

**BT Global Credit Fund (formerly known as
BT Global Investment Grade Sector Trust)**

ARSN 124 706 761

**Annual report - for the year ended
30 June 2010**

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Contents

	Page
Directors' report	1
Auditor's independence declaration	4
Statement of comprehensive income	5
Balance sheet	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9
Directors' declaration	29
Independent audit report to the unitholders of BT Global Credit Fund	30

This financial report covers BT Global Credit Fund as an individual entity.

The Responsible Entity of BT Global Credit Fund is BT Investment Management (RE) Limited (ABN 17 126 390 627).

The Responsible Entity's registered office is Level 14, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000.

Directors' report

The directors of BT Investment Management (RE) Limited, the Responsible Entity of BT Global Credit Fund, present their report together with the financial report of BT Global Credit Fund ("the Fund") for the year ended 30 June 2010.

Principal activities

The Fund invests in derivatives, fixed interest securities, money market securities, unlisted unit trusts, cross currency swaps and cash in accordance with the Fund Constitution.

The Fund did not have any employees during the year.

During the year the Fund changed its name from the BT Global Investment Grade Sector Trust to the BT Global Credit Fund. There were no other significant changes in the nature of the Fund's activities during the year.

Directors

The following persons held office as directors of BT Investment Management (RE) Limited during the year or since the end of the year and up to the date of this report:

D Morris (appointed 25 September 2007, resigned 13 July 2009)

B Scullin (appointed 25 September 2007)

P Stockwell (appointed 25 September 2007)

C Williamson (appointed 4 March 2009)

E Gonzalez (appointed 21 January 2010)

Review and results of operations

During the year, the Fund continued to invest funds in accordance with target asset allocations as set out in the governing documents of the Fund and in accordance with the provisions of the fund Constitution.

Results

The performance of the Fund, as represented by the results of its operations, was as follows:

	Year ended	
	30 June 2010	30 June 2009
Operating profit/(loss) before finance costs attributable to unitholders (\$'000)	<u>21,058</u>	<u>(19,558)</u>
<i>Distributions</i>		
Distribution paid and payable (\$'000)	<u>10,993</u>	<u>5,376</u>
Distribution (cents per unit)	<u>5.69</u>	<u>3.45</u>

The table below demonstrates the performance of the Fund as represented by the total return, which is calculated as the aggregation of the percentage capital growth and percentage distribution of income. The total return is shown for 2 years to 30 June 2010 and for the period 14 May 2007 to 30 June 2008 and assumes that all distributions were re-invested during that period. These are calculated in accordance with IFSA Standard 6.0 Product Performance - calculation and presentation of returns.

	2010	2009	2008 #
	%	%	%
Capital growth	6.89	(15.35)	(4.90)
Distribution of income	<u>7.19</u>	<u>3.62</u>	<u>7.65</u>
Total return	<u>14.08</u>	<u>(11.73)</u>	<u>2.75</u>

Consistent with our statements in the governing documents of the Fund, future performance is not guaranteed. Investors should exercise care in using past performance as a predictor of future performance.

Directors' report (continued)

Unit redemption prices

Unit redemption prices (quoted cum-distribution) are shown as follows:

	2010	2009	2008 #
	\$	\$	\$
At 30 June	0.8769	0.7999	0.9675
High during year	0.8989	0.9466	1.0069
Low during year	0.7990	0.6564	0.9505

	30 June	30 June
	2010	2009
	\$'000	\$'000
Net assets for unit pricing purposes	169,382	142,718
Difference between net market value (for unit pricing) and fair value (for financial statements) of financial assets held at fair value through profit or loss	(557)	(974)
Effect of classification of net assets attributable to unitholders as liabilities	(168,825)	(141,744)
Net assets under Australian Accounting Standards	-	-

Change of Fund name

As of 15th October 2009, there has been a change of name of the Fund. The BT Global Investment Grade Sector Trust is now known as the BT Global Credit Fund.

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Fund in future financial years.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the responsible entity believes it would be likely to result in unreasonable prejudice to the Fund.

Directors' report (continued)

Indemnity and insurance of officers

No insurance premiums were paid for out of the assets of the Fund in regards to insurance cover provided to the officers of BT Investment Management (RE) Limited.

Indemnification of auditors

The auditors of the Fund are in no way indemnified out of the assets of the Fund.

Fees paid to and interests held in the Fund by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in note 13 on page 26 of the financial statements.

No fees were paid out of Fund property to the directors of the Responsible Entity during the year.

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are also disclosed in note 13 on page 26 of the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in note 7 of the financial statements.

The value of the Fund's assets and liabilities is disclosed on the balance sheet and derived using the basis set out in note 2 of the financial statements.

Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Rounding of amounts to the nearest thousand dollars

The Fund is an entity of the kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

This report is made in accordance with a resolution of the directors.



Director



Director

Sydney
16 September 2010

PricewaterhouseCoopers
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Auditor's Independence Declaration

As lead auditor for the audit of BT Global Credit Fund for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of BT Global Credit Fund.



