

BT Wholesale Australian Long/Short Fund

Fact Sheet
October 2009

ARSN: 121 948 810



About the Fund

The BT Wholesale Australian Long/Short Fund is a long and short portfolio of Australian equities. The Fund leverages BTIM's existing Australian equity research capabilities to capture additional sources of value-add by using both buy and sell ideas.

Fund objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the S&P/ASX 200 Accumulation Index over the medium to long term by taking both long and short positions in Australian shares.

The suggested investment timeframe is five years or more.

Investment approach

The Fund is actively managed and the investment strategy is to invest into a diversified portfolio of Australian shares through both long and short positions.

The Fund is managed based on our core investment style and is unrestricted by a growth or value bias.

BTIM's team of investment professionals select stocks based on BTIM's assessment of their long term worth, regardless of whether they are characterised as value or growth stocks.

Given the depth of BTIM's research there is a large pool of ideas available to both buy and sell.

Investment process

The Fund will aim to short sell up to 35% of the Fund's net asset value and invest that amount in the long portfolio of up to 135% of the Fund's net asset value. This means that at any given time, the Fund's gross market exposure may range from 95% to 170% while generally maintaining a net market exposure of around 100%.

The portfolio is managed holistically with changes arising from:

- analyst recommendations
- price changes leading to a reassessment of valuations, and
- substantial changes in the risk return characteristics of the portfolio.

BTIM manages the Fund by taking a large number of small positions rather than a small number of large positions, a strategy consistent with BTIM's management of core Australian equity portfolios.

Investment team

BTIM's team of nine large cap Australian equities team professionals is one of the largest in the industry and has demonstrated a strong track record of performance.

The portfolio manager for the BT Wholesale Australian Equities Long/ Short Fund is Jim Taylor who has more than 16 years industry experience.

Performance

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	-1.66	-1.51	-2.08
3 months	11.92	12.43	10.86
FYDT	20.94	21.76	18.97
6 months	27.05	28.04	25.41
1 year (pa)	32.36	35.62	21.39
2 years (pa)	N/A	N/A	N/A
Since Inception (pa)	-4.14	-1.79	-12.34

Until 18 June 2009 the Fund was only open to wholesale investors and performance fees were charged directly to investors and not deducted out of the Fund. The returns for dates prior to 18 June 2009 have been adjusted to reflect the returns that would have been generated if the current performance fee structure applied at that time.

Asset allocation

Energy	9.3%
Materials	21.4%
Industrials	8.5%
Consumer Discretionary	6.3%
Consumer Staples	8.3%
Health Care	5.2%
Information Technology	-0.1%
Telecommunication Services	4.6%
Utilities	0.6%
Financials ex Property Trusts	29.9%
Property Trusts	2.7%
Cash & Other	3.4%

Top 10 holdings

BHP Billiton Limited	11.1%
Westpac Banking Corporation	7.9%
National Australia Bank Limited	7.1%
Commonwealth Bank of Australia Ltd	5.9%
Telstra Corporation Limited	5.0%
ANZ Banking Group Limited	4.0%
Rio Tinto Limited	3.6%
QBE Insurance Group Limited	3.1%
Wesfarmers Limited	3.1%
CSL Limited	3.0%

The long/short strategy

The Fund aims to take advantage of BTIM's buy and sell ideas by using a strategy that combines a long and a short portfolio.

To take advantage of the buy ideas, a "long portfolio" is created consisting of securities that are bought and held, consistent with our view that these securities will outperform the market. These securities are referred to as "long positions".

To take advantage of our sell ideas, a "short portfolio" is constructed with "short positions". Short positions are created by selling securities in a process called short selling, where we believe these stocks will underperform the market.

Short selling is where a portfolio sells assets that it has borrowed in the expectation that they will fall in value and can subsequently be bought at a price lower than the sale price. Short selling involves a higher level of risk than buying a security.

Investment guidelines

Risk Limits:	relative to S&P/ASX 200 Accumulation Index
Investable universe	ASX and NZX listed stocks, large cap and small cap, (or those to be listed within 12 months), cash, derivatives
Investment Allocation	Australian equities Long: 95 - 135% Short: 0 - 35% Net long exposure max 100% Cash: 0 -5%
Stock Numbers	Long Portfolio 30-70 Short Portfolio up to 40
Ex-ante tracking error	3 - 8%
Min/max active sector position	+/- 10%
Min/Max active long stock position	+/- 6%
Max active short stock position	- 6%
BARRA risk factors	+/- 0.8 std. dev.

Other information

Fund size (as at 31 Oct 2009)	\$99 million
Date of inception	30 November 2007
Minimum investment	\$50,000
Minimum balance	\$50,000
Buy-sell spread	0.70% ¹
Income distribution frequency	Semi-annual (June and December)
APIR code	RFA0064AU

Fees

Management costs ²	0.85% pa
Performance fee ³	15% of the amount (if any) by which the Fund's investment performance (before fees) exceeds the benchmark.

