BT Funds

Summary Quarterly Update

December 2011

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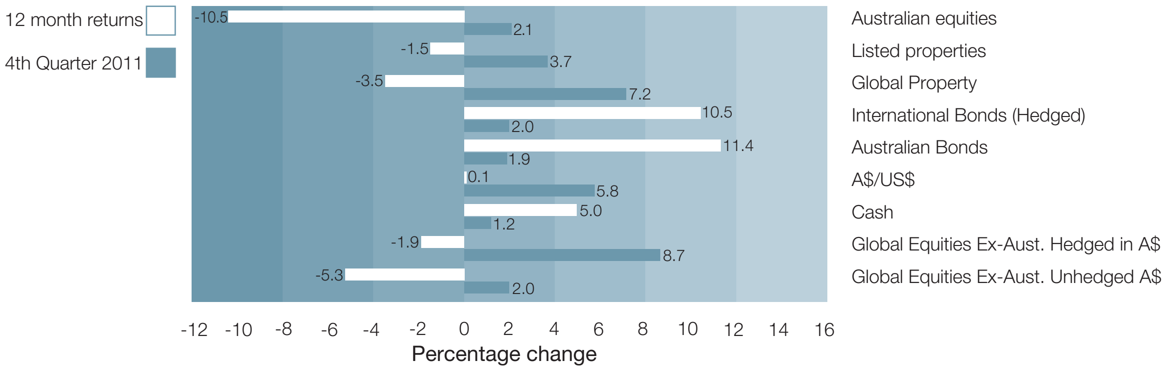
1 What's been happening in the markets?

Asset class returns for December 2011



- International sharemarkets posted strong gains in the December quarter partly offsetting losses made in the September quarter. International equities have declined 1.9% for the last 12 months in hedged Australian dollar terms, while in unhedged Australian dollar terms they have fallen 5.3%. Over the quarter, international shares hedged in Australian dollars surged 8.7%, while on an unhedged Australian dollar basis, they gained 2%. The 5.8% rise in the Australian dollar contributed to the underperformance of the unhedged Australian dollar international equities index.
- The Australian equity market managed to post modest gains despite continued political, economic and sovereign debt issue concerns gripping markets. The S&P/ASX 200 Accumulation Index gained 2.1% over the quarter, slightly underperforming the local currency global equities index whilst performing in line with the unhedged global index.
- The Australian bond market posted a modest gain over the quarter as bond yields across the yield curve moved lower as investors remained risk averse and sought the safely of government bonds. The RBA cut the official cash rate twice during the quarter from 4.75% to the current 4.25%. The UBS Australian All Maturities Index posted a gain of 1.9%.
- Global sovereign bond yields generally moved lower over the quarter as investors remained risk averse and preferred the relative safety of sovereign bonds. This was despite the release of positive economic data out of the US and leading European nations. The Barclays Global Aggregate Bond Index (Hedged) returned 2.0% over the quarter.
- Australian listed property posted modest gains over the quarter, whilst hedged global listed property posted strong gains. Australian listed property was one of the better favoured sectors on the Australian bourse although investor preference was for defensive sectors within the equity market. Attractive income yield and distribution yield supported global property securities during the quarter The S&P/ASX 200 A-REIT Property Accumulation index returned 3.7%, whilst the hedged global REIT index returned 7.2% over the quarter.

2 Performance summary

Performance to 30 September 2011	Product Returns (Wholesale — net of fees)						
	3 mths (%)	6 mths (%)	FYTD (%)	1 year (%)	2 years (%)	3 years (%)	5 years (%)
BT Multi Sector Multi-manager Funds							
Conservative Multi-manager Fund	2.0%	-0.5%	-0.5%	2.5%	4.8%	7.7%	2.1%
Balanced Multi-manager Fund	2.5%	-4.9%	-4.9%	-3.2%	1.5%	7.8%	-1.7%
Growth Multi-manager Fund	2.8%	-6.6%	-6.6%	-5.5%	-0.1%	7.3%	-3.1%
High Growth Multi-manager Fund	2.8%	-7.8%	-7.8%	-7.6%	-1.5%	6.6%	-4.0%
BT Single Sector Multi-manager Funds							
Australian Shares Multi-manager Fund	1.7%	-10.5%	-10.5%	-11.9%	-5.5%	7.0%	-2.4%
International Shares Multi-manager Fund	1.3%	-5.9%	-5.9%	-6.0%	-2.9%	-0.7%	na
Fixed Interest Multi-manager Fund	1.5%	3.5%	3.5%	8.0%	8.1%	8.9%	5.5%