SJ Smith
Partner
PricewaterhouseCoopers

Sydney
16 September 2010

BT Global Credit Fund
Statement of comprehensive income
For the year ended 30 June 2010

Statement of comprehensive income

	Notes	Year ended	
		30 June 2010 \$'000	30 June 2009 \$'000
Investment income			
Interest income	4	7,374	5,705
Distributions from unit trusts		423	4,326
Net gains/(losses) on financial instruments held at fair value through profit or loss	6	13,880	(29,665)
Other investment income		<u>47</u>	<u>148</u>
Total net investment income/(loss)		<u>21,724</u>	<u>(19,486)</u>
Expenses			
Responsible Entity's fees	13	639	-
Transaction costs		3	1
Other operating expenses	5	<u>24</u>	<u>71</u>
Total operating expenses		<u>666</u>	<u>72</u>
Operating profit/(loss)		<u>21,058</u>	<u>(19,558)</u>
Finance costs attributable to unitholders			
Distributions to unitholders	8	(10,993)	(5,376)
(Increase)/decrease in net assets attributable to unitholders	7	<u>(10,065)</u>	<u>24,934</u>
Profit/(loss) for the year		-	-
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income		<u>-</u>	<u>-</u>

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance sheet

	Notes	As at	
		30 June 2010 \$'000	30 June 2009 \$'000
Assets			
Cash and cash equivalents	9	18,117	21,761
Margin accounts		1,123	113
Accrued income		1,875	1,866
Receivables		14	-
Financial assets held at fair value through profit or loss	10	<u>161,920</u>	<u>129,476</u>
Total assets		<u>183,049</u>	<u>153,216</u>
Liabilities			
Distribution payable	8	4,343	-
Due to brokers - payable for securities purchased		705	-
Payables		163	6
Financial liabilities held at fair value through profit or loss	11	<u>9,013</u>	<u>11,466</u>
Total liabilities (excluding net assets attributable to unitholders)		<u>14,224</u>	<u>11,472</u>
Net assets attributable to unitholders - liability	7	<u>168,825</u>	<u>141,744</u>

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity

	Year ended	
	30 June	30 June
	2010	2009
	\$'000	\$'000
Total equity at the beginning of the financial year	-	-
Profit/(loss) for the year	-	-
Other comprehensive income	-	-
Total comprehensive income	<u>-</u>	<u>-</u>
Transactions with owners in their capacity as owners	<u>-</u>	<u>-</u>
Total equity at the end of the financial year	<u><u>-</u></u>	<u><u>-</u></u>

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result there was no equity at the start or end of the year.

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

		Year ended	
		30 June	30 June
		2010	2009
	Notes	\$'000	\$'000
<i>Cash flows from operating activities</i>			
Proceeds from sale of financial instruments held at fair value through profit or loss		64,185	26,998
Purchase of financial instruments held at fair value through profit or loss		(83,572)	(109,982)
Transaction costs		(3)	(1)
Interest received		7,788	4,756
Other income received		33	148
Responsible entity's fees paid		(436)	-
Payment of other expenses		(70)	(100)
Net cash inflow/(outflow) from operating activities	14(a)	<u>(12,075)</u>	<u>(78,181)</u>
<i>Cash flows from financing activities</i>			
Proceeds from applications by unitholders		14,600	30,607
Payments for redemptions by unitholders		(4,158)	(28,243)
Distributions paid		(76)	-
Net cash inflow/(outflow) from financing activities		<u>10,366</u>	<u>2,364</u>
Net increase/(decrease) in cash and cash equivalents		(1,709)	(75,817)
Cash and cash equivalents at the beginning of the year		21,761	97,981
Effects of foreign currency exchange rate changes on cash and cash equivalents		(1,935)	(403)
Cash and cash equivalents at the end of the year	9	<u>18,117</u>	<u>21,761</u>
Non-cash financing activities	14(b)		

The above statement of cash flows should be read in conjunction with the accompanying notes.

1 General information

This financial report covers BT Global Credit Fund ("the Fund") as an individual entity. The Fund was constituted on 1st of March 2007.

The Responsible Entity of the Fund is BT Investment Management (RE) Limited (the "Responsible Entity"). The Responsible Entity's registered office is Level 14, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000. The annual report is presented in Australian currency.

The financial statements were authorised for issue by the directors on 16 September 2010. The directors of the Responsible Entity have the power to amend and reissue the financial report.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the year presented, unless otherwise stated in the following text.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001* in Australia.

The financial report has been prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

Compliance with International Financial Reporting Standards (IFRS)

The financial report of the Fund also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Financial statement presentation

The Fund has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Fund had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(b) Financial instruments

(i) Classification

The Fund's investments are categorised as at fair value through profit or loss. They comprise:

- Financial instruments held for trading

Derivative financial instruments such as cross currency swaps and credit default swaps would be included under this classification. The Fund does not designate any derivatives as hedges in a hedging relationship.

- Financial instruments designated at fair value through profit or loss upon initial recognition

These include financial assets that are not held for trading purposes and which may be sold.

These are investments in exchange traded debt instruments, unlisted trusts and unlisted debt instruments.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the responsible entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

2 Summary of significant accounting policies (continued)

(ii) Recognition/derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(iii) Measurement

(a) Financial assets and liabilities held at fair value through profit or loss.

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Fund is the current bid price and the quoted market price for financial liabilities is the current asking price.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Fund recognises the difference in profit or loss to reflect a change in factors, including time that market participants would consider in setting a price.

Details on how the fair value of financial instruments is determined are disclosed in note 3(e).

(b) Loans and receivables

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in the statement of comprehensive income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent year the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of comprehensive income.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are classified as financial liabilities due to mandatory distributions. The units can be put back to the Fund at any time for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if unitholders exercised their right to redeem units in the Fund.

