

# BT Enhanced Sustainability Australian Share Fund

**Fact Sheet**  
**August 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 excluded<sup>1</sup> 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 Return
	(post-fee)	(pre-fee)	
1 month	-2.23	-2.19	-1.98
3 months	-7.53	-7.42	-7.60
FYDT	-6.10	-6.03	-5.73
6 months	-8.96	-8.75	-9.14
1 year (pa)	1.79	2.25	2.07
2 years (pa)	1.80	2.27	2.07
3 years (pa)	-1.69	-1.24	-1.42
Since Inception (pa)	-5.50	-5.14	-5.81

### Asset allocation (as at 31 August 2011)

Energy	6.9%
Materials	27.4%
Industrials	7.1%
Consumer Discretionary	2.5%
Consumer Staples	8.5%
Health Care	2.8%
Information Technology	0.6%
Telecommunication Services	3.6%
Utilities	1.5%
Financials ex Property Trusts	29.7%
Property Trusts	6.1%
Cash & Other	3.1%

### Top 10 holdings (as at 31 August 2011)

BHP Billiton Limited	11.9%
Commonwealth Bank of Australia Ltd	7.1%
Westpac Banking Corporation	6.1%
ANZ Banking Group Limited	5.1%
National Australia Bank Limited	5.0%
Wesfarmers Limited	3.7%
Telstra Corporation Limited	3.4%
Newcrest Mining Limited	3.0%
Rio Tinto Limited	3.0%
Woolworths Limited	2.8%

### Other information

Fund size (as at 31 Aug 2011)	\$116 million
Date of inception	September 2007
Minimum investment	\$500,000
Buy-sell spread	0.50% <sup>#</sup>
Distribution frequency	Quarterly
APIR code	BTA0315AU

<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.

## Market review

Despite a rally in the second half of the month, the Australian share market could not escape the turmoil in global markets in August with the ASX300 Accumulation Index returning -2.0%. This was the fifth consecutive monthly decline which ended in the lowest month end index value since mid 2009. However, the Australian market demonstrated its defensive characteristics, holding up very well against global peers. The US benchmark S&P500 Index dropped by 5.7%, the UK's FTSE100 was down 7.2% while the European bourses were hit the hardest with the German DAX Index down a huge 19.2%. France was down 11.3% and Italy lost 15.6%.

In the local market the reporting season dominated news flow and broadly speaking outlook comments from management were cautious, which is unsurprising given the uncertain global outlook. Earnings expectations for 2012 have fallen to more reasonable levels, at 7% for Industrials and 4% for the Banks. Sector performance was driven mainly by macro themes with the traditional defensives such as Consumer Staples, Telecoms and Utilities performing best while sectors like Energy, Materials and Industrials fared the worst.

The RBA held the cash rate at 4.75% in what continues to be a lacklustre domestic economy. Retail sales numbers continue to be weak, while unemployment in July rose to 5.1% from 4.9%.

## Fund performance

The portfolio slightly underperformed its benchmark in August, although it remains ahead of benchmark on a one year and three year basis (pre-fee).

Broadly speaking the main portfolio positions produced good results in the context of a tough environment, the one stark exception to this was Transfield. The company fell 27% over the month, with the bulk occurring on the day of the result, the problem was caused not so much by the operating result, rather by the impact of the sale of its US maintenance business USM and its stake in infrastructure company TSI. The company while receiving good prices for these non core assets, had never clarified the full P&L impacts, the problem proved to be that these businesses carried far lower depreciation than the rest of the group and that the cash proceeds would yield little interest saving as they waited to deploy the capital. The result was a far greater dilution of EPS than expected. The company has failed investors on two fronts, firstly in not being clearly transparent on the detail when closing the deals and secondly by not electing to use the proceeds to buy back shares to close up the EPS dilution in 2012. If this had been handled appropriately we would not have seen the stock fall so far. From here we believe the stock can perform, given it is winning key contracts such as with Santos and the NBN, it has strong cash flow, trades at a discount to peers and management have enacted changes in recognition of the mishandling of their result.

