

# Pinnacle BNY Mellon Global Infrastructure Yield Fund

August 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 August 2019

	Fund <sup>1</sup>	Benchmark <sup>2</sup>	Excess
1 month (%)	3.46	2.61	0.85
3 months (%)	8.27	6.46	1.81
6 months (%)	9.76	11.51	-1.75
1 year	13.17	18.07	-4.90
Inception p.a. (%) <sup>3</sup>	11.82	16.84	-5.02

<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 9 August 2018

Past performance is not a reliable indicator of future performance

## Market Commentary

### Performance Review

The portfolio outperformed the S&P Global Infrastructure Index on an unhedged basis during the period. With a focus on high-dividend-yielding stocks, 92% of the strategy's exposure is in holdings in the top three dividend quintiles. The Real Estate and Industrials sectors contributed positively to relative returns, while the Utilities sector detracted.

### Outlook

The asset class remained fairly resilient in August and responded well to the recent bout of volatility. While the more defensive yield characteristics shined through with the strategy, the commodity- and economically-sensitive sectors of the asset class, including Energy and Industrials, were weaker in August.

After outperforming significantly in the first half of 2019, the most bond proxy-sensitive securities in the index may be poised for a period of consolidation. The portfolio is positioned to benefit as performance in the asset class broadens with recent trends in the US 10-year yield beginning to stabilize at approximately 1.5%.

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## Investment Environment

Equity markets ultimately fell during a volatile August. Among major benchmarks, the Standard & Poor's (S&P) 500® Index fell the least, down 1.61%, followed by the MSCI EAFE Index, a measure of non-US developed markets, which fell 2.59%. Finally, the MSCI Emerging Markets Index, declined 4.85%.

In the US, President Donald Trump announced new tariffs on China beginning in September. Inflation held steady but below the Federal Reserve's (Fed's) 2% goal. The Fed kept rates unchanged in August after their July rate cut. US stocks fell during the month due to persistent trade tensions with China and volatility in the bond markets, including the US Treasury yield curve inverting during the period. Consumer sentiment fell after recovering in July, while the US dollar rose.

Among developed markets, UK Prime Minister Boris Johnson moved to shut down Parliament during September ahead of the October 31 scheduled Brexit date. UK inflation held steady as did Eurozone annual inflation, which remained below the European Central Bank's (ECB's) 2% target. The ECB hinted at preparing stimulus measures to boost growth and inflation. Meanwhile, the Bank of Japan kept rates steady and reiterated commitment to easing if the economy loses momentum.

Emerging markets fell in August as persistent trade tensions, a strong US dollar and lower oil prices pressured the assets class. China's Caixin manufacturing PMI rose to 50.4 after two months of contractionary readings due to improved production activity. The leading indicator has trended just above and below the neutral 50 level over the past few quarters as government stimulus measures have been somewhat negated by the ongoing US-China trade war.

Commodities declined 4.58%, as measured by the Thomson Reuters Core Commodity CRB Index. Oil prices fell over 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

**Industrials:** Industrials remain the strategy's largest underweight position from a sector perspective. This is largely offset by off-benchmark exposure to telecommunication infrastructure, healthcare and aged care infrastructure. The sector was the worst performer at the index level in sympathy with higher cyclical sectors within global

equities during the period. Lack of exposure to Australian toll road operator Transurban Group Ltd. was a key driver of relative performance as the shares declined around 4% versus the index, which was positive on the month.

**Real Estate:** The sector contributed positively to relative returns in August. Healthcare infrastructure holdings, specifically, fared well as they acted defensively in a weaker market environment. Long-term care and senior living provider Omega Healthcare Investors, Inc. rose around 15% while inpatient rehabilitation, long-term acute hospital and surgical center REIT Medical Properties Trust, Inc. edged nearly 8% higher. Omega delivered positive second quarter results which appeared to mark the bottom with regard to past tenant issues. This set the group up for easy comparisons for next year buoyed by their acquisition growth plans and support of lower interest rates.

**Utilities:** The sector led absolute returns at the index level during the month driven by exposure in North America. The strategy lagged during the period as Edison International fell slightly after rallying in July on the heels of a favorable passage of wildfire legislation in California. PPL Corporation, a large holding in the portfolio, also lagged the group with relatively flat performance in August. The company's UK business remains an overhang as investors digest the UK's Ofgem regulatory review (RIIO-2) as well as heightened Brexit risk.

## Positioning Changes

### Key Buys

**Enagas SA (Spain):** This Spanish-based electric utility group imports, stores and transports natural gas. Shares pulled back since June on the heels of an adverse regulatory review. The country's markets and competition regulator CNMN was more draconian than investors anticipated on gas transmission and distribution with the new remuneration framework. We believe the market overreacted to the outcome which presented a compelling valuation entry point on the shares. Typically, the best time to purchase regulated utility assets is after an unfavourable regulatory review. Over time, we anticipate regulators easing the more onerous tariff cuts which should aid in the sustainability of their attractive dividend yield.

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## ***Key Sells***

No positions were sold 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

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