

# BT Wholesale Enhanced Credit Fund

**Fact Sheet**  
**February 2011**

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	0.35	0.39	0.42
3 months	1.47	1.59	1.62
FYDT	2.72	3.03	3.29
6 months	1.01	1.24	1.16
1 year (pa)	5.63	6.10	6.11
2 years (pa)	7.25	7.74	5.50
3 years (pa)	7.65	8.14	8.12
5 years (pa)	5.26	5.74	6.03

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 28 Feb 2011)	\$515 million
Date of inception	November 2008
Minimum investment	\$50,000
Minimum balance	\$50,000
Buy-sell spread	0.12% <sup>#</sup>
Distribution frequency	Semi-annual
APIR code	RFA0100AU

<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	0.45% pa*
----------------	-----------

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

## 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.

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 loss of output from Libya.

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.

## New Issuance

February was another robust month of new corporate issuance in our domestic market with total issuance reaching \$11.4b. A number of these deals saw strong demand and were heavily oversubscribed. Half of the issuance came from domestic banks and Supra-national issuers. Other issuers included CFS Retail trust, Coca Cola, GE, BMW Australia, Lease Plan, Barclays, Colonial Finance, AMP Group, Morgan Stanley and Toyota Finance.

Australian credits that issued offshore included ANZ, NAB and SPI Australia Assets.

In the domestic asset backed market, Westpac issued a residential mortgage backed securities (RMBS) deal that was strongly sort after. Initial guidance was to issue \$435m at swap plus 1.10%. The deal was upsized to \$1b and dealt tighter at swap plus 1.00% and was still four times oversubscribed. This deal supported other secondary market RMBS as investors who missed out on the Westpac deal sort to buy other similar securities.

## Credit spread movements

Credit indices were all stronger in February. The synthetic credit indices in Australian, US and Europe all finished the month 3bps tighter. Physical credit spreads were 7bps tighter whilst Supra-national spreads underperformed and were flat over the month.

## Fund performance

The portfolio slightly underperformed the benchmark in February. Positive performance came from an overweight to ABS and real estate sectors and underweight to Supra-nationals. Offshore bank sub-debt, general corporate and a short iTraxx hedge position negatively impacted performance.

## Credit market outlook

On a broader fundamental view, we are positive on credit markets in the medium to long term. Leading indicators are looking more positive, balance sheets are strong, earnings have improved, equity volatility is low, defaults are falling and valuations are appealing on a historical basis.

However, we do have concerns in the short term about the European peripheral sovereign crisis and the impact on credit spreads. We will see significant fiscal austerity measures enacted in most Eurozone economies which will weigh on economic growth in the region. Bond holder haircuts are probable in the short term and concerns over this will weigh on markets.

The Middle East political unrest which has driven oil prices higher is also a concern and could weigh on global growth if prices remain elevated to a prolonged period.

Increased global M&A activity is potentially a headwind for credit investors as cheap debt funding makes these deals look more attractive from an equity perspective. This is a focus for us going forward, particularly if highly geared private equity deals are on the increase.



## For more information

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

BT Investment Management (RE) Limited ABN 17 126 390 627, AFSL 316 455, is the responsible entity and issuer of units in the BT Wholesale Enhanced Credit Fund. A Product Disclosure Statement (PDS) is available for the Fund and can be obtained by contacting your business development representative on 1800 813 886 or visiting [www.btim.com.au](http://www.btim.com.au). You should obtain and consider the PDS before deciding whether to acquire, continue to hold or dispose of units in the Fund. This information has been prepared without taking account of your objectives, financial situation or needs. Before acting on this information, consider its appropriateness, having regard to your objectives, financial situation and needs. An investment in the Fund is not a deposit with or any other liability of the Westpac Banking Corporation (ABN 33 007 457 141) or any other Company in the Westpac Group of companies.

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.

BT Investment Management (RE) Limited is a member of the Westpac Group. Neither BT Investment Management (RE) Limited, nor any other company in the Westpac Group, guarantees the repayment of capital or the performance of the product or any particular rate of return.

BT® is a registered trade mark of BT Financial Group Pty Ltd and is used under licence.