



**Fund Manager
Commentary**

March 2010

 **BT** Investment
Management

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Australian Shares

Market review

The Australian sharemarket had a strong month, up 5.7% in March, its best performance in six months. Factors behind the positive momentum included increased confidence in the likelihood of a US recovery, the view that China's tightening won't be as aggressive as once thought and continued strong commodity prices.

However some macro concerns remain, with the Greece sovereign debt issue still unresolved, despite the European Union and IMF agreeing to provide loans as a last resort.

The renewed confidence over the month saw investors move back into cyclicals. Energy was the strongest sector (+8.9%), boosted by corporate activity in the gas industry. The wider Resources group (+8.4%) also outperformed as mining stocks responded to strong iron ore and coal pricing and a shift by BHP and Brazilian miner Vale from annual to short term pricing contracts.

Increased M&A activity appears to be an emerging theme in Resources. Shell and Petrochina made a bid for Arrow Energy's Australian LNG assets resulting in the stock finishing up over 51% for the month while Peabody bid for Macarthur Coal which saw Macarthur stocks rise over 37%. Also, post month end Newcrest bid for Lihir Gold.

Materials also performed well in March (+7.8%) driven by increasing demand for resources. Healthcare was up +5.3% on strong CSL (+5.9%) and Cochlear (+14.8%) performance as well as the resolution to US healthcare reform removing uncertainty around the sector. The Bank sector (+6.8%) also rose strongly as investors continued to revise down their expectations for loan loss charges.

On the other hand traditional defensives were the clear laggards. Consumer staples were up only 2.0% and Utilities up only 1.6%. Utilities and REITs (-0.2%) were held back by rising bond yields while the Telco sector (+0.3%) continued to struggle with concerns over Telstra's regulatory regime.

In economic news, the Reserve Bank raised the cash rate target by 25 basis points to 4% at its March meeting, the fourth hike in the current tightening cycle. Australian economic data was on balance softer than expected with employment, retail sales and housing finance coming in short of forecasts. Meanwhile, the Australian dollar gained against the US dollar in March (+2.4%) as markets priced a stronger trajectory for short-term rates and bulk commodity prices.

Fund performance

The portfolio outperformed the benchmark for the month of March.

Our overweight positions in Oil Search, Rio and Bluescope Steel were among the key contributors to returns over the month, beneficiaries of the strongly performing Resources sector.

Oil search has been trading cheap relative to the imputed value of its stake in the PNG LNG project, reflecting the lack of near term news flow, however the bid for Arrow Energy was a reminder that the energy sector is consolidating and the market began to close up that discount. Rio rose on the combination of higher expected price settlements in iron ore and the move to shorter term pricing. The latter adds significant value as historically contract prices have traded at a significant discount to spot prices. Ironically, Bluescope steel also performed well, despite the continued rise in its key input costs.

This was due to the rise in steel prices seen throughout Asia as the steel companies find they are able to pass through their higher costs. This had been a concern for the market and had led the stock to trade at a discount to its book value.

The portfolio's underweight to Westfield was another key contributor to returns in March due to the underperformance of Property Trusts, reflecting their return to a more defensive status.

The main detractors to performance over the month were our overweights in defensive names, Origin Energy and Metcash. Concerns around competition in the retail sector continue to weigh on Metcash, despite clear evidence that both Woolworths and Coles are not choosing to price aggressively. QBE is suffering as a result of the near term difficult environment for insurers resulting from the extremely low level of interest rates.

Strategy & outlook

The rally in equity markets off their recent lows has reinforced our view that we remain in a consolidation phase. We are now 12 months on from the turn in the markets as the potential financial crisis was averted and the domestic economy started its recovery. The market has re-rated back to its long-term valuation, contingent on a recovery in earnings of 20% in the 2011 financial year. It is the confidence in this earnings recovery which will drive markets from here.

The key swing factors relate to the US and Chinese economies. During March there were favourable developments on both these fronts. In the US the signs are beginning to emerge that employment is improving, following a lull over the northern winter. We believe that we will see a short term step up in US activity, however we are concerned that this will be relatively short lived given the continued structural issues relating to debt in both households and at the government level.

In China we got a clear message from policy makers that they will not aggressively tighten policy, reflecting their concerns about the uncertainty of the global economic environment.

Our recent trip to China highlighted that underlying infrastructure investment is continuing, with the projects started last year providing plenty of work to continue growth through this year. In addition, we anticipate a pick up in property investment as the government seeks to increase supply to deal with the rise in prices. The economy will start to slow later in the year, but the policy mistakes of 2008, when the Chinese over tightened are fresh in their mind, and will lead them to err towards growth.

The domestic economy is transitioning from being driven by government stimulus and the consumer towards growth coming from investment, particularly relating to the resource sector. The terms of trade shock will generate substantial growth in the second half and in addition continued strong population growth will underpin the economy.

