# BT Wholesale Ethical Share Fund

**Fact Sheet**
**June 2010**

ARSN: 096 328 219

BT Investment Management

Social Responsible Investments

## About the Fund

The BT Wholesale Ethical Share Fund is an actively managed portfolio of Australian shares which 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 five 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 Regnan Governance Research and Engagement, 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* |

## Performance

| (%) | Total Returns (post-fee) | Total Returns (pre-fee) | Benchmark Return |
|---|---|---|---|
| 1 month | -2.39 | -2.31 | -2.65 |
| 3 months | -12.08 | -11.87 | -11.20 |
| FYDT | 9.51 | 10.56 | 13.05 |
| 6 months | -11.89 | -11.48 | -10.09 |
| 1 year (pa) | 9.51 | 10.56 | 13.05 |
| 2 years (pa) | -6.51 | -5.62 | -5.10 |
| 3 years (pa) | -8.26 | -7.39 | -8.05 |
| 5 years (pa) | 5.60 | 6.56 | 4.49 |

## Asset allocation (as at 30 June 2010)

| | |
|---|---|
| Energy | 10.3% |
| Materials | 24.5% |
| Industrials | 10.5% |
| Consumer Discretionary | 5.7% |
| Consumer Staples | 3.9% |
| Health Care | 4.4% |
| Information Technology | 0.7% |
| Telecommunication Services | 4.7% |
| Utilities | 0.9% |
| Financials ex Property Trusts | 27.3% |
| Property Trusts | 4.0% |
| Cash & Other | 3.1% |

## Top 10 holdings (as at 30 June 2010)

| | |
|---|---|
| BHP Billiton Limited | 12.5% |
| Commonwealth Bank of Australia Ltd | 7.0% |
| Westpac Banking Corporation | 6.8% |
| ANZ Banking Group Limited | 5.0% |
| Telstra Corporation Limited | 4.7% |
| National Australia Bank Limited | 4.0% |
| Metcash Trading Limited | 3.9% |
| Rio Tinto Limited | 3.8% |
| Asciano Limited | 3.5% |
| Origin Energy Limited | 2.9% |

## Other information

| | |
|---|---|
| Fund size (as at 30 Jun 2010) | $208 million |
| Date of inception | May 2001 |
| Minimum investment | $50,000 |
| Buy-sell spread | 0.50%[#] |
| Distribution frequency | Quarterly |
| APIR code | RFA0025AU |

[#] The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

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

**Market review**

Concerns about fiscal and banking problems in Europe overshadowed markets during the June quarter and patchy data also raised questions about US growth.

The Australian sharemarket began the second quarter with positive momentum but a weak May and June saw the index lose 11.2% over the period.

Despite falling commodity prices, anxiety about global growth and the miners' vehement opposition to the Government's proposal for a Resources Super Profits Tax weighing on the sector, Resources roughly matched the market over the period (-11.0%). Meanwhile Banks (-17.1%) were affected by a lacklustre results season and concerns about funding costs.

Many companies updated the market on earnings as the end of the financial year approached with most guiding expectations lower. In major company news Telstra reached a non-binding agreement to participate in the Government's National Broadband Network initiative while Lihir Gold was the subject of a successful bid from Newcrest Mining.

Oil sold off sharply in May and despite a subsequent rally lost 9.7% for the quarter. Gold was the bright spot among major commodities in the second quarter, the spot price gaining 12.1% and setting a new alltime high in US dollars ($1265). Spot iron ore prices began the quarter strongly but then gave ground to end the quarter lower as China's policies to cool down its property market appeared to take effect and steel prices in the region softened.

The Aussie dollar started the quarter strongly and came close to the November high of US$0.94, but the sell-off in riskier assets prompted by sovereign debt problems in Europe saw it slide sharply against the US dollar and for the quarter lose 8.3%.

**Fund performance**

The portfolio underperformed its benchmark for the June quarter. The portfolio's overweight position in Qantas was one of the main detractors from performance. The airline released its May operating statistics which showed yield pressure in low end domestic fares but continued recovery in business travel both domestic and international. However the stock's fall was mainly related to increased concerns about global slowdown rather than stock specific factors.

The portfolio's overweight position in Sonic Healthcare was another detractor over the period. The stock fell heavily after the company advised that it is likely to fall short of its FY10 guidance, largely due to its response to the Government funding cuts to Australian Medicare fees where Sonic sought to introduce co-payment fees. Sonic reversed this decision after losing market share and we believe the market has over discounted the impact of these changes.

Not holding Woolworths, an excluded stock, also detracted from performance over the quarter as the defensive Consumer Staples sector outperformed the market.

The major contributor to returns over the quarter was our holding in Metcash as the defensive Consumer Staples sector outperformed the market. Metcash has announced two highly accretive small scale acquisitions that will enable it to grow at double digit rates; this coupled with a strong reported result made the stock a strong contributor over the quarter.

Also contributing to performance was our overweight in Telstra, which significantly outperformed the market after management signed an agreement with the company formed by the Government to build a National Broadband Network. The non-binding deal includes compensation for the use of Telstra's infrastructure and was well received by the market.

Another contributor was our overweight position in Lihir Gold which jumped over 42% over the quarter on the bid from Newcrest. We see this as a good move by both companies. Lihir benefits from getting genuine diversification from its key Lihir Island mine; Newcrest adds a low cost long life mine to its portfolio and benefits from the knowledge Lihir has of operating in PNG, which will prove useful in further expansions planned for that country.

**Strategy & outlook**

Early June saw somewhat of a reversal of the poor market sentiment that was experienced in May and the market was in positive territory for the first three weeks. However the last week in June was characterised by a resurgence in concerns about the risks of a double dip in the US economy and newer fears about the extent of a slowdown in the Chinese economy. These macro factors were then enough to move the market into negative territory for the month as a whole.

In a strong show of good faith to the global community China announced that it was amending its US dollar peg for the currency, though we expect only very modest appreciation to occur in the short term. The market also remains very wary about the near-term growth outlook in China.

Domestically the headlines continued to be dominated by the RSPT. The political fallout from the tax and other contentious issues was very significant with Rudd being replaced as Prime Minister by Julia Gillard. The market has rightly been very concerned about many aspects of the tax but equally as concerning for the market is the extent to which the Government continues to inject itself into many industries with policy that does not always appear to be soundly based or market aware. The final format of the tax does appear to go a long way to addressing many of the aspects that the mining companies had most vocal disagreement about and so we expect that with this uncertainty removed, capex plans that have been put on hold will be reactivated.

Whilst significant uncertainties remain with respect to the global growth outlook, equity markets have retreated to the extent that a number of value opportunities are beginning to emerge. Indeed on our long-term market valuation models both the US and Australian markets are showing up as being at very attractive long-term valuation levels. In the portfolio we continue to favour stocks that have inherent internal growth opportunities such as Asciano and News Corp. Amcor is a relatively defensive name that will show strong earnings growth over the next two years from the bottom of the cycle packaging acquisition they made from Rio Tinto.

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**For more information**

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