BT Institutional Enhanced Global Fixed Interest Fund

Fact Sheet
February 2011

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BT Investment Management

Income and Yield Investments

About the Fund

The BT Institutional Enhanced Global Fixed Interest Fund is a diversified portfolio of investments which utilises a combination of active and enhanced strategies including: cash strategies, duration, credit investments, a currency strategy and a benchmark swap arrangement[1].

Fund objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the JP Morgan GBI Global Traded Index, hedged in Australian dollars, over the medium term. The recommended investment timeframe is three years or more.

Investment process

Investment returns for the BT Institutional Enhanced Global Fixed Interest Fund may be generated from a number of sources:

→ **Cash strategies**: an actively managed portfolio of debt securities which aims to add value from sector and security selection and portfolio construction

→ **Duration**: a combination of fundamental and quantitative analysis is employed to create an optimal global duration portfolio. Positioning reflects the risk adjusted allocation of duration to the markets of: US, Australia, Europe, Japan and Canada.

→ **Credit**: exposure to global corporate markets with dynamic allocation between sectors determined by return expectations and break even spread analysis.

→ **Currency**: a quantitative valuation tool is used to assess relative value and create an optimal currency portfolio.

→ **Benchmark**: the return of the global government bond market is delivered via a Total Return Index Swap.

Investment team

BTIM's Income Strategies team includes five dedicated investment professionals. The team also draws on a wide range of knowledge resources across BTIM including BTIM's other specialist investment teams: Equity Strategies and Macro Strategies. The Fund is managed by Vimal Gor, Head of Income Strategies who has more than 15 years industry experience.

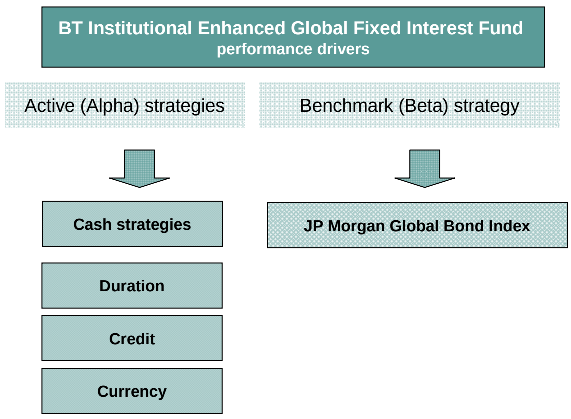
[1]Change in investment strategy

From its inception, the main investment strategy employed in the Fund was an enhanced index strategy using an alpha transfer technique combined with a benchmark swap. From May 2007, the Fund added three active alpha strategies to its investment universe: duration, credit and currency. The new sources of excess return were introduced to provide greater diversification and increase the potential for outperformance.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.46	0.48	0.34
3 months	0.16	0.24	0.10
FYDT	3.81	4.04	2.42
6 months	-0.10	0.07	-0.89
1 year (pa)	8.72	9.08	6.97
2 years (pa)	11.32	11.68	6.77
3 years (pa)	7.78	8.12	7.61
5 years (pa)	6.91	7.25	7.41

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.



Other information

Fund size (as at 28 Feb 2011)	$990 million
Date of inception	July 1992
Minimum investment	$50,000
Buy-sell spread	0.12%[1]
Distribution frequency	Annual
APIR code	WFS0005AU

1_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	0.33% pa*

* You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

Global review

The Middle Eastern democracy protests which started in the latter part of January in Tunisia, Algeria and Egypt spread to surrounding countries including Yemen, Libya, and Kuwait in February weighing on markets. The political unrest in the region has seen oil prices rise significantly on fears of potential loss of supply. The concern is whether the political turmoil which has claimed the leaders of Egypt and Tunisia spreads through the Persian Gulf's bigger energy producers. If oil prices remain elevated for long periods it could weigh on global growth. Late in the month the market took some comfort following an announcement by Saudi Arabia that they would increase supply to help cover the lossed output from Libya.