In this environment, the portfolio's key exposures are to the resource sector, but rather than concentrate that solely in mining stocks it is spread across a number of themes being bulks, energy and engineering services, covering companies such as Rio, Oil Search, Worley and United Group.

In addition we are exposed to the 'back end' of the domestic economy, i.e. companies exposed to greater corporate spend in the supply chain such as Qantas and Asciano. Finally, we are cautious for the near term on consumer-sensitive stocks as we see the effects of rising interest rates kick in.

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The combination of these factors will likely lead to a growth pause for a few months as the consumer eases off, while the investment spend is still ramping up. However, strong growth should resume later in the year so long as the US does not deteriorate. This development in the domestic economy also shapes the positioning of the portfolio with our favoured positions being in stocks benefiting from this shift in growth, notably engineering stocks such as UGL and Worley.

The February reporting season provided a direct insight into corporate performance. The sharp reactions to announcements, in both directions, highlight that at the current time the market is close to fair value and relying on a strong earnings recovery. Any signs of a delay in this are dealt with harshly by the market, however this is providing opportunities to buy into good longer-term stories that the market has lost patience with. Reporting season confirmed that the recovery in the domestic economy is flowing through, with the banks in particular benefiting from a drop-off in loan losses. Overall the continued improvement in balance sheets helps to reduce the risks from any future economic shocks and would suggest that M&A will become a bigger theme in months to come.

The portfolio is positioned to benefit from the continued growth in China via the large bulk commodity stocks as well as through engineering companies. It is also exposed to an improvement in the back end of the economy, which has lagged up to now as corporates were tight on costs and cut inventories. Finally, we are cautious for the near term on consumer-sensitive stocks as we see the effects of rising interest rates kick in.

Small Caps

Market review

The small ordinaries index rallied strongly (+6.8%) during March following the market sell-off that occurred at the start of the calendar year. The Resource sector drove the majority of the rally, rising 13.9% whilst the Industrial sector was up only 3.4%.

The market recovery which began last month continued in March as investors started looking through budget deficit issues in Greece. The rally was also driven by continued improving employment, retail sales and industrial production data out of the United States. By the end of the month most global share markets were trading at 18 month highs and recovered back to levels not seen since pre-Lehman's collapse (September 2008).

Fund performance

The portfolio performed in line with the benchmark over the month.

Contributors to performance included overweight positions in MacArthur Coal, Bradken, NRW Holdings and REA Group and underweight positions in Sigma Pharmaceuticals, Platinum Asset Management and SP Ausnet. The overweight positions that contributed were largely mining companies and mining services companies. MacArthur Coal rose 37% following a bid by US coal company Peabody. Sigma Pharmaceuticals fell 48% after releasing to the market it expects that financial year 2010 profits will fall by 15% compared to financial year 2009 and is also writing off \$424m of goodwill.

Detractors to performance were overweight positions in Alesco, Fantastic Furniture, Programmed Maintenance Services and Campbell Brothers and underweight positions in Energy World Corp, Riversdale Mining and Eastern Star Gas. Shares in Alesco fell 31% during March following a market update where they downgraded financial year 2010 earnings expectations by 27%.

Strategy & outlook

We continue to focus on valuation based bottom-up stock selection, with a focus on earnings, clearly aligned cashflow delivery, market/pricing power, strong balance sheets and better quality management/franchises. In addition, we have positions in companies we expect to benefit from ongoing industry consolidation and structural growth opportunities.

While optimistic on the continuing global recovery and its implications for resources demand, we are conscious of the potential for a correction given relatively full valuations in the small resource industry. We continue to see strong signs of a broader ongoing improvement in the domestic economy, albeit recognise the risk of a pullback in the consumer and housing sectors in particular if the reserve bank tightens too aggressively.

We remain watchful for the impact of a strong A\$ on the earnings of import-driven sectors like retail and conversely on those sectors exposed to import competition.

We continue to selectively participate in the solid pipeline of corporate opportunities. We expect this year to see a high proportion of secondary issues being used for merger and acquisition related activities. We also expect this year will see a steady stream of initial offerings.

From a portfolio positioning point of view, we will continue to:

- Increase exposure to stocks with attractive valuations and superior management
- Decrease exposure to companies with weaker earnings profiles
- Remain conscious of the potential earnings impact to companies exposed to cyclical drivers and adjust positions where required
- Seek out undervalued and under-researched opportunities.

International Shares

Market review

Global equity markets were strong in March, shrugging off rising bond yields and macro concerns ranging from Greek debt to Chinese tightening. Most markets were up strongly with Japan's Nikkei 225 being the best performer, gaining nearly 10% in US dollar terms. Moves continue towards an IMF/EU bailout of Greece though there are concerns that these measures are no more than a backstop facility.

The MSCI World (Ex-Australia) Index (Net) was up +3.5% for March in Australian dollar terms. Markets performed better in local dollar terms (+6.6%) as the Australian dollar continued to gain against the US dollar over the month.

