

# BT Wholesale Global Fixed Interest Fund

Fact Sheet  
May 2011

ARSN: 009 567 558



## About the Fund

The BT Wholesale Global Fixed Interest Fund actively seeks out investment opportunities within a broad portfolio of international fixed interest securities.

The management of BTIM's global fixed interest portfolios is outsourced to US-based BlackRock Financial Management Inc., a premier provider of international investment services across a broad range of asset classes. BlackRock has a cross-disciplinary team approach, which enables BTIM to benefit from the pooled expertise of all BlackRock's resources: its investment and risk management professionals, and its highly sophisticated, integrated, proprietary analytical tools.

### Fund objective

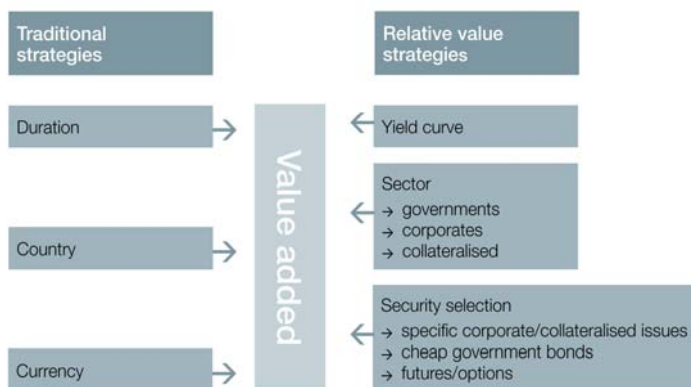
The Fund aims to provide a return (before fees, costs and taxes) that exceeds the Barclays Capital Global Aggregate Bond Index, hedged to AUD, over the medium term. The suggested investment timeframe is three years or more.

### Investment approach

BlackRock's Global Bond philosophy is an extension of its risk-controlled approach that focuses on active sector/sub-sector rotation and security selection. BlackRock believes that this strategy is particularly well suited to today's dynamic global fixed income markets where the opportunity for relative value has increased.

### Investment process

BlackRock's investment team employs multiple strategies to add value with an emphasis on exploiting relative value along the yield curve, across sectors and between individual securities. While value is also derived from traditional strategies, active exposures to country, currency and duration relative to the benchmark tend to be limited. In general, BlackRock expects 35% of value add to come from traditional strategies (duration, country and currency), while 65% is expected to come from relative value strategies (sector, security and yield curve).



BlackRock's portfolio construction is a two-stage process:

- Formulate strategies around major macro factors: country/bloc, currency and duration exposures
- Focus on relative value considerations: yield curve positioning, rotation between sectors and sub-sectors, and security selection are the key decision drivers

## Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	1.24	1.29	1.38
3 months	2.78	2.92	2.99
FYDT	6.89	7.41	6.69
6 months	3.76	4.03	3.60
1 year (pa)	8.39	8.93	8.02
2 years (pa)	10.71	11.27	9.69
3 years (pa)	8.36	8.90	9.40
5 years (pa)	6.98	7.52	8.34

On 3rd November 2008 the benchmark name for this fund was changed to Barclays Capital Global Aggregate Bond Index Hedged to AUD.

### Asset allocation (as at 31 May 2011)

Denmark	2.1%
France	2.2%
Germany	9.8%
Italy	3.8%
Netherlands	1.5%
Sweden	1.7%
United Kingdom	8.2%
Other Europe	12.0%
Japan	11.6%
Canada	3.1%
USA	42.1%
Cash & Other	1.9%

### Duration

Portfolio duration is managed to +/- 1 year of the benchmark's duration.

### Other information

Fund size (as at 31 May 2011)	\$113 million
Date of inception	July 2002
Minimum investment	\$50,000
Buy-sell spread	0.20% <sup>#</sup>
Distribution frequency	Semi-annual
APIR code	RFA0032AU

<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	0.53% 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

A read through the minutes of the April FOMC meeting revealed a neutral to slightly hawkish Fed. The committee cited that recent weakness was likely to prove temporary and that although short run headline inflation rose as a result of higher food and energy prices, core inflation remained contained. Headline Retail Sales for April were reported at Consensus, growing 0.6%, however, removing automobile and gasoline purchases showed a decrease of 0.5%, demonstrating the impact that higher fuel prices at the pump are having on consumer sentiment. Home prices continued to disappoint this month, with the 10 and 20 city indexes falling to below 2009 post crisis levels. The Fed also left their target for the federal funds rate at 0-0.25%, marking more than two years at this level. The next FOMC meeting will take place on June 21st. The economic weakness that began to surface in April persisted throughout May. The general themes this month were a drop in consumer confidence, a decline in the tone of business surveys, and poor employment data. Talk of the debt ceiling and what to do about it in Congress mounted from last month. Personal Consumption came to the forefront as higher gasoline prices produced a 0.5% revision from advance estimates of GDP for Q1. 10-year rates traded through their 200 day moving average in the later part of the month, pointing to a rally that is gathering steam.

