

BT Wholesale Imputation Fund

Fact Sheet
December 2009

ARSN: 089 614 693



About the Fund

The BT Wholesale Imputation Fund is an actively managed portfolio of Australian shares, Australian property securities and convertible preference shares offering above average income returns.

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 philosophy

BTIM seeks to deliver consistently superior performance by exploiting investment opportunities that arise due to the inefficient market pricing of securities. Our goal is to invest in strong businesses that are generating cashflow, but are currently valued incorrectly by the market.

Investment process

In keeping with the Fund's objective of paying income of 4%-6% pa, the BT Wholesale Imputation Fund will tend to invest in high yielding stocks.

However, the Fund utilises the same investment process as BTIM's core Australian equity product. Core means we are style indifferent; we invest in both 'value' and 'growth' companies, without a predetermined 'value' or 'growth' bias.

The majority of our resources are devoted to fundamental research, as this is where we believe the greatest value is added.

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.

The key features of our process include:

- a structured approach to research, with each analyst working on a quarterly work plan and following a standardised format for stock research
- a separation of research and portfolio construction for increased accountability
- stock recommendations to provide greater transparency of analysts' outputs into the portfolio
- a commercial focus which is entrepreneurial in nature. Analysts and portfolio managers are incentivised to generate new "money making" ideas.

Investment team

BTIM's nine-member Equity Strategies team is one of the largest in the Australian funds management industry. The portfolio manager for the Fund is Jack Chemello who has more than 11 years' industry experience.

Investment guidelines

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

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	4.38	4.46	3.69
3 months	3.89	4.12	3.37
FYDT	25.12	25.69	25.74
6 months	25.12	25.69	25.74
1 year (pa)	34.91	36.13	37.59
2 years (pa)	-7.14	-6.30	-8.33
3 years (pa)	0.79	1.68	-0.78
5 years (pa)	11.10	12.07	8.29

Asset allocation

Energy	11.1%
Materials	25.5%
Industrials	8.5%
Consumer Discretionary	5.4%
Consumer Staples	7.0%
Health Care	3.3%
Telecommunication Services	4.8%
Financials ex Property Trusts	29.9%
Property Trusts	2.6%
Cash & Other	2.0%

Top 10 holdings

BHP Billiton Limited	13.6%
Westpac Banking Corporation	7.7%
Commonwealth Bank of Australia Ltd	5.6%
National Australia Bank Limited	5.4%
Telstra Corporation Limited	4.8%
ANZ Banking Group Limited	4.2%
Rio Tinto Limited	4.0%
QBE Insurance Group Limited	3.8%
Asciano Limited	2.8%
Origin Energy Limited	2.4%

Other information

Fund size (as at 31 Dec 2009)	\$737 million
Date of inception	October 1999
Minimum investment	\$50,000
Minimum balance	\$50,000
Buy-sell spread	0.50%
Income distribution frequency	Quarterly
APIR code	RFA0103AU

Fees

Management fee	0.90% 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.

Market overview

The Australian equity market gained 3.4% over the December quarter and saw out 2009 at its high for the year. After going backwards in October – the market's first decline after registering seven consecutive monthly gains – stocks gathered strength over the next two months. Gains were driven by a strong performance by the Materials sector (+13.7%) and Resources (+ 9.8%) on the back of renewed confirmation of the robustness of the China recovery.

The Consumer Staples sector also outperformed over the quarter (+4.6%) while Energy stocks fell (-2.5%) on concerns over funding. The banks reported generally good results, however these were in line with expectations. The Banks sector (-3.1% for the period) was also overshadowed by RBA rate hikes each month and by concerns over funding costs and regulatory change.

Risk appetite was tested in November when the government of Dubai announced that it intended to ask creditors for a restructuring of its debt though the initial weakness of equity markets in response to the announcement was short-lived.

A busy year for capital raisings continued over the quarter including issues by CSR \$375 million, Graincorp \$589 million, ING Industrial \$700 million, Oil Search \$895 million and Woodside Petroleum seeking \$2.5 billion.

M&A activity also continued at a steady pace over the quarter with National Australia Bank trumping AMP's bid for Axa, Metcash acquiring Mitre 10, Lend Lease and the Future Fund buying ING's shopping centre portfolio, Nufarm entering an arrangement with Sumitomo, and Macarthur Coal buying Gloucester Coal. We see M&A as an ongoing theme, albeit with more Australian companies looking to invest offshore.

In October, the Reserve Bank became the first developed economy's central bank to raise rates since the financial crisis reached its crescendo, with the cash rate target up by 0.25% to 3.25%. Two further 25 basis points rate rises followed in November and December bringing the RBA's cash rate to 3.75%.

Meanwhile the Australian dollar gained 1.9% against the US dollar over the quarter, spot gold was up 10.2% while oil gained 12.4%. Iron ore and most base metals were up strongly over the period including zinc (+ 30.0%).

Fund performance

The portfolio outperformed its benchmark over the December quarter.

The main contributor to returns was our overweight to Rio which benefited from strong commodity prices and a rising Australian dollar over the period. Our underweight position in Macquarie Group in the underperforming Financials sector also contributed to returns.

The main detractor over the December quarter was our underweight in takeover target Axa.

Our underweight in Transurban Group also detracted as its share price jumped on news of a conditional proposal from its shareholders Canadian Pension Plan Investment Board and Ontario Teachers. The proposal was rejected by the board but further discussions remain on the table.

Strategy & outlook

The strong liquidity environment that has existed for much of 2009 coupled with continued optimism toward recovering OECD economies has ensured that the market finished the calendar year at its year high.

Our overarching view remains that the market continues to be in a consolidation phase driven primarily by lack of clarity with regards to the success of the developed economies in weaning themselves off government stimulus. The signals on the strength of the private sector have continued to be mixed during the month of December. US manufacturing continues to rebound on restocking but the consumer continues to face some headwinds and is not yet in a position to provide a backstop to move the economies sustainably higher.

On the other hand the developing nations driven primarily by China have continued to exhibit very sound economic growth fundamentals which has been a key reason why the commodity spectrum has been well supported.

As companies now rule off their first half results, there will be some clearer instances where the market has gotten ahead of itself in terms of a rebound in earnings. We remain cautious on those names where we feel that there may be some disappointment in first half earnings. However this scenario may also present some attractive entry opportunities, including in the engineering/contracting space.

Our key positions remain similar with selected domestic cyclicals where we see good value (and are more confident about nearer-term earnings prospects) including names such as Asciano and Qantas.

The prospects for News Corp look favourable in the near term with its very strong recent movie releases as well as the company having some success in convincing the users of its TV and newspaper content to begin paying for access to this content – an extremely positive development for the company's earnings.

The News Corp position is one characteristic of our portfolio whereby we are not only looking for an underlying cycle to improve earnings but also for very stock-specific circumstances that we have identified as a catalyst for higher earnings.

Continued leverage to Chinese economic growth in the form of commodity exposure (Rio) and energy demand (Oil Search) remain key positions in the portfolio.

We continue to remain cautious on the outlook for the listed property sector given the lack of earnings growth and the relatively unattractive valuations.



For more information

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

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