



Economic and Sharemarket Insights

BT Investment Management Adviser Briefing Teleconference

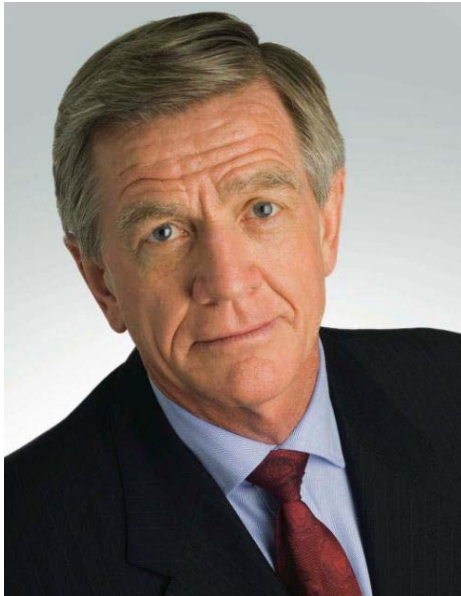
November 2011

Agenda

1. A Global Economic and Market Outlook – Dr Chris Caton

2. ‘Getting in on the Ground Floor’: Opportunities in the Australian Micro Cap Sector – Paul Hannan

Chris Caton



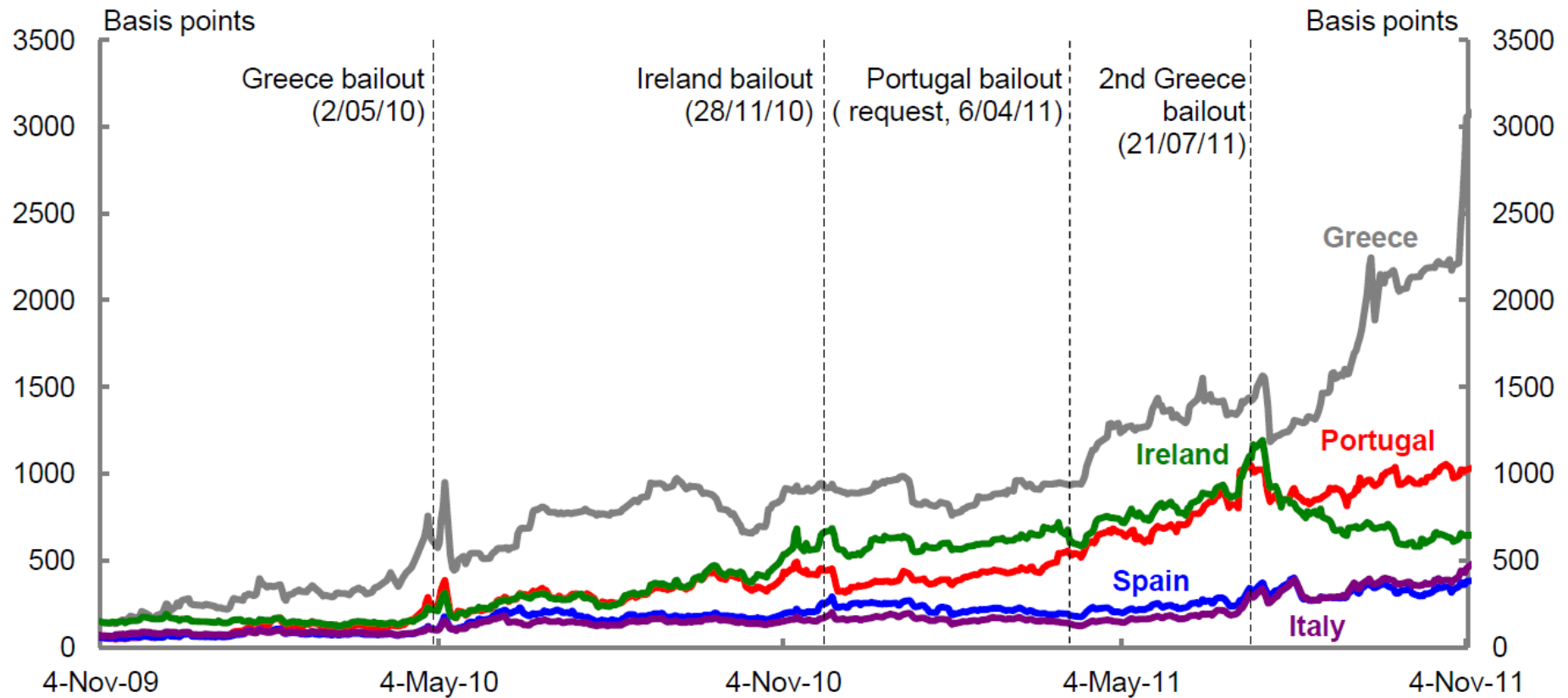
Role: Head of Economics/Chief Economist

Industry Experience: 36 Years

Years with Company: 16 Years

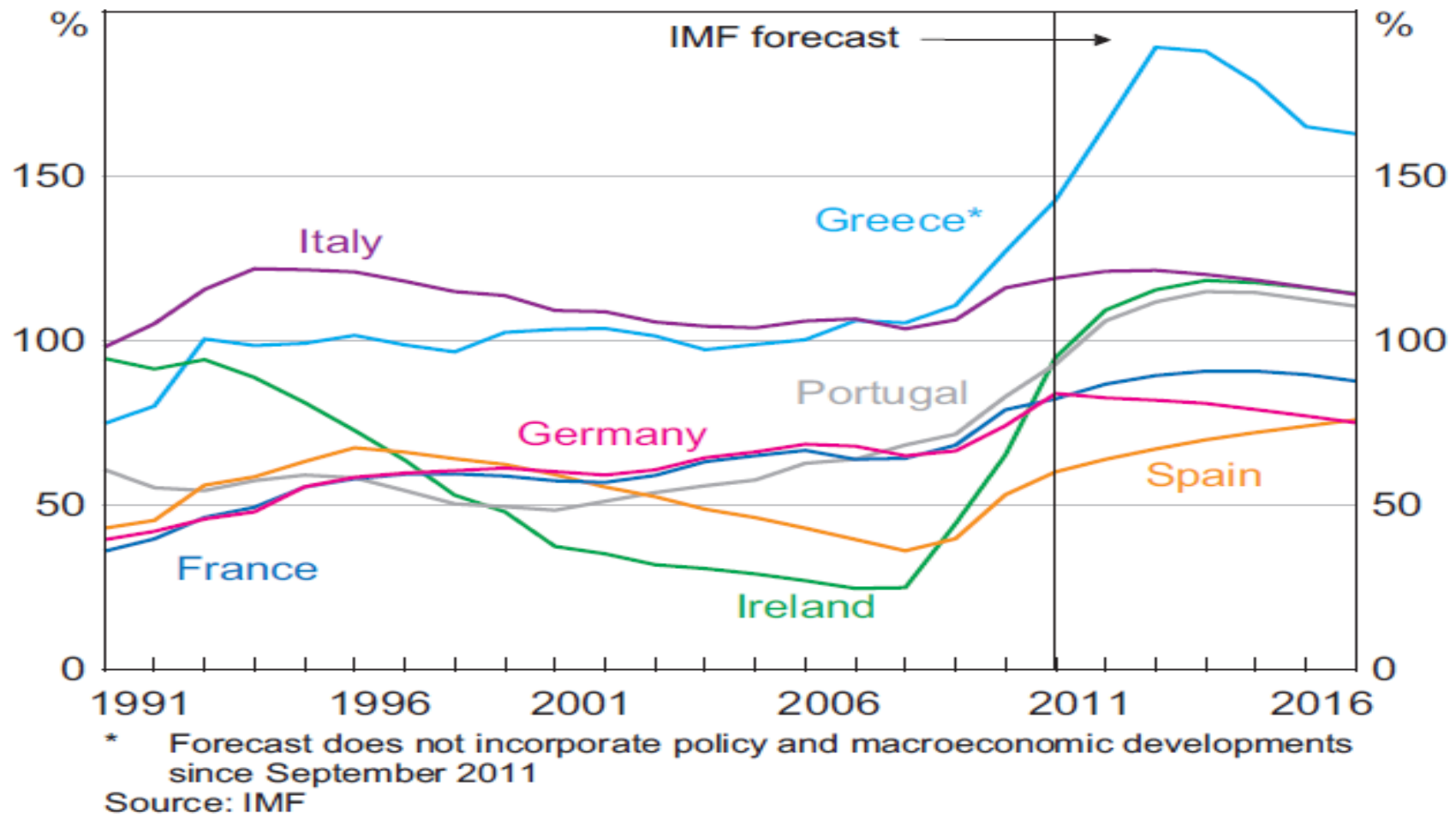
- Chris joined BT Financial Group in 1999 to provide advice on the implications of economic developments, including major economic statistics, policy pronouncements and major political developments for financial markets. He is also BT's major presenter to clients on economic matters.
- Chris was Chief Economist at Bankers Trust Australia from 1991 until 1999. From 1994 to 1997, he was also Chairman of the Indicative Planning Council, which advised the Government on matters relating to the housing industry. Previously Chris has worked in the Treasury, the Department of the Prime Minister and Cabinet, and for an economic consulting firm in the United States.
- Chris holds a Bachelor of Arts (Hons) from the University of Adelaide and a PhD from the University of Pennsylvania.

