Ausbil Dexia Limited

Quarterly Performance Update Balanced Fund

December 2009

'We expect 2010 to be above current market consensus'

Portfolio Review

Portfolio performance for the December Quarter 2009 was 3.01% versus the benchmark return of 2.18%.

The Fund produced a positive return for the December quarter. The Fund continued to increase its exposure to domestic and international equities.The 50% currency hedge on the international equities holdings was closed noting the recovery outlook of the USD. The Australian bond exposure was retained with interest rates positive plus credit improving substantially. The direct property holdings have seen a turning point in the quarter, as asset valuations are now no longer deteriorating. A positive outlook in 2010 is expected for the direct property market as well as domestic and international equities.

Market Outlook

Last year started with the world economy in a tailspin, with most developed countries deep in recession. The interbank system was barely functioning and was headed for a short term freeze in March of 2009. International trade was collapsing due to the inability of exporters to fund working capital. The breakdown in trade finance also choked off export orders everywhere.

Move twelve months ahead and the transformations have been dramatic. Trade has rebounded and growth has commenced to recover in most developed economies. Key developing economies have led the recovery. Ultra easy monetary policy has not only stopped a liquidity crisis but made liquidity super abundant. Asset markets have rallied strongly.

There are two schools of thought about the aftermath of the extreme crises, particularly around the contraction in credit. The first argument is that the underlying recession will be prolonged, or that the recovery will be temporary, because the debt has to be repaid and the upswing is taking place under the weight of damaged balance sheets.

The other, more optimistic argument is that the economy has been pushed far from "normal" operating capacity levels and that sustained recovery is possible. The positive effects of the various stimulus measures have improved output in an environment of capacity underutilisation. It is increasingly apparent that policy has been dealing with the liquidity crisis and US consumer spending remains stronger than might be expected by the bearish protagonists.

Both fiscal and monetary policies should then be judged successful in preventing a collapse in key economies. China stands out. Noted for a national savings surplus and an economy in which the government allocates large amounts of capital, China was able to respond to the credit crisis in a spectacular fashion. As one barometer of Chinese stimulus, the bank lending figures accelerated. China's fixed asset investment growth has been particularly successful. The main initiative at the household level has been to promote growth via incentives to encourage replacement and the purchase of consumer durables. The Chinese growth measures also had a positive flow on impact on Australian resource demand. This, combined with our own stimulatory measures, has promoted local growth.

Internationally and domestically, the problem with policy having worked so well is that is has to be withdrawn. We expect the removal of stimulus policies put in place in 2009 to be a central theme in 2010. At the end of this process, monetary and fiscal policy will be closer to "neutral" then move toward "restrictive". We expect 2010 growth to be above current market consensus.

Recovery in Asia has been rapid; output gaps have started to close quickly. History shows that governments and central banks that act pre-emptively to head off inflation pressures achieve better results than those that allow them to build. The sweet spot afforded by economies starting from a position of having surplus capacity disappears as those output gaps close. Early interest rates rises are becoming a policy requirement as Asian economies need to contain the liquidity created by their recurring current account surpluses.

Portfolio Characteristics

Performance* as at the 31st December 2009

Period	Portfolio Return %		Benchmark %	Out/Under Performance%	
	Gross	Net		Gross	Net
One Month	2.75	2.67	2.27	0.48	0.40
Three Month	3.01	2.78	2.18	0.83	0.60
One Year	18.49	17.45	13.57	4.92	3.88
Three Yrs p.a.	1.90	0.99	-0.56	2.46	1.55
Five Years p.a.	7.78	6.83	5.64	2.14	1.18
Seven Years p.a.	9.90	8.91	7.43	2.48	1.49
Ten Years p.a.	7.46	6.47	5.58	1.88	0.90

	Target%	Actual%	Range Tolerance
Australian Equity	40.0	49.00	35-55
International Equity	25.0	20.90	20-30
Direct Property	10.0	10.90	5-15
Australian Fixed Interest	20.0	15.70	15-40
Cash	5.0	3.50	0-20
Total	100.0	100.0	

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