In the US, the S&P 500 gained 5.9% in March, the biggest monthly gain since July 2009. The VIX index of implied volatility remained in a downtrend, the monthly close of 17.6 being the lowest since June 2007. The leading sectors had a cyclical bias with Materials (+7.6%), Industrials (+8.8%) and Consumer Discretionary (+7.7%) outperforming.

US data continued to be distorted by weather effects, with housing indicators particularly weak, though the decline in February payrolls was lower than expected. Bond markets came under pressure in March from concerns about high supply.

The Australian dollar gained against the US dollar in March as markets priced a stronger trajectory for short-term rates and bulk commodity prices. However on most major crosses the US dollar was up. Concerns over Greek debt continued to overshadow the euro and the yen was also weak.

The oil price was up +5.1% in March, taking cues from signs of economic recovery in the US, strong Asian growth and higher demand forecasts. Spot gold fell 0.3% in March with a stronger US dollar and an interest rate hike in India weighing on the market while base metals built on February's recovery.

Fund performance

The portfolio slightly underperformed its benchmark over the month of March.

Negative performance in the US strategy was offset by positive performance in the Japan strategy while the Continental Europe and UK strategies were flat for the period. The underperformance in the US strategy was driven by a weak period in our valuation and industry valuation signals outweighing positive performance in our momentum and earnings quality factors. In Japan, the positive performance was due to a good month in our valuation factors outweighing negative performance in our momentum signals.

The flat performance in Continental Europe was mainly due to positive performance in our momentum signals balancing negative performance in our earnings quality and management signalling factors. In the UK, the flat performance was driven by a positive period in our momentum signals offsetting negative performance in our valuation and industry valuation factors.

Negative performance in stock selection within the Information Technology sector balanced positive performance in stock selection within the Energy and Telecommunication Services sectors. In terms of sector positioning, we are currently overweight Consumer Discretionary and Industrials while being underweight Information Technology.

Within the global asset allocation overlay, the BTIM currency strategy was flat for March. During the month we were long Australian Dollar, Japanese Yen and US Dollar while we were short the Euro, Canadian Dollar and UK Sterling. The largest contributors to performance were the short Euro and short Sterling positions. The largest detractors were the long Yen and long US Dollar positions.

Strategy & outlook

Tactically, we now are underweight Value in the US, UK and Continental Europe. Our Japan strategy is currently at long-term strategic weight.

Australian Fixed Income

Market review

International

Despite the continuing bad news out of Greece the positive momentum in the markets that had started in February continued into March. The economic news was broadly positive and the absence of any really nasty shocks helped propel equity markets higher. In contrast, bond markets had a difficult month as yields in some markets climbed higher, others moved sideways and bond auctions saw tepid buying. The month ended with equity markets rising over 6% on average while some bond markets saw yields rise by over 20 basis points.

Credit markets were volatile over the month. Sovereign spreads have generally come down from their peaks but remain very wide and volatile.

Economic indicators in the US started the month positively with the unemployment rate steady at 9.7% versus 9.85% expected. This was followed by positive consumer credit numbers (+5.0 billion versus -\$4.5 expected) with borrowing by US consumers, led by auto and student loans, rising for the first time in a year. The positive momentum continued through the month as retail sales increased 0.3%, the fourth gain in five months, and consumers braved blizzards to go shopping. It wasn't all good news – durable goods orders and new home sales came in lighter than expected and Q4 GDP was revised down again to 5.6%.

As March wore on it was clear that Europe's recovery would be much more anaemic than the US. European industrial orders unexpectedly fell -2% from December, consensus was for a rise of +1.8%, and unemployment for February stayed stubbornly high at 10%. Greece continued to dominate the headlines as the EU dithered over whether to bailout Greece or not and whether to involve the IMF. In the ensuing confusion the Euro slid another -2% before recovering somewhat. Despite the ongoing pessimism European equity markets were up for the month while bond markets were flat.

Despite Japan's unemployment rate holding at 4.9% the ongoing recovery was still a mixed bag. Industrial production for February slipped to -0.9% MoM (worse than the -0.5% expected) while large-scale retail store sales were better than expected. Deflation continued to be an issue with the CPI YoY falling -1.1%. The BoJ kept rates on hold but a buoyant Japanese equity market and fears that the yen was very overvalued saw the currency fall nearly -6% in March. The Japanese bond market also sold off in sympathy with the US with yields rising nearly +10bps on the 10 Yr bond.

The UK continued to limp towards a recovery with some stop-start economic numbers coming out in March. UK industrial production fell for the first time in five months dropping -0.4% against expectations of a +0.3% rise.

On the positive side UK retail sales rebounded in February with sales up +2.1% MoM against an expected +0.8% gain. However it was the political environment that really dominated the news as most polls suggested that a hung parliament might result from any general election.

Equity markets followed their European and US cousins upwards rising over +6%. Despite the BoE declining to increase the QE program Gilts yields were down -10bps on fears of a Greek default and uncertainty over the upcoming elections.

