

# BT Institutional Australian Sustainability Share Fund

Fact Sheet  
November 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 portfolio<sup>1</sup>. 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.



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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](http://www.responsibleinvestment.org) for details.

## Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	1.65	1.72	1.78
3 months	5.52	5.75	5.88
FYDT	19.49	19.92	21.09
6 months	23.68	24.22	25.94
1 year (pa)	27.95	29.06	31.72
2 years (pa)	-9.91	-9.14	-11.06
3 years (pa)	-1.25	-0.40	-0.72
5 years (pa)	7.90	8.83	8.25

## Asset allocation

Energy	8.3%
Materials	27.1%
Industrials	5.1%
Consumer Discretionary	3.6%
Consumer Staples	7.0%
Health Care	3.7%
Telecommunication Services	3.7%
Financials ex Property Trusts	32.9%
Property Trusts	2.8%
Cash & Other	5.8%

## Top 10 holdings

BHP Billiton Limited	13.6%
Westpac Banking Corporation	7.1%
National Australia Bank Limited	6.5%
Commonwealth Bank of Australia Ltd	5.7%
Rio Tinto Limited	5.2%
ANZ Banking Group Limited	4.7%
QBE Insurance Group Limited	4.3%
Telstra Corporation Limited	3.9%
Wesfarmers Limited	3.6%
Woolworths Limited	3.2%

## Other information

Fund size (as at 30 Nov 2009)	\$139 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

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

## Market review

The Australian equity market recovered in November rising 1.8% and reversing most of the previous month's losses. This was despite the RBA increasing interest rates, which is seen as confirmation of the durability of the economic recovery.

The Resources sector (+7.2%) was the clear leader against a background of firm commodity prices while Banks (-3.8%) lagged over the month, the first time since May. Risk appetite was tested towards the end of the month when the government of Dubai announced that it intends to ask creditors for a restructuring of its debt; however the initial weakness of equity markets in response to the announcement was short-lived.

The rise in business confidence is also reflected in a pick-up in M&A activity, with AXA Asia-Pacific receiving an offer from AMP which would involve them on-selling the Asian operations to AXA's French parent company. In addition, Metcash announced a proposal to acquire 50.1% of hardware retail co-operative Mitre 10; they are in competition with a private equity bidder. We see M&A as an ongoing theme, albeit with more Australian companies looking to invest offshore.

Following the October rate rise, the Reserve Bank hiked the cash rate target by a further 25 basis points to 3.50%. A spike in employment in October and a jump in house prices in the third quarter reinforced the case for higher rates. Meanwhile, the Australian dollar gained 1.5% against the US\$.

## Fund performance

The portfolio slightly underperformed its benchmark over the month of November though registered a positive return for the month in absolute terms. Key detractors to performance were the portfolio's overweight in Origin Energy, Bluescope Steel and QBE Insurance.

The portfolio's overweight in Rio was the major contributor to returns over the month. The outlook for iron ore continues to improve due to strong Chinese demand. This has led to Rio dusting off their iron ore expansion plans, which will provide a significant uplift to production in the longer term, supporting the valuation. In addition the pricing for aluminium remains better than expected which has a significant impact on their earnings.

An overweight in Axa Asia Pacific was another key contributor to performance as the stock rose after AMP and Axa's French parent announced a bid for the company. Axa's independent directors rejected the proposal as inadequate, however we think that this time some form of amended deal is likely to eventually be approved.

## Portfolio changes

The portfolio added to its existing overweight in QBE Insurance Limited. Also during the month the portfolio continued to add its positions in the materials sector with purchases in Rio Tinto Limited and BHP Billiton Limited. Other resource related purchases included Oil Search Limited, and WorleyParsons Limited. Within the Healthcare sector, the portfolio increased holdings in the highly Socially and Environmentally rated CSL Limited.

Also during the month, as a result of deteriorating financial ratings, the portfolio reduced its positions in Arrow Energy Limited and OneSteel Limited.

