

BT Wholesale Ethical Share Fund

**Fact Sheet
May 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. The suggested investment timeframe is 5 years or more.

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*
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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 for details.

* You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

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
	(post-fee)	(pre-fee)	Return
1 month	-8.27	-8.19	-7.54
3 months	-4.25	-4.02	-3.55
FYDT	12.19	13.18	16.12
6 months	-5.90	-5.46	-4.24
1 year (pa)	15.25	16.36	20.72
2 years (pa)	-8.54	-7.67	-7.53
3 years (pa)	-7.40	-6.53	-7.26
5 years (pa)	7.07	8.05	6.04

Asset allocation

Energy	10.1%
Materials	23.1%
Industrials	12.8%
Consumer Discretionary	6.6%
Consumer Staples	3.6%
Health Care	4.3%
Information Technology	0.6%
Telecommunication Services	4.0%
Utilities	0.6%
Financials ex Property Trusts	28.6%
Property Trusts	2.8%
Cash & Other	2.9%

Top 10 holdings

BHP Billiton Limited	12.0%
Westpac Banking Corporation	7.4%
Commonwealth Bank of Australia	7.3%
ANZ Banking Group Limited	4.9%
National Australia Bank Limited	4.2%
Telstra Corporation Limited	4.0%
Rio Tinto Limited	3.8%
Metcash Trading Limited	3.6%
Asciano Limited	3.5%
News Corporation Inc	2.9%

Other information

Fund size (as at 31 May 2010)	\$191 million
Date of inception	May 2001
Minimum investment	\$50,000
Buy-sell spread	0.50% [#]
Distribution frequency	Quarterly
APIR code	RFA0025AU

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 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.

Contributing to returns over the month was our overweight in Resmed which continues to perform strongly as investors seek quality defensive stocks. Our overweight in Oil Search was another contributor as the stock outperformed the market (-2.3%). Oil Search 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.

Strategy & outlook

The risk factors that have been building through the year came to the fore in May. Firstly and most significantly, the problems is Europe refuse to

fade away despite a series of proposals by policy makers to deal with the liquidity and funding needs of the countries facing a loss of confidence. The reason for this lack of respite is due to the concern that the key European nations and policy makers are still at odds over the right solution. The second issue is the scale of the debt certain countries have built up which looks too high to be resolved through fiscal austerity alone. The market is therefore not prepared to park the problem for the time being until they see more aggressive policy measures to support asset markets and growth, or a more realistic solution to the solvency issue. Until this is resolved it will impact on business and consumer confidence leading to downgrades to growth, which has a flow-on effect to the global economy. It is also impacting funding markets, both raising costs and restricting availability, which has a flow-on effect to the rest of the banking system.

The market's concerns on global growth have been elevated by a sense that the US, having been strong in April, hit a flat patch in May and also by the ongoing tightening in China. With respect to the US we are likely to see mixed data at this stage of the recovery. We still believe that the strong position of the corporate sector combined with pent-up demand should lead to a reasonable investment-driven recovery in the economy in the second half. On China, the policy tightening has not been escalated from April, in fact the Chinese have explicitly acknowledged the risks in the global economy stemming from Europe, which will make them cautious to avoid over-tightening. We still anticipate a 3 to 6 month window of aggressive measures targeted at property, leading to large headline falls in prices in tier one cities and triggering an inventory correction in certain commodities. We do not see this as a structural change in China, but would represent an opportunity to re-invest in certain commodity stocks.

On the domestic front, the proposed mining tax has triggered some significant reactions. Our observations are that the government is combining tax reform with a significant uplift in the taxation of the sector. These two issues need to be looked at separately. With respect to the reform, there is clearly a case to be made that the old royalty-based system can be improved upon. However the flaw in the current proposal is the assumption that the market will choose to value the 'failure credit'. It appears this is not the case, most evidenced by the reaction of financiers to major projects. As a result the structure needs to be reviewed, whilst still maintaining the broad principle of a profit-based tax. The second issue is the quantum of additional tax levied on the sector – this is material and leads to a 20 to 30% drop in the value of an existing coal or iron ore mine. This seems a large impost for one sector to wear and will clearly impact on the amount of money re-invested in the sector over time, particularly given tax regimes in other countries are more favourable. The impact from an investment perspective is to adjust downwards the valuations on the companies impacted. The more difficult assessment is the effect this will have on new investments and therefore the engineering sector. Our conclusion is that projects already started will go ahead, but some in feasibility stages will get delayed until there is more clarity on the policy. Our exposure to the sector is orientated towards companies with a smaller amount of direct resource project exposure in Australia, for example Worley is predominantly oil & gas and offshore.

In conclusion we expect the uncertain environment to prevail for the near term, with a risk of issues in Europe being brought to a head to trigger a more aggressive policy response from the Europeans. It is important to note that such uncertainty brings opportunity and the portfolio is seeking to take advantage of the fall in the market to add to positions, particularly in companies which are not just relying on the cycle to see profits improve, but rather have specific opportunities to drive earnings. Examples are News Corp with their ability to get more value for their cable and network programming content or Asciano with their increasing market share of the Queensland coal haulage system.

For more information

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

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Performance figures are calculated in accordance with the Investment & Financial Services Association (IFSA) standards. Total returns (post-fee) are calculated: to the last day of each month using exit prices; taking into account management costs of the fund; assuming reinvestment of distributions (which may include net realised capital gains from the sale of assets of the fund). No reduction is made to the unit price (or performance) to allow for tax you may pay as an investor, other than withholding tax on foreign income (if any). Certain other fees such as Contribution fees or Withdrawal fees (if any) are not taken into account. Total returns (pre-fee) are calculated by adding back management costs to the (post-fee) returns. Past performance is not a reliable indicator of future performance.

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