

## BT Sustainable Conservative Fund

Formerly known as  
"BT Wholesale Ethical Conservative Fund"

### Fact Sheet December 2011

ARSN: 090 651 924



#### About the Fund

The Fund is a diversified portfolio that invests principally in Australian fixed interest securities, cash and a limited amount of Australian shares.

#### Key benefits of the Fund

- provides investors with the potential for income as well as capital growth
- allows for diversification across a number of asset classes
- offers access to companies assessed as demonstrating superior environmental practices and sustainable product and service offerings.

#### Fund objective

The Fund aims to provide a real return over inflation over the medium term to meet the objectives of conservative investors including tax exempt entities whilst excluding companies which do not meet the Fund's sustainable guidelines. The suggested investment timeframe is three years or more.

#### Investment approach

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.

The investment process for Australian shares is managed by BTIM's Australian Equities team and has the addition of sustainability screens.

#### 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.

#### Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
3 months	2.01	2.25	1.93
FYDT	1.63	2.10	1.60
6 months	1.63	2.10	1.60
1 year (pa)	4.17	5.12	4.22
2 years (pa)	3.48	4.43	4.57
3 years (pa)	5.59	6.56	6.35
5 years (pa)	4.06	5.02	5.08

#### Asset allocations (as at 31 December 2011)

Australian Listed Shares:	24.2%
Australian Fixed Interest:	49.2%
Australian Liquidity (< 180 days):	26.6%

#### Other information

Fund size (as at 31 Dec 2011)	\$110 million
Date of inception	September 1989
Minimum investment	\$25,000
Buy-sell spread	0.19% <sup>#</sup>
Distribution frequency	Quarterly
APIR code	RFA0811AU

<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.



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## Market review

In what was a rollercoaster quarter the ASX300 Accumulation Index was up 2.1%, a return that belies the volatility experienced during the period. Looking at it month by month, the market had a strong bounce-back at the beginning of the quarter, rallying back 7.2%, after six consecutive negatives months. However, the screens turned red again in November and December with the market down 3.4% and 1.4% respectively.

In terms of sector performance, defensive sectors did best with Telecoms up 7% and Utilities up 6.5%, while Materials were weak, down 3%. While most commodities actually rebounded over the quarter from a very weak period prior, spot iron-ore prices fell quite measurably, bringing its longer term performance pattern in line with other base metals, which reflects a softer economic outlook for China, which has been another key factor tempering markets during the period

As had been the case for most of the year though, the main influence on market sentiment in the December quarter was the ongoing European sovereign debt crisis. Peripheral European bond spreads continued to widen with the Italian ten-year bond yield moving above 7%, a level that indicates extreme funding difficulty, which prompted agreement at an EU summit to augment fiscal consolidation for member states via further government borrowing controls and initiatives were put in place to provide further capital support via the IMF. This tempered the negative sentiment to a degree with peripheral bond yields steadying towards the end of the period. However, the outlook remains tepid and uncertainty high, with few initiatives for growth and continued need for austerity dampening prospects.

Australian bond yields continued their rally in the fourth quarter. The three-year bond yield fell from 3.62% to 3.13%; the ten-year yield from 4.22% to 3.67%; and the 3-10s yield curve flattened to 54bp. The Reserve Bank cut interest rate by 50bp over the quarter with inflation lower than expected. The bank noted considerable turbulence and difficult financing conditions in financial markets, especially in Europe. Domestically the labour market continued to be soft as there was little net employment growth in the past few months, although the unemployment rate had stabilised. CPI started to decline as the production of key crops recovered. Investment in resources sector maintained better than average conditions, while the other sectors continued to lag. Although the lending rates are at long term average and short rates expected to decline further, credit growth remains subdued.

Credit markets were wider by quarter end, with continued concerns over European downgrades and global growth slowdown. Primary issuance has been muted due to market volatility. Synthetic credit spreads were tighter over the quarter. The Australian iTraxx, US CDX, and Euro Main finished 30bp and 24bp and 28bp tighter, respectively.

## Fund performance

The Fund outperformed its benchmark in the December quarter. The quarter was a reasonably strong one for risk assets with Australian shares up 2.1%. Government bonds continued to rally over the quarter, contributing to a 1.9% return for Australian Fixed Interest.

In a relative sense, our underlying active strategies were mixed with Australian Fixed Interest adding value whilst Australian equities detracted value in December quarter. Our asset allocation position was positive for the quarter.

## Strategy & outlook

It is customary at this time of year to reflect on the previous twelve months and to gaze into the crystal ball to deduce what might happen over the next twelve. From this standpoint, many of the key drivers that made 2011 such a difficult year look set to continue into 2012. As we have been saying throughout the European sovereign crisis, there is no silver bullet and it seems that we will continue to see recent initiatives to bring about more fiscal integration muddle through the various EU members' legislatures. Moreover, the institutions with the mandate to do so will continue to add liquidity into markets and support the banking system. The 'risk-on, risk-off' pattern looks set to continue as long as this issue remains front and centre of investors' minds. The crux of the issue however remains – there is too much debt. Austerity measures brought in to pay down this debt will continue to temper meaningful growth in the region, which is a painful fact that investors have had to get used to.

