

BT Sustainable Balanced Fund

Formerly known as
"BT Institutional Ethical Balanced Fund"

Fact Sheet
December 2010



About the Fund

The Fund is an actively managed diversified portfolio that invests in Australian and international shares, Australian and international property securities, Australian fixed interest and cash investments.

Fund objective

The Fund aims to provide a return (before fees and expenses) that exceeds the Fund's benchmark over the medium to long term. The suggested investment timeframe is five years or more.

Investment approach

The underlying investments in the Fund are managed by BTIM together with external partners. The investment process for Australian shares is managed by BTIM's Australian Equities team and has the addition of sustainability screens. International shares are invested in a Socially Responsible Investment fund managed by AMP.

The Australian fixed interest component of the Fund is an actively managed combination of corporate, semi-government and government debt and short-term money market securities.

Benchmark

The benchmark for the Fund is created from a blend of indices based on the Fund's exposure to different asset classes. The benchmark is calculated by using the weighted average asset allocation neutral position and the index returns for each asset class. Details of the particular market indices used for the Fund's benchmark can be found on our website at

<http://www.btim.com.au/AllFunds> and clicking on your fund page.

Investment team

The Fund is managed by BTIM's Macro Strategies team headed by Joe Bracken who has more than 15 years industry experience. The team has a diverse skill set, combining a range of global and domestic market experience and drawing on the resources of BTIM's other specialist teams: Income Strategies and Equity Strategies.

Performance¹

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
3 months	2.40	2.64	2.66
FYDT	5.54	6.02	6.76
6 months	5.54	6.02	6.76
1 year (pa)	1.68	2.60	3.30
2 years (pa)	6.86	7.83	9.01
3 years (pa)	-2.19	-1.30	-1.53
5 years (pa)	3.06	4.00	3.17

Asset allocations

Australian Listed Shares:	35.8%
Overseas Listed Shares:	21.2%
Australian Fixed Interest:	23.8%
Property Trusts	6.0%
Global Listed Property	3.0%
Australian Liquidity (< 180 days):	10.2%

Investment guidelines

Asset allocation ranges (%)	Neutral position	Ranges	
		Min	Max
Australian shares	38	28	48
International shares	22	12	32
Australian property	5	0	10
International property	3	0	10
Australian fixed interest	25	12	40
International fixed interest	0	0	10
Cash	7	0	15

Other information

Fund size (as at 31 Dec 2010)	\$120 million
Date of inception	August 1984
Minimum investment	\$500,000
Buy-sell spread	0.34% [#]
Distribution frequency	Quarterly
APIR code	BTA0122AU

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

Fees

Management fee	0.90% 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.



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¹ The asset allocation neutral position, asset allocation ranges and the benchmark have changed over time. As it is historical information, the fund performance reflects the asset allocation neutral positions and ranges that have applied over time. The benchmark performance shown is that of the combined benchmarks that the fund has aimed to exceed over time.

Market review

Global equity markets had a strong final quarter in 2012 with the MSCI World ex Australia delivering an 8.5% return. For Australian investors with unhedged currency exposure, this return was 2.9% as the Australian dollar rallied against the MSCI basket of currencies over the quarter.

The Australian Share market had a strong final quarter for 2010, returning 4.6%. The resources sectors lead the way returning 13%, which was the largest quarterly outperformance of the broader market since the second quarter of 2008. While resources rallied off the back of higher commodity prices, the banks underperformed with the majors coming under fire after raising interest rates by more than the Reserve bank's hike. Some investors were also cautious about regulatory initiatives affecting the sector, which turned out to be less cumbersome than first feared.

In economic news the RBA raised interest rates once to 4.75%, which continued to put pressure on consumer based stocks. US data was generally positive, consolidating the view that the US recovery was gaining traction. However, continuing weak employment numbers and weak core inflation prompted the Fed to initiate their program of large-scale asset purchases

Fund performance

The portfolio posted a positive return during December quarter with Australian Listed Property and Australian Fixed Interest the asset classes that posted a negative return.

In relative terms, the portfolio marginally underperformed its benchmark, with underperformance from Australian Equities being the main detractor to excess return.

Strategy & outlook

As we move in to the new year, three main factors affecting global markets are as follows; US economic recovery, the continuing sovereign debt issues in Europe and the threat of inflation in Asian countries, particularly China.

From a Global equity market point of view, encouraging signs remain despite the risks. After a couple of years of effective rationalisation, corporate America now looks in good shape, with strong corporate balance sheets and very high levels of cash flow generation. Thus far however, corporates have been relatively cautious in terms of putting their cash to use. With highly supportive monetary conditions and a US government whose main priority leading up to the 2012 election will be job creation, conditions are well-suited for increased corporate activity and more aggressive growth strategies, particularly as valuation levels are not onerous.

The clear risk to domestic equities is that higher inflation in China persists, which may lead authorities to curtail credit growth more aggressively. The resulting softening in the property market would see softer demand for commodities with clear implications for the resource sector. Australia continues to be characterised by the 'two speed economy' with increased higher interest rates proving a strong headwind for the consumer based domestic economy and continuing strong activity in the resource related sectors. However, we believe that there will continue to be investment opportunities in companies across the breadth of the market, particularly as valuations are quite supportive to the broader financial sector. Globally, sovereign debt levels are high and yields are low. The spread between the Equity earnings yield and bond yields are also stretched. Therefore a continued economic recovery may well push government yields higher.

Regnan stock stories

GPT Group (GPT)

GPT Group is a property company that develops and invests in high quality office, retail and industrial/business park assets.

