

## BT Sustainable Balanced Fund

Formerly known as  
"BT Institutional Ethical Balanced Fund"

**Fact Sheet**  
**June 2011**



### 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.



CERTIFIED BY RIAA

BT Investment Management Limited ABN 17 126 390 627, AFSL 316455, 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.

### Performance<sup>1</sup>

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
3 months	-1.10	-0.87	-1.43
FYDT	7.32	8.28	8.46
6 months	1.68	2.14	1.59
1 year (pa)	7.32	8.28	8.46
2 years (pa)	8.46	9.44	9.95
3 years (pa)	1.71	2.64	2.85
5 years (pa)	2.25	3.17	2.44

### Asset allocations (as at 30 June 2011)

Australian Listed Shares:	35.1%
Overseas Listed Shares:	21.1%
Australian Fixed Interest:	24.5%
Property Trusts	6.2%
Global Listed Property	3.0%
Australian Liquidity (< 180 days):	10.0%

### 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 30 Jun 2011)	\$140 million
Date of inception	August 1984
Minimum investment	\$500,000
Buy-sell spread	0.34% <sup>#</sup>
Distribution frequency	Quarterly
APIR code	BTA0122AU

<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.

### 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.

<sup>1</sup> 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

The final quarter of the financial year was a weak one for the Australian share market, with three negative months culminating in a disappointing return of -4.3%, as measured by the S&P ASX300 Accumulation index. In what was very similar pattern to the same period last year, equity markets were dominated by global macro themes. In fact, these themes have changed little, namely concerns over the strength of the US recovery, European sovereign debt and monetary tightening in China. This year-end, investors also had the additional headache of the end of quantitative easing, the initiation of which mid last year helped bring global equity markets out of the doldrums. Local economic news did nothing to temper the negative sentiment either with most data pointing towards a slowing economy.

Unsurprisingly, defensive parts of the market held up better during the month with Consumer Staples, Utilities and Telecoms holding up well.

In global equities markets, most of the world's major indices were down in this quarter as risk appetite diminished due to the same reasons explained above in the Australian market section. The loss of 0.5% in the MSCI World Accumulation index follows three quarters of gains. As was the case in the local market, more defensive sectors fared relatively better and biggest underperformers were Financials and energy related sectors, given the fall in the oil price. Clearly some of these issues were felt more acutely in some regions than others. The US market fared relatively well with the S&P500 down 0.4% over period, mainly due to a positive start (but then falling for six consecutive weeks).

In Europe, sovereign debt concerns were once again front and centre and escalated further towards the end of the quarter. The Euro Stoxx50 Index was down -1.6% in local currency terms. The Japanese Nikkei index recovered slightly over the quarter, up 0.6% after the tragic earthquake and ensuing nuclear crisis rocked the nation earlier in the year.

Emerging markets fared even worse than developed markets, even though many of the current issues are emanating from developed markets. All the BRIC indexes underperformed the US and most of the European developed markets, reflecting the perceived higher risk in those markets

Relative to the broader equity market, the Listed Property sector held up relatively well with the ASX300 Property Accumulation Index falling by 0.5% over the quarter as investors demonstrated a preference for higher yielding more conservative assets.

Australian longer term bonds had a strong quarter, helped by some mixed economic data over the month. The prospect of further interest rates has lessened over the period with softer local economic conditions but could easily resurface if the threat of inflation becomes more pressing and growth prospects pick up. As a result short term futures priced out further interest rate increases

International market performance in June has been driven by the Greek sovereign crisis and became more volatile toward the end of

the month. US ten-year yields closed higher 12bp higher for the month. European and UK yield rose 13bp and 9bp respectively, while Japanese yields fell by 2bp. Australia outperformed US with the ten-year yield spread closing lower at 2.05%. The Australian currency marginally outperformed over the period with the trade-weighted index appreciating 0.37%.

## Fund Performance

The portfolio outperformed its benchmark over the period.

In a quarter when growth assets underperformed defensives, the worst performing asset class was Australian equities, which was down by over 4%. International equities were also weak, down nearly 3%. Global property was the strongest performer, posting nearly 5% and Australian fixed interest was also strong.

In active terms, both international and Australian equities performed well while Australian fixed interest was the main detractor.

