

BT Wholesale Fixed Interest Fund

**Fact Sheet
June 2010**

ARSN: 089 939 542



About the Fund

The BT Wholesale Fixed Interest Fund is managed in an active investment style and is focused on exploiting multiple sources of value. The fund invests in a combination of corporate, semi-government and government debt and short-term money market securities.

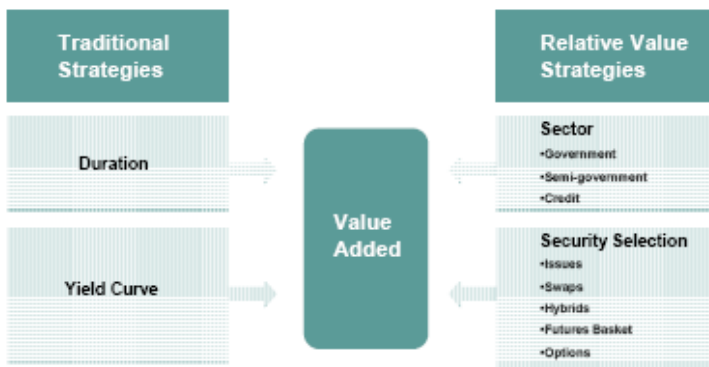
Fund objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the UBS Composite Bond Index over the medium term. The return is expected to be comprised primarily of income. The suggested investment timeframe is three years or more.

Investment approach

BTIM is an active, valuation driven manager of Australian fixed interest. Through a disciplined, transparent process comprising research and security valuation, portfolio construction and stock selection, implementation and monitoring; we are focused on exploiting multiple sources of value add including:

- Duration and yield curve positioning relative to benchmark (via a combination of strategic and tactical positions)
- Sector allocation relative to benchmark
- Security selection



Strategic duration positions these are determined from the output of the domestic fixed interest duration model which calculates and identifies that part of the yield curve (ie cash, 3 year bonds or 10 year bonds) in which to take active risk.

Tactical decisions have a time horizon of up to 3 months and can offset or support strategic positions. Tactical decisions focus on the market's reaction to short term events such as trading flows in the capital markets, surveys of investor positioning, market sentiment, politics and data releases.

Investment team

The Fund combines the skills and resources of BTIM's Macro and Income Strategies teams. Macro Strategies is responsible for duration management and the government securities component of the Fund; Income strategies is responsible for the credit component. The portfolio manager of the Fund is Errol Bome, Head of Duration Strategies who has more than 20 years industry experience.

Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
3 months	3.36	3.46	3.60
FYDT	9.44	9.87	7.86
6 months	5.00	5.21	4.90
1 year (pa)	9.44	9.87	7.86
2 years (pa)	9.15	9.59	9.33
3 years (pa)	7.34	7.77	7.67
5 years (pa)	5.81	6.23	6.06

The benchmark for this fund has changed over time. The benchmark performance shown is that of the combined benchmarks that the fund has aimed to exceed over time.

Other information

Fund size (as at 30 Jun 2010)	\$28 million
Date of inception	August 1992
Minimum investment	\$50,000
Buy-sell spread	0.12% [#]
Distribution frequency	Semi-annual
APIR code	RFA0813AU

[#] 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	0.40% 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

International

At the start of the quarter rumours of a Greek default weighed heavily on the European equity and bond markets. The EU appeared to dither over the best course of action to take. Elsewhere the economic news was broadly positive as the US showed clear signs of recovery while Japan and the UK economic signals were mixed. Q1 US corporate earnings were also a positive for the market with the bellwethers beating earnings expectations. The feel-good factor abruptly halted in May as the markets were constantly pummeled with unpleasant shocks in Europe and Asia. The first week of May was a portent of things to come as the S&P slid 7% on worries about European debts and a sudden bout of risk aversion. The market then reversed itself the following Monday as the Europeans announced a \$1 trillion bailout fund. Global growth and the strength of the recovery were called into question in June as leading indicators appeared to plateau or weaken and Chinese growth prospects slipped. In Europe bank stress tests reignited fears in an already fragile financial sector and most commodities struggled as risk aversion took hold. Bond markets rallied around the world as investors put aside inflation fears and bought into the safety of government debt. When the dust had finally settled world equity markets had declined by over 10.0% on average for the quarter while world bond yields had fallen over a whopping 70 basis points across the board.

The economic data in the US for the quarter was broadly positive with non-farm payrolls and retail sales showing some positive surprises. On the negative side the housing market continued to look shaky as housing starts continued to come in well below expectations and consumer credit shrank hugely as US consumers reined in their spending. Core inflation continued to be a non-issue while expectations of a tightening by the Fed were moved further out. However all the economic data was something of a sideshow as events in the US, Europe and Asia dominated investors' thoughts. The S&P had one of its worst Q2 performances for some time and the plunge wiped out any year-to-date gains. For Q2 treasury yields fell over 80 basis points to a year low of 2.9% and the US dollar rose nearly 6% against the major currencies as investors clamoured for safe assets.

The economic picture in Europe continued to be something of a mixed bag in Q2 with a smattering of good news amongst a lot of mediocre data. In contrast to the US consumers, Europeans cut back on spending and retail sales in the quarter. With unemployment now at 10% and European governments unveiling austerity packages to tackle their debt problems it became unclear how quickly European growth would resume in earnest. Most European indices mirrored their US cousins and fell approximately 10% for the quarter with the PIIGS being the hardest hit. Bonds were a safe haven for investors and they fell to a year low of 2.6% by end-June. The euro was caught up in talk of Greek default and economic uncertainty and fell over 9% for the quarter.

Australia

The RBA raised interest rates a further 25 basis points in April to bring the base rate to 4.25%. Citing surging Asian growth and an overheating housing market the RBA also appeared to signal that more rate rises were on the way in the coming months. In May the RBA added another 25 basis points bringing the base rate to 4.50%. Against a background of persistent economic uncertainty and the real possibility of the world sliding into a second recession the RBA declined to raise interest rates in June.

Fund performance

The portfolio slightly underperformed its benchmark for the June quarter. Both the macro strategies and credit strategies components detracted from returns. The government bond strategies were affected by severe market volatility while in credit strategies, negative relative performance came mostly from our overweights to bank sub-debt funded by an underweight in supranational exposure. Positive performance came from an overweight to asset back and wrapped securities.

Strategy & outlook

Given the economic uncertainty and the possibility of the world slipping back into recession, many pundits now believe that the RBA may be on hold for the remainder of the year.

The portfolio changed its duration position at the start of the month. Given the uncertainty we decided to take the portfolio's duration position back to benchmark. However, the strong rally in the 3-year part of the yield curve has resulted in 3-year bonds trading below the cash rate. These bonds are now very expensive relative to cash rates.

We remain aggressively overweight bond issues with an explicit government guarantee and we continue to expect this sector to perform well. The lack of supply should cause spreads to continue to narrow relative to commonwealth government bonds.

Credit spreads have backed up and while valuations may look appealing, our concerns about the outlook and poor market sentiment caution us against taking long positions in credit in the short term until the situation becomes clearer. We do, however, remain constructive over the medium to long-term on the asset class as corporates have improved their balance sheets, refinancing risks have fallen, company earnings will remain healthy, default rates will continue to decline and investors will ultimately put money to work when clarity and liquidity increase and volatility subsides.



For more information

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

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