Australia

After a pause in February the RBA went back to its rate-raising ways and increased the base rate by 25bps to 4.0% in early March. Citing surging Asian growth and an overheating housing market the RBA also appeared to signal that more rate rises were on the way in the coming months. The 3-year bond yields ended the month up +46bps while the 10-year bond saw yields rise +35bps to 5.78% as investors factored in more rate rises. On a relative basis to the US the Australian 10-year spread widened by +13bps while the AUD 3/US 2-year widened by 25bps. Semi spreads widened by approximately 2bps on average through the month.

In credit, for Australian dollar fixed rate bonds, the attraction of higher yields and retail demand continued to push spreads down. The financial issuance that came to market in early March went well and came in tighter, contributing to a rally across the credit spectrum. Demand was healthy, both from funds and retail. Aussie yields on fixed rate bonds remain attractive in comparison to offshore. The bigger picture is that Australian market spreads are only just back to levels prevailing before APRA released its liquidity proposals for banks (APS 210) in September. And yet credit continues to improve with Aussie financial names and those bonds are all six months shorter in duration. Domestic credit spreads were volatile in March, particularly CDS markets, on the back of sovereign spread movements.

In something of an about-face the economic data out of Australia painted a picture of a robust economy that was beginning to slow. Retail sales for February were -1.4% MoM, well below expectations of a +0.3% rise, while building approvals slid -3.3% MoM against expectations of a +2.1% rise. The unemployment rate was steady at 5.3%.

The Australian dollar fluctuated through the month as investors' risk aversion ebbed and flowed. Through March the Australian dollar reached a low of 0.90 against the US dollar before ending the month close to its highs at 0.917. The RBA Index of Commodity Prices in Australian dollars fell -0.4% in March following an increase of 2.7% (revised) in February.

Fund performance

The portfolio outperformed its benchmark for the month of March. Both the macro strategies and credit strategies components contributed to returns.

Strategy & outlook

The RBA raised the cash rate 0.25% to 4.00%, the fourth 25 basis points hike in six months. The Bank remains very optimistic about the domestic and global growth outlook and more than likely will continue to tighten policy at the April meeting. Bond yields have risen substantially and offer better value at current levels relative to cash rates. However, we continue to believe that the RBA will continue to tighten monetary policy throughout 2010 and 3 and 10-year bond yields at 5.28% and 5.78% respectively do not offer great value.

Bond issues with an explicit government guarantee continued to outperform its respective commonwealth government bonds. In the macro portfolio, we remain aggressively overweight this sector and we expect this sector to continue performing well as the government has withdrawn its guarantee to the banks and states. The lack of supply should cause spreads to continue to narrow relative to commonwealth government bonds.

Liquidity conditions in the form of ultra-low short rates and continued private sector de-leveraging provide additional, albeit temporary, support across asset classes especially credit. In the credit portfolio we remain overweight in corporate bonds and underweight in supra-nationals. We maintain our overweight in bank subordinated debt over bank senior debt and our overweight in credit duration over the benchmark.

International Fixed Income

(Commentary provided by BlackRock)

Market review

Overall, central banks continue to be on hold for the time being. The Fed left its target funds rate unchanged at a range of 0.0-0.25% at its regularly scheduled March 16th meeting. The minutes noted that economic activity remained somewhat mixed, but economic recovery was likely to proceed at a moderate pace. Importantly, the statement reiterated that low rates of resource utilisation, subdued inflation, and stable inflation expectations, are likely to warrant “exceptionally low levels of the fed funds rate for an extended period.”

The Bank of Canada left rates unchanged at 0.25%, while the Reserve Bank of Australia increased its rate by another 25 basis points to 4.25%, as was largely expected, with the accompanying RBA statement remaining hawkish, stating that it was still necessary to move to a path of normalising rates. Both the European Central Bank and the Bank of England maintained their rates at 1.0% and 0.5% respectively, as expected. Both the ECB and the BOE voted to maintain their respective monetary policy stances. At the Monetary Policy meetings held on April 6th, the Bank of Japan kept the target policy rate at 0.1% as expected. There were no significant changes in the BoJ’s assessment of the economy and financial markets.

Performance

The portfolio outperformed the benchmark for the month of March.

In the Dollar bloc, our underweight duration position in the US contributed to performance as yields backed up, however, our overweight duration position in Australia significantly detracted from performance. In currency, our long US dollar vs. euro and long US dollar vs. Japanese yen were positive for performance.

The portfolio’s sector positioning had an overall neutral impact on performance. Our overweight positions in US CMBS and our US Credit subsector strategies, including our overweight in US High Yield, contributed to performance, while our underweight US MBS detracted from it. CMBS was driven by investor demand for higher yielding assets and declining risk premia. It further benefitted from higher spreads relative to investment grade corporate bonds and mortgage debt. A similar demand for yield allowed the High Yield sector to outperform, and performance was bolstered by improving corporate fundamentals.

