

# BT Institutional Enhanced Fixed Interest Fund

Fact Sheet  
December 2010

ARSN: 088 828 719



Income and Yield Investments

## About the Fund

The BT Institutional Enhanced Fixed Interest Fund is managed in an enhanced index style. Using an innovative approach and a highly rated investment strategy the fund aims to deliver to investors consistent returns above the Australian fixed interest market.

The Fund invests in long term securities with a credit rating of BBB- or higher and short term securities with a credit rating of A-3 or higher by Standard and Poor's.

## 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 recommended investment time frame is three years or more.

## Investment strategy

An alpha transfer based investment strategy is employed which aims to deliver returns above the benchmark. Alpha transfer refers to the technique of transferring excess returns from one benchmark to another. In this fund excess returns are transferred from the BT Institutional Enhanced Cash fund.

The main contributors to the Fund's performance are expected to be sector and security selection, credit management and portfolio construction, rather than active duration positioning. The fund typically holds a well diversified portfolio of individual issues with a preference towards the structured finance sector.

BTIM has successfully employed alpha transfer investment strategies since 1996 in the management of both international and domestic fixed interest portfolios.

## Investment team

BTIM's Income Strategies team includes five dedicated investment professionals. The team also draws on a wide range of knowledge resources including BTIM's other specialist investment teams: Equity Strategies and Macro Strategies. The Fund is managed by Vimal Gor, Head of Income Strategies who has more than 15 years industry experience.

## Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
3 months	0.06	0.10	-0.19
FYDT	1.81	1.91	1.08
6 months	1.81	1.91	1.08
1 year (pa)	7.36	7.56	6.04
2 years (pa)	5.58	5.78	3.86
3 years (pa)	7.29	7.49	7.43
5 years (pa)	5.42	5.62	5.76

## Portfolio characteristics

Modified Duration: Benchmark duration +/- 0.5 year
Minimum credit rating quality      Investment grade

## Other information

Fund size (as at 31 Dec 2010)	\$613 million
Date of inception	September 1992
Minimum investment	\$50,000
Minimum balance	\$50,000
Buy-sell spread	0.06% <sup>1</sup>
Distribution frequency	Quarterly
APIR code	WFS0006AU

<sup>1</sup>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	0.19% 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

The Reserve Bank tightened monetary policy further over the quarter, with the cash rate being increased from 4.50% to 4.75% at its November meeting. The Reserve Bank did surprise the market twice over the quarter with its Monetary Policy decisions. The Reserve Bank noted in each of its monthly statements that the Chinese and Indian economies have continued to grow strongly whilst growth in the US continues to be modest and financial market concerns continue to exist about creditworthiness of some European peripheral sovereign debt. They also noted that Australia continues to benefit from the elevated level of the terms of trade, with private investment now beginning to pick up in response to high commodity prices.

The Reserve Banks left the cash rate unchanged at 4.50% at its October meeting. Economic data released after the October meeting initially saw the market price in a high probability that the Reserve Bank would tighten at its November meeting following strong employment data that saw 49,500 jobs created in September. Producer Price Index data late in October also came out much higher than expected, further fuelling rate hike expectations. The all important Consumer Price Inflation (CPI) Index released late in the month was weaker than expected and resulted in the market pricing in a less 30% probability of a rate hike in November.

The Reserve Bank's decision to raise the cash rate by 25 basis points at its November meeting was not widely anticipated. In its statement the Reserve Bank noted that the economy is now subject to a large expansionary shock from the terms of trade and has relatively modest amounts of spare capacity. With the prospect of rising inflation over the medium term the Reserve Bank viewed it as prudent to tighten monetary policy. Financial institutions increased standard variable home loan rates by up to 45 basis points shortly after.

The Reserve Bank of Australia left the cash rate unchanged at 4.75% at its December meeting. Economic data released during December was mixed. Third quarter GDP was weaker than expected at 0.2% (market expectation 0.4%), with the non-farm component particularly weak at -0.2%. The breaking of the drought resulted in agricultural production increasing by 21% for the quarter, contributing +0.4% to overall GDP. Employment data was much stronger than expected despite the unemployment rate remaining unchanged at 5.3%.

90 day bank bills rose slightly over the quarter, ending 3 basis points higher at 5.04%. 3 and 10 year bond yields rose significantly, with 3 years rising 52 basis points to 5.27% and the 10 years higher by 59 basis points to 5.55%.

Credit performed well in the December quarter due to further liquidity support from the US Federal Reserve, an extension of tax cuts in the US, the ECB supporting peripheral European sovereign bonds and generally stronger than expected economic data out of the US, China and Australia. However, markets had been dealing with the surprise monetary policy tightening in China and continued concerns with European peripheral sovereigns.

## Outlook

Whilst third quarter GDP was weaker than expected, it was affected by the rundown in non-farm inventories over the past 2 quarters which was equivalent to 0.8% of GDP. The inventory sales ratio is now at record lows and it will be difficult to meet future sales without increasing production. Offsetting this expected increase in production has been the effect of floods on crops and mining production, which will affect fourth quarter 2010 and first quarter 2011 GDP. There will also be an increase in food price inflation, although the Reserve Bank will most likely look through this impact when assessing the inflationary outlook.

The Reserve Bank will view the increase in the household savings rate positively. They will however become concerned should this fall as household spending starts to increase, a risk that is increasing with the strong performance of the Australian labour market.

The elevated levels of the terms of trade and the strong growth in South East Asian economies continues to benefit the Australian economy, resulting in an increase in planned investment in the mining sector and also a significant pipeline for other infrastructure investment. The Reserve Bank will be monitoring closely whether these investment intentions materialise as they will exert upward inflationary pressure should they occur, and likely result in the Reserve Bank tightening monetary policy in the medium term.

The Reserve Bank will continue to review events in Europe, economic growth in South East Asia, whether capital investment in Australia picks up in the near to medium term and household spending behaviours in assessing the future path for monetary policy. We view the Reserve Bank as unlikely to raise the cash rate in the first quarter of this year.

On a broader fundamental view, we are positive on credit in the medium to long term. Leading indicators are looking more positive, balance sheets are strong, earnings have improved, equity volatility is low, defaults are falling and valuations are appealing on a historical basis. However, we do have concerns in the short term about the European peripheral sovereign crisis and the impact on credit spreads.



### For more information

Please call 1800 813 886, contact your business development representative or visit [www.btim.com.au](http://www.btim.com.au)

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