The trouble index – long-term bond spreads



Source: Thomson Reuters.

Government debt (% of GDP) – Greece has the biggest problem by far



2012 Growth Forecasts (%)

	Month of Forecast								
	M-11	A-11	M-11	J-11	J-11	A-11	S-11	O-11	N-11
Australia	3.7	3.8	3.8	4.0	4.0	3.8	3.7	3.5	3.5
New Zealand	3.8	3.9	3.9	3.9	3.9	3.9	3.7	3.2	2.9
US	3.3	3.3	3.2	3.1	3.0	2.4	2.1	1.9	2.1
Japan	2.1	2.7	2.8	3.2	3.1	3.1	2.4	2.2	2.1
China	9.0	8.9	8.9	8.8	8.8	8.8	8.6	8.5	8.5
Germany	1.9	1.9	1.9	2.0	1.9	1.9	1.3	1.0	0.8
UK	2.1	2.2	2.2	2.1	2.2	2.0	1.8	1.5	1.1
“World”	3.6	3.7	3.6	3.6	3.6	3.5	3.2	3.0	2.9

Source: Consensus Economics

Financial Market Forecasts

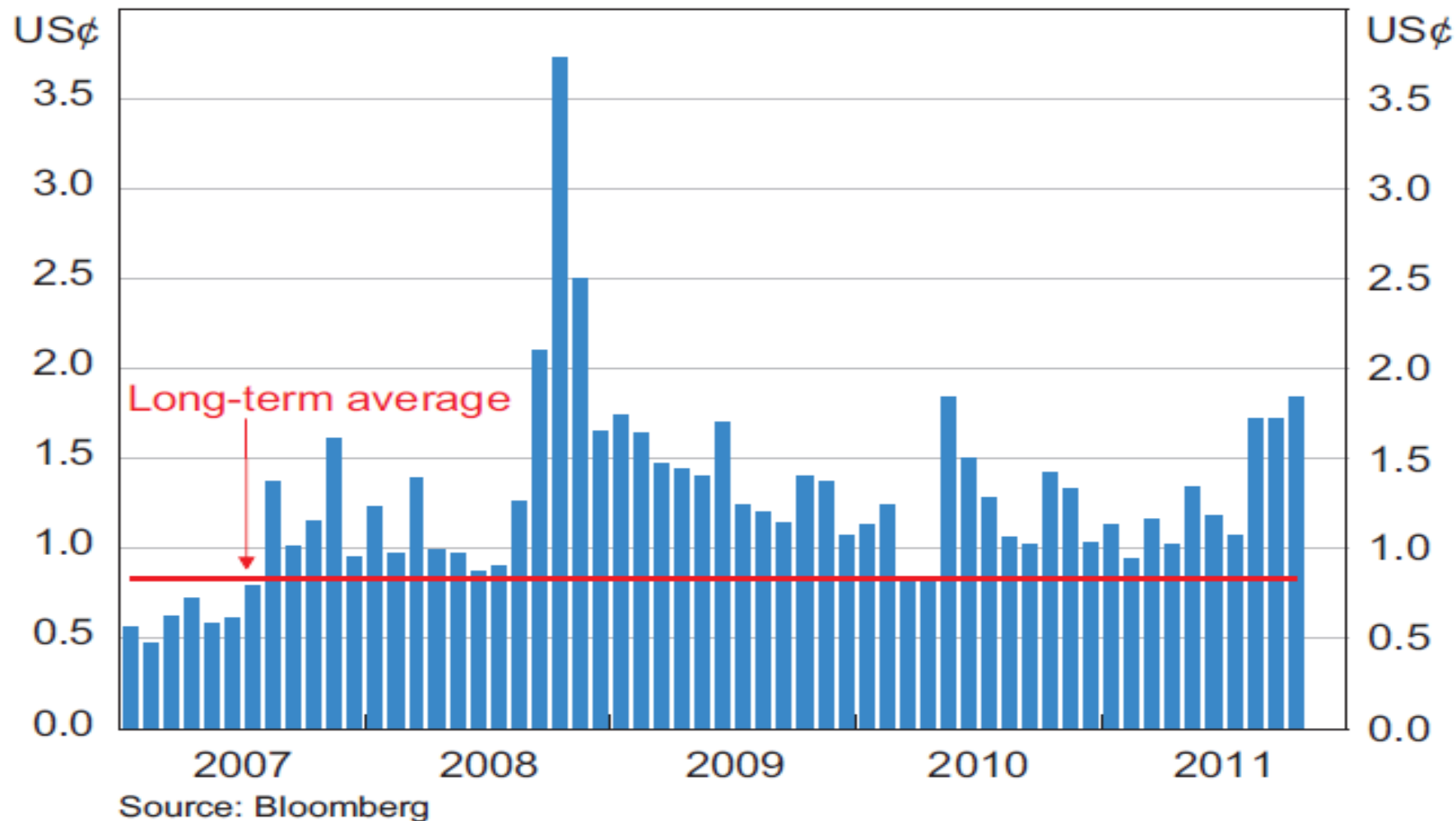
	Now (18 Nov)	End-Dec 2011	End-June 2012
AUD/USD	1.003	1.00	0.92
Official cash rate (%)	4.50	4.50	4.25
10 Year Bond yield (%)	4.02	4.30	4.80
ASX 200	4,194	4,400	4,900

