

BT Wholesale Enhanced Credit Fund

Fact Sheet
December 2011

ARSN: 089 937 815



About the Fund

The Fund is an actively managed portfolio of primarily Australian corporate bonds.

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	0.69	0.73	0.72
3 months	1.43	1.54	0.77
FYDT	5.67	5.91	4.52
6 months	5.67	5.91	4.52
1 year (pa)	10.27	10.76	9.15
2 years (pa)	8.24	8.73	7.79
3 years (pa)	7.86	8.35	6.55
5 years (pa)	6.43	6.91	7.02

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 Dec 2011)	\$452 million
Date of inception	November 2008
Minimum investment	\$25,000
Buy-sell spread	0.12% [#]
Distribution frequency	Semi-annual
APIR code	RFA0100AU

[#] 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

It comes as no surprise that physical credit markets were wider over the December quarter. Whilst the December month showed improvement in European Supra-nationals credit spreads, the overall credit market, as exhibited in the UBS non-government index spread to swap continued to gap wider. At a top-level view, the market continued to be dominated by the news emanating out of Europe. Virtually not a day went past without one politician or another being quoted commenting on any one of the many plans to remedy the European sovereign crisis.

Overall, credit spreads associated with the UBS Non-Government Index widened over the quarter as concerns over global growth and heightened event risk resulted in credit markets selling off. From a sector performance basis, the most significant credit pricing deterioration occurred in investment banks, where average spread to swap increased 78bp over the quarter. This was driven by concern whether weak operating performance in capital markets of both equities and fixed income, combined with increasing regulatory requirements represents a structural and not cyclical change in investment bank business models.

Over the first two months of the quarter the major first order impact of the worsening European sovereign crisis was the widening of supra-nationals that were funded/backstopped by one or more of the major European sovereigns. Virtually all the European sovereign nationals were rated AAA based on both contributed capital, and, in many cases, contingent capital call ability over AAA rated European sovereigns. Initially holders sold the weaker entities such as Cades and COE, but as concerns increased about the future viability of the European Union, the major European supra-nationals such as EIB, Eurofima, and KFW were sold off. During the month of December the market took solace over the latest plan agreed to by European leaders. Under the new plan, Euro-zone leaders said they would forge close fiscal ties via an intergovernmental accord, with the UK the only European Union member electing to not participate. On the credit markets, the impact of this accord was a better bid on some of the European Supra-nationals. Average issuer levels (on a spread to swap basis) on the European Investment Bank (EIB) increased from early to mid 50bp to 200bp. By the end of December EIBs levels had retraced 31bp to end at 169bp. KFW, the German supra-national exhibited peak spread-to-swap levels at 128bp (approx. 90bp wider than October levels) to tighten back to 102bp at December quarter end.

Albeit that spread to swap levels on supra-nationals improved in December, other sectors in market continued to widen, which resulted in the overall index. European financials continue to suffer as uncertainty over their future credit ratings, as supported through their respective domicile, sovereign ratings came under pressure. On a macro level, credit spreads widening was fuelled by concerns over, in part, second order impacts of the European sovereign crisis – that many European economies were slowing down and that future austerity budgets, as enacted in Italy, UK, France, Germany and Spain among others, will further depress global growth.

Physical Credit spreads were wider over the December quarter, underperforming the CDS markets. The Australian iTraxx finished 30bps tighter, the US and European synthetic investment grade indices were 24 and 28 bps tighter, respectively.

Performance and activity

The Fund marginally outperformed (pre-fee) the benchmark in the December quarter. Positive performance came from an active underweight in European supra-nationals and overseas financials. Activity over the quarter was primarily centred around the re-weighting of supra-nationals.

Outlook

Macro-economic and political factors that have had a significant hand in pushing credit wider over the last quarter will continue to impact credit markets over the near term. While Europe might have the beginnings of a plan framework to tackle current sovereign debt issues, the accord leaves too many unanswered questions in order to assess its impact. In part, given that the accord does not appear to take into account the respective government's different existing fiscal situations and embedded labour productivity differences, it's hard to imagine the fiscal accord will amount to much unless significant additional meat is put on the bones. But, irrespective of any merits of the accord, Europe is slowing down. Compounding this is the tepid US "recovery" appears not to be sustainable as consumers are dipping into their savings to fund consumption. China, also, has begun to slowdown demonstrating it's not an island that can wholly ignore increasing demand weakness from its customers though domestic infrastructure builds.

Outside of defensive domestic domiciled credit issuers, we remain cautious over the near term credit outlook. Most kangaroo issuers in Australia are either financial companies or supra-nationals. Many European financials are in need of capital, as detailed in the EBA's stress tests, and are largely operating in a market where underlying system growth is less than tepid. Our outlook for the North American credit market is tempered by the major US kangaroo issuers continue to be under a cloud regarding mortgage asset quality issues and litigation. Supra-nationals continue to be at risk of negative ratings impacts should any of the rating agencies downgrade the major European sovereigns.



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 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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