In the Pan-Europe bloc our duration positioning significantly contributed to performance. Specifically, our overweight position in Greece benefited while our overweight position in Germany and underweight in the UK detracted from it. We have taken down some of our overweight to Greece. In yield curve strategies, our euro curve barbell contributed to performance while our sector positioning had a negative impact on performance.

Specifically, our underweight positions in euro covered and credit bonds and positions in Danish Cap floaters all detracted from performance, while our overweight to UK credits benefited slightly.

In the Asia bloc, our overall duration positioning had a neutral impact as our underweight duration position in Japan benefited performance while our underweight duration position in non-Japan Asia detracted. In currency, the long Japanese yen vs. euro position detracted while our JGB floater positions had a neutral impact on performance.

Market review

The Reserve Bank of Australia raised the cash rate by 25 basis points to 4.00% at its March meeting. In its statement the Reserve Bank continued to note that global economic growth is expected to rise to trend pace in 2010 and 2011, despite the expansion being hesitant in some developed countries as a result of the global financial crisis. The Reserve Bank also noted that in Asia, where financial sectors are not impaired, growth has continued to be quite strong.

Unemployment in Australia peaked at a much lower level than the Reserve Bank expected. Inflationary pressures declined from their peak in 2008, helped by the fall in commodity prices, the rise in the exchange rate and the previous period of slower growth in demand. More recently, inflationary pressures are re-emerging as commodity prices increase, credit for housing expands at a solid pace and domestic demand rebounds.

With the risk of economic contraction having passed, the Reserve Bank viewed it as prudent to lessen the degree of monetary stimulus that had been put in place when the outlook appeared to be much weaker and raise the cash rate

Data released after the Reserve Bank increased the cash rate supported the decision. Fourth quarter GDP was as expected at 0.9%, with upward revisions to previous GDP data reflecting stronger performance from the Australian economy. Labour data was also strong, with the hours worked component picking up.

90 day bank bills moved higher over the month following monetary policy tightening, ending the month 36 basis points higher at 4.49%. 3 and 10-year bond yields also ended the month higher, rising by 46 and 34 basis points to end at 5.28% and 5.78% respectively.

Fund performance

Managed Cash

The portfolio outperformed its benchmark for the month. Portfolio weights remained consistent with previous months, with commercial paper exposure remaining concentrated in shorter-dated maturities providing additional yield pick up relative to the cash rate. Intra-month moves in short end yields resulted in relative value trades. Mid-month saw a spike in yields as futures contracts expiry resulted in some selling pressure. With yields elevated, the portfolio invested slightly further out the curve to take advantage of this move. This was followed by the market rallying and resulted in some selling and moving into shorter-dated maturities. Late in the month yields again rose as the prospect of monetary policy tightening at the RBA's April meeting increased. These elevated yields will assist performance in the coming months.

Enhanced Cash

The portfolio outperformed its index for the month. The outperformance was due to the excess spread to bank bills that the portfolio has been accruing at, plus credit spreads tightening over the month. The portfolio was again active over the month participating in new issuance in the financial, infrastructure, diversified financials and asset backed securities sectors. Primary issuance is expected to increase further in the coming months, with the fund well positioned to take advantage of this. These deals offer significantly higher margins than where they were issued prior to the global financial crisis and will assist the portfolio in outperforming its benchmark. The portfolio ended the month accruing at an excess spread to bills of 213 basis points and a credit spread duration of 1.4 years.

Strategy & outlook

At the time of writing the Reserve Bank increased the cash rate by a further 25 basis points to 4.25%. With interest rates remaining below average to most borrowers it is clear that further near-term policy tightening will occur unless there is a significant event to destabilise the global economy. Whilst sovereign concerns have increased, particularly more recently in relation to Greece, the Australian economy has been well served by strong growth in the Asian region. The improving terms of trade will also continue to provide Australia with a significant income boost.

Moves by financial institutions in lending rates will also be closely monitored. Bank funding costs have increased more recently with the rise in underlying bond yields. Offsetting this has been the move by some institutions to lower the rate on term deposits. Should lending rates increase by more than moves in the official cash rate, the Reserve Bank may have more time to observe economic data and the effect that monetary policy has had before tightening policy. Should this not occur, it is likely the Reserve Bank will have to increase the cash rate more aggressively to get lending rates back to a normal level more quickly.

The current stage of the business and credit cycles remains constructive for asset markets. Liquidity conditions in the form of ultra-low short rates and continued private sector de-leveraging provide additional, albeit temporary, support across asset classes especially credit.

Australian Property

Market review

The LPT sector was flat in March, underperforming the broader equity market by 5.8%. For the year ended March 2010, listed property has performed in line with broader equities. It was a relatively quiet month for LPT investors with most focus on improving equity markets, rising commodities and a growing confidence about the global economy. The equity market closed at its highest point since August 2008.

