

BT Wholesale Imputation Fund

Fact Sheet
February 2010

ARSN: 089 614 693



About the Fund

The BT Wholesale Imputation Fund is an actively managed portfolio of Australian shares, Australian property securities and convertible preference shares offering above average income returns.

Fund objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the S&P/ASX 300 Accumulation Index over the medium to long term. The suggested investment timeframe is five years or more.

Investment philosophy

BTIM seeks to deliver consistently superior performance by exploiting investment opportunities that arise due to the inefficient market pricing of securities. Our goal is to invest in strong businesses that are generating cashflow, but are currently valued incorrectly by the market.

Investment process

In keeping with the Fund's objective of paying income of 4%-6% pa, the BT Wholesale Imputation Fund will tend to invest in high yielding stocks.

However, the Fund utilises the same investment process as BTIM's core Australian equity product. Core means we are style indifferent; we invest in both 'value' and 'growth' companies, without a predetermined 'value' or 'growth' bias.

The majority of our resources are devoted to fundamental research, as this is where we believe the greatest value is added.

Our research is focused on four key factors, which we believe to be the primary drivers of medium term returns (generally 2 to 3 years): valuation, financial risk, franchise and management quality. The combination of these quantitative and qualitative factors forms the basis of the analysts' stock recommendations.

The key features of our process include:

- a structured approach to research, with each analyst working on a quarterly work plan and following a standardised format for stock research
- a separation of research and portfolio construction for increased accountability
- stock recommendations to provide greater transparency of analysts' outputs into the portfolio
- a commercial focus which is entrepreneurial in nature. Analysts and portfolio managers are incentivised to generate new "money making" ideas.

Investment team

BTIM's nine-member Equity Strategies team is one of the largest in the Australian funds management industry. The portfolio manager for the Fund is Jack Chemello who has more than 11 years' industry experience.

Investment guidelines

Ex-ante (forward looking) tracking error	2.0% - 6.0%
Min/max stock position	+/-4%
Min/max sector position	+/-6%

Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	1.83	1.90	2.05
3 months	-1.42	-1.20	-0.72
FYDT	18.17	18.87	20.40
6 months	3.64	4.10	5.18
1 year (pa)	38.50	39.75	45.06
2 years (pa)	-4.28	-3.42	-4.60
3 years (pa)	-2.36	-1.50	-3.33
5 years (pa)	8.45	9.39	6.59

Asset allocation

Energy	10.9%
Materials	25.3%
Industrials	9.2%
Consumer Discretionary	5.6%
Consumer Staples	6.9%
Health Care	3.5%
Telecommunication Services	4.5%
Financials ex Property Trusts	29.9%
Property Trusts	3.4%
Cash & Other	0.8%

Top 10 holdings

BHP Billiton Limited	13.8%
Westpac Banking Corporation	7.9%
Commonwealth Bank of Australia Ltd	5.8%
National Australia Bank Limited	5.2%
Telstra Corporation Limited	5.0%
ANZ Banking Group Limited	4.2%
Rio Tinto Limited	3.9%
QBE Insurance Group Limited	3.8%
Asciano Limited	2.9%
News Corporation Inc CDI CL B	2.6%

Other information

Fund size (as at 28 Feb 2010)	\$699 million
Date of inception	October 1999
Minimum investment	\$50,000
Minimum balance	\$50,000
Buy-sell spread	0.50%
Income distribution frequency	Quarterly
APIR code	RFA0103AU

Fees

Management fee	0.90% pa*
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* You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

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 underperformed its benchmark over the month of February.

The main detractors to portfolio performance over the month included an 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.

Our overweight positions in Qantas and Telstra also 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.

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

Overweights in Westpac, News Corp and Asciano all added value over the month. Westpac released significantly higher-than-expected cash earnings for the December quarter and provisioning

for bad debts also dropped significantly; News Corp surprised on the upside with higher-than-expected earnings including a good result from the key earnings driver of its business, cable TV; and Asciano rose after the company revealed a turnaround in its half-year results highlighted by strong growth in its coal haulage 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.



For more information

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

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