Also detracting from excess return was not holding a position to Suncorp. The company delivered a stronger than expected result, beating consensus NPAT by around 7% and therefore rallied

strongly by 13.2% over the month. While the result was driven by strong performance in the bank, much of the focus has been on the insurance business and in particular the effect of higher reinsurance costs. Pleasingly, the company was able to increase insurance premiums to offset these higher costs without sacrificing market share, which was by no means the case for all its competitors.

Contributing to excess performance was the benefits of not owning a number of companies that delivered poor operating performance. An example was steel stock BlueScope which was down 28% as the true extent of the east coast slowdown and greater import competition resulting from the strong AUD flowed through the P&L. Another example was Qantas, with the airline being sold down with other industrial stocks.

## Strategy & outlook

We remain in an environment where macro factors and the associated skittish sentiment are dominating global equity markets. The volatility looks likely to continue and with it the large swings in performance as investors move in and out of defensive asset classes and sectors. In environments like this, stock specific factors are less significant drivers of return, which does provide buying opportunities that hopefully will reward our investors well in time as focus shifts back to company fundamentals. However, the more pressing concern is the here and now.

The economic outlook is extremely uncertain and investor sentiment extremely poor at the moment for good reason and volatility will remain elevated. Trying to pick the timing or the catalyst for any change in this environment is nigh on impossible, but we have identified an increasing number of high-quality businesses in the Australian market which look good value on any long-term time horizon. It is in these companies they we are investing and seeking to add to as the opportunity arises.



## For more information

Please call 1800 813 886, contact your business development representative or visit [www.btim.com.au](http://www.btim.com.au)

BT Investment Management (RE) Limited ABN 17 126 390 627, AFSL 316 455, is the responsible entity and issuer of units in the BT Enhanced Sustainability Australian Share Fund. An Information Memorandum (IM) is available for the Fund and can be obtained by contacting your business development representative on 1800 813 886 or visiting [www.btim.com.au](http://www.btim.com.au). You should obtain and consider the IM before deciding whether to acquire, continue to hold or dispose of units in the Fund. This information has been prepared without taking account of your objectives, financial situation or needs. Before acting on this information, consider its appropriateness, having regard to your objectives, financial situation and needs. An investment in the Fund is not a deposit with or any other liability of the Westpac Banking Corporation (ABN 33 007 457 141) or any other Company in the Westpac Group of companies.

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.

If market movements, cash flows or changes in the nature of an investment (eg a change in credit rating) cause the Fund to exceed any of the investment ranges or limits in this document, this will be rectified by BTIM (RE) as soon as reasonably practicable after becoming aware of it. If BTIM (RE) does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified in this document are accurate as at the date of its issue, and BTIM (RE) reserves the right to vary these from time to time.

BT Investment Management (RE) Limited is a member of the Westpac Group. Neither BT Investment Management (RE) Limited, nor any other company in the Westpac Group, guarantees the repayment of capital or the performance of the product or any particular rate of return.

BT<sup>®</sup> is a registered trade mark of BT Financial Group Pty Ltd and is used under licence.

## Regnan Stock Stories

### Investa Office Fund (IOF)

Investa Office Fund (formerly ING Office Fund) is a real estate investment trust that owns an international portfolio of office properties which are leased primarily to government and blue chip tenants. Assets are located in Australia, the United States and Europe.

