Income and Yield Investments

BT Wholesale Global Fixed Interest Fund

Fact Sheet
December 2009

ARSN: 009 567 558

BT Investment Management

About the Fund

The BT Wholesale Global Fixed Interest Fund actively seeks out investment opportunities within a broad portfolio of international fixed interest securities.

The management of BTIM's global fixed interest portfolios is outsourced to US-based BlackRock Financial Management Inc., a premier provider of international investment services across a broad range of asset classes. BlackRock has a cross-disciplinary team approach, which enables BTIM to benefit from the pooled expertise of all BlackRock's resources: its investment and risk management professionals, and its highly sophisticated, integrated, proprietary analytical tools.

Fund objective

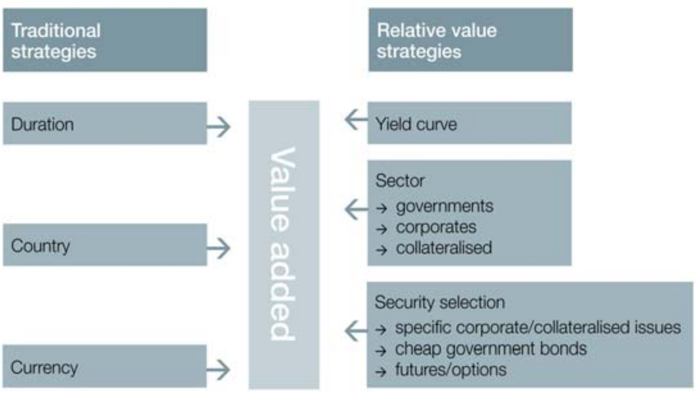
The Fund aims to provide a return (before fees, costs and taxes) that exceeds the Barclays Capital Global Aggregate Bond Index, hedged to A$, over the medium term.

Investment approach

BlackRock's Global Bond philosophy is an extension of its risk-controlled approach that focuses on active sector/sub-sector rotation and security selection. BlackRock believes that this strategy is particularly well suited to today's dynamic global fixed income markets where the opportunity for relative value has increased.

Investment process

BlackRock's investment team employs multiple strategies to add value with an emphasis on exploiting relative value along the yield curve, across sectors and between individual securities. While value is also derived from traditional strategies, active exposures to country, currency and duration relative to the benchmark tend to be limited. In general, BlackRock expects 35% of value add to come from traditional strategies (duration, country and currency), while 65% is expected to come from relative value strategies (sector, security and yield curve).



BlackRock's portfolio construction is a two-stage process:

→ Formulate strategies around major macro factors: country/bloc, currency and duration exposures

→ Focus on relative value considerations: yield curve positioning, rotation between sectors and sub-sectors, and security selection are the key decision drivers

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-0.57	-0.53	-0.62
3 months	1.15	1.29	1.11
FYDT	5.99	6.27	5.07
6 months	5.99	6.27	5.07
1 year (pa)	10.09	10.65	8.04
2 years (pa)	5.76	6.29	8.63
3 years (pa)	5.58	6.12	7.96
5 years (pa)	5.45	6.00	6.97

Asset allocation

Denmark	4.2%
France	2.7%
Germany	13.8%
Italy	2.1%
Netherlands	1.5%
United Kingdom	4.6%
Other Europe	3.0%
Japan	7.8%
New Zealand	0.9%
Canada	3.7%
USA	52.3%
Cash & Other	3.4%

Duration

Portfolio duration is managed to +/- 1 year of the benchmark's duration.

Other information

Fund size (as at 31 Dec 2009)	$198 million
Date of inception	July 2002
Minimum investment	$50,000
Minimum balance	$50,000
Buy-sell spread	0.20%
Income distribution frequency	Half-yearly
APIR code	RFA0032AU

Fees

Management fee	0.53% pa*

** You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.*

Market review

Risk assets continued to rally in the December quarter, despite a rise in Treasury yields due to improving economic news and fears of much greater government bond issuance. The Barclays Capital US Treasury Index returned -1.3% and -3.6% for the quarter and year, respectively. In contrast, the strongest performing sectors during the period were high yield, up 6.2% (58.2% for the year) and CMBS, up 3.3% (28.5% for the year). Another measure of demand for risk assets was the 6.0% quarterly return on the S&P 500 Index. This performance was impressive not only against a backdrop of higher interest rates, but also in the face of the Dubai World default scare, an Austrian bank failure, and sovereign credit quality concerns, particularly for Ireland, Spain, and Greece.

