

BT Wholesale Enhanced Credit Fund

Fact Sheet
August 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	1.77	1.81	1.58
3 months	3.67	3.79	3.55
FYDT	3.11	3.19	2.98
6 months	6.20	6.44	6.03
1 year (pa)	7.27	7.75	7.27
2 years (pa)	8.68	9.17	8.19
3 years (pa)	8.01	8.50	8.06
5 years (pa)	6.20	6.68	6.97

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 Aug 2011)	\$417 million
Date of inception	November 2008
Minimum investment	\$25,000
Buy-sell spread	0.12% [#]
Distribution frequency	Semi-annual
APIR code	RFA0100AU

[#] 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.

Market Review

Credit markets were wider over the month. Early in the month, market concerns grew over the United States risking a potential default on its bonds due squabbling over the debt ceiling. During the first week of August the equity markets materially weakened, with the S&P 500 down 6.8% from the start of the month. Whilst the debt agreement was achieved, the agreement's delay and its emphasis on spending cuts increased investors' fears of a "double-dip" recession. These fears were compounded by S&P's decision to downgrade United States' sovereign rating by one notch to AA+ on the 5th of August. These actions, combined with continued mixed US economic data that tended to be weaker than expected, and ongoing European policy uncertainty that drove the ECB to purchase Italian and Spanish bonds in the market, created a "risk-off" market environment.

Overall, credit spreads associated with the UBS Non-Government Index widened 18 basis points over the month as concerns over global growth and heightened event risk resulted in credit markets selling off. From a sector performance basis, the most significant credit pricing deterioration occurred in the offshore bank sectors' subordinate issues. The marked weakening was due to not only concerns over European banks asset quality, given their exposure to sovereign bonds of European peripherals but also operating subsidiary banks located in these countries. Further, this bond class normally underperforms during a risk off environment through extension risk. Arguably, the recent regulatory discussion over bail-ins and Irish banks approach to its junior bond holders absorbing significant haircuts has exacerbated concerns.

Investment bank bonds also underperformed the wider credit market, although not nearly as significantly as bank subordinate paper. During August all the investment banks reported 2nd quarter results. Overall they showed weakened capital market activity. The major banks capital market operations were also subdued. With the prospect of weaker growth the expectations for earnings growth have not improved.

New Issuance

Domestic new issuance volumes dried up in August due to market volatility of the back of continued concerns out of European and the US. Total local issuance was just below \$1b.

Most of the new issuance came from Supra-nations. NAB also issued a small amount locally.

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

Credit spread movements

Credit spreads widened over August. The Australian iTraxx finished 39bps wider, the US and European synthetic investment grade indices were 22 and 39 bps wider respectively. Australian physical spreads moved out 18 bps on average across the curve.

Performance and activity

The Fund outperformed the benchmark in August. Positive performance came from an active short Australian iTraxx position during the month, an overweight in utilities, and an underweight exposure to overseas financials. The underweight on supra-nationals versus holding semi government securities was a drag on performance during the month.

Activity over the month was subdued with some re-weighting real estate exposure away from retail exposed REITs.

Outlook

From a fundamental perspective, we have become more negative on credit markets in the short to medium term as indicators have deteriorated. That said, indicators are still slightly positive to neutral in our credit models. Whilst lending standards are still viewed as easing many of the other indicators have turned bearish. ISM headline has continued to drop, equity volatility has spiked whilst consensus GDP momentum is negative in the US and positive in Australia.

In the short term, we continue to be concerned about the European sovereign crisis and the impact on credit spreads. Note that we did not say, peripheral sovereign crisis, but simply sovereign crisis as the continuing saga threatens to potentially engulf European stalwart, France. Predictably, given the discombobulated EU response to-date, the ensuing crisis has only resulted in ad-hoc austerity measures introduced in individual countries. This has the potential to further depress global growth and weigh on credit markets.

During the current heightened economic uncertainty we rate the risk of increased global M&A activity as moderate to low. With uncertain top-line growth companies are ensuring they have adequate liquidity and an appropriate cost structure to endure a period of slower growth.



For more information

Please call 1800 813 886, contact your business development representative or visit 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. 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.