Australian Shares

BT Wholesale Australian Long/Short Fund

Fact Sheet
May 2010

ARSN: 121 948 810

BT Investment Management

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 (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-8.17	-8.20	-7.51
3 months	-3.93	-3.75	-3.54
FYDT	16.10	17.28	16.15
6 months	-5.24	-4.94	-4.08
1 year (pa)	20.02	21.22	20.80
2 years (pa)	-0.13	2.14	-7.35
Since Inception (pa)	-4.76	-2.84	-10.47

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	23.8%
Industrials	11.3%
Consumer Discretionary	6.0%
Consumer Staples	8.7%
Health Care	2.4%
Information Technology	1.1%
Telecommunication Services	4.0%
Utilities	0.4%
Financials ex Property Trusts	28.8%
Property Trysts	3.8%
Cash	0.4%

Top 10 holdings

BHP Billiton Limited	11.9%
Commonwealth Bank of Australia	7.7%
Westpac Banking Corporation	7.2%
ANZ Banking Group Limited	5.1%
National Australia Bank Limited	4.0%
Telstra Corporation Limited	4.0%
Rio Tinto Limited	3.7%
Woolworths Limited	3.3%
Asciano Limited	3.1%
Wesfarmers Limited	2.5%

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 May 2010)	$95 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 fell 7.5% in May, its third monthly loss of the year and the sharpest decline since October 2008. On a macro level markets were dominated by European sovereign debt issues and the implications for growth in the region. There were plenty of other market headwinds with escalating tensions on the Korean peninsula, the oil spill in the Gulf of Mexico and the Australian mining tax proposal.

The Government's response to the Henry tax review was the major news story of the month with its proposed adoption of a Resources Super Profits Tax (RSPT) of 40% on the profits of mining and other onshore extraction activities above a threshold level. Existing royalties levied by state governments would be rebated to companies at their current level and deductions would be made for depreciation and an allowable return, proposed to be the long bond yield.

News of the RSPT proposal dominated the Resources sector which already was contending with uncertainty over Chinese policy. Despite the bad news the sector (-6.2%) slightly outperformed the market as it rallied late in the month on rumours of compromise on the proposed tax.

Banks (-12.2%) were one of the weakest groups as their earnings season met with a cautious response from investors with funding concerns brought to the fore. European events also weighed on the sector on the prospect of making debt-raising conditions more difficult. Defensive sectors such as Consumer Staples (-1.1%) and Healthcare (-4.1%) outperformed as did the Property sector (-4.1%).

With the approach of the end of the financial year a number of companies revised guidance, with a bias towards downgrades, the major ones being Virgin Blue and Sonic Healthcare. In other news, Foster's announced that its underperforming wine business would be demerged from its stronger beer business, and Lihir Gold accepted an improved takeover offer from Newcrest Mining.

In economic news, the RBA raised the cash rate by 25bps to 4.50% in May, the sixth hike in seven meetings, highlighting the strong terms of trade. Employment increased by 33.7k in April but consumer confidence was weak. Meanwhile the Australian dollar fell by 8.5% against the USD in May, its sharpest monthly drop since October 2008. The oil price reversed sharply (-14.1%) over the month while gold rose 3.3% as concerns over sovereign debt supported sentiment.

Fund performance

The portfolio underperformed the benchmark for the month of May.

The portfolio's overweight in Qantas was one of the main detractors to returns as the domestic airlines fell heavily in May on increases in capacity and competition. Our holding in Rio also detracted as the stock sold off heavily earlier in the month from macro issues and the proposed RSPT.

Our overweight in Sonic Healthcare was another detractor. Sonic advised that it is likely to fall short of its FY10 guidance, largely due to an unexpected but temporary impact on Australian pathology revenues. The revenue shortfall was due to their response to the Government funding cuts to Australian Medicare fees for pathology services, effective 1 November 2009. The company sought to introduce co-payment fees, with an initial trial in Queensland at the start of the year. Unfortunately their main competitor in the industry chose not to follow which led to a number patients moving across to that competitor. Sonic reversed the co-pay strategy and is now restoring its market share, but this has come at a cost. Clearly this has been a disappointing outcome, however the company has shown many years of growth and we believe the market has over discounted the impact of these changes.

