

# BT Wholesale Core Australian Share Fund

**Fact Sheet  
July 2011**

ARSN: 089 935 964



## About the Fund

The BT Wholesale Core Australian Share Fund is an actively managed portfolio of Australian shares that we believe are trading at a significant discount to their assessed value.

### Fund objective

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

### Investment process

BTIM aims to add value primarily through active stock selection. BTIM's investment process for shares is based on our core investment style and is unrestricted by a growth or value bias.

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.

### Investment team

BTIM's ten-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 year's industry experience. Crispin is also Head of Equity Strategies.

### Investment guidelines

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

### Other information

Fund size (as at 31 Jul 2011)	\$663 million
Date of inception	September 1992
Minimum investment	\$25,000
Buy-sell spread	0.50% <sup>#</sup>
Distribution frequency	Semi-annual
APIR code	RFA0818AU

<sup>#</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

Management fee	0.79% 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.

## Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	-3.16	-3.10	-3.83
3 months	-6.94	-6.76	-7.63
FYDT	-3.16	-3.10	-3.83
6 months	-3.94	-3.56	-5.15
1 year (pa)	2.64	3.45	3.00
2 years (pa)	5.65	6.49	6.46
3 years (pa)	1.41	2.22	0.56
5 years (pa)	2.64	3.46	1.92

### Asset allocation (as at 31 July 2011)

Energy	13.4%
Materials	27.6%
Industrials	13.6%
Consumer Discretionary	6.0%
Consumer Staples	5.5%
Health Care	1.3%
Information Technology	1.1%
Telecommunication Services	4.4%
Utilities	1.1%
Financials ex Property Trusts	23.8%
Property Trusts	1.3%
Cash & Other	0.9%

### Top 10 holdings (as at 31 July 2011)

BHP Billiton Limited	9.7%
Westpac Banking Corporation	7.1%
National Australia Bank Limited	6.8%
Rio Tinto Limited	5.8%
Telstra Corporation Limited	4.4%
Commonwealth Bank of Australia Ltd	4.4%
Origin Energy Limited	4.1%
Asciano Limited	3.7%
Newcrest Mining Limited	3.5%
ANZ Banking Group Limited	2.7%

## Market review

The Australian share market started the new financial year as it ended the old one – in negative territory. The ASX300 Accumulation Index finished the month down 3.8%, which was the fourth negative month in a row and the worst monthly fall since May 2010. Equity markets continued to be dominated by macro-economic events in July with sentiment being dominated in particular by the political stalemate in Washington around raising the debt ceiling. This issue served to diminish overall market confidence in the US political system and focused the market's attention on the potential for a downgrade in the country's credit rating. We are now well used to continuing issues in Europe and July was no exception with the focus moving towards Spain and Italy, which is the main game in terms of Eurozone sovereign debt problems. Local news also contributed to the continuing poor performance as lacklustre economic data heightened concerns over forecast earnings prospects being too optimistic. The strong Australian dollar also didn't help, with the local currency hitting a post float high against the green back during the period.

The RBA continued to leave interest rates on hold at 4.75%. While worsening inflation data would suggest that the RBA is still in a tightening phase, concerns about economic growth and further damage to already fragile consumer sentiment has led to the short term debt markets pricing in interest rate falls earlier in the month.

Despite the move away from risk assets, the Australian dollar rallied strongly. The local currency was supported by generally stronger commodity prices and the overall view that the RBA is still more likely to raise interest rates.

## Fund performance

The portfolio outperformed its benchmark in July.

The leading contributor to performance was our overweight position in Macarthur Coal, which rallied by 42% over the period. The company was the subject of a take-over bid from large US miner Peabody Energy, which was backed by existing shareholder the Indian Steel giant Arcelor Mittal. The original bid was for \$15.50 per share, which was upped to \$16 per share. Macarthur knocked back both bids and it is clear that Macarthur has interest from other parties.

Also contributing to performance was our overweight position to Asciano, which was up by 1.83% over the month. The company has secured a significant new contract with Maersk, which is one of the world's largest shipping companies and one of Asciano's largest customers. The new contract, which covers the next five years, involves the movement of current shipping volume as well as additional 190,000 containers per year into the ports of Fremantle, Melbourne and Brisbane. This contract is significant for Asciano, as it is a positive sign that the ports business is now performing well and this has been well received by investors.

The major detractor for the portfolio's performance was the overweight position in Origin Energy, which was down by 7% over the period. The key reason for the poor performance was the announcement of the carbon tax reform, which weighed on the

entire energy utility sector. As part of the proposal, the government is proposing to provide payment for the closure of around two gigawatts of coal fired power stations. The company also announce final approval for Train 1 in its APLNG project in Gladstone, with a budget of US\$14bn, with the first gas expected in mid 2015.

Also detracting from performance was our overweight position in NewsCorp, with the head stock down by over 10.2% over the month. The company has been severely embroiled in a phone tapping scandal in the UK, which ultimately led to Rupert Murdoch deciding to shut down the iconic British tabloid the News of the World during the month. As a result of the scandal, News Ltd decided not to continue in its attempt to take over 100% ownership of UK satellite broadcaster BSkyB and instead announced a US\$5bn buy back, which is a good outcome for shareholders and signals good intent from management. Clearly though, the stock has suffered serious reputational damage as a result of the scandal, which has resulted in investors selling down the stock, even though the News of the World is not a significant component of the company's revenue. The company is attractively valued and we will be looking for this episode to provide a catalyst for the company to review some of its structures and practices.

## Strategy & outlook

Despite the onset of the August reporting season, we envisage the market will continue to be dominated by macro themes in the short term. The market behaviour is currently being driven almost entirely by these macro risks. Further selling is likely in the immediate future if economic data from the United States continues to disappoint and initiatives to curtail the sovereign debt problems are not seen as sufficient. The market is going through a phase of readjustment where overly bullish assumptions about US and European growth are being recalibrated lower. With this comes a quick shift in sentiment that, as we have seen many times before, results in a rush to safety. Ultimately, from a stock pickers' perspective this leads to more, not less opportunity as stocks will be oversold well below their real value.

In general, expectations for the reporting season for domestic based stocks are quite pessimistic, given the persistently difficult conditions and quite gloomy outlook provided by many management teams in this part of the market. Any companies that surprise on the upside may be quite well supported.

The outlook for Australian resource companies still remains positive at this stage, with the developed market issues not having any effect thus far on Chinese growth or sentiment. This issue will be a key area of focus for us in coming weeks. The resilience of demand for raw materials from emerging economies in the face of slower developed market growth will be a key determinant as to whether resource related investments appear defensive or vulnerable in what is a volatile environment. Meanwhile, it is worth considering that the market is now trading on the sufficiently low valuation multiples, that even if there is a significant reduction in overall earnings expectations for 2012, the market will still not be expensive.



## 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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