

BT Global Credit Fund

Fact Sheet
May 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 team also draws on a wide range of knowledge resources including BTIM's other specialist investment teams: Equity Strategies and Macro Strategies.

Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	-0.99	-0.94	0.38
3 months	1.49	1.63	1.05
FYDT	14.34	14.72	3.48
6 months	4.65	4.94	2.08
1 year (pa)	14.34	14.72	3.48
2 years (pa)	19.00	19.39	3.75
3 years (pa)	0.50	0.68	4.80
Since Inception (pa)	1.26	1.38	5.60

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

Asset allocation

Corporates	73.2%
Sovereign	2.1%
Mortgage & Asset backed securities	2.3%
Cash	32.2%
Futures	-6.4%
Swaps	-3.4%

Other information

Fund size (as at 31 May 2010)	\$172.8 million
Date of inception	May 2007
Minimum investment	\$500,000
Minimum balance	\$500,000
Buy-sell spread	0.15% [#]
Distribution frequency	Monthly

[#] 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

Economic news out of the US was broadly positive. The important ISM survey was in line with expectations while new home sales and durable goods orders were better than expected. Core inflation continued to be a non-issue while expectations of a tightening by the Fed were moved further out.

The economic picture began to brighten in Europe as the economy grew at a faster pace than expected in Q1. The engine of European growth continued to be centred on Germany. The OECD raised its growth outlook as German exports grew more than expected and factory orders and industrial production displayed significant MoM increases.

After raising rates in both March and April the RBA added another 25bps in May bringing the base rate to 4.50%. Citing strong Asian and world growth and an overheating housing market the RBA also appeared to signal that more rate rises were on the way in the coming months. Given the subsequent upheavals that happened in May many pundits now believe that the RBA may be on hold in June and perhaps for the rest of the year. The rate increases began to really bite in May and we saw private sector credit, construction work and retail sales come in softer than expected. Building approvals were still strong but most pundits now expect the building sector to cool also as the rate increases dampen demand for new housing.

Market news

Sovereign risks in Europe were the main drivers of risk aversion driving equity markets lower and credit spreads wider in May.

Continued concerns over the ability of Greece and a number of other European nations to repay debt and improve their fiscal position prompted IMF/EU bailout packages and an ECB intervention in the hope of stabilising financial markets concerns. However, a decision by the Germany government to unilaterally implement a ban on naked short selling of Euro area bonds, financials and CDS weakened market perceptions of European solidarity and showed a lack of organisation and cooperation. This added to market's uncertainty which triggered risk-off trading.

Outside of Europe, US regulatory developments (with the passing of Dodd's bill in the Senate and the Goldman Sachs criminal probe) pushed related bank spreads wider. Korea added geopolitical instability to the mix. The market was also concerned by signs that China, particularly its housing market, is slowing down.

Locally, the Australian Government's plan to introduce a new Resource Super Profits tax threw further uncertainty into the mix. This mainly impacted the resources sector, but increased concern over the potential impact of job losses and Australia's terms of trade due to the likely cancellation of mining projects.

The RBA signalled that mortgage borrowing rates had reached average levels and there were some signs recent interest rate increases were impacting activity, hinting a pause in the tightening cycle is likely.

S&P's measure of the global speculative grade default rate fell from 8.34% in March to 6.96% in April.

Fitch Rating agency downgraded Spain's Long-term rating to 'AA+' from 'AAA' with stable outlook. "The downgrade reflects Fitch's assessment that the process of adjustment to a lower level of debt will materially reduce the rate of growth of the Spanish economy over the medium-term". CDS spreads on Spain widened 52 basis points during the month to 219bps.

New Issuance news

There was no unsecured bond issuance in AUD in May. However, there was a number of Australian borrowers in the loan markets with Qantas (\$430m), Sonic Healthcare (\$1.3b), Brookfield (\$1.3b), Goodman (\$250m), Lend Lease and Leighton (\$USD350m) tapping the market.

There were four new transactions were priced in the securitisation space with total issuance volumes of A\$1,830m. The deals include three RMBS transactions, FirstMac (A\$338.86m), Resimac (A\$250m) and Apollo (A\$1 billion), and an ABS deal, Impala Trust (A\$240.7m) secured by a pool assets primarily consists of auto loans and medical and dental equipment.

Spread movements

Generally credit spreads widened in May. The European investment grade iTraxx 5-year index widened 30 bps to 117, The North American 5-year investment grade CDX widened 25bps to 117 and the Aussie iTraxx widened by 41bps to 126.

In the cash space, the UBS credit index widened by 15bps to 135 while the UBS supra index widened by 9bps to 33.

Fund Performance

The BT Global Credit Fund underperformed the benchmark by 132bps in May.

Market Outlook

The economic environment has improved markedly in the US over the past year, however there are some signs that economic momentum might be slower going forward as the weak housing and labour markets weigh on consumer spending. The European sovereign crisis has also deepened and significant fiscal austerity measures have been enacted in most Euroland economies which will put a lid on growth in the region. Finally, concern that China may further tighten monetary policy to slow its housing price surge is another reason to be cautious on markets.

On the back of these issues, global growth and more specifically company earnings expectations may prove to be on the optimistic side and therefore a more measured approach to risk-taking is prudent. Credit spreads have backed up and while optically valuations look appealing our concerns about the outlook and poor market sentiment caution us against taking long positions in credit in the short term until the situation becomes clearer. We do, however, remain constructive over the medium to long-term on the asset class as corporates have improved their balance sheets, refinancing risks have fallen, company earnings will remain healthy and default rates will continue to decline.



For more information

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

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