

→ BT Wholesale MidCap Fund

ARSN: 130 466 581

About the Fund

The BT Wholesale MidCap Fund (**Fund**) is an actively managed portfolio of approximately 40 – 60 stocks in the MidCap universe. Investors benefit from the stock selection experience of the BTIM Australian Equities team, gaining access to a diversified portfolio of BTIM's best stock ideas in this part of the market capitalisation spectrum.

The MidCap universe generally comprises companies ranked between 51 and 150 of the S&P/ASX 200 Index. The Fund may also invest in equivalent companies listed on the New Zealand Stock Exchange.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the BT MidCap Custom Index over the medium to long term. The suggested investment timeframe is five years or more.

Investment Strategy

BTIM is an active manager of MidCaps employing a bottom-up valuation process. The investment strategy follows the same investment philosophy and process as applied throughout the stable of BTIM Australian equities funds. This allows us to capitalise on our strengths and investment style.

Fund Positioning

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

Investment Team

BTIM's Equities Strategies boutique is headed up by Crispin Murray who has extensive experience and a strong record in equities research. Andrew Waddington is the portfolio manager for the Fund.

A combination of the Australian equities large cap and small cap teams' research is used to construct the BT Wholesale MidCap Fund.

Investment Guidelines

Investable universe	ASX and NZX listed and soon to be listed companies, generally with a market capitalisation of A\$0.5 billion to A\$5 billion; derivatives; cash
Investment ranges	Australian shares 80 - 100% New Zealand shares 0 - 10% Cash 0 - 20%
Ex-ante tracking error	3 – 8%
Number of stocks	Typically 40 – 60
Absolute stock position	15%
Maximum active stock position	+/- 5% ¹
Maximum active sector position relative to index	+/- 10% ¹

¹ compared to benchmark.

Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	2.63	2.59	3.00
3 months	9.57	9.71	10.04
6 months	16.88	17.44	12.83
1 year (pa)	25.25	26.42	24.06
3 years (pa)	16.87	18.18	16.41
5 years (pa)	16.81	18.53	14.40
7 years (pa)	12.46	14.26	9.50
Since Inception (pa)	10.82	13.07	5.95

Sector Allocation (as at 30 November 2017)

Energy	2.9%
Materials	25.8%
Industrials	9.7%
Consumer Discretionary	16.8%
Consumer Staples	7.3%
Health Care	5.6%
Information Technology	5.1%
Telecommunication Services	0.0%
Utilities	0.0%
Financials ex Property Trusts	10.4%
Property Trusts	2.7%
Cash & other	13.7%

Top 10 Holdings (as at 30 November 2017)

Resmed Inc	5.6%
Metcash Trading Limited	4.3%
JB Hi-Fi Limited	4.1%
Boral Limited	4.0%
Bluescope Steel Limited	3.7%
Iluka Resources Limited	3.1%
CYBG PLC	3.0%
Mineral Resources Limited	3.0%
Orora Limited	2.7%
Bendigo & Adelaide Bank Limited	2.7%

The MidCap Opportunity

MidCap companies have assessed valuations which, over rolling investment cycles, have the potential to reap the benefits of capital expenditure, business expansion and acquisition based strategies.

Compared with small cap stocks, MidCaps generally have stronger balance sheets, deeper capital reserves and an attractive growth trajectory, as illustrated in the diagram below. Compared to large caps, MidCap stocks tend to be under-researched and under-owned.



Market capitalisation increasing →

Source: BTIM

Other Information

Fund size (as at 30 Nov 2017)	\$421 million
Date of inception	June 2008
Minimum investment	\$25,000
Buy-sell spread ²	0.50% (0.25%/0.25%)
Distribution frequency	Quarterly
APIR code	BTA0313AU

² The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

Management Costs³

Issuer fee ⁴	0.90% p.a.
Performance fee ⁵	20% x the Fund's performance (before fees) in excess of the performance hurdle

³ You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

⁴ 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.

⁵ The Fund's performance fee is 20% of the Fund's performance in excess of the performance hurdle. The performance hurdle is the performance of the benchmark (BT MidCap Custom Index) plus the issuer fee of 0.90% 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.

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

Market review

It was another good month for the S&P/ASX 51-150 Accumulation index, which gained 3% in November. All the sectors finished the month in the black, except for Consumer Staples which recorded a loss of 0.7%. Sector heavyweight A2 Milk (A2M, -0.4%) took a respite from its recent rallies, which wasn't helpful. Moreover, losses from Coca-Cola Amatil (CCL, -2.6%) and Graincorp (GNC, -8.7%) also created drags on the sector's performance: CCL had its Investor Day during the month which failed to excite investors. The company flagged a ~\$40m decrease in its FY18 EBIT estimate as future savings are invested into the business earlier. It also noted that macro-economic backdrop remains challenging in Indonesia. Turning to Graincorp, its FY17 results disappointed the market: both headline sales and underlying EBITDA came in below consensus. Management also noted a considerable decline in grain production across eastern Australian for FY18, due to prolonged dry weather across the grain growing regions. The stock got sold off consequently.

