

# BT Institutional Enhanced Global Fixed Interest Fund

Fact Sheet  
March 2011

ARSN: 088 841 972



## 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<sup>1</sup>.

## 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.

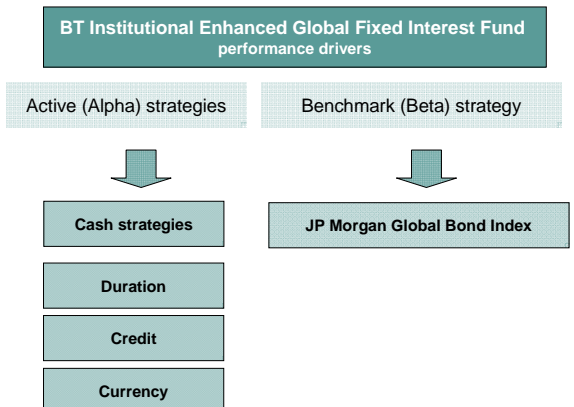
## <sup>1</sup>Change in investment strategy

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		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	0.37	0.40	0.31
3 months	0.50	0.59	0.47
FYDT	4.19	4.45	2.73
6 months	-0.25	-0.09	-0.68
1 year (pa)	8.59	8.94	7.01
2 years (pa)	11.14	11.49	6.30
3 years (pa)	7.99	8.34	7.55
5 years (pa)	7.17	7.51	7.66

*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 31 Mar 2011)	\$977 million
Date of inception	July 1992
Minimum investment	\$50,000
Buy-sell spread	0.12% <sup>1</sup>
Distribution frequency	Annual
APIR code	WFS0005AU

<sup>1</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	0.33% 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.

## Global Review

March market volatility was primarily driven by the tragedy of Japan's earthquake and the beginnings of a war in Libya, but these were not the only source of volatility however as there was a continuation of the themes that we been writing about over the past few months. The EU summit confirmed that the problems in the European periphery will remain unsolved for a while longer while hawkish rhetoric from the ECB brought forward market expectations of a rate hike. US data remained very positive, with a turn in key inflation data higher which encouraged hawkish comments out of several key US central bankers. Oil prices also tracked higher as tensions in the Middle East continued.

The effect of the earthquake on Japan's economy is very hard to gauge and estimates vary wildly, as natural disasters have an immediate effect on output but this is clawed back through later quarters as rebuilding efforts start. This rebuilding is generally funded from insurers and the government. The Japanese government has already cancelled a proposed corporate tax hike to ease the pain, and the rebuilding of destructed infrastructure in many communities will surely be funded from government borrowings. A nationalisation of Tokyo Electric Power Co that was rumoured late in the month will only increase the amount of contingent liabilities that the government will take on to it's already bloated balance sheet. Japan's debt position has been precarious for a while and we are very concerned that this may be a catalyst for cracks to start to appear in the funding program. The devastation and resulting nuclear uncertainties caused bonds in all markets to rally strongly earlier in the month.

Outside of Japan, news from Europe was also prominent in headlines. The EU summit, a key meeting of European leaders, was expected to deliver a step towards a resolution of the ongoing sovereign debt problems in the periphery. The expectations were promising but the meeting failed to deliver on several key areas. The expected increase to the EFSF (European Financial Stability Fund) was approved, lifting possible lending by the vehicle to €500bn. This is enough to cover liquidity support to Greece, Ireland, Portugal and now Spain. This was enabled by just increasing the amount of promised capital from member countries if the liquidity was required, creating another raft of contingent liabilities for primarily the AAA rated countries of the core of Europe. Another rumoured initiative was that the EFSF would be used to buy primary issuance from trouble sovereigns, which would have been a clear positive as it would cap interest rates and give the market some confidence that there was a buyer of last resort once the ECB stepped back. Further details however revealed that it wasn't the EFSF buying, but the ESM, and only then once the IMF was called in to intervene, and this disappointed markets. The ESM (European Stability Mechanism), a vehicle intended to be a permanent fixture in European crisis management from 2013, was also confirmed to be senior to all current bonds of any country that needs loans from this vehicle in the future and only subordinated to the IMF. This also unsurprisingly disappointed markets and triggered a series of ratings agency downgrades to the weaker peripheral countries.

This was more of the same in Europe's apparent fight against the possible collapse of the union. The EFSF and ESM are contingent capital vehicles, relying on sovereigns to contribute capital only when other countries within the Euro aren't able to, increasing the contingent liabilities for all. Not only did the total amount of contingent capital increase with the growth in the EFSF, but Germany vetoed a decision to provide actual paid-up capital to the ESM vehicle. An increase in the capacity of the EFSF just delivered more potential liquidity to a problem that doesn't need liquidity to fix it, but rather permanent debt reduction through restructuring or another sort of fiscal transfer. To be clear Euro-wide debt isn't excessive - it is just focused on those least able to support it. As we have spoken about at length in previous commentaries the solutions range from a common area Euro bond where interest costs can be subsidised and bond market liquidity is maintained to a secondary bond buying program by the EFSF to facilitate eventual restructure to an outright default and recapitalisation of core country banking systems due to the resultant losses. These solutions are common in that the core of Europe conducts a fiscal transfer to help reduce the burden of the periphery. The political will to make this happen took a blow during the month however as Angela Merkel's German Christian Democratic Party conservative stronghold of Baden-Württemberg went to the Greens in a key German regional election. The German electorate has a disproportionately large say in the fate of the European Union, and with the loss of B-W new German leaders will be more hesitant to chase a solution.

As a result of these growing issues peripheral spreads widened materially over the month with Portuguese 10 year bond spreads to Germany wider by 0.42% and Ireland wider by 0.59%. The notable exception was Spain, whose 10 year bond spread actually contracted by 0.39%. The increase in size of the EFSF to include Spain may have caused the out performance which has broken the correlation that has existed between the peripheral countries for a while.

### Credit news

Credit markets were quite resilient over the month of March in the face of the earth quake related events in Japan, the unrest in the Middle East resulting in higher oil prices and continued concerns in peripheral Europe.

Credit spreads widened the first half on the month due to continued unrest in Libya and Bahrain. But the main catalyst for the risk-off trading was the 8.9 magnitude earth quake and severe tsunami that hit Japan. This triggered explosions in some of Japans nuclear reactors causing radiation leaks. Fears grew that Japan could face a nuclear power crisis with news that it is trying to contain radiation leaking into the atmosphere from its power plants. Markets recovered through the second half of the month on news that there was progress in containing Japan's nuclear crisis.



### For more information

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

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