

BT Government Bond Fund

Fact Sheet November 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	2.65	2.68	2.49
3 months	2.83	2.91	2.75
FYDT	7.44	7.59	6.99
6 months	7.96	8.13	7.59
1 year (pa)	12.32	12.68	11.61
2 years (pa)	8.67	9.02	8.34
3 years (pa)	7.32	7.67	6.67
5 years (pa)	6.98	7.33	7.29

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	16%
Yield Curve	0%
Beta Drift	29%
Cross-Market	0%
Duration	55%

Asset allocation (as at 30 November 2011)

Government	36.6%
Semi Government	50.2%
Supranational	5.7%
Cash	7.5%

Portfolio characteristics (as at 30 November 2011)

Duration	4.51
Information Ratio (1 Yr)	2.93
Tracking Error	0.44%

Other information

Fund size (as at 30 Nov 2011)	\$758 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

November was one of those months that you think you will never actually ever experience, as the size of the moves and the levels of volatility leave you in awe. It is clear to us that November was the start of the final act of the European crisis as the contagion has begun to spread to French and German bonds and this brings the move to fiscal union into play, until the core were infected they never had the desire to solve the problems by putting their own balance sheets on the line.

Worsening financial conditions have forced a response from global central banks, who at the end of the month pledged to keep swap lines open to the ECB to provide funding in their home currency. The pace of political action has quickened in Europe from glacial pace to that of a drugged snail. The key movement has been talk of re-opening the EU treaty to allow for tighter fiscal union between the nation states within the EU. An important change in tack, but the reality remains that negotiating such agreements will take years with individual country vetting any changes.

The Reserve Bank of Australia eased monetary policy at its November meeting, cutting the cash rate by 25 basis points to 4.50%. The benign inflation data released in late October provided the scope for the Reserve Bank to ease policy. The Reserve Bank meeting minutes noted that inflation forecasts had been lowered with the Reserve Bank expecting underlying inflation (excluding the effects from the carbon tax) to be around 2½ per cent in 2012, and to pick up slightly in 2013, but still be consistent with the inflation target. The more subdued inflationary outlook is consistent with softer growth in the non-mining sector and liaison with many firms that felt that they had limited pricing power.

Performance and activity

The Fund performed strongly over the month, adding 0.19% (pre-fee) over the UBS Government Bond benchmark return of 2.49%. Long duration positions were the primary value add with long positions in 3 year and 10 year Australian bond futures. Cross-sector trades detracted with positions in both semi-government and government guaranteed bank bonds widening to Commonwealth government bonds as liquidity worsened and investors fled spread product.

Outlook

November saw more GDP forecast downgrades across developed economies. The European sovereign crisis worsened with apparent contagion taking hold of more countries. While leading indicators linger at subdued levels, there is limited fiscal capacity to meet the much wanted fiscal support. Market volatility will remain high as it starts to price in the binary outcomes of either a fiscal union or a Euro breakup. Although the US economy appears to be improving, the sustainability is questionable with consumption growth funded by dissaving.

For Australia, the risks remain that global growth is likely to slow in 2012 and 2013 by more than what the Reserve Bank currently expects. The Australian economy has performed relatively well; however, with a more subdued growth outlook and the already struggling non-mining sector, we view it as likely that the Reserve Bank will ease monetary policy at its December meeting.



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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