian bond market was rose a slight 0.94% during February based on the Bloomberg AusBond Composite 0+ Yr Index. The Barclays Global Aggregate Total Return Index (Hedged) was also little changed, up 0.07% over the month.

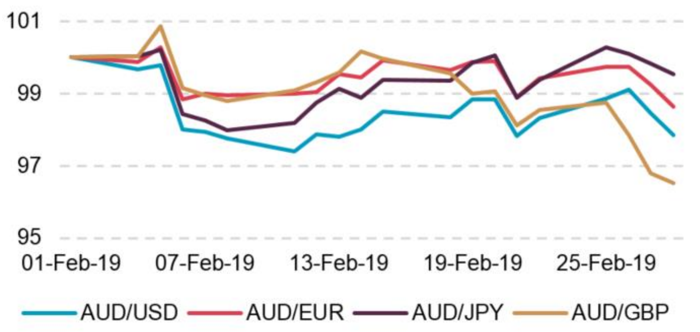
Italy's 10 year bond yield rose to 2.75% in February from 2.59% the month earlier, driven by concerns about the country's economy. The German 10 year bund yield rose sharply to end the month at 0.18% following data indicating a pick-up in inflation, recovering from two year lows earlier in the month where yields dropped just below 0.10%, bringing the spread between the two bonds just below 260 bps.

Currencies

The Australian Dollar fell -2.46% against the USD in February as investors begin to consider the increasing likelihood of a rate cut in the near future, falling further still after reports of a ban on Australian coal imports at one of China's ports, only to regain its footing after China's foreign ministry disputed the reports as false.

Elsewhere, global growth concerns continued to support the USD as investors turned to safe-haven currencies, but was pulled back as risk appetite returned following easing trade tensions. Despite a rough start to the month, the British Pound rose 1.17% against the USD as expectations of a no-deal Brexit receded.

Chart 7: Major Currencies (rebased to 100)



Source: BTIS/Bloomberg

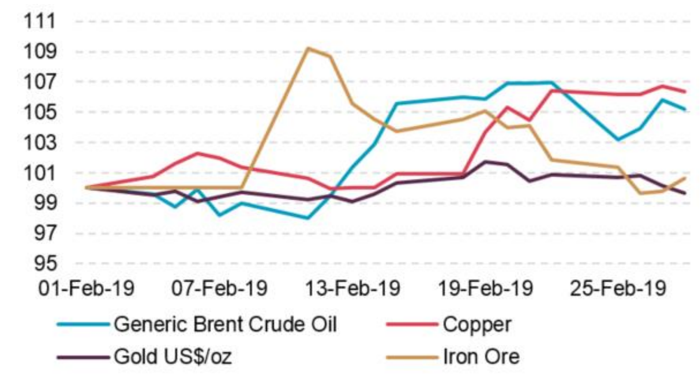
Commodities

Commodity prices were mixed throughout the month upon rising risk appetites, however ongoing supply concerns buoyed the Bloomberg Commodity Index which delivered a solid 0.82% return over February.

Positive investor sentiment and increased risk appetite was a negative for safe-haven metals, as was seen in gold, down -0.60%.

Brent crude oil prices were up 6.69% for the month to $66.03 a barrel, continuing the push higher off the back of global supply concerns stemming from OPEC. Likewise, supply issues resulting from late January's dam disaster in Brazil saw iron ore prices advance a further 2.95%.

Chart 8: Major Commodities (rebased to 100)



Source: BTIS/Bloomberg

Funds update

Diversified Multi-Blend Funds

The Diversified Multi-Blend Funds performed strongly over February 2019 as equity markets continued their strong start to the year. Australian equity markets outperformed the wider developed market returning 6.0% over the month, bringing annual returns to 6.8% over the past 12 months. Despite underperforming Australian equity, International equity markets returned 3.4% on a hedged basis and 5.6% on an unhedged basis due to a close to 2.5% depreciation in the Australian Dollar vs developed currencies.

February proved to be a more muted month for Listed Real Estate Investment Trusts (REITs), with International REITs returning 0.3% and domestic providing a 1.8% return. Domestic fixed interest returned 0.9% with International fixed interest returning 0.1% with domestic fixed interest benefitting from lower interest rate expectations, driving down the yield curve. Higher growth orientated diversified funds outperformed defensive funds due to higher allocations to risk assets which outperformed defensive assets.

