

# BT Wholesale Global Fixed Interest Fund

Fact Sheet  
March 2011

ARSN: 009 567 558



## 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

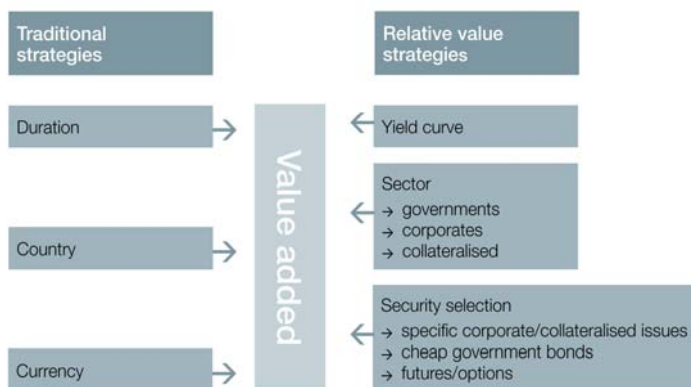
The Fund aims to provide a return (before fees, costs and taxes) that exceeds the Barclays Capital Global Aggregate Bond Index, hedged to AUD, over the medium term. The suggested investment timeframe is three years or more.

### 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		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	0.38	0.43	0.34
3 months	1.36	1.49	0.96
FYDT	4.39	4.80	3.94
6 months	0.80	1.07	0.47
1 year (pa)	8.05	8.59	7.42
2 years (pa)	10.37	10.93	8.82
3 years (pa)	7.31	7.85	8.22
5 years (pa)	6.53	7.06	7.81

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 March 2011)

Denmark	1.9%
France	2.4%
Germany	9.8%
Italy	4.1%
Netherlands	1.6%
Sweden	1.8%
United Kingdom	8.5%
Other Europe	11.6%
Japan	9.7%
Canada	3.3%
USA	43.5%
Cash & Other	1.8%

## Duration

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

## Other information

Fund size (as at 31 Mar 2011)	\$112 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*
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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

Despite military intervention by NATO in Libya, a devastating earthquake in Japan, and on-going fiscal imbalances in peripheral Europe, the fixed income markets were surprisingly resilient during the first quarter of 2011. Higher yielding, higher beta sectors maintained their strong run in the US, with duration-adjusted excess returns for the US Barclays Capital High Yield Index and the US Barclays Capital CMBS Index reaching 3.87% and 2.03% during the quarter, respectively.

Popular uprisings across the Middle East and North Africa, combined with global economic strength, brought oil prices to over US\$100 per barrel. Commodity prices, including staples such as food and cotton, significantly increased during the quarter as natural catastrophes, demand growth, demographic change, and excess global liquidity largely due to the US Federal Reserve's accommodative policies influenced supply/demand dynamics. Food and oil price pressures began to translate into inflation, particularly in emerging market economies where these factors make up a large portion of CPI baskets. To combat inflation, many non-US policy makers were forced to employ tightening measures, with the European Central Bank expected to hike rates at their next meeting.

Focus towards the end of the quarter was on Europe as sovereign credit concerns regarding the European peripheral countries remained and the results of the meeting of the European Council Heads of State on 25 March to finalise the details of the European Stability Mechanism (ESM) disappointed the market. During the quarter there were numerous peripheral country credit downgrades as ratings continue to converge to market perceptions, and continued even after the 25 March meeting as it highlighted the difficulties in reaching consensus. The current resistance to restructuring primarily stems from the vulnerability of the collective euro area banking system to peripheral sovereigns and is likely to remain until banks are sufficiently recapitalised. The agreed-upon package decided on during the meeting provides a framework to address medium to long-term issues in the euro area and prevent a future crisis through the ESM, but it fails to effectively tackle the current crisis in the periphery. The reforms increase the available funding; however, instead of resolving the current solvency problem, they merely push the risk of default out to mid-2013. In fact, since the 25 March meeting, five-year CDS in Greece, Ireland, Portugal, and Spain all rose between 8bps and 27bps as of quarter end.

In addition, it estimates that the existing mortgage portfolio will pay down at the rate of \$3 to \$5 billion per month. Thus, barring unforeseen market conditions, the entire portfolio should be liquidated within 12 months. The statement released by the Federal Open Market Committee after its 15 March 2011 meeting expressed a more hawkish tone in regards to monetary policy, leaving investors to wonder if the Fed will hike interest rates earlier than expected, start selling its own MBS portfolio, or both.

## Fund Performance

The portfolio outperformed its benchmark over the quarter.

Our positions in spread sectors and inflation products were the outright winners on the quarter, as credit markets remained firm despite a correction in equity markets in the middle of the quarter.

Our underweight duration stance was a small positive contributor, helped by the jump in euro interest rates and our relative value positions in Spain and Ireland notably, which outperformed the German benchmark.

Despite external geopolitical concerns, US economic data remains largely positive. However, there are still reasons to be cautious about the employment recovery as the downward trend in unemployment is only gradually improving, and fiscal pressures at the state and local level are leading to a reduction in government payrolls. The US Treasury also announced its intention to sell its remaining \$136 billion par value of agency mortgage-backed securities

## Outlook

The main risk to our underweight duration position is the impact of higher oil prices on employment or household consumption.

Credit markets still offer good excess return opportunities, but that the most obvious trades have become fairly crowded and one must increasingly look at off-benchmark or less researched sectors of the market to find cheap securities.

Although we expect some market volatility, we don't expect a full-fledged market sell-off.



## 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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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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