

# BT Institutional Enhanced Global Fixed Interest Fund

Fact Sheet  
May 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 six 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

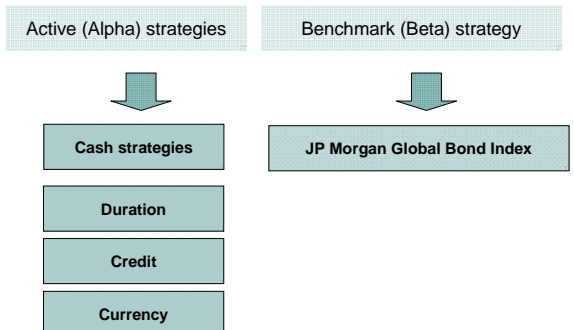
From its inception, the main investment strategy employed in the Fund was an enhanced index strategy using an alpha transfer technique combined with a benchmark swap. From May 2007, the Fund added three active alpha strategies to its investment universe: duration, credit and currency. The new sources 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	1.55	1.58	1.47
3 months	3.27	3.36	2.93
FYDT	7.21	7.54	5.42
6 months	3.43	3.60	3.03
1 year (pa)	8.77	9.13	7.00
2 years (pa)	11.96	12.32	8.21
3 years (pa)	9.34	9.69	9.06
5 years (pa)	7.77	8.12	8.20

*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.*

## BT Institutional Enhanced Global Fixed Interest Fund performance drivers



## Other information

Fund size (as at 31 May 2011)	\$993 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.

## Market Review

Australian bonds performed well over the month with the three-year bond yield falling from 5.08% to 4.86%. The ten-year yield also rallied falling from 5.32% to 5.21% which saw the 3-10 year yield curve remain static at 35bp. The Reserve Bank of Australia left the cash rate unchanged again at 4.75% at its May meeting. The themes remain consistent with prior month's statements, with the Reserve Bank noting that the global economy is continuing its expansion, led by very strong growth in the Asian region although Japanese production has been adversely affected due to natural disasters. Sovereign and banking uncertainty does however remain a concern in a number of European countries. The Australian economy continues to benefit from the elevated levels of the terms of trade, which continues to boost national income. The high level of commodity prices is resulting in investment intentions increasing in the resources sector. Households do however remain cautious despite strong employment growth, with the household savings rate remaining around 10%. Generally the economic data out over the month has been on the weak side with employment and GDP both coming in below expectations.

International market performance in May has been driven by the continuing crisis in Europe and the further slowing of global economic data. US ten-year yields fell 23bp over the period while European, Japanese and UK yields fell 22bp, 4bp and 14bp respectively. Australia marginally underperformed the US over the period with the ten-year yield spread ending the month at 2.11%. The Australian currency underperformed over the period with the trade-weighted index depreciating by 1.4%. Unsurprisingly in this slowing economic environment bond yields globally have been driven lower and risk assets (equities and commodities) have suffered weakness. While the move lower in bond yields has been welcomed the portfolios have been anticipating this move for a while and have been running long durations positions.

Performance in May was strong, as well as being positioned for falling bond yields returns were also generated from cross-market and cross-sector positioning. Global economic growth forecasts are now being revised down and it is likely they have further to fall.

## Credit Review

Credit markets were a little weaker over the month on the back of further slowing of global economic data, continued speculation of a nearer term Greek debt restructure and soft global equity markets.

Domestic new issuance volumes rebounded to a strong \$10.6b in May after a quieter month in April.

Synthetic credit spreads were a little wider whilst the physicals were basically unchanged. The Australian iTraxx finished 5bps wider, the US and European indices were 1bp and 6bps wider respectively.

## Market Outlook

The bias is to continue to position portfolios from the long-side in bonds especially as the short-base in the market still exists. Looking forward to the medium-term concerns about the fiscal situation in the US still exist but the political landscape is becoming clearer with Obama looking much more of a certainty for a second term than just a few months ago.

Despite the weak data out of the US and concerns out of Europe, the Reserve Bank remains in a tightening bias. Growth out of Asia is assisting Australia's economic performance, particularly the income boost via the elevated level of the terms of trade. The Reserve Bank continues to be focussed on the level of capital investment that occurs and the current pipeline is significant. The Reserve Bank's statement on monetary policy indicates that it is likely that further tightening will occur within the next year, and the market is now focussing on the timing of further policy tightening rather than if the moves will occur.

We are positive on credit markets in the medium to long term. Even with generally soft US economic data over the last month, leading indicators are still weighted to the positive, balance sheets are strong, earnings continue to improve, equity volatility is low, defaults are falling and valuations are appealing on a historical basis. However, we continue to be concerned about the European peripheral sovereign crisis and the impact on credit spreads. Significant fiscal austerity measures in many Euroland economies will weigh on economic growth in the region. Peripheral sovereign bond holder haircuts are likely and concerns over this continue to weigh on markets.



## 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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