In corporate news the major development was the completion of the Charter Hall purchase of the Macquarie property platform, a transaction which led to significant earnings accretion without unnecessarily stretching the Charter Hall balance sheet. Lend Lease also completed an equity raise aimed at improving their balance sheet after their recent purchase of the ING retail assets.

Treasury markets reflected expectations of better growth. The key 10-year Australian bond yield firmed (+35bp) to 5.78% and the Australian dollar traded higher to US\$0.92. Credit margins were unchanged over the month.

Despite the firmer global environment, there were no positive leads from the domestic economy. Retail sales were down 1.4% in February month on month. Building approvals were also weaker, falling 3.3% month on month. The RBA raised rates for the fourth time to 4.0%.

The best sector returns in March were in the industrial trusts +8.6%, which were up on improved confidence about global growth and a solid earnings report from Goodman Group. Goodman flagged a return to fund inflows and also to development activity. Using more optimistic assumptions, Goodman was cheap on forward valuation measures. The weakest sectors were office and diversified trusts.

Fund performance

The portfolio outperformed the benchmark for March driven by overweights in Goodman and Centro Retail and an underweight in Commonwealth Office.

Strategy & outlook

At current prices, the sector is delivering a 6.2% distribution yield and 0–2% p.a. medium-term growth. Earnings and balance sheets are stable. We look to improving direct property and equity markets for the next leg-up in the sector.

International Property

Market review

The global property securities market (on an ex-Australia basis) as measured by the UBS Global Real Estate Investors Index was up 7.8% in March. Results were positive in each of the three regions with North America (up 9.8%) increasing the most, followed by Europe (up 6.0%) and Asia (up 2.4%). Within North America, the US (up 9.9%) and Canada (up 6.7%) performed well benefiting from the continued signs of an improving economic landscape, as well as positive fund flows into the sector. Returns in Europe were positive in all countries as the region benefited from an easing in concerns over sovereign debt defaults which weighed on the market over the past two months. Benchmark heavyweights UK and France gained 5.9% and 4.3%, respectively, while top performers in the region included Austria (up 14.2%), Finland (up 13.2%) and Switzerland (up 8.5%). Performance in Asia was also positive in each country as the region continues to see a gradual improvement in conditions for commercial real estate, supported by an improving economic outlook. For the month, Hong Kong (up 5.2%) led the way, followed by Singapore (up 2.8%) and Japan (up 1.0%).

Fund performance

The portfolio underperformed its benchmark for the month of March. The North American and Europe portfolios underperformed and the Asia portfolio outperformed.

The North America portfolio's slight underperformance was driven primarily by the portfolio's modest cash position which detracted from relative performance. Excluding the impact of cash, stock selection results were slightly positive for the month, while country allocation was slightly negative due to an overweight to Canada which underperformed the region. Top individual contributors to relative performance in the region included overweight positions in outperformers Starwood Hotels & Resorts, Piedmont Office Realty and Extra Space Storage. Top individual detractors were overweight positions in underperformers Riocan REIT, Omega Healthcare Investors and Nationwide Health Properties.

In the European portfolio underperformance was driven by negative stock selection results which were weakest in the UK and France, as well as the portfolio's cash position. With respect to individual holdings, top detractors included overweight positions in underperformers Unite Group (UK) and Unibail-Rodamco (France), and an underweight position in outperformer Sponda OYJ (Finland).

Top contributors included an underweight position to underperformer Atrium European Real Estate (Austria), and overweights to outperformers Citycon OYJ (Finland) and British Land Company (UK). Country allocation was modestly positive for the month due mainly to the portfolio's lack of exposure to underperforming Belgium and overweight to outperforming Austria and Finland, which were partially offset by the negative impact of an underweight to outperforming Switzerland and overweight to underperforming France.

In the Asia portfolio modest outperformance was due to positive country allocation, which was partially offset by negative stock selection results. Positive country allocation was driven by the portfolio's overweight to outperforming Hong Kong and underweight to underperforming Japan. Stock selection results were slightly negative in Singapore and Japan, and positive in Hong Kong. Top individual contributors on a relative basis included overweight positions in outperforming Hong Kong-based companies Hong Kong Land Holdings, Sun Hung Kai Properties and Shimao Property Holdings. Top detractors were underweight positions in outperforming Japanese-based companies Japan Logistics Fund and Aeon Mall Co. Ltd., and an overweight position in underperformer Nippon Building Fund (Japan).

Outlook

The North American REIT market has enjoyed some breathing room in recent months to focus on operations and receptive markets in which to improve their balance sheets. In addition, volatility in the REIT sector has lessened significantly recently and there are some reasons to believe the sector may continue in that direction (less stress in the financial system and a dearth of new development on the horizon). While we are heartened by the sector's solid performance since its rally began a year ago, we believe performance expectations for the remainder of this year should be somewhat tempered as company valuations have expanded significantly over this span, and appear to have limited room to move much higher at least in the near-term. In addition, potential economic and operational headwinds, conditions in the credit markets and the pace of job growth will continue to play a major role in the REIT sector's direction over the next several months.

