

BT Government Bond Fund

Fact Sheet September 2011

ARSN: 098 011 048



About the Fund

The Fund is an actively managed portfolio of predominantly government securities which aims to take advantage of investment opportunities within debt markets.

Fund objective

The Fund aims to provide a return (before fees and expenses) that exceeds the UBS Government Bond (0+yrs) Index over a rolling 3 year period. The suggested investment timeframe is three years or more.

Investment philosophy

BTIM believes that an active management approach can deliver superior returns by identifying and exploiting multiple sources of value. This includes duration management, yield curve positioning and sector and security selection.

Investment strategy

The Fund is actively managed and aims to take advantage of investment opportunities within debt markets. The Fund invests predominantly in government securities. These may include direct or indirect holdings of Commonwealth Government bonds, Semi-Government bonds, Corporate bonds (Government guaranteed), Foreign Sovereign bonds and Supranational bonds.

The investment process starts with a top-down analysis of medium-term economic fundamentals and uses multiple sources of value which are non-correlated including:

- duration and yield curve positioning relative to benchmark (utilising a combination of strategic and tactical positions)
- sector allocation relative to benchmark, and
- security selection

BTIM uses a number of derivative instruments to implement the strategy including fixed interest futures, over the counter options, exchange traded options and options on futures.

Investment team

BTIM's Income and Fixed Interest team includes seven 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. The Fund is managed by Vimal Gor, Head of Income Strategies who has more than 17 years industry experience.

Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	1.03	1.05	1.00
3 months	5.56	5.65	5.17
FYDT	5.56	5.65	5.17
6 months	8.26	8.43	7.72
1 year (pa)	9.62	9.98	9.10
2 years (pa)	8.39	8.75	8.18
3 years (pa)	7.95	8.30	7.81
5 years (pa)	6.71	7.06	7.04

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.

Breakdown of total value add by strategy (%)

Relative value	9%
Sector	9%
Yield Curve	9%
Beta Drift	18%
Cross-Market	0%
Duration	55%

Asset allocation (as at 30 Sept 2011)

Government	29%
Semi Government	57%
Supranational	8%
Cash	6%

Portfolio characteristics (as at 30 Sept 2011)

Duration	4.32
Information Ratio (1 Yr)	2.51
Tracking Error	0.21%

Other information

Fund size (as at 30 Sep 2011)	\$740 million
Date of inception	July 1992
Minimum investment	\$500,000
Buy-sell spread	0.06% [#]
Distribution frequency	Quarterly
APIR code	BTA0111AU

[#] 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	0.32% pa*
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* You should refer to the latest Information Memorandum for full details of fees and other costs you may be charged.

¹ The fund's objective changed on 4 September 2009 and from this date, the fund invests predominantly in government securities. Performance before this date may not be directly comparable.

The benchmark changed from UBS Composite Bond Index (0+Yrs) to the UBS Government Bond (0+yrs) Index from 4 September 2009. Performance before this date may not be directly comparable.

Market review

Australian bond yields had a strong rally in the first half of the month but experienced high volatility in the second half. The three-year bond yield fell from 3.77% to 3.62%; the ten-year yield from 4.37% to 4.22%; and the 3-10s yield curve steepened to 63bp. The Reserve Bank of Australia left the cash rate unchanged again at 4.75% at its September meeting. The Reserve Bank pointed out that the market expectation of large cuts in the cash rates were due to a range of technical factors. The Bank also noted extreme volatility in global financial markets due to weaker economic data and ongoing European banking crisis. In contrast, Australian banking system is in a relatively strong condition. However, demand for credit was weak. The resources sector, where the expected investment growth is concentrated, was able to finance internally, while other sectors were relatively weak. The household sector continued deleveraging with an increased saving rate and lower debt-to-income ratio over the past year.

International market performance in September has been driven by the ongoing European sovereign crisis and weak economic data. There is no sign of resolution of the crisis in the foreseeable future. It is highly uncertain how the insolvency cost is to be shared by the European community. In the United States, the Fed announced "operation twist" to extend the duration of its balance sheet by buying longer term bonds with maturity of 6 years onwards. It also announced it will reinvest in MBS in order to further push down the mortgage borrowing cost. Leading indicators released during the month in the developed economies continued to be weak. As a result, US ten-year yields rallied another 30bp for the month to 1.92%. European and UK yields fell by 33bp and 17bp, respectively. Japanese ten-year yield were unchanged. Australia underperformed US with the ten-year yield spread closing higher at 2.30%. The Australian currency underperformed over the period with the trade-weighted index depreciating 4.16%. Risk assets (equities and commodities) underperformed over the month.

Fund performance

The Portfolio returned 5bp (pre-fee) more than the UBS Government Bond benchmark. Core positions of a long in Semi Government bonds and longs in bank government guaranteed bonds were held throughout the month and added to active returns. The Portfolio had a long bias throughout the month and had a moderate amount of trading mostly within the duration strategies component of the fund. Most of these longs were taken in Australia 3 year and 10 year bond futures, with a core position in AUD 5y5y swap persisting through the month. Duration strategies in total added to active returns. In addition to this we entered into a small curve flattening exposure, however this detracted slightly from active returns.

Market outlook

Political uncertainty in Europe is expected to remain high. While the leaders are working out the resolution plans, the waiting time for the final solution will be long. The market will remain volatile and will be dominated by investor sentiment as variants of solutions are speculated. Economic indicators in the developed economies are pointing to further slowdown. It will take longer than most people expect for the economy to recover.

Whilst the Reserve Bank has yet been able to gauge the extent that slowing growth in Europe and the US will have on emerging market economies, it would be naïve to suggest that they will come through unscathed and it is likely that China's export-led economy will start to moderate as export volumes decline. Any confirmation from the inflation data that inflationary pressures are moderating will provide scope for the Reserve Bank to ease monetary, particularly if the employment data released shows a further deterioration in labour market conditions. We continue to view the Reserve Bank as likely to ease monetary policy prior to the end of the year.



For more information

Please call 1800 813 886, contact your business development representative or visit 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 last day of each month using exit prices; taking into account management costs of the fund; assuming reinvestment of distributions (which may include net realised capital gains from the sale of assets 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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