Pinnacle INVESTMENT MANAGEMENT BNY MELLON

Pinnacle BNY Mellon Global Infrastructure Yield Fund

May 2019

About Us

The Pinnacle BNY Mellon Global Infrastructure Yield Fund invests in companies that demonstrate high, sustainable dividend yields and dividend growth potential, solid business momentum at an attractive valuation, quality, stability and strong cash flows. The Fund aims to deliver better capital preservation characteristics than the index, with up-market capture strong enough to translate into compelling risk-adjusted returns. It seeks to execute on a rigorous risk-management process that strives to limit macro risk exposures to ensure the vast majority of performance is derived from stock-specific risk.

Fund Performance to 31 May 2019

	Fund[1]	Benchmark[2]	Excess
1 month (%)	-1.79	0.04	-1.83
3 months (%)	1.38	4.74	-3.36
6 months (%)	6.73	15.71	-8.98
Inception (%)[3]	4.07	10.92	-6.85

[1] Pinnacle BNY Mellon Global Infrastructure Yield Fund
[2] Benchmark is the S&P Global Infrastructure Index (Net) Unhedged
[3] Inception date is 9 August 2018

Market Commentary

Performance Review

The portfolio lagged the S&P Global Infrastructure Index on an unhedged basis during the period. With a focus on high-dividend-yielding stocks, 93% of the strategy's exposure was in holdings in the top three dividend quintiles. The Real Estate and Communication Services sectors contributed positively to relative returns, while Industrials and Utilities detracted.

Outlook

From a sector perspective within the traditional economic infrastructure sectors, we are finding the most value in both Utilities and Energy. Specifically, UK water, European Utilities and US Utilities remain compelling. As such, Utilities continue to be the highest-weighted sector in the portfolio at nearly 39%. Additionally, we continue to find value in US energy infrastructure, and remain constructive on our off-benchmark exposure to social infrastructure assets within Health Care REITs and telecommunications infrastructure. On a year-to-date basis, US 10-year yields have dropped sharply along with rotation fixed income assets, globally, which has rewarded the most sensitive "bond proxy" sectors within the asset class. Our strategy's focus on compelling valuation attributes and more attractive, higher-yielding securities tend to lag in such an environment. As the market broadens out with some stability in global rates, we would expect such trends to normalize, benefiting our portfolio positioning.

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Investment Environment

Equity markets posted losses in May as US trade tensions heightened with China and Mexico. Among major benchmarks, the MSCI Emerging Markets Index dropped 7.22%, followed by the Standard & Poor's (S&P) 500® Index, which fell 6.35%. Finally, the MSCI EAFE Index, a measure of non-US developed markets, declined 4.80%.

In the US, the Federal Reserve (Fed) held interest rates steady in the face of slowing global growth. Inflation picked up slightly, but remains below the Fed's 2% goal. A surprising announcement about tariffs on Mexico led to a selloff at the end of May. Investors fled riskier assets due to uncertainty over future corporate earnings and prices for US consumers. Both consumer sentiment and consumer confidence fell. Treasury yields also declined, and the US 10-year yield hit a 19-month low. The US dollar rose for the fifth straight month this year.

Among developed markets, UK Prime Minister Theresa May announced her resignation after struggling to pass agreeable Brexit terms, pressuring the pound. UK inflation broke through the Bank of England's target of 2% to 2.1% in April, reflecting a tight labor market and changes in energy tariffs. Eurozone annual inflation came in below the European Central Bank's (ECB's) 2.0% target. The German bund slid to a record low amid global trade concerns. Meanwhile, the Bank of Japan says it will continue easing against a backdrop of low inflation and wage growth.

Emerging markets sold off in May as uncertainty about US trade relations with China and Mexico, as well as looming election outcomes, drove outflows. China's official manufacturing PMI fell to 49.4, missing expectations for the second month since March's rebound. In Mexico, the peso slumped to a five-month low amidst the announcement of US-imposed tariffs. In India, Narendra Modi handily won re-election for another five-year term, buoying market sentiment.

Commodities lost 4.82%, as measured by the Thomson Reuters Core Commodity CRB Index, due to concerns over global trade. Oil prices fell to their lowest level in three months as the outlook for global demand wavered amid concerns with US trade policy and the slowdown of the Chinese economy.

Sector Review

Real Estate: Healthcare REIT exposure primarily drove outperformance in the sector led by Medical Properties Trust, Inc., which returned nearly 2% in May. The company reported earnings in line with estimates in the first quarter, and messaged positive trends regarding their mergers and acquisitions pipeline. They have a reliable track record of delivering on acquisitions, and they detailed $5 billion in potential deals, $2.5 billion of which is earmarked for this year, alone. Omega Healthcare Investors, Inc. was flat for the month, and also reported earnings in line with expectations. The company successfully sold six of their properties for a total of roughly $87 million as they continued to monetize properties to create a pool of funds to acquire more attractive, revenue-producing real estate to bolster profits.

Communication Services: Exposure to telecommunications infrastructure supplemented returns for the month, on a relative basis. Orange SA, a French telecommunications operator, was flat for the month. The company's earnings were in line with expectations, and they were one of a relatively small number of companies to reiterate full-year earnings guidance, which was viewed favorably.

Industrials: The sector weighed negatively on the portfolio for the month of May. The worst performer, Royal Mail Plc, fell nearly 22%. The drop was mostly attributed to a dividend cut during the period. Their core legacy business, postal mail delivery, has been falling faster than recent trends. Management continues to work towards driving growth in package delivery and logistics to offset the decline in their core business. Another detractor to performance in the sector, Actividades de Construccion y Servicios SA (ACS), a Spanish civil and engineering construction company, fell just over 10% in May. The company delivered earnings in line with expectations for the first quarter, and the stock rallied in the first few months of the year, however, renewable energy projects, a long-term strategy for the company, hurt cash flow during their most recent reporting period.

Utilities: The portfolio's exposure to Utilities weighed on performance. Notably, Pennon Group Plc, a UK-based water utility company, fell approximately 4%. Although the company beat first-quarter earnings expectations, political uncertainty in the UK, followed by Theresa May resignation announcement, caused the stock to fall in May.

Positioning Changes

During May, the portfolio purchased independent midstream energy services group EnLink Midstream, as the company maintains a compelling dividend yield supported by attractively-positioned energy infrastructure. Following the shale revolution, we believe the United States requires significant infrastructure investment, and EnLink should benefit from this demand.

The portfolio eliminated its holding in ONEOK as the shares have rallied to achieve our fair value target for the stock, and we rotated proceeds into more attractive, risk-reward opportunities. Additionally, we sold our remaining stake in this UK water utility company, as we see better valuation support in peer UK water company, Pennon Group, where we deployed a portion of the proceeds.

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Fund Name	Pinnacle BNY Mellon Global Listed Infrastructure Yield Fund
Fund Structure	Registered Managed Investment Scheme
Responsible Entity	Pinnacle Fund Services Limited
Investment Manager	BNY Mellon Investment Management Australia Ltd
Benchmark	S&P Global Infrastructure Index (Net) Unhedged
Return objective	Returns above the Benchmark over a full cycle
Yield objective	Gross yield target of 6% per annum
Distributions	Paid quarterly
Portfolio allocation	Global equities 95-100% / Cash 0-5%
Stock numbers	Approximately 20 to 40 securities
Target investment timeframe	Full cycle 5 years or more
Derivatives	None
Borrowing to invest	Not permitted
Management fee	1.15% p.a.
Performance fee	Nil
Minimum initial investment	$25,000

For further information, please visit
http://www.pinnacleinvestment.com/funds/pni/global-infrastructure-yield/
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