

# Pinnacle BNY Mellon Global Infrastructure Yield Fund

October 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 October 2019

|                            | Fund <sup>1</sup> | Benchmark <sup>2</sup> | Excess |
|----------------------------|-------------------|------------------------|--------|
| 1 month (%)                | -0.58             | -0.64                  | 0.06   |
| 3 months (%)               | 6.27              | 4.01                   | 2.26   |
| 6 months (%)               | 9.22              | 7.95                   | 1.27   |
| Inception (%) <sup>3</sup> | 12.56             | 15.66                  | -3.10  |

<sup>1</sup> Pinnacle BNY Mellon Global Infrastructure Yield Fund

<sup>2</sup> Benchmark is the S&P Global Infrastructure Index (Net) Unhedged

<sup>3</sup> Inception date is 7 August 2018

Past performance is not a reliable indicator of future performance

## Market Commentary

### Performance Review

The portfolio outperformed its benchmark, the S&P Global Infrastructure Index, on an unhedged basis during the period. With a focus on high-dividend-yielding stocks, over 94% of the strategy's exposure is in holdings in the top three dividend quintiles. The Utilities, Real Estate and Communication Services sectors contributed positively to relative returns, while the Energy and Industrials sectors detracted.

### Outlook

In the US, impeachment pressure climbed, which has translated into better odds of a near-term partial trade deal with China. As the third quarter earnings season progressed, the economic outlook improved in areas including the global semiconductor supply chain, which was under cyclical pressure in recent months. Additionally, a bottoming out in leading economic indicators such as global manufacturing PMIs has set the stage for a more constructive environment over the next twelve months. A rotation to value in recent months was driven by anticipation of easing policies among central banks, movement on a trade deal and leading economic indicators pointing to an extension of the cycle, globally.

From an asset class perspective, the market experienced a dramatic and abrupt leg down in global rates in the past 12 months, which appears to have bottomed out. If interest rates have hit cycle lows, investors could start looking more closely at relative valuations and sustainable dividend yield prospects, key features of our Global Infrastructure strategy.

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At the portfolio level, the strategy maintains a compelling dividend yield premium and attractive relative valuation characteristics. As such, the portfolio remains well-positioned to weather an increase in rates compared with its index and broader peer group.

## Investment Environment

Equity markets performed positively during the month of October. Among major benchmarks, the MSCI Emerging Markets Index led the way and returned 4.23%. The MSCI EAFE Index, a measure of non-US developed markets, rose 3.59%, while the Standard & Poor's (S&P) 500® Index returned 2.17%.

In the US, The Federal Reserve (Fed) cut interest rates in October for the third time this year. Trade tensions between the US and China diminished slightly as the US suspended a threatened tariff hike originally set for mid-October. The two sides continued discussions regarding finalizing the first phase of a potential agreement. The impeachment inquiry centered on President Donald Trump's dealings with Ukraine gained momentum in October as the House of Representatives formally passed a resolution to move the inquiry into the next phase. Inflation was unchanged and remained below the Fed's 2% goal. Consumer sentiment fell slightly in October. The US dollar fell in October after a positive September.

Among developed markets, the European Central Bank (ECB) held interest rates steady in October in line with market expectations. The European Union (EU) extended the Brexit deadline for three months to January 31. Meanwhile, the UK parliament voted to hold early elections in mid-December to resolve the situation. UK inflation remained unchanged during the month while Eurozone annual inflation fell and remained below the ECB's 2% target. Meanwhile, the Bank of Japan kept rates steady in October, as expected.

Emerging markets rallied in October as prospects for a partial trade deal underpinned a more sanguine investor outlook. Constructively, China's Caixin manufacturing PMI rose for the third consecutive month to 51.7. This leading indicator has trended just above and below the neutral 50 level over the past few quarters. The recent uptick bested expectations despite ongoing trade tensions between the US and China, likely due to the expansion of exempt Chinese products. Early results from third quarter earnings season are encouraging, particularly within the semiconductor supply chain, which has shown signs of bottoming. Taiwanese and South Korean IT were beneficiaries.

