

BT Wholesale Enhanced Credit Fund

Fact Sheet
July 2010

ARSN: 089 937 815



About the Fund

The Fund is an actively managed portfolio of corporate debt securities.

Fund objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds UBS Non-Government Bond Index over the medium term.

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 non-Government fixed interest market. The Fund invests predominantly in AUD non-Government fixed interest securities, including securities of investment grade issued by leading corporations listed on the Australian Stock Exchange. The Fund may also invest in a limited amount of investment grade hybrid securities, non-investment grade securities, unrated securities and, where appropriate, derivatives.

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 what we consider mispricings in credit market securities and utilises both qualitative assessment of companies and quantitative modelling 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.

Key benefits of the Fund

Investing in the Fund:

- provides investors with the potential for enhanced performance and higher long-term capital growth
- delivers significant diversification benefits for investors via accessing a broad range of companies, industries and countries.

Currency management

The Fund may have assets denominated in foreign currencies. This means that changes in the value of the Australian dollar relative to foreign currencies may affect the value of the assets of the Fund. Currency markets can be extremely volatile and are subject to a range of unpredictable forces.

The Fund's foreign currency exposure may be hedged from time to time, in whole or part.

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	0.09	0.13	0.56
3 months	1.82	1.93	2.93
FYDT	0.09	0.13	0.56
6 months	3.33	3.56	3.90
1 year (pa)	9.86	10.35	8.18
2 years (pa)	8.52	9.01	8.73
3 years (pa)	6.21	6.70	7.44
5 years (pa)	5.32	5.79	6.11

The benchmark for this fund has changed over time. The benchmark performance shown is that of the combined benchmarks that the fund has aimed to exceed over time.

Investment guidelines

Asset allocation ranges (%)	Ranges		Benchmark
	Min	Max	
Investment grade corporate bonds	70	100	UBS Non-Government Bond Index
Commonwealth bonds and semi-government bonds	0	20	
Convertible notes	0	10	
Convertible preference shares	0	10	
Capital notes	0	10	

Other information

Fund size (as at 31 Jul 2010)	\$450.6 million
Date of inception	November 2008
Minimum investment	\$50,000
Minimum balance	\$50,000
Buy-sell spread	0.12% [#]
Distribution frequency	Semi-annual
APIR code	RFA0100AU

[#] 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	0.45% 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

After two months in which risk aversion prevailed on the back of European Sovereign concerns and soft US data, credit and equities markets performed well over the month on July. This bounce back was a relief rally following news of watered down banking regulation, uneventful European banking stress tests and a better than expected company earnings season.

Regulatory uncertainties diminished with the finalisation of the US financial reform bill and the watering down of the recommendations for the Basel III agreement. The oversight body of the Basel Committee on Banking Supervision announced late in the month that they have reached broad agreement on the overall design of their bank capital and liquidity reform package – Basel III. This includes some softening on what can be treated as capital, the treatment of counterparty credit risk, introduction of a leverage ratio and a global liquidity standard. The Committee will finalise its regulatory buffers (i.e. the T1 capital ratio) before the end of this year and have agreed to finalise calibration and phase-in arrangements at its next meeting. Importantly for markets, some of the package's major design elements appear to be more bank friendly than what was originally being proposed back in December. Also the proposed timing lag on some of these proposals is longer than expected, with some not come into effect until 2018 at the earliest.

The results of the of the European stress test were generally as expected and showed that 84 of the 91 banks tested were found to be able to withstand various economic shocks. The seven banks that failed, five in Spain and one each in Germany and Greece, were already considered weak by analysts. Organisers said the seven banks would face a total capital shortfall of only €3.5bn. There are some questions about the validity of the tests given banks could be forced to reduce their loans in order to meet this tier 1 capital guidelines, and in the process, slowing down the economy further.

Some other news out of Europe which saw the markets stutter included Moody's cutting Ireland's credit rating to "Aa2" from "Aa1," citing a rising debt burden, a weak growth outlook and the high cost of rebuilding a shattered banking system. Also Hungary failed to reach a deal with the IMF and the EU that would allow it to tap the remainder of its €20bn loan package. Company earnings season saw that most companies beat profit expectations, however the results were not as strong at the revenue line; where on average companies reported lower than expected sales numbers. Companies were generally cautious on their outlooks particularly in the US and European regions, whilst upbeat on emerging market regions.

In Australia, the Government announced a revised resource super profit tax (RSPT; renamed Minerals Resource Rent Tax). The new tax includes a new tax rate of 30% (previously 40%), a minimum risk rate threshold of Govt +7%. The originally proposed tax rebate has been removed. Oil and gas projects will be affected by the current Petroleum Resource Rent Tax (PRRT), which will apply to all Australian onshore and offshore oil and gas projects. The taxes should not to materially impact the credit profiles of Rio, BHP and

Woodside. Nevertheless, the agreement between the Government and the major resource companies is a positive development as it removes the uncertainty associated with the issue.

New Issuance news

Domestic issuance volumes improved again month on month. ANZ, APA Group, BNP, EIB, Export Development Canada, IFC, KFW and SPIAA Gas and all came to the market issuing a total of \$6.0b.

Spread movements

The synthetic indices performed well this month. The Aussie iTraxx finished the month 25 basis points (bps) tighter. Europe and the US were 24 and 20 bps narrower respectively.

The physical credit spreads were slightly better bid in July. The physical index was 2 bps tighter driven by generally better buying of corporate credit over Supranationals.

Fund performance

The BT Wholesale Enhanced Credit Fund underperformed the benchmark in July. Negative relative performance came mostly from our overweights to bank sub-debt and insurance sectors which we closed out during the month. Negative performance also came from and overweight to ICO which we also closed out.

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 will see significant fiscal austerity measures enacted in most Euroland economies which will weigh on economic growth in the region.

On the back of these issues, global growth and more specifically company earnings expectations may prove to be on the optimistic side going forward as revenue growth expectations may miss 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.



For more information

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

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Performance figures are calculated in accordance with the Investment & Financial Services Association (IFSA) standards. Total returns (post-fee) are calculated: to the first day of each month using average daily distribution yields; taking into account management costs of the fund. No reduction is made to the unit price (or performance) to allow for tax you may pay as an investor, other than withholding tax on foreign income (if any). Certain other fees such as Contribution fees or Withdrawal fees (if any) are not taken into account. Total returns (pre-fee) are calculated by adding back management costs to the (post-fee) returns. Past performance is not a reliable indicator of future performance.

If market movements, cash flows or changes in the nature of an investment (eg a change in credit rating) cause the Fund to exceed any of the investment ranges or limits in this document, this will be rectified by BTIM (RE) as soon as reasonably practicable after becoming aware of it. If BTIM (RE) does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified in this document are accurate as at the date of its issue, and BTIM (RE) reserves the right to vary these from time to time.

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