

BT Multi-manager Funds Update

May 2007



We have made some exciting improvements to the International Shares element of the BT Multi-manager Funds. This resulted from both a review of the way in which we gain exposure to international shares, and a review of the current and reserve managers. Our aim was to ensure the funds retained the highest quality mix of investment managers, that we accessed them in the most efficient way, and any new managers selected were done so with the aim of increasing the likely returns of the funds.

Summary of improvements

- We have changed the way we gain our active international shares exposure, from investing primarily into a pooled vehicle constructed by Intech Investment Consultants, to now mostly accessing our investment managers directly through mandates. This has been achieved simultaneously to changes we have undertaken in two of the Partner International Shares funds.
- We have appointed MFS Institutional Advisers to the international shares portfolio.
- We have increased our allocation to Trilogy Global Advisors and Bernstein Global Value Equities.
- We have increased the active component of the funds, by reducing exposure to our index manager State Street Global Advisers and removing all exposure to the enhanced index processes managed by Barclays Global Advisers.

Why the change?

In 2006, BT's specialist Investment Solutions (IS) team set out to improve the investment characteristics of the Multi-manager products. The first step in this process changed the way in which the funds were implemented – rather than invest in pooled vehicles managed by Intech Investment Consultants, we transitioned the operational and investment management aspects of the funds to BT and the IS team. This move enabled us to embark on the second stage of enhancements, aimed at improving the future expected returns of the funds without taking on any more risk. To this end, we have introduced new managers across most asset classes, and have also introduced two new asset classes and a broader exposure to investment strategies, including Global Property and Diversified Hedge Funds.

The latest enhancements to international shares demonstrate the Investment Solutions team's ability to access diverse strategies from the best investment managers around the world. This is the next stage in our strategy to build the BT Multi-manager funds to further enjoy both higher levels of returns and lower levels of risk – all at no extra cost to our investors.

What do the changes mean?

We have increased the expected performance of the funds by increasing the level of active management in international shares from 65% to 80%. Primarily this has been through increasing our investments in Trilogy Global Advisers and Bernstein Value Equities, and by a new investment in MFS Institutional Advisers.

Manager	Before	After	Change
Altrinsic	5.4	2.5	-2.9
Axiom	2.7	1.6	-1.1
AQR	28.4	28.4	—
Bernstein	6.0	15.1	+9.1
Marathon	5.6	3.3	-2.3
MFS	0	7.5	+7.5
Pzena	4.1	2.2	-1.9
Sands Capital	3.2	1.6	-1.6
Trilogy	3.0	15.6	+12.6
William Blair	3.4	2.0	-1.4
BGI	5.0	0	-5.0
State Street Global Advisers	33.2	20.2	-13.0

The BT Multi-manager Fund's value proposition

BT's Multi-manager funds allow investors to select a single Investment Option that provides a consistency of returns benefit from their diversification across asset classes, investment managers, and investment manager styles.

These funds provide exposure to a range of complementary investment managers that have been assessed as being amongst the best in their particular asset class. This provides for greater consistency of returns during various market and economic conditions.

To be selected for the Multi-manager funds, a fund manager needs to obtain a top rating from both BT's specialist Investment Solutions team and the manager research team of our independent investment consultant. Once selected, the fund managers are subject to ongoing review from each of the teams, including several face-to-face meetings each year with the investment professionals themselves. Should a fund manager no longer qualify for a top rating, we will change them for you, with no action required on your part. This means that you are always invested with top rated fund managers.

BT Multi-manager Funds currently give investors exposure to 23 different fund managers across eight different asset classes.



What to do next

- See your adviser.
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