BT Core Australian Share PST

Fact Sheet
September 2011

ABN: 71 753 267 021
FRN: R1003871

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 an overall return (before fees, expenses and taxes) that exceeds the S&P/ASX 300 Accumulation Index. 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.

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 2011)	$4 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	-10.52	-10.48	-11.65
FYDT	-10.52	-10.48	-11.65
6 months	-14.06	-13.94	-15.41
1 year (pa)	-6.97	-6.78	-8.71
2 years (pa)	-4.02	-3.72	-4.14
3 years (pa)	0.45	1.05	-0.10
5 years (pa)	0.90	1.63	-0.71

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

Asset allocation (as at 30 September 2011)

Energy	12.5%
Materials	22.9%
Industrials	12.7%
Consumer Discretionary	6.7%
Consumer Staples	5.9%
Health Care	2.5%
Information Technology	1.0%
Telecommunication Services	4.4%
Utilities	1.1%
Financials ex Property Trusts	24.8%
Property Trusts	2.1%
Cash & Other	3.4%

Top 10 holdings (as at 30 September 2011)

BHP Billiton Limited	8.4%
Westpac Banking Corporation	7.4%
National Australia Bank Limited	6.9%
Rio Tinto Limited	4.8%
Commonwealth Bank of Australia Ltd	4.5%
Telstra Corporation Limited	4.4%
Origin Energy Limited	4.0%
Asciano Limited	3.4%
Santos Limited	3.3%
Newcrest Mining Limited	3.1%

Market review

The September quarter was a very weak one for Equity markets the world over, with the MSCI World index (USD) falling by 17.1% over the period. The Australian market fared better than most with the S&P/ASX300 Accumulation index down by 11.6%, which was the worst quarter since the nadir of the crisis at the end of 2008.

The market has once again been dominated by macro events, despite the year end reporting season in August. The beginning of the period saw investor confidence significantly dented by the political stalemate in Washington around raising the debt ceiling, with a deal eventually getting approved but not without enduring reputational damage. Firmly consolidating this negative sentiment was the fact that US economic data released in early August was very weak. The idea that any weakness was being caused by temporary factors and that the recovery was still on track was firmly brushed aside as investors contemplated the reality of a persistently slower growth environment. As a result, equities across the globe sold off sharply.

In the local market, the reporting season 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% throughout the period, in what continues to be lacklustre domestic economy.

Fund performance

The portfolio had a strong quarter in a relative sense, outperforming its benchmark, consistently over the six months, one year and three year periods.

The leading contributor to performance was our overweight position in Macarthur Coal, which rallied by 36% 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 in Amcor. The global packaging company fared well relative to the market over quarter, with investors attracted to its defensive characteristics. While the company is susceptible to economic slowdown like any other industrial business, Amcor's business mix affords it some resilience from this, given the inelasticity of demand of some of the products of its customers. Specifically, a sizable proportion of its packaging clients are food and tobacco manufacturing companies, which see less drop off in demand than more discretionary type businesses.

Broadly speaking the main portfolio positions produced good results this reporting season 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 but rather by the impact of the sale of its US maintenance business, USM & 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. We believe the stock can perform, given it is winning key contracts such as with Santos & 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.

Also detracting from performance was our overweight position in Rio Tinto. The share price was driven down particularly at the end of the quarter by sentiment and worries around the future direction of iron-ore prices. While ore prices held up reasonably well over the month, iron ore stocks still suffered as concerns around a global slowdown and softer Chinese demand led investors to price in increased possibility of weaker prices.

Strategy & outlook

The key influence on the Australian share market continues to be the global macro environment. While we expect a recovery from the aggressive sell-off we saw in September, there looks to be little imminent chance of a meaningful and long lasting reduction in the levels of volatility to buoy equity investors. The key issue remains Europe and while the economic situation there remains dire, the element that continues to frighten markets the most remains a now seemingly entrenched lack of confidence in the key political protagonists agreeing on (let alone implementing) a timely and workable solution to the problem. The trend seems to be that a wave of market selling spurs the Euro-apparatchiks of Paris, Berlin and beyond into further acceptance that something more must be done. But once market fears are allayed, we then slip back into the inevitable doldrums of political tittle-tattling until the inevitable next wave of selling once again inspires some more meaningful action. And so it continues. The current focus is on an initiative to provide the under-funded European Financial Stability Facility (EFSF), with a 'first-loss guarantee' facility that would effectively insure a proportion of the face value of a sovereign bonds issue with the aim of re-instigating investor confidence in that sovereign issuer. Importantly, there are more meaningful initiatives to recapitalise European banks and clear consensus that action must be taken to avoid full contagion into the banking sector. Progress is being made but it is not quick enough to provide sustained confidence for markets.

Our portfolios have retained a defensive bias and we have core positions in solid cash generators with robust business models and quite conservative balance sheets. Valuations however have become more attractive of late and we are finding entry points in several more cyclical stocks that are well within our valuation estimates, which we believe will realise significant additional return for investors over a longer time-frame.

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For more information

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