

# BT Wholesale Enhanced Credit Fund

Fact Sheet  
March 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	0.80	0.84	0.76
3 months	2.12	2.23	2.19
FYDT	3.54	3.89	4.08
6 months	2.58	2.81	2.71
1 year (pa)	6.30	6.78	7.13
2 years (pa)	8.28	8.77	6.22
3 years (pa)	7.69	8.19	7.87
5 years (pa)	5.38	5.86	6.15

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 Mar 2011)	\$491 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 quite resilient over the month of March in the face of the earthquake 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 of the month due to continued unrest in Libya and Bahrain. But the main catalyst for the risk-off trading was the 8.9 magnitude earthquake and severe tsunami that hit Japan. This triggered explosions in some of Japan's 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.

Escalating violence and concerns of protracted civil war in Libya and Bahrain as well as the possible spread of unrest to oil-rich Saudi Arabia saw oil prices rise to new two and a half year highs due to supply concerns. If oil prices remain elevated for long periods it could weigh on global growth.

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 to 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 was 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 disappointed markets and triggered a series of ratings agency downgrades to the weaker peripheral countries. As a result, peripheral spreads widened materially, with Portugal 10 year bond spreads to German 10 year bond 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.

The ECB President Jean-Claude Trichet confirming that a rate rise in April was all but certain due to inflationary pressures and the strong economic situation in Germany. The ECB highlighted that it wasn't their mandate to manage the current European peripheral

crisis but to only work to keep inflation underneath its target. This caused the Euro to spike and front-end bond yields to sell off aggressively, making the situation for the periphery incrementally worse.

## New Issuance

Domestic new issuance in March totalled a healthy \$8.4b with most deals oversubscribed.

In a change to previous months where domestic banks and Supra-nationals dominated issuance, most issuance this month came from offshore senior banks. RBS and Loyds issued large volumes. Other issuers included Commonwealth Property Office fund, Woolworths, ETSA, Brisbane Airport, SP Ausnet, NAB, ANZ, WBC, JPM and Societe Generale.

Australian companies that issued offshore included Amcor, CBA, Dexus, Goodman, NAB and WBC.

## Credit spread movements

Credit spreads held up well over the month. The Australian synthetic credit index finished flat, US was 2bps wider (after taking into account the index roll of +10bps) and Europe was 4bps wider. Physical credit spreads were 3bps tighter.

## Fund performance

The portfolio outperformed the benchmark in March. Positive performance came from an overweight to industrials, ABS, infrastructure and semi-government sectors and underweight to Supra-nationals. The short iTraxx hedge position negatively impacted performance.

Over the month we added to our industrial, utility, infrastructure and offshore senior bank sector exposures funded out of domestic banks and Supra-nations.

## 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 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.