

# BT Institutional Enhanced Global Fixed Interest Fund

Fact Sheet  
September 2011

ARSN: 088 841 972



## About the Fund

The BT Institutional Enhanced Global Fixed Interest Fund is a diversified portfolio of investments which utilises a combination of active and enhanced strategies including: cash strategies, duration, credit investments, a currency strategy and a benchmark swap arrangement<sup>1</sup>.

## Fund objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the JP Morgan GBI Global Traded Index, hedged in Australian dollars, over the medium term. The recommended investment timeframe is three years or more.

## Investment process

Investment returns for the BT Institutional Enhanced Global Fixed Interest Fund may be generated from a number of sources:

- **Cash strategies:** an actively managed portfolio of debt securities which aims to add value from sector and security selection and portfolio construction
- **Duration:** a combination of fundamental and quantitative analysis is employed to create an optimal global duration portfolio. Positioning reflects the risk adjusted allocation of duration to the markets of: US, Australia, Europe, Japan and Canada.
- **Credit:** exposure to global corporate markets with dynamic allocation between sectors determined by return expectations and break even spread analysis.
- **Currency:** a quantitative valuation tool is used to assess relative value and create an optimal currency portfolio.
- **Benchmark:** the return of the global government bond market is delivered via a Total Return Index Swap.

## 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.

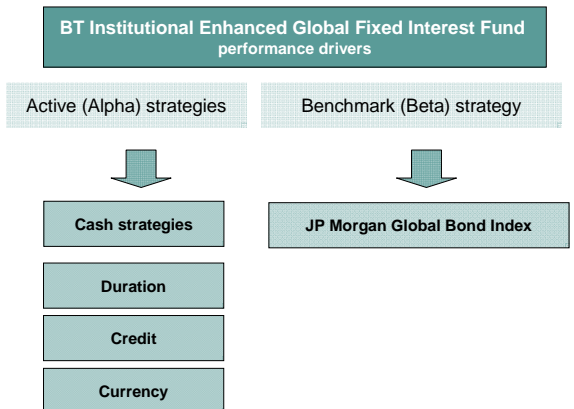
## <sup>1</sup>Change in investment strategy

From its inception, the main investment strategy employed in the Fund was an enhanced index strategy using an alpha transfer technique combined with a benchmark swap. From May 2007, the Fund added three active alpha strategies to its investment universe: duration, credit and currency. The new sources of excess return were introduced to provide greater diversification and increase the potential for outperformance.

## Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	1.44	1.46	1.62
3 months	4.65	4.74	5.35
FYDT	4.65	4.74	5.35
6 months	8.08	8.26	8.47
1 year (pa)	7.81	8.17	7.72
2 years (pa)	10.87	11.23	9.22
3 years (pa)	10.61	10.97	9.53
5 years (pa)	8.06	8.41	8.62

*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.*



## Other information

Fund size (as at 30 Sep 2011)	\$861 million
Date of inception	July 1992
Minimum investment	\$25,000
Buy-sell spread	0.12% <sup>1</sup>
Distribution frequency	Annual
APIR code	WFS0005AU

<sup>1</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	0.33% 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

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" the 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.

Credit market spreads were wider again over the month, responding to ongoing concerns with unresolved European sovereign debt issues, weak US economic data and generally a slower global growth outlook. Synthetic credit spreads were wider over the month. The Australian iTraxx, US CDX finished 47bps and 11bp wider, respectively. European Main ended 49bps wider.

During the month, nearly all attention has continued to be on events unfolding overseas and not on the domestic front.

## 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.

Fundamentally, we continue to be negative in the near to mid-term on credit markets as global growth appears to have markedly slowed. Whilst corporate balance sheets are markedly more robust than a few years ago, we believe that the market will continue to experience ongoing gyrations, typically with credit either widening or the market losing liquidity, until headline risk dissipates.

At present there is no clear resolution to the European sovereign and bank crisis. Recently there have been comments indicating that an effort needs to be made to support the capital levels of European banks in order to allow a possible sovereign default without risking further market contagion. We view this approach as sensible and hope a plan to support the banks eventuates. Given the action, or lack of action, to date, any European resolution is likely to be messy and not without potential collateral damage.



### 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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