

BT Global Credit Fund

Fact Sheet
January 2010



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 Return
	(post-fee)	(pre-fee)	
1 month	1.79	1.83	0.35
3 months	2.85	2.99	0.98
FYDT	12.37	12.53	2.05
6 months	9.41	9.57	1.78
1 year (pa)	27.03	27.24	3.42
2 years (pa)	0.80	0.89	5.39
3 years (pa)	N/A	N/A	N/A
Since Inception (pa)	0.84	0.90	5.79

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

Asset allocation

Corporate fixed	73.9%
Corporate floating	14.2%
Mortgage backed securities	2.7%
Convertibles	1.7%
Cash	20.6%
Futures	-10.5%
Swaps	-2.6%

Other information

Fund size (as at 31 Jan 2010)	\$170.0 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*
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* You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

Economic news

The U.S. economy expanded in the fourth quarter at the fastest pace in six years as factories cranked up assembly lines, indicating the recovery may be strong enough to be weaned from government support. The 5.7 percent increase in gross domestic product at an annual rate reported exceeded the 4.8 percent median forecast of economists. Separate reports showed consumer sentiment and a barometer of business activity rose more than forecast in January.

In Australia, December's labour market report showed a compelling rise of 35.2k in employment, taking the unemployment rate to a comparatively low 5.5%. The strength of the report suggests Australia's unemployment rate may have peaked already at 5.8%. Consumer confidence managed to rise in the month of January according to the Westpac/Melbourne Institute's survey, and building approvals bounced back in November. The fourth quarter consumer price index report released in the last week of showed a 0.5%q/q gain in headline inflation (2.1%/y/y), and a sticky rise in the underlying measures which averaged out at 0.7%q/q and 3.4%/y/y.

Market news

Credit markets were volatile in January. Falling equity markets, interrogation about sovereign risk and rising risk aversion affected corporate spreads during the month. CDS indexes traded wider while cash markets were stable.

Earnings and revenue reported so far in the US have been positive. As at end of January 2010, 40% of the S&P companies had reported results. Amongst them, 80% had better EPS than consensus and 70% had better revenue than consensus. However, guidance for the next two quarters was cautious which impacted negatively equity markets.

The focus on the Chinese economy was clearly evident in January. Chinese economic activity accelerated in the December quarter, with the economy growing by 10.7 per cent in the year to December – the best result in two years. However equity and credit markets were more concerned about speculation that Chinese authorities were looking at tightening lending and moving away from the ultra loose monetary policy.

Adding to the negative sentiment was heightened regulatory risk, following US President Obama's proposed banking limits to curb risk-taking saw financial shares lose significant ground across the globe. Obama unveiled a new proposal that seeks to eliminate proprietary trading, private equity and hedge fund investing from the banking sector.

In Europe, Greece was again in the spotlight. The country's CDS spread blew out to above 400bps while the European Union was negotiating with Greece measures to reduce its budget deficit. Greece was able to issue 8bn euro of government debt at a margin of 381bp versus Bund.

ECB's quarterly euro area bank lending survey revealed a decline in the net percentage of banks tightening credit standards on loans to enterprises from 8% in October 2009 to 3% in January 2010.

S&P reported the US speculative grade default rate fell from 11.28% in November to 10.9% in December. S&P revised its baseline US spec grade default rate in 2010 from 6.9% to 5.0%.

JP Morgan, Citigroup, Bank of America, Wells Fargo, Goldman Sachs and Morgan Stanley reported in January their 4Q09 results. While EPS figures beat expectations on average, the composition of earnings was slightly disappointing.

Woolworths posted its slowest second-quarter sales growth in 17 years as demand fell at its discount department stores on the absence of government stimulus that boosted year-earlier revenue. Sales rose 4 percent to A\$13.8 billion in the three months ended Jan. 3 from A\$13.3 billion a year earlier. That compares with the A\$14 billion median estimate.

New Issuance news

Unsecured issuance in January totalled \$6.625bn, of which \$5.325bn was sourced from the SSA sector. The only non-SSA transactions were the \$250m, 3 year, GG deal from Bank of Queensland and a \$1.05bn, 3 year from Rabobank.

AMP Bank brought out the first RMBS issuance of the year via Progress Series 2010-1 in January. The deal was upsized from the initial amount of A\$543.5m to A\$1 billion due to strong demand from domestic and offshore investors. The Class A notes (A\$920m WAL 3y) were priced 5bp inside the initial price guidance of +135bp. Eighteen investors were reported to have participated in the Class A notes, with about 40% sold to European investors. The deal also comprises A\$56m Class AB (WAL 5.2y +180bp), of which AOFM bought A\$36m, and A\$24m Class B notes (WAL 5.2y price undisclosed).

Spread movements

Domestic credit spreads were volatile in January, particularly CDS markets, on the back of negative trending equity markets. The European investment grade iTraxx 5-year index widened 7 bps to 83. The North American 5-year investment grade CDX widened 11bps to 97. Aussie iTraxx finished the month at 95bps, up 10bps for the month while the UBS credit index finished at 136bps down 4 bps.

Fund Performance

The BT Global Credit Fund outperformed its benchmark by 148bps in January. Positive relative performance came again from our insurance and bank sub debt holdings.

Market Outlook

Growth and earnings expectations while rising are still picturing a slow recovery going forward. Actual data could surprise on the upside in the next 3 month which ultimately will benefit both equity and credit markets.

We remain overweight in terms of credit duration and favour high beta sectors. Therefore we remain underweight in the supranational sector while we remain overweight in the financial (non-guaranteed) and corporate sectors.

The major risks to this outlook include the sovereign crisis deepening in Europe and economic data disappointing in the US and China.



For more information

Please call 1800 813 886, contact your business development representative or visit www.btim.com.au

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