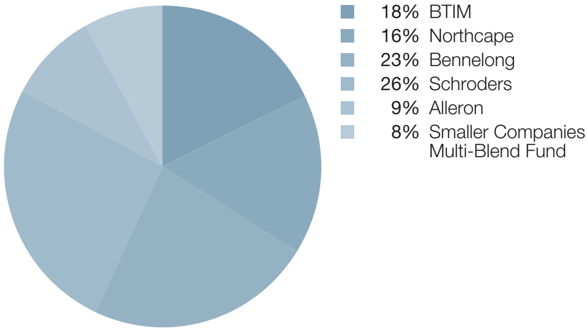
Commentary on BT Fund Performance

- Growth assets posted positive returns in the December quarter, recovering some lost ground from a weak September quarter. Better than expected economic data releases in the US, Asia and in leading European nations gave some support to equity markets. However, returns were limited as risk aversion and market nervousness continued to dominate investors' psyche. International and Australian bonds recorded modest gains while most yields remained low. International shares in local currency terms powered ahead whilst the strength of the Australian dollar eroded gains made on an unhedged basis.
- The Balanced Multi-manager Fund continued to retain a slight overweight bias towards growth assets during the quarter, with holdings in equities being modestly above neutral benchmark allocations. The performance of the Balanced Multi-Blend Fund was below that of the benchmark return with manager selection having a negative impact on the overall performance.
- The Australian Shares Multi-manager Fund slightly underperformed the benchmark, returning 1.7% after wholesale fees, while the S&P/ASX 300 Accumulation Index delivered 2.1%. The small companies' managers outperformed, but were unable to offset the underperformance of the small cap sector relative to their large cap peers. Performance across our larger company managers was mixed as oversold company shares continued to decline irrespective of quality.
- The International Shares Multi-manager Fund was positive but underperformed its benchmark over the quarter. The Fund was up 1.3%, whilst the MSCI World ex Australia Index rose 2.0%. From a manager perspective, outperformance from Trilogy, AQR and MFS was unfortunately more than offset by underperformance from Tradewinds, Lazard and Schroders.
- The Fixed Interest Multi-manager Fund added 1.5% compared to the index return of 2.0% over the quarter.

3 Who are your managers?

Strategic Asset Allocation as at 31 December 2011

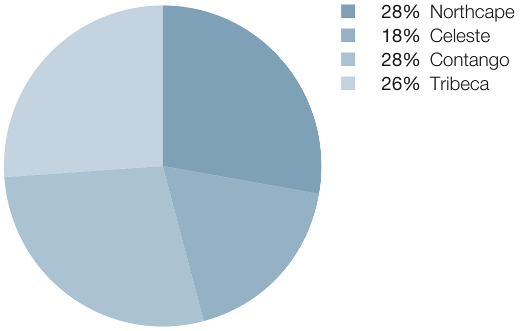
Australian Shares



Fund changes

During the quarter Advance restructured the Australian Shares Multi-Blend Fund. Advance added Bennelong Australian Equity Partners to the Fund replacing the Ausbil allocation and also transitioned the BTIM to a high conviction mandate with less stock holdings and a higher performance target.

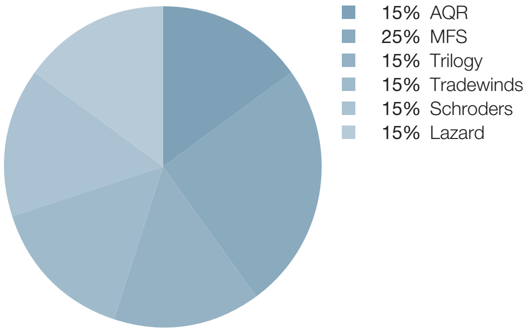
Australian Small Companies



Fund changes

No manager changes were made over the December quarter.

International Shares



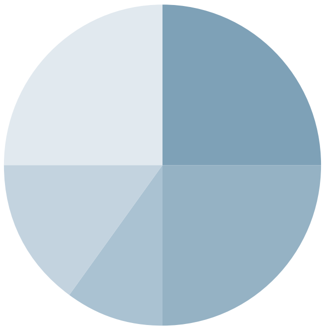
Fund changes

No manager changes were made over the December quarter.

3 Who are your managers? cont'd

Strategic Asset Allocation as at 31 December 2011

Properties Securities

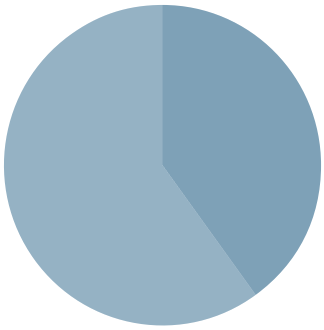


- 25% Principal
- 25% European Investors
- 10% Phoenix Index
- 15% Phoenix Benchmark Unaware
- 25% AMP

Fund changes

The quarter saw significant changes to the portfolio. AMP Capital Investors Limited and Principal Global Investors (Australia) Limited were added to the Fund to run global REIT mandates. Phoenix Portfolios Pty Ltd was also appointed to the Fund. CBRE Clarion Securities and Perennial Investment Partners Limited were removed as investment managers.

Australian Fixed Interests

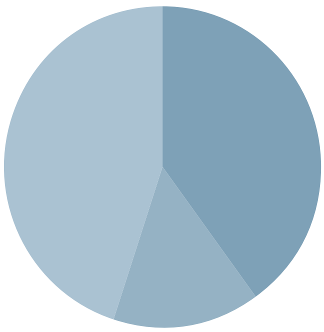


- 40% CFS
- 60% Perennial

Fund changes

No manager changes were made over the December quarter.

International Fixed Interest



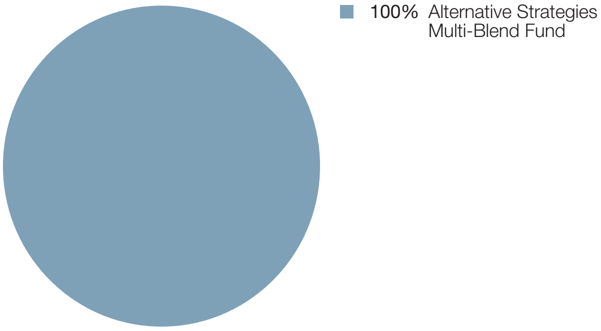
- 40% Standish Mellon
- 15% Franklin Templeton Multi Sector Plus
- 45% Wellington

Fund changes

The Franklin Templeton Global Aggregate core strategy was removed from the portfolio late in the quarter as this strategy does not suit the current investment environment. Their portfolio was reallocated to the other two core managers, Standish Mellon and Wellington.

