

BT Institutional Australian Sustainability Share Fund

Fact Sheet
December 2009

ARSN: 097 661 857



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.



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.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	4.03	4.10	3.74
3 months	3.45	3.68	3.39
FYDT	24.30	24.84	25.62
6 months	24.30	24.84	25.62
1 year (pa)	32.97	34.12	37.03
2 years (pa)	-7.44	-6.65	-8.16
3 years (pa)	-0.80	0.06	-0.70
5 years (pa)	8.07	9.00	8.36

Asset allocation

Energy	8.6%
Materials	27.0%
Industrials	4.6%
Consumer Discretionary	4.1%
Consumer Staples	7.7%
Health Care	3.9%
Telecommunication Services	4.0%
Utilities	0.3%
Financials ex Property Trusts	32.1%
Property Trusts	3.2%
Cash & Other	4.5%

Top 10 holdings

BHP Billiton Limited	13.5%
Westpac Banking Corporation	7.4%
National Australia Bank Limited	5.7%
Commonwealth Bank of Australia Ltd	5.5%
Rio Tinto Limited	5.1%
ANZ Banking Group Limited	4.9%
QBE Insurance Group Limited	4.6%
Telstra Corporation Limited	4.2%
Wesfarmers Limited	3.4%
Woolworths Limited	3.2%

Other information

Fund size (as at 31 Dec 2009)	\$146 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

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.

Market review

The Australian equity market closed on a high for 2009 with a gain of 3.7% for the month of December and 37.6% for the calendar year. All sectors recorded positive returns over the month. The best performers were Information Technology (+7.3%), Industrials (+7.0%) and Health Care (+4.3%). Lagging sectors included Telcos (+1.0%), Consumer Staples (+2.0%) and Property (+2.0%).

Bank shares (+2.3%) were pressured by concerns over funding costs, highlighted by Westpac's decision to raise its mortgage rate by 45 basis points following the latest hike by the RBA. Resources (+3.6%) kept pace with the market on the back of higher commodity prices and a rising US dollar.

M&A activity continued its resurgence over the month with activity covering a broad spectrum of sectors. The largest event was AMP raising its bid for AXA Asia Pacific only to see it trumped by a rival offer from National Australia Bank. In other M&A news, Lend Lease together with the Future Fund bought ING's shopping centre portfolio, Nufarm ended its discussions with Sinochem, opting for an arrangement with Sumitomo, and Macarthur Coal bought Gloucester Coal. A busy year for capital raisings also continued with Woodside Petroleum seeking \$2.5 billion.

Commodity prices were generally stronger over the month with gains in iron ore, base metals and oil, though oil had fallen initially as the US dollar recovered. The stronger greenback also contributed to gold losing ground in December after four months of gains.

In economic news, the Reserve Bank raised its cash rate target by 25 basis points to 3.75%, the third increase in three months. Another round of strong employment data lent weight to the case for a policy shift, though other releases such as consumer confidence and loan growth gave a softer picture. Meanwhile the Australian dollar lost 1.4% against the US dollar, snapping a 10-month winning streak.

Fund performance

The portfolio outperformed its benchmark over the month of December and registered a positive return in absolute terms. The main contributor to returns was the portfolio's overweight in QBE which benefited from the weaker Australian dollar and rising global interest rates. Another key contributor was our overweight in News Corp. The stock rose strongly over the month driven by the success of the film Avatar and the likelihood of an agreement being reached whereby News Corp TV stations would be paid to be carried on the cable systems in the US, something they have been trying to achieve for 10 years.

The main detractor from returns in December was our overweight position in Pacific Brands Ltd.

Portfolio changes

The portfolio added to its positions in the telecommunications sector by increasing holdings in Telstra Corporation Ltd. Also during the month the portfolio increased its stake in highly regarded Metcash Ltd. Within the Healthcare sector, the portfolio continued to increase holdings in the high Socially and Environmentally rated CSL Ltd. The portfolio also took profits in AXA Asia Pacific Holdings Ltd and AMP Ltd. The portfolio reduced holdings in Brambles Ltd.

MSE stock stories

Tower Australia Group Ltd (TAL)

Operating wholly in Australia, Tower provides a range of personal and group life insurance policies such as term life, disability income protection, and trauma. It also provides multimanager investment products.

Tower's social performance is on a par with expectations for the Australian insurance sector. Despite an easing in the labour market in the financial services sector as a result of the GFC, human capital management (HCM) remains important because of high costs of voluntary turnover in the sector. Tower appears to be performing well in this area: turnover levels in 2008 were the lowest for four years and

successful initiatives aimed at keeping women in the workforce have resulted in high levels of return from maternity leave. Management appears strong: business strategy is explicitly aligned with good HCM, and the board has explicit oversight of the associated risks. Industry best practice is exhibited in linking at-risk remuneration of key executives to employee retention - arguably the most significant HCM risk in this sector.

Ethical conduct is particularly important for all financial services companies post GFC Tower, however Tower's ethical controls are below expectations. While MSE currently has no issues of concern in relation to ethics performance (e.g. absence of controversy), governance is below industry best practice. Board oversight of ethical compliance and linkage to at-risk remuneration of key executives are positives, however MSE expects greater recognition of ethical conduct controls in the risk management framework, and improvements to existing whistle-blowing provisions.

While TAL is to be commended for its participation in the Carbon Disclosure Project, the company has very low exposure to environmental issues, including water and climate change.

UGL Limited (UGL)

UGL Limited (UGL) is an infrastructure services company engaged in industrial maintenance, manufacturing, engineering and business process outsourcing services for companies and governments throughout Australia, New Zealand, Asia, North America and parts of Europe and the Middle East. UGL services a broad range of industry sectors through four operating businesses: UGL Infrastructure, UGL Rail, UGL Resources and UGL Services.

UGL has a moderate degree of exposure to a range of social issues: workplace safety, availability of labour and business ethics. Despite a core commitment to Workplace Health and Safety (WHS) and evidence of robust controls, in 2009 UGL's lost time injury frequency rate (LTIFR) deteriorated slightly to 4.05 from 3.3 the previous year, and two fatalities was recorded. Nevertheless, WHS performance remains slightly better than sector peers. A large proportion of UGL's workforce is employed in high demand occupations and sectors that are returning to growth. As a result, UGL is likely to experience labour constraints, particularly the availability of key trades (piping, mechanical, electrical, engineers, fitters, construction workers, etc). UGL is attempting to address skill shortages through the targeted use of shortterm working visas, increasing apprenticeships and graduate training, and by offering more flexible work hours.

With respect to business ethics, UGL's response is below sector peers. An anonymous whistleblower system is available to employees, but no code of conduct is disclosed, nor is there evidence of board oversight or compliance management.

Although extreme weather events have the potential to damage UGL's assets and interrupt work schedules, MSE doesn't believe climate change will have a material impact on the company in the short to medium term. The CPRS is not expected to be material because UGL's estimated gross carbon liability for its Australian operations is less than 1% EBITDA, and although electricity and fuel costs are expected to increase, MSE expects the bulk of cost increases to be passed through to customers. In response to compliance and reporting requirements under the National Greenhouse Energy Reporting Scheme (NGERS), UGL is implementing an environmental reporting system, energy audits and emissions reduction plans. All divisions have robust environmental management systems in place, with UGL Services and UGL Infrastructure having obtained ISO14001 certified. MSE believes that an opportunity may exist for UGL to benefit from an increase in public spending in power, water and transport, particularly through its Infrastructure and Rail divisions.



For more information

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

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