

December 2009

'...we believe that the market remains reasonable value and should deliver solid total returns...'

Market Review

Portfolio performance for the month of December 2009 saw a gain of 9.08% versus the benchmark return of 3.69%.

The Australian equity market reported a 3.7% rise in December, bringing the total return for the calendar year to +37.6%. M&A activity remained a key focus for investors during December after NAB announced a surprise bid for AXA - exceeding an increased (and final) offer from AMP. Telstra, meanwhile, downgraded its FY10 revenue guidance and announced the formalisation of its terms of engagement on the NBN with the Government. Stocks with USD earnings began to outperform as many investors reduced underweight USD denominated earnings exposures in anticipation of an eventual recovery in the US dollar.

Portfolio Review

At a sectoral level, the Portfolio benefited from an underweight position in Telecommunications and Consumer Staples, and overweight positions in Materials and Industrials. Conversely, the overweight position in the Consumer Discretionary sector detracted from performance.

At a stock level, overweight positions in NewsCorp, Alumina, Lend Lease and Asciano were the largest positive contributors to relative performance. Not holding Woodside Petroleum also assisted relative performance. Detractors to the Portfolio included the overweight positions in National Australia Bank, QBE Insurance and David Jones.

Outlook

The domestic economy remains well positioned amongst OECD peers with both cyclical and structural factors driving a rebound in economic growth. The strong government fiscal position, the country's competitive advantage in delivering commodities into growth markets and its strong population growth from both natural increase and immigration are helping to underpin a surprisingly strong recovery. Tempering this through 2010 will be the RBA's monetary policy stance, which will be increasingly restrictive. Offshore economies are unlikely to see any short term alteration to very loose monetary conditions until it is clear that economic recovery has taken hold and is self-sustaining. Fiscal stimulus measures are likely to have a very supportive effect through the calendar year for Australia and both developed and emerging economies. Earnings growth will trail economic growth but the domestic forecast for 1.6% earnings growth for FY10 on FY09 still appears conservative, whilst the FY11 year is still expected to deliver the bulk of the earnings recovery at +23.7% year on year. Our expectation is for earnings to be upgraded over the next 6 months. On that basis we believe that the market remains reasonable value and should deliver solid total returns over that period.

Portfolio Characteristics¹

Returns as at 31st December 2009

| Period | Portfolio Return% | | Benchmark % | Out/Under Performance% | |
|--------------|-------------------|-------|-------------|------------------------|-------|
| | Gross | Net | | Gross | Net |
| One Month | 9.08 | 8.42 | 3.69 | 5.39 | 4.73 |
| Three Months | 7.96 | 5.74 | 3.37 | 4.59 | 2.36 |
| Six Months | 67.87 | 60.34 | 25.74 | 42.13 | 34.60 |
| One Year | 86.59 | 71.57 | 37.59 | 48.99 | 33.98 |

Top 10 Stocks

| | Portfolio ² % | Index ³ % | Tilt% |
|-------------------|--------------------------|----------------------|-------|
| BHP Billiton | 14.75 | 12.53 | 2.22 |
| NAB Bank | 8.30 | 4.97 | 3.32 |
| Commonwealth Bank | 7.86 | 7.29 | 0.58 |
| ANZ Bank | 7.38 | 4.96 | 2.42 |
| Rio Tinto | 5.48 | 2.82 | 2.65 |
| Wesfarmers | 4.97 | 3.14 | 1.83 |
| Macquarie | 2.76 | 1.39 | 1.37 |
| News Corp | 2.66 | 0.52 | 2.14 |
| Asciano | 2.61 | 0.46 | 2.15 |
| Oil Search | 2.56 | 0.56 | 1.99 |

Sector Tilts

| | Portfolio ² % | Index ³ % | Tilt% |
|------------------------|--------------------------|----------------------|-------|
| Energy | 6.23 | 7.43 | -1.20 |
| Materials | 30.22 | 25.27 | 4.95 |
| Industrials | 6.71 | 6.79 | -0.08 |
| Consumer Discretionary | 10.14 | 3.83 | 6.31 |
| Consumer Staples | 5.90 | 8.48 | -2.58 |
| Healthcare | 0.00 | 3.44 | -3.44 |
| Financials (x LPT) | 37.37 | 33.03 | 4.34 |
| LPTs | 2.87 | 5.88 | -3.01 |
| IT | 0.00 | 0.76 | -0.76 |
| Telecommunications | 0.00 | 3.74 | -3.74 |
| Utilities | 0.00 | 1.35 | -1.35 |
| Cash | 0.57 | 0.00 | 0.57 |
| Total | 100.00 | 100.00 | - |

¹ The Australian Geared Equity Fund obtains its Australian shares exposure through the Ausbil Managed Trusts- Australian Active Equity Fund.

² Ausbil Managed Trusts- Australian Active Equity Fund

³ S&P/ASX 300 Accumulation Index