

# BT Institutional Australian Sustainability Share Fund

Fact Sheet  
May 2010

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 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<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 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*
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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.

<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.

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

## Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	-7.80	-7.73	-7.51
3 months	-4.07	-3.86	-3.54
FYDT	13.65	14.56	16.15
6 months	-4.88	-4.47	-4.08
1 year (pa)	17.64	18.66	20.80
2 years (pa)	-7.28	-6.48	-7.35
3 years (pa)	-7.11	-6.31	-7.09
5 years (pa)	5.70	6.61	6.06

## Asset allocation

Energy	9.0%
Materials	27.3%
Industrials	3.5%
Consumer Discretionary	4.9%
Consumer Staples	8.2%
Health Care	3.7%
Telecommunication Services	3.4%
Financials ex Property Trusts	35.1%
Information Technology	1.0%
Utilities	0.3%
Property Trusts	3.3%
Cash & Other	0.3%

## Top 10 holdings

BHP Billiton Limited	12.0%
Westpac Banking Corporation	7.4%
Commonwealth Bank of Australia	6.8%
National Australia Bank Limited	5.5%
ANZ Banking Group Limited	5.3%
Rio Tinto Limited	4.7%
QBE Insurance Group Limited	3.7%
Wesfarmers Limited	3.5%
Woolworths Limited	3.4%
Telstra Corporation Limited	3.4%

## Other information

Fund size (as at 31 May 2010)	\$159 million
Date of inception	October 2001
Minimum investment	\$50,000
Minimum balance	\$50,000
Buy-sell spread	0.50% <sup>#</sup>
Distribution frequency	Semi-annual
APIR code	WFS0285AU

## Market review

The Australian sharemarket fell 7.5% in May, its third monthly loss of the year and the sharpest decline since October 2008. On a macro level markets were dominated by European sovereign debt issues and the implications for growth in the region. There were plenty of other market headwinds with escalating tensions on the Korean peninsula, the oil spill in the Gulf of Mexico and the Australian mining tax proposal.

The Government's response to the Henry tax review was the major news story of the month with its proposed adoption of a Resources Super Profits Tax (RSPT) of 40% on the profits of mining and other onshore extraction activities above a threshold level. Existing royalties levied by state governments would be rebated to companies at their current level and deductions would be made for depreciation and an allowable return, proposed to be the long bond yield.

News of the RSPT proposal dominated the Resources sector which already was contending with uncertainty over Chinese policy. Despite the bad news the sector (-6.2%) slightly outperformed the market as it rallied late in the month on rumours of compromise on the proposed tax.

Banks (-12.2%) were one of the weakest groups as their earnings season met with a cautious response from investors with funding concerns brought to the fore. European events also weighed on the sector on the prospect of making debt-raising conditions more difficult. Defensive sectors such as Consumer Staples (-1.1%) and Healthcare (-4.1%) outperformed as did the Property sector (-4.1%).

With the approach of the end of the financial year a number of companies revised guidance, with a bias towards downgrades, the major ones being Virgin Blue and Sonic Healthcare. In other news, Foster's announced that its underperforming wine business would be demerged from its stronger beer business, and Lihir Gold accepted an improved takeover offer from Newcrest Mining.

In economic news, the RBA raised the cash rate by 25bps to 4.50% in May, the sixth hike in seven meetings, highlighting the strong terms of trade. Employment increased by 33.7k in April but consumer confidence was weak. Meanwhile the Australian dollar fell by 8.5% against the USD in May, its sharpest monthly drop since October 2008. The oil price reversed sharply (-14.1%) over the month while gold rose 3.3% as concerns over sovereign debt supported sentiment.

## Fund performance

The portfolio underperformed the benchmark for the month of May.

Our overweight in Sonic Healthcare was the main detractor. Sonic advised that it is likely to fall short of its FY10 guidance, largely due to an unexpected but temporary impact on Australian pathology revenues. The revenue shortfall was due to their response to the Government funding cuts to Australian Medicare fees for pathology services, effective 1 November 2009. The company sought to introduce co-payment fees, with an initial trial in Queensland at the start of the year. Unfortunately their main competitor in the industry chose not to follow which led to a number of patients moving across to that competitor. Sonic reversed the co-pay strategy and is now restoring its market share, but this has come at a cost. Clearly this has been a disappointing outcome, however the company has shown many years of growth and we believe the market has over discounted the impact of these changes.