For the month of May, the Federal Reserve bought a total of \$105b Treasuries across the curve, with about 35% of the purchases concentrated in on-the-run Treasuries. The total bought since the announcement of QE2 in November is currently at \$683.5b. On the supply side, the Treasury issued a total of \$182b coupons for the month of May including \$11b of 10-year TIPS. The auctions were mostly well received by the market, stopping through the 1pm levels and trading well in the aftermath.

Economic data was disappointing during May, with dealer surprise indexes indicating negative surprises not witnessed since January 2009. The exception was ISM, which surprised higher, at 60.4 versus an expected 59.5. This was to be the only positive for the month however, as subsequent employment data came at or below consensus. With the exception of private payrolls, employment data was the main cause of worry. Weekly Initial Jobless Claims surprised negatively 3 out of 4 reports and the monthly average increased to 424k from 408k at the end of April.

Swap spreads bounced back up into the range in May from the April lows as swaps generally lagged the broad based rate rally even with a significant uptick in corporate issuance. Headline 2-year spreads moved a couple of basis points wider to close at 18.75 basis points amid continued European periphery concerns despite further compression in three month LIBOR which set as low as 25 basis points in May. Intermediate swap spreads also traded wider with 5-year spreads the largest mover on the month closing 5.5 basis points higher at 23.5 basis points, while 10-year spreads remained relatively contained finishing 2 basis points wider at 10 basis points. Bond spreads were the only benchmark point to tighten, ending the month 1 basis point tighter at minus 24.5 basis points on the back of better receiving out of the hedging community.

The 2s10s Treasury curve, which is a good barometer of the risk premium investors require to hold longer maturity debt, flattened 10 basis points over a month long decline. This is largely due to a grab for duration led by 5-year and 10-year notes as many dealers and real-money accounts covered shorts.

Investment grade credit spreads widened in May as we saw both global and US economic data come in weaker than expected. The Barclays Corporate Index widened 8 basis points to an average OAS of 146 basis points. Excess returns versus duration-matched Treasuries were -39 basis points for the month, bringing the year-to-date total to 109 basis points. Financials led the underperformance, widening by 13 basis points over the month on the back of Eurozone weakness and UK bank downgrades. Entertainment and Telecom widened by 12 basis points and 9 basis points, respectively, while Energy outperformed widening just 7 basis points to an average option adjusted spread of 127 basis points. New issues also began to see some weakness, with half of the deals brought to market this month underperforming the index. Despite the weakness in spreads, the technical picture still remains positive with flows into investment grade mutual funds totalling \$4.05b and record new issuance of \$77b.

On the European front, amid heightened risk aversion in global markets, a slowdown in economic growth momentum in the US and ongoing worries about the sovereign risks in the periphery of Europe, German yields rallied with the 10-year bunds 22 basis points lower in yield in May. Headlines regarding the potential re-profiling of Greek government debt have intensified and contributed to the widening of spreads in peripheral markets with the 10-year Greek bond spread to German benchmark around 100 basis points wider on the month. Italian and Spanish government bonds have underperformed bunds as well, with yields unchanged on the month. At the May ECB meeting, the Committee left rates on hold at 1.25% as predicted, but the statement at the press conference was more dovish than the market expected, causing rates to move lower.

## Fund Performance

In the dollar block, our duration positioning had a negative impact on performance, primarily due to our underweight position in the US, while our overweight position to Australia contributed positively to performance. The portfolio's sector positioning in the dollar bloc contributed to performance, primarily due to our positions in high yield as new issuance for the month of May was the highest ever and as most deals broke higher.

Our duration positioning in the Pan-Europe bloc had a negative impact on performance primarily due to our underweight position in the Euro bloc slightly offset by our overweight position in the UK. Our overweight position in UK credits and global capital securities detracted from performance as key economic data continued to fall short of expectations. Our underweight position in Japan had a negative impact on performance. Our positions in JGB Floaters and Linkers had a positive impact on performance as Japan industrial output increased slowly for the first time since the devastating March earthquake.



## 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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