

BT Global Credit Fund

Fact Sheet
June 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. We also aim 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	-0.22	-0.18	0.40
3 months	-0.41	-0.27	1.12
FYDT	14.08	14.51	3.89
6 months	3.34	3.62	2.15
1 year (pa)	14.08	14.51	3.89
2 years (pa)	0.35	0.56	4.68
3 years (pa)	1.04	1.18	5.56
Since Inception (pa)	1.21	1.35	5.60

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

Asset allocation (as at 30 June 2010)

Corporates	70%
Sovereign	18%
Mortgage & Asset backed securities	2%
Convertibles	2%
Cash	18%
Futures	-6%
Swaps	-4%

Other information

Fund size (as at 30 Jun 2010)	\$169.4 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.

Market news

Continued sovereign risk concerns about the perceived ability of Greece and a number of other European nations to repay their debt and improve their fiscal positions saw risk aversion driving equity markets lower and credit spreads wider over the June quarter. The market concerns started with Greece and then moved on to other European peripherals, and the sovereign CDS pricing on these countries widened significantly.

This severe market reaction prompted IMF/EU bailout packages and forced European Central Bank (ECB) intervention in the hope of stabilising financial markets concerns. Eurozone ministers agreed to a 110 billion Euro rescue package for Greece to in an attempt to stop the crisis from spreading through the rest of the block. The sixteen-nation bloc will lend Greece 80 billion Euros at a rate of c.5% with the International Monetary Fund contributing the rest. In return for these three year loans Greece pledged to push through 30 billion Euros of budget cuts, equivalent to c.13% of gross domestic product. The EU and the International Monetary Fund, which is co-financing the bailout, also agreed to set up a bank stabilization fund. With downgrades threatening to render Greek bonds ineligible as collateral for its loans, the ECB said it will continue to accept all Greek government debt when lending to banks. When this package proved not to be enough to stop contagion throughout the other European peripheral markets a massive €440bn stability facility was announced which will be used to sell bonds and guarantee loans to euro-area nations that require the funding.

Spreads of US financials were also under pressure in April following the launch of law suit by the SEC against Goldman Sachs and also talks about tougher regulation by the US government on banks. Democrats were seeking to advance legislation, sought by President Barack Obama, to redesign rules governing the financial services industry in response to the worst economic crisis since the Great Depression. The measure was aimed at averting a repeat of the \$700 billion in taxpayer-funded aid to financial firms. In June, the House and Senate reached agreement to reconcile the two versions of the financial regulation bill. US Banks rallied on the news (both Equities and Credit) as certain restrictions were significantly diluted. The bill makes it likely that large US banks will remain intact because they have been able to retain the biggest part of their derivatives business (dominated by FX and interest-rate swaps). The proposed ban on proprietary trading was also substantially watered down to allow banks to invest in private-equity and hedge funds, with a limit of 3% their Tier 1 capital.

In general the data flow in the US has slowed over the past few months and this weakness continued with employment, retail sales, consumer confidence and housing numbers weighing on markets. The weaker economic data saw risk aversion on the back of renewed concern that the US economy and equity earnings may not recover as quickly as some had expected. Soft Chinese growth data also hurt sentiment. The Conference Board revised down China economic growth to 0.3% for the month of April, down from the previously reported 1.7% increase.

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. By the end of the quarter, the appointment of a new prime minister, Julia Gillard offered to end a dispute over a controversial "super profits" mining tax caused relief for the mining sector. The market believes the tax is likely to be watered down but unlikely to be scrapped completely. In Banks, Westpac issued a new 5yr bond deal that was offered at a significant 0.15% discount to the secondary market. This saw the spread between bank debt and government bonds widen and highlighted the issues around the ongoing funding requirements of our banks.

New Issuance news

Domestic issuance totalled \$8.565bn in April. Issuers included Dexus, AMP Capital Shopping Centre Fund and Adelaide Airport. In loan markets, Origin Energy, ElectraNet and United Energy priced deals.

There was no unsecured bond issuance in AUD in May. However, there was a number of Australian borrowers in the loan markets with Qantas, Sonic Healthcare, Brookfield, Goodman, Lend Lease and Leighton tapping the market.

Issuance volumes improved in June. Telstra, NAB, KFW, Caterpillar, Sydney Airport and WBC all came to the market issuing a total of \$2.5b.

Spread movements

Credit spreads widened over the quarter. The physical index was 6 basis points (bps) wider. The synthetic indices underperformed significantly with the Aussie iTraxx closing 54 bps wider. Europe and the US were 50bps and 35 bps wider respectively.

Fund performance

The BT Global Credit Fund underperformed the benchmark by 58bps in June.

Market outlook

There are some signs that US economic momentum might be slower going forward as the weak housing and labour markets weigh on consumer sentiment and spending. The European sovereign crisis has also deepened and significant fiscal austerity measures have been enacted in most Euroland economies which will weigh on economic 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 valuations may 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, default rates will continue to decline and investors will ultimately put money to work when clarity and liquidity increase and volatility subsides.



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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