Strategic Asset Allocation as at 31 December 2011

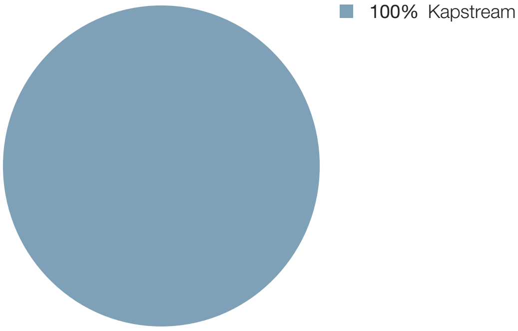
Growth Alternative Strategies



Fund changes

No manager changes were made over the December quarter.

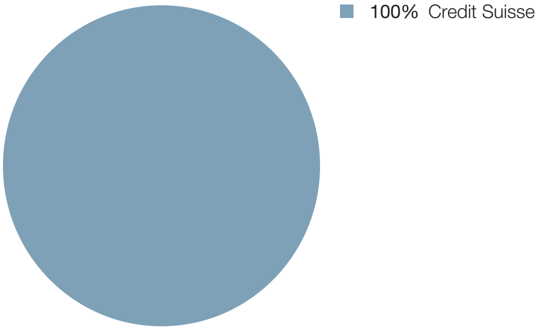
Defensive Alternative Strategies



Fund changes

No manager changes were made over the December quarter.

Commodities



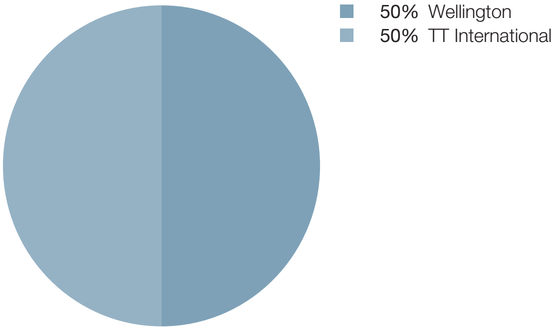
Fund changes

No manager changes were made over the December quarter.

3 Who are your managers? cont'd

Strategic Asset Allocation as at 31 December 2011

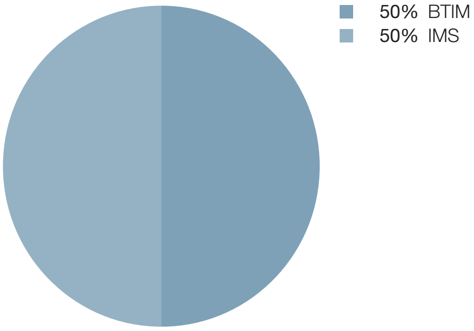
Asian Equities



Fund changes

No manager changes were made over the December quarter.

Cash



Fund changes

No manager changes were made over the December quarter.

4 Asset allocation for Diversified Funds

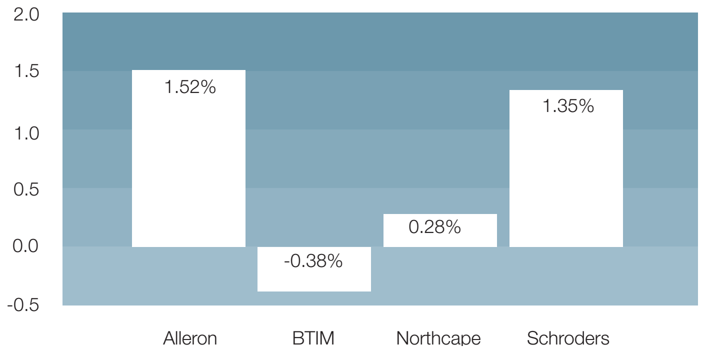
Strategic asset allocations as at 31 December 2011

	Conservative (%)	Balanced (%)	Growth (%)	High Growth (%)
Australian Equities	13.5%	31.5%	37.5%	44.5%
International Equities	5.0%	21.0%	27.0%	36.0%
Growth Alternative Assets[1]	3.0%	5.0%	6.0%	7.0%
Asia[1]	1.5%	2.5%	3.0%	3.5%
Commodities[1]	3.0%	4.0%	4.5%	5.0%
Listed Property	4.0%	6.0%	7.0%	4.0%
Defensive Alternative Assets	5.0%	2.0%	1.0%	0.0%
Fixed Interest	14.0%	8.0%	4.0%	0.0%
Int Fixed Interest	26.0%	14.0%	7.0%	0.0%
Cash	25.0%	6.0%	3.0%	0.0%
Total Assets	100.0%	100.0%	100.0%	100.0%
Total Growth Assets	30.0%	70.0%	85.0%	100.0%

1_Growth Alternative Assets, Asia and Commodities have been included as growth assets.

5 Performance of managers over the quarter

How did the Australian shares managers perform?



