

# BT Global Credit Fund

Fact Sheet  
March 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	1.68	1.73	0.33
3 months	3.77	3.91	1.02
FYDT	14.55	14.82	2.73
6 months	5.90	6.14	1.92
1 year (pa)	35.75	36.09	3.54
2 years (pa)	2.24	2.38	5.11
3 years (pa)	N/A	N/A	N/A
Since Inception (pa)	1.47	1.56	5.69

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

## Asset allocation

Corporate fixed	72.9%
Corporate floating	15.9%
Mortgage backed securities	2.4%
Convertibles	1.7%
Cash	16.6%
Futures	-7.8%
Swaps	-1.7%

## Other information

Fund size (as at 31 Mar 2010)	\$174.1 million
Date of inception	May 2007
Minimum investment	\$500,000
Minimum balance	\$500,000
Buy-sell spread	0.15% <sup>#</sup>
Distribution frequency	Monthly

<sup>#</sup> The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

## 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

Much of the domestic data had an underlying strength in March, even if the headline figures lacked immediate impact. For example, Q4-09 GDP was released at expectations of 0.9% q/q but also had a strong revision of 0.5% to 0.9% for the previous quarter. Even the “weaker” employment data for February of only 0.4K jobs was set against a backdrop of a significant increase in hours worked.

In the US, Employment in March grew by the most in three years, representing a turning point for the labour market. Payrolls rose by 162,000 workers, the third gain in the past five months and the most since March 2007. The increase included 48,000 temporary workers hired by the government to conduct the census. Unemployment was 9.7 percent for a third month.

## Market news

Offshore, credit markets were volatile. The continuing saga of the Greek Debt Crisis ebbed and flowed, with many headlines but little definitive action. As it currently stands, the major players in the EU have agreed to become a lender of last resort to Greece – and to have the IMF to also participate – but the story is still developing. Greece has still not officially asked for aid, for example. Sovereign spreads have generally come down from their peaks, but remain very wide and volatile.

In AUD 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.

S&P's measure of US speculative grade default rate falls from 10.9% in January to 10.5% in February. Expects 5% rate by December 2010.

Telstra, said there is a “significant gap” between it and the government's NBN Co. on the amount it will receive for a separation of its retail business and copper-wire network. Discussions are continuing on an “acceptable financial outcome” and other issues. The company has previously said it may sell some or all of its national copper-wire network to NBN, a new A\$43 billion (\$40 billion) state-owned high-speed fiber platform. Legislation that may lead to a split, including penalizing Telstra if it doesn't comply, has stalled in the nation's Senate and won't be voted on until at least May as Opposition members seek further details. Proposed penalties include curbs on Telstra expanding mobile-phone services and the forced sale of its half-share of Australia's largest pay-television operator.

## New Issuance news

March saw strong issuance levels, with unsecured issuance totalling \$13.74bn (\$8.94bn fixed, \$4.8bn floating) including a healthy spread of financial issuers and the first non-financial AUD issuance this calendar year. Financial issuance totalled \$9.39bn, including \$1.69bn of GG deals ahead of the program's expiry on

31 March. Non-GG financial issues were completed by offshore names including JPMorgan, Credit Suisse, HBSC and BNP Paribas. Supranational/ Agency issuance amounted to a further \$3.5bn and non-financial issuance totalled \$850m, with supply from Transurban (\$250m of 4yr), SP AustNet (\$300m of 7.5 yr), Mirvac (\$150m of 5yr) and Volkswagen (\$150m of 4yr).

In offshore markets, non-financial deals were completed by Wesfarmers (€500m of 5yr), SPI Electricity and Gas (HKD700m of 10 yr), Telstra (€1bn of 10 yr) and Brambles (\$USD250m of 5yr and \$USD500m of 10 yr). In loan markets, Qantas was reportedly syndicating \$315n term facility in Asia, while the arrangers of a \$2bn multi-tranche facility for Origin were said to offer participation to FI fund managers from the domestic market.

## 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 tightened 6 bps to 79. The North American 5-year investment grade CDX tightened 3bps to 88. Aussie iTraxx tightened 10bps at 96bps.

## Fund Performance

The BT Global Credit Fund outperformed its benchmark over the month of March.

## Market Outlook

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.

Overall economic conditions appear to be favourable for most asset classes, with the mild exception of government bonds. On an aggregate global basis, economic growth is above trend and set to stay that way through 2011. Inflation remains below trend in most countries, reflecting the economic slack generated during the financial crisis.

An economic environment characterised by above trend growth and below-trend inflation is historically associated with strong returns from financial assets.

Therefore we remain overweight in corporate bonds and underweight in supra-nationals. We maintain our overweight in bank subordinated debt over bank senior debt. Finally, we maintain our overweight in credit duration over the benchmark.



## For more information

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

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