BT Sustainable Balanced Fund

Formerly known as
“BT Institutional Ethical Balanced Fund”

Fact Sheet
September 2011

BT Investment Management

Social Responsible Investments

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 for details.

Performance[1]

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
3 months	-6.31	-6.10	-5.71
FYDT	-6.31	-6.10	-5.71
6 months	-7.34	-6.92	-7.06
1 year (pa)	-2.44	-1.56	-1.66
2 years (pa)	-0.57	0.32	0.54
3 years (pa)	0.05	0.95	1.14
5 years (pa)	0.06	0.96	0.51

Asset allocations (as at 30 September 2011)

Australian Listed Shares:	34.8%
Overseas Listed Shares:	22.2%
Australian Fixed Interest:	24.9%
Property Trusts	7.5%
Global Listed Property	3.0%
Australian Liquidity (< 180 days):	7.7%

Investment guidelines

Asset allocation ranges	Neutral	Ranges	
(%)	position	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 Sep 2011)	$126 million
Date of inception	August 1984
Minimum investment	$500,000
Buy-sell spread	0.27%#
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*

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

[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

The September quarter was a very weak one for Equity markets the world over, with the MSCI World index falling by 17.1% over the period. The Australian market fared better than most with the ASX200 Accumulation index down by 11.6%, which was the worst quarter since the nadir of the crisis at the end of 2008.

The market has once again been dominated by macro events, despite the year end reporting season in August. The beginning of the period saw investor confidence significantly dented by the political stalemate in Washington around raising the debt ceiling, with a deal eventually getting approved but not without enduring reputational damage. Firmly consolidating this negative sentiment was the fact that US economic data released in early August was very weak. The idea that any weakness was being caused by temporary factors and that the recovery was still on track was firmly brushed aside as investors contemplated the reality of a persistently slower growth environment. As a result, equities across the globe sold off sharply.

The US Federal Reserve' implemented its USD400bn 'Operation Twist', which is designed to reduce the longer dated treasury yields by increasing the Fed's holdings in longer dated treasuries and reducing shorter dated notes. This provided some temporary respite but overall the market reaction was underwhelming and the rally short-lived as attention moved back to the well documented European, and in particular Italian and Spanish, debt issues.

Political leaders within the Eurozone continued to demonstrate that their own political agendas were higher on the priority list than agreeing and implementing a workable solution to the debt problem, which resulted in the equities sell-off gather strong momentum in September. There was no respite from China either, with increasing speculation in the market that there would be a 'hard landing', with softening equity data and increased concern around the property sector.

The RBA held the cash rate at 4.75% throughout the period, in what continues to be lacklustre domestic economy. Themes remained consistent in each of the accompanying statements with the Reserve Bank noting the unsettled nature of the financial markets due to sovereign debt and banking concerns in Europe and the prospect of slower economic growth in the United States.

Fund performance

The portfolio underperformed its benchmark in September quarter. The quarter was a very weak one for risk assets, particularly shares & property, with Australian shares down 11.65% and Global Property down 15.24%. International equities held up a little better, falling 8.0%, due mainly to the fall in the Australian dollar offsetting losses in the offshore share markets. Government bonds continued to rally in the September quarter, contributing to a 4.6% return for Australian Fixed Interest.

In a relative sense, our underlying active strategies were mixed with Australian equities and Australian Fixed Interest adding value, and International equities detracting value in September quarter. Our asset allocation position also slightly detracted value.

Strategy & outlook

The key influence on the Australian share market continues to be the global macro environment. While we expect there to be a recovery from the aggressive sell-off we saw in September, there looks to be little imminent chance of a meaningful and long lasting reduction in the levels of volatility to buoy equity investors. The key issue remains Europe and while the economic situation there remains dire, the element that continues to frighten markets the most remains a now seemingly entrenched lack of confidence in the key political protagonists agreeing (let alone implementing) a timely and workable solution to the problem. The current state of play is there is an initiative to provide the under funded European Financial Stability Facility (EFSF), with a 'first-loss guarantee' facility that would effectively insure a proportion of the face value of a sovereign bonds issue with the aim of re-instigating investor confidence in that sovereign issuer. Importantly, there are more meaningful initiatives to recapitalise European banks and clear consensus that action must be taken to avoid full contagion into the banking sector. Progress is being made but it is not quick enough to provide sustained confidence for markets.

In the U.S, data has improved to the extent that the complete stand-still scenario that some were portraying back in August has not eventuated. However, there is broader acceptance that overall growth will be sluggish for some time. From where we are today, we are faced with a long period of lacklustre growth and it remains to be seen what further initiatives the government and Federal reserve can implement to jolt the economy.

