Fact sheet

Equity Strategies

November 2017

BT Wholesale Focus Australian Share Fund

ARSN: 113 232 812

About the Fund

The BT Wholesale Focus Australian Share Fund (**Fund**) is a highly concentrated portfolio of 15-30 ASX listed stocks, developed to meet investor demand for a higher alpha, higher tracking error fund.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes), that significantly exceeds the S&P/ASX300 Accumulation Index over the medium to long term. The suggested investment timeframe is five years or more.

Investment approach

BTIM aims to add value primarily through active stock selection. The Fund is managed using the same core investment style as is applied to BTIM's other Australian equity portfolios and utilises the team's proven research and stock selection capabilities.

BTIM's investment process for shares is based on our core investment style and is unrestricted by a growth or value bias.

Fund Positioning

The Fund is designed to complement a conventional, core share portfolio by providing satellite exposure to selected Australian equities with the potential for performance enhancement.

Investment Team

BTIM's twenty-six 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 26 years' industry experience. Crispin is also Head of Equity Strategies.

Other Information

Fund size (as at 30 Nov 2017)	$340 million
Date of inception	April 2005
Minimum investment	$25,000
Buy-sell spread[1]	0.50% (0.25%/0.25%)
Distribution frequency	Half-yearly
APIR code	RFA0059AU

Investment Guidelines

Ex-ante tracking error	4.5% - 8.0%
Max absolute stock position	15%
Min/max sector position relative to index	+/- 15%
Min/Max BARRA style factors	+/- 0.5 SD
SIRA style factors	Within 1 SD
Maximum cash level	30%
Shorting	No
Borrowing	No

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.99	0.98	1.69
3 months	5.35	5.48	5.81
FYTD	6.93	7.34	6.62
6 months	9.37	10.29	6.86
1 year (pa)	18.47	20.09	14.66
2 years (pa)	12.59	13.58	12.34
3 years (pa)	10.84	12.04	8.82
5 years (pa)	13.58	14.66	10.46

Sector Allocation (as at 30 November 2017)

Energy	7.4%
Materials	21.3%
Industrials	11.3%
Consumer Discretionary	8.3%
Consumer Staples	4.4%
Health Care	6.8%
Telecommunication Services	3.7%
Utilities	0.0%
Financials ex Property Trusts	28.2%
Property Trusts	2.4%
Cash & other	6.2%

Top 10 Holdings (as at 30 November 2017)

BHP Billiton Limited	10.4%
Commonwealth Bank of Australia Ltd	9.2%
ANZ Banking Group Limited	6.9%
Qantas Airways Limited	6.5%
Westpac Banking Corporation	5.9%
CSL Limited	4.6%
Metcash Trading Limited	4.4%
Caltex Australia Limited	3.9%
Telstra Corporation Limited	3.7%
Santos Limited	3.0%

Management Costs[2]

Issuer fee[3]	0.75% pa
Performance fee[4]	15% x the Fund's performance (before fees) in excess of the performance hurdle.

[1] The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

[2] You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

[3] This is the fee we charge for overseeing the operations of the Fund and managing the assets of the Fund. The Issuer fee is paid from the assets of the Fund and is reflected in the unit price of your investment.

[4] The Fund's performance fee is 15% of the Fund's performance in excess of the performance hurdle. The performance hurdle is the performance of the benchmark (S&P/ASX 300 Accumulation Index) plus the issuer fee of 0.75% pa. If a performance fee is payable, it is charged in addition to the issuer fee. The fee is calculated each Business Day based on the investment performance and value of the Fund on that day. If we are entitled to a performance fee, it is paid to us as at 30 June each year.

Risks

An investment in the Fund involves risk, including:

- **Market risk**: The risk that factors affecting one or more countries that can influence the direction and volatility of an overall market, as opposed to security-specific risks.
- **Security specific risk**: The risks associated with an individual security.
- **Concentrated portfolio risk** - The Fund's investment strategy of seeking to generate high returns by investing in a concentrated portfolio of Australian shares makes the Fund more volatile than a diversified Australian share fund.

Please read the Fund's Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.

Market review

The domestic equity market, as measured by the S&P/ASX 300 Accumulation Index advanced 1.7% in November, with the price index surpassing the 6000 mark (albeit briefly) for the first time since 2007. Most of the heavy lifting was done by Resources (+3.2%) while Industrials (+1.4%) slightly detracted. In terms of sector performance, ten out of eleven GICS sectors finished the month in the black, with the exception of Telecoms (-1.6%) as underperformance from sector heavyweight Telstra (TLS, -3.1%) more than offset positive returns from TPG (TPM, +10.2%) and Vocus (VOC, +9.0%).

