

# BT Global Credit Fund

Fact Sheet  
December 2009



## About the Fund

The Fund is an actively managed portfolio of Australian and international credit securities.

### Fund objective

The Fund aims to provide a return (before fees and expenses) that exceeds the UBS Bank Bill Index over a rolling 3 year period.

The suggested investment timeframe is three years or more.

### Investment strategy

The Fund is actively managed and aims to take advantage of investment opportunities within the Australian and international debt markets.

The Fund invests in domestic and international securities. These may include direct or indirect holdings of bank, government, corporate, fixed and floating rate securities as well as structured and securitised products.

Derivatives such as futures, swaps and options can be used where appropriate. Any international currency and interest rate exposures will be hedged back to the Australian Dollar to the extent considered reasonably practicable.

Sector and security selection, credit management and portfolio construction are expected to be the main contributors to performance.

### Investment philosophy

Our philosophy is based on our belief that credit markets are inefficient due to market shocks, changes in the underlying economy, and the continually evolving nature of the credit market itself. Consequently, we believe that credit investments are often mispriced as participants may incorrectly measure the underlying risks and returns of the investment. This mispricing of investments provides numerous excess return opportunities for the credit fund manager with the appropriate analytical skill set, portfolio management skills, and execution capabilities.

### Investment process

BTIM's Credit team uses a disciplined and transparent process. The team's research effort focuses on identifying and capturing mispricings in credit market securities and utilises both qualitative assessment of companies and quantitative modeling which aim to identify opportunities and avoid problematic issuers. In addition to BTIM's internal research resources, BTIM sources research from an independent research company, CreditSights, focused on global companies.

The Fund invests in bonds issued by Australian corporates both in local and international markets. The fund's manager also aims to complement investments available locally by investing in offshore companies issuing in global markets.

### Investment team

BTIM's Income Strategies team includes five dedicated investment professionals. The portfolio manager of the Fund is Jean-Luc Petit who has more than 16 years industry experience.

## Performance

| (%)                        | Total Returns |           | Benchmark<br>Return |
|----------------------------|---------------|-----------|---------------------|
|                            | (post-fee)    | (pre-fee) |                     |
| 1 month                    | 1.04          | 1.09      | 0.32                |
| 3 months                   | 2.05          | 2.15      | 0.88                |
| FYDT                       | 10.39         | 10.51     | 1.69                |
| 6 months                   | 10.39         | 10.51     | 1.69                |
| 1 year (pa)                | 20.07         | 20.22     | 3.47                |
| 2 years (pa)               | -0.28         | -0.21     | 5.52                |
| 3 years (pa)               | NA            | NA        | NA                  |
| Since<br>Inception<br>(pa) | 0.19          | 0.24      | 5.84                |

Note performance (post fees) does not incorporate the impact of management fees prior to 23 October 2009.

## Asset allocation

|                            |       |
|----------------------------|-------|
| Corporate fixed            | 66.5% |
| Corporate floating         | 26.0% |
| Mortgage backed securities | 3.0%  |
| Convertibles               | 1.5%  |
| Cash                       | 13.5% |
| Futures                    | -8.5% |
| Swaps                      | -2.0% |

## Other information

|                               |                 |
|-------------------------------|-----------------|
| Fund size (as at 31 Dec 2009) | \$166.7 million |
| Date of inception             | May 2007        |
| Minimum investment            | \$500,000       |
| Minimum balance               | \$500,000       |
| Buy-sell spread               | 0.15%           |
| Income distribution frequency | Monthly         |

## Fees

|                |           |
|----------------|-----------|
| Management fee | 0.55% pa* |
|----------------|-----------|

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

## Economic news

The economy in the U.S. expanded in the third quarter at a slower pace than anticipated as companies curbed spending and cut inventories at an even faster pace, reductions that have set the stage for acceleration in growth.

The 2.2 percent increase in gross domestic product from July through September compares with a 2.8 percent gain previously reported by the Commerce Department in Washington. Improved consumer spending combined with a record drop in stockpiles this year will promote increases in production that may keep the world's largest economy growing well into 2010.

## Market news

Australian bond yields lacked clear direction in December, though the curve steepened noticeably. After the RBA's decision to hike the cash rate 25bps to 3.75%, the RBA Deputy Governor's comments on monetary policy as well as generally strong data were the main influences in Australia last month.

Greece's credit rating was cut one level to BBB+ from A- by S&P, which threatened further action unless Prime Minister George Papandreou tackles what is the European Union's largest budget shortfall. "The ratings could be further lowered if the government is unable to gain sufficient political support to implement a credible medium-term fiscal consolidation program," S&P said. CDS spreads rose from 190 at the start of December to 284 at the end of the month.