On the other side of the spectrum, index heavyweight Materials (+3.1%) contributed the most to the index's headline performance. There are a few standouts worth noting within the sector over the month, including Boral (BLD, +5.2%), Bluescope (BSL, +6.0%), Northern Star (NST, +11.7%) and Mineral Resources (MIN, +12.3%). Construction material manufacturer, Boral gave updates on its FY18 outlook at the AGM early in the month, which saw management becoming more upbeat with the FY18 earnings growth for BLD's Australia business. The increasing prospect of a tax reform in the US also created a tailwind to Boral, which derives close to a quarter of its revenues from the US. Also benefiting from the macro tailwind was lithium/iron ore miner, Mineral Resources. The underpinning demand for lithium-ion batteries from the flourishing EV industry, mainly in the EU and China appears to be genuine, at least for the short-term. In addition, MIN repeated its FY18 guidance of maintaining minimum EBITDA of A\$500M at its AGM during the month.

Performance from Financials was also strong across the board, with all the regional banks, insurers and asset managers finishing the month in the black. The official announcement of the Royal Commission fails to dent investor confidence further for the regional banks: Bendigo and Adelaide bank (BEN, +2.3%) provided trading update at its AGM on the turn of the October, which saw its share price decline and trade sideways for some time in early November, before bouncing back towards the end of the month. Also providing trade updates during the month was the UK/US asset manager, Janus Henderson Group (JHG, +8.6%): company net flows turned into positive with net outflows from Intech subsiding, in spite of the expected negative impact due to the Northern hemisphere holiday season. Funds' performance was also getting better.

Finally on global macro development, broad thematic 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 firmed expectations for a December hike. 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 communication indicated upside risks to growth, but reinforced the need for patience with policy normalisation in light of subdued inflation. Data in the region reflected this sentiment with continued strength in leading indicators and a revision higher to euro-area GDP growth. 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 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 portfolio's strongest performers over the past year which dragged on performance this month; Qantas, Aristocrat Leisure and ALS Limited providing cases in point. This effect was mitigated to an extent by good performance from stocks such as Mineral Resources and News Corporation.

Mineral Resources operates an iron ore crushing business as well as a lithium mine in Western Australia. Lithium-related stocks form a tiny part of the market, with Mineral Resources – now among the world's largest producers of lithium, only 0.17% of the S&P/ASX 300. There has been strong focus on this segment in recent times in relation to the demand for batteries for electric vehicles. One observation from a research trip to China this month is that the government incentive policy to encourage EV sales remains strong, which can continue to underpin the theme. Buying an EV in Beijing, for example, exempts the owner from having to participate in the lottery to buy a licence plate. However it is important to understand that this also remains the key risk; without policy support the economic argument for EVs in China is not strong. The provision of charging stations in apartment-heavy cities, for examples, presents significant challenges. This reliance on policy means the range of forecasts for ultimate EV demand is very wide, implying a degree of risk and the sense that the drivers of growth are not well understood. Nevertheless, at this point we believe that lithium miners which have managed to secure first mover advantage, such as Mineral Resources, have the ability to do well.

Contributors

Mineral Resources, MIN, overweight, +12.3%

Euphoria stemming from the electric vehicle (EV) theme continued to benefit the lithium miners, which saw lithium/iron ore miner Mineral Resources (MIN) advance further during the month, bringing its 6-month return to 98%. The underpinning demand for lithium-ion batteries from the flourishing EV industry, mainly in the EU and China appears to be genuine, at least for the short-term. In addition, MIN repeated its FY18 guidance of maintaining minimum EBITDA of A\$500M at its AGM during the month.

Webjet, WEB, not held, -17.7%

Webjet is a travel booking website with both domestic and international operations. Its strategy update disappointed the market as management indicated that FY18 EBITDA will come in below the market's expectation. This is driven largely by one-off issues, while the underlying business retains significant growth potential via industry consolidation and a push in to more business-to-business opportunities.

Detractors

ALS Limited, ALQ, overweight, -12.7%

ALS Ltd. provides testing services which focuses manufacturing and marketing commercial chemicals and industrial cleaning agents throughout Australia and the Pacific. The company presented its half year result in November – whilst the 1H2018 earnings of \$70.1m was largely in line with consensus, the whole year guidance of \$135-145m disappointed. Cash conversion was also weak at 63% due to the increasing working capital. Following the recent de-rating, ALQ is now trading at a more reasonable valuation of 21x NTM PE. It has exposure to a number of things that we like, including the attractive industry structure and cyclical tailwinds from increasing global exploration spend.

Qantas Airways, QAN, overweight, -7.8%

National airliner Qantas (QAN) gave back some of the recent gains in November and finished the month with a 7.8% loss. The surging oil price lately due to the extended production curb by the OPEC and Russia weighed on the company. 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.

Market outlook

The midcap sector's valuation remains at a significant premium to its long-term average and, even though there have been a number of high profile stumbles from erstwhile market "darlings" in the last 12 months, there are still a significant number of stocks in the sector trading at elevated valuations. The sector more broadly continues to offer a steady pipeline of good opportunities, however the need to be selective remains imperative. At this point our key holdings include; Metcash, where we believe the market is undervaluing the supermarkets business on concerns over the broader sector; Resmed, a world leader in device to treat sleep disorders; and JB Hi-Fi, which we think is well positioned to benefit from consolidation in the retail sector as Amazon's entry puts disproportionate pressure on the weaker players.

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