

Manager profile

Company overview

BT Investment Management (BTIM) is one of Australia's largest funds management companies, and provides a diverse range of investment choices for both individual and institutional investors.

BTIM's vision is to combine the benefits of a strong institutional foundation and performance-focused culture with a 'multi-boutique' specialist investment approach. BTIM believes this approach positions it with the potential to achieve outstanding risk-adjusted returns for its clients. Its investment teams develop products in asset classes such as equities, property, bonds, fixed income and alternative investments, where it believes its investment capabilities and processes have a comparative advantage. It also focuses on utilising a large, talented resource pool and applying disciplined investment processes to generate true-to-label performance.

BTIM is listed on the Australian Stock Exchange and as at 30 June 2011 managed over \$34 billion for investors.

Investment philosophy and style

BTIM's Income Strategies team adopts an active investment style across its fixed income products. The team believes that returns over traditional cash investments can be added by identifying and exploiting opportunities arising from major economic themes and market dislocation. For income strategies, value is primarily added through yield curve positioning, and sector and security selection.

The team is focused on avoiding securities of deteriorating credit quality identified through its research process, and it constructs a diversified portfolio of high quality securities that are generally held to maturity.

Investment process — BTIM Income and Fixed Interest

To ensure performance consistency, BTIM adopts a top-down and bottom-up research approach across its suite of products. The research, portfolio construction and risk management process is defined by four steps and is consistent across all portfolios.

- **Top-down global inputs** — uses macroeconomic research to determine the likely direction of interest rates and to undertake sector and security tilts.
- **Relative value opportunities** — determined by analysis of the existing yield curve shape and the implications for the future level of interest rates.
- **Risk screening** — following specific investment guidelines for credit quality.
- **Scenario analysis** — applied via the UBS Delta Package, a market and portfolio analysis tool that can provide risk analysis, portfolio attribution, scenario analysis and stress testing.

Investment process

BTIM uses two distinct strategies to add value above the benchmark.

- 1) Yield curve strategies
- 2) Liquidity strategies

Yield curve strategies

The yield curve analysis utilises the BTIM Global Scorecard as a key input that shapes its macro view. The Global Scorecard is a series of models which look at bond yields, yield curves, cross market spreads, credit spreads, bonds v equities and financial exchange.

Within its cash funds, BTIM then undertakes detailed analysis of current bill yield curve. This analysis examines what the current yield curve shape implies about the future level of interest rates. This 'implied' level is then compared with its own interest rate expectations and help determines the portfolio position.

This analysis is extremely important in a bank bill portfolio as all investment alternatives can be clearly compared to a common anchor point — the current cash rate. In periods where bill rates are below the cash rate (where the market is biased towards a policy easing), for every day that passes without an easing in the cash rate, a bank bill investment provides a lower return to the portfolio. It is therefore extremely important to BTIM to calculate these breakeven levels, how they relate to its view of likely policy changes, and what that means for the most appropriate portfolio structure to maximise returns. This analysis helps BTIM avoid taking uncompensated risk in the portfolio and to identify relative value in the market.

Liquidity strategies

A further element of potential added value is in the area of credit. BTIM's primary focus is on avoiding deteriorating credits. By exploiting differing security structures and credit ratings outside of the required bank bill exposure, BTIM aims to increase portfolio yield by holding short-term investments, such as commercial paper or asset-backed commercial paper, as well as Asset Backed Securities and Floating Rate Notes. These securities provide a yield advantage over traditional bank bills for various reasons, such as supply and demand. As part of its daily portfolio construction and market analysis, BTIM analyses these securities for any added-value potential where allowed. BTIM will also enhance return through some allocation to longer dated credit securities subject to weighted average maturity limits.

Investment grade commercial paper (as with corporate bonds) has a skewed return profile, exhibiting only very limited upside through spread tightening, but with downside risk when credit deterioration occurs. BTIM's process is focused on avoiding deteriorating credits. It believes the opportunity cost of not holding an outperforming security is extremely small when compared to the actual cost of owning a deteriorating credit. Therefore it focuses on maintaining a diversified portfolio of very high quality credits.

Risk management

In building and monitoring portfolios, BTIM applies strict risk controls. Once investment opportunities are identified, BTIM checks its risk indicators prior to implementing any new position to ensure the risk taken is sufficiently rewarded. It also constantly reviews the economic data calendar and reviews international markets to flag near term drivers that may cause atypical levels of volatility.

BTIM mitigates credit risk in the portfolio by continual review of corporate and ABS securities to ensure maintenance of credit quality.

The investment team

The BTIM Income and Fixed Interest team is lead by Vimal Gor who has over 17 years' industry experience, and is supported by a team of six portfolio managers and analysts.

The team has a deep knowledge and understanding of domestic and international fixed income markets and also draws on the resources and BTIM's other specialist teams, ie Macro and Equity Strategies. As at 30 June 2011, the team managed over \$11bn in cash and fixed interest securities.

Reason Advance selected BTIM

BTIM is a specialist cash manager who has a long history in successfully managing this asset class. We like the capability of the large team of dedicated investment professionals to draw upon the resources of the wider BT Group and manage a round and diversified cash investment strategy.

The team uses a much wider range of investment strategies than other investment managers. In addition, BTIM has a trading and exposure management team that integrates trading, risk management and compliance monitoring to ensure each portfolio manager is fully aware of the execution of their trades and the market risks within the cash portfolio.

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