The portfolio's underweight in Westfield also detracted as the now more defensive Property sector outperformed the broader market for the month. While we see the sector offering more defensive characteristics this cycle we see it as still relatively expensive to other parts of the market.

Oil Search outperformed the market (-2.3%). The company is unaffected by the RSPT in Australia and has an established project with funding and customers, and therefore represents a lower risk profile than many of the other resource companies. Despite this it has been trading at a significant discount to fair value.

## Portfolio Changes

The portfolio increased its holdings in Amcor Limited due to valuation and improving financial prospects. Also during the month, the portfolio continued to build positions in both the US exposed News Corporation Limited, and Computershare Limited.

During the month of May the portfolio reduced its holdings in a number of smaller companies including Hastie Group Limited, Ausenco Limited and Alesco Corporation Limited.

## MSE Stock Stories

### Macquarie Group Ltd (MQG)

The social performance of Australia's largest listed investment bank is on a par with expectations for the Australian diversified financials sector. In the highly competitive investment banking industry, MQG's ability to recruit and retain innovative, high performance, and experienced individuals is crucial, even more so as it implements changes to its business model and pursues new sources of revenue. In Australia, MQG remains well placed, offering one of the better, if not the best, employment propositions in the market. The situation in Europe and the US is different however, where competition for investment banking personnel has recently increased. In order to compete, MQG may need to reconsider the structure of its bonus scheme in some operations, which is currently based on return on equity. Human capital management (HCM) controls (board oversight of HCM, training, diversity, non-monetary benefits etc) are generally in line with sector peers. MSE notes that MQG has been recognised as an Equal Opportunity for Women in the Workplace Agency (EOWA) Employer of Choice for Women 2010.

Post GFC, the reputation of investment banking internationally has been adversely affected by the behaviour of UK and US peers in particular. MSE is also concerned by potential damage to brand from a number of company-specific issues, such as the margin-lending business' handling of clients' accounts during the collapse of Storm Financial. Controls, while not industry leading, are in line with those of sector peers. MSE notes that the Macquarie Integrity Office has rolled out an ethics and conduct training program ('Ethics, Integrity and Good Decision-Making'), developed in conjunction with the St James Ethics Centre, to all staff worldwide.

MQG appears well positioned to take advantage of business opportunities arising from climate change, having identified a range of new markets and products provided by a carbon-constrained future. These include energy and emissions trading, and renewable energy, energy efficiency and emissions-reduction project investment, finance and advisory.

### Oil Search Ltd (OSH)

Oil Search's (OSH) oil and gas operations are mainly based in Papua New Guinea (PNG), including a minority interest in the Exxon Mobil operated PNG LNG project. The Project proposes to develop gas fields in the Southern Highlands and Western Province of PNG and transport the gas via pipeline to an LNG facility near Port Moresby for shipment to markets overseas.

The topography, climate, geographic isolation and cultural differences in PNG contribute to an increase in the company's environmental and social risks. OSH has implemented a number of industry best-practice social risk-reduction programs. The company has a strong track record in managing its own labour and community requirements, such as its Training and Localisation Plan, local Community Liaison Officers, and the provision of

healthcare services to local communities, including HIV prevention programmes.

PNG LNG recently released its first quarterly environmental and social report, which provides detailed information on how it plans to manage key environmental and social risks. However, tribal landowner disputes remain of concern, and neither the company nor PNG LNG have yet to explain how the project's budget and schedule may be affected.

OSH is expected to benefit from an increase in demand for gas over the medium to long term due to its lower greenhouse gas (GHG) emissions than other fossil fuels. The company's own carbon emissions are unlikely to be subject to regulation during that period. OSH achieved ISO 14001 certification of its environmental management system in early 2009 for its PNG operations, which is considered industry best-practice. MSE is not aware of any non-compliance issues with regulatory and permit conditions during 2009. However, OSH has instigated a research program on ecosystem health in Kutubu Lake in response to allegations from a group called Friends of Kutubu that OSH spilled toxic chemicals into the lake while drilling in the PNG highlands in 2007, causing dozens of people to fall ill. While the PNG government cleared OSH of any responsibility, MSE continues to monitor the issue for further developments.

#### **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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