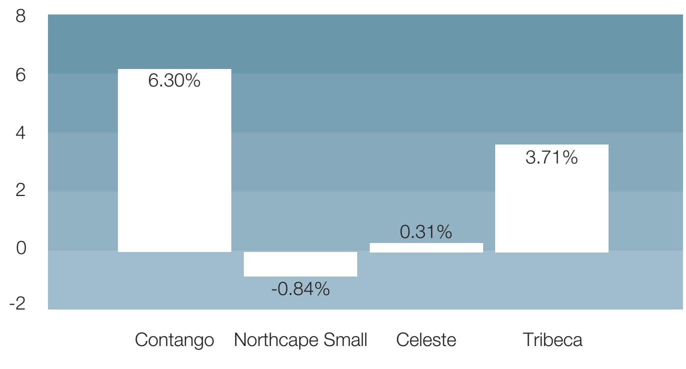
Australian Shares Fund Managers — excess returns (gross %)

- Schroders finished December strongly outperforming over the quarter. The majority of Schroders' performance came from good stock selection. Materials stock selection was strong (underweight steel and gold as well as overweight James Hardie), with the manager's underweight to the smaller resources sector avoiding some of the rollercoaster price moves. Schroders stock selection within Financials (NAB and Suncorp) offset their underweight to Listed Property. The managers stock selection with Industrials (Brambles and Transpacific) and Consumer Discretionary (News Corp) also added value. Schroders active management within Healthcare benefited the portfolio as they purchased Cochlear after its product recall and following price depreciation. The stock rebounded from being oversold assisting performance. Despite the volatile sentiment pervading in the market, Schroders continue to respond rationally to share price changes. The price they pay for the cash flows for a company is a very significant determinant of their future returns and as a result they pay close attention to potential opportunities across the market weakness.
- Alleron outperformed under difficult market conditions. A number of positions rebounded from previous weakness including Cochlear, Seven West Media, and Downer EDI. Alleron's underweight and stock selection added value within Materials (Iluka and zero Alumina) as did their overweight and stock selection within Industrials (Downer, Sydney Airport, Seek). Good stocks selection within Listed Property (Stockland) helped offset poorer stock selection within Financials (Zero CBA and underweight ANZ). Performance in Healthcare added value, but was mixed with the overweight to rebounding Cochlear offsetting poor performance from Resmed. In the face of market weakness due to the continued European debt stress, Alleron remains focused on companies that show an increasing organic growth profile.
- Northcape's focus on quality companies benefited them outperform over the quarter as their underweight to smaller companies helped avoid some of the more volatile stocks. Underweight positions and good stock selection within both Materials (Zero Newcrest and Alumina) and Consumer Staples (underweight Wesfarmers) assisted performance as did stock selection within Industrials (Transurban, Brambles and Campbell Brothers). Overweight positions to the Banks offset the underweight and stock selection within Telecoms (zero Telstra and underweight Singtel) as Telstra's 28c dividend continues to attract investors during this volatile period. Northcape still views the Australian market

as a bright spot in the western world and while growth is anaemic at present they believe it will improve over the next twelve months as mining and agricultural volumes recover from weather impacts in 2011 and large scale mining, gas and infrastructure projects get built. Northcape expects the next domestic earnings reporting season may miss consensus forecasts potentially weighing on the market; however pricing reflects a large degree of uncertainty and earnings downgrades already.

- Advance increased the concentration of the stock positions within the BTIM mandate in November to better compliment the approaches of our other incumbent managers and the incoming Bennelong. The combined BTIM portfolio underperformed over the quarter as stock volatility extended in the December month. BTIM's underweight Materials and good stock selection with Energy (Oil Search and Zero Woodside) was not enough to offset the underweight to the defensive sectors: underweight Telecoms and zero weight to both Listed Property and Utilities. BTIM's overweight and stock selection within Consumer Discretionary (Myer, JB HiFi and Fairfax), underweight and stock selection within Healthcare (Resmed) and Financials (underweight CBA and ANZ) also detracted from performance. BTIM expect that heightened levels of volatility will continue, however, at current valuations BTIM is finding attractive entry points into several stocks they believe will add value for investors over a longer time frame.
- Ausbil slightly outperformed during October prior to transition benefiting from a strong rebound across a number of their Materials and Consumer Discretionary positions. Bennelong Australian Equity Partners has been added to the Australian Shares Multi-Blend Fund during November. Bennelong offers a good compliment to the other incumbent managers within our portfolio and while their performance has been modest since appointment Advance Asset Management has high conviction that they will add value to the portfolio.

How did the Australian small cap managers perform?

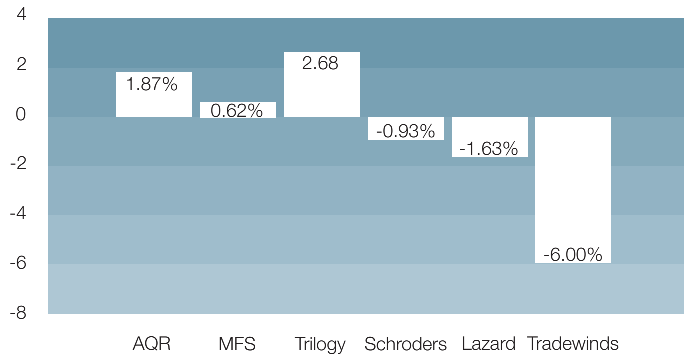


Small Companies Fund Managers — excess returns (gross %)

- Contango's mandate substantially outperformed over the quarter despite being tailored in favour of small resources which lagged during the period. Contango delivered strong outperformance from stock selection within the key sectors of our tailored mandate: Energy (Aurora Gas & Oil, Senex Energy and Gloucester Coal) and Materials (Grange Resources, Dulux, and Gold stocks; Regis Saracen and Intrepid). The manager's underweight exposure to defensive sectors including Utilities and Listed Property detracted, however the strong stock selection in small resources above, combined with the overweight and strong stock selection within Industrials (Campbell Brothers, NRW, Ausdril, Bradken and Forge Group) more than compensated. Contango also benefited from underweights in Consumer Discretionary and Healthcare as both sectors lagged the broader market. Contango continues to believe that global growth recovery will be volatile and drawn out and continue to maintain a preference for bulk commodities given the underlying supply constraints in the global market and favour industries which service the bulk commodity producers as well as the oil and gas market.

