BT Enhanced Sustainability Australian Share Fund

Fact Sheet
May 2011

ARSN: 132 844 163

BT Investment Management

Social Responsible Investments

About the Fund

The Fund brings together the specialist skills of BTIM and Regnan Governance Research and Engagement. Regnan 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.

Fund objective

The Fund aims to maximise the portfolio's focus on sustainability while providing a return comparable to the S&P/ASX300 Accumulation Index over the medium to long term.

Investment strategy

The Fund aims to achieve its objective by giving investors exposure to high sustainability rated companies while limiting deviation from the S&P/ASX 300 Accumulation Index.

The stock selection process uses sustainability ratings from Regnan — Governance Research & Engagement Pty Limited. Using a best of sector approach, stocks are assessed and ranked according to a range of sustainability criteria. Stocks with poor sustainability ratings are excluded[1] from consideration for the Fund's investable universe.

The management of risk is central to our investment philosophy and is embedded in our investment processes. We believe that risks must be understood, quantified and controlled before investment decisions are undertaken. We believe a risk-controlled environment can improve the consistency of returns.

The portfolio is then constructed by blending the highly rated stocks while minimising unintended sector or style biases. This ensures that the Fund has a high sustainability exposure in a disciplined, risk controlled framework.

Investment team

The Fund is managed by Rajinder Singh in BTIM's Australian Equity Strategies team who has more than nine 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 Regnan to manage the Fund using a disciplined process.

Fees

Management fee	0.45% pa*

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

Performance

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	-2.15	-2.11	-2.02
3 months	-1.54	-1.43	-1.68
FYDT	13.64	14.12	14.15
6 months	4.68	4.92	4.52
1 year (pa)	10.76	11.27	11.13
2 years (pa)	15.39	15.93	15.83
3 years (pa)	-1.54	-1.12	-1.69
Since Inception (pa)	-3.84	-3.47	-4.16

Asset allocation (as at 31 May 2011)

Energy	7.8%
Materials	28.1%
Industrials	6.2%
Consumer Discretionary	3.4%
Consumer Staples	8.4%
Health Care	2.8%
Information Technology	0.6%
Telecommunication Services	3.0%
Utilities	1.1%
Financials ex Property Trusts	29.8%
Property Trusts	6.5%
Cash & Other	2.3%

Top 10 holdings (as at 31 May 2011)

BHP Billiton Limited	12.7%
Commonwealth Bank of Australia Ltd	6.9%
Westpac Banking Corporation	6.0%
National Australia Bank Limited	5.2%
ANZ Banking Group Limited	5.0%
Wesfarmers Limited	3.9%
Rio Tinto Limited	3.2%
Woolworths Limited	2.9%
Telstra Corporation Limited	2.8%
Newcrest Mining Limited	2.5%

Other information

Fund size (as at 31 May 2011)	$104 million
Date of inception	September 2007
Minimum investment	$500,000
Buy-sell spread	0.50%[#]
Distribution frequency	Quarterly
APIR code	BTA0315AU

[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 share market moved definitively downwards in May, with the S&P ASX200 down by 2.4% on a price basis. Risk assets sold off markedly across the globe and the drivers were once again largely macro driven. Investors fretted over Eurozone issues and concerns around global growth. More defensive sectors gained favour in a general rotation out of higher beta sectors. Traditional defensives, Telecoms and Consumer staples, produced a positive return and Utilities were flat, while all other sectors were negative for the month on a price return basis. The biggest falls were in the banks while the consumer discretionary sector was also very weak, reflecting continuing negative sentiment about the prospects for the domestic based economy.

Equity markets globally were also weak, with the US S&P500 down by 1.4%, the largest negative month since August 2010. The market was driven down largely by cyclical sectors as the market lost confidence about the strength of the recovery with weaker economic numbers coming through. European and Asian Bourses also fared poorly with all the main exchanges posting negative returns.

