Pooled Superannuation Trust

BALANCED GROWTH OPTION

February 2019

FUND FACTS

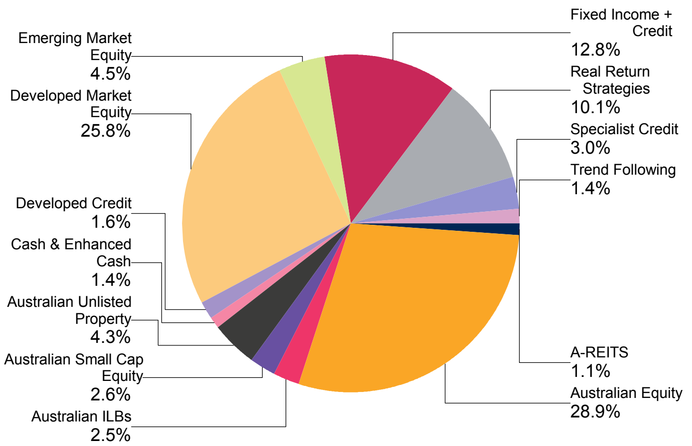
Investment objective: The fund aims to provide long-term capital growth and income through investment in a diversified portfolio with an emphasis on Australian and international share investments.

FUND BENEFITS

Provides investors with access to a diverse range of growth and income producing assets. Active management and asset allocation techniques are employed in order to further enhance the fund's return and manage risk.

Benchmark:	Balanced Growth Index(Internally generated composite)
Inception Date:	August 1998
APIR:	PER0061AU
Management Cost:	1.04% p.a.
Investment style:	Active, fundamental, disciplined, value
Suggested minimum investment period:	Five years or longer

PORTFOLIO SECTORS



INVESTMENT STYLE

Valuation is the key driver of investment decisions. We aim to extract the value premium within asset classes (stock selection) and across asset classes (asset allocation).

· Diversification, value and quality, as well as portfolio protection strategies, are key elements to protect on the downside during extreme events.

· Our economic cycle and momentum signals help time entry to, and exit from positions by supplementing the key value signal.

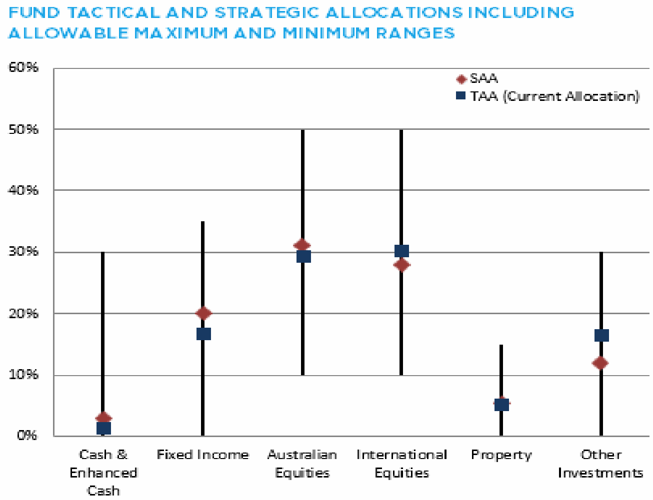
· A "total portfolio" approach is taken – seeking out excellent risk adjusted return opportunities (rather than asset classes) and risk management is embedded at every stage of the process.

NET PERFORMANCE- periods ending 28 February 2019

	Fund	Benchmark	Excess
1 month	3.1	3.7	-0.6
3 months	5.2	5.7	-0.5
FYTD	3.4	3.6	-0.2
1 year	5.7	6.9	-1.2
2 year p.a.	6.4	8.1	-1.7
3 year p.a.	7.3	9.6	-2.4
5 year p.a.	5.9	7.7	-1.7
10 year p.a.	8.9	9.2	-0.4

Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

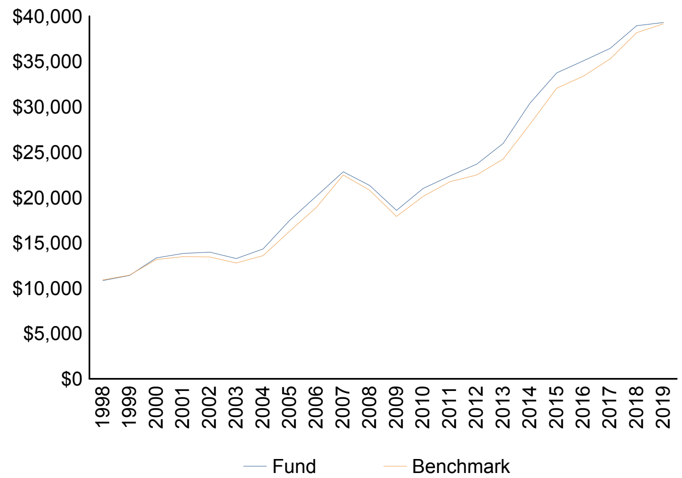
ASSET ALLOCATIONS AND INVESTIBLE RANGES



STRATEGIC AND TACTICAL ASSET ALLOCATIONS

The Strategic Asset Allocation (SAA) is the neutral allocation acting as an anchor for active positioning, while the Tactical Asset Allocation (TAA) process adjusts the asset allocation according to market opportunities and risks.

GROWTH OF $10,000 SINCE INCEPTION



MARKET COMMENTARY

Global equity markets continued their stellar recovery in February. Following a 20% peak to trough fall in the December quarter, the US equity market now sits just 4% off the record high of early October last year. Other developed equity markets (Europe, Japan and Australia) have also bounced, albeit not as impressively as the US market. And emerging market (EM) equities have been performing well, although they took a breather in February after a 10% rally in January.

