

# BT Wholesale Australian Long/Short Fund

Fact Sheet  
February 2010

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 Return
	(post-fee)	(pre-fee)	
1 month	1.69	1.74	2.16
3 months	-1.36	-1.23	-0.56
FYDT	20.85	21.85	20.41
6 months	4.08	4.52	5.29
1 year (pa)	45.63	47.33	44.70
2 years (pa)	2.34	4.52	-4.44
Since Inception (pa)	-3.57	-1.49	-10.13

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	8.8%
Materials	25.8%
Industrials	11.1%
Consumer Discretionary	5.4%
Consumer Staples	7.0%
Health Care	3.6%
Telecommunication Services	3.5%
Financials ex Property Trusts	28.2%
Property Trusts	3.0%
Cash & Other	3.6%

## Top 10 holdings

BHP Billiton Limited	13.5%
Westpac Banking Corporation	7.7%
Commonwealth Bank of Australia Ltd	6.4%
National Australia Bank Limited	6.1%
Telstra Corporation Limited	5.2%
Rio Tinto Limited	4.4%
ANZ Banking Group Limited	3.8%
QBE Insurance Group Limited	3.6%
Qantas Airways Limited	3.2%
Asciano Limited	2.9%

## 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	<b>Australian equities</b> Long: 95 - 135% Short: 0 - 35% Net long exposure max 100% <b>Cash:</b> 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 28 Feb 2010)	\$105 million
Date of inception	30 November 2007
Minimum investment	\$50,000
Minimum balance	\$50,000
Buy-sell spread	0.70% <sup>1</sup>
Income distribution frequency	Semi-annual (June and December)
APIR code	RFA0064AU

## Fees

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

## Market review

The Australian sharemarket managed to claw back some of January's losses with a rise of 2.0% in February. Conditions were choppy, however, reflecting the volatility in financial market amidst ongoing macro concerns regarding sovereign debt, particularly in relation to Greece, China's monetary tightening and mixed signs of recovery in the US.

Earnings reports were on balance slightly ahead of expectations, however, many companies gave a subdued outlook or appeared to guide conservatively.

Bank results and outlook statements suggested a steeper decline for loan loss charges than previously thought likely, helping the Bank sector (+3.5%) to weather concerns on funding costs and regulatory change. Consumer Staples (+6.2%) was the standout sector within the market with Wesfarmers (+15.1%) the clear outperformer. Woolworths (+3.8%) also had a strong month. The Healthcare sector (+3.8%) also outperformed with key stocks CSL (+10.3%), Resmed (+11.1%), Ansell (+12.5%) and Ramsey Health Care (+10.4%) all posting strong gains.

The Resources sector (+2.1%) rallied with growing expectations of strong bulk commodity price rises outweighing China's moves to moderate stimulus policies. Both BHP (+4.3%) and Rio Tinto (+4.4%) outperformed the broader market after reporting strong half/full-year results that exceeded expectations. Meanwhile Telcos (-10.2%) was the clear laggard as Telstra reported disappointing results and investors expressed caution on the company's competitive pressures and structural challenges.

In economic news, the RBA surprised the market in February by deciding to leave the cash rate on hold despite stronger-than-expected economic conditions. Australian consumer and business confidence remained at record levels, with building approvals and retail sales rising strongly. The unemployment rate recorded a large fall to 5.3% in January, appearing to have peaked at 5.8%, the lowest of all the developed economies.

## Fund performance

The portfolio underperformed its benchmark over the month of February.

The main detractors to portfolio performance over the month included our overweight positions in Qantas, Telstra and QBE. While Qantas' interim results beat most forecasts, its full-year guidance range, which suggested a weaker second half, put the stock under pressure. QBE fell as its results came in below expectations, reflecting a fall in margins and lower growth rates.

The main contributors to returns were the portfolio's underweights in Toll, which reported weak volumes and profit well below market expectations; and Macquarie, which fell on lacklustre profit guidance provided at a strategy day,

The portfolio's overweight position in Resmed contributed to performance as the company benefited from the strong performance of the Healthcare sector. Robust revenue growth, recent product launches and the product pipeline continue to position Resmed well for the future.

Other overweights that added value were Asciano, as the stock rose after the company revealed a turnaround in its half-year results highlighted by strong growth in its coal haulage business; Westpac as the bank released significantly higher-than-expected cash earnings for the December quarter and provisioning for bad debts also dropped significantly; and News Corp which surprised on the upside with higher-than-expected earnings including a good result from the key earnings driver of its business; cable TV.

## Strategy & outlook

The rally in equity markets off their recent lows has reinforced our view that we remain in a consolidation phase. We are now 12 months on from the turn in the markets as the potential financial crisis was averted and the domestic economy started its recovery. The market has re-rated back to its long-term valuation, contingent on a recovery in earnings of 20% in the 2011 financial year. It is the confidence in this earnings recovery which will drive the markets from here.

The threat to the downside comes from the world economy and specifically the US. Here the recovery has lost some of its momentum due to the flow-on effect of high and persistent unemployment and the lack of available credit for small and medium-sized businesses. The upside opportunity is born from the lagged effects of the substantial policy stimulus kicking in and triggering an improvement in business confidence driving a recovery. In addition we believe the Chinese economy will remain strong, with recent policy actions more focussed on controlling growth rather than slowing it markedly.

Supporting the premise that we are in a consolidation phase are developments in the Australian economy. We are currently transitioning from stimulus-driven consumer growth towards more investment and corporate spend growth. The economy is leveraged to the Asian growth story, both directly from the effect of commodity prices and volumes and indirectly from the investments required to facilitate the demand requirements. The benefits of the recovery in China have only partially flowed through to the economy – we are now beginning to see the next wave of positive effects. Firstly this is via the annual reset of bulk commodity prices which could add 2% to GDP growth. In addition the investment spend on mining and energy projects is beginning to ramp up which could add 0.5% to growth. Finally related infrastructure investment is also going to pick up to facilitate the movement of these materials.

The combination of these factors will likely lead to a growth pause for a few months as the consumer eases off, while the investment spend is still ramping up. However, strong growth should resume later in the year so long as the US does not deteriorate. This development in the domestic economy also shapes the positioning of the portfolio with our favoured positions being in stocks benefiting from this shift in growth, notably engineering stocks such as UGL and Worley.

The February reporting season provided a direct insight into corporate performance. The sharp reactions to announcements, in both directions, highlight that at the current time the market is close to fair value and relying on a strong earnings recovery. Any signs of a delay in this are dealt with harshly by the market, however this is providing opportunities to buy into good longer-term stories that the market has lost patience with. Reporting season confirmed that the recovery in the domestic economy is flowing through, with the banks in particular benefiting from a drop off in loan losses. Overall the continued improvement in balance sheets helps to reduce the risks from any future economic shocks and would suggest that M&A will become a bigger theme in months to come.

The portfolio is positioned to benefit from the continued growth in China via the large bulk commodity stocks as well as through engineering companies. It is also exposed to an improvement in the back end of the economy, which has lagged up to now as corporates were tight on costs and cut inventories. Finally, we are cautious for the near term on consumer-sensitive stocks as we see the effects of rising interest rates kick in.

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](http://www.btim.com.au)

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