The RBA kept interest rates on hold over the month at 4.75%. Comments were hawkish, which suggested more hikes further down the track but not imminently. Data over the month was mixed, with weaker than expected numbers in housing and employment. May also saw the federal budget announced, in which the treasurer projected a slightly higher deficit than expected but held firm the intention to be back in surplus within two years.

Fund Performance

The portfolio underperformed its benchmark over the month of May.

Our overweight position in Fairfax Media was the main detractor to performance. Fairfax Media shares dropped (-18.6%) after the company issued a profit warning on 3 May.

Our overweight position to Onesteel also detracted to performance. The company continues to suffer, along with the entire domestic steel industry, from significant headwinds such as soft domestic demand, a high Australian dollar which affects export competitiveness and higher input costs. During the month the company announced that it expects NPAT in the second half to be broadly in line with the first half, which is lower than the market consensus estimate. The stock sold off 11.5% over the month.

Our overweight position in Brambles was the largest contributor to performance over the month. The company provided a trading update covering the last three quarters that stated that earnings expectations remain broadly unchanged, but that its CHEP business had won back several customers in the US. They also expected the IFCO Systems division result for the fourth quarter to be stronger than expected. Brambles is well positioned for growth in its key global markets and the fact that it is winning market share provides us with more confidence that our investment case is playing out as we anticipated.

Our overweight position in Iluka was also a contributor to performance with the stock continuing its strong rally. The driver for the continuing strong returns is the upward price momentum in zircon prices which has endured further than we had anticipated. While the fundamentals for zircon have been supportive, we have typically preferred to gain resource exposure through high quality iron ore, copper and coal producers, where compelling opportunities in selective companies remain.

Outlook

On the US front, disappointing first quarter economic data and the end of the second quantitative easing program in the US has created uncertainty about the robustness of the recovery. In Europe, policy makers continue to grapple with working out ways of containing sovereign debt problems and in China the authorities continue to try to tighten the money supply to contain inflation, while also contending with higher food prices.

On the domestic front, the local economy continues to face headwinds with most domestic based companies are citing extremely challenging conditions. The prospect of further interest rates hikes over the next few months has tempered recently but the tone of the central bank nonetheless remains hawkish. While the overall valuation of the Australian share market remains attractive, there is a sense that earnings consensus numbers for 2012 are on the high side and so there is broad expectation of further downward earnings revisions, particularly in domestic cyclical stocks.

While we have positioned our portfolios to reflect these risks, we think that some of the headwinds will be temporary. In particular, the effects of the floods in Queensland have persisted more than first anticipated and have had a short term dampening effect on economic growth, which was reflected in softer March quarter economic data. However, this issue should not disguise the fact that there remains a wall of work in the resource sector which provides investment opportunities across a variety of different businesses in the Australian stock market. Similarly, with regard to the US, we think that the recent weak March quarter data reflects the more temporary effects of higher oil prices and in particular the knock-on effects of the Japanese earthquake, which has reduced activity in the US auto industry. Several members of our team have visited the US recently to meet with companies from a range of industries and our view is that while issues remain in the financial and housing sectors, the corporate sector is in general well financed and more optimistic than the headlines might suggest. Investment from the corporate sector will be important in driving growth and there are some sectors, such as the very large energy industry, where business activity is clearly ramping up.

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For more information

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

Regnan stock stories

Goodman Group (GMG)

GMG is an integrated commercial and industrial property group that owns, develops and manages large scale industrial and commercial properties around the globe. It also offers a range of investment property funds and provides investors with specialist fund management services.

GMG's environmental performance is generally strong and it is taking steps to differentiate its business through development and ownership of sustainable buildings in the industrial property sector. Of particular note is the recently completed Coca Cola Amatil facility in Sydney, which GMG developed, and is one of Australia's first 'Green Star' rated industrial properties. Over the last 12 months, GMG has begun a number of green property developments in Europe, Hong Kong, New Zealand and Australia. GMG's focus on sustainable buildings should put it in a favourable position to attract and retain tenants in its industrial, warehouse and business park properties. Tenant demand for sustainable buildings with superior energy efficiency is likely to become more important in the short to medium term as energy costs continue to rise, driven by increasing global energy supply uncertainty and oil scarcity. The carbon pricing scheme, which the Labour Government intends to introduce in July 2012, will also put upward pressure on energy costs, increasing the importance of energy efficient property to tenants.

