

# BT Wholesale Enhanced Credit Fund

**Fact Sheet  
May 2011**

ARSN: 089 937 815



Income and Yield Investments

## 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 six 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	1.21	1.25	1.17
3 months	2.44	2.55	2.40
FYDT	5.23	5.66	5.77
6 months	3.94	4.18	4.06
1 year (pa)	6.20	6.68	6.98
2 years (pa)	8.29	8.78	6.75
3 years (pa)	7.93	8.42	8.22
5 years (pa)	5.72	6.20	6.50

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 May 2011)	\$470 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*
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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.

## Credit Market Review

Credit markets were a little wider over the month on the back of generally weaker than expected US economic data, continued speculation of a nearer term Greek debt restructure and soft global equity markets.

May started off with the announcement that US forces had killed Osama bin Laden. The market traded in a risk off mentality due to heightened concerns over potential retaliatory attacks.

Economic data in the US over the month was generally weaker than expected. The Japanese supply chain disruptions and high oil prices seem to impact the numbers.

The main theme during the month was increased concerns of a nearer term Greek debt restructure. Early in the month there was a report that speculated that Greece had raised the prospect of leaving the Euro zone. The timing of this report coincided with the European zone finance ministers meeting in Luxembourg the same time to discuss Greece's situation. This saw a flight to quality into safe-haven Treasuries out of credit and equities on concerns that a Greek exit would lead to a significant depreciation in its domestic currency versus the euro and would therefore increase its Euro debt burden.

Other concerning Greek headlines came from Jean-Claude Juncker, president of the European group of finance ministers, suggesting a soft restructure via "re-profiling" (extending the maturity) of Greek debt as an option in assisting Greece's problems. He also said that the International Monetary Fund may withhold its next portion of aid to Greece next month as the release of the next tranche of support depends on Greece's compliance with IMF rules. However, in a complete back flip, late in the month Juncker said that EU leaders will decide on a new aid package for Greece by the end of June and have ruled out a "total restructuring" of Greek debt. According to the Financial Times, EU leaders are negotiating a deal for Greece on new austerity measures and would include privatisation of state assets in exchange for a new bailout. The article also said that the package would include incentives for private holders of Greek debt to voluntarily extend Greece's repayment schedule and another round of austerity measures.

US bank credit spreads widened over the month on concerns that they could still face charges from the US Justice Department over claims of improper mortgage foreclosures. Late in the month, it was reported that banks may make a deal with state attorneys general that would give them various options to settle disputes over the claims, this saw some recovery of their spreads.

With a strong reporting season coming to an end in Australia and the US, a number of themes were evident. Bank earnings have improved through doubtful debt provision write-backs, however credit growth (which is a reliable indicator of macro economic growth) has not been as strong as expected. Industrial revenues are growing well, however inputs cost prices are rising as raw material and commodity prices rise. Companies with exposure to Europe have been impacted by slower growth due to the European austerity measures. Real estate is performing well with low vacancy rates. Discretionary retail is underperforming as

consumers are becoming more cautious and are increasing their savings rate as utilities, food and petrol prices rise.

## New Issuance

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

Half of the issuance came from domestic banks, Supranationals contributed to a fifth of the issuance. Other issuers included a large \$1.25m deal from Goldman Sachs, Morgan Stanley, Goodman Australia Industrial Fund, Telstra, Sydney Airport, and Investa.

Australian companies that issued offshore included ANZ, CBA, NAB, QBE, Rio, WBC, Wesfarmers, Westfield and Woodside.

## Credit spread movements

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

## Fund performance

The portfolio outperformed the benchmark in May. Positive performance came from the short iTraxx hedge position, an overweight to ABS, infrastructure, wrapped, utilities and a short in supra-nation sectors whilst the overweight in industrials had a negative impact on performance.

Over the month we added to our industrials exposure funded out of offshore financials and supra-nations. We also closed out our short iTraxx hedge position as we viewed it as no longer benefitting the portfolio.

## Credit Market Outlook

From a fundamental perspective, 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. We expect to see significant fiscal austerity measures enacted in many Euroland economies which will weigh on economic growth in the region. Peripheral sovereign bond holder haircuts are likely and concerns over this continue to weigh on markets.

The Middle East political unrest and the civil war in Libya, has contributed to higher oil prices, which if sustained, could negatively impact global economic growth.

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)

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