Invest to Grow

Strategy Booklet

Prepare for the best.

BT

Why invest to grow?

There are many ways an investor can grow their wealth. Depending on an investor's objective, time horizon, and risk appetite, they can choose to invest in any of the four mainstream investment classes (or a mix of those asset classes). These are cash, fixed interest (bonds), property and equities.

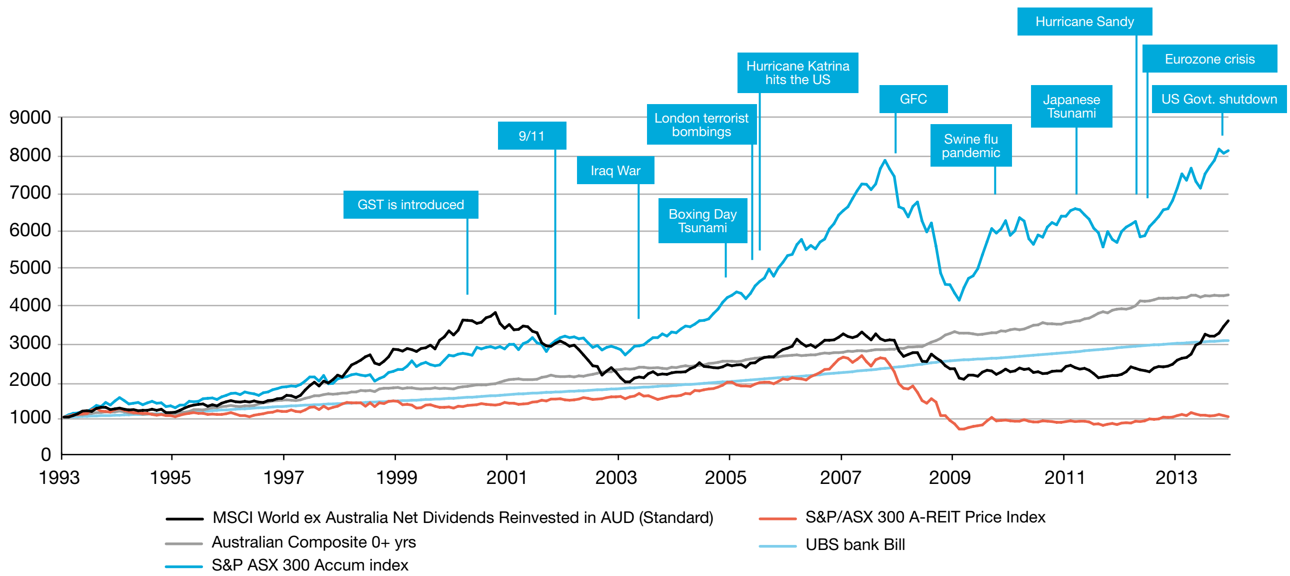
Over the longer term, growth assets such as equities have tended to generate higher returns and capital growth than cash and fixed interest investments.

Looking at the historical performance of growth assets over the long term, both International and Australian equities outperformed all other major asset classes. During the 20-year period to December 2013, despite many major setbacks, including the Global Financial Crisis of 2008, Australian equities produced an annualised return of 9.10% while the 'safer' asset class of Australian cash produced the lowest return of 5.5%.

PERFORMANCE	AUST CASH	AUST FIXED INTEREST	INT'L FIXED INTEREST	AUST SHARES	INT'L SHARES	AUST PROPERTY SECURITIES
Annualised return over 10 years (% pa)	5.2	6.2	7.5	9.6	8.6	2.4
Annualised return over 20 years (% pa)	5.5	6.8	7.9	9.1	8.6	6.5

Saving or Investing?

This chart shows the growth of $1000 invested since January 1993 in cash, Australian bonds, Australian listed property, Australian and international shares.



Ways to invest to grow

Using a Managed Account to grow

A managed account gives investors the ability to delegate the day-to-day investment decisions to professional investment managers, whilst retaining beneficial ownership of the underlying securities that make up the portfolio. There are two main types of managed account structures.

