

BT Institutional Enhanced Fixed Interest Fund

Fact Sheet
December 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 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 seven 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 Return
	(post-fee)	(pre-fee)	
3 months	1.97	2.02	1.94
FYDT	6.60	6.70	6.66
6 months	6.60	6.70	6.66
1 year (pa)	11.77	11.98	11.37
2 years (pa)	9.54	9.75	8.67
3 years (pa)	7.60	7.81	6.31
5 years (pa)	7.13	7.34	7.40

Portfolio characteristics

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

Other information

Fund size (as at 31 Dec 2011)	\$562 million
Date of inception	September 1992
Minimum investment	\$25,000
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*
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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

The Reserve Bank of Australia started an easing cycle over the quarter, cutting interest rates twice during the period. So after a year of rates being at 4.75%, we are now at 4.25%. The benign inflation data released in late October provided the scope for the Reserve Bank to ease policy. The more subdued inflationary outlook is consistent with softer growth in the non-mining sector.

European sovereign and banking issues are increasingly affecting other economies with the Reserve Bank noting that a slowing in economic activity in Europe is now starting to affect trade in Asia. The Reserve Bank views the likelihood of a material slowing in global growth as having increased due to ongoing European concerns and more precautionary behaviour by firms and households.

The terms of trade have declined from their historically high levels recently although investment in the resources sector remains significant, with associated industries also benefitting. The high level of the exchange rate is having a dampening effect on some parts of the economy whilst the household sector continues to remain cautious, credit growth remains subdued and asset prices having declined in recent months.

Domestic economic data over the quarter was mixed. Third quarter gross domestic product data was stronger than expected at 1.0%, taking the annual rate to 2.5%. The data highlighted the divergent state performance with year-on-year final demand increasing by 16.4% in Western Australia and 9.3% for Queensland, compared to 1.2% for New South Wales and 1.8% for Victoria.

Data released also confirmed a further softening in the labour market despite the unemployment rate remaining unchanged at 5.3%. The composition of the data shows that fulltime employment fell over the quarter, offset by gains in part time jobs.

The short end of the Australian yield curve rallied following the Reserve Bank easing monetary policy and resulted in 90 day bank bills ending the quarter 44 basis points lower at 4.48%. Australian three year government bond yields ended the quarter 49 basis points lower in yield at 3.13%, whilst Australian ten year bond yield ended the quarter 55 basis points lower in yield at 3.67%.

The December quarter was volatile for credit markets with markets trading in a wide range credit spreads closing mixed. Physical margins on average were a little wider, particularly offshore financials due to concerns over European exposures, refinancing risks and greater regulation. Synthetic spreads narrowed on some positive news out of Europe in the month of December. Markets continued focus on concerns over the European debt crisis and the related deterioration on global growth outlook and the lack of progress and no clear solution to the European crisis unnerving risk markets in November. However in December a new fiscal reform package out of Europe supported markets. The package involved European members agreeing on tighter fiscal rules and countries which exceed either the deficit limit or the debt/GDP limit would face financial sanctions. Late in the month, in an effort to ease the severe strains across the eurozone financial system, the

European Central Bank offered unlimited attractively priced three-year loans to banks designed to compensate for a dearth of longer-term market funding. This liquidity injection gave a boost to all risk markets as the program reduced bank funding risks meaningfully. Better than expected US corporate earnings and stronger than expected US data helped credit markets and suggested a US recovery is slowly building momentum.

Outlook

Further monetary policy decisions will be heavily influenced by offshore factors rather than domestic economic conditions, with the Australian economy having performed well recently and providing little impetus for further monetary policy easing. We expect financial markets to remain volatile in the coming months with confidence continuing to wane in European political leaders' ability to provide a credible solution to European sovereign and banking issues. It is highly likely that Europe enters into recession in 2012 and global economic growth moderates in 2012 despite the recent improvement in economic data out of the United States. We view further monetary policy easing by the Reserve Bank of Australia as likely in the first quarter of 2012.

Whilst short to medium term issues with European and US sovereigns remain, from a fundamental perspective, we are positive on high grade credit markets in the medium to long term. Even with mixed leading indicators, balance sheets are strong, earnings are stable, defaults are low 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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Performance figures are calculated in accordance with the Financial Services Council (FSC) 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.

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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