BT Core Australian Share PST

Fact Sheet
March 2010

ABN: 71 753 267 021
FRN: R1003871

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 an overall return (before fees, expenses and taxes) that exceeds the S&P/ASX 300 Accumulation Index over the medium to long term. The recommended 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 31 Mar 2010)	$5 million
Date of inception	August 1996
Minimum investment	$50,000
Buy-sell spread	0.50%[1]
APIR code	RFA0017AU

[1] 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*

* 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	0.32	0.50	1.25
FYDT	26.09	25.99	27.31
6 months	4.72	4.90	4.66
1 year (pa)	38.11	39.31	41.94
2 years (pa)	2.46	4.34	-0.18
3 years (pa)	0.59	1.57	-2.58
5 years (pa)	10.36	N/A	8.00

Total Returns (post-fee) are post tax.
Total Returns (pre-fee) are pre tax.

Asset allocation

Energy	9.5%
Materials	25.7%
Industrials	9.9%
Consumer Discretionary	8.1%
Consumer Staples	6.1%
Health Care	2.9%
Information Technology	0.3%
Telecommunication Services	3.2%
Financials ex Property Trusts	29.1%
Property Trusts	2.2%
Cash & Other	3.0%

Top 10 holdings

BHP Billiton Limited	12.9%
Westpac Banking Corporation	9.8%
Commonwealth Bank of Australia Ltd	5.2%
Rio Tinto Limited	4.6%
National Australia Bank Limited	4.4%
ANZ Banking Group Limited	4.3%
News Corporation Inc CDI CL B	3.3%
Telstra Corporation Limited	3.2%
Asciano Limited	3.1%
QBE Insurance Group Limited	2.9%

Market review

The strong momentum of late 2009 continued at the start of the year taking the ASX200 index close to 5000 in early January before pulling back towards 4500 then returning almost to the January high by the end of March, for a gain of just 1.3% over the quarter.

December earnings reports saw positive surprises outweighing negative ones, but guidance and outlook statements were frequently guarded. In major company news, BHP announced that it had agreed with customers to shift from annual benchmark pricing for iron ore to a quarterly. M&A activity picked up through the quarter with Arrow Energy, Macarthur Coal and Lihir Gold receiving offers.

Banks were one of the best performing sectors (+5.8%) boosted by good results, and updates which underlined that the loan loss cycle is proving milder than previously expected. IT was the top sector for the quarter, up +7.1%.

Telcos and Energy were the worst performing sectors in Q1. The fall in Telecom stocks (-12.8%), reflected regulatory concerns, with Telstra down -8.8% over the quarter, while Energy was down -1.3%, despite the rise in oil prices.

Resources (+0.3%) mirrored the fortunes of the broader market: a tough January, marked by concerns about China's need to tighten monetary policy, was followed by a recovery to the end of the quarter which reflected very strong bulk commodity pricing and a shift by the major producers to a quarterly-based pricing system for iron ore.

In economic news, the Reserve Bank of Australia surprised many forecasters by leaving the cash rate target unchanged at its February meeting but resumed the tightening cycle in March with a 25 basis point hike to 4.0% while the Australian dollar gained 2.2% against the USD over the quarter. Base metals were mostly firmer, particularly copper, despite concerns over whether China's credit policy might be tightened.

Fund performance

The portfolio underperformed its benchmark over the March quarter. The main detractor to returns was the portfolio's overweight position in QBE. The insurer lost ground following its result as its insurance margins came in below what the market was expecting. The company chose to take extra reserves against some longer term industrial claims and in our view this reflects prudence rather than any fundamental problem with the business. There is no doubt that in the short term the company is impacted by the strong Australian dollar and the very low level of global interest rates. However these factors are likely to ameliorate at some point which will lead to a significant pick up in earnings. It is effectively a cyclical stock trading at low multiples and we believe it remains good value.

Our overweight in WorleyParsons also detracted over the quarter as the Energy sector underperformed the market despite the rise in oil prices – this reflected the weight of new equity supply that has impacted the sector in the short term. Worley had downgraded its profit forecast in January partly as a result of reduced investment spend in the US power sector due to increased legislative uncertainty and ongoing funding issues, and a lag in the recovery in investment in the energy sector as industry players wait to gauge the sustainability of the recovery in oil prices. Towards the end of the quarter we saw a number of new contracts awarded to Worley, notably from the oil sands sector, which is a good lead indicator that confidence is returning and we do expect investment spend to begin to pick up.

In terms of contributors to returns over the quarter, the portfolio's overweight holding in Westpac performed well as the company raised its outlook for profits as a result of the improvement in provisions for bad and doubtful debts. In addition Asciano continued to perform well on the back of a strong first half result, with the first signs of economic recovery beginning to come through.

Strategy & outlook

The rally in equity markets off their recent lows has reinforced our view that we remain in a consolidation phase. We are now 12 months on from the turn in the markets as the potential financial crisis was averted and the domestic economy started its recovery. The market has re-rated back to its long-term valuation, contingent on a recovery in earnings of 20% in the 2011 financial year. It is the confidence in this earnings recovery which will drive the markets from here.

The key swing factors relate to the US and Chinese economies. During March there were favourable developments on both these fronts. In the US the signs are beginning to emerge that employment is improving, following a lull over the northern winter. We believe that we will see a short term step up in US activity, however we are concerned that this will be relatively short lived given the continued structural issues relating to debt in both households and at the government level. In China we got a clear message from policy makers that they will not aggressively tighten policy, reflecting their concerns about the uncertainty of the global economic environment. Our recent trip to China highlighted that underlying infrastructure investment is continuing, with the projects started last year providing plenty of work to continue growth through this year.

The domestic economy is transitioning from being driven by government stimulus and the consumer towards growth coming from investment, particularly relating to the resource sector. The terms of trade shock will generate substantial growth in the second half and in addition continued strong population growth will underpin the economy.

The February reporting season provided a direct insight into corporate performance. The sharp reactions to announcements, in both directions, highlight that at the current time the market is close to fair value and relying on a strong earnings recovery. Any signs of a delay in this are dealt with harshly by the market, however this is providing opportunities to buy into good longer-term stories that the market has lost patience with.

In this environment, the portfolio's key exposures are to the resource sector, but rather than concentrate that solely in mining stocks it is spread across a number of themes being bulks, energy and engineering services, covering companies such as Rio, Oil Search, Worley and United Group. In addition we are exposed to the 'back end' of the domestic economy, i.e. companies exposed to greater corporate spend in the supply chain such as Qantas and Asciano. Finally, we are cautious for the near term on consumer-sensitive stocks as we see the effects of rising interest rates kick in.

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For more information

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