Pinnacle BNY Mellon Global Infrastructure Yield Fund

February 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 29 February 2020

	Fund[1]	Benchmark[2]	Excess
1 month (%)	-4.58	-6.14	1.56
3 months (%)	0.55	0.40	0.15
6 months (%)	3.47	2.77	0.70
1 year (%)	13.57	14.60	-1.03
Inception (%)[3]	10.29	13.15	-2.86

[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 significantly outperformed its benchmark the S&P Global Infrastructure Index on an unhedged basis during the period. With a focus on high-dividend-yielding stocks, 99% of the strategy's exposure is in holdings in the top three dividend quintiles. Utilities and Real Estate led sector contributors, while Energy detracted from results.

Outlook

Risk aversion has risen dramatically over news of the spreading coronavirus and its potential impact on the global economy. Expectations for global growth and earnings growth over the next two quarters has diminished. Much of that has been reflected in stock prices. During the back half of this year, however, we may see growth resulting from economic indicators rebounding from very depressed levels. We have seen signs of this in China where incident rates began flattening at the end of February. The supply chain is slowly recovering, a positive sign for recovery in the second half of 2020, though the second quarter could prove challenging globally due to supply chain disruptions.

In the context of the Global Infrastructure strategy, lower interest rates could provide significant tailwind for the portfolio's consistent cash flow and earnings profile with higher levels of balance sheet leverage. Global growth projections could be choppy as a result of growing coronavirus fears and lower interest rates, though this could benefit a more defensive asset lass provided by the Global Infrastructure strategy.

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Investment Environment

Equity markets fell sharply during February due to fears over the continued spread of the coronavirus. Among major benchmarks, the MSCI Emerging Markets Index declined the least, down 5.27%. The Standard & Poor's (S&P) 500® Index fell 8.23%. Finally, the MSCI EAFE Index, a measure of non-US developed markets, fell 9.04%.

In the US, markets fell sharply due to uncertainty over the global economic impact of the spreading coronavirus. During the last week of February, major US indexes posted their worst weekly percentage drops since the financial crisis. Treasury yields hit record lows at the end of February as investors piled into government bonds. Earlier in the month, the Senate voted to acquit President Donald Trump of impeachment charges. The US Federal Reserve (Fed) held interest rates steady, and Chairman Jerome Powell noted strong fundamentals in the US economy despite risks to economic activity related to the coronavirus. Inflation rose slightly but remained below the Fed's 2% goal. Finally, despite the coronavirus outbreak, consumer sentiment rose along with the US dollar.

Among developed markets, the coronavirus also spread to parts of Europe during the month. Specifically, Italy battled the largest outbreak outside of China. The European Central Bank (ECB) held interest rates steady. Both UK and Eurozone annual inflation rose, while the latter remained below the ECB's 2% target. Meanwhile, the Bank of Japan held rates steady.

Emerging markets fell for a second month over growing fears that the coronavirus may hinder global economic growth. China's Caixin/Markit manufacturing PMI fell to record lows at 40.3 in February. As of the end of February, the virus infected nearly 90,000 people in nearly 70 countries. In Iran, conservatives won a landslide victory in the country's parliamentary election after record-low voter turnout.

Commodities fell 6.38% in February as measured by the Thomson Reuters Core Commodity CRB Index. Oil prices fell during the month due to the spread of the coronavirus and uncertainty around its impact on the global supply chain and economy. Demand for oil, already weakened by trade negotiations surrounding China, were pressured over news of the spike of coronavirus cases in February.

Sector Review

Positive Impacts

Utilities: The portfolio's ongoing overweight to the Utilities sector was advantageous as the sector outperformed the broader index during the month. Positioning in Europe was the largest contributor with the recent purchase E.ON SE in Germany which advanced 1% versus the sector which fell 8%.

Real Estate: Off-benchmark holdings in Health Care infrastructure acted defensively during the February market correction. Specifically, Omega Healthcare Investors, Inc. and Medical Properties Trust, Inc. both outperformed the broader index.

Industrials: The sector remained a material underweight due to the strategy's off-benchmark exposure to telecommunications infrastructure and Health Care infrastructure. This was a positive allocation decision as the sector was the worst performer, and declined double-digits in February. A lack of exposure to European airport operators aided relative performance as they were most sensitive to the ongoing risk aversion associated with coronavirus. Additionally, Chinese toll road operator Jiangsu Expressway Co. Ltd. outperformed as the market correction began to abate in China as incidents of coronavirus appeared to plateau.

Communication Services: Telecommunications infrastructure holding Orange SA outperformed the S&P Global Infrastructure index, though both fell on an absolute basis. The company reported in line fourth-quarter 2019 results but upgraded guidance for organic cash flow generation in 2020.

Negative Impacts

Energy: Energy was the only detracting sector during February as positioning in the US lagged. Specifically, EnLink Midstream LLC declined over 20% during the selloff as investors continued to digest the company's recent 34% distribution cut in order to support their liquidity and funding position, a move that ultimately put the company in a better position to meet full-year guidance.

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Positioning Changes

Key Buys

- **Aena SME SA (Spain):** This Spanish airport operator was challenged within the strategy due to elevated valuations. Shares corrected sharply in February due to coronavirus fears and an ongoing regulatory review. We took advantage of the near-term negative sentiment and purchased this high-quality asset at an attractive valuation with a 5% equity dividend yield.

- **SSE plc (UK):** The group is in the midst of a portfolio repositioning that will lead to a much higher mix (nearly 80%) of renewables. We feel this is a unique business transition that currently underappreciated by the market. Valuation is compelling with an attractive and sustainable 5%+ equity dividend yield profile.

Key Sells

- **Southern Company (US):** Southern Company owns and operates regulated utility businesses including Alabama Power, Georgia Power, Mississippi Power and Southern Power, and generates and distributes electricity to over 4 million customers in the southeastern US. The shares have been a steady, solid outperformer, and they exceeded our valuation target during the period. As a result, the position was liquidated, and proceeds were deployed into more attractive risk-adjusted return opportunities.

- **Edison International (US):** After shares rallied since the second quarter of 2019, they surpassed our price target objective. This led to profit-taking in the Edison International position.

- **Pennon Group (UK):** The portfolio liquidated the remaining position in UK water and wastewater treatment group Pennon during the month as shares surpassed our price and valuation target objectives.

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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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