

BT Wholesale Fixed Interest Fund

Fact Sheet
October 2011

ARSN: 089 939 542



About the Fund

The BT Wholesale Fixed Interest Fund is an actively managed portfolio of primarily Australian fixed interest securities.

Fund objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the UBS Composite Bond Index over the medium term. The return is expected to be comprised primarily of income. The suggested investment timeframe is three years or more.

Investment approach

This Fund is designed for investors who want income, diversification across a broad range of cash and fixed interest securities and are prepared to accept some variability of returns. The Fund aims to take advantage of investment opportunities primarily within the Australian fixed interest market by investing in a combination of Commonwealth-government, semi-government and corporate debt and short-term money market securities.

BTIM's investment process for fixed interest aims to add value through multiple strategies and investment research. BTIM seeks to generate excess returns through strategies including active security and sector selection, duration, yield curve and credit management. Our investment approach for credit management seeks to identify opportunities on a sector, issuer and security basis by incorporating top-down and bottom-up research. Top-down research includes analysis of economic and market data, along with macro credit fundamentals such as company earnings, balance sheet health, default rates and equity volatility. The bottom-up research includes analysis of earnings and cashflow volatility, balance sheet, business diversity, industry and valuation.

Derivatives may be used to reduce risk and can act as a hedge against adverse movements in a particular market and/or in the underlying assets. Derivatives can also be used to gain exposure to assets and markets.

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	-0.63	-0.60	-0.57
3 months	2.56	2.66	2.32
FYDT	4.34	4.47	4.03
6 months	6.32	6.53	5.95
1 year (pa)	8.82	9.25	8.42
2 years (pa)	8.05	8.49	7.92
3 years (pa)	7.40	7.83	6.90
5 years (pa)	6.68	7.10	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.

Other information

Fund size (as at 31 Oct 2011)	\$24 million
Date of inception	August 1992
Minimum investment	\$25,000
Buy-sell spread	0.12% [#]
Distribution frequency	Semi-annual
APIR code	RFA0813AU

[#] 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	0.40% 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 paused their rally and sold off in October. The three-year bond yield rose from 3.62% to 3.88%; the ten-year yield from 4.22% to 4.51%; 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 October meeting. Internationally, business and consumer confidence in Europe and the United States remained low. Chinese growth softened, coupled with sharp falls in base metal prices. In Australia, economic conditions continued to vary across sectors. While the pipeline of investment in mining sector remained strong, the broader NAB business conditions survey declined to below its long-run average level. The consecutively increasing unemployment rate confirmed a softening labour market. The housing market remained subdued with falling housing prices and higher rental vacancy rate.

International market performance in October has been driven by positive developments in the ongoing European crisis. Investor sentiment improved as the European governments moved in a more coordinated way to solve the crisis. All Eurozone countries approved to increase the size of EFSF. The plan converged to a larger haircut on Greek debt and recapitalisation of the banks. The positive sentiment was also supported by generally stronger than expected economic data from the US in the month. As a result, the US and UK ten-year yields sold off 20bp and 14bp for the month, respectively. UK and Japanese yields were relatively stable and both rose only by 1bp. Australia underperformed the US with the ten-year yield spread closing higher at 2.40%. The Australian currency bottomed in the month and outperformed over the period with the trade-weighted index appreciating 6.77%. Risk assets (equities and commodities) had a strong rally over the month.

Cash credit markets marginally tighter by month end, after experiencing a multitude of alternative plans to fix the European sovereign crisis. Primary issuance has been muted due to market volatility although there was a flurry of issues near month end. Synthetic credit spreads were tighter over the month. The Australian iTraxx, US CDX finished 52bps and 23bp wider, respectively. European Main ended 40bps tighter.

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

Performance and activity

The Portfolio underperformed its benchmark over the month of October. The Government bond component underperformed its benchmark as long duration trades were stopped out due to a bond market sell-off. The Credit component outperformed its benchmark over the month. Positive performance came from long position in real estate sector and the switching to long positions in iTraxx, but was offset by short positions in financials.

Outlook

The coordinated move by the European governments was welcomed by the market. However, without explicit participation by the ECB and a possible lengthy negotiation with the BRIC countries, the level of uncertainty remains high before a credible plan is brought to the table. 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 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.

From a fundamental perspective, we remain negative, on credit markets in the short to medium as indicators have deteriorated. That said, indicators are still slightly positive to neutral. Whilst lending standards are still viewed as easing many of the other indicators have turned bearish. We continue to be concerned about European sovereign issues. Whilst corporate balance sheets are strong with a solid earnings season, concern over cautious management outlooks due to expectations of weak top-line growth does represent a concern. Energy cost increases could also continue to pressure margins. Increasingly, macro event risk from European sovereigns has the potential create headwinds for prospective credit performance.



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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