

# BT Wholesale Australian Long/Short Fund

Fact Sheet  
June 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 utilises 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	-2.70	-2.63	-2.59
3 months	-12.13	-12.03	-11.14
FYDT	12.96	14.19	13.15
6 months	-11.58	-11.39	-9.93
1 year (pa)	12.96	14.19	13.15
2 years (pa)	1.73	3.93	-4.94
Since Inception (pa)	-5.62	-3.75	-11.06

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 (as at 30 June 2010)

Energy	10.3%
Materials	22.3%
Industrials	7.5%
Consumer Discretionary	4.3%
Consumer Staples	10.1%
Health Care	2.4%
Information Technology	1.1%
Telecommunication Services	4.5%
Utilities	0.1%
Financials ex Property Trusts	26.6%
Property Trusts	6.1%
Cash & Other	4.8%

## Top 10 holdings (as at 30 June 2010)

BHP Billiton Limited	12.1%
Commonwealth Bank of Australia Ltd	7.6%
Westpac Banking Corporation	7.0%
ANZ Banking Group Limited	5.2%
Telstra Corporation Limited	4.8%
Rio Tinto Limited	4.1%
National Australia Bank Limited	4.0%
Woolworths Limited	4.0%
Asciano Limited	3.6%
Origin Energy 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 30 Jun 2010)	\$122 million
Date of inception	November 2007
Minimum investment	\$50,000
Buy-sell spread	0.70% <sup>1</sup>
Distribution frequency	Semi-annual
APIR code	RFA0064AU

<sup>1</sup> 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 <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.

<sup>2</sup> You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

<sup>3</sup> 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. The performance fee is payable in relation to the performance of the fund as a whole during each year and does not necessarily reflect the performance of any individual unit holders investment. Please refer to the product disclosure statement for the fund for further details.

## Market review

The Australian sharemarket lost ground in June (-2.7%) for the third month in a row and ran up its fourth monthly loss for the year. Fears that the US recovery could falter spooked investors, concerns emerged of a slowdown in Chinese growth and survey data suggested that the Australian economy might be losing momentum.

The Resources sector outperformed the index (-1.3%) as the RSPT looked likely to be renegotiated following the change in Government leadership. As a result, Metals and Mining (-0.8%) outperformed Energy (-2.9%), as the Energy sector is not impacted to the same extent as mining stocks.

Otherwise, it was the more defensive sectors which performed better as risk aversion remained high. Telcos (+9.2%) was the standout sector, with Telstra (+10.5%) significantly outperforming after it signed an agreement with the Government to build a National Broadband Network. Other outperforming defensives were Consumer Staples (+0.5%), Utilities (+0.7%) and Healthcare (-0.2%).

In contrast, cyclical stocks underperformed in June led by the Media sector (-7.6%). Key media stocks drove the sell off as investors expect advertising spending to slow in line with business confidence. Banks (-4.9%) were once again a negative contributor to market returns with CBA (-5.3%) and WBC (-7.5%) while Diversifieds financials (-10.3) was driven by a heavy fall in Macquarie Group, (-14.3%).

In economic news, the RBA left its cash rate target unchanged in June after six hikes in seven meetings citing market volatility in Europe and its potential implications for growth. Economic signals were mixed with employment recording another strong gain in May while consumer and business confidence surveys recorded falls. The Australian dollar fell slightly against the US dollar over the month (-0.6%) while ongoing global uncertainty led to further increases in the gold price (+2.5%) in June.

## Fund performance

The portfolio performed in line with its benchmark for the month of June.

Our overweight in Metcash was the main contributor over the month as it reported a solid FY10 result in line with forecasts. The company said they are pleased with the result given they are cycling the effects of government stimulus, battling interest rate increases, and operating in a low inflation environment.

Another contributor was our overweight in Asciano which gained in June. The group announced that it had signed a 10-year coal haulage contract with Anglo American which is expected to generate revenue of more than \$775 million. The ongoing success in securing additional volumes in the Queensland coal market reinforces our optimism about earnings growth over the next 2-3 years.

Our overweight in Telstra also contributed over the month as the company significantly outperformed the market after management signed an agreement with NBN Co to participate in the National Broadband Network rollout. We think that the deal was reasonable and that it should remove the regulatory overhang that had been affecting the stock.

The main detractor from performance was our overweight in Transfield Services in the underperforming cyclical sector which was affected by macro concerns.

The portfolio's overweight position in News Corporation also detracted over the month as the company confirmed it had approached BSkyB with a proposal to buy the 61% of BSkyB that it doesn't already own. BskyB's directors said the proposal undervalues the company and has agreed to work with News Corp to gain the necessary regulatory clearances in advance of a formal offer. News Corp's bid to increase its exposure to the UK pay television market continues the group's move away from being reliant on the cyclical advertising market. The transaction would create a much more efficient balance sheet and would be accretive to earnings in the order of 15%.

## Strategy & outlook

The Eurozone's financial issues that have been at the fore of investors' attention for the past few months continued to play out with no resolution on the EU policy front to take the concerns away. The European Central Bank's concerns about inflation in the medium term remain at odds with our own views that the austerity measures that have been introduced across the key economies will result in very modest (circa 1%) GDP growth rates in these economies.

Uncertainty about the robustness of the US economic recovery was the key contributor to our market finishing down for June. Whilst we still expect the economic data to be mixed, the market took a bearish view on some of the key US data that came out during the month. US housing data was particularly poor with foreclosures up 44% and the expiration of the April tax credit seeing new home sales fall significantly. The resilience of the consumer is also being tested in the US with high unemployment, government intervention and the oil spill all combining to impact on the consumer psyche and causing a fall in the consumer sentiment index.

In a strong show of good faith to the global community China announced that it was amending its US dollar peg for the currency, though we expect only very modest appreciation to occur in the short term. The market also remains very wary about the near-term growth outlook in China with some key economic indicators pointing to a slowdown in the second half of the year.

Domestically the headlines continued to be dominated by the RSPT. The political fallout from the tax and other contentious issues was very significant with Rudd being replaced as Prime Minister by Julia Gillard. The market has rightly been very concerned about many aspects of the tax but equally as concerning for the market is the extent to which the Government continues to inject itself into many industries with policy that does not always appear to be soundly based or market aware. The final format of the tax does appear to go a long way to addressing many of the aspects that the mining companies had most vocal disagreement about and so we expect that with this uncertainty removed, capex plans that have been put on hold will be reactivated.

Whilst significant uncertainties remain with respect to the global growth outlook, equity markets have retreated to the extent that a number of value opportunities are beginning to emerge. Indeed on our long-term market valuation models both the US and Australian markets are showing up as being at very attractive long-term valuation levels. In the portfolio we continue to favour stocks that have inherent internal growth opportunities such as Asciano and News Corp. Amcor is a relatively defensive name that will show strong earnings growth over the next two years from the bottom of the cycle packaging acquisition they made from Rio Tinto.



## 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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