

January 2010

'...the outlook for global and domestic growth should continue to be upgraded ...'

Market Review

Portfolio performance for the month of January 2010 was -13.73% versus the benchmark return of -6.17%.

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 overweight positions in Financials (ex REITs) and Consumer Discretionary, and underweight positions in Energy and Consumer Staples. Conversely, the overweight position in Materials detracted from performance.

At a stock level, overweight positions in Macquarie Group, Leighton Holdings, Suncorp-Metway and Toll Holdings 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 Worley Parsons, Oil Search and Harvey Norman.

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. Whilst we would concur that some legacy issues from the financial crisis, such as tightened business credit, will continue to provide headwinds this year our belief is that the outlook for global and domestic growth should continue to be upgraded due to the effects of ongoing, large-scale stimulus measures. Corporate earnings growth expectations are also being upgraded in light of the improving backdrop and recent consensus data now estimates 2.7% EPS growth for FY10 on FY09 (up from the +1.6% expected last month) and a strong 23% still anticipated for FY11. This places the market on 15.3 times current and 12.5 times prospective earnings for FY10 and FY11 respectively which appears to be very reasonable value given the expectation of further sizeable earnings upgrades in CY10.

Portfolio Characteristics

Returns as at 31st January 2010

Period	Portfolio Return%		Benchmark %	Out/Under Performance%	
	Gross	Net		Gross	Net
One Month	-13.73	-14.51	-6.17	-7.56	-8.34
Three Months	-1.68	-4.00	-0.95	-0.73	-3.05
Six Months	20.67	15.54	9.92	10.75	5.62
One Year	85.54	70.76	35.67	49.87	35.09

Top 10 Stocks

	Portfolio%	Index ¹ %	Tilt%
BHP Billiton	14.52	12.20	2.32
ANZ Bank	8.28	5.06	3.22
National Australia Bank	8.24	5.14	3.10
Commonwealth Bank	8.22	7.53	0.69
Rio Tinto	5.34	2.73	2.61
Wesfarmers	4.66	2.94	1.72
Macquarie Group	3.29	1.54	1.75
News Corp	2.81	0.51	2.30
Asciano	2.61	0.46	2.15
QBE Insurance	2.29	2.16	0.13

Sector Tilts

	Portfolio%	Index ¹ %	Tilt%
Energy	5.58	7.14	-1.56
Materials	29.54	24.49	5.05
Industrials	6.71	6.87	-0.16
Consumer Discretionary	10.00	3.87	6.13
Consumer Staples	6.19	8.28	-2.09
Healthcare	0.00	3.46	-3.46
Financials (x LPT)	38.96	33.76	5.20
LPTs	2.85	6.08	-3.23
IT	0.00	0.80	-0.80
Telecommunications	0.00	3.86	-3.86
Utilities	0.00	1.38	-1.38
Cash	0.18	0.00	0.18
Total	100.00	100.00	-

¹ S&P/ASX 300 Accumulation Index