

BT Government Bond Fund

Fact Sheet December 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	0.82	0.85	0.81
3 months	2.62	2.70	2.55
FYDT	8.33	8.50	7.86
6 months	8.33	8.50	7.86
1 year (pa)	13.39	13.75	12.61
2 years (pa)	9.38	9.73	9.14
3 years (pa)	7.43	7.78	6.52
5 years (pa)	7.24	7.59	7.52

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	25%
Sector	0%
Yield Curve	0%
Beta Drift	0%
Cross-Market	0%
Duration	75%

Asset allocation (as at December 2011)

Government	35.0%
Semi Government	47.4%
Corporate - <i>above investment grade</i>	4.9%
Cash	12.7%

Portfolio characteristics (as at December 2011)

Duration	4.43 yrs
Information Ratio (1 Yr)	3.21
Tracking Error	0.24%

Other information

Fund size (as at 31 Dec 2011)	\$881 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

Australian bond yields continued their rally in the first half of the month but shorter-term yields retraced back toward the end of the month. The three-year bond yield rose from 3.12% to 3.13%; the ten-year yield fell from 3.93% to 3.67%; and the 3-10s yield curve flattened to 54bp. The Reserve Bank of Australia eased monetary policy for the second consecutive month, cutting the cash rate by 25 basis points to 4.25% at its December meeting. European sovereign and banking issues are increasingly affecting other economies with the Reserve Bank noting that a slowing in economic activity in Europe is now starting to affect trade in Asia. The Reserve Bank views the likelihood of a material slowing in global growth as having increased due to ongoing European concerns and more precautionary behaviour by firms and households.

The Reserve Bank also noted that commodity prices have declined recently due to the more subdued outlook for economic growth, which is in turn alleviating inflationary pressures and providing scope for some easing of monetary policy in a number of countries. Domestic labour conditions have also softened recently and eased wage cost inflationary pressures which were beginning to build. With the easing in labour market conditions and falling commodity prices, the Reserve Bank now sees inflation in 2012 and 2013 as being consistent with the 2-3% target excluding the effects from the carbon tax.

The terms of trade have declined from their historically high levels recently although investment in the resources sector remains significant, with associated industries also benefitting. The high level of the exchange rate is having a dampening effect on some parts of the economy whilst the household sector continues to remain cautious, credit growth remains subdued and asset prices having declined in recent months.

Domestic economic data over the month was mixed again. Third quarter gross domestic product data was stronger than expected at 1.0%, taking the annual rate to 2.5%. The data highlighted the divergent state performance with year-on-year final demand increasing by 16.4% in Western Australia and 9.3% for Queensland, compared to 1.2% for New South Wales and 1.8% for Victoria.

Data released in the month also confirmed a further softening in the labour market, with employment falling by 6,300 jobs in October and full time employment recording a significant decline of 39,900 jobs. The unemployment rate increased slightly to 5.3%. Consumer confidence and building approvals data was also weak.

The short end of the Australian yield curve rallied following the Reserve Bank easing monetary policy and resulted in 90 day bank bills ending the month 12 basis points lower at 4.48%. Australian three year government bond yields ended the month marginally higher in yield at 3.13%, whilst Australian ten year bond yields reflected moves in offshore bond markets, ending the month 26 basis points lower in yield at 3.67%.

Performance and activity

The BT Government bond fund outperformed its benchmark over December, adding 0.04% (pre-fee) over the UBS Government Bond index return of 0.81%. Long duration positions were the primary value add with long positions in 3 year Australian Government bond futures and forward swaps. The relative value strategy also added as 3 year swap spread widening positions profited.

Outlook

Further monetary policy decisions will be heavily influenced by offshore factors rather than domestic economic conditions, with the Australian economy having performed well recently and providing little impetus for further monetary policy easing. We expect financial markets to remain volatile in the coming months with confidence continuing to wane in European political leaders' ability to provide a credible solution to European sovereign and banking issues. It is highly likely that Europe enters into recession in 2012 and global economic growth moderates in 2012 despite the recent improvement in economic data out of the United States. We view further monetary policy easing by the Reserve Bank of Australia as likely in the first quarter of 2012.



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 Financial Services Council (FSC) 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.

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