- Tribeca has added substantial value to the portfolio since its addition at the end of last financial year. Tribeca delivered positive absolute performance despite the benchmark delivering a volatile and negative return. An underweight and very strong stock selection within the Materials (Fletcher Building, Western Areas, Imdex, BCI Iron and gold companies; Silver Lake and Regis) and stock selection within Energy (Senex Energy and Beach Petroleum) added the majority of value over the quarter. Tribeca also benefited from overweight positions in Consumer Staples and Industrials and zero weight in Healthcare more than offsetting poorer stock selection within Consumer Discretionary (Collins Foods) and underweight positions in the traditionally defensive Listed Property and Utility sectors.
- Celeste outperformed over the quarter exhibiting lower volatility than the broader market. The manager's substantial underweight to Materials and the small number of stocks held (Dulux, Imdex and Western Areas) added a significant amount of value over the quarter. Celeste's underweight and stock selection within Healthcare (SDI) added value while good stock selection within Consumer Discretionary (Fleetwood and zero Billabong) offset the overweight to the poorly performing sector. The major detractor for Celeste over the quarter however, was an overweight and poor stock performance within Information Technology (SMS Technology) as well as underweight the Listed Property and Utilities. Celeste's portfolio continues to focus on high quality, cash flow accretive businesses aimed at stable growth opportunities throughout the business cycle.
- Northcape underperformed over the quarter as a number of positions more than offset some good stocks during the volatile period. Northcapes underweight and stock selection within Energy (Carabella Resources, Molopo Energy and zero Aurora Gas & Oil), Listed Property (Australand) and Utilities (Duet) weighed upon performance. Stock selection within Industrials (Talent 2 and Industrea) and Financials (Peet) also lagged. Northcapes balanced portfolio benefited from positive stock selection within Consumer Discretionary and Healthcare and good positions within Materials offset poorer performance securities. Northcape's portfolio is focused on growth and attractive valuations and we expect the manager will benefit from opportunities as the current volatility continues.

How did the international shares managers perform?



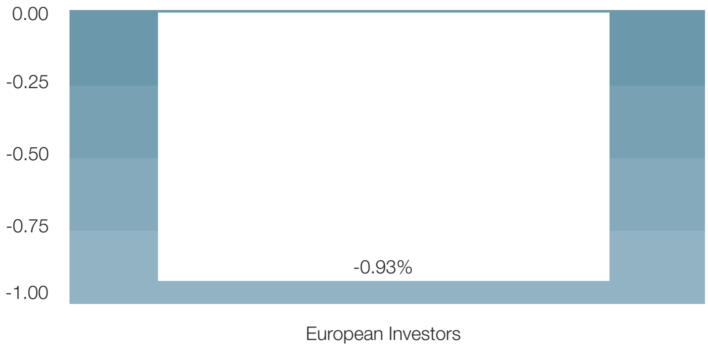
International Shares Fund Managers — excess returns (gross %)

- Trilogy was the strongest performing manager in the Fund over the quarter, outperforming the benchmark by 2.7%. Stock selection was the major positive contributor to returns over the quarter. Stock selection was positive in all but two sectors with consumer discretionary, consumer staples and materials adding the most relative value. Sector allocation was mildly positive benefiting from a zero weighting in the utilities and telecom sectors. Geographically, stock selection was positive across all regions as were underweight allocations to Canada and Asia ex Japan. At the stock level, the top contributors to relative outperformance over the quarter were Google, Lennar Corp, Philip Morris International, Noble Energy, Assa Abloy and Medco Health Solutions.
- Tradewinds was the largest drag to the Fund's relative performance as it significantly underperformed the benchmark over the quarter. Negative stock selection was the main contributor to underperformance over the quarter, particularly within the industrials, materials, financials and energy sectors. Within materials, the overweight position in gold mining companies detracted most as gold spot prices fell strongly. MF Global's bankruptcy, increasing perception of the US dollar as a choice safe haven and/or rising liquidity needs were a drag for gold equities. Japanese financial holdings also notably detracted from performance as a result of country-specific headwinds. Sector allocation was a negative contributor resulting from overweight exposure to materials, utilities and telecoms. Country allocation was also a drag on performance predominantly due to overweight exposures to Japan and Turkey and their underweight position in the US. At the stock level, the top contributors to relative underperformance were Electricite de France, Newmont Mining, RusHydro and Daiwa securities.
- Lazard was also a significant negative underperformer over the quarter. Themes that provided the main source of relative underperformance were Antimatter (i.e. Japan), Gold & Precious Metals and Managing Complexity. Under the Anitmatter theme, almost all holdings declined in a weak Japanese equity market as investors feared that the weak Japanese economy would suffer further as competition from European companies intensified, simulated by the weaker euro. Financials holdings Nomura holdings and Mitsubishi UFJ Financial Group, and real estate companies Mitsui Fudosan and Sumitomo Realty & Development were notably weak. Under Gold & Precious Metals, almost all holdings declined on the weaker bullion price. Kinross Gold fell most

5 Performance of managers over the quarter cont'd

sharply on an announced acquisition. Barrick Gold fell too on news of a mining company acquisition that included base metals in its portfolio. Under Managing Complexity, poor returns were almost entirely due to Oracle's unfavourable earnings surprise as the company missed revenue guidance. From a sector perspective, stock selection in financials, capital goods and materials detracted from relative returns.