Commodities rose 1.70% in October as measured by the Thomson Reuters Core Commodity CRB Index.

Oil prices fell during the month following the September attack on Saudi Aramco's refining facilities. The commodity remains volatile over continued worries of an economic growth slowdown and the impact on oil demand resulting from the ongoing trade tensions between the US and China.

## Sector Review

### Positive Impacts

**Utilities:** The portfolio remained overweight the Utilities sector, which was a slight headwind as the sector lagged the index and was flat on the month. Positioning in Europe was the key driver where five of six total holdings outperformed. The standout performer was UK water and wastewater treatment outfit Pennon Group Plc. Shares moved higher on a more sanguine Brexit outlook, which resulted in a stronger UK pound sterling along with a broker upgrade during the period.

**Real Estate:** Healthcare infrastructure holdings fared well in October and continued their steady momentum experienced throughout the year. Long-term care and senior living provider Omega Healthcare Investors, Inc. rose while inpatient rehab, long-term acute hospital and surgical center real estate investment trust (REIT) Medical Properties Trust, Inc. edged higher. The latter slightly exceeded third quarter earnings expectations at the end of the month as the group continued to execute transactions at a compelling spread versus their cost of capital; operating fundamentals also remained stable.

**Communication Services:** The off-benchmark sector had a neutral impact on relative performance during October. While Verizon Communications, Inc. modestly lagged, French telecommunications infrastructure group Orange SA outperformed the broader index. The company delivered inline earnings results at the end of the month with favorable fourth quarter projections based on positive year-over-year comparisons and a better pricing environment. The shares remain attractively-valued on a normalized free cash flow yield of 8% and a sustainable 5.2% dividend yield growing mid- to high-single digits.

### Negative Impacts

**Energy:** The portfolio lost ground within the Energy sector during the month as the sector fell -2% and was the worst performer at the index-level in October. After considerable strength over the past few months, shares of Canadian mid-stream pipeline group Inter Pipeline Ltd. fell on profit taking.

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The portfolio's largest detractor, EnLink Midstream LLC, underperformed due to investor concern over the group's ability to cover their targeted \$600 million cash return to investors. Management forecasted lower capital expenditures as the group's EBITDA expanded over the past several years which should bolster their approximate 1.3 times distribution coverage ratio.

**Industrials:** The Industrials sector led relative performance at the index-level in October and rose over 4% in USD terms. The strategy's continued underweight to the group created an allocation headwind, particularly in the Asia-Pacific region, which recovered after a period of relative underperformance. The region continued to maintain some of the highest valuations in the asset class which we don't find particularly attractive. Belgian postal group bpost SA led performance in the sector during the month as shares rose nearly 10% after a positive response to a recent management roadshow.

## Positioning Changes

### Key Buys

**Exelon Corporation (USA):** The portfolio purchased shares of US-based electric utility group Exelon Corporation in October. The company distributes electricity and gas to 10 million customers primarily in Illinois and Pennsylvania. They also operate 23 nuclear plants, which produce 20,000 of their 35,000 megawatts (MW) of power generation, a compelling mix of clean energy within their generation footprint. Shares declined nearly 10% in October, like due to an overreaction to ongoing investigations in Illinois related to lobbying. The Exelon Utilities head departed the firm as a result prompting the correction in shares and opening up a compelling entry point. Exelon maintains a solid bargaining chip in their Illinois business due to the positive environmental attributes of their generating capacity which align well with Governor Pritzker's environmental agenda.

### Key Sells

No sells during the period.

# Pinnacle BNY Mellon Global Infrastructure Yield Fund

|                             |   |
|-----------------------------|---|
| 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/>  
or contact Pinnacle Investment Management on [1300 010 311](tel:1300010311) or email  
[distribution@pinnacleinvestment.com](mailto:distribution@pinnacleinvestment.com)

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