

BT Partner Australian Shares Growth (Schroders)

March 2012



BT Partner Funds – BT presents the world’s best equity style managers

The BT Partner Funds proposition is to select and continuously monitor the world’s best equity investments managers, domestically and from around the world, in the three style classifications of Growth, Value and Core.

Fund objective

The Fund aims to provide an overall return that exceeds its benchmark over the recommended investment timeframe. This Fund invests in Australian shares with a growth investment style, and is currently managed by Schroders.

About growth investment style

Growth investment managers look for strong growth potential, and believe the company’s value will increase as the company grows. They purchase shares of companies they believe will achieve strong earnings growth in the future.

About Schroders

Schroders is part of the Schroders Group which is one of the largest and most internationally diverse independent investment managers, providing investment management from offices located in 26 countries.

Schroders:

- is an active manager with a growth investment style
- has a very clear investment process that targets companies with high quality growth prospects rather than apparent growth from financial engineering or cyclical conditions
- subject both companies and industries to a strategic assessment to establish growth characteristics. Analysts then complete a full valuation of the company and classify it into one of four categories reflecting growth attributes. The stock classification guidelines set a tight framework for portfolio construction, ensuring their growth style is maintained.
- has a large and stable Australian equities team lead by an experienced portfolio manager, Martin Conlon.
- believes the market fundamentally mis-prices long term growth opportunities in an exploitable way
- has a well resourced and experienced team comprised of over 230 investment professionals across the world.

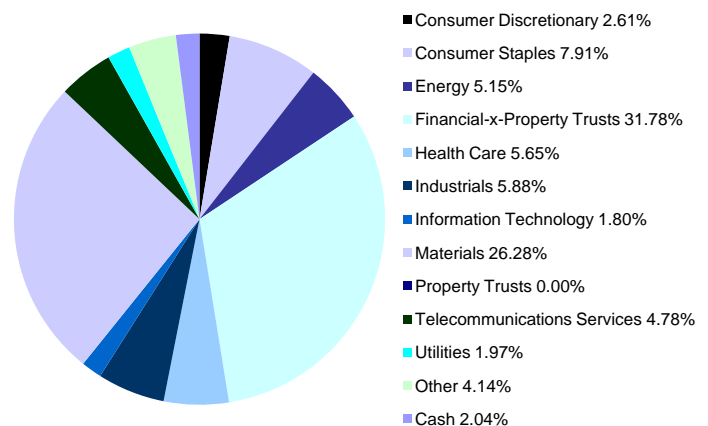
Fund facts

Minimum suggested investment period	5 years
Date of inception	March 2003
Risk profile	Dynamic
Product size (\$m)	\$46.4
Management fee	1.95% pa
APIR code	BTA0073AU

Performance vs benchmark (% pa)

(%) pa	3 months	1 year	3 years	5 years	Since incept.
Total returns (pre-fee)	8.03	-3.53	14.76	0.88	11.35
Total returns (post-fee)	7.51	-5.40	12.54	-1.07	9.20
S&P/ASX 300	8.58	-6.27	11.35	-2.10	9.26

Sector allocation



Manager history

Manager	Appointed	Replaced
Schroder Investment Management	September 2004	
Alliance Capital	November 2002	September 2004

Commentary from Schroders

Contributors

After a horrid prior quarter where QBE was beset by the revelation of weaker results and management change, QBE performed better this quarter in line with many global financial stocks and having completed the raising of \$450m. The opacity of QBE's earnings are always slightly concerning to us, but nonetheless it has had a consistent record of generating good returns on capital. Whilst Newcrest benefited from the flight to gold through recent years, the past year has been a less joyous one for shareholders and hence the fund has benefited from not holding it. As a commodity whose price is not driven by end use demand and mine supply, and whose annual production represents less than 2% of the above ground stockpile, trying to build a credible forecast of gold price based upon traditional fundamental models is flawed. Theories of gold as money seem to attach its relative value to almost every plausible outcome from inflation, deflation, fear and diversification away from irresponsible fiat based monetary systems. In estimating the value of gold equities, we assume a long run gold price that is closer to US\$1,000 per ounce from 2014 onwards. Stockland's downgraded guidance was attributed to deterioration in residential sales rates and wet weather delays for two of its NSW projects. We continue to see downside to expectations for the returns able to be generated by land owners and developers as the Australian economy delivers.

Detractors

Whilst many resource names struggled through the first quarter, Fortescue outperformed aggressively as corporate interest from Chinese buyers continues to be the source of speculation. Now trading at 11x a fresh book value, which is a large multiple attaching to lower cost, longer life, diversified miners (such as BHP at 3x book), we continue to not hold Fortescue on valuation grounds. Primary Healthcare has been a serial underperformer since acquiring Symbion in 2008, notwithstanding its asset base of operating medical centres and providing pathology and diagnostic imaging services appeals as being economically robust. The recent appointment of the founder's sons to the Board has not assisted our investment case, and allied with a disappointing result the share price had another poor quarter. Whilst the management team and company deserve credit for their achievements to date, we are reluctant to pay the premium presently ascribed by the market for this business. Longer term headwinds in the form of excess supply of retail space in the US market and an over-gearred consumer in each of WDC's major markets (Aus, USA and UK) also make us cautious.

Outlook from Schroders

Growth in the developed world is anaemic and slowing, with demand weakening and the financial system clearly needing further recapitalisation. The major themes affecting the Australian markets of too much debt, albeit concentrated in the financial and household sectors, aging demographics, and commodity prices continuing to trade at levels well above what we consider long term sustainable prices, all remain on foot, and increasingly imprint themselves in performance. Our portfolio is positioned accordingly, with a bias to industrials with earnings exposure to economies where we believe upside to mid cycle exists more than can be said to be the case in Australia or with exposure to domestic industries where cyclical debasing has already occurred, such as Pathology. It remains imprudent for us to ignore what we see as these ongoing risks, which only become amplified the longer they remain unaddressed. This balancing act has dominated the past several years and will continue to dictate our assessment of not just future likely returns, but also risks, in the portfolio.

Top 10 holdings

Stock	Weight %
BHP Billiton Limited	11.7
National Australia Bank	7.3
Westpac Banking Corp	6.8
Commonwealth Bank of Aust	6.5
ANZ Banking Group	6.3
Woolworths Limited	5.4
Telstra Corporation Ltd	4.0
Brambles Limited	3.1
Rio Tinto	3.0
James Hardie Industries	2.7

Key performance contributors and detractors

Key performers	Contribution %
BHP Billiton Limited	0.25
QBE Insurance Group Limited	0.23
Newcrest Mining Limited	0.18
Stockland	0.13
Rio Tinto Limited	0.12

Key detractors	Detraction %
Fortescue Metals Group Ltd	-0.22
Primary Health Care Limited	-0.20
Westfield Group	-0.13
Brambles Limited	-0.13
Macquarie Group Limited	-0.12



What to do next

- See your adviser
- Visit www.bt.com.au
- Call 1800 813 886

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