

BT Enhanced Sustainability Australian Share Fund

Fact Sheet
July 2011

ARSN: 132 844 163



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 excluded¹ 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*
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* You should refer to the latest Information Memorandum for full details of fees and other costs you may be charged.

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.

Performance

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	-3.96	-3.92	-3.83
3 months	-7.45	-7.35	-7.63
FYDT	-3.96	-3.92	-3.83
6 months	-4.79	-4.58	-5.15
1 year (pa)	2.79	3.26	3.00
2 years (pa)	6.07	6.55	6.46
3 years (pa)	0.55	0.99	0.56
Since Inception (pa)	-5.06	-4.70	-5.45

Asset allocation (as at 31 July 2011)

Energy	7.1%
Materials	28.0%
Industrials	7.6%
Consumer Discretionary	2.5%
Consumer Staples	8.8%
Health Care	2.7%
Information Technology	0.6%
Telecommunication Services	3.6%
Utilities	1.2%
Financials ex Property Trusts	29.8%
Property Trusts	5.7%
Cash & Other	2.4%

Top 10 holdings (as at 31 July 2011)

BHP Billiton Limited	12.0%
Commonwealth Bank of Australia Ltd	7.0%
Westpac Banking Corporation	5.9%
ANZ Banking Group Limited	5.0%
National Australia Bank Limited	4.8%
Wesfarmers Limited	3.5%
Telstra Corporation Limited	3.3%
Rio Tinto Limited	3.3%
Woolworths Limited	2.9%
Newcrest Mining Limited	2.9%

Other information

Fund size (as at 31 Jul 2011)	\$111 million
Date of inception	September 2007
Minimum investment	\$500,000
Buy-sell spread	0.50% [#]
Distribution frequency	Quarterly
APIR code	BTA0315AU

Market review

The Australian share market started the new financial year as it ended the old one – in negative territory. The ASX300 Accumulation Index finished the month down 3.8%, which was the fourth negative month in a row and the worst monthly fall since May 2010. Equity markets continued to be dominated by macro-economic events in July with sentiment being dominated in particular by the political stalemate in Washington around raising the debt ceiling. This issue served to diminish overall market confidence in the US political system and focused the market's attention on the potential for a downgrade in the country's credit rating. We are now well used to continuing issues in Europe and July was no exception with the focus moving towards Spain and Italy, which is the main game in terms of Eurozone sovereign debt problems. Local news also contributed to the continuing poor performance as lacklustre economic data heightened concerns over forecast earnings prospects being too optimistic. The strong Australian dollar also didn't help, with the local currency hitting a post float high against the green back during the period.

The RBA continued to leave interest rates on hold at 4.75%. While worsening inflation data would suggest that the RBA is still in a tightening phase, concerns about economic growth and further damage to already fragile consumer sentiment has led to the short term debt markets pricing in interest rate falls earlier in the month.

Despite the move away from risk assets, the Australian dollar rallied strongly. The local currency was supported by generally stronger commodity prices and the overall view that the RBA is still more likely to raise interest rates.

Fund performance

The portfolio marginally underperformed its benchmark in July.

The leading contributor to performance was our overweight position in Macarthur Coal, which rallied by 42% over the period. The company was the subject of a take-over bid from large US miner Peabody Energy, which was backed by existing shareholder the Indian Steel giant Arcelor Mittal. The original bid was for \$15.50 per share, which was upped to \$16 per share. Macarthur knocked back both bids and it is clear that Macarthur has interest from other parties.

Also contributing to performance was our overweight position in Connecteast Group, which was up 15.2% over the period. Over the month Connecteast Group received an offer of \$0.55 per share from Horizon Roads, an investment vehicle managed by CP2 (which currently owns and controls 35% of Connecteast securities).

The main detractor to excess return was our overweight position in David Jones, which fell by 26% over the month after downgrading its profit forecast. The company has been affected by a very weak retail environment and has also had issues managing its inventory, which has led the company holding too much stock which it will have to discount more aggressively.

Stocks that cost us in terms of excess return this month include Sundance Resources, which we don't hold in the portfolio. Sundance was the subject of a take over Hanlong Mining for \$0.5 per share in a continuation of the theme of Chinese companies buying up Australian coal and iron ore companies.

Strategy & outlook

Despite the onset of the August reporting season, we envisage the market will continue to be dominated by macro themes in the short term. The market behaviour is currently being driven almost entirely by these macro risks. Further selling is likely in the immediate future if economic data from the United States continues to disappoint and initiatives to curtail the sovereign debt problems are not seen as sufficient. The market is going through a phase of readjustment where overly bullish assumptions about US and European growth are being recalibrated lower. With this comes a quick shift in sentiment that, as we have seen many times before, results in a rush to safety. Ultimately, from a stock pickers' perspective this leads to more, not less opportunity as stocks will be oversold well below their real value.