In the US, recent data has been more encouraging than expected but in our view a sustained recovery has to come from more significant investment from the corporate sector, which remains in good financial shape. If we're looking for catalysts to improve sentiment over the coming months, signs of stronger investment from this sector would be a clear one.

Closer to home, the much discussed slowdown in the Chinese economy has put further pressure on the Australian market and in particular the resources sector.

Our view is that the Chinese economy may well continue to slow in the shorter term as authorities try to get a grip on the overheating property market but we do not think that a 'hard landing' is a likely outcome. Rather, we believe that the authorities will take measures to stimulate growth and given the tightening measures that have implemented last year, they have some considerable levers to stimulate growth.

The environment remains difficult. However, it also provides opportunities for investors to identify value in companies where negative sentiment has driven share prices well below what their fundamentals indicate they are worth.



## 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

### Transfield Services Ltd (TSE)

TSE is engaged in resources, energy and utility infrastructure construction and maintenance, primarily in Australia and New Zealand but also in the Americas. Its most significant exposures are skills shortages in Australia amongst its trade and engineering workforce, health and safety, and the environmental impacts of its operations.

Increasing skills shortages and wage pressure is a significant exposure for the engineering services sector, particularly in WA and QLD. TSE is more diversified than resource intensive peers, and its contracts are predominantly focused in asset services and maintenance rather than project construction and delivery, which limits its exposure. Regnan considers TSE's management of human capital to be best practice. There is clear strategic oversight and board level commitment which includes a human resources committee and the use of short term performance incentives for the chief human resources officer. TSE has a variety of initiatives to address skills and diversity, including regular training of staff and subcontractors, flexible work practices and relatively generous parental leave. The company also has a registered Reconciliation Action Plan and Indigenous Development Coordinator to focus on recruitment from indigenous communities. TSE also discloses a human resources information system that measures recruitment, turnover, salary and gender ratios, and the development of a human resources scorecard that uses HCM and financial metrics to monitor productivity and the return on investment from human capital.

TSE also maintains robust controls over workplace health and safety (WHS) that compare favourably against its peers. The company's WHS policy and safety, health, and environment (SHE) management system are both comprehensive. Lost time injury frequency rate (LTIFR) performance is much better than the industry average. There were two fatalities in 2011 however, following on from one in 2010 and two in 2009. TSE launched a series of 'mandatory safety rules' in 2010 in response to the fatalities. In June 2010, it organised a global shut down of operations where staff were trained on the rules, their implementation, and the consequences of non-compliance.

TSE exposure to the direct effects of carbon pricing limited and most of its liabilities can be passed on to asset owners. The company is still in the process of understanding its emission profile and opportunities for efficiency and reduction so action is currently limited. TSE recognises the opportunity from providing efficient solutions to clients, and has implemented several successful water saving projects, but its actions lag behind peers such as WOR. TSE's diversified global footprint and limited asset ownership provides a hedge against the physical impacts of climate change but improvements could be made to disclosure of risk assessment and management.

### Amcor Ltd (AMC)

Amcor (AMC) is a global packaging company with five business divisions with operations in 42 countries. It continues to be one of the best environmental performers in the materials sector, particularly in terms of resource efficiency and greenhouse gas (GHG) emissions reduction. Not including the newly acquired aluminium foil business (which is GHG intensive), AMC's GHG intensity declined for the fourth consecutive year, falling only slightly short of its five year target. It also made progress in reducing the water intensity of its products. For example, municipal water use intensity at its Australian sites (the largest water users in the group) declined by ~22% during 2010/11; since 2005/06 there has been a reduction of 46% in water use intensity. This progress is the result of implementation of a variety of water efficiency initiatives and the implementation of a supply of recycled water into AMC's Petrie cartonboard mill. AMC also continues to demonstrate a strong commitment to sustainable packaging and reducing waste to landfill. Three fines for environmental incidents, two of which were relatively significant (totalling US \$55,700), detract from what is otherwise very good environmental performance over the past year.

AMC's social performance continues to be relatively strong. There is evidence that the ethical conduct controls implemented in the wake of the price-fixing scandal with Visy have been maintained. They include a best practice whistle blowing system and board level oversight of ethical conduct issues. AMC has also improved its safety performance and, during FY2011, its lost time injury frequency rate declined for the fifth year straight. However, AMC could improve its disclosure on human capital management, such as providing metrics (e.g. employee turnover, absenteeism, employee engagement), which would enable benchmarking of its performance against peers. On the positive side, there is an Employee Assistance Program that is available to around 90% AMC's employees.



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