The Australian Dollar and US Trade Weighted Index

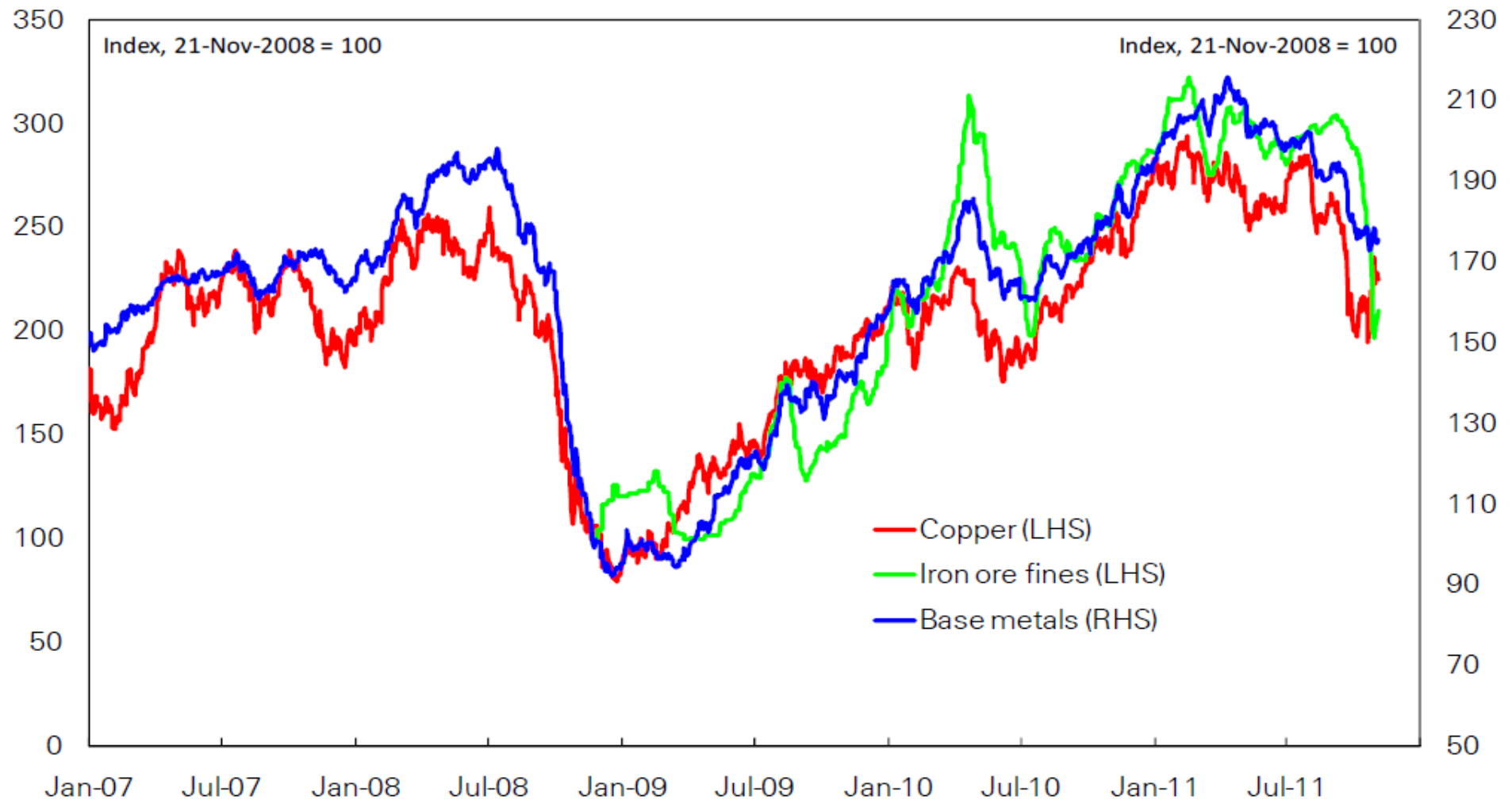


Source: Datastream

Volatility in the currency has picked up (average daily trading range against the \$US)

