

## → BT Multi-managers

### More alternatives added to Multi-manager Funds

Continuing our desire to broaden the investment strategies employed within the BT Multi-manager funds, the BT Investment Solutions team is pleased to announce an increase in the target allocation to Diversified Hedge Funds.

By using our ability to access diverse strategies from the top investment managers around the world we believe we have again been able to provide our investors with better expected returns at no extra risk or cost.

Since April we have added Global Property Securities to our Property exposure, Credit to our International Bonds exposure and increased our level of active management in Global Equities, International Bonds and Cash. We also invested for the first time in Alternative Strategies via an allocation to Grosvenor's Fund of Hedge Funds.

The latest increase in allocation to Alternative Strategies has been completed by investment in an exciting new product managed by AQR Capital Management.

#### AQR Capital Management

AQR was founded in 1998 by a group of investment professionals internationally renowned for their research and experience in developing and managing quantitative investment strategies. The core team has studied and worked closely together since the late 1980's, developing the skills and reputation that have seen them acquire and manage over \$8 billion in absolute return strategies for some of the largest institutional investors in the United States, Europe and Asia. AQR have a successful performance record, demonstrating their proven process and the outstanding calibre of their investment and research professionals.

#### The investment

Our investment with AQR, although through one instrument, is separated into two parts along the lines of the latest investment concept of splitting active management and exposure to market returns (known as 'alpha/beta separation').

The active or 'alpha' component is invested in AQR's flagship Absolute Return Fund (ARF). This fund has been so successful that it is no longer widely open to new investors due to capacity constraints. We have been fortunate to gain exclusive access. It incorporates all of AQR's current active strategies including long/short equities and currency, global tactical asset allocation (GTAA), arbitrage and volatility trading. The Fund has very little correlation with market returns and should help protect the returns of the Multi-manager should markets falter.

The market or 'beta' component is invested in the recently launched Global Diversified Beta Fund (GDB). This Fund gives us access to both traditional and non traditional asset classes using a new investment technique known as 'risk parity'. This technique overcomes the problem faced by old style balanced funds whereby the performance of the fund overall is almost completely determined by the performance of equities. It does this by splitting its investments in such a way that the performance of each asset class has equal impact on the performance of the fund as a whole. Thus when equities are battling, there is a good chance that another asset class will be performing better. GDB invests in Developed, Emerging and Small Cap Equities, Developed and Emerging Bonds, Index Linked Bonds, Commodities, Emerging Currencies and Credit.

## The change

The Strategic Asset Allocations of the Multi-manager Funds have been re-configured to extract optimal diversification benefits from the different asset classes and underlying manager strategies.

The following table shows the allocations to AQR within the four Multi-manager funds as well as the asset classes that were reduced to fund the investment (shown by the minus signs).

	Conservative (%)	Balanced (%)	Growth (%)	Diversified Shares (%)
AQR Investment	2	4	4	5
Australian Shares		-2	-2	-3
Global Shares				-2
Australian Bonds		-1		
Cash	-2	-1	-2	

The investment was made on 31 December 2006. We made use of one of our panel of transition managers to sell down the Australian Shares portion. In addition, we were able to make use of new cash flows which ensured minimal cost to the Funds from making this change.

## New strategic asset allocations

From 31 December 2006, the Strategic Asset Allocations for the four Multi-manager funds are now as follows:

	Conservative (%)	Balanced (%)	Growth (%)	Diversified Shares (%)
Australian Shares	12	30	36	42
Global Shares	12	32	38	48
Australian Property	3	3	3	
Global Property	3	3	3	
Australian Bonds	20	9	4	
Global Bonds	25	14	7	
Cash	20			
Diversified Hedge Funds	5	9	9	10

## Summary

Our latest investment further demonstrates the continual improvement of the BT Multi-manager funds with investors gaining increased exposure to a range of 'non-traditional' asset classes such as commodities, emerging markets and emerging currencies as well as new strategies across stock selection, global asset allocation, arbitrage and volatility trading. While these asset classes and strategies in isolation can be high risk, when combined through AQR's rigorous risk-controlled process and added to the Multi-manager funds' other investments, they help us achieve higher returns for our investors while only at the same overall levels of risk.



### What to do next

- See your adviser.
- Visit [www.bt.com.au](http://www.bt.com.au).
- Call 132 135.
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