Australian Shares Multi-Blend Fund

The Australian Shares Multi-Blend Fund returned 6.34% (net) for February, outperforming the S&P/ASX 300 Accumulation Index by 33 basis points.

Underlying manager performance was strong with Nikko and Pendal the best performers and the largest contributors to relative performance. Solaris, Vinva and Fidelity all contributed positively. The only manager to detract slightly was Platypus which still generated an absolute return well above 5% for the month.

At the overall Fund level, outperformance was driven by positive stock selection. Sector allocation in total was neutral with the largest contributor an underweight to Real Estate largely offset by the largest detractor, an underweight to Financials. Despite being underweight Financials, strong stock selection helped drive a positive total contribution from this sector with the overweight to QBE and IOOF contributing positively. An overweight holding in Aristocrat was the single largest detractor.

International Shares Multi-Blend Fund

The International Shares Multi-Blend Fund outperformed the MSCI World ex-Australia (Net Dividends) Index in AUD in February. The Fund returned 5.59% (net) for the month, slightly outperforming the index by 3 basis points. Ardevora was the largest positive contributor to relative performance, followed by Wellington and T. Rowe Price. The two quantitative managers AQR, and Realindex detracted from relative performance.

From a Country and Sector viewpoint both stock selection and country/sector allocation decisions contributed positively to the Fund's relative outperformance. From a country perspective, US was the largest contributor thanks to positive stock selection. The allocation to Emerging Markets detracted as the region failed to keep pace with Developed Markets over the month. From a sector perspective, despite the Fund's overweight to the underperforming Consumer Discretionary sector, good stock selection more than offset the negative allocation decision. The Fund's underweight to the Energy sector and poor stock selection within that sector detracted from performance.

Property Securities Multi-Blend Fund

The Fund returned 0.88% (net) over February although this needs to be placed in context of an 8.94% return in January. The performance for the month was 17 basis points above the fund's blended benchmark.

Australian REITs were stronger than their global counterparts over the month, with the S&P/ASX 300 A-REIT Accumulation Index up 1.8% versus 0.34% for the FTSE EPRA/NAREIT Developed Net TR Index (Hedged in AUD). All the underlying managers contributed positively to the outperformance this month with the Phoenix Benchmark Aware Strategy being the biggest contributor. From a sector perspective, nearly all sectors contributed positively with Healthcare and Residential the largest contributors. The only sector to slightly detract from relative performance was an underweight holding in Industrials. The largest single stock contributor was an overweight to Hilton Holdings whilst the largest detractor was an underweight to Goodman Group.

Australian Fixed Interest Multi-Blend Fund

The rally in Australian government bond yields continued as markets bought forward easing expectations following a shift in the RBA's forward guidance and patchy domestic economic readings. Risk appetite continued to recover following supportive central bank actions around the globe, with equity markets performing strongly and further narrowing in credit spreads. Overall, the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, gained 0.94% over February, with price appreciation from lower yields boosting the income return. The Australian Fixed Interest Multi Blend Fund performed just above the index, returning 0.94%. (net)

International Fixed Interest Multi-Blend Fund

Most global sovereign yields rose over the period on optimism over U.S.-China trade negotiations, more accommodative stances from global central banks and stronger than expected Q4 GDP growth in the U.S. The Fed signalled a higher tolerance for temporarily overshooting their inflation target. The FOMC meeting minutes reiterated a 'patient' approach on rates and indicated wide support for ending balance sheet reduction by the end of 2019. Despite the broader rally in risk assets, economic data was generally weaker in Europe. Estimates of Q4 GDP growth remained at 0.2%, but the German economy failed to grow at all in the final three months of 2018 as manufacturing activity contracted. Global spread sectors also continued to rally against a backdrop of dovish central bank policy developments and seemingly positive strides in the US-China trade negotiations.

The Bloomberg Barclays Global Aggregate Bond Index returned 0.07% over the month. The International Fixed Interest Multi Blend Fund outperformed the benchmark by 0.10%, recording a positive 0.17% (net) for February. Strong performances from Standish, Wellington and PIMCO helped steer to the portfolio to deliver modest active returns during the month.

