

# Pinnacle BNY Mellon Global Infrastructure Yield Fund

December 2018



## 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

	Fund <sup>1</sup>	Benchmark <sup>2</sup>	Excess
1 month (%)	-1.25	0.42	-1.67
3 months (%)	-2.20	-2.72	0.52
Inception (%) <sup>3</sup>	-3.71	-3.73	0.02

<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

## Market Commentary

### Portfolio Review

The portfolio underperformed the S&P Global Infrastructure Index on an unhedged basis during the period. With a focus on high-dividend-yielding stocks, 88% of the strategy's exposure is in holdings in the top three dividend quintiles. The Utilities sector contributed to relative returns, while the Real Estate, Communication Services, Energy and Industrials sectors detracted from relative performance.

### Outlook/Positioning

From a sector perspective, we continue to believe utilities are attractively valued and are maximum weight. In fact this is the highest weighting that the sector has enjoyed in the fund since inception. The aforementioned UK water opportunities, as well as continued value within other European utilities have us very enthusiastic around the attractiveness of this sector.

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## Investment Environment

Equity markets declined overall in the final month of 2018 as the ongoing China-US trade dispute, a Federal Reserve (Fed) focused on unwinding its easy policy, weakening corporate profit growth and a partial government shutdown weighed on equity markets. Among major benchmarks, the MSCI Emerging Markets Index fell the least, down 2.6%. The MSCI EAFE Index, a measure of non-US developed markets, slipped 4.9%. Finally, the Standard & Poor's 500 Index tumbled just over 9.0%.

In the US, the Federal Reserve (Fed) raised interest rates at their December meeting. Fed Chair Jerome Powell struck a dovish tone, indicating a more gradual pace of rate increases going forward. Unemployment held at 3.7%, while consumer confidence fell below expectations. Meanwhile, the US dollar slid against a backdrop of strained trade relations and a less aggressive Fed.

In the UK, a fast-approaching Brexit deadline sent manufacturing PMI above expectations and halted growth in the services sector in anticipation of a potential no-deal scenario. The Bank of England (BOE) held interest rates steady, and November inflation fell to 2.3% due largely to lower oil prices. Meanwhile, the European Central Bank (ECB) officially ended its bond-buying stimulus program. Elsewhere, the Bank of Japan left its stimulus package unchanged as it continued to fall short of its inflation target.

Emerging markets declined, albeit at a less severe rate than most major indices. China's official manufacturing PMI fell below expectations to 49.4 in December, marking the first contraction reading (below 50.0) in almost two years. Reserve Bank of India (RBI) Governor Urjit Patel resigned amid heightened tensions with the central government. Elsewhere, in Brazil, the central bank held interest rates steady against a backdrop of lower-than-expected inflation. Meanwhile, oil prices continued to fall.

## Sector Review

**Utilities:** The Utilities sector performed well during the month as investors rewarded the sector for its defensive characteristics. As bond yields trended lower, investors fled to bond-proxy stocks and many of our Utilities holdings benefitted. On a company-specific basis, shares of Enel SpA continued to trade higher due to the company's encouraging new business plan, which should support future earnings. A position in Italgas SpA continued to rise as a regulator recently published its allowed return for 2019-2021, removing an overhang.

Additionally, investors rewarded shares of Endesa S.A. after the company announced a positive new business plan.

**Real Estate:** Our out-of-benchmark allocation to the Real Estate sector weighed on the portfolio during the month. GEO Group Inc provides correctional and rehabilitation services in the US. Shares declined on soft third-quarter results and guidance as a number of one-time items weighed on results. After a period of notable performance amidst the market volatility in October and November, our Health Care REIT names gave back some previous gains. Positively, Omega Healthcare Investors, Inc. announced its acquisition of MedEquities Realty Trust, which we believe will be accretive over the long-term. Additionally, Medical Properties Trust, Inc. has been seeing improving tenant concentration with strong growth opportunities from its deal pipeline. Overall, Health Care REITS are a unique area of the market offering both value as well as defensive business models, which has benefitted the sector handily this year.

**Communication Services:** Shares of Bezeq the Israel Telecommunication Corp. trended lower on concerns about intense fiber competition. Additionally, the company announced a provision for an early retirement program, which will weigh on near-term profits. After strong year-to-date performance, shares of Verizon Communications Inc. gave back some previous gains. We remain bullish on the stock as the company has been seeing positive wireless trends and management reiterated full year guidance for revenues and earnings.

**Energy:** Lower oil prices, macroeconomic concerns and increased market volatility continued to weigh on Energy performance in December. In particular, shares of Targa Resources Corp. declined despite a quarterly beat due to strong fractionation and export volumes. Shares of Inter Pipeline Ltd. trended lower as investors were disappointed with its higher-than-expected 2019 capital expenditures budget.

**Industrials:** Relative underperformance in Industrials stemmed from our underweight exposure and challenging stock selection. Our position in bpost continued to fall after reporting a third-quarter miss as rising costs have weighed on results. Similarly, a position in Royal Mail plc fell as investors were disappointed with the company's fiscal year 2019 guidance. The letter segment is under intense pressure and parcels face heavy competition. Additionally, investors have been concerned about management's ability to manage the labor situation. Positively, shares of Jiangsu Expressway Co. Ltd. rose on easing trade tensions.

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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](tel:1300010311) or email  
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