# BT Wholesale Ethical Share Fund

## Fact Sheet February 2010

ARSN: 096 328 219

Social Responsible Investments

### About the Fund

The BT Wholesale Ethical Share Fund is an actively managed portfolio of Australian shares that seeks to ensure that funds are invested in an ethical or socially responsible manner. Investors are becoming increasingly aware of the link between a company's sustainability focus and its long term success and profitability. As a result, ethical fund investing combines the best of both worlds – the potential to achieve strong performance over the long term while contributing to a sustainable environment.

### Fund objective

The Fund aims to provide a return (before fees) that exceeds the S&P/ASX300 Accumulation Index over the medium to long term (5+ years).

### Investment approach

The Fund will not invest in companies which:

- directly mine uranium for the purpose of weapons manufacture
- produce alcohol or tobacco
- manufacture or provide gaming facilities
- manufacture weapons and armaments
- have been subject to environmental and/or human rights prosecutions

### Investment process

The Fund uses the same investment process as BTIM's flagship Australian equities products with the addition of sustainability screens.

1. The negative screen effectively determines the investment universe of the BT Wholesale Ethical Share Fund
2. The positive screen identifies companies for active consideration, given their focus on the production of sustainable goods and services. The ethical screen is provided by Monash Sustainability Enterprises (MSE), a leading independent research organisation. Examples of positively screened companies include those that derive greater than 20% of their revenue from sustainable technologies, products and services.

### Investment team

BTIM's nine-member Australian large-cap equities team is one of the largest in the industry. The portfolio manager for the Fund is Jack Chemello, who has more than 11 years industry experience.

### Investment guidelines

| | |
|---|---|
| Ex-ante (forward looking) tracking error | 2.0% - 6.0% |
| Min/max stock position | +/-4% |
| Min/max sector position | +/-6% |
| Number of stocks | 50-90 |

### Fees

| | |
|---|---|
| Management fee | 0.95% pa* |

### Performance

| (%) | Total Returns (post-fee) | Total Returns (pre-fee) | Benchmark Return |
|---|---|---|---|
| 1 month | 1.45 | 1.53 | 2.05 |
| 3 months | -1.72 | -1.50 | -0.72 |
| FYDT | 17.17 | 17.91 | 20.40 |
| 6 months | 3.19 | 3.67 | 5.18 |
| 1 year (pa) | 36.69 | 37.99 | 45.06 |
| 2 years (pa) | -5.62 | -4.72 | -4.60 |
| 3 years (pa) | -3.37 | -2.47 | -3.33 |
| 5 years (pa) | 7.83 | 8.83 | 6.59 |

### Asset allocation

| | |
|---|---|
| Energy | 10.9% |
| Materials | 25.2% |
| Industrials | 9.0% |
| Consumer Discretionary | 4.2% |
| Consumer Staples | 3.5% |
| Health Care | 5.6% |
| Telecommunication Services | 4.8% |
| Utilities | 0.3% |
| Financials ex Property Trusts | 30.2% |
| Property Trusts | 3.4% |
| Cash & Other | 3.0% |

### Top 10 holdings

| | |
|---|---|
| BHP Billiton Limited | 13.9% |
| Westpac Banking Corporation | 7.9% |
| Commonwealth Bank of Australia Ltd | 5.9% |
| Telstra Corporation Limited | 5.4% |
| National Australia Bank Limited | 5.2% |
| ANZ Banking Group Limited | 4.3% |
| Rio Tinto Limited | 4.0% |
| QBE Insurance Group Limited | 3.9% |
| Metcash Trading Limited | 3.7% |
| Asciano Limited | 2.9% |

### Other information

| | |
|---|---|
| Fund size (as at 28 Feb 2010) | $204 million |
| Date of inception | May 2001 |
| Minimum investment | $50,000 |
| Minimum balance | $50,000 |
| Buy-sell spread | 0.50% |
| Income distribution frequency | Quarterly |
| APIR code | RFA0025AU |

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## Market review

The Australian sharemarket managed to claw back some of January's losses with a rise of 2.0% in February. Conditions were choppy, however, reflecting the volatility in financial market amidst ongoing macro concerns regarding sovereign debt, particularly in relation to Greece, China's monetary tightening and mixed signs of recovery in the US.

Earnings reports were on balance slightly ahead of expectations, however, many companies gave a subdued outlook or appeared to guide conservatively.