In Europe, the first quarter of 2010 was dominated by the Greek fiscal crisis and its potential impact on the Eurozone and its currency. Within the region, we have witnessed a flight to "safe" currencies such as the Swedish Krona and the Swiss Franc, and a re-appraisal of the risk premiums of countries such as Greece, Spain, Portugal and Italy. These countries account for only a very small portion (<6%) of the assets held by the public real estate companies. The London office market continues to improve, with the cap rate compression witnessed in the second half of 2009 continuing into 2010, and now aided by reports of increasing rents and reducing incentives. Interest in this market has been reinforced by several announcements and deals in the first quarter.

First, Land Securities announced that it would begin speculatively developing three new buildings in London, with a total development cost of roughly US\$1 billion. These developments are expected to be delivered to the market beginning in mid 2012.

Another UK REIT, British Land Co., leased almost 50,000 square meters of recently completed space in the quarter, at rents ahead of expectations. With their strong balance sheets, existing sites and market credibility, we believe that the public companies are going to be key players in the next development cycle of the London office market, where we believe significant profits can be made should the timing be right.

In Asia, we continue to see a gradual improvement in commercial real estate supported by the region's improving economic outlook. Within the office sector, we have seen an increase in leasing activity driven by expansion as well as US and European companies establishing an Asian presence to tap into the economic growth in the region. Although rentals are generally on a downward trend due to supply issues in some cities, the rate of decline has narrowed significantly and is beginning to show signs of bottoming. Valuations of Asian REITs are attractive with implied cap rates trading higher than physical market transactions. Elsewhere, the residential market remains robust despite earlier government measures in Hong Kong, China and Singapore to dampen demand so as to avoid a potential asset bubble in the low interest rate environment. If residential prices continue to increase sharply in the near term, the risk of further government measures will be high. As a result, Asian developers have underperformed in the first quarter and valuations appear attractive.