GPT demonstrates that it is committed to achieving world's best practice environmental performance. It has implemented significant energy use reduction initiatives (use of smart metering, green leases etc.) across its property portfolio with excellent results. For example, its office property portfolio ranks as the most energy efficient among its sector peers, attaining an average energy use intensity of 431 MJ per square metre square of floor space. This is significantly better than its closest peer, Commonwealth Property Office Trust (CPA), which has achieved an energy use efficiency of 527. GPT's commitment to the 'green building' industry is also impressive; the completion of the 'workplace6' office building in Sydney, which achieved a "World's Best Practice" 6 star Green Star rating, is representative of this. Climate change risks are also well-managed: there is good disclosure of greenhouse gas emissions data, steady reduction in greenhouse gas emissions over time, and evidence that GPT comprehensively assesses climate change risks.

GPT's social performance is also good. It has strong ethical conduct controls, including a best practice anonymous whistleblowing system, and active board-level oversight of ethical compliance; the company's Whistleblower Officer also has a 'direct line' to the CEO. Workplace health and safety (WHS) controls are sound, as would be expected for a company with significant involvement in the property development industry, though the level of reporting on safety performance is below some sector peers (e.g. SGP, MGR). GPT's human capital management compares favourably with sector peers and puts it in a good position to attract and retain key talent. Its employee engagement score in the 2009 Hewitt Best Employers Study (Australia and New Zealand) was 75%. Although this was lower than the 83% received in the previous year, GPT was given a 'highly commended' rating for the second year running. GPT was the only real estate company to be given this award in 2009.

IOOF Holdings Ltd (IFL)

IFL is an independent Australian financial services provider, offering financial products and portfolio administration services including investments, superannuation, annuities, and investment trusts, as well as financial planning and advisory, stockbroking, estate planning and administration, and trustee services.

In the competitive Australian financial services labour market, the attraction, management and retention of talent is a key risk, particularly with the return of skill shortages amongst some professions post GFC (accounting, IT, risk management). IFL's human capital management controls are generally in line with sector peers, with recognition evident of the link between HCM (improved career development and training programs) and the success of the company strategy. Controls have improved, with new initiatives, such as employee focus groups, aimed at improving levels of staff engagement and subsequent talent retention and attraction.

However, despite improvements to HCM controls, the ratio of women to men at executive and board level at IFL is below most sector peers. IFL recognizes that gender imbalance at senior levels is an issue and the recent introduction of additional career development and diversity programs may result in improvements. Disclosure of workplace diversity and flexibility initiatives, such as flexible work practices and family leave entitlements, has also recently improved.

Ethical conduct is material for all financial services companies post GFC. However, IFL's controls in this area are slightly below sector peers. Strengths exist in IFL's whistle-blower provisions and extensive ethics and conduct-related training, but improvements could be made, for example, by explicitly linking at-risk remuneration with ethics and conduct compliance.

As a service-based company, IFL has no material exposure to environmental risks.

Computershare Ltd (CPU)

Operating in 17 countries, Computershare is the world's largest share registry and the leading provider of financial market services and technology to the global securities industry.

Computershare continues to perform beyond Regnan's expectations in its recognition and management of social risks. It has a large, highly skilled, global workforce (~11,000 headcount), making human capital management (HCM) a key focus. Computershare exercises controls via a range of policies and best-practice initiatives aimed at employee retention and satisfaction, including training courses, company supported study and leave, equal employment opportunity (EEO) programs, career planning, mentoring, and flexible work arrangements. The company is a global 'Employer of Choice'. Computershare has some exposure to Workplace Health and Safety (WHS) risk through its operation of 'call centres', but in Regnan's view there are adequate controls in place to manage this risk. Business ethics controls are exercised through a code of ethics and a 'best practice' whistle-blower policy and framework.

As a service-based company, Computershare has no material exposure to environmental risks. Nevertheless, it is committed to ensuring that it operates in an environmentally responsible manner, with an environmental policy and a range of initiatives aimed at reducing their ecological footprint. The company measures the environmental impacts of its operations in order to benchmark performance of environmental systems and processes. The 'eTree' Program is a sector-leading initiative that has significantly reduced paper-based investor communications. The program raises funds for environmental restoration projects.

Resmed Ltd (RMD)

Resmed is a global supplier of devices treating sleep disorders. The company's business value is linked to technological innovation and marketing, which in turn is derived from its significant intellectual property and human resources. Management of human capital, talent management, and talent retention are therefore key risks. Resmed is also exposed to skill shortages in the engineering profession.

Resmed has implemented professional development initiatives to retain staff, including coaching and mentoring, and the delivery of externally accredited training. Talent management programs have also been initiated and are geared towards identification of high potential employees. Additionally, the company's gender diversity has been elevated as a strategic priority to promote attraction and retention through, for example, the 'Resmed XX Factor'. This program provides a forum established by its female engineering group to review the roles, development opportunities, and profiles of women in leadership positions in the organisation, as well as flexible work arrangements and work/life balance. Resmed has also initiated strategies to allow for flexible work/life balance within its manufacturing workforce.

The attraction of young engineers into the workforce is a stated priority for Resmed, noting the ageing engineering workforce nationally. In response, the company has implemented a 'graduate engineer program' to improve access to engineering graduates.

Resmed is also exposed to moderate health and safety risk through its 1200 employees involved in manufacturing and warehousing operations. High-tech manufacturing operations are typically prone to ergonomic and repetitive injuries. Regnan is not aware of significant safety-related incidents or regulatory breaches, though disclosure on WHS performance could be improved.

Ethical conduct is material for Resmed, particularly compliance with anti-kickback and fraud legislation. Controls are generally consistent with sector peers: it has a code of conduct in place, whistle-blower system, and a dedicated ethics committee at executive level to monitor compliance. Regnan regards these controls as adequate.



For more information

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

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