

# Bennelong Australian Equities Fund

## Monthly performance update

As at 31 December 2009

### Market review

The Australian equity market increased 3.69% in December to close at a 14-month high, which is now 57% above the low point seen in March 2009. Trading in December was a story of two halves. Initially, investors were concerned about any potential fallout from the Dubai World debt scare. As fears subsided, investor sentiment reacted positively to continuing evidence of a global economic recovery.

Steel stocks and large miners performed strongly as the outlook for global growth and commodity prices continued to improve. The energy sector was adversely impacted by a combination of project cost over-runs, equity raisings and/or downgraded earnings expectations. Telecommunications also underperformed as a result of downgraded guidance from Telstra. The bank sector underperformed as investors reacted negatively to NAB's bid for AXA.

Economic news in December continued to show evidence of an improvement in economic conditions. The RBA raised the cash rate again in December reflecting a policy response to the strong employment, housing and finance data. Rising interest rates and strong commodity prices continued to support the AUD which has rallied 32% against the USD over 2009. Oil closed just below its highs for 2009 at US\$79.7/bbl.

### Strategy in review

The Bennelong Australian Equities Fund achieved a 3.61% return for the month versus the S&P/ASX 300 Accumulation Index return of 3.69%. The marginal underperformance can be attributed to an overweight position in the retailing sector and an underweight position in the insurance sector, which was largely offset by the positive contribution from overweight positions in the miscellaneous services and construction sectors as well as underweight exposure to the gold sector.

### 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 3-12mths. 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.

### Performance

Performance	1 mth	3 mths	Since Inception*
Bennelong Australian Equities Fund	3.61%	4.78%	46.65%
Benchmark <sup>#</sup>	3.69%	3.37%	44.59%
Value added	-0.08%	+1.41%	+2.06%

\* Inception date: 30 January 2009 <sup>#</sup> S&P ASX 300