BT Institutional Australian Sustainability Share Fund

Fact Sheet
March 2010

ARSN: 097 661 857

BT Investment Management

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 recommended 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[1]. 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 Fund is managed by 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*

* 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.

Performance

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	6.16	6.24	5.75
3 months	1.19	1.40	1.36
FYDT	25.78	26.60	27.33
6 months	4.68	5.13	4.80
1 year (pa)	37.38	38.57	41.71
2 years (pa)	0.11	0.97	-0.06
3 years (pa)	-2.58	-1.74	-2.44
5 years (pa)	7.86	8.79	8.07

Asset allocation

Energy	8.7%
Materials	27.9%
Industrials	3.4%
Consumer Discretionary	4.1%
Consumer Staples	7.9%
Health Care	4.5%
Telecommunication Services	3.0%
Financials ex Property Trusts	34.9%
Property Trusts	3.5%
Cash & Other	2.1%

Top 10 holdings

BHP Billiton Limited	13.2%
Westpac Banking Corporation	8.7%
Commonwealth Bank of Australia Ltd	6.1%
National Australia Bank Limited	6.0%
ANZ Banking Group Limited	5.8%
Rio Tinto Limited	5.2%
QBE Insurance Group Limited	3.7%
Woolworths Limited	3.5%
Wesfarmers Limited	3.2%
Telstra Corporation Limited	3.0%

Other information

Fund size (as at 31 Mar 2010)	$163 million
Date of inception	October 2001
Minimum investment	$50,000
Minimum balance	$50,000
Buy-sell spread	0.50%#
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.*

The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

Market review

The Australian sharemarket had a strong month, up 5.7% in March, its best performance in six months. Factors behind the positive momentum included increased confidence in the likelihood of a US recovery, the view that China's tightening won't be as aggressive as once thought and continued strong commodity prices.

However some macro concerns remain, with the Greece sovereign debt issue still unresolved, despite the European Union and IMF agreeing to provide loans as a last resort.

The renewed confidence over the month saw investors move back into cyclicals. Energy was the strongest sector (+8.9%), boosted by corporate activity in the gas industry. The wider Resources group (+8.4%) also outperformed as mining stocks responded to strong iron ore and coal pricing and a shift by BHP and Brazilian miner Vale from annual to short term pricing contracts.

Increased M&A activity appears to be an emerging theme in Resources. Shell and Petrochina made a bid for Arrow Energy's Australian LNG assets resulting in the stock finishing up over 51% for the month while Peabody bid for Macarthur Coal which saw Macarthur stocks rise over 37%. Also, post month end Newcrest bid for Lihir Gold.

Materials also performed well in March (+7.8%) driven by increasing demand for resources. Healthcare was up +5.3% on strong CSL (+5.9%) and Cochlear (+14.8%) performance as well as the resolution to US healthcare reform removing uncertainty around the sector. The Bank sector (+6.8%) also rose strongly as investors continued to revise down their expectations for loan loss charges.

On the other hand traditional defensives were the clear laggards. Consumer staples were up only 2.0% and Utilities up only 1.6%. Utilities and REITs (-0.2%) were held back by rising bond yields while the Telco sector (+0.3%) continued to struggle with concerns over Telstra's regulatory regime.

In economic news, the Reserve Bank raised the cash rate target by 25 basis points to 4% at its March meeting, the fourth hike in the current tightening cycle. Australian economic data was on balance softer than expected with employment, retail sales and housing finance coming in short of forecasts. Meanwhile, the Australian dollar gained against the US dollar in March (+2.4%) as markets priced a stronger trajectory for short-term rates and bulk commodity prices.

Fund performance

The portfolio outperformed the benchmark for the month of March.

Our overweight positions in Oil Search, Rio and Bluescope Steel were among the key contributors to returns over the month, beneficiaries of the strongly performing Resources sector.

Oil search has been trading cheap relative to the imputed value of its stake in the PNG LNG project, reflecting the lack of near term news flow, however the bid for Arrow Energy was a reminder that the energy sector is consolidating and the market began to close up that discount. Rio rose on the combination of higher expected price settlements in iron ore and the move to shorter term pricing. The latter adds significant value as historically contract prices have traded at a significant discount to spot prices. Ironically, Bluescope steel also performed well, despite the continued rise in its key input costs. This was due to the rise in steel prices seen throughout Asia as the steel companies find they are able to pass through their higher costs. This had been a concern for the market and had led the stock to trade at a discount to its book value.

