

BT Institutional Enhanced Global Fixed Interest Fund

Fact Sheet
March 2011

ARSN: 088 841 972



About the Fund

The BT Institutional Enhanced Global Fixed Interest Fund is a diversified portfolio of investments which utilises a combination of active and enhanced strategies including: cash strategies, duration, credit investments, a currency strategy and a benchmark swap arrangement¹.

Fund objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the JP Morgan GBI Global Traded Index, hedged in Australian dollars, over the medium term. The recommended investment timeframe is three years or more.

Investment process

Investment returns for the BT Institutional Enhanced Global Fixed Interest Fund may be generated from a number of sources:

- **Cash strategies:** an actively managed portfolio of debt securities which aims to add value from sector and security selection and portfolio construction
- **Duration:** a combination of fundamental and quantitative analysis is employed to create an optimal global duration portfolio. Positioning reflects the risk adjusted allocation of duration to the markets of: US, Australia, Europe, Japan and Canada.
- **Credit:** exposure to global corporate markets with dynamic allocation between sectors determined by return expectations and break even spread analysis.
- **Currency:** a quantitative valuation tool is used to assess relative value and create an optimal currency portfolio.
- **Benchmark:** the return of the global government bond market is delivered via a Total Return Index Swap.

Investment team

BTIM's Income Strategies team includes five dedicated investment professionals. The team also draws on a wide range of knowledge resources across BTIM 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.

¹Change in investment strategy

From its inception, the main investment strategy employed in the Fund was an enhanced index strategy using an alpha transfer technique combined with a benchmark swap. From May 2007, the Fund added three active alpha strategies to its investment universe: duration, credit and currency. The new sources of excess return were introduced to provide greater diversification and increase the potential for outperformance.

Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	0.37	0.40	0.31
3 months	0.50	0.59	0.47
FYDT	4.19	4.45	2.73
6 months	-0.25	-0.09	-0.68
1 year (pa)	8.59	8.94	7.01
2 years (pa)	11.14	11.49	6.30
3 years (pa)	7.99	8.34	7.55
5 years (pa)	7.17	7.51	7.66

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.

BT Institutional Enhanced Global Fixed Interest Fund performance drivers

Active (Alpha) strategies

Benchmark (Beta) strategy



Cash strategies

Duration

Credit

Currency



JP Morgan Global Bond Index

Other information

Fund size (as at 31 Mar 2011)	\$977 million
Date of inception	July 1992
Minimum investment	\$50,000
Buy-sell spread	0.12% ¹
Distribution frequency	Annual
APIR code	WFS0005AU

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	0.33% 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.

Global Review

The quarter ending March generally saw positive data from most economies that has increased hopes around a developed world recovery led by the US, while increasing inflation concerns have reduced enthusiasm for developing economies. Manufacturing surveys in almost every region, with the exception of China, were above consensus however further volatility was then driven by the tragedy of Japan's earthquake and the beginnings of a war in Libya. The EU summit confirmed that the problems in the European periphery will remain unsolved for a while longer while hawkish rhetoric from the ECB brought forward market expectations of a rate hike. A turn in key inflation data higher also encouraged hawkish comments out of several key US central bankers. Oil prices also tracked higher as tensions in the Middle East continued.

The quarter was defined by an incredible uprising by the people of the Middle East and Northern Africa. The unrest appears to have originated in Tunisia; however a material effect on markets was only felt when young Egyptians gathered in Tahrir Square, Cairo to unseat Hosni Mubarak. Civilian unrest then spread to Libya where the situation became even more dire. Colonel Gaddafi refused to step down, while the army turned on its own people, resulting in civilian deaths. Clearly the threat of this movement spreading is climbing and the bloodshed may well continue.

The key impact of this situation for our portfolios is the second order effect of this unrest on the markets and the world economy; especially a significant rise in the price of crude oil. At current prices of about \$112 a barrel and estimated consumption of 89.3 mbb/d, oil consumption represents about 5% of total world GDP at PPP (purchasing power parity). A further lift in prices will result in an increased flow of wealth from those who consume oil to those who produce it, theoretically not affecting economic growth. In practice, it is likely that the transfer of wealth to oil producers will not be spent on goods that the consumers would have bought if the oil price wasn't as high, potentially slowing economic growth. If we assume that consumers divert all spending in reaction to higher oil prices and producers hoard all the extra wealth, a 10% move higher in the oil price will depress world growth by about 0.5%, taking 2011 growth down from the OECD forecast of 4.2% to 3.7%. The developed world is currently in the midst of a recovery and a 0.5% world growth hit could be enough to derail it. A sustained increase in the oil price would have to be experienced though for this scenario to play out, as a temporary rise may result in consumers dipping into savings to fund the extra expense. For a typical industrial country, estimates are for a 0.2%-0.4% decrease in GDP in the first year and another 0.2%-0.4% decrease in the second year for every sustained \$10 increase in the price of oil.

The hawks of the FOMC way well have been emboldened by the consumer inflation data during the quarter which was surprisingly strong. Headline inflation was affected by energy and food prices rising, however this was to be expected. The more surprising piece of data was that core CPI, of more interest to FOMC members, is now ticking up on a three month annualised basis. Balancing out

this view is continued weak data from other key parts of the economy. Housing is still extraordinarily weak, with the recent weather-affected new home sales data the weakest on record and prices in many markets are still falling. Personal income and spending data has returned back to weak levels after being boosted by payroll tax cuts. This has resulted in large downgrades to expected first quarter GDP growth from 4.5% to 1.5-2.0%. Employment is better but still has a long way to go. The situation is still difficult and talk of selling assets and hiking rates may be too premature.

The UK and Europe are also experiencing above target inflation when observing headline inflation numbers. The UK was affected by another increase in the value added tax (VAT) rate, while European inflation has been increasing due to the knock on effects of food price inflation emanating from the developing world.

The economies of these two regions are performing quite poorly (with the exception of Germany). The European periphery is in desperate need of easier monetary conditions. The ECB's stance to hike rates and reduce liquidity support for banks would be a death knell for the likes of Ireland, Portugal and Spain. The huge banking systems of these three countries are still being drip-fed by ECB liquidity facilities, and it would seem perverse to want to put this at jeopardy. ECB policy still seems to be tailored towards the fortunes of Germany however, and this is driving ECB board member thinking.

Credit news

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.

The quarter started weaker on the back of news from the European Commission that it was considering allowing regulators to force senior unsecured bank bond holders to share in losses of failing banks forcing them to either take hair cuts or convert to equity. This would only be implemented on new issued bonds and unlikely to come into force before 2013. In effect, future senior unsecured bonds would be junior to existing senior holders.



For more information

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

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Performance figures are calculated in accordance with the Investment & Financial Services Association (IFSA) standards. Total returns (post-fee) are calculated: to the last day of each month using exit prices; taking into account management costs of the fund; assuming reinvestment of distributions (which may include net realised capital gains from the sale of assets of the fund). No reduction is made to the unit price (or performance) to allow for tax you may pay as an investor, other than withholding tax on foreign income (if any). Certain other fees such as Contribution fees or Withdrawal fees (if any) are not taken into account. Total returns (pre-fee) are calculated by adding back management costs to the (post-fee) returns. Past performance is not a reliable indicator of future performance.

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