Pinnacle BNY MELLON

Pinnacle BNY Mellon Global Infrastructure Yield Fund

January 2020

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 January 2020

	Fund[1]	Benchmark[2]	Excess
1 month (%)	5.76	6.65	-0.89
3 months (%)	5.57	8.03	-2.46
6 months (%)	12.19	12.36	-0.17
1 year (%)	22.81	27.99	-5.18
Inception (%)[3]	14.42	18.86	-4.44

[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 S&P Global Infrastructure Index on an unhedged basis during the period. With a focus on high-dividend-yielding stocks, 97% of the strategy's exposure is in holdings in the top three dividend quintiles. The Industrials and Real Estate sectors contributed positively to relative returns, while the Utilities, Communication Services and Energy sectors detracted.

Outlook

In the US, impeachment pressure climbed and trade progress was made in the form of a partial trade deal with China. Looking out over 2020, investors are starting to incorporate a material stepdown into more cyclical and trade-oriented sectors due to the spread of coronavirus. These could be near-term headwinds, and a reacceleration of global growth could spring on the heels of ongoing global trade discussions.

As 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.

Pinnacle BNY Mellon Global Infrastructure Yield Fund

January 2020

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. Specifically, the 10-year Treasury yield fell considerably during the end of January. This could also be a short-lived reaction due to the uncertainty related to the virus outbreak. The environment moving forward may prove favorable for bond proxy businesses within the index. 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. At the portfolio level, the strategy maintains a compelling dividend yield premium and attractive relative valuation characteristics. As such, the strategy remains well- positioned to weather an increase in rates compared with its index and broader peer group.

Investment Environment

Equity markets fell during the month of January. Among major benchmarks, the Standard & Poor's (S&P) 500® Index declined the least, down 0.04%. Meanwhile the MSCI EAFE Index, a measure of non-US developed markets, declined 2.09%, and the MSCI Emerging Markets Index fell 4.66%.

In the US, President Donald Trump's impeachment trial continued in the Senate. The Republican-led Senate voted against seeking new witnesses or documents in the trial at the end of January. A vote to acquit the president is expected in early February. US markets were caught off-guard when the coronavirus spread from China to the US in mid-January. The virus caused a global selloff in risk assets to start the year. The US and China signed phase one of a trade deal which calmed ongoing trade tensions. The US Federal Reserve (Fed) held interest rates steady, and Chairman Jerome Powell noted monitoring how the global economy responds to the spread of the coronavirus. Inflation rose slightly but remained below the Fed's 2% goal. Finally, consumer sentiment beat expectations and rose in January along with the US dollar.

Among developed markets, Britain officially left the European Union and entered into a post-Brexit transitionary period expected to last until the end of 2020. The European Central Bank (ECB) held interest rates steady. UK inflation fell during the month, while Eurozone annual inflation rose slightly and remained below the ECB's 2% target. Meanwhile, the Bank of Japan held rates steady in January.

Emerging markets experienced their worst month since August primarily over fear that the coronavirus may hinder global growth. It was first detected in the Chinese city of Wuhan, and since the initial outbreak, hundreds of people in over 25 countries have been diagnosed with the virus. China's Caixin manufacturing PMI remained in expansion territory at 51.1 during the month.

Sector Review

Positive Impacts

Industrials: The portfolio's longstanding underweight positioning in the Industrials sector contributed most to relative performance during the month as the sector lagged the broader Index. The Asia-Pacific region was hit most and declined 4.5% in the benchmark as fears over the rapid spread of coronavirus hit Chinese and Australian toll road and airport operators.

Real Estate: Positioning in off-benchmark healthcare infrastructure holdings was a modest contributor during the month. Medical Properties Trust, Inc., a US-based healthcare Real Estate Investment Trust (REIT), acquires and develops net-leased facilities including inpatient rehabilitation hospitals and long-term and regional acute care hospitals, among other formats. Shares rose nearly 5% during the month which boosted the sector.

Negative Impacts

Utilities: Utilities positioning had a neutral impact on the portfolio overall during the period. Our ongoing overweight stance contributed as the sector materially outperformed at the Index level, but allocation tailwinds were offset by challenging stock selection. Shares of PPL rallied sharply in December on the heels of the positive UK election outcome which removed an overhang for their UK business. Investors shifted focus on the potential for return on equity cuts in the UK beginning in 2023.

Communication Services: Positioning in the telecommunications infrastructure segment posed a slight headwind in January as shares in French telecommunications group Orange SA declined approximately 3.5%. After the stock advanced for most of the fourth quarter due to plans to monetize a sizable portion of their cell tower asset-base, shares weakened in response to their December capital markets day presentation that indicated higher-than-expected near-term capital expenditure plans and weakening trends in their Spanish operations.

Pinnacle BNY Mellon Global Infrastructure Yield Fund

January 2020

Energy: Energy was the largest detractor in January due to position in SFL Corporation Limited and Canadian oil and gas pipeline operator Inter Pipeline Ltd. Both names lagged the broader sector. Spot oil prices corrected sharply during the month due to the coronavirus pandemic and the uncertainty of near-term energy demand as business and travel restrictions throughout China and the Asian region rippled through the global economy.

Positioning Changes

Key Buys

- **E.ON SE (Germany):** We bought shares of midstream natural gas group ONEOK, as we believe their integrated strategy will provide a competitive advantage in the midstream energy space. Additionally, the company has shown a commitment to returning cash to shareholders in a responsible manner.

Key Sells

- **Exelon Corporation (US):** We sold our remaining stake in electric utility group Exelon over concerns that the ongoing investigation in Illinois could weigh on the company's ability to benefit from legislation that would support their nuclear assets. While we believe the shares are undervalued, the near-term performance should be driven by the uncertain outcome related to this investigation.
- **Verizon Communications Inc. (US):** While Verizon remains well-positioned for the long-term with the buildout of a high-quality 5G network, given the current valuation of the shares, we believe rising competitive pressures in the wireless space could weigh on pricing and near-term earnings power. As a result, we sold our position 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 or email distribution@pinnacleinvestment.com