

## January 2010

*'the market remains reasonable value and should deliver solid total returns ...'*

### Market Review

Portfolio performance for the month of January 2010 was -7.38% versus the benchmark return of -7.27%.

The Australian equity market reported a 6.2% decline in January. Increasing concerns around the regulatory environment in the USA combined with higher than expected inflation risks emerging in China were the major drivers. Investors were also increasingly focusing on the upcoming February domestic reporting season with various companies taking the opportunity to address market expectations. There were both positive surprises, including upgrades from Commonwealth Bank and Computershare, and negative ones, such as a downgrade from Worley Parsons. Sales figures from Woolworths were seen as disappointing and raised questions over the strength and competitiveness of retail conditions.

### Portfolio Review

At a sectoral level, the Portfolio benefited from its underweight position in Energy, whilst the overweight positions in Consumer Discretionary and Industrials also aided performance. Conversely, the overweight position in the Materials sector, as well as the underweight Utilities and Consumer Staples exposure detracted from performance.

At a stock level, the overweight positions in Flight Centre, CSR and REA Group were the largest positive contributors to performance. Not holding Karoon Gas also assisted relative performance. Detractors to the Portfolio included the overweight positions in Mirabela Nickel, MacArthur Coal, Straits Resources and Pan Australian Resources, as well as the nil holding in Bendigo Bank.

### Outlook

The RBA has chosen to pause the current Monetary Policy tightening phase in order to assess the impact of the increases put in place so far, as well as taking into consideration the greater move in nominal rates. Consistent with our view, the Bank has acknowledged the very strong domestic economic performance and the improved outlook for global markets and economies generally and we see this move as merely a pause in what is likely to be persistent tightening for the bulk of CY10. Notwithstanding the recent re-emergence of volatility and risk aversion, the emerging leader market segment should perform well on a CY2010 economic recovery scenario. This portion of the market should also see further activity on the IPO front and may also even see further remnant recapitalisation measures. Some of these measures may in fact be ultimately directed towards corporate activity rather than balance sheet rescue as mid/small cap companies turn towards the micro cap and private company space for non-organic growth options. Our expectation is for earnings to be upgraded for the broader market and in particular the smaller cap sub-segment 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 Characteristics

Returns as at 31st January 2010

| Period               | Portfolio Return% |       | Bench-<br>mark<br>% | Out/Under<br>Performance% |       |
|----------------------|-------------------|-------|---------------------|---------------------------|-------|
|                      | Gross             | Net   |                     | Gross                     | Net   |
| One Month            | -7.38             | -7.46 | -7.27               | -0.12                     | -0.19 |
| Three Month          | -0.62             | -0.98 | -1.58               | -0.96                     | 0.60  |
| One Year             | 44.80             | 43.08 | 41.36               | 3.44                      | 1.72  |
| Three Yrs p.a.       | -0.65             | -2.11 | -7.50               | 6.85                      | 5.39  |
| Five Years p.a.      | 9.23              | 7.72  | 4.26                | 4.97                      | 3.46  |
| Seven Years p.a.     | 18.73             | 16.94 | 11.67               | 7.06                      | 5.27  |
| Since Inception p.a. | 15.91             | 14.18 | 10.22               | 5.69                      | 3.96  |

### Top 10 Stocks

|                    | Portfolio <sup>1</sup> % | Index <sup>2</sup> % | Tilt% |
|--------------------|--------------------------|----------------------|-------|
| Mirvac             | 4.20                     | 2.64                 | 1.56  |
| Asciano            | 3.84                     | 2.98                 | 0.86  |
| James Hardie       | 3.73                     | 1.93                 | 1.80  |
| Bank of Queensland | 3.61                     | 1.38                 | 2.23  |
| Harvey Norman      | 3.55                     | 1.25                 | 2.30  |
| David Jones        | 3.39                     | 1.42                 | 1.97  |
| Alumina            | 3.37                     | 2.27                 | 1.10  |
| Seek               | 3.31                     | 1.26                 | 2.05  |
| Challenger         | 3.11                     | 1.19                 | 1.92  |
| CSR                | 3.05                     | 1.68                 | 1.36  |

### Portfolio Sector Tilts

|                        | Portfolio <sup>1</sup> % | Index <sup>2</sup> % | Tilt% |
|------------------------|--------------------------|----------------------|-------|
| Energy                 | 2.77                     | 9.56                 | -6.79 |
| Materials              | 27.19                    | 21.93                | 5.26  |
| Industrials            | 22.74                    | 18.49                | 4.25  |
| Consumer Discretionary | 28.84                    | 14.33                | 14.51 |
| Consumer Staples       | 1.02                     | 4.70                 | -3.68 |
| Healthcare             | 0.00                     | 6.36                 | -6.36 |
| Financials (x LPT)     | 6.72                     | 7.33                 | -0.61 |
| LPTs                   | 8.82                     | 11.54                | -2.72 |
| IT                     | 0.00                     | 1.06                 | -1.06 |
| Telecommunications     | 1.00                     | 0.72                 | 0.28  |
| Utilities              | 0.00                     | 3.97                 | -3.97 |
| Cash                   | 0.89                     | 0.00                 | 0.89  |
| Total                  | 100.00                   | 100.0                | -     |

<sup>1</sup> Ausbil Investment Trusts- Australian Emerging Leaders Fund (AAP0104AU)

<sup>2</sup> 70% S&P/ASX Midcap 50 Acc Index and 30% S&P/ASX Small Ord Acc Index