

# Bennelong ex-20 Australian Equities Fund

## Monthly performance update

As at 31 December 2009

### Market review

The S&P/ASX 300 Accumulation Index posted a 3.37% return in December while the ex-20 portion of the market returned 5.23%.

2009 was a year characterised by a remarkable change in investor sentiment. During the first quarter of the year, investors remained highly risk averse as the market continued to post negative returns following on from the global financial crisis and ensuing turmoil evident throughout 2008. After declining over 53% from the peak in October 2007 until the low in March 2008, the subsequent rally was notable in terms of the extent of improvement in corporate cost and balance sheet management, as well as the resilience of the Australian economy.

In company news, NAB launched a bid to compete with AMP's offer for AXA. BHP and RIO signed binding agreements on the proposed joint venture that would combine their Western Australian iron ore operations. Metcash submitted a bid to purchase a majority stake in Mitre 10. CSR announced a \$375m equity-raising accompanied by a demerger of their sugar business. Woodside Petroleum announced a \$2.5bn equity offering which coincided with higher than anticipated capital costs on its Pluto LNG project.

The economic news for the quarter was generally positive. Australian GDP rose 0.2% on the previous quarter. The labour market recorded the strongest job creation since late 2006 which translated into unemployment falling to 5.7%. Consumer sentiment was strong in October but edged lower over the following two months. In contrast, business confidence was softer in October but recovered over the two subsequent months.

Offshore, China recorded GDP growth of 8.9% in the third quarter with fixed asset investment growing 33%. European GDP was marginally positive at 0.4% growth quarter-on-quarter whereas the UK contracted 0.2%. Dubai surprised markets by announcing intentions to attempt to reschedule the debts of its quasi-sovereign entity Dubai World. Elsewhere, the cost of insuring Greek bonds escalated on growing concerns about its financial position. US GDP rose 2.2% as unemployment reached a 26-year high of 10.2% in October. Meanwhile, the ISM manufacturing index rose to a two year high in October.

### Strategy in review

The Bennelong ex-20 Australian Equities Fund achieved a 4.57% return for the quarter of December, trailing the benchmark performance of 5.23%.

Monthly performance was driven by the negative contribution of the portfolio's overweight positions in the retailing and metals & mining sectors. This was partially offset by the positive contribution from the overweight position in the miscellaneous services and construction sectors, together with the underweight position in the gold sector.

### Performance

Performance	1 mth	3 mths	Since Inception*
Bennelong ex-20 Australian Equities Fund	4.57%	N/A	7.61%
Benchmark <sup>#</sup>	5.23%	N/A	6.84%
Value added	-0.66%	N/A	+0.77%

\* Inception date: 2 November 2009

<sup>#</sup> S&P ASX 300 excluding S&P ASX 20 Leaders Index

### Outlook

Equities are well positioned to benefit from the expansionary economic policies currently in place. Fiscal stimulus initially benefited the consumer sector. While the consumer remains relatively buoyant today, fiscal support will fade into 2010. We are now starting to see a pick-up in infrastructure and business investment spending in response to stronger demand and growing confidence in the outlook. While headline valuations may appear fully priced we expect earnings to be upgraded over the next 3-12 months. Our portfolio strategy has shifted exposure away from early cycle beneficiaries (eg. consumer discretionary) into sectors that benefit from increasing capital spend (eg. mining and infrastructure services). We expect merger and acquisition activity to pick-up as Australian corporates look to deploy capital and re-leverage balance sheets.

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