(d) Cash and cash equivalents

For statement of cash flows presentation purposes, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, cash management trusts and bank overdrafts.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

2 Summary of significant accounting policies (continued)

(e) Investment income

Interest income and expenses are recognised in the statement of comprehensive income for all debt instruments using the effective interest method.

Interest income is recognised in the statement of comprehensive income as it accrues, using the original effective interest rate of the instrument calculated at acquisition or origination date. Interest income includes the amortisation of any discount or premium or other differences between initial carrying amount of an interest-bearing instrument and its amount calculated on an effective interest rate basis.

Fund distributions (including distributions from cash management trusts) are recognised on a present entitlement basis.

(f) Expenses

All expenses, including responsible entity's fees are recognised in the statement of comprehensive income on an accruals basis.

(g) Income tax

Under current legislation, the Fund is not subject to income tax provided the taxable income of the Fund is fully distributed either by way of cash or reinvestment (i.e. unitholders are presently entitled to the income of the Fund).

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Fund is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Fund to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

The benefits of imputation credits and foreign tax paid are passed on to unitholders.

The Fund currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded net of withholding tax in the statement of comprehensive income.

(h) Distributions

In accordance with the Fund Constitution, the Fund fully distributes its distributable (taxable) income, and any other amounts determined by the responsible entity, to unitholders by cash or reinvestment. The distributions are recognised in the statement of comprehensive income as finance costs attributable to unitholders.

(i) Increase/decrease in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the statement of comprehensive income as finance costs.

(j) Foreign currency translation

(i) Functional and presentation currency

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Fund competes for funds and is regulated. The Australian dollar is also the Fund's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Non monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

2 Summary of significant accounting policies (continued)

(k) Due from/to brokers

Amounts due from/to brokers represent payables for securities purchased and receivables for securities sold that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and normally settled within three business days. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation and default in payments.

(l) Accrued income

Accrued income may include amounts for trust distributions and interest. Fund distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in note 2(e) above. Amounts are generally received within 45 days of being recorded as receivables.

(m) Receivables

Receivables include such items as Reduced Input Tax Credits (RITC) and application monies receivable from unitholders.

(n) Payables

Payables include liabilities, accrued expenses and redemption monies owing by the Fund which are unpaid as at the end of the reporting period.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the balance sheet when unitholders are presently entitled to the distributable income under the Fund's Constitution.

(o) Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

(p) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as investment management fees have been passed onto the Fund. The Fund qualifies for RITC at a rate of 75% hence investment management fees, custodial fees and other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the balance sheet. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

(q) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Fund's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example, over-the-counter derivatives or unquoted securities are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the responsible entity, independent of the area that created them. Models are calibrated by back-testing to actual transactions to ensure that outputs are reliable.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, including amounts due from/to brokers and payables, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

(r) New accounting standards and interpretations

2 Summary of significant accounting policies (continued)

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The management's assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

- (i) *AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)*

AASB 9 Financial Instruments addresses the classification and measurement of financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in statement of comprehensive income. The Fund has not yet decided when to adopt AASB 9. However, management does not expect this will have a significant impact on the Fund's financial statements as the Fund does not hold any available-for-sale investments.

- (ii) *AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 and 139] (effective from 1 July 2010)*

In May 2009 the AASB issued a number of improvements to AASB 5 Non-current Assets Held for Sale and Discontinued Operations, AASB 8 Operating Segments, AASB 101 Presentation of Financial Statements, AASB 107 Statement of Cash Flows, AASB 117 Leases, AASB 118 Revenue, AASB 136 Impairment of Assets and AASB 139 Financial Instruments, Recognition and Measurement. The Fund will apply the revised Standards from 1 July 2010. The Fund does not expect that any adjustments will be necessary as a result of applying the revised rules.

- (iii) *Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)*

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. The Fund will apply the amended standard from 1 July 2011. When the amendments are applied, the Fund would need to disclose any transactions between its subsidiaries and its associates. However, as the Fund does not have any subsidiaries and associates, the amendment will not have any effect on the Fund's financial statements.

(s) Rounding of amounts

The Fund is an entity of the kind referred to in Class Order 98/0100 (as amended), issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

(t) Margin accounts

Margin accounts comprise cash held as collateral for derivative transactions and short sales. The cash is held by the broker and is only available to meet margin calls.

3 Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management programme focuses on ensuring compliance with the governing documents of the Fund and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. The Fund may also use (or uses) derivative financial instruments to alter certain risk exposures. Financial risk management is carried out by the Investment Manager.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ratings analysis for credit risk.

The Investment Manager mitigates these financial risks through diversification and a careful selection of securities and other financial instruments within specified limits set by management.

The Fund's performance exceptions to the UBS Bank Bill Index, which is the Fund's benchmark, are reported to a senior management committee on a regular basis. This committee has formal delegation from the responsible entity.

3 Financial risk management (continued)

(a) Market risk

(i) Price risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. There is no significant direct price risk in this Fund. The Trust invests mainly into direct fixed interest securities, listed securities which pay dividends or distributions based on regularly resettable interest rates, and derivatives. The risks associated with these securities are disclosed under interest rate risk.

The Fund is exposed to price risk on unlisted unit trusts and derivative securities. This arises from investments held by the Fund for which prices in the future are uncertain. These are classified on the balance sheet as at fair value through profit or loss. Where non monetary financial instruments are denominated in currencies other than the Australian dollar, the price in the future will also fluctuate because of changes in foreign exchange rates. Paragraph (ii) below sets out how this component of price risk is managed and measured. All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from equities sold short can be unlimited.

