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	-0.52	-0.41	-1.71
3 months	6.29	6.62	5.81
6 months	9.39	10.08	8.49
1 year (pa)	15.70	17.15	13.38
Since Inception (pa)	17.26	18.73	15.12

Country Allocation (as at 31 December 2017)

Belgium	4.8%
France	7.3%
Germany	2.9%
Ireland	2.0%
Netherlands	2.0%
Spain	1.9%
United Kingdom	6.5%
Hong Kong	2.0%
Japan	5.0%
USA	60.3%
Cash & other	5.3%

Sector Allocation (as at 31 December 2017)

Energy	3.4%
Materials	4.6%
Industrials	7.6%
Consumer Discretionary	10.4%
Consumer Staples	9.9%
Health Care	6.2%
Information Technology	19.1%
Financials ex Property Trusts	31.7%
Property Trusts	1.8%
Cash & other	5.3%

Top 10 Holdings (as at 31 December 2017)

Wells Fargo & Co	4.5%
Alphabet Inc	4.0%
Lloyds Banking Group	3.9%
Analog Devices Inc	3.5%
Total Sa	3.4%
Union Pacific Corp	3.3%
Japan Exchange Group	3.1%
Anheuser-Busch Inbev	3.0%
Mgm Resorts Internat	2.9%
Deutsche Boerse Ag	2.9%

Other Information

Fund size (as at 31 Dec 2017)	$132 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.

Market review

Global equity markets finished the year with strong returns in December, although a strengthening Australian dollar reversed the local currency gains, with the MSCI World ex Australia Total Return (A$) Index returning -1.7%. Market sentiment continued to be favourable towards shares, reflecting continued improvement in economic conditions in the US and Europe, together with signs of stability in China. Expectations of continued global growth into 2018 were accompanied by rises in key commodity prices, with crude oil (West Texas Intermediate) trading above the US$60/bbl mark, iron ore rising above US$75/mt and copper rallying to well above US$3/lb on supportive demand from China. The red metal has risen by over 30% for the year, while crude oil has risen to its highest level since June 2015. Bullish conditions in capital markets have pushed the MSCI World ex Australia (A$) Index to its sixth consecutive year of strong positive returns.

The US equity market was buoyed by continuing strong economic momentum and policy developments. The Trump agenda for tax cuts reached completion following passage of the US Tax Reform Bill through both houses of Congress to be signed into law. The policy will see the corporate tax rate fall to 21% from its current 35%, together with measures to improve interest on debt and spending deductions for companies. The US Federal Reserve also followed through with its well-flagged intention to raise interest rates, with the policy setting board passing a unanimous decision to raise the Fed Funds Rate by 25 basis points. At a sector level, Telecommunications, Energy and Consumer Staples were among the best performing sectors, while Utilities was the weakest. The S&P500 delivered a 1.1% return while the Nasdaq was up 0.4%.

Returns from major European equity markets were mixed for December, with the German DAX (-0.8%) and the French CAC (-1.1%) weighing on returns from the region. Companies within the base metals and consumer sectors were among the best performers, while utility stocks were generally weak. However, economic data signalled continued improvement in the region's economy, with the euro zone Purchasing Managers (Composite) Index (PMI), a private sector activity survey and leading economic indicator, rose to an 82-month high, driven by strong conditions within the manufacturing sector and a robust services sector. The Consumer Confidence indicator, as measured by the European commission, also rose to its highest level in more than a decade.

The UK market delivered strong gains, aided by the broad representation of resource companies that enjoyed strengthening commodity prices. The FTSE Index rose by 4.9% for the month, while the Bank of England decided unanimously to maintain interest rates at 0.5%, but confirmed it expects 'further modest increases' as the economy moves towards the 2% inflation target.

Asian markets benefitted from the positive developments offshore and strong conditions domestically to deliver gains for the month. Hong Kong (+2.5%) led the region's gains, as did India, while returns from Japan (+0.2%) were more muted, albeit positive.

The Australian dollar finished the month 3% higher against the US dollar, 3.1% stronger against the British pound and 2.3% higher against the euro. The local currency was a direct beneficiary of stronger commodity prices and stabilising demand from China, and rose in spite of the hike in US interest rates.

