

# BT Wholesale Ethical Share Fund

**Fact Sheet  
December 2010**

ARSN: 096 328 219



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 ten-member Equity Strategies team is one of the largest in the Australian funds management industry. The portfolio managers for the Fund are Crispin Murray and Rajinder Singh, who have a combined 28 years industry experience. Crispin is also Head of Equity Strategies.

### 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*
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BT Investment Management (RE) Limited ABN 17 126 390 627, AFSL 316 455, has been certified by RIAA according to the strict disclosure practices required under the Responsible Investment Certification Program. The Certification Symbol signifies that an investment product or service takes environmental, social, ethical or governance considerations into account along with financial returns. See [www.responsibleinvestment.org](http://www.responsibleinvestment.org) for details.

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

## Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	3.51	3.59	3.77
3 months	4.17	4.42	4.65
FYDT	10.94	11.47	13.34
6 months	10.94	11.47	13.34
1 year (pa)	-2.26	-1.32	1.90
2 years (pa)	13.80	14.88	18.41
3 years (pa)	-6.26	-5.37	-5.04
5 years (pa)	4.67	5.63	4.38

## Asset allocation (as at 31 December 2010)

Energy	10.5%
Materials	32.0%
Industrials	12.2%
Consumer Discretionary	4.4%
Consumer Staples	2.2%
Health Care	3.1%
Information Technology	0.5%
Telecommunication Services	2.6%
Utilities	0.8%
Financials ex Property Trusts	25.9%
Property Trusts	2.8%
Cash & Other	3.1%

## Top 10 holdings (as at 31 December 2010)

BHP Billiton Limited	14.0%
Westpac Banking Corporation	7.2%
Commonwealth Bank of Australia Ltd	7.0%
Rio Tinto Limited	6.2%
ANZ Banking Group Limited	5.0%
National Australia Bank Limited	3.9%
Newcrest Mining Limited	3.7%
Origin Energy Limited	3.3%
Asciano Limited	3.2%
Telstra Corporation Limited	2.6%

## Other information

Fund size (as at 31 Dec 2010)	\$191 million
Date of inception	May 2001
Minimum investment	\$50,000
Buy-sell spread	0.50% <sup>#</sup>
Distribution frequency	Quarterly
APIR code	RFA0025AU

<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

The Australian Share market had a strong final quarter for 2010, returning 4.7%. 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.

The market sentiment was broadly positive during the quarter, driven particularly by the initiation of further stimulus measures in the US in the form of Quantitative Easing, or QE2. Further European sovereign debt concerns, most pressingly around Ireland did create some volatility, as did measures from China to curb inflation.

The quarter also saw an increase in the level of M&A activity, including a revised bid from AMP for AXA, after the ACCC had scuppered National Australia Bank's approach. Also in financial services, private equity company KKR made a bid for Perpetual Ltd, which was rejected and Singapore Stock Approach made a merger approach to the ASX. Also over the quarter, BHP withdrew their bid for Potash Corp. Finally, the quarter saw the largest IPO since Telstra with the privatisation of Queensland Rail National.

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's performance was slightly under the benchmark, returning 4.42% (pre-fee) over the period.

The largest contributor to performance was our underweight position to Woolworths, which was down by 6.5% over the quarter. We do not hold Woolworths in the portfolio as the company does not meet our ethical screening criteria. The company has been under pressure in what has been a tough environment. Supermarkets have been facing the headwind of food deflation, which directly affects their top line.

Another strong contributor to performance was our overweight position to Iluka, which returned 52% over the quarter. The company, which is the dominant producer of mineral sands products continues to benefit from stronger demand for mineral sands products like zircon, rutile and titanium dioxide. The company generates a free cash flow yield of around 20% and is well positioned to increase production at attractive prices and as such remains one of our highest conviction positions.

In terms of detractors from performance, the largest detractor was our overweight position in Qantas, with the stock down 9.1% for the quarter. The A380 issue that has dominated news on the company since early November continued into December with the

company filing a claim against engine manufacturer Rolls-Royce for loss of business due to the engine failure. Also of note is the general underperformance of global airline stocks, with the sector suffering due to flight cancellations caused by adverse weather in the US and Europe.

Also detracting from performance was our overweight position to Asciano. At the beginning of the quarter, the stock was under pressure due to market noise around the QRN float and also the company provided a fairly conservative outlook after adverse weather conditions had affected its volumes. After recovering in November, the stock was under further pressure in December. Clearly volumes will be severely restricted in Queensland for the time being and investors may be tempted to adopt a wait and see approach to ascertain what the full impact on earnings will be on any companies operating in this sector, even though Asciano's operations span far beyond coal haulage in Queensland.

## Strategy & outlook

We are now leading up to the February reporting season, which as always will be preceded by the 'confession season' in January when companies provide the market with guidance prior to reporting. We saw a few downgrades come through towards the end of 2010, particularly in consumer based stocks and it is not unlikely that this pattern will continue in January with the domestic based economy still facing headwinds. This may present some selective buying opportunities if the market overreacts to negative short term news flow.

Looking ahead more broadly as we move into the new calendar year, investors' expectations for the local share market are positive after what was an ultimately lacklustre return in 2010.

The market is not overly expensive, China should sustain its strong growth and the US recovery is taking grip, all of which will be positive for the local market. However a positive outcome is by no means assured with several macro risks still very much in evidence. Many of the serious problems that came out of the GFC have not been solved but merely patched up. Perhaps the most serious of these are in Europe, where the overall level of debt remains too high. Thus far attempts to resolve these sovereign issues have sometimes illustrated the political tensions and different agendas that are evident within the Eurozone members. If these issues are dealt with poorly, there is the risk of contagion to the broader financial sector. Furthermore, any setback in the US recovery is sure to unsettle markets. While US corporate balance sheets are now in good shape, with very strong free cash flow generation and low debt, this is in stark contrast to the US government whose fiscal position remains weak. Finally, the threat of 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.

Reassuringly though, these global risks are more sensibly priced in to markets than say at this point last year.



## 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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