The Fund invests mainly into direct fixed interest securities, direct money market securities and derivatives. The risks associated with these securities are disclosed under interest rate risk.

The Fund invests into listed securities which pay dividends or distributions based on regularly resettable interest rates. The key risk associated with these securities is interest rate risk.

(ii) Foreign exchange risk

The Fund holds both monetary and non-monetary assets denominated in currencies other than the Australian dollar. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk. Foreign exchange risk arises as the value of monetary securities denominated in other currencies will fluctuate due to changes in exchange rates. The risk is measured using sensitivity analysis.

The Fund's foreign exchange policy is as per the governing documents of the Fund.

The Fund is exposed to foreign exchange risk as a result of investments in foreign currency contracts.

Currency is fully hedged to the Australian dollar to the extent considered reasonably practicable.

For accounting purposes, the Fund does not designate any derivatives as hedges in a hedging relationship, and hence these derivative financial instruments are classified as at fair value through profit or loss.

Exceptions to the compliance with the Fund's foreign exchange policy are reported to management on a regular basis.

The table below summarises the Fund's assets and liabilities that are denominated in a currency other than the Australian dollar.

30 June 2010	US Dollars A\$'000	Euro A\$'000	British Pounds A\$'000	Other Currencies A\$'000
Cash and cash equivalents	2,352	1,627	269	1
Accrued income	532	722	191	17
Receivables	-	5	-	-
Financial assets held at fair value through profit or loss	<u>62,322</u>	<u>45,656</u>	<u>4,633</u>	<u>1,685</u>
	<u>65,206</u>	<u>48,010</u>	<u>5,093</u>	<u>1,703</u>

30 June 2009	US Dollars A\$'000	Euro A\$'000	British Pounds A\$'000	Other Currencies A\$'000
Cash and cash equivalents	1,273	2,432	175	-
Accrued income	432	943	103	-
Financial assets held at fair value through profit or loss	48,356	55,500	1,950	-
Financial liabilities held at fair value through profit or loss	<u>(7,104)</u>	<u>(4,107)</u>	<u>(2)</u>	<u>-</u>
	<u>42,957</u>	<u>54,768</u>	<u>2,226</u>	<u>-</u>

The Fund holds forward foreign exchange contracts with a notional exposure of \$40,391,590 (2009: \$37,376,500) and also holds cross currency swaps with a notional exposure of \$1,460,816 (2009: \$6,099,452).

3 Financial risk management (continued)

The table presented in note 3 (b) summarises sensitivity analysis to foreign exchange risk.

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Changes in interest rates can have a direct or indirect impact on the investment value and/or returns of all types of assets.

The Fund may also enter into derivative financial instruments to mitigate the Fund's exposure to interest rate risk.

At year end, the Fund held domestic and international fixed interest derivatives, as disclosed in note 12.

Exceptions to the compliance with the Fund's fixed interest policy are reported to management on a regular basis.

The table below summarises the Fund's exposure to interest rate risk. It includes the Fund's assets and liabilities at fair value, categorised by the earlier of contractual re-pricing or maturity dates.

30 June 2010	Floating interest rate \$'000	Fixed interest rate \$'000	Non interest bearing \$'000	Total \$'000
Financial assets				
Cash and cash equivalents	18,117	-	-	18,117
Margin accounts	1,123	-	-	1,123
Accrued income	-	-	1,870	1,870
Receivables	-	-	19	19
Financial assets held at fair value through profit or loss	34,880	126,080	960	161,920
Financial liabilities				
Distributions payable	-	-	(4,343)	(4,343)
Payables	-	-	(868)	(868)
Financial liabilities held at fair value through profit or loss	-	(8,857)	(156)	(9,013)
	<u>54,120</u>	<u>117,223</u>	<u>(2,518)</u>	<u>168,825</u>

30 June 2009	Floating interest rate \$'000	Fixed interest rate \$'000	Non interest bearing \$'000	Total \$'000
Financial assets				
Cash and cash equivalents	21,761	-	-	21,761
Margin accounts	113	-	-	113
Accrued income	-	-	1,866	1,866
Financial assets held at fair value through profit or loss	27,356	100,849	1,271	129,476
Financial liabilities				
Payables	-	-	(6)	(6)
Financial liabilities held at fair value through profit or loss	-	-	(11,466)	(11,466)
	<u>49,230</u>	<u>100,849</u>	<u>(8,335)</u>	<u>141,744</u>

An analysis of financial liabilities by maturities is provided in paragraph 3 (d) below.

The table presented in note 3 (b) summarises sensitivity analysis to interest rate risk.

3 Financial risk management (continued)

(b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders to interest rate risk and foreign exchange risk. The analysis is based on reasonably possible movements in the benchmark with all other variables held constant and the fair value of the Fund's portfolio moving according to the movement in the benchmark. The reasonably possible movements in the risk variables have been determined based on management estimates, having regard to a number of factors, including historical levels of changes in interest rates and foreign exchange rates. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities to which the variable is exposed. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

	Interest rate risk		Foreign exchange risk	
	Impact on operating profit / Net assets attributable to unitholders			
	-1.0%	+1.0%	-10%	+10%
	(2009: -1.0%)	(2009: +1.0%)	(2009: -10%)	(2009: +10%)
	\$'000	\$'000	\$'000	\$'000
30 June 2010	297	(297)	11,042	(11,042)
30 June 2009	438	(438)	9,997	(9,997)

In determining the impact of an increase/decrease in net assets attributable to unitholders arising from market risk, the Responsible Entity has considered prior period and expected future movements of the portfolio based on market information.

