

BT Wholesale Australian Long/Short Fund

Fact Sheet
March 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	6.38	6.54	5.75
3 months	0.62	0.74	1.36
FYDT	28.55	29.81	27.33
6 months	4.52	5.00	4.80
1 year (pa)	43.44	45.24	41.71
2 years (pa)	8.28	10.81	-0.06
Since Inception (pa)	-0.85	1.27	-7.60

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	8.5%
Materials	27.7%
Industrials	11.1%
Consumer Discretionary	4.6%
Consumer Staples	6.6%
Health Care	3.5%
Telecommunication Services	3.2%
Utilities	0.1%
Financials ex Property Trusts	28.6%
Property Trusts	2.9%
Cash & Other	3.2%

Top 10 holdings

BHP Billiton Limited	13.6%
Westpac Banking Corporation	9.0%
Commonwealth Bank of Australia Ltd	6.8%
ANZ Banking Group Limited	4.8%
Rio Tinto Limited	4.7%
National Australia Bank Limited	4.2%
Telstra Corporation Limited	3.8%
Qantas Airways Limited	2.9%
QBE Insurance Group Limited	2.6%
Asciano Limited	2.4%

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 Mar 2010)	\$104 million
Date of inception	November 2007
Minimum investment	\$50,000
Buy-sell spread	0.70% ¹
Distribution frequency	Semi-annual
APIR code	RFA0064AU

¹ The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

Fees

Issuer fee 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.

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.

Market review

The Australian sharemarket had a strong month, up 5.7% in March, its best performance in six months. Factors behind the positive momentum included increased confidence in the likelihood of a US recovery, the view that China's tightening won't be as aggressive as once thought and continued strong commodity prices.

However some macro concerns remain, with the Greece sovereign debt issue still unresolved, despite the European Union and IMF agreeing to provide loans as a last resort.

The renewed confidence over the month saw investors move back into cyclicals. Energy was the strongest sector (+8.9%), boosted by corporate activity in the gas industry. The wider Resources group (+8.4%) also outperformed as mining stocks responded to strong iron ore and coal pricing and a shift by BHP and Brazilian miner Vale from annual to short term pricing contracts.

Increased M&A activity appears to be an emerging theme in Resources. Shell and Petrochina made a bid for Arrow Energy's Australian LNG assets resulting in the stock finishing up over 51% for the month while Peabody bid for Macarthur Coal which saw Macarthur stocks rise over 37%. Also, post month end Newcrest bid for Lihir Gold.

Materials also performed well in March (+7.8%) driven by increasing demand for resources. Healthcare was up +5.3% on strong CSL (+5.9%) and Cochlear (+14.8%) performance as well as the resolution to US healthcare reform removing uncertainty around the sector. The Bank sector (+6.8%) also rose strongly as investors continued to revise down their expectations for loan loss charges.

On the other hand traditional defensives were the clear laggards. Consumer staples were up only 2.0% and Utilities up only 1.6%. Utilities and REITs (-0.2%) were held back by rising bond yields while the Telco sector (+0.3%) continued to struggle with concerns over Telstra's regulatory regime.

In economic news, the Reserve Bank raised the cash rate target by 25 basis points to 4% at its March meeting, the fourth hike in the current tightening cycle. Australian economic data was on balance softer than expected with employment, retail sales and housing finance coming in short of forecasts. Meanwhile, the Australian dollar gained against the US dollar in March (+2.4%) as markets priced a stronger trajectory for short-term rates and bulk commodity prices.

Fund performance

The portfolio outperformed the benchmark for the month of March.

Our underweight position in Spark Infrastructure group was the main contributor to returns. After six months of relative outperformance the stock gave up all of these gains in March as the market tries to come to grips with the capital structure review that the company announced at their half year results.

The portfolio's overweight in Oil Search and Rio were among the other positions to add value in March. Oil Search has been trading cheap relative to the imputed value of its stake in the PNG LNG project, reflecting the lack of near term news flow, however the bid for Arrow Energy was a reminder that the energy sector is consolidating and the market began to close up that discount. Rio rose on the combination of higher expected price settlements in iron ore and the move to shorter term pricing. The latter adds significant value as historically contract prices have traded at a significant discount to spot prices.

The main detractors to performance over the month were our overweight holding in SP Ausnet, a very defensive utility stock in what was a strongly rising market, and an underweight in Arrow Energy, subject of the Shell/Petrochina takeover bid.

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 markets from here.

The key swing factors relate to the US and Chinese economies. During March there were favourable developments on both these fronts. In the US the signs are beginning to emerge that employment is improving, following a lull over the northern winter. We believe that we will see a short term step up in US activity, however we are concerned that this will be relatively short lived given the continued structural issues relating to debt in both households and at the government level. In China we got a clear message from policy makers that they will not aggressively tighten policy, reflecting their concerns about the uncertainty of the global economic environment. Our recent trip to China highlighted that underlying infrastructure investment is continuing, with the projects started last year providing plenty of work to continue growth through this year. In addition, we anticipate a pick up in property investment as the government seeks to increase supply to deal with the rise in prices. The economy will start to slow later in the year, but the policy mistakes of 2008, when the Chinese over tightened are fresh in their mind, and will lead them to err towards growth.

The domestic economy is transitioning from being driven by government stimulus and the consumer towards growth coming from investment, particularly relating to the resource sector. The terms of trade shock will generate substantial growth in the second half and in addition continued strong population growth will underpin the economy.

In this environment, the portfolio's key exposures are to the resource sector, but rather than concentrate that solely in mining stocks it is spread across a number of themes being bulks, energy and engineering services, covering companies such as Rio, Oil Search, Worley and United Group. In addition we are exposed to the 'back end' of the domestic economy, i.e. companies exposed to greater corporate spend in the supply chain such as Qantas and Asciano. 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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