

# BT Wholesale Core Australian Share Fund

Fact Sheet  
August 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 Aug 2011)	\$652 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	-2.30	-2.23	-1.98
3 months	-7.35	-7.17	-7.60
FYDT	-5.39	-5.26	-5.73
6 months	-8.56	-8.19	-9.14
1 year (pa)	2.21	3.03	2.07
2 years (pa)	1.14	1.95	2.07
3 years (pa)	-0.88	-0.09	-1.42
5 years (pa)	1.55	2.36	0.84

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

Energy	12.8%
Materials	25.2%
Industrials	13.3%
Consumer Discretionary	6.2%
Consumer Staples	5.6%
Health Care	1.7%
Information Technology	1.0%
Telecommunication Services	4.5%
Utilities	1.2%
Financials ex Property Trusts	24.5%
Property Trusts	2.3%
Cash & Other	1.9%

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

BHP Billiton Limited	9.0%
National Australia Bank Limited	7.3%
Westpac Banking Corporation	7.1%
Rio Tinto Limited	5.4%
Telstra Corporation Limited	4.4%
Commonwealth Bank of Australia Ltd	4.2%
Origin Energy Limited	3.9%
Newcrest Mining Limited	3.6%
Asciano Limited	3.5%
Santos Limited	2.8%

## Market review

Despite a rally in the second half of the month, the Australian share market could not escape the turmoil in global markets in August with the ASX300 Accumulation Index returning -2.0%. This was the fifth consecutive monthly decline which ended in the lowest month end index value since mid 2009. However, the Australian market demonstrated its defensive characteristics, holding up very well against global peers. The US benchmark S&P500 Index dropped by 5.7%, the UK's FTSE100 was down 7.2% while the European bourses were hit the hardest with the German DAX Index down a huge 19.2%. France was down 11.3% and Italy lost 15.6%.

In the local market the reporting season dominated news flow and broadly speaking outlook comments from management were cautious, which is unsurprising given the uncertain global outlook. Earnings expectations for 2012 have fallen to more reasonable levels, at 7% for Industrials and 4% for the Banks. Sector performance was driven mainly by macro themes with the traditional defensives such as Consumer Staples, Telecoms and Utilities performing best while sectors like Energy, Materials and Industrials fared the worst.

The RBA held the cash rate at 4.75% in what continues to be a lacklustre domestic economy. Retail sales numbers continue to be weak, while unemployment in July rose to 5.1% from 4.9%.

## Fund performance

The portfolio slightly underperformed its benchmark in August, although it remains ahead of benchmark on a one year and three year basis.

The largest contributor to excess return was our overweight position to Suncorp. The company delivered a stronger than expected result, beating consensus NPAT by around 7% and therefore rallied strongly by 13.2% over the month. While the result was driven by strong performance in the bank, much of the focus has been on the insurance business and in particular the effect of higher reinsurance costs. Pleasingly, the company was able to increase insurance premiums to offset these higher costs without sacrificing market share, which was by no means the case for all its competitors.

Also contributing strongly to excess performance was the benefits of not owning a number of companies that delivered poor operating performance. Examples of this were insurance company QBE, which was down by 10.1% over the period after a weak first-half result. A second example was the steel stocks OneSteel and BlueScope which were down 15% and 28% respectively as the true extent of the east coast slowdown and greater import competition resulting from the strong AUD flowed through the P&L.

Broadly speaking the main portfolio positions produced good results in the context of a tough environment, the one stark exception to this was Transfield. The company fell 27% over the month, with the bulk occurring on the day of the result, the problem was caused not so much by the operating result, rather by the impact of the sale of its US maintenance business USM and its

stake in infrastructure company TSI. The company while receiving good prices for these non core assets, had never clarified the full P&L impacts, the problem proved to be that these businesses carried far lower depreciation than the rest of the group and that the cash proceeds would yield little interest saving as they waited to deploy the capital. The result was a far greater dilution of EPS than expected. The company has failed investors on two fronts, firstly in not being clearly transparent on the detail when closing the deals and secondly by not electing to use the proceeds to buy back shares to close up the EPS dilution in 2012. If this had been handled appropriately we would not have seen the stock fall so far. From here we believe the stock can perform, given it is winning key contracts such as with Santos and the NBN, it has strong cash flow, trades at a discount to peers and management have enacted changes in recognition of the mishandling of their result.

Qantas also detracted from value, with the airline being sold down with other industrial stocks. During the month, the company announced plans to restructure its international business to enable it to generate an adequate return on capital, resulting in 1,000 job cuts, a rationalisation of routes and plans for new airlines in the Asian region. The result came in slightly ahead of expectations and yields remain strong but despite this the stock still sold off, largely due to the near-term fears of retaliatory strike action by the engineering union.

## Strategy & outlook

We remain in an environment where macro factors and the associated skittish sentiment are dominating global equity markets. The volatility looks likely to continue and with it the large swings in performance as investors move in and out of defensive asset classes and sectors. In environments like this, stock specific factors are less significant drivers of return, which does provide buying opportunities that hopefully will reward our investors well in time as focus shifts back to company fundamentals. However, the more pressing concern is the here and now.

The portfolio is positioned in a combination of solid, safe, higher quality franchises and selectively in some undervalued turnaround stories. In the former camp are some well run industrials, with good cash flows, strong balance sheets such as Amcor, Brambles, Asciano, Origin and Telstra. In terms of turnaround stories we are always suspicious of unrealistic recoveries, but do see in a couple of cases such as Qantas and Myer – where management have a clear plan to preserve and improve returns – the market overplaying the fears of cyclical downturn. Finally on the financial side we are looking for those companies with pricing power or an ability to achieve some growth, with NAB and Suncorp two examples.

The economic outlook is extremely uncertain and investor sentiment extremely poor at the moment for good reason and volatility will remain elevated. Trying to pick the timing or the catalyst for any change in this environment is nigh on impossible, but we have identified an increasing number of high-quality businesses in the Australian market which look good value on any long-term time horizon. It is in these companies they we are investing and seeking to add to as the opportunity arises.



## 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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