(c) Credit risk

Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part, under a contract.

Credit risk primarily arises from investments in debt securities and from trading derivative products. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. None of these assets are impaired nor past due but not impaired.

Concentrations of direct credit risk are minimised primarily by:

- ensuring counterparties, together with the respective credit limits, are approved, and
- ensuring that transactions are undertaken with a number of counterparties.

Exceptions to the compliance with the Fund's credit risk policy are reported to management on a regular basis.

There were no significant direct concentrations of credit risk to counterparties at 30 June 2010 or 30 June 2009.

i) Fixed interest securities

The Fund invests in debt securities which have an investment grade as rated by a well known rating agency. For unrated debt securities a rating is assigned by the Investment Manager using an approach that is consistent with the approach used by rating agencies.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. An analysis of Fixed Interest securities by rating is set out in the table below:

	30 June	30 June
	2010	2009
	\$'000	\$'000
Australian fixed Interest securities		
Rating		
AAA	605	5,727
AA	7,338	4,922
A	20,725	7,381
BBB	9,422	6,214
BB	277	-
CCC	9	118
C	455	118
A-1+	8,089	46
Total	<u>46,920</u>	<u>24,526</u>

3 Financial risk management (continued)

International fixed Interest securities	30 June 2010	30 June 2009
Rating	\$'000	\$'000
AAA	1,471	24,208
AA	17,836	20,808
A	50,371	31,203
BBB	22,899	26,271
BB	673	-
CCC	23	498
C	1,106	498
A-1+	<u>19,661</u>	<u>193</u>
Total	<u>114,040</u>	<u>103,679</u>

(d) Liquidity risk

Liquidity risk is the risk that the Fund will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial instruments.

The Fund is exposed to daily cash redemptions of redeemable units and daily margin calls on derivatives. It therefore primarily holds investments that are traded in an active market and can be readily disposed of. Only a limited proportion of its assets are not traded on an active market.

The risk management guidelines adopted are designed to minimise liquidity risk through:

- ensuring that there is no significant exposure to illiquid or thinly traded financial instruments, and
- applying limits to ensure there is no concentration of liquidity risk to a particular counterparty .

Exceptions to the above are reported to management on a regular basis.

The majority of the Fund's securities are considered readily realisable. The types of assets contained in the portfolio are disclosed in note 10 on page 23.

The Fund may, from time to time, invest in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer or counterparty. Such investments held at year end are disclosed in note 12.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period to the earliest possible contractual maturity date at the year end date. The amounts in the table are contractual undiscounted cash flows.

3 Financial risk management (continued)

	Less than 1 month \$'000	1 - 3 months \$'000	Greater than 3 months \$'000
At 30 June 2010			
Financial liabilities at fair value through profit or loss			
Net Settled derivatives	32	536	8,445
Distribution payable	4,343	-	-
Due to brokers - payable for securities purchased	705	-	-
Payables	163	-	-
Net assets attributable to unitholders	<u>168,825</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>174,068</u>	<u>536</u>	<u>8,445</u>

	Less than 1 month \$'000	1 - 3 months \$'000	Greater than 3 months \$'000
At 30 June 2009			
Financial liabilities at fair value through profit or loss			
Net Settled derivatives	253	46	11,167
Payables	6	-	-
Net assets attributable to unitholders	<u>141,744</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>142,003</u>	<u>46</u>	<u>11,167</u>

(e) Fair value estimation

The carrying amounts of the Fund's assets and financial liabilities at the balance sheet date approximate their fair values.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

- Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

The Fund values its investments in accordance with the accounting policies set out in note 2. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Fund holds derivatives with offsetting market risks, it uses mid market prices as a basis for establishing fair value for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

- Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the balance sheet date. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

3 Financial risk management (continued)

The fair value of derivatives that are not exchange traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying the Black Scholes option valuation model.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the managers of such trusts.

(f) Fair Value Hierarchy

The Fund has adopted the amendments to AASB 7, effective 1 July 2009. This requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the responsible entity. The responsible entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The table below sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial Assets				
Financial assets held for trading:				
Derivatives	686	274	-	960
Financial assets designated at fair value through profit or loss:				
Fixed interest securities	<u>-</u>	<u>140,641</u>	<u>20,319</u>	<u>160,960</u>
Total	<u>686</u>	<u>140,915</u>	<u>20,319</u>	<u>161,920</u>
Financial liabilities				
Financial liabilities held for trading:				
Derivatives	<u>(167)</u>	<u>(8,846)</u>	<u>-</u>	<u>(9,013)</u>
Total	<u>(167)</u>	<u>(8,846)</u>	<u>-</u>	<u>(9,013)</u>

Investments, whose values are based on quoted market prices in active markets, and therefore classified within level 1, exchange traded derivatives and currency contracts.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include certain unlisted corporate debt and floating rate notes, swaps, certain unlisted unit trusts and certain listed equities. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non transferability, which are generally based on available market information.

3 Financial risk management (continued)

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. Level 3 instruments include certain corporate debt securities. As observable prices are not available for these securities, the Responsible Entity has used valuation techniques to derive fair value.

