

# BT Enhanced Sustainability Australian Share Fund

**Fact Sheet**  
**October 2011**

ARSN: 132 844 163



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<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*
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\* 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	7.06	7.10	7.23
3 months	-1.65	-1.53	-1.49
FYDT	-5.54	-5.39	-5.26
6 months	-8.98	-8.77	-9.01
1 year (pa)	-3.63	-3.18	-3.87
2 years (pa)	0.21	0.67	0.31
3 years (pa)	6.45	6.94	7.06
Since Inception (pa)	-5.15	-4.78	-5.47

## Asset allocation (as at 31 October 2011)

Energy	7.2%
Materials	25.3%
Industrials	6.6%
Consumer Discretionary	2.7%
Consumer Staples	9.0%
Health Care	2.7%
Information Technology	0.7%
Telecommunication Services	3.8%
Utilities	1.6%
Financials ex Property Trusts	31.7%
Property Trusts	6.3%
Cash & Other	2.5%

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

BHP Billiton Limited	11.4%
Commonwealth Bank of Australia Ltd	7.3%
Westpac Banking Corporation	6.4%
ANZ Banking Group Limited	5.5%
National Australia Bank Limited	5.5%
Telstra Corporation Limited	3.5%
Wesfarmers Limited	3.8%
Rio Tinto Limited	3.0%
Woolworths Limited	2.9%
Newcrest Mining Limited	2.8%

## Other information

Fund size (as at 31 Oct 2011)	\$124 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

After a very weak few months, the Australian share market rebounded very strongly in October as investors started to regain a bit of confidence that the European leaders would find a workable solution to the European sovereign debt issues. As a result, equity markets across the world rallied, with the ASX300 Accumulation Index posting one of its highest months ever with a 7.2% return. This was relatively modest compared to other major markets though, with the US S&P500 up nearly 11%, London's FTSE100 up over 8% and Euro Stoxx 50 up 9.4%.

As has been the theme of late with the European debt issue, markets rally when new initiatives to resolve the problem are proclaimed, only to sell off later when the details are heavily scrutinised and questioned by investors. The high level features of the new plan involved a 50% haircut of Greek sovereign debt and around a 100 billion Euro recapitalisation of the European banking sector.

On the domestic front, October saw the onset of the banks' reporting season with the big four banks just about meeting the market's expectations, albeit at the lower end. In terms of what parts of the market drove returns, the banks were very strong in the run up to their reporting season and Materials and Energy were also strong.

On the economic front, CPI numbers for the third quarter were softer than expected, consolidating the expectation of a rate cut in the November meeting of the RBA's monetary policy committee, which duly eventuated.

## Fund performance

The fund underperformed the benchmark over the month of October.

Our overweight position in Fletcher Building detracted over the month. The share price suffered over the month with the company citing that NZ markets remained weak with continuing seismic activity further delayed the rebuild after the Christchurch earthquake. Continuing weakness in residential and commercial construction market in Australia also remains a headwind.

Our underweight position in Woodside detracted value over the month as the oil price rally drove the share price higher. The company rallied by 12.6% over the month and reported a 27% rise in 3Q11 revenue versus the prior corresponding period.

Contributing to performance was our overweight in Myer Holdings, which rallied by 28% over the month. We initiated an overweight position in Myer earlier in the year, based on the fact that we felt the company had been oversold but also in our growing confidence that management were able to execute on its store roll-out strategy. The share price received additional support in the rally as an interest rate cut in November became increasingly likely.

Our overweight position to Oz Minerals added value over the month, with stock rallying by 23% over the period. The company has downgraded gold production for the year but has nonetheless maintained cash cost guidance. On a longer term view we are still positive around the copper price and looked oversold in prior months. The company has a good diversifier in its gold assets and has had a good, solid cash balance. While requiring significant expense, the company also has good exploration potential.

## Strategy & outlook

In our view, the recent initiatives put forward to manage the European debt situation do not go far enough in resolving the problem as neither the 50% haircut on Greek debt nor the proposed recapitalisation amounts look big enough to really deal with the issue. Significant uncertainty also remains around the potential funding of the European Financial Stability Fund (EFSF) and the role that the IMF will play in resolving the issues. We anticipate that this issue will continue to dominate market sentiment with no definitive resolution implemented in the short-term. In the meantime, we anticipate the market behaving as it has done over the last few months – rallying when European leaders respond to market selling and galvanise themselves into action, and selling off when it comes to working out the details.

