

BT Global Credit Fund

Fact Sheet
February 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	0.26	0.30	0.35
3 months	3.12	3.25	1.02
FYDT	12.66	12.87	2.40
6 months	7.11	7.31	1.87
1 year (pa)	31.04	31.31	3.48
2 years (pa)	1.04	1.15	5.28
3 years (pa)	N/A	N/A	N/A
Since Inception (pa)	0.91	0.98	5.75

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

Asset allocation

Corporate fixed	72.3%
Corporate floating	15.6%
Mortgage backed securities	2.4%
Convertibles	1.6%
Cash	18.2%
Futures	-10.2%
Swaps	0.1%

Other information

Fund size (as at 28 Feb 2010)	\$171.5 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

While the economic data out of the US continued to be decidedly better than expectations, concerns about the fiscal strength of European countries eroded the early optimism. The cost of insuring debt against default for Greece, Portugal and Spain rose to record levels. European banking stocks were the hardest hit, with indices in Europe falling to three month lows at the end of the first week of February.

Concerns over the eurozone's fiscal health continued to dominate market sentiment throughout February. And the news that European leaders had struck a deal to provide financial aid to Greece and gave assurances that Greece will stick to its austerity plan, were cheered by markets.

The Federal Reserve raised its discount rate by 25 basis points to 75 basis points was perceived by the market to be somewhat of a surprise even though the Fed had indicated that this would happen as the stimulus is withdrawn from the system.

News that the unemployment rate fell again in February (to 5.3% from 5.5% in January and of 5.8% in October) due to a 52,700 jump in employment underpinned expectations that the RBA would tighten policy in March. Other data was more mixed (January retail sales -0.7%, Q1 private capex +5.5%) but the market generally continued to price in a 50-60% chance of a rate hike in March.

Market news

Sovereign risk indicators, including those for the US and Australia, rose sharply in early February as concerns over Greece's budget position and default risk escalated. This dented risk appetite and caused some flight to higher quality markets in the second half of the month when contagion fears moderated and most markets' CDS spreads returned to more normal levels. Greek CDS spreads remain in distress territory and subject to daily speculation over the merits and likelihood of an EU bail-out.

Moves in cash bond spreads were mixed in February, with volatility driven by EU sovereign concerns. The global backdrop was generally weak and volatile, but AUD credit outperformed against that backdrop – domestic markets never really experienced the widening in spreads of global peers due to the continued lack of domestic supply. Non-AUD Aussie bank spreads widened but snapped back in, although illiquidity remained a feature of the market. The main theme in the AAA credit space was the divergence of names, with European names wider on sovereign concerns and how that might play out with EU banks. USD-based names were tighter, although that divergence diminished somewhat towards month end.

S&P says US speculative grade default rate fell from 10.9% in December 2009 to 10.7% in January 2010 and continues to expect a 5% rate by calendar year end.

Most ASX 200 companies reported in February. Overall, results were above expectations while guidance was still cautious going forward.

Wesfarmers posted first-half profit that beat analyst estimates, sending its stock to the biggest gain in two months. Net income rose 1 percent to A\$879 million in the six months ended December. Revamped fresh food areas and store layouts are winning customers at Coles supermarkets and helping sales growth outpace larger rival Woolworths Ltd. for the first time since Wesfarmers acquired the business two years ago for A\$18.2 billion. Earnings are also being stoked by stopping sales of less profitable appliances at its Kmart chain and reducing the costs of supplying outlets.

New Issuance news

Unsecured total AUD supply totalled \$7.7bn in February (\$4.675bn fixed, \$3.025bn floating). AAAs accounted for \$5.9bn of the total, of which \$2.65bn was in GG format and \$3.25bn were supra/agency transactions. The only non-AAA transaction was the \$1.8bn 4-year bond from ANZ. In the USPP market, Envestra priced the first deal of the year for an Australian borrower: \$150m for 17 years (drawing any time prior to 1 July 2010), while SP AusNet priced CHF425m for 5.5 years at the equivalent of BBSW + 152bps.

Two domestic RMBS, totalling A\$1.5bn, were issued in February. This brings the total issuance volume for the year to date to A\$2.5 bn. Although issuance volume remains relatively small, this compares favourably to last year where no new deals were issued until March.

Spread movements

Domestic credit spreads were volatile in February, particularly CDS markets, on the back of sovereign spread movements. The European investment grade iTraxx 5-year index widened 2bps to 85. The North American 5-year investment grade CDX tightened 6bps to 91. Aussie iTraxx finished the month unchanged at 95bps, up 10bps for the month.

Fund performance

The BT Global Credit Fund underperformed slightly its benchmark by 5bps in February.



Investment
Management

For more information

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

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