Not holding Westfield was another key contributor to relative returns in March due to the underperformance of Property Trusts, reflecting their return to a more defensive status.

The main detractors to performance over the month were our overweight positions in QBE insurance, Alesco Corporation and Origin Energy. QBE is suffering as a result of the near term difficult environment for insurers resulting from the extremely low level of interest rates.

Portfolio changes

During the month, the portfolio increased its exposure to the health sector with increases in Sonic Healthcare Limited and Ramsay Health Care Limited. Given improving financial outlook the portfolio continued its purchases in the banking sector with increases in Commonwealth Bank of Australia.

Due to deteriorating Financial ratings the portfolio exited completely from its Crane Group Limited position. Other holdings reduced in March included CSR Limited and West Australian Newspapers Holdings Limited.

MSE stock stories

QBE Insurance Group Ltd (QBE)

QBE Insurance Group (QBE) is a provider of general insurance and reinsurance services in Australia, the Pacific, Asia, the Americas and Europe, with operations in 45 countries.

QBE's social performance is on a par with expectations for the Australian insurance sector. Human capital management remains important for QBE because talent retention and development has been integral to its success. This is reflected in its leading people development and retention programs, such as the long-running 'OPENUPQBE', which is central to its business strategy. However, relatively high levels of voluntary turnover, which are a burden on operating costs, may also affect the company's successful practice of developing senior management from within ranks in the Australian business (highest among women in the 25 to 34 year age group). While QBE recognises the importance of this issue, unlike other financial services peers it does not offer paid parental leave and the uptake of flexible work practices in the Australian operations has been below the company's own expectations.

While business ethics has become increasingly important for financial services companies post GFC, QBE's ethical conduct is satisfactory and governance (e.g. codes of conduct, board oversight, and training) is in line with the sector average.

The effect of climate change on the business is QBE's most important environmental issue, largely through a forecast increase in claims from extreme weather events. QBE has significantly mitigated exposures through its product and geographical diversification – evident through strong financial results over the past five years, despite significant extreme weather related events adversely affecting its less-diversified Australian peers Suncorp-Metway Ltd and Insurance Australia Group Ltd. The company's risk management framework is sector leading and modeling of extreme weather impacts is regularly updated with the latest scientific evidence (allowing adjustments to premium-pricing, re-insurance cover, and withdrawal from markets where necessary). QBE also participates in the Carbon Disclosure Project, although its direct emissions are relatively low.

Transfield Services Ltd (TSE)

Transfield Services Limited (TSE) is an international provider of operations, maintenance, asset management and project management services. It operates in Australia, New Zealand, the United States, the United Arab Emirates, Qatar, South East Asia, India and Canada across diverse industries. These include mining and processing, hydrocarbons, roads, rail and public transport, water, power, telecommunications, facilities management and defence.

TSE controls 49 per cent of the Transfield Services Infrastructure Fund (TSI), separately listed on the ASX, which owns power station, wind and water assets. TSE is the manager and preferred provider of operations and maintenance services to TSI.

TSE has exposure to a range of social issues: workplace safety, availability of labour and business ethics. TSE's lost time injury frequency rate (LTIFR) has improved steadily over the past ten years (1.88 in 2009), positioning TSE as one of the sector leaders. Despite strong performance and evidence of robust Workplace Health and Safety (WHS) controls, TSE reported two fatalities in 2009.

TSE is likely to face labour constraints as a large proportion of its workforce is employed in sectors in which skill shortages were experienced prior to the GFC and are now returning to growth (mining, construction, infrastructure). In response, TSE has implemented best practice workforce strategies and skills initiatives.

TSE's business ethics controls are sector leading. In addition to a code of conduct and whistleblower system, TSE has a 'Business Partner Policy' and 'Anti-bribery and Corruption Policy' guiding its business dealings.

MSE doesn't believe climate change will have a material impact on TSE in the short to medium term, despite having a reporting obligation under the National Greenhouse Energy Reporting Scheme (NGERS). The passage of the CPRS in Australia is uncertain and impacts are more likely to be felt through rising fuel and energy prices, the bulk of which MSE believes will be passed through to customers. TSE maintains some exposure however, through its ownership of TSI. Although no explicit climate change strategy is reported, TSE is involved in alternative energy and water recycling, which indicates an understanding of climate change related risks and opportunities.

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For more information

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