BT Institutional Enhanced Fixed Interest Fund

Fact Sheet
June 2011

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BT Investment Management

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 Wholesale 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.

Performance

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
3 months	2.44	2.49	2.33
FYDT	6.74	6.95	5.55
6 months	4.85	4.95	4.42
1 year (pa)	6.74	6.95	5.55
2 years (pa)	8.54	8.74	6.70
3 years (pa)	8.62	8.83	8.05
5 years (pa)	6.24	6.44	6.50

Portfolio characteristics

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

Other information

Fund size (as at 30 Jun 2011)	$607 million
Date of inception	September 1992
Minimum investment	$25,000
Buy-sell spread	0.06%[1]
Distribution frequency	Quarterly
APIR code	WFS0006AU

1_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*

* 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 second quarter. The themes were consistent in each of the monthly statements with the Reserve Bank noting that the global economy is continuing its expansion, led by very strong growth in the Asian region although natural disasters have affected Japanese production. The Reserve Bank noted also that European banking and sovereign debt concerns have been adding to financial market volatility.

The multi speed nature of the Australian economy continues. The Reserve Bank noted that private investment is picking up, particularly in the resources sector as a result of elevated levels of the terms of trade. Outside of the resources sector, investment intentions have been revised lower whilst the household sector continues to remain cautious with the household saving rate remaining at elevated levels.

Inflation data for the first quarter of the year was released late in April and came out much higher than expected. The headline inflation rate for the quarter was +1.6%, significantly higher than what the market was expecting (+1.2%). The Reserve Bank's preferred measure, the trimmed mean, rose by 0.9% which was also higher than what the market was expecting. The Reserve Bank noted that inflation is consistent with the medium term objectives, assisted by the high level of the exchange rate and strong competition which have helped offset large rises in utility prices.

Labour data over the quarter was mixed with employment growing by 37,800 in March, declining by 22,100 in April and posting only a modest gain of 7,800 in May. The unemployment rate was 4.9% with a participation rate of 65.6%. The composition of the data was weak, with full time employment declining in both April and May. The Reserve Bank noted in its June statement that employment growth has moderated in recent months and that leading indicators suggest that a slower pace of employment growth remains likely in the near term.

First quarter GDP was weaker than expected with growth contracting by 1.2%, due to natural disasters affecting production. There were components however that were strong, with domestic final demand rising by 1.3%. Household consumption, dwelling and business investment all reported solid gains.

Business and consumer confidence surveys released late in June reported deteriorating sentiment and conditions.

Financial markets were particularly volatile late in the quarter on concerns that the Greek parliament would vote against proposed austerity measures, heightening concerns of an imminent Greek default. The ensuing risk aversion resulted in government bond yields rallying strongly, with 3 year bonds hitting a low of 4.53% before moving higher in yield following the Greek parliament passing the austerity measures. 3 year yields ended the quarter 28 basis points lower at 4.76%, whilst 10 year yields ended the quarter 28 basis points lower at 5.21%. 90 day bank bill yields ended the quarter 10 basis points higher at 5.03%.

Credit markets were a little weaker over the quarter on the back of mixed global economic data, continued speculation of a nearer term Greek debt restructure and soft equity markets. The month of April saw credit markets firmer on better than expected Q1 2011 company earnings reports and strong economic data, however the markets softened in May and June on generally weaker than expected economic data and responding to Greek default uncertainty. Markets did recover late in the month of June after the passing of the Greek austerity measures.

Outlook

Economic data generally has been weaker than expected and will most likely result in the Reserve Bank leaving monetary policy unchanged in the near term. Employment data more recently has shown signs of slowing growth and is unlikely to provide the near term impetus for monetary policy tightening. The key data released in July will be the second quarter CPI inflation data released late in the month. With inflation having most likely troughed, any indication that inflation pressures are emerging faster than what the Reserve Bank had forecast will see the market move to pricing in some chance of policy tightening. The Reserve Bank does however appear comfortable with the current monetary policy setting.

Whilst short term issues with peripheral European sovereigns remain, from a fundamental perspective, we are positive on credit markets in the medium to long term. Even with the mixed US economic data over the last couple of months, leading indicators are still weighted to the positive, balance sheets are strong, earnings are stable, equity volatility is low, defaults are falling and valuations are appealing on a historical basis.

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For more information

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