Telstra held its investor day at the beginning of the month. Management announced a decline in its 1Q18 mobile services revenue, as lower average revenue per user (ARPU) more than offset increasing post-paid subscriptions. Pressure on NBN pricing also continues to weigh on growth prospects. Near the end of the month NBN Co announced the decision to halt the rollout of the Hybrid Fibre Coaxial (HFC) network over the next six to nine months, which will delay the one-off payments Telstra receives from it. Already under pressure due to its recent cut to dividends, Telstra's share price was dragged down over the month by these updates. In contrast, both TPG (TPM, +10.2%) and Vocus (VOC, +9.0%) recorded good returns in November, continuing to bounce back from their recent lows. Outside Telecoms, index heavyweight Financials (+0.0%) finished the month flat, with Banks (-1.4%) largely to blame. Three of the Big Four, except for Commonwealth Bank (CBA, +2.3%), finished the month lower. Over the course of the month, expectations grew that the Federal government would be forced to capitulate to pressure for a Royal Commission into financial services, and was officially sealed by the announcement made by the Turnbull government at month's end. Some of the banks also had their trading updates: 1Q18 cash earnings came in higher than consensus for CBA due to better Bad and Doubtful Debts (BDD) expenses, whereas revenue growth was also upbeat on the back of an improved Net Interest Margin (NIM). Westpac's FY17 cash earnings on the other hand were 1% below consensus, led by a combination of weaker revenue growth in 2H and the fall in other operating income. NAB (NAB, -6.5%) also unveiled the spending of an additional $1.5 billion for a restructure plan over the next three years, overshadowing its FY17 cash earnings which came in just shy of consensus. The spending, alongside the guided flat dividend for FY18 will see NAB's payout ratio march towards 90%. In addition, any meaningful benefits from the restructure plan will not surface until after 2020. The stock got sold off as a result.

On the other side of the spectrum, A-REITs (+4.7%) finished the month strongly, with the rotation towards rate-sensitive stocks due to the decline in bond yields helping support the sector. A number of companies also provided some trading updates, including US/UK mall operator Westfield (WFD, +7.9%) which reported stable quarter on quarter (QoQ) rents with their occupancy rate declining to 93.4%. Scentre Group (SCG, +5.2%) also maintained its FY guidance in their Q3 trading update.

The majority of large miners all advanced higher which helped Materials (+2.0%) to be the second largest contributor to index growth over the month. Diversified mining duo BHP (BHP, + 2.9%) and Rio Tinto (RIO, +2.2%) were lifted higher by stronger oil and iron ore prices, whereas concentrated lower-grade iron ore miner Fortescue (FMG, -0.9%) dropped. The widening price discount on low-grade iron ore continues to weigh on FMG investor sentiment. Also within Materials, some buying support was evident at James Hardie (JHX, +8.1%) after it announced the all-cash acquisition of XI (DL) Holdings GmbH and its subsidiary Fermacell, Europe's number one fibre gypsum board manufacturer. JHX's 2Q18 EBIT margin also came in at 24.5% and was well received by investors. In contrast, the share price of Orica (ORI, -17.3%) plunged as the FY17 results disappointed the market. Higher gas and ammonia costs, as well as negative price resets of contracts, saw ORI's NPAT miss the consensus. It was the largest performance detractor within Materials over the month.

Finally on global macro development, broad thematics offered less guidance to global bond markets in November as region-specific factors played a greater role. In the US, the Federal Reserve kept rates on hold (as anticipated) and rhetoric during the period helped firm expectations for a December rate hike. Jerome Powell's nomination as Fed Chair had little impact on markets and suggested a smooth transition for monetary policy. Progress on US tax reform had a more material impact in bolstering market sentiment. Meanwhile in Europe, ECB communications indicated risks to growth are evident, and reinforced the need for patience with policy normalisation in light of subdued inflation. Data in the region showed leading indicators continued to strengthen and euro-area GDP growth forecasts were revised higher. However, political uncertainties weighed on risk appetite as the Catalonia secession debate carried on, Merkel's coalition dissolved and Brexit complications endured. In contrast, there were few disruptive developments in Asia, which left the post-Abe re-election run for Japanese equities to continue. Chinese data was also reasonable with the Caixin and Services PMIs printing at 51 and 51.2 respectively.

Fund performance

The Fund underperformed its benchmark over the month of November. The Fund made absolute gains in November, following on from a strong October. It gave back some of its recent strong run of outperformance versus the index, however it remains well ahead over the twelve-month period. It was a pullback from several of the fund's strongest performers over the past year which dragged on performance this month, with Qantas, Aristocrat Leisure and Caltex Australia providing cases in point. This effect was mitigated to an extent by good performance from stocks such as Nine Entertainment, Janus Henderson, and CYBG.