In China, recent data suggests something of a slow-down, with softening data, particularly in the property sector. We are definitely not in the 'hard–landing camp' and would point out that the imbalances in the Chinese economy that had such a painful impact in 2008 are not nearly so evident today. In particular, growth has been slower in light of more restrictive policy and they are running about half the surplus that they were 3 years ago.

The Reserve Bank has yet not been able to gauge the extent that the slowing growth in Europe and the US will have on emerging market economies. It would be naïve to suggest that they will come through unscathed and it is likely that China's export-led economy will start to moderate as export volumes decline. Declining commodity prices may also provide an indication of slowing emerging markets and may also result in a paring back of mining investment intentions in Australia, although the investment pipeline remains large. Australian households have remained cautious, a behaviour that is only likely to be exacerbated by a weakening labour market and a high level of financial market volatility.

Fundamentally, we continue to be negative in the near to mid-term on credit markets as global growth appears to have markedly slowed. Whilst corporate balance sheets are markedly more robust than a few years ago, we believe that the market will continue to experience ongoing gyrations, typically with credit either widening or the market losing liquidity, until headline risk dissipates.

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For more information

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

Regnan Stock Stories

Westpac Banking Corporation Ltd (WBC)

Key sustainability exposures for the bank sector include reputation and ethical conduct, due to negative public sentiment which regularly besets the industry.

WBC continues to provide industry-leading management of sustainability risks through highly developed oversight and extensive controls, including implementation of an ESG risk framework. WBC's reputation controls include a Group Reputation Risk Management framework which is approved and monitored by the Board Risk Management Committee. Additionally, ethical conduct controls are sector-leading, based on comparative benchmarks with the major banks. Board oversight of ethical conduct is exercised through a dedicated Sustainability Committee which includes the Group CEO Gail Kelly. Ethical conduct compliance controls are integrated into the Group risk management system, which Regnan considers to be best practice.

Human capital management (HCM) remains a key risk for the bank sector, as value is derived largely from human resources and intangible assets. Competition for talent remains high at executive and senior management levels. Attracting talent, staff retention, and staff development are key to WBC's enhanced customer-focused business strategy. HCM is an increasing source of differentiation in view of similar customer service improvement strategies across the major banks.

Controls on HCM are in line with leading practice in the bank sector. The HCM function is well supported at the senior management level and some executives including the CEO are eligible for STIs based on achievement of HCM targets (based on an employee engagement survey conducted by a third party). WBC continues to promote gender diversity, and has set an ambitious target to increase the representation of women in senior leadership roles to 40% by 2014. Flexible work programs reflect industry best practice. The company reports steadily improving employee engagement data.

WBC has exposure to environmental management through its lending portfolio and increasing community expectation regarding management of its direct environmental impacts (e.g. greenhouse gas emissions). Significant developments include extension of the Carbon and Water Forum from institutional banking to Westpac Retail and Business Banking, and Agribusiness, to enhance risk assessment and customer service related to climate change impact. Further, carbon and ESG risks are incorporated into credit risk policies in Westpac Institutional Bank.

Oil Search Ltd (OSH)

OSH is engaged in the exploration, development and production of oil and gas in Papua New Guinea (PNG). The topography, climate, geographic isolation and cultural differences in PNG continue to contribute to elevated levels of environmental and social risks.

OSH history of oil development in PNG provides it with a local workforce that can partially support the construction of PNG LNG. However, OSH's inexperience in LNG production means it is currently reliant on contractors to meet 50% of its PNG LNG labour needs, and this is expected to increase as construction ramps up. In response, OSH is currently developing a workforce plan out to 2015, and continues to implement local training and development programmes aimed at up-skilling local employees. On a positive note, staff turnover is low and on a par with other Australian players such as STO and WPL. Despite workplace safety performance deteriorating slightly in FY2010, OSH still remains the best amongst Australian peers and lower than the APPEA average. Safety controls are robust, including the use of lead indicators, and 'Job Hazard Analysis' and other tools, but disclosure could be improved.

OSH has a strong track record in managing community issues, through the introduction of local Community Liaison Officers, and the provision of healthcare services to local communities, including HIV prevention programs. However, tribal landowner disputes remain of concern, and continue to pose a risk to project timelines. As the 'local' partner to Exxon Mobil, OSH are expected to manage stakeholder issues, however there is limited disclosure on how OSH is recording, managing and reporting on these. Key concerns relate to benefits sharing and distribution of funds amongst local communities. OSH has stated it is encouraging greater transparency for the distribution of benefits, and has begun publishing its annual payments to the PNG government.

OSH's environmental controls are close to best of sector, with robust disclosure, including reporting of individual incidents and environmental monitoring plans. The company is not exposed to carbon costs in PNG, though it may benefit from increased demand for LNG due to energy security issues and a switch from coal to gas-fired power. OSH discloses its annual greenhouse gas emissions, and has committed to developing reduction targets.

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