

# BT Institutional Enhanced Global Fixed Interest Fund

Fact Sheet  
November 2011

ARSN: 088 841 972



## About the Fund

The BT Institutional Enhanced Global Fixed Interest Fund is a diversified portfolio of investments which utilises a combination of active and enhanced strategies including: cash strategies, duration, credit investments, a currency strategy and a benchmark swap arrangement<sup>1</sup>.

## Fund objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the JP Morgan GBI Global Traded Index, hedged in Australian dollars, over the medium term. The recommended investment timeframe is three years or more.

## Investment process

Investment returns for the BT Institutional Enhanced Global Fixed Interest Fund may be generated from a number of sources:

- **Cash strategies:** an actively managed portfolio of debt securities which aims to add value from sector and security selection and portfolio construction
- **Duration:** a combination of fundamental and quantitative analysis is employed to create an optimal global duration portfolio. Positioning reflects the risk adjusted allocation of duration to the markets of: US, Australia, Europe, Japan and Canada.
- **Credit:** exposure to global corporate markets with dynamic allocation between sectors determined by return expectations and break even spread analysis.
- **Currency:** a quantitative valuation tool is used to assess relative value and create an optimal currency portfolio.
- **Benchmark:** the return of the global government bond market is delivered via a Total Return Index Swap.

## 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.

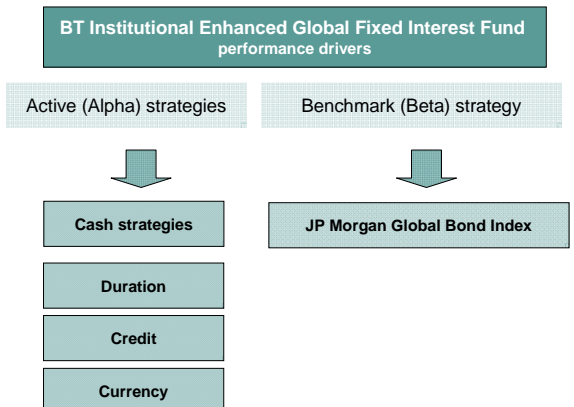
## <sup>1</sup>Change in investment strategy

From its inception, the main investment strategy employed in the Fund was an enhanced index strategy using an alpha transfer technique combined with a benchmark swap. From May 2007, the Fund added three active alpha strategies to its investment universe: duration, credit and currency. The new sources of excess return were introduced to provide greater diversification and increase the potential for outperformance.

## Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	0.14	0.17	0.21
3 months	1.22	1.30	1.55
FYDT	4.42	4.57	5.28
6 months	4.82	4.99	5.63
1 year (pa)	8.42	8.78	8.83
2 years (pa)	9.72	10.08	8.43
3 years (pa)	10.05	10.41	7.97
5 years (pa)	7.73	8.08	8.32

*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 30 Nov 2011)	\$846 million
Date of inception	July 1992
Minimum investment	\$25,000
Buy-sell spread	0.12% <sup>1</sup>
Distribution frequency	Annual
APIR code	WFS0005AU

<sup>1</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	0.33% 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 continued their strong rally in November but retraced somewhat at the end of the month. The three-year bond yield fell from 3.88% to 3.12%; the ten-year yield from 4.51% to 3.93%; and the 3-10s yield curve steepened to 81bp.

Internationally, the Eurozone continued to weaken as exhibited by deteriorating confidence surveys, tighter credit supply and increasing fiscal austerity. Conversely, the US economy picked up pace in the third quarter, while the Chinese economy slowed modestly. The Reserve Bank of Australia decided to cut the cash rate by 0.25% at its November meeting. In doing so, the bank noted that inflation pressure is lower than previously expected and the labour market continued to be soft as there was little net employment growth in the past few months, although the unemployment rate had stabilised. Economic conditions continued to be subdued in a number of sectors. Business demand for credit remained weak while business confidence was still well below average. In contrast, conditions in the resources sector were very positive and there has been strong growth in imports of capital goods. House prices for September showed a decline of 3-4 per cent over the year.

International market performance in November has been driven by the ongoing European crisis. Optimism created by the new solutions was soon shattered by the worsening economic reality, with GDP forecasts for 2012 and 2013 being lowered for Europe. Market contagion broadened as evidenced by Italian ten-year government bond yields rising to the highest level since 1998. Later in the month market optimism was buoyed by a possible work-around of the EU treaties to impose fiscal discipline. Furthermore, in the face of the deteriorating financial and economic conditions, the six major central banks announced lowering the USD liquidity swap facility by 50bp. China also cut the reserve requirement ratio by 50bp. In the US, the economic data was generally stronger than expected, which mitigated the concerns over the slow progress of the budget Super Committee. Over the month, the US and UK ten-year yields rallied 4bp and 12bp, respectively. Japanese yields rose only by 2bp. Australia outperformed the US with the ten-year yield spread closing lower at 1.86%. The Australian currency rebounded into the end of the month and the trade-weighted index depreciated 1.30%. Risk assets (equities and commodities) initially sold off but had a strong rally back into the end of the month.

Cash credit markets were markedly wider by month end, with all sectors wider on renewed fears of European collapse and global growth slowdown. Primary issuance has been muted due to market volatility. Synthetic credit spreads were also wider over the month. The Australian iTraxx, US CDX, and Euro Main finished 54bp and 26bp and 23bp wider, respectively.

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

## Market 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.

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 non-mining sector of the economy already struggling, we view it as likely that the Reserve Bank will ease monetary policy at its December meeting. We do not see the European crisis being resolved quickly and expect financial market volatility to remain high and business, consumer and investor confidence to diminish further.

From a fundamental perspective, we remain negative, on credit markets in the short to medium as indicators have deteriorated. By month end both our economic and market bias models were bearish on credit. We continue to be concerned about European sovereign issues. Whilst corporate balance sheets are strong with a solid earnings season, cautious management outlooks due to expectations of weak top-line growth is a concern. Energy cost increases domestically could also continue to pressure margins. Increasingly, macro event risk from European sovereigns has the potential to 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](http://www.btim.com.au)

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