There have been no transfers between levels for the year ended 30 June 2010.

The following table presents the movement in level 3 instruments for the year ended 30 June 2010 by class of financial instrument.

	Fixed Interest Securities
	\$'000
Opening balance	12,519
Purchases	10,133
Gains and losses recognised in profit or loss	<u>(2,333)</u>
Closing balance	<u>20,319</u>

4 Interest income

The following table details the interest income earned by the Fund during the year:

	Year ended	
	30 June	30 June
	2010	2009
	\$'000	\$'000
Interest income from debt securities designated at fair value through profit or loss	7,276	5,599
Interest income from financial assets that are not at fair value through profit or loss:		
Cash and cash equivalents	<u>98</u>	<u>106</u>
Total interest income	<u>7,374</u>	<u>5,705</u>

5 Other operating expenses

	Year ended	
	30 June	30 June
	2010	2009
	\$'000	\$'000
Custody fees	18	1
Reimbursable expenses	-	70
Other expenses	<u>6</u>	<u>-</u>
	<u>24</u>	<u>71</u>

For the year ended 30 June 2010, the auditor's remuneration for auditing the financial report of \$20,146 and other services of \$741 were paid by the Responsible Entity from their fees. For the year ended 30 June 2009, included in reimbursable expenses are auditor's remuneration for auditing the financial report of \$19,802 and other services of \$1,114.

6 Net gains/(losses) on financial instruments held at fair value through profit or loss

Net gains/(losses) recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

	Year ended	
	30 June 2010 \$'000	30 June 2009 \$'000
Net unrealised gains/(losses) on financial instruments held for trading	2,214	(12,477)
Net unrealised gains/(losses) on financial instruments designated at fair value through profit or loss	8,016	(3,349)
Net realised gains/(losses) on financial instruments held for trading	7,592	(13,222)
Net realised gains/(losses) on financial instruments designated at fair value through profit or loss	<u>(3,942)</u>	<u>(617)</u>
Total net gains/(losses) on financial instruments held at fair value through profit or loss	<u>13,880</u>	<u>(29,665)</u>

7 Net assets attributable to unitholders

Movements in number of units and net assets attributable to unitholders during the year were as follows:

	30 June 2010 No. '000	30 June 2009 No. '000	30 June 2010 \$'000	30 June 2009 \$'000
Net assets attributable to unitholders -				
Opening balance	178,420	164,604	141,744	155,220
Applications	16,841	38,635	14,600	30,607
Redemptions	(4,804)	(35,251)	(4,158)	(28,243)
Units issued upon reinvestment of distributions	7,502	10,432	6,574	9,094
Increase/(decrease) in net assets attributable to unitholders	<u>-</u>	<u>-</u>	<u>10,065</u>	<u>(24,934)</u>
Closing balance	<u>197,959</u>	<u>178,420</u>	<u>168,825</u>	<u>141,744</u>

As stipulated within the Fund Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

Capital risk management

The responsible entity manages the Fund's net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

The responsible entity monitors the Fund's individual redemptions greater than \$1,000,000 or 5% of the fund size. Management assesses the impact on remaining unitholders of the realisation of the assets to meet the redemption before approving these transactions and allowing them to be processed in the registry system and funds remitted to the redeeming unitholder. Where the impact on remaining unitholders is significant, management may decide to pay a special distribution and/or may delay payment of the redemption amount.

(a) Unrealised losses

At the reporting date, the Fund had net unrealised losses of \$14,180,550 (2009: \$24,375,700).

(b) Realised capital losses

At the reporting date, the Fund had realised capital losses of \$1,619,212 (2009: \$1,576,300) available to offset against future assessable capital gains.

8 Distributions to unitholders

	Year ended			
	30 June 2010		30 June 2009	
	\$'000	CPU	\$'000	CPU
Distributions paid				
– 31 July	-	-	1,011	0.60
– 31 August	-	-	958	0.60
– 30 September	716	0.40	963	0.60
– 31 October	537	0.30	809	0.50
– 30 November	723	0.40	431	0.30
– 31 December	768	0.40	505	0.35
– 31 January	579	0.30	-	-
– 28 February	584	0.30	-	-
– 31 March	781	0.40	699	0.50
– 30 April	980	0.50	-	-
– 31 May	982	0.50	-	-
Distribution Payable				
– 30 June	<u>4,343</u>	<u>2.19</u>	<u>-</u>	<u>-</u>
	<u><u>10,993</u></u>	<u><u>5.69</u></u>	<u><u>5,376</u></u>	<u><u>3.45</u></u>

9 Cash and cash equivalents

	30 June 2010	30 June 2009
	\$'000	\$'000
	Cash at bank	9,199
Foreign currency holdings	4,249	3,880
Cash management trusts	<u>4,669</u>	<u>17,312</u>
	<u><u>18,117</u></u>	<u><u>21,761</u></u>