## Outlook

The most significant driver in the direction of equity markets for some time now has been the handful of major macro issues that have persistently dominated the headlines. From where we are today, it seems unlikely that this will stop any time soon. The European sovereign debt problem lurches from one elastoplast solution to the next, with no proposed more permanent solution palatable to enough of the disparate parties to make it workable. Speculation as to which country the crisis will land in next continues, all the while unsettling markets. Across the Atlantic, where the national debt problem should be more manageable, political agendas are exacerbating the problem. The once implausible notion that US Treasuries could default has now become only an improbable one, as initiatives to increase the US debt ceiling stall in the face of congressional brinkmanship, despite the obvious dismal consequences. Meanwhile, the Chinese continue to grapple with inflationary issues, which given the more downbeat investor mood, is gaining more focus despite this being a protracted issue. With this backdrop, there appears very little on the horizon to get equity investors excited, particularly as there is no current prospect of any further quantitative easing, which boosted equity markets this time last year.

However, as always, there are opportunities for stock-pickers. In particular, the market valuation looks attractive. Excluding the range seen during the crisis period, the overall Australian share market prospective price to earnings multiple is at levels not seen since the early 1990s. Of course, there are clearly downgrades coming, particularly in sectors exposed to the domestic economy such as Retail and Media, which on a prima facie basis look extremely cheap but in our view lack clear catalysts to bring about a share price turnaround. We are focused on finding investment opportunities where we can buy quality businesses with sound growth prospects. Given the broad based falls lately, there are companies that meet these characteristics that are attractively priced.



## 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

### JB Hi-fi Limited (JBH)

JBH is a discount retailer of home, personal, and auto electronic and entertainment goods. As a retailer, key ESG exposures for JBH are human capital management and staff satisfaction, and to a lesser extent, reputation risks from ethics and conduct breaches. JBH is not exposed to any material environmental risks.

Customer satisfaction in retail is increasingly linked to staff engagement and retention. The technical nature of JBH's electronic goods means attracting and retaining knowledgeable and experienced staff is even more important than traditional retailers such as MYR or DJS. On a positive note, at-risk remuneration of the company's key executives is linked to human capital development, providing management with incentive to retain and develop employees. However, in general, human capital management remains in line with most sector peers.

By focusing on electronic goods, JBH is largely protected from many of the reputation risks faced by sector peers, such as DJS, MYR and PBG, which are exposed to issues such as sweatshops and illegal or sub-standard work practices. Nevertheless, JBH could improve its ethics and conduct controls by, for example, implementing and publicly disclosing a whistleblowing policy and procedure.

### Boart Longyear Limited (BLY)

BLY provides drilling services and drilling products for customers in the mining and minerals, environment and infrastructure, and energy industries. BLY operates in the Asia Pacific region, Canada, USA, South America, Europe and Africa.

BLY's social exposures include workplace health and safety (WHS), the risk that its operations will be impacted by skill shortages, and exposure to business ethics and conduct risk. Safety is a stated core value at BLY and, in Regnan's opinion, its safety controls are industry best practice. In 2010, BLY maintained a sector-leading Lost Time Injury Frequency Rate (LTIFR) of 0.35. BLY has an Environment, Health and Safety Committee responsible for WHS oversight and a component of executive remuneration is dependent on meeting safety performance targets. The majority of BLY sites have OSHAS 18001 certification.

Whilst a large proportion of BLY's workforce is employed in remote locations and high demand occupations (drillers, engineers, and metal tradespersons) where skills shortages are expected to intensify in Australia, BLY has relatively low exposure to these risks because its operations are globally diverse: Australia contributed less than 30% revenue in 2010. BLY provides clear evidence of human capital management (HCM) strategy and controls overseen by the board and a senior executive with explicit responsibility for HCM. The company's business ethics controls are well beyond those of sector peers and other companies of comparative size, and include a best practice 'code of conduct', which includes detailed coverage of corruption and bribery.

As a contract service provider, BLY does not have a significant direct environmental exposure in the short to medium term. The introduction of a carbon price will result in operation cost increases via increases to fuel and electricity, however, many of BLY's customers operate in mining and oil and gas (boom industries) and Regnan expects the majority of cost increases to be passed through.



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