

We have made some exciting changes to the Australian Shares manager line-up in the BT Multi-manager Funds. The changes involve the appointment of two new high quality managers which will be funded through the removal of one manager as well as reductions in allocations to two remaining managers.

The BT Multi-manager Funds

The BT Multi-manager Funds' value proposition is to provide you with continuous exposure to the best fund managers from around the world in each asset class and to mix them in a way that enables you to enjoy the best possible returns for your chosen risk profile. You gain an investment edge through the double layer of research provided by BT's specialist Investment Solutions research team and the manager research team of Intech Investment Consultants. To gain entry into the Multi-manager Funds, a fund manager needs to obtain a top rating from both research teams. For global fund managers a third layer of research is provided by leading US investment consultant, CRA Rogers Casey.

Once selected, the managers are subject to ongoing review from each of the teams, including several face-to-face meetings each year with the investment teams themselves. Should a manager no longer qualify for a top rating, we will change the manager for you, with no action required on your part. This means that you are always invested with top rated managers.

BT Multi-manager Funds currently give you exposure to 23 different managers across eight different asset classes.

What is the Change?

We have appointed Challenger Financial Services and BT Financial Group to the Australian Equity portfolio and we have removed Alpha Investment Management.

This change in the Australian Shares portfolio has been prompted by organizational change at Alpha Investment Management. We originally picked Alpha based on the portfolio management skills of managing director, Peter Apostolopoulos. However, at the end of September Peter decided to restructure his business and himself concentrate on the company's fledgling long-short fund.

While we and Intech have respect for the remaining investment team, Alpha's Core process does not command a top rating without Peter's involvement. Therefore we believe it is in the best interests of the Funds to move Alpha's allocation elsewhere.

An integral part of our process is to have reserve managers in place so that we can make a change swiftly. Thus we have been able to move extremely quickly to appoint Challenger Financial Services and BT's Australian Equity team as new investment managers in the Funds.

Why Challenger?

Challenger Financial Services was born out of the merger between Challenger International and CPH Investment Corporation in mid 2003. This marked the beginning of an aggressive restructure of its funds management business.

Peter Greentree was recruited in February 2004 and given the mandate of assembling the best domestic equity analyst team in Australia. He accomplished this within a short space of time and since then the team has gelled into a quality unit. Its strength is its depth of analyst experience and strong team approach which leads to a collegiate culture amongst the analysts

Challenger considers a range of both value and growth factors in constructing its portfolio which means that the portfolio will not exhibit large biases to either style. Its approach to identifying mis-priced stocks relative to their fundamental valuation is simple and has already demonstrated considerable success.

Challenger's process aims to deliver a target excess return of 3% p.a. above the benchmark S&P / ASX 300 Accumulation Index. While its Australian equity funds under management currently remain low, Challenger has committed to closing to new clients before becoming too big. This will ensure that it will never be constrained from delivering its target level of return.

Why BT?

BT's Australian Equities team has been revitalized since the appointment of Crispin Murray in January 2003. Crispin has been supported by a large analyst team which contains a powerful blend of experienced and younger analysts. The strength of the team lies in its disciplined process and strong culture of accountability. This is coupled with an impressive level of proprietary research likely to give it an edge over its peers. There is a careful emphasis on written research, measurement of the analysts' recommendations and a strong link to performance.

BT's research focuses on valuation, financial risk, business franchise and management quality. Its strong quantitative overlay in its portfolio construction process ensures that its portfolio will not exhibit large style biases.

The team has been extremely successful and has consistently delivered above-benchmark performance. This has helped foster a great spirit and stability within the team.

Testament to its quality as an investment manager is its recent award by Standard & Poor's as 2006 Australian Equities Fund Manager of the Year, and Intech's awarding of a coveted BUY rating in July this year.

BT's process aims to deliver a target excess return of 3% p.a. above the benchmark S&P/ASX 300 Accumulation Index. Like Challenger, BT has also committed to closing to new clients before it becomes too big so that it can maintain this delivery of returns.

What the market thinks

It is clear that we are not alone in recognizing both fund managers' qualities. They have received the following ratings from retail researchers:

Research House	Challenger	BT
Lonsec	Recommended	Highly recommended
Morningstar	5 stars	5 stars
InvestorWeb	Strong Buy	Strong Buy
S&P	4 stars	5 stars Fund Manager of the Year

Impact of Change

The new structure within Australian Equities has been configured to bring optimal diversification benefits from using managers with differentiated processes. To this end we have partly funded Challenger and BT by re-allocating from Schrodgers and GMO. We employed a transition manager to effect the change as efficiently as possible, so as to minimize the cost to the Fund.

The following table shows the manager allocations before and after the change:

Manager	Before	After	Change
Alpha	15%	-	-15%
Bernstein	20%	20%	-
BT	-	10%	+10%
Challenger	-	15%	+15%
GMO	25%	20%	-5%
Highbridge	15%	15%	-
Schrodgers	25%	20%	-5%



More information?

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