Performance as at 31 March 2010

(%)	1 Month	3 Months	6 Months	FYTD	1 year (pa)	2 Years (pa)	3 Years (pa)	5 Years (pa)	Since Incp. (pa)
Australian Shares - All Cap									
BT Wholesale Core Australian Share Fund APIR - RFA0818AU									
Total Return (post-fee, pre-tax)	5.96	0.33	4.59	25.65	38.91	2.11	-0.30	9.72	11.19
Total Return (pre-fee, pre-tax)	6.03	0.52	5.00	26.40	40.01	2.92	0.49	10.61	12.26
Benchmark	5.74	1.25	4.66	27.31	41.94	-0.18	-2.58	8.00	11.24
BT Wholesale Imputation Fund APIR - RFA0103AU									
Total Return (post-fee, pre-tax)	6.21	0.31	4.20	25.51	38.40	0.37	-1.57	10.16	12.12
Total Return (pre-fee, pre-tax)	6.29	0.53	4.67	26.36	39.65	1.27	-0.70	11.11	13.18
Benchmark	5.74	1.25	4.66	27.31	41.94	-0.18	-2.58	8.00	9.89
BT Wholesale Focus Australian Share Fund APIR - RFA0059AU									
Total Return (post-fee, pre-tax)	6.35	1.05	5.15	27.98	43.87	0.86	-1.91	10.94	10.95
Total Return (pre-fee, pre-tax)	6.45	1.17	5.61	28.79	45.30	1.74	-1.10	12.27	12.28
Benchmark	5.74	1.25	4.66	27.31	41.94	-0.18	-2.58	8.00	8.00
BT Wholesale Ethical Share Fund APIR - RFA0025AU									
Total Return (post-fee, pre-tax)	6.30	0.21	3.90	24.56	37.18	-0.91	-2.47	9.54	9.96
Total Return (pre-fee, pre-tax)	6.39	0.45	4.39	25.45	38.49	0.04	-1.56	10.55	11.06
Benchmark	5.74	1.25	4.66	27.31	41.94	-0.18	-2.58	8.00	8.88
Australian Shares - Mid Cap									
BT Wholesale MidCap Fund APIR - BTA0313AU									
Total Return (post-fee, pre-tax)	5.80	0.06	5.81	32.37	55.61	N/A	N/A	N/A	6.56
Total Return (pre-fee, pre-tax)	5.86	0.59	7.03	34.88	59.02	N/A	N/A	N/A	10.72
Benchmark	5.93	-1.51	2.62	25.94	47.65	N/A	N/A	N/A	-6.10
Australian Shares - Small Cap									
BT Wholesale Smaller Companies Fund APIR - RFA0819AU									
Total Return (post-fee, pre-tax)	6.86	1.24	9.53	37.43	65.13	-0.01	-1.89	10.22	14.57
Total Return (pre-fee, pre-tax)	6.97	1.50	10.12	38.56	66.95	1.09	-0.82	11.43	15.84
Benchmark	6.84	-1.57	3.23	25.76	58.06	-7.42	-7.48	5.84	9.70
International Shares									
BT Wholesale Core Global Share Fund APIR - RFA0821AU									
Total Return (post-fee, pre-tax)	3.37	2.19	3.43	11.46	18.02	-5.06	-10.96	-1.57	3.07
Total Return (pre-fee, pre-tax)	3.46	2.43	3.93	12.22	18.96	-4.31	-10.21	-0.67	4.28
Benchmark	3.52	1.12	3.24	10.54	14.47	-7.02	-9.61	-0.83	5.20
Property									
BT Wholesale Property Investment Fund APIR - RFA0817AU									
Total Return (post-fee, pre-tax)	0.09	-1.47	-6.47	22.02	42.09	-18.35	-18.83	-4.23	7.03
Total Return (pre-fee, pre-tax)	0.15	-1.32	-6.17	22.62	43.02	-17.82	-18.30	-3.60	7.80
Benchmark	-0.03	-1.63	-6.54	22.23	42.00	-22.82	-23.27	-7.20	6.31
BT Wholesale Global Property Securities Fund APIR - RFA0051AU									
Total Return (post-fee, pre-tax)	7.63	6.42	13.85	46.39	82.79	-11.07	-14.16	3.42	6.32
Total Return (pre-fee, pre-tax)	7.73	6.67	14.40	47.45	84.49	-10.27	-13.36	4.38	7.25
Benchmark	8.13	7.71	15.06	50.36	86.28	-11.65	-15.13	2.26	5.23
Fixed Interest									
BT Wholesale Fixed Interest Fund APIR - RFA0813AU									
Total Return (post-fee, pre-tax)	-0.28	1.59	3.01	5.88	6.10	7.92	6.21	5.63	6.93
Total Return (pre-fee, pre-tax)	-0.24	1.68	3.22	6.19	6.52	8.35	6.63	6.06	7.51
Benchmark	-0.58	1.26	2.30	4.11	2.73	7.63	6.51	5.99	7.09
BT Wholesale Global Fixed Interest Fund APIR - RFA0032AU									
Total Return (post-fee, pre-tax)	0.83	3.34	4.53	9.53	12.73	6.94	6.32	5.89	6.78
Total Return (pre-fee, pre-tax)	0.88	3.48	4.81	9.96	13.31	7.48	6.86	6.44	7.41
Benchmark	0.56	2.69	3.84	7.90	10.24	8.62	8.41	7.28	7.73
BT Wholesale Enhanced Credit Fund APIR - RFA0100AU									
Total Return (post-fee, pre-tax)	0.16	2.08	4.42	8.32	10.29	8.40	5.50	5.41	5.67
Total Return (pre-fee, pre-tax)	0.20	2.19	4.66	8.69	10.80	8.90	5.98	5.89	6.23
Benchmark	-0.20	1.55	3.01	5.15	5.33	8.25	6.54	6.10	5.87
Cash & Income									
BT Institutional Enhanced Cash Fund APIR - WFS0377AU									
Total Return (post-fee, pre-tax)	0.48	1.49	3.29	5.45	7.41	5.48	5.03	5.41	5.38
Total Return (pre-fee, pre-tax)	0.51	1.55	3.42	5.65	7.68	5.74	5.30	5.68	5.76
Benchmark	0.33	1.02	1.92	2.73	3.54	5.11	5.73	5.84	5.79
BT Institutional Managed Cash Fund APIR - WFS0245AU									
Total Return (post-fee, pre-tax)	0.35	0.99	1.86	2.66	3.44	5.03	5.62	5.70	7.64
Total Return (pre-fee, pre-tax)	0.37	1.05	1.97	2.83	3.67	5.26	5.85	5.93	7.97
Benchmark	0.33	1.02	1.92	2.73	3.54	5.11	5.73	5.84	7.73
Diversified									
BT Wholesale Active Balanced Fund APIR - RFA0815AU									
Total Return (post-fee, pre-tax)	3.29	1.29	4.11	16.24	24.98	-0.42	-2.89	4.77	7.77
Total Return (pre-fee, pre-tax)	3.38	1.53	4.61	17.08	26.17	0.53	-1.97	5.77	8.87
Benchmark	3.06	1.41	3.54	16.40	24.10	0.96	-1.02	5.74	7.46

All returns calculated by BT Investment Management (RE) Limited. No part of this Fund Manager Commentary (**Commentary**) is to be circulated without this page attached.

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- BT Wholesale Focus Australian Share Fund
- BT Wholesale Ethical Share Fund
- BT Wholesale Smaller Companies Fund
- BT Wholesale MidCap Fund
- BT Wholesale Core Global Share Fund[#]
- BT Wholesale Global Fixed Interest Fund^{##}
- BT Wholesale Enhanced Credit Fund
- BT Wholesale Fixed Interest Fund
- BT Wholesale Property Investment Fund
- BT Wholesale Global Property Securities Fund
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