With regard to the slow down in China, which has been an additional concern for investors of late; we remain positive on a medium-term view but cautious in the shorter-term, particularly around the iron ore price. There is no question that economic conditions have softened measurably in recent months and growth rates in the all important construction sector will be close to 0%, even with the impact of the social housing program. At \$120 per tonne for iron ore (coming off recent levels of \$170 per tonne), production does start to become uneconomic for some producers, which will ultimately redress the demand/supply balance but this takes time to come through.



## 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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## Regnan Stock Stories

### Dexus Property Group (DXS)

Dexus Property Group owns, manages and develops industrial, office and retail property in Australia, New Zealand, and the United States. Dexus continues to be one of the best environmental performers in the S&P/ASX200 real estate sector, particularly in terms of its commitment to owning and developing sustainable ('green') buildings. In addition to recently completing the development of two world-leading 6 star Green Star rated buildings (1 Blight Street, Sydney and 123 Albert Street, Brisbane), Dexus has made substantial progress in improving the resource efficiency of its portfolio in areas such as energy and water use. Through a variety of initiatives such as sub-metering and installation of energy efficient lighting, Dexus has reduced its total energy intensity by 6.6% since 2009. This has been accompanied by an overall reduction in greenhouse gas intensity of 6.8%. Dexus has also set a target of achieving a 4.5 star NABERS energy rating for its entire portfolio by 2012, which is considered to be best Australian practice. Meanwhile, total water intensity fell by 7.4% as a result of installing water harvesting systems, sub-metering and other measures. Other notable environmental initiatives include a partnership with Whirlpool Corporation in the United States to develop the largest rooftop solar system in the country.

Dexus' social performance is reasonably strong overall, particularly in the area of human capital management (HCM). It offers employees a range of best practice workplace conditions and benefits, such as the ability to purchase an unlimited amount of annual leave, a study assistance program which extends to fields beyond the employee's direct role within the company, and flexible work options. The results of Dexus' most recent employee survey indicates that its approach to people management is yielding results. For example, employee engagement increased to 83% in 2011, up from 78% in the previous year. Dexus states that it outperformed in 18 of the top 19 categories of the Towers Watson 'Australian National Norm' and several categories of the 'Global High Performing Norm'. Its performance in managing other social exposures, such as ethics and conduct and workplace health and safety, is average for the sector but this may be a disclosure issue. For example, Dexus did not disclose any safety performance data for 2011. Even if there are no reported injuries, Regnan expects that companies state this in the interests of transparency.

### Macmahon Holdings Ltd (MAH)

Macmahon is engaged in contract mining and infrastructure construction activities, primarily in Australia but with a growing international footprint. Its most significant exposures are skills shortages in Australia amongst its trade and engineering workforce, workplace health and safety (WHS), and the environmental impacts of its operations.

Macmahon is positioned to profit from the resources boom through projects in WA, but these also increase the company's exposure to skills shortages through its involvement in project construction and delivery, as well as the relative remoteness of sites. Where companies are highly exposed to skills shortages, Regnan views development of strong human capital management (HCM) capabilities to be a core risk management strategy and Macmahon rates highly in this regard. Multiple actions aimed at attracting and retaining employees are in place, including graduate and apprenticeship schemes and training programs, flexible working arrangements and maternity leave. Macmahon also has targets for indigenous community relations and development including the formation of a dedicated Indigenous mining and construction company, Doorn-DjilYoordaning, in 2008. Macmahon has also received a number of external awards over FY2009 and FY2010 for its apprenticeship programs, women in resources, and indigenous training and engagement.

Macmahon also maintains robust controls over WHS that compare favourably with its peers. Safety is included in the company's values and objectives. A clear hierarchy of oversight exists with executive remuneration targets disclosed. Macmahon has a certified Occupational Health and Safety Management System across the entirety of operations, including contractors, with extensive internal and external auditing procedures and performance reporting, and sector leading safety performance. Macmahon's most significant greenhouse / climate change impact is expected to be increasing fuel costs as a result of the introduction of a carbon price. Approximately 92% of emissions for FY 2010 were generated by diesel-operated equipment. The company states that it considers the impact of cost impact to be limited and a high proportion of cost pass-through is expected. Macmahon are also mitigating exposure to rising fuel costs by implementing a number of energy efficiency initiatives. The company's involvement in water infrastructure projects, including dam construction and remediation, water storage, treatment and pipelines, presents an opportunity for the company, although disclosure of any associated metrics is below expectations. Macmahon also has an environmental policy and an environmental management system (EMS) in accordance with AS/NZS ISO 14001.



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