1. Separately Managed Account (SMA)

An SMA can be structured as a managed investment scheme. If so, investment decisions are made in line with a specific investment mandate. This typically revolves around common investment objectives such as generating growth, yield or a combination of both. Trades are executed at a model level such that 'one size fits all'. Depending on the structure of the SMA, the underlying investments may be held discretely for each investor, so they retain the beneficial ownership of the assets along with any associated tax benefits.

2. Individually Managed Account (IMA)

An IMA, on the other hand, can be tailored to the individual's unique circumstances, such as implementing stock or sector restrictions that suit an individual client. This added flexibility requires a portfolio manager to execute individual trades on the client's behalf. The additional cost of running an IMA often means that a higher initial investment is required, relative to an SMA. Individual management of the portfolio can also often lead to the ability to an enhanced after-tax return. This can be achieved by employing one or more strategies such as holding stocks for a period greater than twelve months or increasing stock weightings in the lead up to franked distributions (eg dividends and off-market buybacks).

Managed Accounts vs Managed Funds

The most significant difference between a managed account and a managed fund is the ownership structure. In a managed fund, an investor owns units in a trust whereas under a managed account, the investor retains a segregated beneficial ownership of the underlying stock from a tax perspective. This differentiation delivers a number of benefits to those investors who opt for a managed account, including:

1. Transparency

- Investors can see the underlying stocks that make up their investment. Furthermore, most managed account providers offer individual taxation and performance reports so investors can closely monitor their own positions.
- Fees are typically segregated into administration, investment and transactional, providing a clear view of the costs of your investment.

2. Tax effectiveness

- Investors are taxed only on their individual income and capital gains generated by their holdings. A managed account investor is not exposed to tax liabilities generated by other investors.
- Dividends and franking credits are distributed directly to the investor
- Depending on the managed account product, investors can potentially select from a number of tax accounting methods in the treatment of Capital Gains Tax (CGT). This can be structured to suit their individual circumstances (ie maximise/minimise capital gains and losses).

3. Timing

- The discretionary nature allows for efficient execution of trades. This means investment strategy changes can be executed quickly.
- Under an IMA structure, the investor can nominate a 'bed-down' period so that the initial investment is placed to market over a specified period. This allows the portfolio manager to capitalise on market movements.

4. Flexibility

- Depending on the managed account product chosen, investors can place 'Do not buy' and 'Do not sell' restrictions on certain stocks or sectors to align with ethical considerations or investment ideas.
- An investor can also arrange for shares to be transferred into and out of their managed account at minimal cost (if any). Assuming there is no change in beneficial ownership, assets can be transferred without triggering a CGT event.

5. Liquidity

- Investor's funds are less likely to be frozen in the event of adverse market movements. Assuming a stock has not been suspended from trading, investors can redeem their funds on a T+3 settlement basis.

As with any investment, a managed account is subject to investment risk and various other risks including the possibility of adverse regulatory changes and operational risk. Please see the relevant Product Disclosure Statement for further details.

Who are Managed Accounts suitable for?

Managed accounts are suitable for a wide range of investors, ranging from starters to sophisticated investors. They are well suited to SMSFs.

Investors in managed accounts are typically attracted by the transparency, professional management and tax effectiveness of the product.

Strategies for invest to grow

Case study 1: Investing in a Managed Account to grow capital

Don and Maree are in their mid-30s and are currently invested directly into the share market through holdings in some ASX20 companies they have held for a number of years. One of their holdings is in the company Maree works for and due to her employment contract she is not allowed to trade this stock. Their investment is worth $35,000. They have a savings account with a balance of $20,000.

Don and Maree are looking to achieve capital growth by investing in a managed account and having their investment professionally managed. They want to contribute their current investments to their investment in the managed account.

Investment objective

To provide a strong return over the long term comprised of mainly capital growth with a secondary focus on tax-effective income.

