

# BT Wholesale Enhanced Credit Fund

Fact Sheet  
July 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 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	1.31	1.35	1.38
3 months	3.10	3.22	3.13
FYDT	1.31	1.35	1.38
6 months	4.72	4.95	4.82
1 year (pa)	7.09	7.57	7.23
2 years (pa)	8.47	8.95	7.70
3 years (pa)	8.05	8.53	8.23
5 years (pa)	6.06	6.54	6.85

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 Jul 2011)	\$440 million
Date of inception	November 2008
Minimum investment	\$25,000
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.

## Market review

Cash credit markets were marginally tighter by month end, after experiencing a tumultuous ride in response to Greek default uncertainty and mixed US economic data. Synthetic credit spreads were slightly wider over the month.

During the month, as was the case in the previous month, nearly all attention has been on events unfolding overseas and not on the domestic front. Local corporates continue to be solidly capitalised and operating within comparatively benign local conditions. During the month the Federal government announced the details of its carbon tax.

Under the carbon tax of A\$23 per tonne, which will be introduced from July 2012, the government has announced that it will be providing subsidies of up to 94.5% to certain industries, such as the steel and aluminium industry, as they are heavy carbon emitters. The subsidies will provide them with time to transition to a lower carbon process. The imposition of a carbon tax does represent a credit negative but assuming much of the costs can be passed through, should not result in a ratings impact on any major Australian Itraxx company. Overall, we view the carbon tax as having a neutral to modestly negative credit impact.

During the month a number of significant companies have reported overseas and also a number of domestic companies have provided trading updates. Overall companies' results have been mixed. The outlook going forward is one of subdued growth both domestic and abroad. Overall, companies are expected to experience slower system growth than previous periods. This would indicate a bias in the market towards reweighting to more defensive stocks such as Utilities, Industrials and Infrastructure with lower exposure to cyclicals such as Retail and Finance.

Domestic new issuance volumes picked up in July following a quiet June. Total local issuance was just over \$9.2bn.

Most of the new issuance came from domestic and offshore banks and Supranations. The largest issuer was CBA who placed \$2.5bn in the local market. Other issuers included Fonterra and Volkswagen.

Australian companies that issued offshore included ANZ, NAB and WBC.

## Fund performance

The fund performance (pre-fee) was broadly in line with the benchmark in July. Positive performance came from an overweight to ABS and Utilities. Underweight in bank senior and general corporates and supra-nationals had a negative impact on the fund. Overweight in real estate had a negative impact on performance.

Activity over the month was subdued with some re-weighting financial exposure away from European banks and retail focused property trusts.

## Strategy & outlook

From a fundamental perspective, we are positive on credit markets in the medium to long term. Even with the mixed US economic data over the last couple of months, leading indicators are still weighted to the positive, balance sheets are strong, earnings are stable, defaults are falling and valuations are appealing on a historical basis.

However, in the near term, 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 Eurozone economies which will weigh on economic growth in the region. Further, after month end, S&P downgraded its US rating by one notch to AA+, which has unsettled markets.

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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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.

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