BT Core Australian Share PST

Fact Sheet
September 2009

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BT Investment Management

Australian Shares

About the Fund

The BT Core Australian Share PST is an actively managed portfolio of Australian leading and smaller companies 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 over the medium to long term. 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 team is focused on generating independent and unique investment ideas, so as to exploit opportunities not yet considered by the market.

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 nine-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 years' 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 30 Sep 2009)	$5 million
Date of inception	August 1996
Minimum investment	$50,000
Minimum balance	$50,000
Buy-sell spread	0.50%
APIR code	RFA0017AU

Fees

Management fee	0.79% pa*

** 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
	(post-fee)	(pre-fee)	Return
3 months	20.41	20.10	21.64
FYDT	20.41	20.10	21.64
6 months	31.89	32.79	35.61
1 year (pa)	10.04	11.30	8.51
2 years (pa)	-7.42	-5.63	-11.05
3 years (pa)	4.32	5.36	1.64
5 years (pa)	12.88	N/A	9.92

Total Returns are post fee - post tax and pre fee - pre tax.

Asset allocation

Energy	11.2%
Materials	21.6%
Industrials	8.5%
Consumer Discretionary	6.0%
Consumer Staples	6.5%
Health Care	3.7%
Information Technology	0.5%
Telecommunication Services	3.2%
Utilities	0.2%
Financials ex Property Trusts	33.5%
Property Trusts	2.8%
Cash & Other	2.4%

Top 10 holdings

BHP Billiton Limited	9.8%
Westpac Banking Corporation	8.0%
National Australia Bank Limited	7.1%
ANZ Banking Group Limited	5.8%
QBE Insurance Group Limited	4.8%
Rio Tinto Limited	4.8%
Commonwealth Bank of Australia Limited	3.7%
Origin Energy Limited	3.7%
Telstra Corporation Limited	3.2%
Asciano Limited	3.0%

Market Overview

The Australian equity market gained 21.6% over the September quarter on improved growth prospects and greater investor optimism as economic indicators pointed to a short and shallow downturn.

There was a general rotation to cyclical sectors on signs that the Australian economy was stabilising. Banks (+35.6%) was the strongest sector as concerns eased about the loan loss cycle. However Resources (+11%) underperformed as commodity prices were mixed in AUD terms.

The pace of equity capital raising slowed in the third quarter as most companies had already raised capital if they needed to and the cost and availability of debt improved, though National Australia Bank, Goodman Group and AWB were among those who tapped the market.

Earnings delivery in the August reporting season was generally better than the low expectations and a number of companies flagged that operating conditions were showing signs of improvement.

Defensive sectors lagged the market. Telecoms (-3%) was the worst performing sector and was also hit by concerns about the regulatory regime facing Telstra.

In economic news, the RBA kept its cash rate on hold at 3.0%, unemployment edged higher from May to August though the rate of change was modest compared with expectations, GDP grew by 0.6% in Q2 and business and consumer sentiment increased. Meanwhile the Australian dollar rallied 9.5% in Q3.

Fund Performance

The portfolio underperformed its benchmark over the September quarter though achieved strong positive returns in absolute terms.

The portfolio's overweight in Metcash detracted from returns over the period as the defensive Consumer staples sector lagged the market. Our overweight in Origin also detracted as Energy stocks underperformed over the quarter and with market concerns over the company's Gladstone LNG project. We believe the project is viable and that Origin's quality gas reserve base will generate significant value for shareholders as they monetise this.

Our overweight positions in Rio, Orica and Lihir Gold were negative for performance as the Materials sector stalled on concerns that China had stopped building up inventories. However there are signs of a strong recovery in China and we remain confident on the outlook for Resources over the medium term.

On the positive side, a number of stock specific calls in domestic-focused companies contributed to returns over the quarter. These included our position in Asciano which performed well over the period. We believe the company's strong balance sheet and good cash flow will continue to be supported by positive economic fundamentals over the medium term.

Our overweight in Qantas was also positive for performance as the stock rose strongly over the September quarter. The airline has reported an increase in passenger numbers and its budget brand Jetstar has also performed well.

Among the other key contributors to returns were the portfolio's overweight positions in NAB and AMP which benefited from the strong performance of the Financials sector over the quarter.

Strategy & Outlook

The drivers of the positive market sentiment remain in place. Firstly, the developed economies have seen a stabilisation of growth after what was an unprecedented free fall at the beginning of the year. Secondly, the Chinese economy is accelerating, which is driving better Asian growth and demand for commodities. Finally, the extremely loose monetary policy is generating surplus liquidity which is finding its way into investment markets.

These factors are driving a self-reinforcing rally in markets with the higher prices enabling more capital raisings which in turn facilitate bond issuance – all of which enables companies to de-risk their balance sheets. The situation in Australia is even more constructive with the emerging boom in China fuelling strong commodity prices and improving the terms of trade as well as supporting new investment. The fiscal stimulus has supported the retail sector and the rise in unemployment has not been as dramatic as feared. This is feeding through into evidence that housing prices are beginning to rise again. Reporting season provided more evidence that the underlying operating environment was improving particularly for domestically exposed companies.

The key themes that emerged from the reporting season were:

- Clear signs that operating conditions had stabilised and in some cases that they were showing signs of tentatively improving.
- Substantial write-offs due to a combination of write downs on property, inventory and goodwill plus restructuring costs.
- Stronger balance sheets, reflecting the raising of equity and terming out of debt through bond issues. This was enabling companies to take a more medium term approach to running the business as compared to last February.
- Improved cash flow due to a greater focus on working capital and a better alignment of costs with the level of activity in the business.

Overall the outcome was positive in that it demonstrates a clearing of the decks preparing companies for the potential upturn.

The key issue is the pace and duration of any recovery. It is clear the level of policy medicine has been so overwhelming that it has revived the patient. While this medicine continues to be administered it is likely that the world economy will continue to be on a path for recovery and liquidity will remain strong. Australia will benefit in a more concentrated way, given its leverage to the strong Chinese economy and resource prices. This is most evident in the level of investment in the commodity sector, notably some of the large scale LNG projects which have recently been announced.

Our portfolios are being positioned in a way to capture the benefits of cyclicals where we see strong medium term fundamentals supporting the company beyond the immediate recovery in the economy. Stocks such as Asciano, NAB, Crown and Worley fit this criteria, all of which now have strong balance sheets as well as good cash flow. In addition we are targeting other longer term themes such as the development of LNG reserves with companies such as Santos, Origin and Oil Search. Finally we see value in certain companies which have demonstrated an ability to consolidate their industry to produce higher returns, such as Sonic Healthcare and QBE.

For more information

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