

# SAM Sustainability Leaders Australia Fund

**Fund Manager  
And Responsible**

**Entity**

Vanguard Investments  
Australia Ltd,  
ABN 72 072 881 086

**Investment approach**

Seeks to capture the performance of Australia's Sustainability Leaders. SAM believes that, over time, these companies will outperform the broader Australian equity markets.

**SAM**

Sustainable Asset Management  
ARBN 101 554 778  
Tel. +61 3 9521 6402  
info-aus@sam-group.com  
www.sam-group.com

**Changes to Portfolio Holdings**

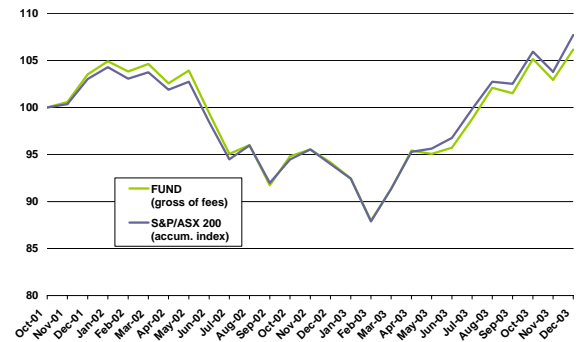
In October the Australia Fund was restructured to reflect the results of the 2003 Corporate Sustainability Assessments, which SAM conducted on 200 of the largest Australian listed companies. This resulted in the removal of 11 stocks and the addition of 16 to give a total number of 71 in the updated fund.

The complete list of companies is available on our website. Of the new entrants we would like to congratulate three companies in particular whose senior management have been emphasising their company's commitment to sustainability. These are Insurance Australia Group, which won the "Sustainable Company of the Year Award" from the Ethical Investor magazine in December (SAM was part of the nominating committee and also nominated IAG for this award), Origin Energy and FKP, a Brisbane based real estate development company."

**Top Ten Holdings**

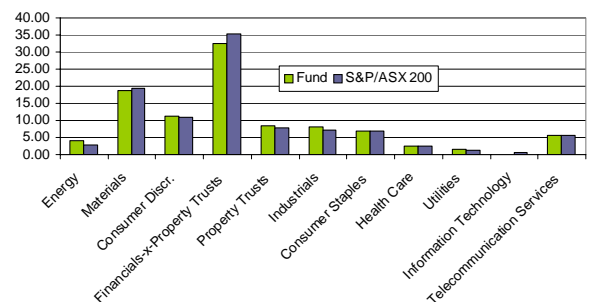
<b>National Australia Bank</b>	8.4%
<b>BHP Billiton</b>	8.4%
<b>NewsCorp (incl. Preference Shares)</b>	6.8%
<b>ANZ Bank</b>	6.5%
<b>Westpac Bank</b>	6.0%
<b>Telstra Corporation</b>	5.6%
<b>Rio Tinto</b>	2.6%
<b>St. George Bank</b>	2.5%
<b>Wesfarmers</b>	2.0%
<b>Fosters</b>	2.1%

**Performance Chart since Inception as at 31 Dec 2003**  
Source: SAM



**Net asset value:** \$0.9981  
**Purchase:** \$1.0001  
**Withdrawal:** \$0.9961  
**Buy/Sell Spread:** +/-0.20%  
**MER:** 0.70% p.a.  
**Total Fund Size:** \$73.7 million  
**Distribution** 1.7131 cents per unit

**Breakdown by Sector**



**Key performance data as at 31 December 2003**

	1 Mth	3 Mths	12 Mths	S. Incept.(pa)*
<b>FUND Net Return</b>	3.07%	4.39%	11.98%	2.16%
<b>FUND Gross return</b>	3.13%	4.58%	12.76%	2.88%
<b>S&amp;P / ASX 200 Accumulation Index</b>	3.78%	5.08%	14.61%	3.55%

\*Commencement 14 November 2001

# SAM Sustainability Leaders Australia Fund

Insurance Australia Group has taken an open and effective stance on climate change and its adoption of sustainability. It has been the most effective corporate explanation, so far, of the business case for responding to climate change. The company provides a very graphic presentation, which shows the trajectory of major hailstorms over the Sydney urban area. The famous Sydney hailstorm of 1999 was the largest insurance expense yet incurred in Australia. IAG's presentations reveal that this event narrowly missed a significant slab of the their customer base. Global warming is likely to increase the severity and frequency of hail storm events in Sydney. IAG is now responding to this changing threat scenario. As a result we have seen the emergence of this new sustainability leader.

We also nominated another of our familiar Australian sustainability leaders, Origin Energy, for the environmental category of the Ethical Investor awards. Its commitment to developing alternative energy sources is becoming increasingly apparent. The development of advanced solar panels, investments in geothermal, first tentative efforts at emissions trading, and its retail sales of solar panels are at the cutting edge of Australian industry.

Most interesting newcomer to our sustainability leaders team is FKP. FKP has only recently arrived in our universe and has gone straight through to the portfolio. Amongst real estate

development annual reports it is unusual to see a company describe an environmental management plan in its annual report (see FKP Ann. Rep. 2002, page 11). They described conserving the ecological features of the site. Apart from this the company has won several environmental awards for its buildings. It is also unusual to see a company openly committed to long term shareholder returns and to security of employment.

## Performance Analysis

In this quarter the major positive contributors to the Fund performance came from our holdings in Western Mining (+27.4%), Orica (+19.3%), and our lack of exposure to AMP and its offshoots, Woolworths and Westfield Holdings.

On the other hand major negative contributions came from our investments in Cochlear (-31.6%) and our lack of holdings in Stockland (17.3%) and Commonwealth Bank (+6.3%) which was best of the major banks this quarter.

In this quarter also our observed correlation between fund performance and the SA continued as the SA rose from 67.76 US cents to 74.95, an increase of 10.6%

This Report has been prepared by Vanguard Investments Australia Ltd (Vanguard) and SAM Sustainable Asset Management (SAM). Vanguard and SAM are responsible for its contents. None of the Vanguard Group (including Vanguard Investments Australia Ltd), SAM Sustainable Asset Management or their related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in the SAM Funds. The SAM Funds are available only to investors with over \$1,000,000 to invest or certain other excluded persons. Applications for investment in the SAM Funds may only be made on the application form attached to the current SAM Funds Prospectus available from Vanguard or SAM.