Contributors

Underweight NAB

NAB (NAB, -6.5%) held its 2H trading update over the month, which saw FY17 cash earnings come in a touch below consensus, while the 2H17 dividend was kept flat at 99 cents (a 79% payout ratio). Overshadowing the results was the unveiling of $1.5 billion in new spending on a restructure plan over the next three years. This will translate into a large restructuring provision for FY18, and will see the payout ratio increase towards 90% alongside the guided flat dividend. As such, investors sold off the stock following the trading update. NAB is the largest underweight amongst the 'Big Four' in our portfolio, while ANZ remains our preferred exposure.

Overweight Santos

Oil and gas company, Santos (STO, +12.9%) held its strategy day in November to update guidance for FY17 and FY18. Their forecast free cash flow breakeven price now sits at US$32/bbl, with an ongoing target of $US 35-40/bbl. We believe the company has done well in cost-out on the East coast, and management is also seeing Santos becoming an onshore provider with structurally lower costs in comparison to peers. We also think the company's FY18 guidance is somewhat conservative, with good projects like the PNG LNG and the Darwin LNG backfill on hand. While the stock has run hard recently on the back of a rising global oil price, we still believe there is large enough upside potential from Santos for us to uphold our conviction, given the quality of its assets portfolio. The recent talk of a potential takeover by Harbour Energy – even if it does not eventuate – is a good reminder of the intrinsic value of those assets.

Detractors

Overweight Qantas

In November, Qantas (QAN) gave back some of the recent strong gains and finished the month with a 7.8% loss. The recent surge in oil prices, due in part to the extended production curb by OPEC and Russia, weighed on the share price. We remain mindful that if oil prices remain elevated for a sustained period, it can begin to feed through into increased costs and remove some of the expected upside from here. However, we are not currently at that point and QAN's hedging immunises it against a significant surge in fuel costs in the near term. It remains the largest overweight in our portfolio.

Overweight Aristocrat

Gaming company Aristocrat (ALL, - 6.6%) released its FY17 results in November, which came in as a slight 'beat' – FY17 NPAT of $543m was above the consensus of $534m, due to better performance from 'Rest of World', while cash conversion was also strong at 97%. The otherwise solid results were however overshadowed by the company's announcement of its acquisition of American social gaming company Big Fish, which saw its share price respond negatively. The company's venturing into the relatively unknown area of social gaming is seen by some investors as being outside its core expertise, and as less predictable. In combination with the acquisition of Plarium in August, the social gaming/online casino segment of its business will now be responsible for roughly 20-25% of the company's earnings. ALL's strategic motivation is understandable, on the view that the demographic profile of slot-machine gamers is aging and the company wants to establish itself among the young age cohorts. The risk here is that the shelf life of a successful social game tends to be relatively short, with a high degree of unpredictability around which games gain traction and which do not. The price paid was reasonable and Big Fish is making decent earnings, while ALL's underlying business remains strong and at 18x next year's price/earnings.

Strategy & outlook

Resources outperformed the broader index in November, including the fund's key position in BHP. Key commodity prices have remained resilient in the face of an expected slowdown in demand from China as steel mills close for the winter. One of our key observations from a research trip to China this month is the government's increased focus on ensuring compliance with environmental regulations, resulting in strict controls over steel production and an increase in factory shutdowns. This has twin benefits. First, it helps address air quality, which has become a point of acute social concern in recent years. Second, it reduces supply, thereby supporting steel prices and allowing state-owned mills to be profitable enough to service their substantial debt burden. One implication of this is that mills are focused on producing as much as they can – and minimising pollution – when they are allowed to operate. This means that the higher grade ore that BHP and Rio Tinto supplies is in greater demand than the lower grade ore of Fortescue Metals. Low grade ore's wide discount to the benchmark price suggests that much of the seasonal reduction in demand is being felt here. Outside of this issue, we noted that while the traditional property market is cooling under government pressure, demand for steel remains reasonable in other parts of the economy and the development of a build-to-lease market can also provide an avenue for demand. On this basis, we remain reasonably sanguine on commodity prices and the outlook for Australian resources in general.

November also saw Amazon retail inch closer to its full launch in Australia. We believe Amazon's arrival will pose a significant challenge to traditional domestic brick-and-mortar retail, one that exacerbates an already difficult environment for incumbents. That said, the experience in other markets such as the US suggests the traditional retail sector will see winners and losers from consolidation, rather than total obliteration. Given the sector has sold off significantly, to historically low valuations, we see the opportunity to identify companies which we feel have the ability to respond to this environment and benefit from weaker competition falling by the wayside. In this vein, we see opportunities in JB Hi-Fi and mall operator Scentre Group.