Moody's measure of the 12 month trailing global speculative grade default rate unchanged at 12.7% in November.

During December, four defaults were recorded, bringing the year-to-date total to 189. All of the defaults in December were from the nonfinancial industry. Last month's 10.9 percent rate, which is subject to revision, was down from 11.28 percent in November. "Credit conditions in the U.S. remain challenging, but signs of improvement are beginning to emerge, such as improved lending conditions and a resurgence in new issuance," said S&P. S&P said it was the first monthly decline since October 2007, when the default rate hit a 25-year low of 0.99 percent. The highest U.S. default rate on record is 12.54 percent, set in July 1991. Standard & Poor's expects the speculative-grade default rate to continue declining to a mean forecast of 6.9 percent by September 2010. But if economic conditions are worse than expected, S&P sees the decline to only 9.9 percent.

National Australia Bank Bid A\$13.3 billion for Axa Asia Pacific, scuttling AMP joint offer with French insurer Axa and winning approval from the wealth manager's independent directors. The bank offered A\$6.43 a share for Axa Asia Pacific, beating the A\$6.22 bid by AMP and Axa, which owns 54 percent of Axa Asia Pacific.

Government of Abu Dhabi and UAE Central Bank agreed to fund repayment of \$4.1bn Dubai World sukuk obligations therefore easing concerns about Dubai debt repayments.

Qantas Airways Ltd. said group passenger numbers increased by 6.7 percent in October from the previous year.

## New Issuance news

Unsecured AUD supply totalled a rather modest \$3.6bn in December reflecting the usual seasonal slowdown (\$10.675bn in November). SSA issuers accounted for \$800m while bank GG paper totalled \$2.5bn. The only non-financial supply was the \$300m bond exchange by Stockland (\$175m of its June 2011 issue bought back). In offshore markets, Incitec Pivot priced USD\$800m of 10 year notes at T+270 bps.

## Spread movements

Domestic credit spreads pushed wider during November, particularly cash bonds, on the back of offshore issuance by domestic banks. Since the end of November, the European investment grade iTraxx 5-year index traded within an 17bps range, ending down 14bps. The North American 5-year investment grade CDX index traded within a 24bps range, ending down 21bps. Aussie iTraxx finished the month at 85bps, down 9bps for the month while the UBS credit index finished at 140bps down 3 bps.

## Fund Performance

The BT Global Credit Fund outperformed the benchmark by 77 bps in December. Positive relative performance came mostly from spread tightening in our Lower Tier 2 paper holdings.

## Market Outlook

While 2009 provided strong excess returns from credit markets, we do not expect the same type of over-performance in 2010. However, the first half of the new year could still provide good returns and a host of new issues. Corporate issuers in general have healthy balance sheets and strong cash-flows after the costs adjustments made last year.

Later on in 2010, the discussions about the removal of the emergency monetary policy measures in the US could well weight on the equity and credit markets. We will look to adjust our credit exposure prior to that change later in 2010.



## For more information

Please call 1800 813 886, contact your business development representative or visit [www.btim.com.au](http://www.btim.com.au)

BT Investment Management (RE) Limited ABN 17 126 390 627, AFSL 316 455, is the responsible entity and issuer of units in the BT Wholesale Regular Income Fund. A product disclosure statement (PDS) is available for the Fund and can be obtained by contacting your business development representative on 1800 813 886 or visiting [www.btim.com.au](http://www.btim.com.au). You should obtain and consider the PDS before deciding whether to acquire, continue to hold or dispose of units in the Fund. This information has been prepared without taking account of your objectives, financial situation or needs. Before acting on this information, consider its appropriateness, having regard to your objectives, financial situation and needs. An investment in the Fund is not a deposit with or any other liability of the Westpac Banking Corporation (ABN 33 007 457 141) or any other Company in the Westpac Group of companies. Performance data (post-fee) assumes reinvestment of distributions and is calculated using exit prices, net of management costs. Performance data (pre-fee) is calculated by adding back management costs to the (post-fee) performance. Past performance is not a reliable indicator of future performance. BT Investment Management (RE) Limited is a member of the Westpac Group. Neither BT Investment Management (RE) Limited, nor any other company in the Westpac Group, guarantees the repayment of capital or the performance of the product or any particular rate of return.

BT® is a registered trade mark of BT Financial Group Pty Ltd and is used under licence.