

BT Wholesale Enhanced Credit Fund

Fact Sheet
September 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	1.04	1.08	0.72
3 months	4.18	4.30	3.72
FYDT	4.18	4.30	3.72
6 months	6.46	6.69	5.99
1 year (pa)	9.20	9.69	8.87
2 years (pa)	8.70	9.19	8.15
3 years (pa)	8.65	9.14	8.18
5 years (pa)	6.27	6.76	6.96

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 30 Sept 2011)	\$435 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*
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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

Credit markets continued to widen over the month, driven by increased fears of European sovereign and, potentially, bank defaults. During the month markets lurched from news snippet to the next rescue plan release. The apparent “shotgun” release approach to rescue plans that incorporated significant hurdles or looked doomed from the start, only exacerbated market fears of impending doom. The gloss of a unified Europe has worn off, and publically it has become apparent that individual countries national interests are potentially diverging from the EU. Even within the European Commission, different Commissioners appear to contradict each other with the same week.

On credit, the European situation has driven attention to the continental banks exposure to European sovereign bonds and concern that their comparatively high level of short-term wholesale borrowings, in such an environment, makes them vulnerable to adverse market sentiment. This manifested itself in increased focus on the Euro-USD basis swap, which is used as a proxy for European bank funding in USD. Over September the swap rate increased from 89bp to 105bp, increasing funding costs to European banks. On its surface such an increase doesn't appear to be a “death blow” to the banks, but at issue is the level of transparency, which has made it difficult to assess the banks funding levels. Concern has been further raised through the apparent increased usage of bilateral collateralised swaps or repos that involve both a significant haircut but also very short time periods (week or less). The continued roll-over of such funding is highly dependent on confidence swings and the level of overcollateralization can change rapidly.

Overall, credit spreads associated with UBS Non-Government index widened 16 basis points over the month. Whilst all sectors showed spread widening, the main sector exhibiting underperformance was financials. Bank offshore senior and subordinate debt traded wider over the month. In Europe it was driven by funding concerns; capitalisation levels against sovereign exposures; and, potential extension risk and bail-in requirements on subordinate bank debt. In the United States, bank credit has been adversely impacted by continued real estate weakness and the associated litigation liabilities. Plaintiffs are alleging, among other things, that the banks did not ensure either internal underwriting standards were adhered to and/or proper diligence was taken in placing these loans in securitised pools. Bank of America also faces potential litigation over its acquisition of Merrill Lynch with plaintiffs alleging the bank did not fully inform shareholders of Merrill's losses prior to voting.

As noted in August, investment bank bonds continued to widen. With the recent market volatility it is expected that trading earnings will be difficult to achieve. In addition, roiled markets do not promote a strong level of client derived flow or capital market activity. Many hedging strategies also are expected to fall foul of recent conditions. All of these factors, among others, have contributed to a negative market view on the major investment banks.

Credit spread movements

Credit spreads widened over September. The Australian iTraxx finished 47bps wider (after roll), the US and European synthetic investment grade indices were 11 (after roll) and 49bps wider respectively. Australian physical spreads moved out 16 bps on average across the curve

Performance and activity

The Fund outperformed the benchmark in September. Positive performance came from an underweight exposure to overseas financials during the month, an active short Australian iTraxx position, an overweight in utilities, and an overweight in general corporate. 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 no substantive credit market liquidity.

Outlook

Fundamentally, we continue to be negative in the near to mid-term on credit markets as global growth appears to have markedly slowed. Whilst our longer-term credit models reflect a more positive view, we believe that investors, after experiencing the last few months market gyrations, typically with credit either widening or the market losing liquidity, will be not so sanguine.

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

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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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