10 Financial assets held at fair value through profit or loss

	30 June 2010 Fair value \$'000	30 June 2009 Fair value \$'000
Held for trading		
Derivatives (note 12)	<u>960</u>	<u>1,271</u>
Total held for trading	<u>960</u>	<u>1,271</u>
Designated at fair value through profit or loss		
Equity securities	2,974	-
Fixed interest securities	<u>157,986</u>	<u>128,205</u>
Total designated as at fair value through profit or loss	<u>160,960</u>	<u>128,205</u>
Total financial assets held at fair value through profit or loss	<u><u>161,920</u></u>	<u><u>129,476</u></u>
	30 June 2010 Fair value \$'000	30 June 2009 Fair value \$'000
Comprising:		
Derivatives		
Cross currency swaps	54	-
Credit default swaps	220	221
Forward currency contracts	686	1,044
International fixed interest futures	-	6
Total derivatives	<u>960</u>	<u>1,271</u>
Fixed interest securities		
Australian fixed interest securities	26,510	11,251
International fixed interest securities	99,570	89,598
Australian floating rate notes	20,410	13,275
Foreign floating rate notes	<u>14,470</u>	<u>14,081</u>
Total fixed interest securities	<u>160,960</u>	<u>128,205</u>
Total financial assets held at fair value through profit or loss	<u><u>161,920</u></u>	<u><u>129,476</u></u>

An overview of the risk exposures relating to financial assets held at fair value through profit or loss is included in note 3.

11 Financial liabilities held at fair value through profit or loss

	30 June 2010 Fair value \$'000	30 June 2009 Fair value \$'000
Held for trading		
Derivatives (note 12)	<u>9,013</u>	<u>11,466</u>
Total held for trading	<u>9,013</u>	<u>11,466</u>
Total financial liabilities held at fair value through profit or loss	<u>9,013</u>	<u>11,466</u>

	30 June 2010 Fair value \$'000	30 June 2009 Fair value \$'000
Comprising:		
Derivatives		
International cross currency swaps	8,844	11,157
Credit default swaps	-	33
Forward currency contracts	157	253
Australian fixed interest futures	-	23
International fixed interest futures	<u>12</u>	<u>-</u>
Total derivatives	<u>9,013</u>	<u>11,466</u>
Total financial liabilities held at fair value through profit or loss	<u>9,013</u>	<u>11,466</u>

An overview of the risk exposures relating to financial liabilities held at fair value through profit or loss is included in note 3.

12 Derivative financial instruments

In the normal course of business, the Fund enters into transactions in various derivative financial instruments with certain risks. A derivative is a financial instrument or other contract which is settled at a future date whose value changes in response to a change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include a wide assortment of instruments, such as forwards, futures, options and swaps. Derivatives are considered to be part of the investment process. The use of derivatives is an essential part of the Fund's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Fund against a fluctuation in market values or to reduce volatility
- a substitution for trading of physical securities
- adjusting asset exposures within the parameters set in the investment strategy, and/or adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Fund.

12 Derivative financial instruments (continued)

The Fund held the following derivative financial instruments during the year:

(a) Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

(b) Swaps

The Fund has cross currency swaps whereby it has agreements to exchange a stream of principal and interest payments in one currency for a stream of principal and interest payments in another currency over multiple specified interest periods.

A credit default swap is an agreement between two parties whereby one party pays the other a fixed periodic coupon for the specified term of the agreement. The other party makes no payments unless a specified credit event occurs. These are valued at current prices incorporating the fair value available of the underlying reference asset and accrued interest to date. Any gains or losses are recorded in the relevant period as a change in the fair value of investments in the statement of comprehensive income.

(c) Forward currency contracts

Forward currency contracts are primarily used by the Fund to hedge against foreign currency exchange rate risks on its non-Australian dollar denominated securities. The Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts are valued at the prevailing bid price at the end of each reporting period. The Fund recognises a gain or loss equal to the change in fair value at the end of each reporting period.

The Fund's derivative financial instruments at year end are detailed as follows:

	30 June 2010	30 June 2009
	Contract/ notional \$'000	Contract/ notional \$'000
Forward currency contracts	<u>40,392</u>	<u>37,377</u>
Buy		
International cross currency swaps	69,255	60,985
Credit default swaps	45,581	30,803
Sell		
International cross currency swaps	70,716	67,084
Credit default swaps	45,581	30,803
Australian fixed interest futures	-	7,144
International fixed interest futures	11,047	16,026

An overview of the risk exposures relating to derivatives is included in note 3.

13 Related party transactions

Responsible entity

The responsible entity of the Fund is BT Investment Management (RE) Limited (ABN 17 126 390 627), a wholly owned subsidiary of BT Investment Management Limited (ABN 28 126 385 822). The ultimate parent entity is Westpac Banking Corporation (ABN 33 007 457 141). The registered office of the responsible entity and the Fund is Level 14, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000.

13 Related party transactions (continued)

Key management personnel

Directors

Key management personnel includes persons who were directors of BT Investment Management (RE) Limited at any time during the financial year as follows:

D Morris (appointed 25 September 2007, resigned 13 July 2009)

B Scullin (appointed 25 September 2007)

P Stockwell (appointed 25 September 2007)

C Williamson (appointed 4 March 2009)

E Gonzales (appointed 21 January 2010)

Responsible entity's/manager's fees and other transactions

For the period from 23 October 2009 in accordance with the Fund's constitution the responsible entity received a total fee of 0.55% (inclusive of GST, net of RITC available to the Fund) per annum. The fee prior to this was nil.

In addition to the responsible entity's fee, the responsible entity is entitled to be reimbursed out of the Fund for costs including expenses in connection with the keeping and preparation of accounting records and the maintenance of the register.

All expenses in connection with the preparation of accounting records and the maintenance of the unit register are reimbursed in accordance with the Fund Constitution.