Implementation

Don and Maree can achieve their objectives by investing in a managed account model designed to achieve mainly capital growth. The managed account structure will allow them to transfer in their current holdings and cash savings and to specify a restriction on the stock they are not allowed to trade. The table below provides a summary of the investment performance of the portfolio, had Don and Maree invested their funds in a BT Elect Core Portfolio at 1 January 2011.

SUMMARY		
Transfer in of stocks	$35,000	
Cash	$20,000	
Total contribution	**$55,000**	
Capital growth	$5,555	10.01%*
Fees	$635.55**	1.10%

* Performance of the BT Elect Core portfolio over the past 3 years as at 31 December 2013. Past performance is not a reliable indicator of future performance.
** Assuming linear growth of the portfolio.

Conclusion

By investing in a managed account Don and Maree achieve their capital growth objectives without having to monitor and manage their portfolio on a regular basis. They can use their existing investment and avoid capital gains realisation by transferring in their current investments. They are also able to preserve the holdings in the stock of Maree's employer.

Managing risk

Like any investment, investing in a managed account involves risks. The value of securities may not go up. Taxation consequences should be considered and prospective investors should refer to the tax section in the PDS and seek independent professional tax advice.

Case Study 2: Combining Managed Account with borrowing

Keith is a busy professional who doesn't have the time to pick stocks. He wants to invest into a high-yield portfolio and service his interest costs through his dividend income. He is looking to invest $100k, with only $70k capital outlay. Keith decides to borrow $30,000 and invests in the BT Elect Tax-Efficient model portfolio.

Investment objective

To provide a strong return over the long term comprised of capital growth and income. The primary focus of the portfolio is on providing a tax-effective return with added emphasis on income. The table below provides an overview of the funding for Keith's investment and how this impacts on the cash flow.

A summary of Keith's cash flow position is below:

Equity	$70,000	
Loan	$30,000	
Total amount	**$100,000**	
Income generated from portfolio	$4,500	4.50%
Less		
Management fees	$1,100	1.10%
Interest cost	$2,361	7.87%
Net cash flow	**$1,039**	
Potential franking credits	$1,697	88.00%

1. Benchmark is S&P/ASX 200 (ex-LPT) Accumulation Index
2. The income and franking credits are a current reflection of the BT Elect Tax-Efficient model as of the 31st of December 2013 and are subject to change. Past performance is not a reliable indicator of future performance.
3. This example assumes that Keith made the application through a Westpac Financial Planner and no on-going advice or contribution fees are charged.
4. Interest rate applicable on the Loan (7.87% pa) is current as at 11 March 2014 but is subject to change.

Conclusion

Keith achieves his investment objective, with the high yield model portfolio paying the interest on his margin loan. Keith is also able to benefit from the associated franking credits.

The example above combines investment and borrowing. Borrowing enhances capital gains and losses. A greater exposure to the share market for the same capital outlay can also create opportunities for diversification. The key aim is to achieve a return on investment that is greater than the after-tax cost of the loan.

Managing risk

Like any investment, investing in a managed account involves risks. The value of securities may not go up, or, if they go up, the increase in value may not be sufficient to cover the costs of the investment. Taxation consequences should be considered and prospective investors should refer to the tax section in the PDS and seek independent professional tax advice.

Strategies for invest to grow (cont.)

Case study 3: A diversification strategy on a single platform

Denise and Rob are in their mid-50s and have recently sold a property. They have an investible amount of $600,000. They are looking to invest across a number of asset classes in order to spread their risk. They would like to invest half of their investment in Australian shares, and would like a clear view of their holdings as they like to follow the sharemarket. They look to invest the remainder in managed funds across international fixed interest, international equities and Australian real estate. Ideally they want all their investments on a single platform so they have a consolidated view.

Investment objective

Achieve long term growth whilst managing investment risk through diversification.

Conclusion

All of these investments are accessed through the BT Aspire Managed Account. Denise and Rob have been able to diversify their portfolio across a range of asset classes, whilst also having transparency on their holdings in Australian equities.

Their entire investment is administered on a single platform and they receive consolidated reporting on a regular basis (including annual tax reporting).