UK and European monetary policy in reaction to these price rises present an interesting problem. UK inflation is already elevated due to the recent VAT increases and imported inflation. Further oil price rises will drive headline inflation even higher. The ECB is already nervous about inflation, and rising oil prices in conjunction with rising food prices will strengthen the ECB's case to tighten monetary policy.

The effect on Asian economies is mixed. The less developed nations in Asia have a much higher skew towards external demand (exports) rather than domestic consumption. They also have much higher sensitivity to changing commodity prices as the majority of business costs are raw material rather than wage costs. As a result, oil price rises should have a greater effect as export demand falls and margins are reduced.

Markets have reacted differently to the initial news of unrest and interpreting the effect of the rise in the price of oil. The levered market was already positioned in oil futures as a play on the global recovery and this strength has caused this market to become further stretched. Equity markets fell initially, but have since recovered. The big move has been in the bond markets. Even in the face of more positive economic data from the US and Europe, yields have fallen dramatically. The US ten year bond yield fell from a high of 3.74% to finish the month at 3.43% and the UK Gilt yield fell from a high of 3.88% to 3.60%, more accurately reflecting the threat to growth in these economies.

Australian bond markets moved largely in line with global markets during the month, with the ten year bond yield initially selling off from 5.51% to a high of 5.75%, and then finishing the month largely unchanged at 5.49%.

While it is incredibly difficult to fully analyse the political changes in the Middle East and Northern Africa, the secondary effects of this event has only strengthened our core themes. The oil price rise has placed pressure on central banks to hike rates. This will cause further pressure in the front-end of yield curves in regions like Europe and the UK, which were already pressured by other sources of consumer price inflation such as food and tax increases. It also increases the chance that these economies will slow more meaningfully than otherwise expected (as a result of rate rises due to the extra drag of higher fuel prices). Slowing growth should cause long-end yields to fall, flattening yield curves in these regions. Similarly, Australia will likely experience flattening in the longer-term, as a still relatively robust China flows through to higher mining investment and higher domestic official rates and Australian long bond yields will move downwards with the prospect of weaker global growth.

Credit news

Credit markets were a little firmer in February on the back of supportive economic data, positive company earnings reports and firmer equity markets. However, tensions in the Middle East weighed on risk markets.

US fourth quarter reporting season was better than expected with 71% of the S&P 500 companies who have reported beating the markets earnings estimates. Earnings growth has been 27.6% versus the fourth quarter 2010 and 5.3% sequentially. Revenue growth has been 8.1% versus the prior corresponding period and also 5.3% versus the third quarter.

The Australian reporting season was also positive with the equity market stronger over the month. Themes coming out of the results showed that the banking sector had their net interest margins improve with good cost control and modest revenue growth. Discretionary retailers had weak results as conditions softened due to the November RBA rate hike and the increased consumer savings rate. Non-discretionary retailers performed well. The resources sector had very strong results given higher commodity prices, whilst this had a negative impact on some industrial companies who have not been able to pass on all the higher costs. Real estate performed well as interest costs fell and property valuations improved.

On the last day of the month the Australian Prudential Regulation Authority (APRA) clarified the treatment of high quality liquid assets that it will apply when implementing the new global liquidity standard announced by the Basel Committee on Banking Supervision (Basel Committee) in December 2010. The new global liquidity standard known as the Liquidity Coverage Ratio (LCR) requirement aims to ensure that banking institutions hold high quality liquid assets sufficient to survive an acute stress scenario lasting for one month. APRA announced that only Commonwealth and Semi-government bonds and cash held with the RBA are classed under the Level 1 highly liquid category. This means that Supra-national bonds will not be eligible for liquidity portfolios without a liquidity fee. Most market participants had been expecting Supra-nationals to be included as liquid assets. Supra-national securities will now form a part of the pool of assets that will require a liquidity fee charged by the RBA. There is an incentive for banks to hold higher yielding securities given the fee is expected to be charged at a flat rate across all RBA repurchase agreement (repo) eligible securities. The announcement saw Supra-national spreads widen as their demand from banks will reduce, whilst Semi-government bonds strengthened.

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For more information

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