BT Wholesale Global Fixed Interest Fund

Fact Sheet
December 2010

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

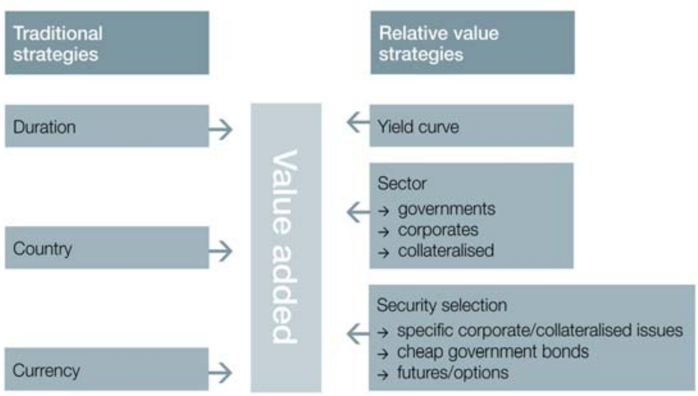
The Fund aims to provide a return (before fees, costs and taxes) that exceeds the Barclays Capital Global Aggregate Bond Index, hedged to AUD, over the medium term. The suggested investment timeframe is three years or more

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	-0.02	0.02	-0.02
3 months	-0.55	-0.42	-0.48
FYDT	2.99	3.27	2.96
6 months	2.99	3.27	2.96
1 year (pa)	10.17	10.73	9.27
2 years (pa)	10.13	10.69	8.65
3 years (pa)	7.21	7.75	8.85
5 years (pa)	6.19	6.73	7.50

On 3rd November 2008 the benchmark name for this fund was changed to Barclays Capital Global Aggregate Bond Index Hedged to AUD.

Asset allocation (as at 31 December 2010)

Denmark	1.8%
France	2.8%
Germany	9.2%
Italy	3.6%
Netherlands	1.6%
Sweden	1.8%
United Kingdom	6.9%
Other Europe	9.0%
Japan	11.4%
Canada	3.4%
USA	47.9%
Cash & Other	0.6%

Duration

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

Other information

Fund size (as at 31 Dec 2010)	$113 million
Date of inception	July 2002
Minimum investment	$50,000
Buy-sell spread	0.20%#
Distribution frequency	Semi-annual
APIR code	RFA0032AU

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	0.53% pa*

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

Market overview

Markets in the fourth quarter were largely driven by policy and political headlines, and by better data helping to calm fears of a potential double-dip recession. Despite a stubbornly high unemployment rate, mixed housing data, and continued sovereign risk concerns, US markets were encouraged by positive consumer and manufacturing data. As anticipated, the Federal Open Market Committee (FOMC) announced additional quantitative easing (QE2). Specifically, the FOMC stated its intent "to promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate." The FOMC voted to purchase $600 billion of Treasury securities by the end of Q2 2011, about $75 billion per month (together with reinvested mortgage paydowns, total purchases will amount to $900 billion, or $110 billion per month). Sentiment is mixed about the efficacy of this measure, with the Fed's policy particularly coming into question as several key economic indicators seemed to improve, which caused interest rates to adjust higher, not lower as initially anticipated. We think that this monetary policy move and fiscal policy supportare necessary to sustain the recovery, but political risks exist following the Republican majority victory in the U.S. House of Representatives. Rates rose significantly across the yield curve during the quarter, with most of the rise occurring after the Fed's QE2 announcement. The 5-year Treasury rose 74 basis points, the 10- year Treasury rose 78 basis points, and the 30-year Treasury rose 65 basis points on the quarter to 2.00%, 3.29%, and 4.33%, respectively. As intended, the Fed's Treasury purchases also supported risk assets during the quarter, with the Barclays High Yield Index gaining 3.2% and the S&P 500 rising 10.8%, while year-over-year inflation (represented by the Core Consumer Price Index) remained muted between 0.6% and 0.8%. Weakness in US labor markets remained a headwind to the recovery, and we suspect that in the absence of further policy intervention, the jobs picture will remain weak for some time. Several factors continue to hamper the labor market recovery including tight bank lending, increased corporate efficiency, and increased technology spending. While recessions have been historically favorable periods for new business formation, the reduced availability of credit to small businesses and start-ups (key sources of new job creation) may hamper that avenue of job creation in this cycle. Additionally, firms that cut employees during the recession are now operating more efficiently than in the pre-crisis period, and thus are not expected to hire back as many employees as the recovery unfolds. Furthermore, more corporations appear to be shifting toward hiring workers on a temporary basis, or have been using technology as a substitute for human capital (as evidenced by higher technology and software spending).

Sovereign risk dominated European fixed income markets this quarter, as headlines continued to surround Greece, Spain, Portugal, and Ireland, which joined Greece in accepting a bailout package aimed at stabilizing its troubled banking sector. Several European sovereigns were downgraded during the quarter, although the direct impact of these downgrades was fairly muted as these events were already priced into markets. Investors Stability Mechanism (ESM) as a permanent conditional rescue fund for the Eurozone. It will replace the European Financial Stability Facility (EFSF) when it expires in mid-2013, with future packages conditional on economic and fiscal reforms. Unfortunately the details have yet to be finalized –especially those of private investor participation - and so uncertainty continued to weigh on investor sentiment. In addition, the ECB stepped up its purchases of European government bonds under the SMO program to provide liquidity to the market, but the pressure spilled over to other peripheral markets, notably Portugal and Spain, but also to Belgium. During the quarter, Spanish and Portuguese 10-year yields moved higher from already elevated levels, with Spanish 10-year yields up +132 basis points to 5.3% and Portuguese 10-year yields up +30 basis points to 6.6%. Overall, largely positive US economic data, driven by the consumer and manufacturing sectors, as well as by QE2, tempered high unemployment and sovereign credit concerns, calming fears of a double-dip recession in 2011.

Fund performance

The Fund outperformed the Barclays Capital Global Agg Index (AUD Hedged) the fourth quarter of 2010.

Global government bond yields jumped in the fourth quarter, led by the intermediate sector, in response to better economic data and fiscal stimulus in the US and a large unwind of long positions. As anticipated, the Federal Open Market Committee announced additional quantitative easing (QE2) amounting to $600 billion. Sentiment is mixed about the efficacy of this measure, with the Fed's policy particularly coming into question as several key economic indicators seemed to improve, which caused interest rates to adjust higher, not lower as initially anticipated. The 10-year US Treasury yield rose 78 basis points to 3.29%. As intended, the Fed's Treasury purchases also supported risk assets during the quarter, with the Barclays US High Yield Index gaining 3.2% and the S&P 500 rising 10.8%. Core inflation remained muted between 0.6% and 0.8% year-over-year. In other markets, the Swedish Riksbank raised rates by 25 basis points to 1.25%, and the Reserve Bank of Australia delivered one further hike in the cash rate to 4.75% in October. The RBA could increase rates further in recognition of the positive shock in the terms of trade and tight capacity, but will be mindful of a recent dip in domestic demand.

The sharp sell-off in global yields during the fourth quarter significantly benefited our overall underweight duration position, especially in USD and EUR markets. The portfolio's yield curve positioning detracted somewhat however as the belly of the yield curve under-performed the front-end, where most of our underweight had been concentrated. Our overweight in the AUD market coupled with our flattener position in this market was a detractor over the course of the quarter. Our positions in European peripheral markets detracted from performance, as Ireland underperformed core countries. Elsewhere, our long position in JGB Linkers coupled with a general underweight to Japan, underweights in Denmark and Sweden, and a general overweight in HY have all contributed to performance.

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For more information

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