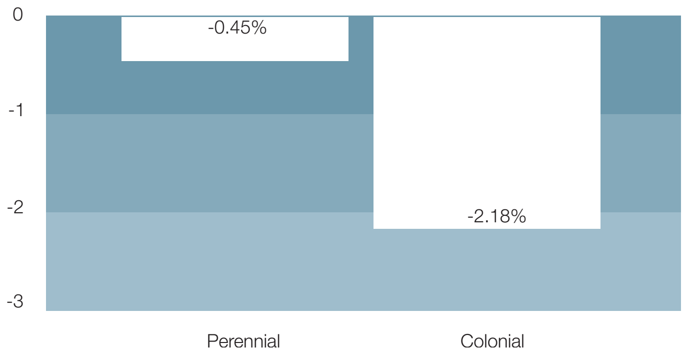
How did the listed property trust managers perform?



Property Securities Managers — excess returns (gross %)

- European Investors (EI) remains an investment manager of the fund and underperformed the benchmark by returning 6.4% versus the FTSE EPRA NAREIT Developed Index (hedged in AUD) return of 7.2% for the quarter. Over one, two and three year periods, EI has outperformed the benchmark. EI's underperformance for the quarter was driven primarily due to stock selection in Asia, with volatility amongst Hong Kong REITS impacting the portfolio. Whilst Hong Kong REITS held such as China Resources (+49%) and China Overseas Land (+15%) contributed to performance, these were exceeded by non-benchmark stocks such as Shangri-La Asia and Lifestyle International, which were down -10.5% and -13.8% respectively for the quarter. The EI portfolio was underweight Japan for the quarter and this contributed to performance, in addition to stock selection within Japan contributing. The portfolios holdings in the US detracted from performance as EI is underweight the US, though this was offset to some extent by positive stock selection within the US with Starwood (+25%), and regional malls, Taubman (+24%) and Simon (+18%) contributing.
- Other managers, including incoming and outgoing, contributed close to their respective benchmark performance across the quarter.

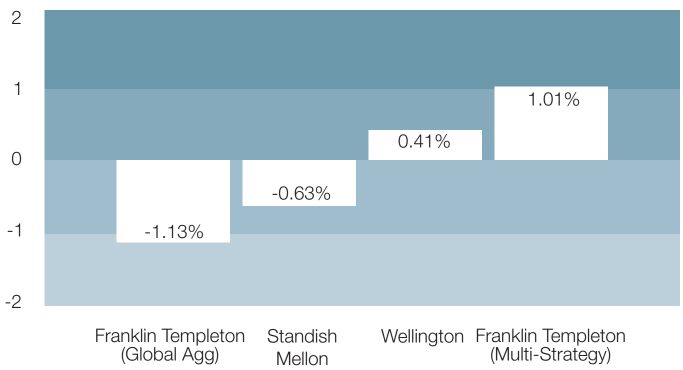
How did the Australian Fixed Interest managers perform?



Australian Fixed Interest Fund Managers — excess returns (gross %)

- Perennial Investment Partners underperformed the benchmark over the quarter. Interest rate strategies detracted over the quarter as bond yields fell sharply causing bond prices to become overvalued. Perennial implemented this strategy as markets had priced in a pessimistic economic scenario which was at odds with Perennial's fundamental assessment of the Australian economy and their assessment of fair value in the bond market. As a result, Perennial continues to maintain a defensive interest rate strategy.
- Colonial First State over the quarter also underperformed the benchmark. This was largely attributable to their shorter than benchmark duration strategy. Colonial's approach to active fixed interest management is set on a longer term investment horizon. The portfolio positions are intended to provide protection for the portfolio in a rising bond yield environment once the bouts of extreme market volatility in financial markets subside. Additionally, underperformance was also attributed to an overweight exposure relative to the benchmark in semi-government bonds. Colonial believed the sharp rally in Commonwealth Government bonds had made them extremely expensive relative to State Government bonds. Colonial expects the interest rate differential between Commonwealth and State Government bonds to narrow in the first half of this year and add value to the portfolio.

How did the International Fixed Interest managers perform?

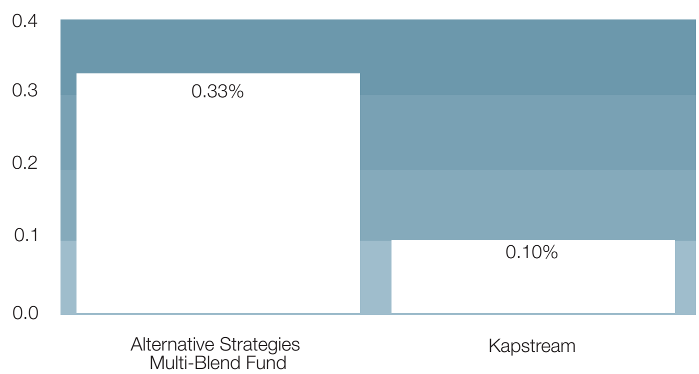


International Fixed Interest Fund Managers — excess returns (gross %)

- Standish Mellon underperformed during the quarter. The underperformance was due to a foreign exchange allocation related to an underweight relative to benchmark EUR and an overweight USD tactical position when the EUR rallied from news of the European meeting to try to solve the sovereign debt crisis. The corporate bond allocation also held back performance as spreads relative to government bonds widened. Finally, a small short duration position relative to benchmark also detracted from performance.