Credit markets have also recovered in sympathy with spreads narrowing in the US, Europe, EM and Australia, although they remain significantly wider than in late 2017 when global quantitative easing was still in full swing. Even though equity and credit markets are back close to where they were in September last year (when the correction began), the economic cycle and liquidity backdrop for markets are vastly different:

- On the negative side, the global economy is significantly weaker. The two big drivers of global growth are the US and China and both economies have weakened. The US-China trade war appears to have been a key factor undermining growth for both economies, which is reflected in weakness in global manufacturing. There are also some country specific factors at work. In the case of the US, the accumulated impact of monetary tightening over the past two years plus the phasing out of the fiscal easing have contributed to the slowdown. In China, the lagged impact of the crackdown on the shadow banking sector really started to bite in the second half of last year. The slowdown in these economies has had predictable knock-on effects in Asia and Europe. As a result of the weaker growth and the ongoing (modest) increase in cost pressures, we expect a fall in global earnings in 2019.

- On the positive side, central banks have 'blinked'. The US Federal Reserve's (the Fed) tightening cycle is over for now and the sell down of the balance sheet (known as 'quantitative tightening') is under review. Other central banks have become more dovish including the Reserve Bank of Australia (RBA) which has shifted from a tightening bias to neutral. And in China, there was a surge in credit (as measured by total social finance - a broad measure of credit and liquidity in the Chinese economy) in January which may signal a significant shift in policy.

The key from here is the outlook for the global economy. A 'soft landing' is usually very supportive for equity and credit markets. As the risk of recession recedes, markets can 'climb the wall of worry' supported by benign liquidity conditions. Against that, a recession would usher in a bear market, which could be quite nasty given the extended valuations in some key markets (most notably US equities). While the risks of a global recession are somewhat elevated, we still expect the global economy to muddle through. There are not the imbalances in the global economy that usually precede a recession. Most importantly, global inflation remains quiescent which allows central banks to keep monetary policy relatively easy. Moreover, the tightening of financial conditions evident late last year (due to the fall in equity and credit markets) has been substantially unwound.

Of course, we remain vigilant. This is a very unusual economic cycle, so the experience of the past 70 years may not be as relevant. In addition, the progress of the trade negotiations between the US and China is crucial for the economic and market outlook. These talks appear to have been quite productive in recent months. President Trump seems desperate to do a deal and President Xi must be keen to oblige given the impact the trade imbroglio is having on the Chinese economy. But the US President is erratic, and we will keenly await developments.
In Australia, we are more worried about the economic outlook. Developments in the housing market could spark a more significant downturn in the economy leading to recession. In particular, the second-round effects of the fall in house prices (or the so-called wealth effect) will be crucial for the outlook. The current savings rate is very low at just over 2%. Any significant rise in pre-cautionary savings in response to the fall in house prices would cause a significant slowing in consumption spending (which is more than half of the economy). As a result, consumer confidence is crucial to the outlook and confidence is a little precarious right now. As a result, we expect the RBA to cut interest rates twice this year taking the cash rate to just 1%.

The Fund is positioned to maintain involvement in risk rallies, while buying protection when and where it is cheapest to safeguard against both risk off and idiosyncratic events. The Fund retains strong defensive qualities through the value and quality bias of equity holdings and a position in Australian sovereign credit default swap. In addition, equity put options have become attractive yet again and so downside protection has been bolstered through US equity put options. Similarly, the Fund has re-established a long dated Australian dollar put option where the pricing is attractive due to relatively cheap volatility and the interest rate differential working in favour of the US dollar. The Fund also has exposure to a systematic trend following strategy.

Equity weights in the Fund are close to benchmark, with a slight underweight to domestic equities and overweight emerging market equities. While exposure to equities was a key driver of positive returns during the month, relative to the benchmark the value bias of Australian equities held detracted from relative performance. Exposure to Australian duration was positive for relative performance, benefitting from the shifting lower of the domestic yield curve early in the month as a result of the change in outlook for Australian monetary policy. Downside protection measures held detracted modestly from performance.

OUTLOOK

Overall, we remain cautious about the outlook. We have been mindful for some time that these are likely the late stages of this economic and market cycle and we remain wary about the prospects of a nasty bear market sometime in the next two to three years. The correction in global equity markets in the December quarter was severe and has cleared out some of the complacency that was building in markets. It is either the start of a bear market or a healthy reset for a continuation of this extremely long bull market. The rebound in equities and risk appetite in January and February rules out neither scenario (as bear markets are often characterised by sharp corrective rallies).

If this is the start of the bear market, we are likely to see signs of recession build over the course of this year. The economies at risk include Australia (a downturn in housing and the slowdown in China carry clear risks for an economy which has been 27 years without a recession) and the US (the only country that has embarked on a prolonged monetary policy tightening cycle). The Euro area and Japan remain at risk of recession as their trend growth rate is so low. Of course, the Brexit process poses significant risks to UK economic growth and additional risks to Europe. Finally, China is also at risk of a much more pronounced slowdown than is currently factored into market forecasts (which are predicting greater than 6% growth), given the ongoing impasse in US-China trade negotiations and the domestic imbalances in the Chinese economy.

That said, if the global economy has a soft landing (which remains our central case) the outlook is much less clear and equities could easily rally to new highs. Consequently, the run of economic data in coming months will be more than usually important in shaping the outlook for financial markets.

The Balanced Growth Fund gains its exposure to Australian Shares by investing in an underlying Australian Share Fund/s which primarily invests in Australian listed or soon to be listed shares but may have up to 20% exposure to stocks outside Australia. The investment guidelines showing the Fund's maximum investment in international shares do not include this potential additional exposure. Short positions may be part of the underlying Australian Share Fund's strategy. Currency hedges may be used from time to time.

MORE INFORMATION

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