The resilience in investor risk appetite reflected the increasing improvement in global economic fundamentals. In the US, real consumer spending gains built on a solid third quarter, industrial production benefited from the restocking of depleted inventories, and capital spending rose due to investment in plant and equipment. Housing market demand continued to benefit from lower prices, improvement in mortgage financing conditions, and an extension of the first-time homebuyers tax credit. By the end of November, existing and new home sales were up 57% and 10%, respectively, from the lows of March. Even the weak US labour markets showed signs of stabilising despite a double-digit unemployment rate and a lower number of total individuals employed than in early 2000. By year-end, initial jobless claims fell to the lowest level since August 2008, raising the possibility that payrolls may stop falling in the coming months.

Investors continue to speculate as to what the Federal Reserve's 'exit strategy' will be from the unprecedented combination of traditional and non-traditional support of the credit markets. Little has changed however in terms of actual policy as the FOMC continues to target a Fed Funds rate of 0-0.25%. Unless extended, the Fed's mortgage purchase program is set to expire in March 2010. Anxiety about the market's ability to absorb the supply of government bond issuance once quantitative easing is no longer part of the policy mix has pushed longer-term Treasury and agency mortgage yields higher. During the quarter, two-year Treasury yields remained fairly well anchored in light of an unchanged Fed Funds target, rising only 19 basis points to 1.14%. Thirty-year Treasury yields, however, rose 59 basis points to 4.64%.

Despite the growing fear among US investors of an increased supply of Treasury bonds, a stabilisation of the US dollar was seen during the fourth quarter. From March through November, the Dollar Index had declined by 16%, but has since recovered about 5% of its value. Further, where previously there had appeared to be a negative correlation between the dollar and the price of risk assets, both rose in value during the closing weeks of the year.

By quarter end, investors crossed a threshold in terms of confidence in the growth prospects for the US economy. Only a few weeks earlier, concerns including the phase-out of quantitative easing and other official support of the credit markets, weak economic fundamentals and events such as the near-default of Dubai World were enough to pause the risk asset rally. However, as investors recognised that central banks remain prepared for challenges in the credit markets and the foundation under the global economy is solidifying, the rally was able to regain momentum.

Performance

The portfolio outperformed the index for the December quarter.

The majority of the outperformance came from sector allocation and security selection as risk assets continued to rally despite a rise in Treasury yields. We continue to maintain an overweight in US CMBS and US ABS, which benefited performance. CMBS followed High Yield as the second strongest performing sector in the fourth quarter of 2009, up 3.3% for the quarter and 28.5% for the year. The technical impetus provided by legacy TALF and PPIF allowed investors to ignore continued weakness in commercial real estate fundamentals. The ABS sector continues to benefit from strong technical factors, with investors moving out of cash and short-duration Treasuries into higher-quality AAA-rated ABS with yields in the 1-2% range.

While we expect demand to remain strong in 2010, returns in the ABS sector are likely to be modest, given the low absolute level of yields. Our underweights in US Credit and US MBS detracted from performance. Direct government purchase programs continued to support the mortgage market, driving MBS outperformance of Treasuries by 75 basis points in the fourth quarter.

The US Credit market also continued its rally into year end, led by Financials, driven by increasingly positive economic data and continued search for yield by investors. Overall, our duration positioning detracted from performance over the course of the quarter, stemming from our overweight positions in Australia and the Euro bloc. Early in the quarter our underweight duration position in the US weighed on performance; however, as rates backed up in December, the position regained the lost performance.

Additionally, our overweight to Germany versus peripherals had a neutral impact on the whole, after regaining the lost performance in December on the back of sovereign credit quality concerns in the peripheral countries such as Greece and Spain. Finally, on the whole, our FX positioning benefited performance, particularly due to our long US dollar versus euro and long Polish zloty versus Hungarian forint currency positions. Despite the growing fear among US investors of an increased supply of Treasury bonds, a stabilisation of the US dollar was seen during the fourth quarter; from March through November, the Dollar Index had declined by 16%, but has since recovered about 5% of its value.

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For more information

Please call 1800 813 886, contact your business development representative or visit www.btim.com.au

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