The major contributor to returns over the month was our overweight in Resmed which continues to perform strongly as investors seek quality defensive stocks. Our overweight position in SP Ausnet also added value as the company reported profit results ahead of expectations.

Also contributing to performance was Lihir Gold (+4.5%) which agreed merger terms with Newcrest. We see this as a good move by both companies. Lihir benefits from getting genuine diversification from its key Lihir Island mine; Newcrest adds a low cost long life mine to its portfolio and benefits from the knowledge Lihir has of operating in PNG, which will prove useful in further expansions planned for that country.

Strategy & outlook

The risk factors that have been building through the year came to the fore in May. Firstly and most significantly, the problems is Europe refuse to fade away despite a series of proposals by policy makers to deal with the liquidity and funding needs of the countries facing a loss of confidence. The reason for this lack of respite is due to the concern that the key European nations and policy makers are still at odds over the right solution. In particular the ECB is reticent to move to a more aggressive provisioning of liquidity due to its fears over long-term inflation. The second issue is the scale of the debt certain countries have built up which looks too high to be resolved through fiscal austerity alone. The market is therefore not prepared to park the problem for the time being until they see more aggressive policy measures to support asset markets and growth, or a more realistic solution to the solvency issue. Until this is resolved it will impact on business and consumer confidence leading to downgrades to growth, which has a flow-on effect to the global economy. It is also impacting funding markets, both raising costs and restricting availability, which has a flow-on effect to the rest of the banking system.

The market's concerns on global growth have been elevated by a sense that the US, having been strong in April, hit a flat patch in May and also by the ongoing tightening in China. With respect to the US we are likely to see mixed data at this stage of the recovery. We still believe that the strong position of the corporate sector combined with pent-up demand should lead to a reasonable investment-driven recovery in the economy in the second half. On China, the policy tightening has not been escalated from April, in fact the Chinese have explicitly acknowledged the risks in the global economy stemming from Europe, which will make them cautious to avoid over-tightening. We still anticipate a 3 to 6 month window of aggressive measures targeted at property, leading to large headline falls in prices in tier one cities and triggering an inventory correction in certain commodities. We do not see this as a structural change in China, but would represent an opportunity to re-invest in certain commodity stocks.

On the domestic front, the proposed mining tax has triggered some significant reactions. Our observations are that the government is combining tax reform with a significant uplift in the taxation of the sector. These two issues need to be looked at separately. With respect to the reform, there is clearly a case to be made that the old royalty-based system can be improved upon. However the flaw in the current proposal is the assumption that the market will choose to value the 'failure credit'. It appears this is not the case, most evidenced by the reaction of financiers to major projects. As a result the structure needs to be reviewed, whilst still maintaining the broad principle of a profit-based tax. The second issue is the quantum of additional tax levied on the sector – this is material and leads to a 20 to 30% drop in the value of an existing coal or iron ore mine. This seems a large impost for one sector to wear and will clearly impact on the amount of money re-invested in the sector over time, particularly given tax regimes in other countries are more favourable. The impact from an investment perspective is to adjust downwards the valuations on the companies impacted. The more difficult assessment is the effect this will have on new investments and therefore the engineering sector. Our conclusion is that projects already started will go ahead, but some in feasibility stages will get delayed until there is more clarity on the policy. Our exposure to the sector is orientated towards companies with a smaller amount of direct resource project exposure in Australia, for example Worley is predominantly oil & gas and offshore.

In conclusion we expect the uncertain environment to prevail for the near term, with a risk of issues in Europe being brought to a head to trigger a more aggressive policy response from the Europeans. It is important to note that such uncertainty brings opportunity and the portfolio is seeking to take advantage of the fall in the market to add to positions, particularly in companies which are not just relying on the cycle to see profits improve, but rather have specific opportunities to drive earnings. Examples are News Corp with their ability to get more value for their cable and network programming content or Asciano with their increasing market share of the Queensland coal haulage system.

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For more information

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