Market Overview

The Australian equity market fell 2.1% in October, in line with world sharemarkets, on concerns about the durability of the US recovery. It was the market's first decline after registering seven consecutive monthly gains.

The best performers for the month included defensive sectors Consumer Staples (+1.4%) and Telcos (+0.4). Banks (-1.4%) outperformed the index for the fifth straight month with NAB and ANZ reporting earnings for the September half which appeared to confirm market expectations of stronger margins and loan losses peaking.

Most sectors were negative in October with Property (-9.0%) and Energy (-5.3%) the worst impacted by further capital raisings in the respective sectors. The continued rise in the Australian dollar weighed on sectors with overseas earnings such as Healthcare (-4.1%).

Capital raising activity over the month included issues by CSR, Graincorp, ING Industrial and Oil Search.

In economic news, the Reserve Bank raised rates for the first time since the financial crisis reached its crescendo, with the cash rate target up by 0.25% to 3.25%. The rise in rates reflects the continued firm domestic economic data, such as employment data, which in combination drove the Australian dollar higher.

Fund Performance

The portfolio outperformed its benchmark over the month of October though registered a negative return for the month in absolute terms. The long portion of the portfolio generated all of the outperformance for the month with the short portfolio generating an essentially flat result.

Our overweight in Virgin Blue was a key contributor to returns as the company benefited from an improving domestic demand environment and confirmation that the ACCC would allow its joint venture with Delta. A strong dollar also provided a boost to the stock over the period.

The portfolio's overweight in Rio was another major contributor over the month. Rio raised its full year iron ore production guidance after posting a record third quarter of iron ore production. The new Chairman has helped to restore a focus on operational performance which is supportive for the long term performance of the company.

Our underweight in Macquarie Group was also positive for performance. The investment bank's six month result was somewhat disappointing, down 21% on last year. The key issue is that employment costs have risen ahead of the improvement in return on equity, which goes against their long established principle.

Our overweight to CocaCola Amatil contributed to returns as its domestic business continues to deliver good growth and the Indonesian growth option looks likely to deliver good results.

Detractors from performance over the month included the portfolio's underweight holding in Transurban as the stock proved to be defensive in a falling market. In November, as it transpired, it was revealed that the key overseas shareholders in Transurban had bid for the company.

Another detractor to returns was the portfolio's overweight holding in Asciano. The group had reported lower market share in some areas including its ports business. However, as a domestic cyclical we continue to see value in the stock over the medium term.

Strategy & Outlook

After seven months of rising markets we saw the first signs that the sustainability of the factors which had driven the rally were beginning to be questioned. The recovery in the global economy needs to be looked at from two perspectives.

Firstly, the old developed world of Europe, Japan and North America – here the recovery has been built on re-stocking and policy stimulus. We are now approaching a transition point: will the private sector pick up the momentum or will we see growth fall back into a slumber of around 1%? The signs are mixed, with corporate profitability having picked up significantly at a time when private sector investment has fallen markedly, creating the potential for a corporate led recovery, particularly in the US and Central Europe. The risk is that confidence, both consumer and business, remains subdued leading to spending decisions being deferred, with this coinciding with the government needing to take action to deal with their excessive deficits.

Secondly, there is the emerging world where the signs are more unambiguous, with the Chinese government in particular determined to ensure there is no repeat of last year's downturn. We are seeing only a moderation of credit growth and investment rather than a more dramatic reduction, and increasingly we are seeing the private sector get in on the act.

Australia benefits from being more firmly tied to the developing world and the early signs of strong investment led recovery are evident, notably the preparation work for a number of key LNG projects. However risks remain with broader economic growth potentially checked by the strong currency, rising interest rates and the winding back of stimulus.

In this context the market will become more discerning, not all deflation plays will see their earnings recover quickly and certain defensives will struggle in the face of currency movements. The portfolio is positioned to reflect this differentiation within themes whether it be based on geography, competitive forces or industry exposure. We see value in domestic cyclicals such as Asciano which is leveraged to the domestic supply chain. In the engineering sector, we anticipate rising investment in power and energy, which in turn makes Worley look attractive. We also like companies where cash flows are strong and industry position is generating high and improving returns on equity, for example QBE and Westpac. Finally the long term beneficiaries of China's continued growth in demand will support companies such as Rio Tinto and Oil Search. Overall, we remain focussed on investing in a blend of stocks across a broad array of industries, which will be able to perform under the potentially different economic scenarios that we potentially face.

1 Unit price spreads represent transaction costs and may vary from time to time without notice.

2 You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

3 The Performance fee is calculated each Business Day based on the investment performance and value of the Fund that day and accrued daily in the Fund's unit price. The fee is payable from the assets of the Fund as at 30 June of each year.



For more information

Please call 1800 813 886, contact your business development representative or visit www.btim.com.au

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