GMG's social performance is generally in line with peers. GMG's disclosed human capital management (HCM) is generally sound and it has established a range of competitive workplace benefits, including an employee assistance program, paid family leave and study assistance. However, unlike a number of its peers, GMG does not disclose any key HCM performance metrics (e.g. voluntary turnover, absenteeism rates, or employee engagement survey results) which would provide a basis for comparison with peers and enable performance to be tracked. Business ethics and workplace health and safety (WHS) controls could also be improved. However, on a positive note, Regnan is not aware of any ethical conduct or WHS incidents in recent years that could significantly impact the company's reputation or pose a material impact to earnings.

Newcrest Mining Limited (NCM)

NCM is an exploration and mining company producing gold and copper. It operates mines in Australia, Papua New Guinea and Indonesia, and is developing projects in Australia, Papua New Guinea, Indonesia, Fiji and Ivory Coast. During 2010, NCM acquired Lihir Gold Limited. NCM has not yet commenced public reporting on the management of social and environmental issues at operations previously owned by Lihir, however it has stated it will continue to support the previous owner's environmental and social programs.

Access to water is a significant issue for NCM's Cadia Valley operations in NSW. However, following significant rainfall during 2010, water constraints have partially eased. NCM continues to report on water intensity improvement initiatives and has previously stated that water recycling covers over 80% of daily requirements. NCM is a signatory to the International Cyanide Management Code, which can assist management of cyanide in overseas operations. However, its implementation at Lihir is unclear as its previous owner was not a signatory to the code. As the owner of the Lihir mine, NCM is responsible for the management of submarine tailings disposal processes and impacts. The previous entity had established research programs involving academic and scientific bodies as well as ongoing monitoring programs on water quality. A key aspect of NCM's future sustainability reporting will be demonstrating support for, and continuity of, these programs. NCM states it estimates greenhouse gas (GHG) emissions for future projects and conducts carbon price sensitivity analyses for its operations. There have been fluctuations in the company's GHG emissions intensity in recent years with an increased in relative and absolute terms being recorded in 2010. While there is disclosure on existing and planned energy efficiency initiatives at several sites, specific GHG emissions reduction targets or action plans are less evident. Regnan notes that the Lihir site owns a geothermal energy project which provides approximately 58% of the mine's energy requirements and produces carbon credits. These, together with the previous entity's assessments of climate change impacts on operational continuity at Lihir, are seen as positive.

As a signatory to the Minerals Council of Australia's framework for sustainable development ('Enduring Value'), NCM is required to adhere to a range of principles, including respect for human rights and local cultures, and the support of community development. NCM has agreements with indigenous people at key Australian operations: it has a Community Partnerships program at Cadia Valley and several consultation and communication activities at the site. Long term planning and financing for the mine closure stage were in place at Lihir prior to the NCM acquisition, as were programs to up-skill the local population in preparation for the closure stage. Illegal mining has been an ongoing challenge for Newcrest operations in the Toguraci area in Indonesia, where violent confrontations took place in 2003. However, NCM is not yet a signatory to the Voluntary Principles on Security and Human Rights, although Regnan notes that Lihir previously reported on human rights training for its employees.

Human capital management at Newcrest is relatively strong. The company reports the implementation of apprenticeship and graduate programs, as well as leadership development. Local employment is significant at Lihir, a site with a low turnover rate of six per cent. During 2010, NCM improved its Lost Time Injury Frequency Rate from 0.8 to 0.6 and implemented improvements to its safety program. NCM exhibits ethical conduct controls ahead of smaller gold mining sector peers.

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