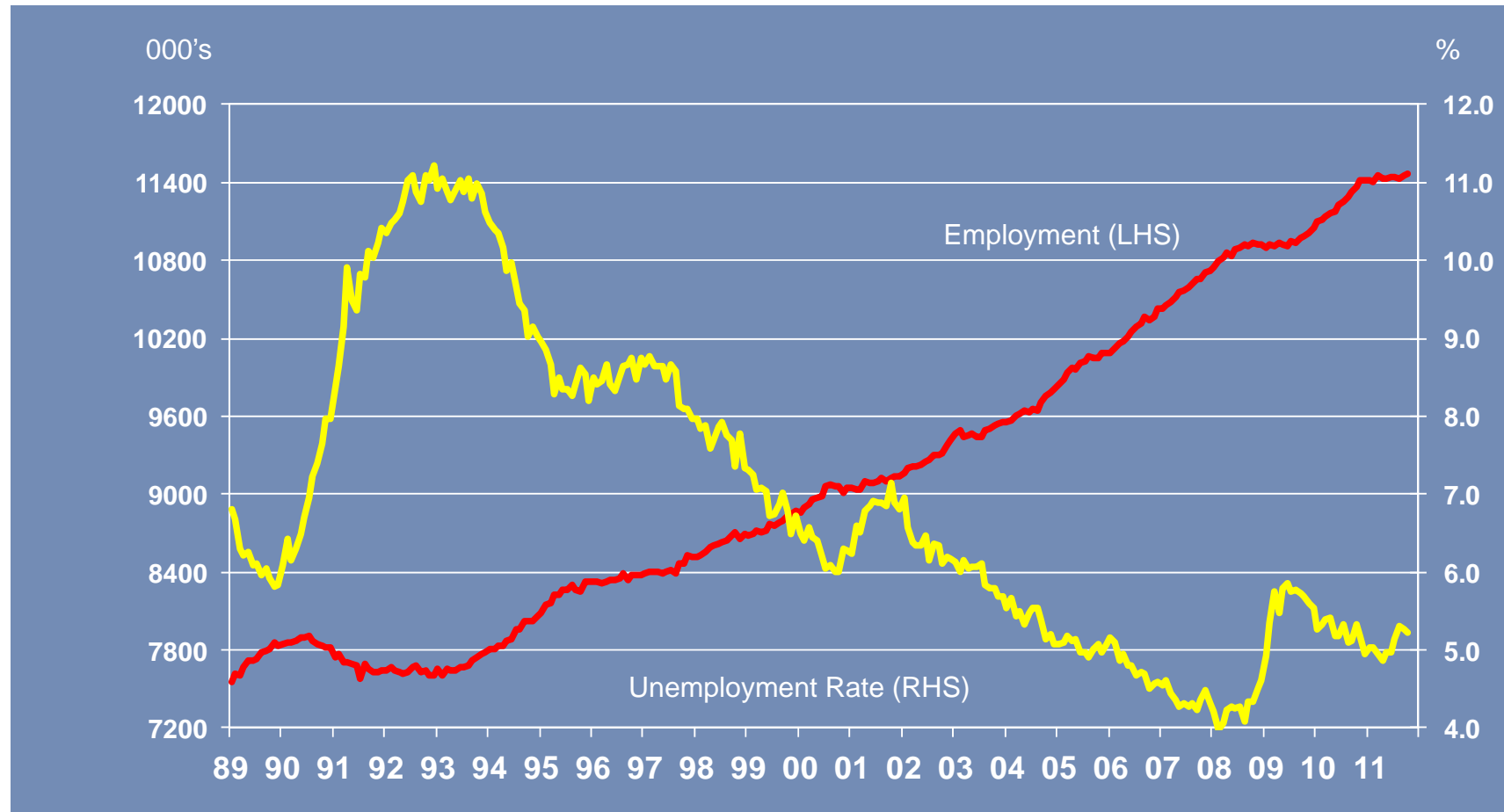


Commodity prices may already have peaked



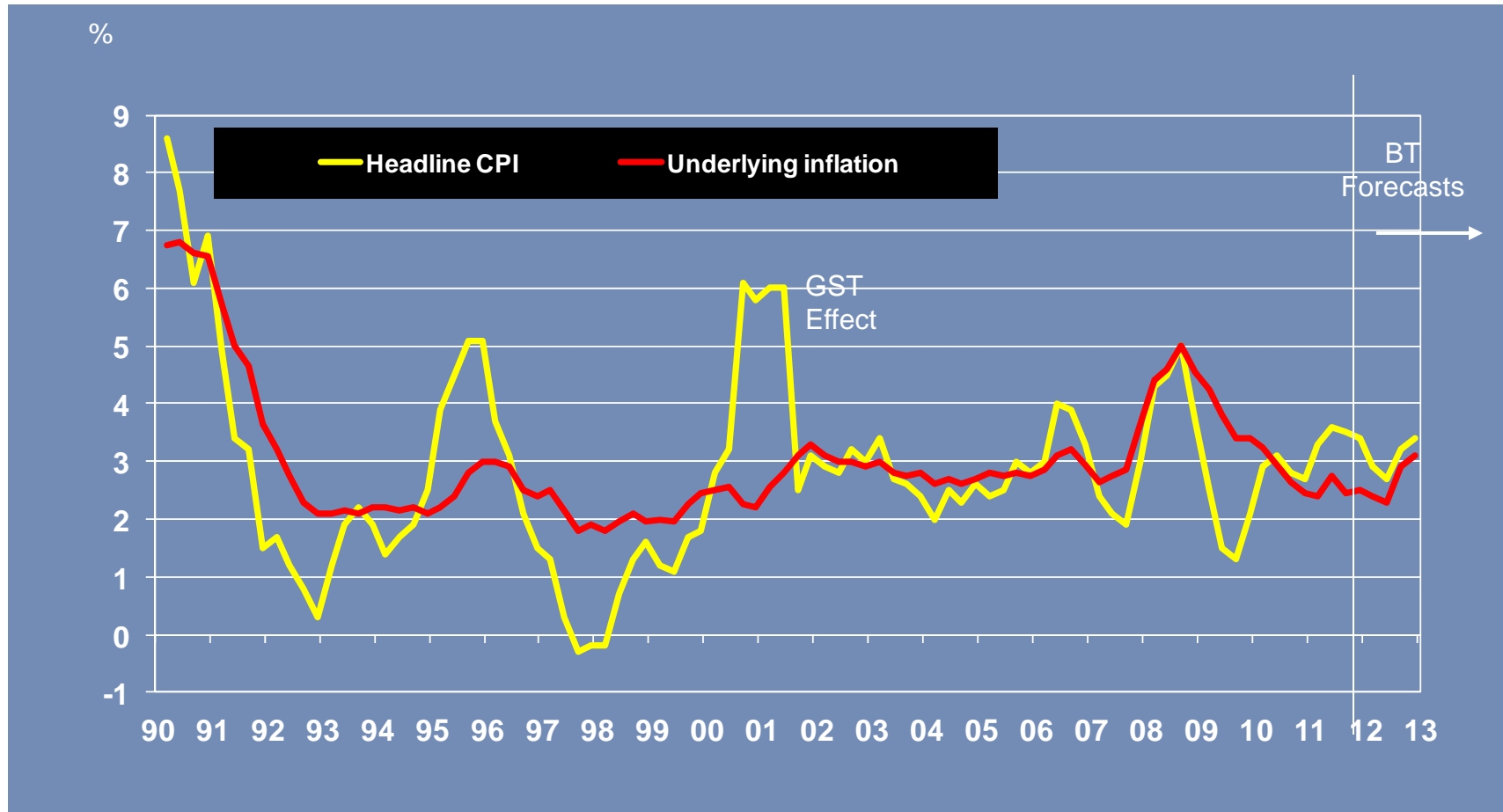
Source: Deutsche Bank, ABS

The Labour market has done well but employment growth has slowed dramatically



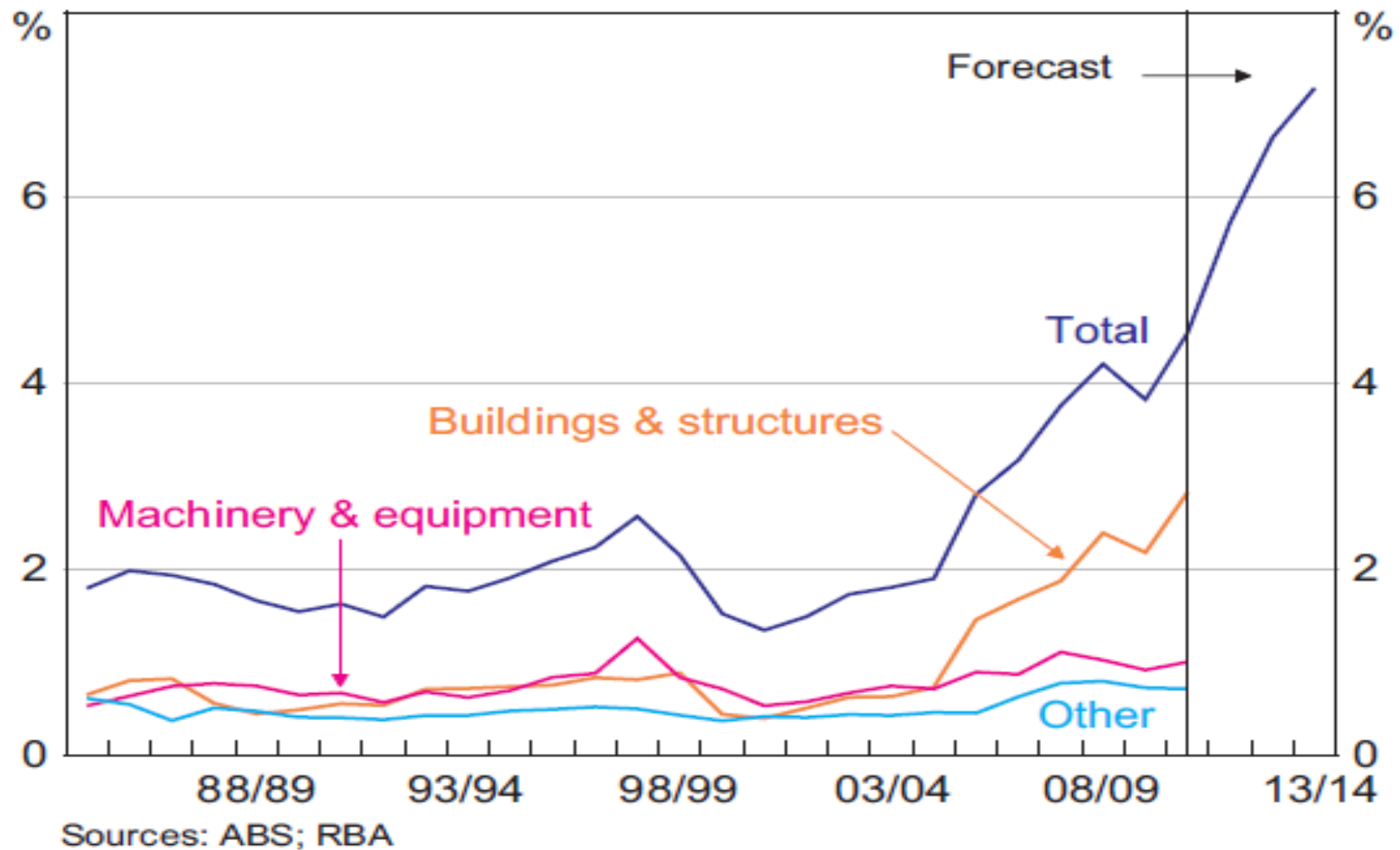
Source: ABS

Australian Inflation

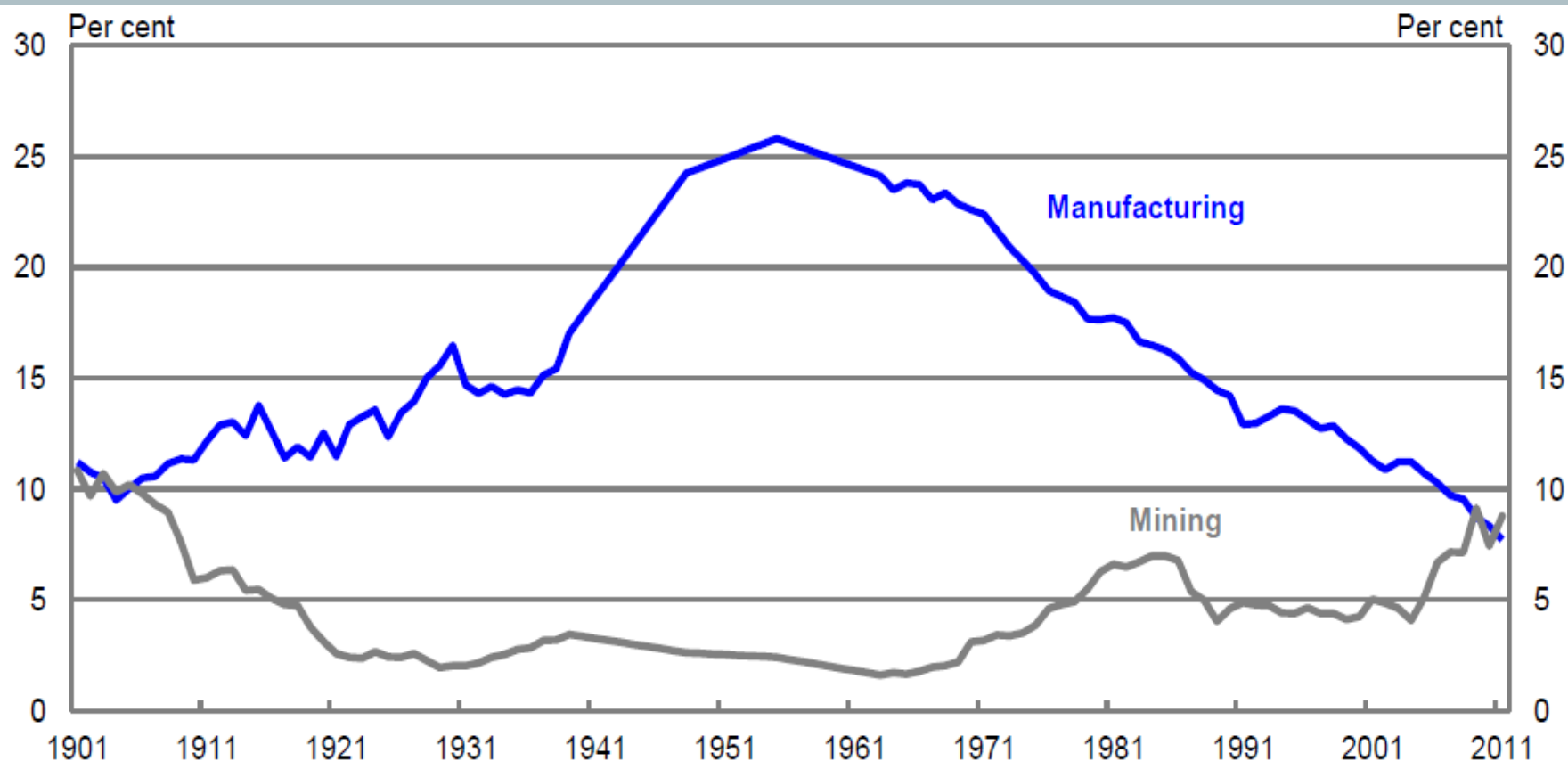


Source: ABS

Mining investment is set to soar

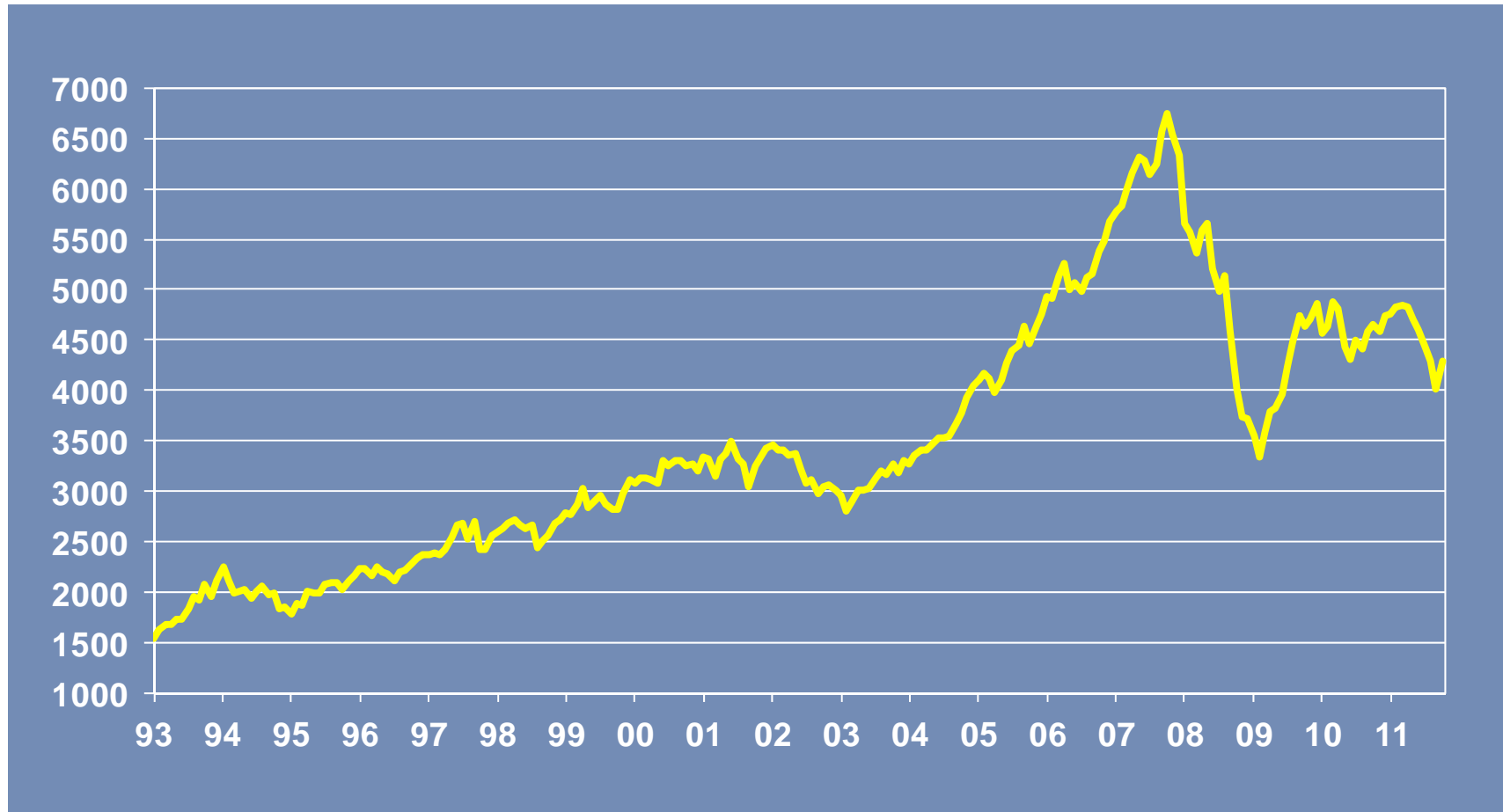


The increasing importance of mining (industry share of output)



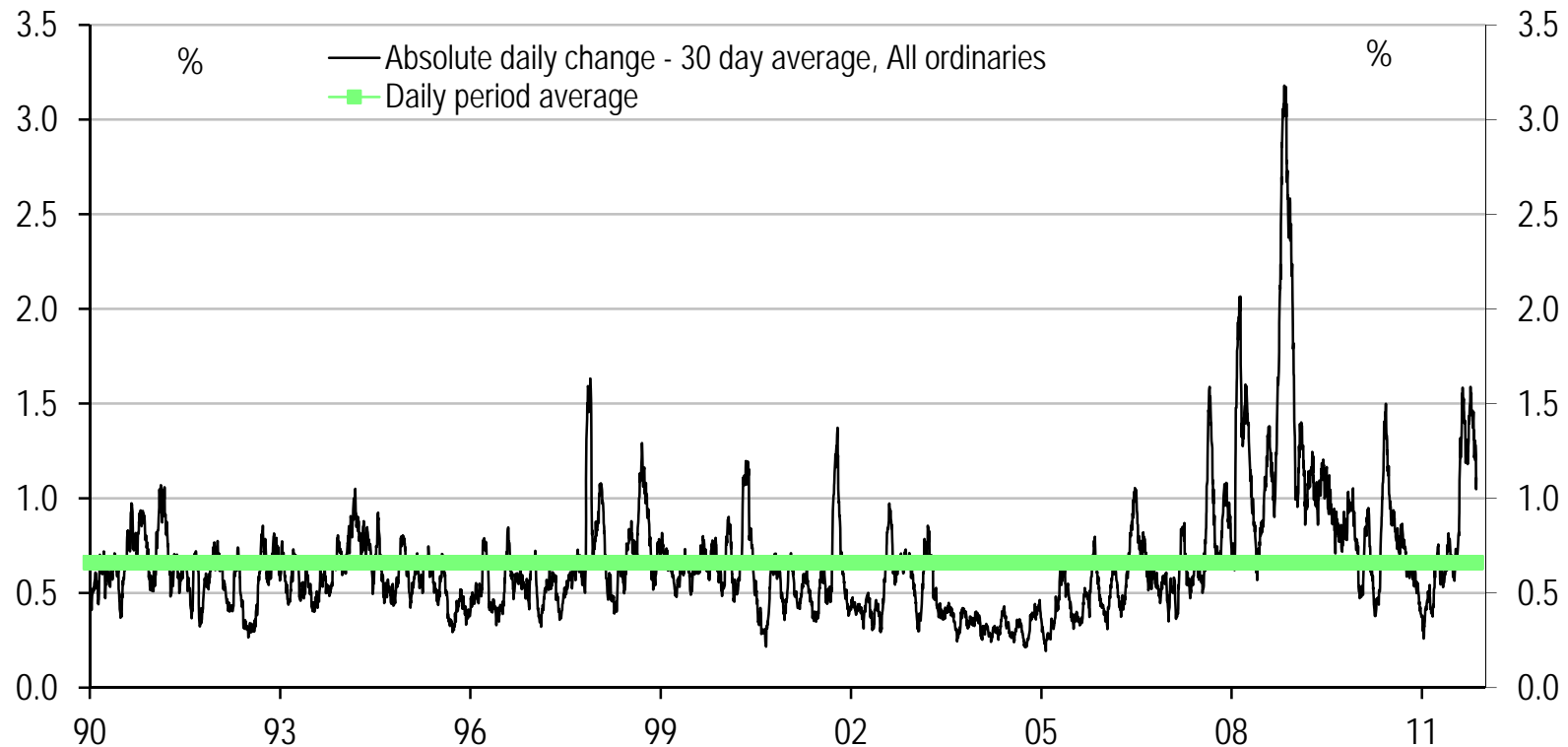
Source: *Economic Roundup* Centenary Edition (2001), ABS Catalogue Number 5204.0 and *RBA Australian Economic Statistics*.

Australian Sharemarket Performance – ASX200



Source: Bloomberg

The volatility of the share market



Source: UBS

Summary

- The threat of a double-dip recession in the US is exaggerated. Eurozone debt is a serious issue; it will drag on for some time but is unlikely to end in catastrophe.
- The Australian economy should resume strong growth, led by mining investment.
- The cash rate is likely to fall again.
- The exchange rate is above fair value. The rest of the world is on sale for Australians.
- Share markets are cheap.

Agenda

1. A Global Economic and Market Outlook – Dr Chris Caton

2. ‘Getting in on the Ground Floor’: Opportunities in the Australian Micro Cap Sector – Paul Hannan

Paul Hannan



Role: Head of Smaller Companies
Industry Experience: 18 years
Years with Company: 11 years

- Paul joined Rothschild Australia Asset Management in 2000, which later became a part of BT Financial Group. Paul was appointed Head of Smaller Companies in April 2004.
- Paul is the Portfolio Manager of the BT Smaller Companies Fund and the BT Microcap Opportunities Fund.
- In addition to Portfolio Management, Paul undertakes fundamental analysis on a range of companies including industrial, mining and resource services companies.
- Paul holds a Bachelor of Economics, is a Fellow of the Financial Services Institute of Australasia and an ACA.

