

BT Government Bond Fund

Fact Sheet October 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	-0.85	-0.82	-0.74
3 months	2.62	2.71	2.50
FYDT	4.67	4.78	4.40
6 months	6.74	6.92	6.40
1 year (pa)	9.10	9.45	8.58
2 years (pa)	8.05	8.40	7.91
3 years (pa)	7.20	7.55	6.83
5 years (pa)	6.58	6.93	6.92

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	0%
Sector	10%
Yield Curve	5%
Beta Drift	10%
Cross-Market	0%
Duration	75%

Asset allocation (as at 31 October 2011)

Government	25.2%
Semi Government	58.4%
Supranational	7.9%
Cash	8.5%

Portfolio characteristics (as at 31 October 2011)

Duration	4.22
Information Ratio (1 Yr)	2.53
Tracking Error	0.20%

Other information

Fund size (as at 31 Oct 2011)	\$744 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

October proved to be another extremely volatile month, but this time risk assets were on the winning side as equities carded their strongest monthly return for about thirty years. Understandably bonds suffered in this environment and yields were driven higher after the sharp falls we have seen in recent months. When looked at over the medium-term the sell-off in yields while it felt vicious at the time was not really material; for example US ten-year yields backed up nearly 40bp but that only took them back to where they were at the end of August and they still remain about 100bp below where they started the year.

The Reserve Bank of Australia left the cash rate unchanged at 4.75% at its October meeting. The most important reference in the statement related to weaker than previously expected conditions would contain inflationary pressures. Labour cost pressures outside of mining and related sectors were less likely to accelerate with labour market conditions softening and unemployment increasing. Inflation data revisions also reflected a more subdued inflationary environment, with the Reserve Bank's annual trimmed mean revised down from 2.7% to 2.5% for the year ended June. Inflation data for the third quarter released in late October would provide further evidence of any further moderation in inflationary pressures.

Performance and activity

During the month of October the BT Government Bond Fund returned -0.82% (pre fee), underperforming the UBS Government Bond Index by 0.08%. October saw market sentiment turn as the promise of a plan from EU leaders to solve the rapidly deteriorating crisis in Europe caused a rally in risk-assets. Bonds understandably suffered in this environment and our long bond bias, which has been held for the majority of the year, was responsible for most of the underperformance. Acknowledging the changing sentiment, we closed down active positions early in the month and ran with much lower risk levels, keeping underperformance to a minimum.

The majority of the underperformance originated from duration strategies, which were made up of long positions in Australian 10 year bonds, US 30 year bonds and UK 10 year Gilts. Cross-sector trades offset this performance somewhat as our holdings of semi-government bonds tightened to bond.

Outlook

The coordinated move by the European governments was welcomed by the market. Volatility in financial market can however be expected to continue as European leaders continue to try and resolve the European debt crisis and concerns about European bank capitalisation levels remain. Strong economic data proved to be sporadic, leading indicators in Europe remain weak and business and consumer confidence remained low. Before the European crisis settles and the global economy gathers momentum, the euphoria of the risk asset rally is bound to be short lived.

With the Reserve Bank more comfortable with the inflation outlook they elected to ease monetary policy at their November meeting, taking policy setting from mildly restrictive to a more neutral stance. In the absence of any shock from Europe, monetary policy can be expected to remain unchanged in the near to medium term as the Reserve Bank waits for evidence of the effect that Europe and the United States is having on the rest of the world.



Investment
Management

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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