## MSE stock stories

### Boart Longyear Ltd (BLY)

Boart Longyear Limited (BLY) is an integrated drilling services provider and products manufacturer for the Mineral Industry, with a presence in the Environmental & Infrastructure and Energy industries. BLY operates in the Asia Pacific region, Canada, United States, South America and Europe under two divisions - Drilling Services and Drilling Products.

Environmental issues, such as water scarcity and the exploration and production of nontraditional energy sources, may present significant expansion opportunities for specialised drilling service providers. BLY demonstrates strategic recognition of this opportunity and is developing and expanding its capabilities in the 'Environment and Infrastructure' and 'Energy' market segments. BLY claims to have a strong degree of environmental commitment and provides evidence of oversight and management through the presence of an Environment Health and Safety Committee and an ISO certified Environmental Management System (EMS). However, BLY's disclosure of environmental performance is behind sector peers.

BLY has significant exposure to a range of social issues: workplace safety, business ethics risk and the availability of labour. The company clearly recognises and responds to these issues and is an industry leader in terms of its social governance. BLY's reputation for safety is among the best in the industry and its Lost Time Industry Frequency Rate (LTIFR) of 0.14 was among the lowest reported figures for ASX 200 companies in 2008. Furthermore, they have received a number of safety awards globally. BLY has a comprehensive code of conduct and ethical compliance is integrated into the risk management system. An independently operated whistleblower system, and linkage of ethical conduct to executive remuneration, further demonstrate a strategic recognition of business ethics as a driver of overall business value.

A large proportion of BLY's workforce is employed in occupations that are likely to again experience high demand in Australia. The company's strong human capital management (HCM) provides assurance that it recognises and is adequately managing this risk. The company's approach to HCM is clearly aligned with its overall business strategy and risk identification is evidenced through board committee oversight and an employee consultative committee.

### ASX Limited (ASX)

The ASX operates Australia's primary exchange for equities and derivatives. Other activities include listing new entities, providing market data and listed-entity announcements, and maintaining market integrity.

ASX's environmental performance is on a par with expectations for the Australian diversified financials sector. Whilst the ASX manages its own GHG emissions, and discloses performance through the Carbon Disclosure Project, the company has significant opportunities through the development of new carbon and renewable energy-related markets. It recently commenced facilitation of the trading of futures and options contracts for renewable energy certificates to support the federal government's RET scheme, whereby 20% of Australia's electricity must come from renewable sources by 2020. The ASX has also received regulatory clearance for certified emissions reduction certificates, futures, and options contracts, which will be listed by March 2010, should the CPRS be legislated. The ASX believes that these new markets will grow strongly over the medium-long term, providing significant revenue streams.

Strong human capital management (HCM) is also important for ASX. The high costs of replacing personnel in a labour intensive operation, and the specialist demands associated with a high degree of product innovation and technological change (e.g., new carbon-related markets), provide incentive for sound HCM practices. Additionally, the (likely) entry of new competitors to the market will heighten competition for technically skilled employees. A projected Australian IT skills shortage in the short-to-medium-term may exacerbate any shortfall. Nevertheless, it appears that the right strategies and policies re training, development, and equal opportunity are in place across the company. Particular efforts to develop and retain women are showing results, e.g. for the 2nd year running ASX has been acknowledged as an Employer of Choice by the Australia government's Equal Opportunity for Women in the Workplace agency. ASX is also reporting very high rates of returns from maternity leave (higher than sector peers IFL and PPT). Programs targeting women's participation are showing results in relatively high female representation, which also extends to management and executive levels. However, transparency about key metrics (turnover, satisfaction, absenteeism) would provide greater assurance as to the continued progress in securing skilled people, particularly given likely tightening of labour markets.

ASX's ethical conduct is sound, and controls appear in line with industry practice. Board oversight of ethical compliance and its linkage to at-risk remuneration of key executives are both positives. Greater recognition of ethical conduct in the risk management framework would give shareholders greater confidence that the appropriate controls are in place.



#### **For more information**

Please call 1800 813 886, contact your business development representative or visit [www.btim.com.au](http://www.btim.com.au)

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