- Wellington Management added value over the quarter from macro, credit and quantitative strategies. In particular, tactical overweight position in US, UK, Swedish and German bonds and underweight French all added values to the Fund. In terms of credit strategies an overweight exposure to investment grade corporate bonds and underweight to covered bonds added to performance for the quarter. Finally an overweight to the USD versus high beta currencies such as the Thai Baht and Brazilian Real positively contributed to performance. Wellington intend to maintain a cautious approach to investing as they see global growth slowing, inflationary pressures easing and await a sustainable resolution to the European sovereign debt crisis.
- The Franklin Templeton's Global Multi-Sector Plus strategy added significant outperformance from its cross currency exposures and credit selections, while interest rate strategies were largely neutral. Currencies in Asia ex-Japan that had weakened in September's serve risk aversion environment benefited from their relatively strong economic fundamentals during the fourth quarter and greatly added to performance. Credit selection, primarily in high yield bonds also added value to the portfolio.
- Franklin Templeton has positioned the portfolio for an environment in which emerging markets and selected developed markets outperform the largest advanced economies. This is despite the bout of panic that was triggered during September and November 2011 due to concerns regarding economic and political developments in the Eurozone.
- The Franklin Templeton Global Aggregate core strategy was removed from the portfolio late in the quarter as this strategy does not suit the current investment environment. Their portfolio was reallocated to the other two core managers Standish Mellon and Wellington.

How did the Alternative Strategies managers perform?



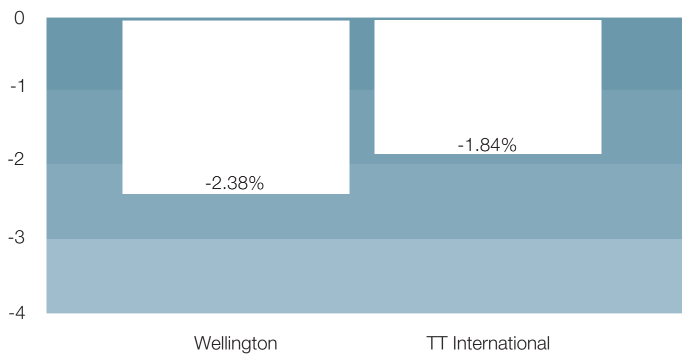
Alternative Strategies Fund Managers — excess returns (gross %)

- The Alternative Strategies Multi-Blend Fund generated positive performance of 1.3% after fees for the December quarter with limited volatility while equity, credit and commodity markets continued to have wild swings. The diversity across the portfolio as well as the flexibility available given its various liquid components allowed us to maintain low downside sensitivity to

equity markets. The maximum peak to trough loss from day to day valuation of the Fund was -0.37% compared to the maximum peak to trough loss incurred by equity markets of -12.4% (MSCI World).
Out of the portfolio's four building blocks (Alpha, Replication, Diversifiers and Rule Based Alternative Beta) only the last was marginally down with the remaining allocations generating positive performance. During the quarter the different allocations took the lead in contributing to performance at different times.
The customised hedge fund replication was the best performer. The overlay hedge where we aim to reduce persistent structural beta detracted 1.4% given the rally in equity markets over the period. We are happy to forego this performance in exchange for a portfolio that is lowly correlated with equity markets on the assumption that investors are getting plenty of equity exposure elsewhere in their portfolios.

- Kapstream's Absolute Return strategy slightly outperformed its cash benchmark.

How did the Asian shares fund manager perform?



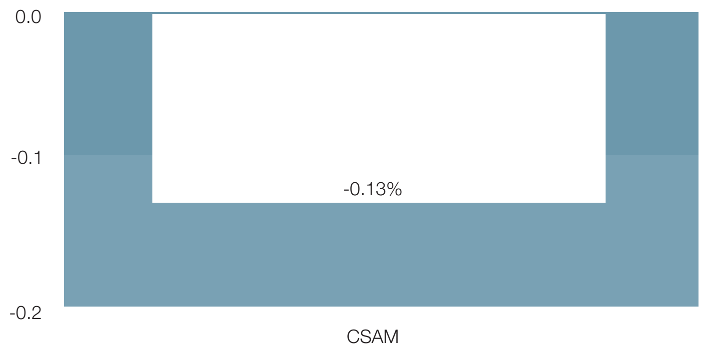
Asian Equity Fund Manager — excess returns (gross %)

- Wellington's underperformance was primarily as a result of weak stock selection in the consumer discretionary and financials sectors. Within consumer discretionary, online travel company Ctrip.com, jeweller Chow Sang Sang, and cosmetics retailer Sa Sa all lagged the market on fears that a slowdown in Chinese growth would negatively impact the outlook for consumer spending. In the Financials sector their continuing preference for Chinese insurers relative to Chinese banks hurt performance, with China Pacific Insurance lagging the market and Industrial and Commercial Bank of China (not held in the portfolio) performing well. The portfolio's overweight positions in Indian banks, Jammu & Kashmir Bank and HDFC Bank, also contributed to underperformance. At the country level, value added by positive stock selection in Taiwan, Malaysia, and the Philippines, along with an underweight to India was outweighed by negative selection in China, Hong Kong and South Korea.
- TT International's disappointing quarter was mainly driven by negative stock selection in the technology and financials sectors which outweighed positive stock selection in materials and industrials. Within technology, Taiwanese IT stocks HTC and E Ink were the worst performers over the quarter. E Ink was badly hit on fears that Amazon's new tablet product would eat into sales of their Kindle e-Reader which uses E-Ink technology whilst HTC lost market share to rivals like Samsung Electronics (Korea). China Mengniu Dairy (Consumer

5 Performance of managers over the quarter cont'd

Staples) was also amongst the worst performing stocks for the portfolio over the quarter. The company was hit by scares over contaminated milk at one of its facilities although none of its products being sold at the time were affected. Sector allocation in energy, healthcare and financials were a small positive over the period as was the portfolio's cash weighting. In Hong Kong stock specific reasons hit several names including PCCW (Telecoms) and Wharf Holdings (Hong Kong). Country allocation had a neutral impact with positive contribution from being underweight in India offset by an underweight to Malaysia.