Defensive Yield Multi-Blend Fund

The Defensive Yield Multi-Blend Fund returned 0.36% (net) over the month gross of fees, outperforming the Bloomberg AusBond Bank Bill Index which returned 0.17%. Kapstream and Standish both outperformed the benchmark. Pendal however underperformed during the month of February.

Advance Diversified Multi-Blend Fund Performance

Net (after fee) Wholesale performance of the Advance Diversified Multi-Blend Funds to end February 2018 against benchmarks are as follows.

	1 Mth %	3 Mths %	1 Yr %	3 Yrs %	5 Yrs %	7 Yrs %
Defensive Multi-Blend	**1.76**	**3.59**	**4.36**	**5.03**	**4.03**	**4.76**
Benchmark	1.59	3.58	5.94	5.44	5.02	5.52
Moderate Multi-Blend	**2.67**	**4.53**	**5.04**	**7.14**	**5.33**	**6.43**
Benchmark	2.50	4.53	6.87	7.47	6.19	7.15
Balanced Multi-Blend	**3.55**	**5.45**	**5.40**	**9.04**	**6.43**	**7.95**
Benchmark	3.35	5.29	7.50	9.43	7.28	8.66
Growth Multi-Blend	**4.14**	**6.01**	**5.53**	**10.17**	**6.98**	**8.76**
Benchmark	4.05	5.92	8.01	10.90	8.05	9.69
High Growth Multi-Blend	**4.79**	**6.69**	**5.99**	**11.23**	**7.80**	**9.90**
Benchmark	4.67	6.67	8.35	12.24	8.81	10.81

Source: BTIS / Bloomberg

February Market Data

Australian shares	1 Month	3 Months	1 Year	3 Years	5 Years
S&P/ASX 200 Accumulation	5.98%	9.95%	7.05%	12.91%	7.30%
S&P/ASX 200 Industrials Accumulation	5.75%	6.98%	4.02%	9.68%	7.57%
S&P/ASX 200 Resources Accumulation	6.85%	22.56%	20.22%	30.40%	5.77%
S&P/ASX 200 Accumulation AREIT	1.75%	9.86%	18.86%	8.56%	13.01%
S&P/ASX Small Ords Accumulation	6.78%	8.01%	3.48%	13.44%	7.74%

Global shares	1 Month	3 Months	1 Year	3 Years	5 Years
MSCI World ex Australia Unhedged in $A	5.56%	5.18%	10.06%	12.78%	11.66%
EPRA/NAREIT Developed Index Hedged A$	0.34%	3.70%	14.58%	8.18%	8.40%
STOXX Europe 600 Total Return	4.18%	4.80%	1.66%	7.30%	5.40%
S&P 500 Total Return	3.21%	1.42%	4.68%	15.28%	10.67%
Nikkei 225 Total Return	3.02%	-4.06%	-1.10%	12.25%	9.59%

Fixed interest	1 Month	3 Months	1 Year	3 Years	5 Years
Bloomberg AusBond Bank Bill Index	0.17%	0.51%	1.99%	1.91%	2.14%
Bloomberg AusBond Composite 0+ Yr	0.94%	3.11%	6.16%	3.47%	4.70%
Barclays Global Aggregate TR Hedged A$	0.07%	2.48%	3.65%	2.93%	4.54%

Commodities	Month End Price	1 Month	3 Months	1 Year	3 Years	5 Years
Bloomberg Commodity Index	81.3904	0.82%	-1.42%	-7.66%	2.33%	-9.49%
Generic Brent Crude Oil	66.03	6.69%	12.47%	0.38%	22.44%	-9.55%
Generic WTI Crude Oil	57.22	6.38%	12.35%	-7.17%	19.24%	-11.02%
Gold US$/oz	1313.32	-0.60%	7.60%	-0.38%	1.97%	-0.20%
Iron Ore	81.61	2.95%	26.12%	7.96%	20.71%	-6.76%

Currencies	Month End Price	1 Month	3 Months	1 Year	3 Years	5 Years
AUD/USD	0.7094	-2.46%	-2.90%	-8.61%	-0.22%	-4.49%
EUR/USD	1.1371	-0.67%	0.48%	-6.75%	1.50%	-3.80%
USD/JPY	111.39	2.30%	-1.92%	4.42%	-0.39%	1.82%
GBP/USD	1.3263	1.17%	4.03%	-3.61%	-1.59%	-4.56%

For more information

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