Micros ... How it all began

Get in on the Ground Floor

**BT Wholesale MicroCap
Opportunities Fund**



BTIM's Smaller Caps Team – Unchanged 6 years

Portfolio Managers

Paul Hannan
Experience: 18 years
B.Econ, CA, ASIA

Noel Webster
Experience: 18 years
B.Econ, M App Fin, CPA



Analysts

Patrick Teodorowski
Experience: 6 years
BComm (Hons), CFA2

Olivier Coulon
Experience: 5 years
BComm, BLaw

Performance orientated remuneration

Portfolio managers unchanged 7.5 years

5 years in ... an enviable track record

- One of the best 'long only' performances in Australia
- Certainly survived the GFC with investors money and our team intact.
- Fund positioned to continue to benefit from strength of the domestic economy.
- Closed the fund in early 2011 to maintain our unique capability.
- Market opportunity allows limited capacity "re-opening"

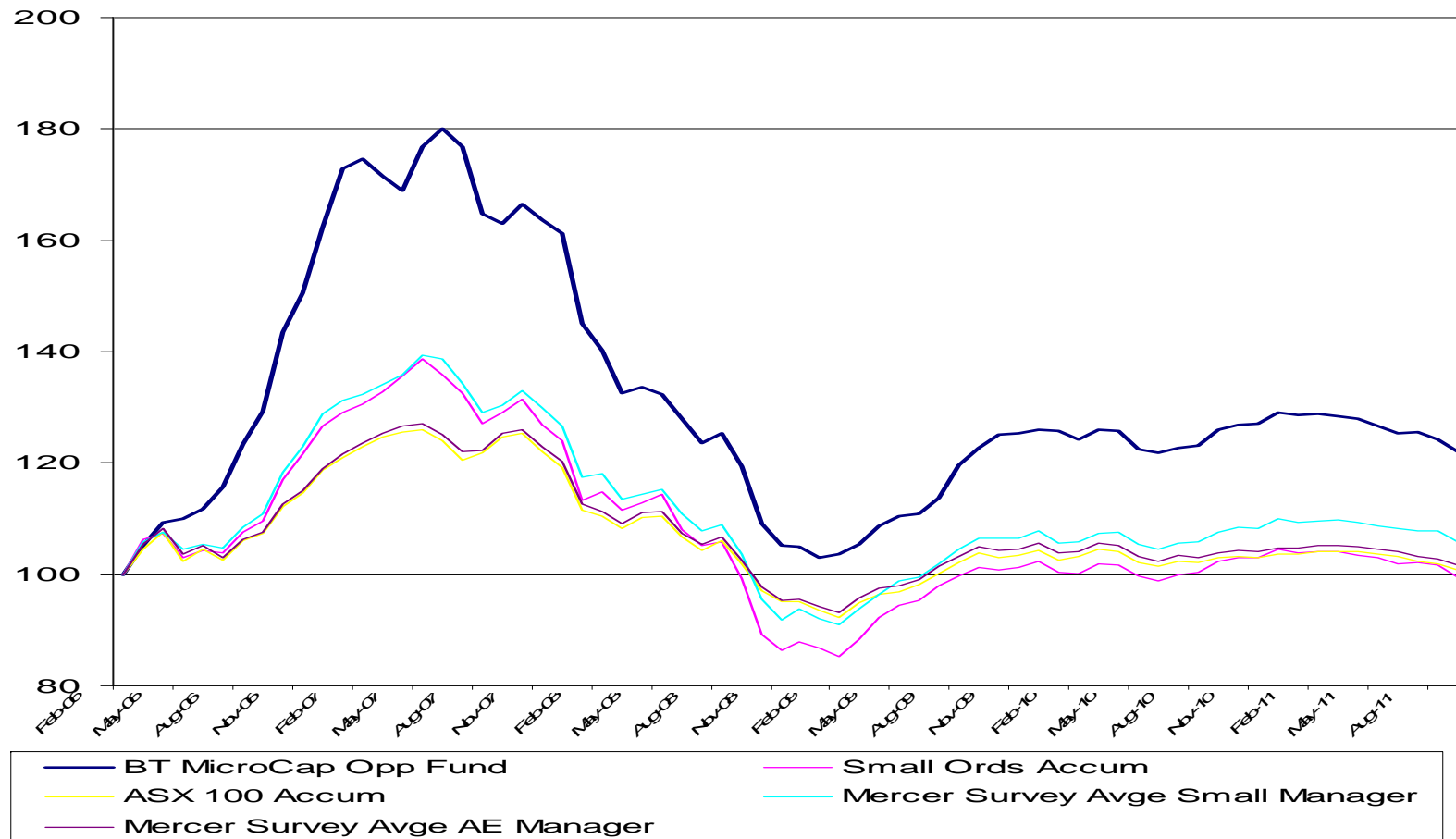
*Source: Mercer Survey Sept 2011

Performance to September 2011

%		3 mths	6 mths	1 year	3 yrs (pa)	5yrs (pa)
BT Micros		-9.03	-14.78	5.41	24.20	18.25
Small Ords		-11.79	-20.01	-12.11	-0.14	-2.27
Value add over Small Ords		+2.76	+5.23	+17.52	+24.34	+20.52
Top 100		-11.62	-14.91	-8.34	-4.22	0.02
Value add over Top 100		+2.59	+7.4	+13.75	+28.42	+18.27

Source: BT Investment Management performance pre fees

Five years of outperformance



What are Micro Caps?

- Companies with market capitalisation generally up to \$150 million (ex ASX200 index)
- Generally reliant on equity capital to fund growth strategies and development opportunities
- Due to their size they tend to be poorly researched by the broader investor community
- Opportunity for experienced investors.

The opportunity set is large

Number of stocks: Up to 1,000
Market Capitalisation: \$5-\$150 million (at time of investment)
Total Market Cap Sector: \$30+ billion in total

- Highly diversified in sector composition
- Rapidly expanding – IPOs and secondary market offerings much more prevalent in this space
- But warning – can be highly volatile.

Why do you want some Micro Caps in your portfolio?

- Performance leverage – higher return/risk potential
- Undiscovered opportunities
- Management are on your side
- Ability to leverage growth
- Access to new IPOs and secondary market offerings (BTIM scale advantage)
- Micros Caps are takeover targets
- You need an experienced manager – lots of rubbish to be avoided.

Micro Caps – Real Companies, or not??



Small & Micro Caps become targets

Target	Size	Acquirer
Ammtec	\$130m	Campbell Bros
Dexion	\$81m	GUD Holdings
Breville Group	\$280m	GUD Holdings (not completed)
Wattyl	\$138m	Valspar
TBG	\$128m	Parent Coy
Boom	\$189m	Archer Capital (not completed)
DKN	\$120m	IOOF
Count	\$360m	CBA
CSV	\$320m	Private (yet to be completed)
ITX	\$75m	US company
Miclyn	\$450m	Private Equity
National Hire	\$500m	Seven Westtrac
MSL	\$635m	Oil State International
RDF	\$300m	MQC/Carlyle
Northern Energy	\$260m	Newhope
JML	\$532m	IGO

How do we do it?

- High visitation program – access to management
- A well resourced and experienced team
- Valuation discipline
- Bias toward quality – quality driven portfolio construction methodology
- Flexible mandate – higher cash limits
- Access to IPOs and secondary raisings

Some of our investments...

ITX Limited

- 50c IPO 2007 for \$50 million market capitalisation
- IT software and hardware distribution – largest Sun Microsystems & others
- 150 employees, 1000 customers
- No debt, c7x PER +5% yield, no broker coverage
- BTT invested from IPO, exited in 2010 at \$1.50 takeover.

Ludowici Limited

- \$120 million market cap, yet services global mineral processing market...
- Family company, listed > 20 years, established nearly 100 years
- Designs, manufactures & exports
- Major markets are coal and iron ore, for grinding, size & separation
- Low debt back by large property holding. Broker coverage now growing...
- Sub 10 x PER +5% yield

A key advantage for investors with BTIM is ‘access’

Access to:

- Large team of professional investors with track record and disciplined process
- Companies and management teams
- Third party competitors, industry experts etc
- Brokers and Research Analysts
- Deals – New IPO cycle and secondary market (ie placements).

Some of our investments...

