BT Investment Management

Fact sheet
Global Equities
November 2017

BT Concentrated Global Share Fund

ARSN: 613 608 085

About the Fund

The BT Concentrated Global Share Fund (**Fund**) is an actively managed concentrated portfolio of global shares diversified across a broad range of global sharemarkets. The Fund is managed by BTIM's Global Equities team and typically holds between 35-55 stocks that we believe are undervalued in the near term and offer long term capital growth.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the MSCI World ex-Australia (Standard) Index (Net Dividends) in AUD over the medium to long term. The suggested investment timeframe is five years or more.

Description of Fund

The Fund is designed for investors who want the potential for long term capital growth from a concentrated portfolio of global shares, diversified across a broad range of global sharemarkets and are prepared to accept higher variability of returns. The Fund invests in global companies that offer attractive investment opportunities predominately in markets such as the USA, UK, Continental Europe, Asia and Japan. The Fund may also hold cash and use derivatives.

BTIM's investment process for global shares aims to add value through active stock selection and fundamental company research. BTIM focuses on identifying a company's long term value and potential risk reward opportunity and is benchmark agnostic. Our high conviction, contrarian approach to the Fund's investments seeks to invest in companies that are considered to be undervalued in the near term and offer long term capital growth.

The Fund has assets that are denominated in foreign currencies. This means that changes to the Australian dollar relative to foreign currencies may affect the value of the assets of the Fund. Generally, these currency exposures will not be hedged to the Australian dollar but BTIM may do so from time to time.

Derivatives may be used to reduce risk and can act as a hedge against adverse movements in a particular market and/or in the underlying assets. Derivatives may also be used to gain exposure to assets and markets.

Investment Team

BTIM's Global Equities team is led by Ashley Pittard. Ashley has been analysing and investing in global businesses for over 20 years and was appointed as BTIM's Head of Global Equities in 2016. The five person Global Equities team is organised on an industry basis and has an average finance industry tenure of over ten years. The Global Equities team will also be able to leverage BTIM Group's global resources, including those of J O Hambro Capital Management, 100% owned by BTIM, an investment management business with offices in London, Singapore, New York and Boston.

Management Cost[1]

Issuer fee[2]	1.25% pa

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

[2] 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.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	3.30	3.40	3.23
3 months	10.61	10.96	11.36
6 months	6.94	7.61	7.47
1 year (pa)	19.90	21.40	20.51
Since Inception (pa)	18.89	20.38	17.65

Country Allocation (as at 30 November 2017)

Country	%
Belgium	5.2%
France	7.2%
Germany	3.0%
Ireland	2.0%
Netherlands	1.9%
Spain	1.8%
United Kingdom	4.9%
Hong Kong	1.8%
Japan	3.5%
USA	61.3%
Cash & other	7.4%

Sector Allocation (as at 30 November 2017)

Sector	%
Energy	3.4%
Materials	2.9%
Industrials	7.7%
Consumer Discretionary	11.1%
Consumer Staples	10.1%
Health Care	6.4%
Information Technology	18.7%
Financials ex Property Trusts	30.5%
Property Trusts	1.9%
Cash & other	7.3%

Top 10 Holdings (as at 30 November 2017)

Holding	%
Wells Fargo & Company	4.3%
Alphabet Inc. Class A	3.9%
Lloyds Banking Group plc	3.9%
Japan Exchange Group, Inc.	3.5%
Total SA	3.4%
Anheuser-Busch InBev SA/NV	3.4%
Union Pacific Corporation	3.3%
MGM Resorts International	3.2%
Deutsche Boerse AG	3.0%
Analog Devices, Inc.	3.0%

Other Information

Item	Detail
Fund size (as at 30 Nov 2017)	$126 million
Date of inception	29 July 2016
Minimum investment	$25,000
Buy-sell spread[3]	0.50% (0.25%/0.25%)
Distribution frequency	Yearly
APIR code	BTA0503AU

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

Risks

An investment in the Fund involves risk, including:

- **Market risk** - The risk associated with factors that can influence the direction and volatility of an overall market, as opposed to security-specific risks. These factors can affect one country or a number of countries.
- **Security specific risk** - The risk associated with an individual asset.
- **International investments risk** – The risk arising from political and economic uncertainties, interest rate movements and differences in regulatory supervision associated with international investments.
- **Currency risk -** Currency exchange rate fluctuation risk arising from investing across multiple countries.
- **Concentrated portfolio risk –** The Fund's investment strategy of seeking to generate high returns by investing in a concentrated portfolio of global shares may make the Fund more volatile than a diversified global share fund with a larger number of shares. This means there is a greater risk of negative returns, particularly over the short to medium term.

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

Fund Review

The Fund returned 3.30% (after fees) in November 2017, outperforming its benchmark by 0.07%.

