

BT Institutional Enhanced Fixed Interest Fund

Fact Sheet
March 2011

ARSN: 088 828 719



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 six 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 | 2.35 | 2.40 | 2.04 |
| FYDT | 4.20 | 4.35 | 3.14 |
| 6 months | 2.41 | 2.51 | 1.84 |
| 1 year (pa) | 8.15 | 8.35 | 6.86 |
| 2 years (pa) | 6.98 | 7.18 | 4.77 |
| 3 years (pa) | 7.86 | 8.07 | 7.37 |
| 5 years (pa) | 5.73 | 5.93 | 6.01 |

Portfolio characteristics

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

Other information

| | |
|-------------------------------|--------------------|
| Fund size (as at 31 Mar 2011) | \$628 million |
| Date of inception | September 1992 |
| Minimum investment | \$50,000 |
| Minimum balance | \$50,000 |
| Buy-sell spread | 0.06% ¹ |
| Distribution frequency | Quarterly |
| APIR code | WFS0006AU |

¹The 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* |
|----------------|-----------|

* 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 of Australia left the cash rate unchanged at 4.75% in the first quarter of the year.

With no meeting in January, the market focussed on economic data released over the month and the effect of the floods in Queensland and Victoria. The main data release for the month was fourth quarter 2010 CPI, which was much weaker than the market expected when it rose by 0.4% against a forecast increase of 0.7%. The preferred measure, the RBA's trimmed mean rose by only 0.3%. The main drivers for the weaker than expected increase were in retail components due to a combination of the higher Australian dollar and discounting. Clothing and footwear (-1.9%), household contents and services (-0.6%), motor vehicles (-1%) and audio, visual and computing equipment (-4.8%) all recorded declines quarter on quarter. The main contributor to inflation was food prices, which rose 2.2% for the quarter and added 0.36% to fourth quarter inflation.

The Reserve Bank noted in its statement at its February meeting that whilst the flooding in Queensland and Victoria will have a temporary adverse affect on economic activity and prices, the focus of monetary policy will remain on medium term prospects. The Bank's preliminary assessment is that the net additional demand from rebuilding is unlikely to have a major impact on the medium-term outlook for inflation.

The Reserve Bank continued to note that commodity prices remain high and Australia's terms of trade are at their highest level since the early 1950's, assisting national income growth in its statement in February and March. The Reserve Bank noted that indications of private investment are beginning to pick up in response to the high levels of commodity prices. The household sector however remains cautious, with the household savings rate remaining above 10%.

The Reserve Bank also views inflation as being consistent with its medium term objective. The high level of the exchange rate, strong competition and decline in wages growth has worked to offset the large rises in utilities.

Labour market data over the quarter was mixed, with employment in December increasing by 2,300 jobs (economists surveyed had been forecasting a rise of 25,000 jobs), January increasing by a larger than expected 24,000 jobs and February declining by 10,100 jobs. In a longer term context the labour market continues to perform well, with the unemployment rate steady at 5.0%.

Natural disasters again had an effect on financial markets late in the quarter with the Japanese earthquake resulting in equity markets globally falling and government bonds rallying strongly on the news. Japan is Australia's second largest trading partner, accounting for 20% of Australian exports and 9% of total imports. Short term interest markets rallied significantly, with the market pricing in the possibility of an interest rate cut by the Reserve Bank within 6 months.

90 day bank bills rallied over the quarter, ending 11 basis points lower in yield to 4.93%. 3 and 10 year bond yields also rallied, ending the quarter 23 and 6 basis points lower at 5.04% and 5.49% respectively.

Credit markets were quite resilient over the March quarter in the face of continued concerns in peripheral Europe, unrest in the Middle East resulting in higher oil prices and the earth quake related events in Japan. Supportive economic data and a positive company earnings reporting season underpinned credit performance.

Outlook

The Reserve Bank is unlikely to change its monetary policy setting in the near term, with inflationary pressures remaining at the lower end of their target band and economic data more recently reflecting a more subdued Australian economy. The market pricing in the possibility of monetary policy easing is a situation that we view as unlikely to occur. Recent natural disasters will have an affect on economic data, with inflation data released late in April likely to be particularly affected. One off increases such as school fees that occur in the first quarter of the year will also add upward pressure on the headline inflation rate. Whilst the Reserve Bank will look through these one off factors in its assessment, it is likely that inflationary pressure begins to increase. Competition and the high exchange rate have assisted in reducing inflationary pressure, although it is likely that these factors do not detract from inflation going forward. The investment pipeline remains significant and is something that the Reserve Bank will be following closely, particularly noting if investment intentions translate into development. Household spending and credit growth remain subdued currently with the Reserve Bank more likely to act should household spending increase or credit growth picks up. These are scenarios that we view as unlikely to occur in the near term and see the Reserve Bank on hold until later in the year.

Whilst short term issues with peripheral European sovereigns remain, on a broader fundamental view, we are positive on credit markets 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.



For more information

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

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If market movements, cash flows or changes in the nature of an investment (eg a change in credit rating) cause the Fund to exceed any of the investment ranges or limits in this document, this will be rectified by BTIM (RE) as soon as reasonably practicable after becoming aware of it. If BTIM (RE) does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified in this document are accurate as at the date of its issue, and BTIM (RE) reserves the right to vary these from time to time.

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