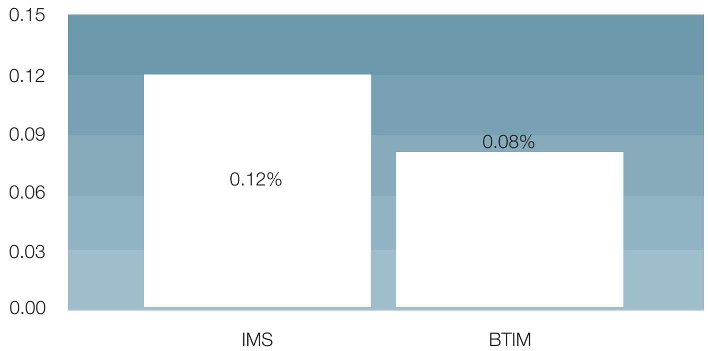
How did the commodities fund manager perform?



CSAM Enhanced Commodity Fund — excess returns (gross %)

- The Credit Suisse Enhanced strategy rebounded 9.3% in the December quarter. Precious Metals made modest gains as investors look for a safe haven. Prices were supported by the increasing volatility emanating from the European sovereign debt crisis and US dollar weakness. Gains were also driven by the Energy sector as crude oil price rose strongly.

How did the cash fund managers perform?



Cash Fund Managers — excess returns (gross %)

- IMS generated a return higher than the benchmark return. This was due to the portfolio's relatively higher running yield than the benchmark; a longer than benchmark portfolio maturity profile at a time of falling yields and the narrowing of some credit spreads versus bank bills. IMS continue to have a high portfolio quality and ample liquidity to meet day-to-day cash flow requirements.
- BTIM also outperformed the benchmark as short dated commercial backed securities offered an attractive yield greater than bank bills. BTIM expect to continue to add value to the portfolio by selectively purchasing mispriced high quality short-dated securities.

6 Looking Ahead — Outlook for Markets

Equity markets

We expect global and domestic equity markets to remain choppy with the prospect of a rally into the March/May period and then come under pressure during seasonal weakness that will be exacerbated by the political uncertainty, described above. If the markets can survive this bout of turmoil, the chances are that the markets will move higher into the July/August period and possibly peak with political uncertainty dominating investor sentiment. Our projected total returns for Australian Equities are around 9.2% and around 12% for a global equity portfolio, with a 35% currency hedge.

Fixed interest markets

We expect global sovereign bond yields to drift higher into the March/May period and then fall as seasonal equity market weakness takes hold of markets. Should growth assets weather political uncertainty and move higher, then chances are that yields could drift even higher but come down as we approach late summer and continue to fall as risk aversion dominates investor preference. Global credit markets offer relatively good returns as investors seek better yield in a low return environment. However, global credit and emerging market debt tend to suffer during periods of risk aversion and need to be managed efficiently in order to protect and enhance returns. Our total return projection for global fixed income is around 4.9% and 3.7% for Australian fixed income.

Listed property markets

While this asset class is attractive for long-term asset liability matching, it is vulnerable during periods of risk aversion. The attractive distribution yield and the duration of this asset give the asset class the potential to provide attractive relative returns during periods of risk taking. Our total return projection for diversified listed property is around 7.7%.

Commodities

We expect commodity prices to remain volatile and follow the roller coaster risk on/risk off pattern in markets. However, we are bullish energy and agricultural commodities due to supply bottlenecks driven by political turmoil in the Middle East in the case of the former and severe weather related and demand related supply shortages in the case of the latter. Our projected returns for commodities being fully currency hedged is around 11.5%.

Absolute return strategies

We are biased towards allocating more capital towards absolute return strategies both of a ‘growth’ or ‘defensive’ construct because in a world that is dominated by uncertainties and turmoil, it is nimble and efficient strategies that provide investors with better capital protection and return enhancing opportunities. However, it is extremely important for such strategies to be liquid and transparent with daily liquidity and sufficient active management and diversification to offer a better alternative to investing in term deposits or ‘Cash’. Our projected return for growth alternatives is around 9.5% and 5.8% for defensive alternative.

Currencies

We anticipate the US dollar to weaken during the first quarter of this year and then remain stable to strong throughout the rest of the year and into next year. The euro looks the most vulnerable during next year as political turmoil in the Eurozone takes its toll on the currency. The Australian dollar should fare well during periods of risk taking but is vulnerable later in the year when risk aversion, slow Asian growth etc takes its toll on the currency.

Notes

Notes cont'd

Notes cont'd

What to do next

- Contact your Business Development Representative
- You can log on to BT Adviser Exchange www.btadviserexchange.com.au
- Telephone BT Adviser Relations on 1800 025 127
  (Monday to Friday 8.00am – 6.30pm, Sydney time)