Managing risk

Like any investment, investing in a managed accounts involves risks. The value of securities may not go up. Taxation consequences should be considered and prospective investors should refer to the tax section in the PDS and seek independent professional tax advice.

Investment summary

The table below provides an overview of how Denise and Rob's investment could be allocated and how that portfolio would have performed during 2013.

	ASSET ALLOCATION	INVESTMENT	VALUE 1/1/2013	PERFORMANCE (PRE FEES)*	GROWTH	CAPITAL VALUE 31/12/2013
BTIM Core Strategy	50%	$300,000	$300,000	26.05%	$78,150	$378,150
BTIM Australian Listed Property Strategy	15%	$90,000	$90,000	7.39%	$6,651	$96,651
BT Wholesale Global Fixed Interest Fund	15%	$90,000	$90,000	0.87%	$783	$90,783
Platinum Asia Fund	20%	$120,000	$120,000	23%	$27,600	$147,600

* Past performance is not a reliable indicator of future performance.

Case Study 4: SMSF investing in a Private Portfolio

Dave and Janice are semi-retired; having successfully sold their business for several million dollars.

They are the trustees of their Self Managed Super Fund (SMSF) and are conservative investors, with most of their funds in term deposits (TDs).

The recent RBA cash rate reductions are causing some concern and they are seeking an alternative which offers returns modestly above TD rates. They are prepared to take some additional risk however capital preservation is their main consideration.

Investment objective

Dave and Janice are seeking:

1. An attractive income modestly exceeding prevailing term deposit rates
2. Preservation of capital and low capital volatility
3. Liquidity
4. Active, expert management
5. Transparency.

Solution

Dave and Janice's SMSF invests in a combination of fixed interest funds.

All of these funds are accessed through BT Private Portfolio – an individually managed account that ensures their SMSF capital is managed by a dedicated investment professional. Their Portfolio Manager actively manages the investments and keep them informed of all activity.

Conclusion

The BT Private Portfolio provided Dave and Janice with a tailored cash and fixed income portfolio designed to meet their objectives. Working closely with their Portfolio Manager provides them with confidence that their investments are being professionally managed.

Managing risk

Like any investment, investing in a managed accounts involves risks. No matter how skilled the investment managers, or how strong the performance of the Model Portfolio is, there is always a chance that the investment may not perform as expected.

	ASSET ALLOCATION	CAPITAL ALLOCATION	UNITS	STARTING UNIT PRICE* 1/01/2012	TOTAL INCOME*	CLOSING UNIT PRICE* 31/12/2012	CAPITAL VALUE*	TOTAL RETURN
BT Wholesale Enhanced Cash Fund	50%	$1,000,000	945,448	$1.058	$52,756	$1.0710	$1,012,574	$1,065,330
BT Wholesale Monthly Income Fund	30%	$600,00	596,540	$1.006	$28,097	$1.0258	$611,931	$640,028
BT Wholesale Credit Fund	20%	$400,000	400,641	$0.998	$32,131	$1.0254	$410,817	$422,949
	100%	**$2,000,000**			**$112,984**		**$2,035,323**	**$2,148,307**
Term Depost**	100%	$2,000,000			$100,000		$2,000,000	$2,100,000

* This informaiton has been sourced from the BT Investment Management website http://www.bt.com.au/investments/prices-and-performance/unit-prices/unit-prices.asp#whole
** This information has been sourced from the RBA term deposit rates website http://www.rba.gov.au/statistics/tables/xls/f04his.xls?accessed=2013-01-23-11-05-00

How do I access a BT Managed Account?

1. Request the application pack containing the Product Disclosure Statement by calling us on 1800 222 790, or download the disclosure documents and forms from bt.com.au/investment/products/managed-accounts.
2. Ensure the application form is completed and submitted.
3. For more information contact your financial adviser, call us on 1800 222 790 or email us at privateclients@btfinancialgroup.com

For more information

Call 1800 222 790

Email privateclients@btfinancialgroup.com

Visit bt.com.au/investment/products/managed-accounts

Things you should know

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