

BT Institutional Australian Sustainability Share Fund

Fact Sheet
August 2009

ARSN: 097 661 857



Social Responsible Investments

About the fund

The Fund brings together the specialist skills of BTIM and Monash Sustainability Enterprises (MSE). MSE has developed proprietary technology to analyse listed Australian companies for environmental and social best practice within agreed industry sectors. BTIM uses its investment expertise to construct a diversified portfolio of share investments selected from a sustainability ranked universe, according to financial criteria.

Fund objective

The Fund aims to provide a return (before fees) that exceeds the S&P/ASX 200 Accumulation Index over the medium to long term whilst maximising the portfolio's focus on sustainability. The suggested investment timeframe is five years or more.

Investment approach

Each company is assessed using a "triple bottom line" performance approach. MSE evaluates Australian companies based on environmental and social criteria and BTIM evaluates companies on financial performance.

MSE conducts the initial screening process by assigning a 1-5 rating for environmental and social criteria (where one is the highest ranking and five is the lowest ranking) for each stock within the S&P/ASX 200 Index. Stocks that are rated four or five are excluded from the portfolio¹. The fund also excludes stocks which directly mine uranium for the purposes of weapon manufacture.

BTIM then evaluates financial performance for each of the remaining stocks (i.e. the investable universe) and assigns a 1-5 financial rating to each stock. The portfolio is then constructed using an optimisation process. This process seeks to deliver the optimal combination of risk and return within the Fund's investment constraints.

Investment team

The portfolio manager for the Fund is Rajinder Singh in BTIM's Quantitative Investment Strategies team who has more than eight years' industry experience. The team combines fundamental analysis from BTIM's Australian large-cap equities team, one of the largest in the industry, with inputs from MSE to manage the Fund using a disciplined process.

Investment guidelines

Maximum tracking error (ex-ante)	3.5%
Active single sector position	+/- 6.0%
Active single stock position	+/- 3.5%

Fees

Management fee	0.85% 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.



CERTIFIED BY RIAA

BT Investment Management (RE) Limited ABN 17 126 390 627, AFSL 316 455, has been certified by RIAA according to the strict disclosure practices required under the Responsible Investment Certification Program. The Certification Symbol signifies that an investment product or service takes environmental, social, ethical or governance considerations into account along with financial returns. See www.responsibleinvestment.org for details.

¹ Companies rated either 4 or 5 may only be included in the portfolio in the case of a demonstrated need to manage investment risk.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	5.92	6.00	6.57
3 months	17.21	17.47	18.94
FYDT	13.24	13.40	14.36
6 months	31.87	32.44	37.43
1 year (pa)	-7.01	-6.20	-8.06
2 years (pa)	-10.93	-10.17	-11.20
3 years (pa)	-0.21	0.65	0.07
5 years (pa)	9.16	10.10	9.48

Asset allocation

Energy	10.2%
Materials	24.7%
Industrials	4.0%
Consumer Discretionary	3.3%
Consumer Staples	7.6%
Health Care	4.3%
Information Technology	0.3%
Telecommunication Services	4.0%
Utilities	1.1%
Financials ex Property Trusts	33.7%
Property Trusts	2.4%
Cash & Other	4.5%

Top 10 holdings

BHP Billiton Limited	12.7%
Westpac Banking Corporation	7.4%
Commonwealth Bank of Australia Ltd	6.1%
National Australia Bank Limited	5.8%
ANZ Banking Group Limited	5.2%
Telstra Corporation Limited	4.1%
Origin Energy Limited	3.7%
Wesfarmers Limited	3.6%
Woolworths Limited	3.5%
QBE Insurance Group Limited	3.5%

Other information

Fund size (as at 31 Aug 2009)	\$105 million
Date of inception	October 2001
Minimum investment	\$50,000
Minimum balance	\$50,000
Buy-sell spread	0.50%
Income distribution frequency	Semi-annual
APIR code	WFS0285AU

Market Overview

The Australian equity market performed strongly in August, up 6.6% and marking six consecutive months of gains. Global sharemarkets continued to rally against an improved macro backdrop and with investors increasingly convinced that the worst of the financial downturn is over. Australian economic data was also supportive with improving consumer and business confidence.

The reporting season was the main driver of market returns in August with earnings delivery generally better than the low expectations, down only 19% on last year. In addition a number of companies flagged that operating conditions were showing signs of improvement.

Financials (+12.1%) were the standout sector in August, with all sub sectors: real estate, banks, insurance and diversified financials outperforming the market. This reflected signs that the loan loss cycle for banks was nearing a nexus and also better than expected results from AMP and QBE. Industrials also performed well during the month (+9.4%) reflecting the improvement in the domestic economy being reflected in outlook statement of companies such as Qantas and Toll.

The Resources sector underperformed the rising market, being only flat for the month. This was driven by lacklustre results reflecting the difficult operating conditions experienced in recent months and cautionary comments from BHP and Rio on the outlook for Chinese commodity buying, with suggestions that the phase of inventory build was coming to an end.

Telcos also detracted from market returns over the month, (-7.1%), mainly due to the Future Fund selling down its holding in Telstra.

Capital raisings continued through August with Amcor (\$1.6bn), Goodman Group (\$1.1bn) and Boart Longyear (\$756m) among the main ones.

In other economic news, the RBA left its cash rate on hold at 3.0% and the Australian dollar consolidated recent gains to finish at 83.7c, hitting a 10 month high over the month. Consumer and business confidence indices both improved in July, reflecting the fact that the rise in unemployment appears to be far more muted than expected.

Fund Performance

The portfolio finished marginally behind its benchmark over the month of August though achieved strong positive returns in absolute terms on the back of a successful reporting season and positive economic data.