Fund performance

The BT Concentrated Global Share Fund returned -0.52% (post fee, pre-tax) in December 2017, outperforming its benchmark by 1.19%.

We sold our holding in 21st Century Fox (FOX) this month following Walt Disney Company's (DIS) US$52.4 billion takeover offer to acquire most of their assets, including Fox's film and TV studio, FX Networks, National Geographic, Fox Sports Region Networks, Star India and Fox's interests in Hulu, Sky, Tata Sky and Endemol Shine. Fox will spin out its remaining assets including the Fox Broadcast Networks and TV stations Fox News and FS1 to shareholders, with each FOX shareholder also receiving .2745 shares of DIS for the remaining assets.

Regular readers would know that our initial investment in US media companies was predicated on a view that valuations were compelling and that the headwinds facing the sector (cord-cutting) would be the catalyst for sector consolidation. We saw this play out with our holding in Time Warner which we sold following a bid by AT&T to acquire the company in October 2016. The proceeds of that sale were used to increase our weighting elsewhere in the sector in companies we believe have premium assets that are difficult to replicate. Since this time we have seen another of our holdings, Discovery Communications, agree to acquire rival Scripps Networks Interactive. The announcement by DIS and FOX further reinforces our view that share prices are not reflecting the pricing power and synergies that sector consolidation will bring to the acquirer. The Disney/Fox deal faces numerous regulatory hurdles and as we believe the bid fully values the business, our preference was to redeploy funds elsewhere in the sector, namely Discovery Communications.

Our bank holdings recorded a mixed performance this month. However, we did receive clarity from the Basel Committee on Banking Supervision who unveiled the latest round of its regulatory capital framework, known as Basel IV. We believe the uncertainty regarding the outcome of Basel IV has been one of the factors capping the performance of European banks in particular this year. The latest round makes changes to the capital framework first introduced in 2010 under Basel III. The Committee are targeting an implementation date of 2022-27, with an agreement reached on credit risk, operational risk, leverage risk and a revised market risk approach with regulators. While capital requirements are set to increase (as expected), it is important to note that the outcome of the announcement was better than the market feared, with lower standardised risk weights and National discretion given to enforce operational risk multipliers. The additional regulatory clarity coupled with improved capital positions and earnings bodes well for our European bank holdings in 2018.

On the other side of the Atlantic, our holding in Wells Fargo (WFC) returned +4% this month. Whilst the Board and management have been dogged with legacy governance issues this past year, importantly they have taken action to remediate past sales practises and install new branch managers. The CEO presented at a conference in early in December where he reiterated a US$4 billion cost saving target and appeared more constructive on loan growth. He also suggested that management viewed the 61% efficiency ratio as "unacceptable". We expect further clarity on the cost reduction progress, the de-risking of specific loan books and an update on productivity initiatives at the January 2018 investor call. Our view is that WFC is approaching an inflection point in earnings, and in 2018 the company should reap the benefits of various 'self help'initiatives and a more favourable US tax policy. In the interim we are receiving a prospective 7% yield (dividend plus buyback) this year on our investment.

Strategy & outlook

As we close the year, it appears that Trump is close to scoring his first major legislative victory with the Senate approving a US$1.5 trillion tax bill, which includes permanent tax breaks for corporations and temporary tax cuts for individuals. The legislation represents the most significant change to the US tax code seen since 1986, with the corporate tax rate going from 35% to 21%. Another significant change for corporations will be the ability to expense capital expenditure up front, rather than depreciate the assets over a number of years. Whilst the BT Concentrated Global Fund steers away from judgement calls on macro and political events and prefers to focus on company fundamentals, we are cognisant of the implications of such developments. It has been acknowledged by both sides of politics that the US corporate tax policy needed to be restructured. The current tax rate is globally uncompetitive and has encouraged US firms to park earnings offshore or seek mergers with offshore companies solely for the purpose of leaving the US. There is little argument that the new tax rate will result in a broad increase in US corporate profits and encourage US companies with offshore operations to relocate back to the US.

We remain comfortable with our positioning in US equities and 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 leading businesses with robust balance sheets, strong management teams and a transparent strategy for the future.