Bank results and outlook statements suggested a steeper decline for loan loss charges than previously thought likely, helping the Bank sector (+3.5%) to weather concerns on funding costs and regulatory change. Consumer Staples (+6.2%) was the standout sector within the market with Wesfarmers (+15.1%) the clear outperformer. Woolworths (+3.8%) also had a strong month. The Healthcare sector (+3.8%) also outperformed with key stocks CSL (+10.3%), Resmed (+11.1%), Ansell (+12.5%) and Ramsey Health Care (+10.4%) all posting strong gains.

The Resources sector (+2.1%) rallied with growing expectations of strong bulk commodity price rises outweighing China's moves to moderate stimulus policies. Both BHP (+4.3%) and Rio Tinto (+4.4%) outperformed the broader market after reporting strong half/full-year results that exceeded expectations. Meanwhile Telcos (-10.2%) was the clear laggard as Telstra reported disappointing results and investors expressed caution on the company's competitive pressures and structural challenges.

In economic news, the RBA surprised the market in February by deciding to leave the cash rate on hold despite stronger-than-expected economic conditions. Australian consumer and business confidence remained at record levels, with building approvals and retail sales rising strongly. The unemployment rate recorded a large fall to 5.3% in January, appearing to have peaked at 5.8%, the lowest of all the developed economies.

## Fund performance

The portfolio underperformed its benchmark over the month of February.

The main detractors to portfolio performance over the month was our ethical exclusion of Wesfarmers which was one of the main index movers over the month as the company reported a strong profit result ahead of expectations, with particularly strong performance from its retail business.

Other detractors to portfolio performance over the month were our overweights in Metcash, Telstra, QBE and Qantas. While Qantas' interim results beat most forecasts, its full-year guidance range, which suggested a weaker second half, put the stock under pressure. Meanwhile, QBE fell as its results came in below expectations, reflecting a fall in margins and lower growth rates.

The main contributor to returns was not holding Macquarie, as it fell on lacklustre profit guidance provided at a strategy day.

An overweight position in Westpac added value as the bank released significantly higher-than-expected cash earnings for the December quarter. Provisioning for bad debts also dropped significantly. News Corp also surprised on the upside, benefiting the portfolio's overweight position, with higher-than-expected earnings including a good result from the key earnings driver of its business, cable TV. An overweight in Asciano also contributed to performance as the stock rose after the company revealed a turnaround in its half-year results highlighted by strong growth in its coal haulage business.

## Strategy & outlook

The rally in equity markets off their recent lows has reinforced our view that we remain in a consolidation phase. We are now 12 months on from the turn in the markets as the potential financial crisis was averted and the domestic economy started its recovery. The market has re-rated back to its long-term valuation, contingent on a recovery in earnings of 20% in the 2011 financial year. It is the confidence in this earnings recovery which will drive the markets from here.

The threat to the downside comes from the world economy and specifically the US. Here the recovery has lost some of its momentum due to the flow-on effect of high and persistent unemployment and the lack of available credit for small and medium-sized businesses. The upside opportunity is born from the lagged effects of the substantial policy stimulus kicking in and triggering an improvement in business confidence driving a recovery. In addition we believe the Chinese economy will remain strong, with recent policy actions more focussed on controlling growth rather than slowing it markedly.

Supporting the premise that we are in a consolidation phase are developments in the Australian economy. We are currently transitioning from stimulus-driven consumer growth towards more investment and corporate spend growth. The economy is leveraged to the Asian growth story, both directly from the effect of commodity prices and volumes and indirectly from the investments required to facilitate the demand requirements. The benefits of the recovery in China have only partially flowed through to the economy – we are now beginning to see the next wave of positive effects. Firstly this is via the annual reset of bulk commodity prices which could add 2% to GDP growth. In addition the investment spend on mining and energy projects is beginning to ramp up which could add 0.5% to growth. Finally related infrastructure investment is also going to pick up to facilitate the movement of these materials.

The combination of these factors will likely lead to a growth pause for a few months as the consumer eases off, while the investment spend is still ramping up. However, strong growth should resume later in the year so long as the US does not deteriorate. This development in the domestic economy also shapes the positioning of the portfolio with our favoured positions being in stocks benefiting from this shift in growth, notably engineering stocks such as UGL and Worley.

The portfolio is positioned to benefit from the continued growth in China via the large bulk commodity stocks as well as through engineering companies. It is also exposed to an improvement in the back end of the economy, which has lagged up to now as corporates were tight on costs and cut inventories. Finally, we are cautious for the near term on consumer-sensitive stocks as we see the effects of rising interest rates kick in.

BT Investment Management

### For more information

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