

# Bennelong SGI Global Equities Fund

## Monthly performance update

As of 28 February 2010

### Market overview

#### North America

North American equity markets led global performance by reversing January's decline and gaining 3.23%. Boosting North America was a 5.75% gain by the Canadian market. North America was also the best performing region in the global fund. Over the course of the month we averaged a 6% underweight to the region, but stock selection was excellent with our two US-based top 10 positions – Express Scripts and JP Morgan – driving performance. Only six of our North American positions declined for the month costing a total of 16 basis points. From the underweight exposure we held through most of February, we have now moved to an equal market weight as we have uncovered new names of interest.

#### Europe

The difficulties that Europe encountered at the start of the year continued in February as all eyes stayed focused on Greece and its debt problems. Greek national debt, while substantial, is not the highest among developed countries as a percentage of GDP. Their problem is that several billion Euros worth of the debt comes due in Spring and in the absence of a firm commitment of European support, few investors are willing to buy the debt at a rate Greece could afford. Countries such as Germany and France are loath to bail out the country given the moral hazard implications (not to mention domestic political opposition), but are keenly aware of what happened post the US experiment to let Lehman fail. Their banks are also carrying several billion Euros of Greek debt, although it's unclear how much of this may have turned over as collateral to the European Central Bank (ECB).

The uncertainty surrounding this issue and the related problems of Spain and Portugal conspired to drive the market down 3.74%, making it by far the worst performing region year-to-date. Our performance was also poor as several of our higher beta positions underperformed the market and we did not enjoy any stand-out performances as was the case last month.

#### Japan

For the second consecutive month Japan's broad-based Topix Index declined a bit under 1% in February in local currency terms, while the Yen was essentially unchanged versus the Australian dollar. Last month we noted that Toyota's sell-off was not tempting us to go bottom-fishing and that we would stick with companies benefiting from its travails. This turned out to be correct as Toyota dropped another 5% over the course of the month, while our position in Honda rose slightly. We are equal weight in the Japanese market and our performance exceeded that of the index, as we lost money in only one stock and the loss was negligible. Meanwhile, a new addition to the portfolio (and top 10 position) Mitsui & Company gained 3.5% from our initiation on the last day of January.

#### Asia

MSCI Pacific trailed only North America in terms of market performance with strong returns provided by Australia and Hong Kong. Unfortunately, we lost money due to poor stock selection. We have significantly reduced our exposure in Asia ex-Japan from a double weight last month to an equal weight position, and are aggressively reviewing our positions in the region. No single stock was damaging but only one of our positions provided a positive return.

### Performance

	Fund %	MSCI Index %	Alpha %
1 month	0.81%	0.66%	+0.15%
3 months	3.90%	1.16%	+2.74%
Since inception*	2.08%	8.40%	-6.32%

\*Inception date: 2 April 2009

### Regional breakdown

Region	Weight %
Asia (ex Japan)	5.2%
Europe	33.4%
Japan	11.0%
North America	50.1%
<b>Total</b>	<b>100%</b>

### Top 10 holdings

Stock name
1. Express Scripts Inc
2. Mitsui Inc.
3. Julius Baer Gruppe
4. DBS Group Holdings
5. Check Point Software Technologies Ltd
6. Xerox Corp.
7. Prysmian S.p.A
8. JP Morgan Chase & Co.
9. Tokyo Electron
10. Ace Ltd.

### Positioning and outlook

Our current portfolio is fully invested and carries a predicted beta of 0.9. The predicted annual standard variability of returns is 18.5% against the benchmark estimate of 20.2%. We manage overall portfolio risk to this number and expected portfolio variability is positioned exactly where we want it. Our top 10 positions account for 28.1% of the fund. Mitsui & Co., Tokyo Electron, JP Morgan and Xerox are new entrants to the list, while Life Technologies, Marine Harvest, Allegiant Travel and Oil Search have dropped out, although we retain positions in all of these stocks. Factor exposures are small. Our single largest exposure is to the SB World Bond Index and carries a VAR of 92 basis points over one month.

The solid relative performance of the fund year-to-date has been due to stock selection as we have maintained risk parameters such as beta, annual expected standard deviation of returns and factor exposure within conservative guidelines. We do not seek to achieve outperformance through portfolio positioning. Rather, we focus on stock selection.

From a sector perspective, we are underweight telecommunications, energy and retail trade with our largest overweight in services and software. Emerging market positions account for 2% of the fund.

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