Contributing to the Fund's performance this month was our holding in 21st Century Fox (FOX), which rose by 22%. The company reported an 8% increase in quarterly revenues led by a 10% year-on-year growth in its cable division. US subscriber numbers were stable, and US affiliate growth was 11% for the quarter and the highest in two years. While the results were pleasing, the driver behind this month's outperformance was press speculation that Disney were in talks with Fox to buy all of their assets apart from Fox News, Fox Sports and Fox Broadcast. Subsequent reports have also suggested interest in Fox assets from Comcast and Verizon. While we cannot predict the outcome of such discussions, the interest in consolidation does not surprise us. The pace of 'cord cutting' has accelerated pressuring the cable businesses. In the content business, competition from new entrants like Netflix and Amazon has weakened the pricing power of the incumbents. Our investment in the sector was predicated on the belief that the headwinds it faces were reflected in share prices, and that consolidation was the next rational step. In October last year we saw AT&T reach an agreement to buy Time Warner. We held a position in Time Warner, which we subsequently sold to add to other names in the sector. In August this year another of our holdings, Discovery Communications, announced an agreement to buy Scripps Networks Interactive, in a deal which we believe makes sound strategic sense. The strategic rationale for sector consolidation is compelling; at the same time share prices are not reflecting the pricing power and synergy benefits that would flow through to acquirers. We would be surprised if there were not more announcements to come in the sector.

Our holdings in stock exchanges performed well this month. We invested in the sector on the premise that earnings were cyclically depressed, that the exchanges we owned had dominant market positions, and that earnings were leveraged to higher interest rates. CME Group is one such company. The share price rose by 9% this month after the company reported third-quarter earnings at the end of October, with higher revenues and lower expenses than consensus forecasts, whilst average daily volumes were grew by 10% over the prior year. CME is the largest derivatives exchange operator in the world, with the company handling more than 90% of futures trade in the US. Products include futures, options on interest rates, equities, energy, foreign exchange and metals. Approximately 30% of revenues are derived from interest rate products. Volumes on interest rate products remain cyclically depressed in our view; however, with the incremental interest rate hikes flagged in the US and elsewhere around the world we expect an increase in volatility and volumes over time. In the interim we are happy to be paid an approximately 4.3% dividend yield.

Our holding in semiconductor company, Analog Devices (ADI), declined in value by 5.7% this month. ADI reported fourth-quarter revenues of US$1.54 billion, which was 2.5% better than consensus forecasts. Margins are amongst the highest in the industry, with 2017 gross margins around 70% and operating margins of about 40%. The share price was sold down following the release of the fourth-quarter commentary on two concerns. Firstly, management suggested that the industrial business which accounts for approximately 45% of revenues and has grown at an average annual rate of about 20% has a "sustainable long term growth rate" of 5%. The second concern was the potential loss of Apple business with the newer model phones reportedly not requiring ADI's Force Touch chip sets (technology which allows touch screens to distinguish between different levels of force being applied). We view a 5% long term sustainable growth rate for the industrial business as being not only realistic and a testament to ADI's strong positioning in the sector, but also entirely consistent with the message management has delivered throughout the year. The Apple business is contained within the consumer division which accounts for about 20% of revenues. For the last few years ADI has been diverting R&D spend away from this division into the industrial business, where they saw longer duration opportunities. While Apple is a large customer, ADI have been working hard to diversify their product portfolio and customer base for some time now. The increasing trend for digitisation across a broad spectrum of industries has resulted in a diversified product portfolio with over 50,000 product stock keeping units (SKUs) and between 60,000-70,000 customers. As investors we are less concerned by the loss of a large customer when the entire company, in our view, is in a strong position to benefit from an increasing requirement for analog semiconductor content across many industries. .

In the October report we reflected on the investment rationale behind our investment in General Electric (GE). We initiated a small position in GE earlier this year. The stock had underperformed over several years, yet has a dominant market position in its gas turbine and aviation businesses, which together account for over 60% of earnings. We were aware at the time of investing that management were living off a past reputation and there was an immense opportunity to improve cash flows by extracting costs, improving productivity and selling some of their underperforming assets. This view was shared by a number of large, long standing shareholders who publicly applied pressure to the Board to make management changes. The Board took longer than we would have liked to make a change, and when they did announce a new Chief Executive Officer (CEO) it was an internal appointment. The new CEO had the unenviable task of announcing to the market at GE's November strategy day that the dividend would need to be cut in half, and that current cash flow was "horrible". Whilst this was not entirely unexpected, the enormity of the task ahead was reinforced by the revelation that the company would need to find around US$1 billion (7% of EBIT) in cost savings annually just in order to offset general inflation. With net debt/EBITDA at 3.5 times and growth prospects in 2018 and 2019 acknowledged as "modest" we believe the longer term growth potential for the company rests with management's ability to force a change in company culture, where complacency has been allowed to creep in over many years. Whether a CEO who has been with the company since 1987 has that ability remains to be seen, however we took the view that we would prefer to see tangible evidence of change rather than risk waiting for it, and made the painful decision to exit the position this month.

Strategy & Outlook

As we near the year end, it appears the US is closer to a resolution on tax reform. Whilst we have read numerous reports assessing the impact for corporates under various tax reform scenarios, it is not an event that we have factored into our stock selection process. Government policy is not something we feel we can predict. As such, we feel that the US companies we own will prevail and prosper over the long term, regardless of the outcome on tax and may even benefit from the proposals currently being tabled.

We continue to believe we have entered into a period for equity markets which is best suited to selective stock picking rather than broader market exposure. We have positioned our portfolio in the leading business with robust balance sheets, strong management teams and a transparent strategy for the future.

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