IOF's environmental performance, as measured through building sustainability and energy efficiency, currently lags sector leaders. Based on the most recently available data, IOF's property portfolio has attained an average NABERS Energy rating of 2.9 stars, which lags sector leaders in this area such as DXS (with an average rating of ~3.1 stars) and CQO (4.4 stars). However, prior to being taken over by Investa, IOF's management had committed to achieving an average NABERS Energy rating of 3.5 stars in the short term through capital investment and operational improvements. Investa has a strong track record in sustainability management and it will likely continue to make further sustainability improvements to IOF's portfolio in the coming years. Regnan notes that tenant demand for sustainable buildings with superior energy efficiency is becoming more important as energy costs continue to rise driven by increasing global energy supply uncertainty and the need for large investments to renew and replace ageing energy infrastructure. However, the proposed carbon pricing scheme, which is due to commence in July 2012, is unlikely to materially impact energy costs for property owners like IOF.

IOF's social performance is generally in line with peers though not sector-leading. As an externally managed real estate investment trust with no employees of its own, control over IOF's ethical standards and the management of human capital is the responsibility of its Responsible Entity and, ultimately, of Investa Property Group. There is currently limited evidence that Investa has established best practice ethical conduct controls, such as an anonymous whistle blowing system or significant programs aimed at raising employee awareness of ethical issues. Disclosure of controls for the management of Investa's human capital is generally sound, though not sector-leading. Benefits for employees include an employee assistance program, six weeks paid parental leave, and a study assistance program.

### Austar Ltd (AUN)

Human capital and talent management are sources of value for AUN given high levels of competition and significant growth opportunities in the subscription television and digital entertainment markets. We expect competition for talent to intensify in light of rapid technology change and innovation in the sector associated with integration of digital platforms (HD pay TV, on-line, digital recording). Further, the market trend toward personalised content will require development of innovative new service offerings, reliant on high quality employees.

AUN's talent management programs, developed and piloted in FY2009 focusing on senior management, management and professional staff, continued in FY2010. Additionally, AUN continued to roll-out the 'Leadership Essentials Program' and flexible work options, which should contribute to talent retention. Gender diversity has improved at senior management levels, although female representation at Board level remains an issue.

Human capital controls compare favourably with sector peers (NWS, TEN). AUN is yet to report voluntary turnover however, which would assist shareholders to gauge the effectiveness of talent retention initiatives.

AUN ethical conduct controls are in line with sector peers. Regnan notes that neither the company's code of conduct or whistle-blower policy was updated in the previous financial year.

While environmental issues are not material to AUN, greenhouse abatement is important to reputation and brand management. AUN initiatives include the creation of a cross functional carbon reduction team, implementation of a product development code of practice, and agreement with the Federal Minister for Environment to red



### For more information

Please call 1800 813 886, contact your business development representative or visit [www.btim.com.au](http://www.btim.com.au)

BT Investment Management (RE) Limited ABN 17 126 390 627, AFSL 316 455, is the responsible entity and issuer of units in the BT Enhanced Sustainability Australian Share Fund. An Information Memorandum (IM) is available for the Fund and can be obtained by contacting your business development representative on 1800 813 886 or visiting [www.btim.com.au](http://www.btim.com.au). You should obtain and consider the IM before deciding whether to acquire, continue to hold or dispose of units in the Fund. This information has been prepared without taking account of your objectives, financial situation or needs. Before acting on this information, consider its appropriateness, having regard to your objectives, financial situation and needs. An investment in the Fund is not a deposit with or any other liability of the Westpac Banking Corporation (ABN 33 007 457 141) or any other Company in the Westpac Group of companies.

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.

If market movements, cash flows or changes in the nature of an investment (eg a change in credit rating) cause the Fund to exceed any of the investment ranges or limits in this document, this will be rectified by BTIM (RE) as soon as reasonably practicable after becoming aware of it. If BTIM (RE) does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified in this document are accurate as at the date of its issue, and BTIM (RE) reserves the right to vary these from time to time.

BT Investment Management (RE) Limited is a member of the Westpac Group. Neither BT Investment Management (RE) Limited, nor any other company in the Westpac Group, guarantees the repayment of capital or the performance of the product or any particular rate of return.

BT® is a registered trade mark of BT Financial Group Pty Ltd and is used under licence.