BT Wholesale Focus Australian Share Fund

Fact Sheet
February 2010

ARSN: 113 232 812

BT Investment Management

Australian Shares

About the Fund

The BT Wholesale Focus Australian Share Fund is a highly concentrated portfolio of 15-30 ASX listed stocks, developed to meet investor demand for a higher alpha, high tracking error fund.

Fund objective

The Fund aims to provide a return (before fees, costs and taxes), that significantly exceeds the S&P/ASX300 Accumulation Index over the medium to long term.

Investment approach

BTIM aims to add value primarily through active stock selection. The Fund is managed using the same core investment style as is applied to BTIM's other Australian equity portfolios and leverages off the team's proven research and stock selection capabilities.

BTIM's investment process for shares is based on our core investment style and is unrestricted by a growth or value bias. Our team is focused on generating independent and unique investment ideas so as to exploit opportunities not yet considered by the market.

Fund positioning

The Fund is designed to complement a conventional, core share portfolio by providing satellite exposure to selected Australian equities with the potential for performance enhancement.

Investment team

BTIM's nine-member Equity Strategies team is one of the largest in the Australian fund's management industry. The portfolio manager for the Fund is Crispin Murray, who has more than 17 years' industry experience. Crispin is also Head of Equity Strategies.

Other information

Fund size (as at 28 Feb 2010)	$253 million
Date of inception	April 2005
Minimum investment	$50,000
Minimum balance	$50,000
Buy-sell spread	0.50%[1]
Income distribution frequency	Semi-annual
APIR code	RFA0059AU

Investment guidelines

Ex-ante tracking error	4.5% - 8.0%
Max absolute stock position	15%
Min/max sector position relative to index	+/- 15%
Min/Max BARRA style factors	+/- 0.5 SD
SIRA style factors	Within 1 SD
Maximum cash level	30%
Shorting	No
Borrowing	No

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	2.08	2.18	2.05
3 months	-0.55	-0.33	-0.72
FYDT	20.33	20.98	20.40
6 months	4.92	5.28	5.18
1 year (pa)	44.80	45.93	45.06
2 years (pa)	-4.56	-3.82	-4.60
3 years (pa)	-2.89	-2.11	-3.33
5 years (pa)	N/A	N/A	N/A
Since Inception (pa)	9.76	11.07	6.92

Asset allocation

Energy	11.2%
Materials	22.1%
Industrials	10.7%
Consumer Discretionary	10.1%
Consumer Staples	4.1%
Health Care	3.8%
Telecommunication Services	3.5%
Financials ex Property Trusts	30.4%
Cash & Other	4.1%

Top 10 holdings

BHP Billiton Limited	13.2%
Westpac Banking Corporation	11.3%
National Australia Bank Limited	6.0%
QBE Insurance Group Limited	5.4%
Telstra Corporation Limited	4.9%
Rio Tinto Limited	4.7%
Asciano Limited	4.5%
Qantas Airways Limited	4.1%
News Corporation Inc CDI CL B	4.1%
ANZ Banking Group Limited	3.9%

Fees (inclusive of GST)

Issuer fee	0.75% pa*
Performance fee**	15%
Performance hurdle	Benchmark plus issuer fee

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

**A performance fee is payable to the manager if the Fund exceeds the performance hurdle. The Fund's performance hurdle is the benchmark (S&P/ASX 300 Accumulation Index) plus the issuer fee of 0.75% p.a. The fee is currently equal to 15% of the amount (if any) by which the performance of the Fund exceeds the performance hurdle. The performance fee is calculated each business day based on the investment performance and net asset value of the Fund on that day and, where positive, accrued daily in the Fund's unit price. The fee is payable annually as at 30 June. Any under-performance deficit must be recovered in dollar terms before any performance fee can be accrued in the unit price. Any unrecovered performance deficit is carried forward for up to three consecutive years. Performance fees are payable in relation to the performance of the Fund as a whole during each year, and do not necessarily reflect the performance of any individual unitholder's investment.

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

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 slightly outperformed its benchmark over the month of February.

The main contributor to returns was the portfolio's overweight in Westpac as the bank released significantly higher-than-expected cash earnings for the December quarter. Provisioning for bad debts also dropped significantly.

An underweight position in Macquarie added value as the stock fell on lacklustre profit guidance provided at a strategy day. News Corp surprised on the upside, benefiting the portfolio's overweight position, with higher-than-expected earnings including a good result from the key earnings driver of its business: cable TV.

Our overweight positions in Qantas and QBE detracted in February. While Qantas' interim results beat most forecasts, its full-year guidance range, which suggested a weaker second half, put the stock under pressure. Meanwhile, QBE fell as its results came in below expectations, reflecting a fall in margins and lower growth rates.

Another detractor was our underweight in Wesfarmers which was one of the main index movers over the month as the company reported a strong profit result ahead of expectations, with particularly strong performance from its retail business.

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 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.

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For more information

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