Pinnacle BNY Mellon
Global Infrastructure Yield Fund

December 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 December 2019

	Fund[1]	Benchmark[2]	Excess
1 month (%)	-0.36	0.30	-0.66
3 months (%)	-0.76	0.64	-1.40
6 months (%)	8.04	5.09	2.95
1 year (%)	19.97	25.94	-5.97
Inception (%)[3]	10.84	14.72	-3.88

[1] Pinnacle BNY Mellon Global Infrastructure Yield Fund
[2] Benchmark is the S&P Global Infrastructure Index (Net) Unhedged
[3] Inception date is 7 August 2018
Past performance is not a reliable indicator of future performance

Market Commentary

Performance Review

The portfolio underperformed its benchmark the MSCI ACWI Infrastructure Index on an unhedged basis during the period. With a focus on high-dividend-yielding stocks, 100% of the strategy's exposure is in holdings in the top three dividend quintiles. The Energy, Industrials and Utilities sectors contributed positively to relative returns, while the Real Estate and Communication Services sectors detracted.

Outlook

With the "phase one" trade deal expected to be signed in mid-January 2020, global equities rallied sharply on anticipated reacceleration of the global economy. Key industries including the semiconductor supply chain and distinct segments within global manufacturing industries appear to have bottomed in the latter part of the year with global Purchasing Managers' Indexes (PMIs) poised for improvement over the coming months. The severe step-down in US 10-year rates in 2019 provided a compelling tailwind to interest rate-sensitive global infrastructure shares over the past year and has also abated. Rates ended the year just above 1.8% post-sub 1.5% lows in the fall. A rotation to value in recent months driven by central bank easing, movement on a trade deal and leading economic indicators pointing to an extension of the cycle, globally.

If interest rates have indeed hit cycle lows, investors could start looking more closely at relative valuations and sustainable dividend yield prospects, key features of our Global Infrastructure strategy. At the portfolio level, the strategy maintains a compelling dividend yield premium and attractive relative valuation characteristics. As such, we believe the portfolio remains well-positioned to weather an increase in rates compared with its index and broader peer group.

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Investment Environment

Equity markets performed positively in December. Among major benchmarks, the MSCI Emerging Markets Index led the way and returned 7.53%. The MSCI EAFE Index, a measure of non-US developed markets, rose 3.25%, while the Standard & Poor's (S&P) 500® Index rose 3.02%.

In the US, the House of Representatives voted to impeach President Donald Trump. Meanwhile, the Trump administration came to a "phase one" trade deal with China during the month, which is expected to be signed by both countries in early 2020. The House also approved the US-Mexico-Canada Agreement (USMCA), replacing NAFTA. The US Federal Reserve (Fed) held interest rates steady after cutting rates three times throughout the year. Inflation rose slightly but remained below the Fed's 2% goal. Finally, consumer sentiment rose, while the US dollar fell.

Among developed markets, the European Central Bank (ECB) held interest rates steady. In the United Kingdom (UK), Prime Minister Boris Johnson and his Conservative Party secured a resounding majority over the Labour Party in the December general election. The win assisted Johnson's push for the UK to leave the European Union by the January 31 Brexit date. UK inflation remained unchanged during the month, while Eurozone annual inflation rose although it remained below the ECB's 2% target. Meanwhile, the Bank of Japan left rates unchanged.

Emerging markets leapt ahead in December due to positive sentiment for trade progress, a weaker dollar and expectations for stimulus from China's central bank. China's Caixin manufacturing PMI remained in expansion territory at 51.5 in December. In Latin America, Brazil reported better-than-expected quarterly GDP, which buoyed market sentiment. Finally, in Saudi Arabia, Saudi Aramco's initial public offering (IPO) marked the world's largest share offering.

Sector Review

Positive Impacts

Industrials: UK-based mail, parcel delivery and logistics group Royal Mail plc rallied on the heels of a resounding victory for the Conservative Party and Boris Johnson during the month. The outcome removed the tail risk overhang of a Labour Party win and subsequent attempt to nationalize key domestic infrastructure assets.

Energy: The Energy sector ended the year on a solid note as the top-performing sector in the Index during the month in sympathy with higher oil prices and a positive shift in sentiment for "phase one" of a US-China trade resolution. The portfolio also benefited from effective stock selection. In particular, EnLink Midstream LLC and Targa Resources Corp., which rose during the month. Shares of EnLink Midstream, a US-based oil and gas pipeline operator, recovered from a November selloff due to poor third-quarter results. The stock rallied in December on news that Devon Energy would develop land in the Oklahoma shale, which should result in an increase in EnLink's system volumes.

Utilities: The sector lagged the broader Index as some of the more defensive, bond proxy-sensitive securities failed to keep pace with the more cyclical Energy and Industrials infrastructure groups. However, our positioning within North America yielded positive results. Specifically, PPL Corporation responded favorably to the Boris Johnson victory, which alleviated the risk of a government takeover of the company's assets in the UK.

Negative Impacts

Real Estate: The portfolio's exposure to Health Care infrastructure assets created a modest headwind during the month as the sector underperformed the broader Index. Shares in Medical Properties Trust, Inc., the largest public owner of hospital real estate, took a pause in December, but it remains well positioned strategically around hospital acquisition opportunities.

Communication Services: Our position in telecommunications infrastructure group Orange SA declined. Investors were underwhelmed with management's near-term earnings and free-cash-flow expectations detailed at their early month investor day despite positive developments surrounding the company's intention to monetize their vast cell tower network over the short and medium-term.

Positioning Changes

Key Buys

- **E.ON SE (Germany):** We initiated a position due to compelling valuations for this high quality, regulated German Utility. E.ON has been under pressure over investor concern regarding the performance of specific businesses acquired during the Innogy transaction as well as regulatory pressure within their network businesses. While it will require strong execution, we believe much of Innogy's troubled UK retail business can be successfully integrated into E.ON, resulting in standalone improvement at Innogy's segment as well as synergy for the combined entity.

- Additionally, regulatory changes to the UK retail market have improved the market structure, which we believe investors have overlooked. Finally, the company plans to resize its cost structure to allow for better returns than investors anticipate. Ultimately, E.ON is one of the few "bond proxies" that have failed to reflect the lower move in global interest rates. We expect that shares will catch up from this underperformance as the company executes on the measures outlined above.

Key Sells

- *No positions were eliminated during December.*

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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/
or contact Pinnacle Investment Management on 1300 010 311 or email
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