	30 June 2010 \$'000	30 June 2009 \$'000
Management fees for the period paid by the Fund to the responsible entity	639	-
Administration expenses incurred by the responsible entity which are reimbursed in accordance with the Fund Constitution	-	70
Aggregate amounts payable to the responsible entity at the reporting date	18	1

Related party schemes' unitholdings

Parties related to the Fund including the BT Investment Management (RE) Limited, its related parties and other schemes managed by BT Investment Management (RE) Limited, held units in the Fund:

2010

Unitholder	Number of units held opening (^{'000} 's Units)	Number of units held closing (^{'000} 's Units)	Interest held (%)	Number of units acquired (^{'000} 's Units)	Number of units disposed (^{'000} 's Units)	Distributions paid/payable by the Fund (\$'000's)
BT Wholesale Cash Plus Fund	1,268	-	-	7	(1,275)	7
BT Institutional Enhanced Global Fixed Interest Fund	166,025	185,193	93.55	19,168	-	10,271
BT Institutional Diversified Strategies Fund	11,127	9,618	4.86	2,020	(3,529)	570
	178,420	194,811		21,195	(4,804)	10,848

13 Related party transactions (continued)

2009

Unitholder	Number of units held opening ('000's Units)	Number of units held closing ('000's Units)	Interest held (%)	Number of units acquired ('000's Units)	Number of units disposed ('000's Units)	Distributions paid/payable by the Fund (\$'000's)
BT Wholesale Cash Plus Fund	7,555	1,268	0.71	2,463	(8,750)	238
BT Institutional Enhanced Global Fixed Interest Fund	147,222	166,025	93.05	47,303	(28,500)	4,785
BT Institutional Diversified Strategies Fund	9,827	11,127	6.24	1,300	-	353
	<u>164,604</u>	<u>178,420</u>		<u>51,066</u>	<u>(37,250)</u>	<u>5,376</u>

Key management personnel unitholdings

At 30 June 2010 no key management personnel held units in the Fund (2009: Nil).

Key management personnel compensation

Key management personnel are paid by BT Investment Management Limited. Payments made from the Fund to BT Investment Management (RE) Limited do not include any amounts directly attributable to key management personnel remuneration.

Key management personnel loan disclosures

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting year.

Investments

The Fund held investments in the following trusts which are also managed by BT Investment Management (RE) Limited or its related parties:

Fund Name	Fair value of investment		Interest held		Distributions received/receivable		Units acquired during the year		Units disposed during the year	
	2010 \$'000	2009 \$'000	2010 %	2009 %	2010 \$'000	2009 \$'000	2010 Units	2009 Units	2010 Units	2009 Units
BT Institutional Liquidity Management Trust	4,669	152	0.30	0.01	117	517	25,600	10,799	(21,100)	(45,900)
BT Institutional Enhanced Cash Fund	-	17,160	-	1.10	324	3,809	471	3,675	(17,607)	(45,700)
	<u>4,669</u>	<u>17,312</u>			<u>441</u>	<u>4,326</u>	<u>26,071</u>	<u>14,474</u>	<u>(38,707)</u>	<u>(91,600)</u>

Distributions received/receivable includes the following amounts which remain unpaid at the reporting date:

	Distributions receivable 30 June 2010 \$'000	Distributions receivable 30 June 2009 \$'000
BT Institutional Liquidity Management Trust	18	1
BT Institutional Enhanced Cash Fund	-	154
Total	<u>18</u>	<u>155</u>

The principal activity of the fund is denoted by the name of the Fund.

13 Related party transactions (continued)

Other transactions within the Fund

Apart from those details disclosed in this note, no key management personnel of the responsible entity have entered into a material contract with the Fund since the end of the previous financial year and there were no material contracts involving key management personnel's interests existing at year end.

14 Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

	30 June	30 June
	2010	2009
	\$'000	\$'000
(a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities		
Operating profit/(loss) for the year	21,058	(19,558)
Proceeds from sale of financial instruments held at fair value through profit or loss	64,185	26,998
Purchases of financial instruments held at fair value through profit or loss	(83,572)	(109,982)
Net (gain)/loss on financial instruments held at fair value through profit or loss	(13,880)	29,665
Net change in accrued income and receivables	(23)	(761)
Net change in payables	157	(32)
Trust distributions received reinvested	<u>-</u>	<u>(4,511)</u>
<i>Net cash inflow/(outflow) from operating activities</i>	<u>(12,075)</u>	<u>(78,181)</u>
(b) Non cash financing activities		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan.	<u>6,574</u>	<u>9,094</u>

15 Events occurring after the reporting period

No significant events have occurred since balance date which would impact on the financial position of the Fund disclosed in the balance sheet as at 30 June 2010 or on the results and cash flows of the Fund for the year ended on that date.

16 Contingent assets and liabilities and commitments

There are no outstanding assets, liabilities or commitments as at 30 June 2010 and 30 June 2009.

Directors' declaration

In the opinion of the directors of the responsible entity:

- (a) the financial statements and notes set out on pages 5 to 28 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2010 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

As stated in note 2(a), the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.



Director



Director

Sydney

16 September 2010

Independent auditor's report to the members of BT Global Credit Fund

Report on the financial report

We have audited the accompanying financial report of BT Global Credit Fund (the Fund), which comprises the balance sheet as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the responsible entity are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

(continued)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of BT Global Credit Fund is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Fund's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the Fund's financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

PricewaterhouseCoopers

PricewaterhouseCoopers



SJ Smith
Partner

Sydney
16 September 2010