Oroton Limited

- \$80 million market capitalisation/no broker research at initial investment
- Branded consumer goods: Oroton/Polo Ralph Lauren
- Constantly revisiting companies unearthed 'ground floor' opportunity
- New management refocusing and revitalising the company and brands
- Now \$300m+ market capitalisation, negligible debt, +6% yield

Webjet

- \$181 million market cap
- No.1 online flights portal in Australia, No.1 independent online travel site
- A strong consumer brand
- Developing business into online hotels segment
- A very high operating leverage business
- 4.8% yield \$40m net cash

Some Key Portfolio Positions

Company	Fund Position	Industry	PE (x)	Div. Yield	Net Cash/(Debt) \$m
Troy Resources	5.2%	Au & Ag producer	7.0	3.0%	Net cash
RCR Tomlinson	5.1%	Mining Services	7.8	4.0%	Near nil debt
Reckon	5.1%	Accounting software	17.5	3.3%	Net cash
Breville Group	4.9%	Branded appliance	10.0	6.0%	Net cash
Prime TV	4.8%	Regional TV/Radio	9.6	5.6%	Net cash
Ludowici	4.7%	Mining consumables	7.2	6.0%	40%
Saracen	3.5%	Emerging gold producer			Net cash
Aspen	3.2%	Property trust	7.2	10.0%	33% gearing
Thorn Group	3.2%	Appliance rental	8.0	6.0%	Nil net debt
Chandler McLeod	2.9%	Recruitment	9.5	7.0%	(35)

Performance Contributors to 30 September 2011

1 year contributors

Value Add %

Index Limited	2.1
Troy Resources	1.7
Maca Limited	1.6
Northern Energy	1.0
Prime Media Group	1.0
Breville Group Limited	1.0
DKN Financial Group Ltd	0.8
Reckon Limited	0.8
Thorn Group Limited	0.7
RCR Tomlinson	0.7

3 year contributors

Value Add %

Reckon Limited	1.9
Breville Group Limited	1.9
Thorn Group Limited	1.3
Orotongroup Limited	1.2
Troy Resources Limited	1.1
Retail Cube Limited	1.0
Webjet Limited	1.0
Amcom Telecommunications	1.0
Decmil Limited	1.0
Oakton Limited	0.9

Source: BT Investment Management 30 June 2010.

Fund statistics

Portfolio guidelines:

- Strategic ranges:
 - Australian shares 75% - 100%
 - Cash 0% - 25%
- No. of stocks: 40 - 60
- Maximum absolute stock position: 10%
- Frequency of distributions: Annually (July)
- Buy/sell spread: 0.70%

Targets:

- Out performance target: over 5% over rolling 3 years (pre fees)
- Benchmark: S&P/ASX Small Ordinaries Accumulation Index

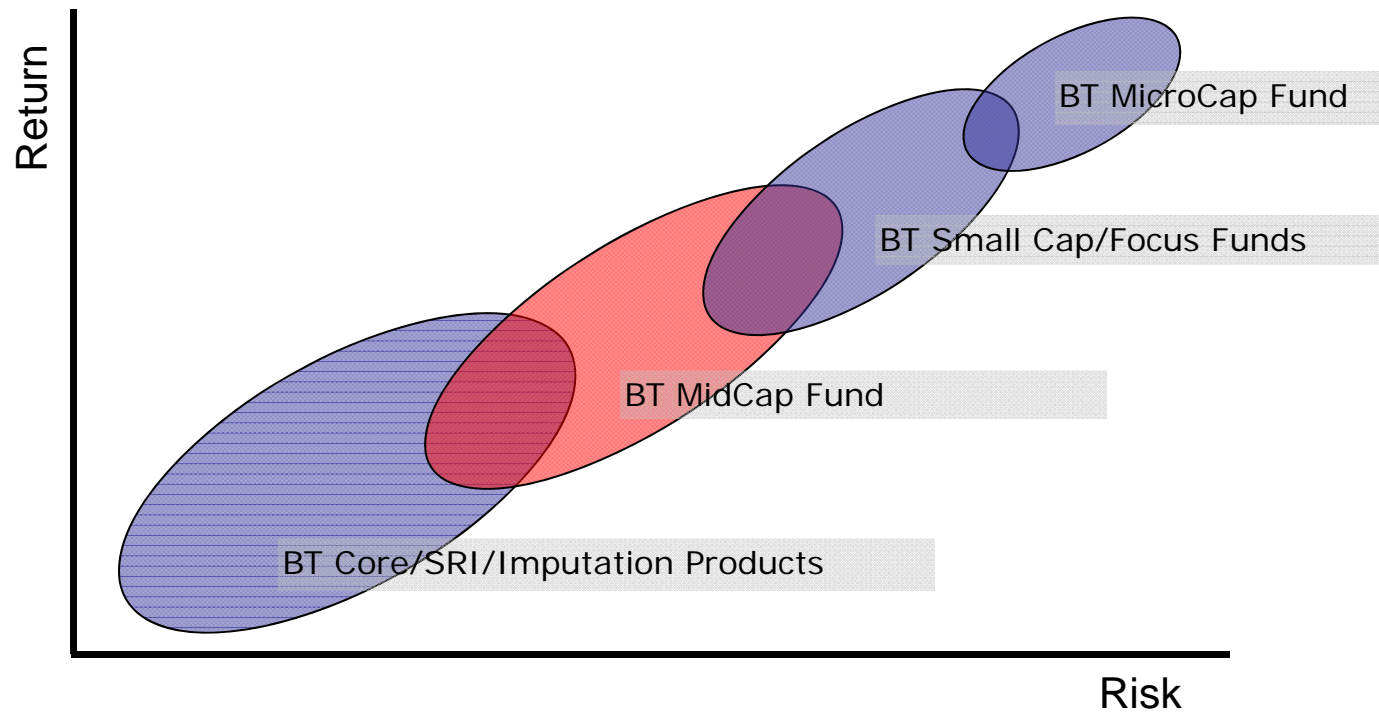
Fees:

- Management Fee: 1.20% p.a.
- Performance fee: 20% > performance hurdle
(benchmark + 1.20%)

Style and characteristics of the Fund

- Bottom up, in-house research driven process
- Company characteristics:
 - Companies with established earnings and track record, ~70% portfolio
 - Developing companies, no more than 30% of the portfolio
- Bias against:
 - Speculative
 - Premium rated growth stocks

Where Micros sit in the risk return scale



Key Elements

- Specialist offering in a volatile field
- Disciplined and experienced team
- Long-running track record
- Disciplined to close the fund and limited re-open opportunity
- limited capacity, so don't miss out and don't believe anyone can do it because ...

You don't want to have this manager



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Performance – Flagship Funds

To 31 October 2011	6 Months %	Active return%	1 year %	Active return %	3 year %	Active return %	5 year %	Active return %
BT Wholesale Focus Australian Share Fund	-8.1	1.0	-3.3	0.5	7.3	0.2	-0.2	0.0
BT Wholesale Imputation Fund	-7.3	1.7	-2.4	1.5	5.2	-1.8	0.1	0.3
BT Wholesale Core Australian Share Fund	-8.1	0.9	-2.7	1.2	6.7	-0.4	0.7	0.9
S&P/ASX 300	-9.0		-3.9	-	7.1	-	-0.2	-
BT Wholesale Smaller Companies Fund	-6.7	4.7	1.1	9.3	19.4	6.8	3.7	5.8
S&P/ASX Small Ordinaries Accumulation	-11.4	-	-8.2	-	12.6	-	-2.1	-

Source: BT Investment Management
 Performance is after fees/before tax as at 31 October 2011
 Past performance is not an indicator of future performance

* Focus Fund Inception: 1/4/2005

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