

# BT Wholesale Enhanced Credit Fund

**Fact Sheet**  
**October 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	-0.29	-0.25	-0.27
3 months	2.53	2.65	2.03
FYDT	3.88	4.04	3.44
6 months	5.71	5.95	5.23
1 year (pa)	8.47	8.96	8.13
2 years (pa)	8.17	8.65	7.91
3 years (pa)	8.11	8.59	7.29
5 years (pa)	6.21	6.69	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.

## 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 Oct 2011)	\$419 million
Date of inception	November 2008
Minimum investment	\$25,000
Buy-sell spread	0.12% <sup>#</sup>
Distribution frequency	Semi-annual
APIR code	RFA0100AU

<sup>#</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	0.45% 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 were wider over the month. This has primarily been driven by the focus on Europe, which culminated in the Euro Summit on the 22nd & 23rd of October. Whilst the apparent broad agreement announced at the end of the summit appeared positive, there was scant details and lack of clarity how the policy changes were going to be achieved. Throughout the month CDS credit indexes continued to trade tighter from early month wides. This was not reflected in the physical credit market where light trading failed to discern tightening credit spreads, and expectations were generally expressed through Credit Default Swap indexes.

Overall, credit spreads on the UBS Non-Government Index widened 4 basis points over the month as concerns over global growth and heightened event risk resulted in credit markets selling off. In a reversal from previous months, the most significant credit pricing improvement occurred in the offshore bank sectors' subordinate issues, which tightened 30-40bp. Issuers in the investment banking sector continued to weaken, with a widening of spreads over 30bp. This has been driven by weak capital market activity and an inability to maintain effective hedges in a very choppy and event driven market. Consistent with this, virtually all the major bank's trading and investment banking operations performed poorly on a prior period comparative basis, with major European bank's identifying these business segments as targets for allocated capital reductions.

### Credit spread movements

Credit spreads were mixed over October, with the physical markets underperforming CDS. The Australian iTraxx finished 52bps tighter, the US and European synthetic investment grade indices were 23 and 40 bps tighter respectively. Australian physical spreads moved out 4 bps on average across the curve.

### Performance and activity

The fund performed in line with the benchmark in October. Positive performance came from an active long in Australian iTraxx position during the month, an underweight in supra-nationals, and an underweight exposure to ABS. The underweight on financials was a drag on performance during the month.

Activity over the month was subdued with some re-weighting to transport and away from utilities exposure.

## Outlook

From a fundamental perspective, we remain cautious on credit markets in the short to medium term as indicators have been mixed. That said, our underlying longer term models have been strengthening. Whilst lending standards are still viewed as easing, it is not as accommodating as previously recorded. In essence, world growth outlook appears to be bookmarked by Europe on one side with weakening growth and expected contractions in bank lending to prop up capital levels to support sovereign debt losses. On the other side, the USA is showing signs of improvement but its banks are still faced with significant issues surrounding residential mortgages and litigation. Australia is not immune from this and the slowdown in China.

In the short term, we continue to be concerned about the European sovereign crisis and the impact on credit spreads. This has the potential to further depress global growth and weigh on credit markets. We are still waiting on the details of the European plan to bolster European bank capital levels, and without this we are unable to talk to its impact on the outlook (but that it could be pivotal).

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](http://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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