Our position in Rio detracted from performance, due to the fundamentals for the resource sector beginning to turn down in August. Firstly, the spot price of iron ore and steel in China began to fall reflecting over supply of product. Secondly, there was evidence that the build up of inventory in China was coming to an end, this was reflected in a stalling of the rise in base metal prices.

Our overweight in Pacific Brands was also a detractor as the stock traded down over the month after reporting a soft FY09 result.

The portfolio's overweight position in QBE was the main contributor to returns as the stock rallied strongly after it reported better than expected results. The outlook for premiums is positive as the industry remains capital constrained. In addition their recent acquisitions have performed well, re-enforcing their credentials as disciplined and timely buyers of assets.

Our overweight holding in United Group Ltd was another key contributor to returns over the month as the stock traded up strongly over the month.

Portfolio Changes

During the month of August, the portfolio added significantly to its position in the highly rated fund manager Henderson Group PLC. This followed Henderson's improving Financial rating and strong existing Environmental rating. Following from last month the portfolio continued to add to its holdings in Oil Search Limited and BHP Billiton Limited.

Also during the month, as a result of deteriorating financial ratings, the portfolio reduced its positions in Foster' Group Limited and Transurban Group.

MSE Stock Stories

Lend Lease Ltd (LLC)

Lend Lease is one of the best performers in the real estate sector in managing its environmental risks and taking steps to exploit opportunities, notably those in the "green building" industry. Lend Lease recently completed construction of Australia's first privately developed building with a maximum 6 Star 'Green Star' Rating, 'The Gauge', in Melbourne. It signifies achievement of 'World Leadership' in sustainable building design. This is a good illustration of the company's strong environmental culture and its commitment to developing and owning premium green buildings. This will increasingly give it an edge in winning major construction contracts and attracting quality tenants for its owned property assets. It is also noteworthy that Lend Lease's sustainability reporting is sector-leading with the effective use of a progressive web-based format to comprehensively disclose all key aspects of its environmental, social and governance (ESG) performance.

Lend Lease's social performance continues to be mixed. Occupational Health and Safety remains a concern with six fatalities occurring on Lend Lease construction sites in the 2007/08 financial year. A recent investigation into the deaths of two fire fighters at the Deutsche Bank building near "Ground Zero" in Manhattan resulted in a Bovis site safety manager and sub-contractor being indicted for manslaughter and criminally negligent homicide, but under a subsequent non-prosecution agreement, no charges were laid. Although these kinds of safety breaches pose some risk to reputation they are not likely to pose a significant risk to the company's bottom line given the scale and geographic spread of construction operations and relatively small fines and compensation levels involved. On the positive side, it is encouraging to hear in recent discussions with Lend Lease that it is highly concerned by these incidents and has dedicated considerable resources to implementing new management initiatives and improving systems. Another recent issue of concern relates to allegations that the company over-billed on the \$US700 million September 11 Memorial and Museum and other large projects in New York. An investigation is ongoing. Lend Lease could be barred from government contracts if found guilty.

Alumina Ltd (AWC)

Alumina owns 60% of a group of aluminium assets managed by Alcoa, which owns the remaining 40%. As a bauxite, alumina and aluminium producer, Alumina's key sustainability issues are the potential costs of a carbon constrained operating environment, the physical impacts of climate change, water access, health and safety, and community relations.

Alumina has a significant global carbon footprint due to the high electricity use required by its refineries and smelters. A large proportion of emissions are located in jurisdictions with existing or planned carbon trading schemes. It is likely that these schemes will result in carbon costs and increased electricity costs for Alumina, not only for its own operations, but also for its aluminium smelter clients. In response to this threat, Alumina has

implemented the following initiatives: established Board-level reporting on carbon risk, invested in the development of Biochar (a carbon capture technology in the early stages of development), and has introduced carbon risk assessment into its acquisitions process. Alcoa has also set up carbon emissions abatement projects at the Australian Pinjara and Kwinana refineries, reducing intensity by 3.5%. In Australia, the company is likely to receive assistance for trade exposed industries under the proposed Carbon Pollution Reduction Scheme, at least in the short term

The physical impacts of climate change, including water access, represent significant exposures for Alumina. Its physical assets, production and operational continuity, are exposed to the impacts of extreme weather events (hurricanes in particular), as is supporting infrastructure. Bauxite mining is amongst the most water intensive mining activities in Australia, and Alumina's South-Western Australian assets are subject to current and projected drought regimes. To manage these exposures Alumina relies on Alcoa's climate risk management activities. However, the extent to which climate change risk informs investment decisions at Alumina is unclear. With regard to water usage, Alcoa has implemented water saving and efficiency initiatives at the Victorian sites, while the Huntly bauxite operation won a water recycling award from the Western Australian Department of Water and the Water Corporation.

Alumina has a significant health and safety exposure, which is managed through Alcoa's well-established health and safety management systems and policies, which Alumina fully supports. Safety performance has recently improved, with the All Recordable Injury Frequency Rate for Australian operations falling in 2008. While this is positive, MSE expects greater disclosure of the safety performance of Alumina's businesses outside Australia.

The proximity of some of Alumina's assets to residential areas requires Alcoa to put significant effort into managing community relations. To this end, Alcoa reports on several community programs, including community and indigenous partnerships. Nevertheless, MSE is currently monitoring the progress of a mass claim filed in Pennsylvania, USA, against Alcoa, which is the manager of the Wagerup refinery, over alleged negative impacts of the refinery's operation on community and employee health.



For more information

Please call 1800 813 886, contact your business development representative or visit www.btim.com.au

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