In general, expectations for the reporting season for domestic based stocks are quite pessimistic, given the persistently difficult conditions and quite gloomy outlook provided by many management teams in this part of the market. Any companies that surprise on the upside may be quite well supported.

The outlook for Australian resource companies still remains positive at this stage, with the developed market issues not having any effect thus far on Chinese growth or sentiment. This issue will be a key area of focus for us in coming weeks. The resilience of demand for raw materials from emerging economies in the face of slower developed market growth will be a key determinant as to whether resource related investments appear defensive or vulnerable in what is a volatile environment. Meanwhile, it is worth considering that the market is now trading on the sufficiently low valuation multiples, that even if there is a significant reduction in overall earnings expectations for 2012, the market will still not be expensive.



For more information

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

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Regnan Stock Stories

Origin Energy Ltd (ORG)

As a generator and retailer of electricity and gas, Origin is exposed to a number of sustainability risks. Climate change poses both an opportunity as well as a downside risk, while social risks, such as workplace health and safety, and stakeholder relations are also apparent. Regnan considers Origin a sector leader in the management of these issues.

Origin's operations are greenhouse gas (GHG) emissions intensive, with a significant gross carbon liability which has increased materially with the recent acquisition of the Eraring power generation assets in NSW. However, it is likely that majority of cost pass-through will be achieved in the event that the Labor Government's Clean Energy Future legislation is introduced in 2012. Additionally, Origin's own generation assets (both gas production and electricity generation) provide opportunity to control emissions abatement activities, over and above competitors. The company remains committed to reduce the GHG intensity of its electricity supply chain to 10% less than the National Electricity Market (NEM) average by 2020 (2.6% below average in 2010), gas production by 15% by 2012, and reduce or offset all emissions from non-energy producing sites. Origin has also leveraged its position as the largest green energy supplier (46% of national market share) through retail propositions assisting customers in reducing their own GHG emissions such as the Carbon Reduction Scheme_ and solar power installation. Additionally, its focus on renewable energy investment, including wind, solar and geothermal, and low emission energy through its coal seam gas operations, increases Origin's capacity to participate in the transition to a low-emissions economy.

In addition to GHG regulation, climate change poses a risk to Origin through weather impacts such as declining rainfall patterns, which are likely to lead to increased volatility in the wholesale electricity market and gas spot market (exploration, development and production in Queensland was affected by the severe weather in January 2011). Being vertically integrated, Origin's significant gas production and gas-fired electricity generation act as a natural hedge to energy commodity price spikes. Specific weather related risks, extreme natural phenomena, and the greenhouse emissions regulatory framework are managed through the Strategic Commodity Risk (SCR) committee and through participation in the climate change policy process.

Origin is exposed to a range of social issues, particularly workplace safety, accessing skilled labour, and customer and stakeholder relations. With a sustainability strategy covering all of these issues, its management of these risks is generally very strong. Additionally, there is a board level Health, Safety and Environment (HSE) committee that oversees health and safety performance. Evidence of the success of this approach is the company's significant improvement in Total Recordable Injury Frequency Rate (TRIFR), from 16.3 in 2007, to 5.6 in 2010.

Increasing community opposition to coal seam gas operations in Queensland poses risks to Origin's APLNG joint venture. However, the company's sector-leading environmental management and stakeholder consultation practices put the company in a relatively strong position to handle regulatory and reputation risks as they arise.

Independence Gold Ltd (IGO)

IGO operates the Long nickel mine in Western Australia and is developing the Tropicana gold JV with AngloGold Ashanti. Its mining operations expose IGO to a range of environmental and workplace health and safety issues, as well as the possibility of wage pressure arising from skill shortages in the industry.

IGO's management of its environmental risks is sector average. It states that it measures and discloses its carbon emissions and also provides evidence of some efficiency action to reduce energy use and water use following environmental audits of its mine. While the company reports that there were no environmental compliance issues in 2010, it does not provide disclosure on other aspects of environmental management, such as the implementation of an environmental management system and the treatment of waste, tailings and dust. In this regard it is behind sector peers.

IGO reports that it considers safety results to be 'higher than normal' and has engaged an external consultant to audit procedures. However, while a safety management system is in place, improvements could be made by providing an injury frequency rate figure that can be compared across sector peers.

IGO's management of other social risks, including skill shortages and community engagement issues are sector average. The company's exposure to skill shortage issues in the resources sector arises primarily from the development and construction phase of the Tropicana gold JV. IGO's exposure is mitigated somewhat by the project's proximity to the regional centre of Kalgoorlie, providing greater infrastructure and amenities relative to more remote sites in Western Australia. The Long nickel mine is well established and therefore not as exposed as competitors' mines that are under development. IGO reports that it is investing in community facilities to encourage people to stay in the region as well as educational assistance for the indigenous community.



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