

# Bennelong SGI Global Equities Fund

## Monthly performance update

As of 31 January 2010

### Market overview

#### North America

As goes January so goes the year? That certainly was not the case in 2009, but 2010 will test the theory again as the S&P 500 skidded 3.7% in the first month of the year.

Our performance was better with our North American selections declining 2.94%. We are underweight North America with 47% of the fund holdings domiciled there compared to a benchmark weight of 54%. We do not have any macro view that drives the underweight—it is simply a function of stock picking. One could make the argument that North American markets were primarily de-railed due to political factors; especially the jawboning over Fed Chairman Bernanke's re-appointment, but that would give short shrift to rising debt and taxation levels.

From a corporate profitability perspective, however, Q4 earnings have been generally positive. Nonetheless, following the major rally in the final three quarters of 2009, history indicates we are due a correction. This seems especially likely since either economic recovery and the concurrent normalisation of interest rates or the re-emergence of growth concerns could serve to dent investor enthusiasm for a time.

#### Europe

Last month we questioned Europe's resilience in the face of dire national accounts around the region's periphery. In January, the gyros came home to roost as concerns regarding Greece's debt position (118% of GDP) dinged European markets and the Euro currency. MSCI Europe dropped 6.0% leading the global slide with an assist from a weakening Euro versus the USD.

Not surprisingly, Spain's period of outperformance came to end as it fell over 8%. Denmark and Finland were the only European countries to record a positive month. As in North America, we are underweight Europe. Equally, our regional performance surpassed that of the markets as our 29% weight in Europe lost 28 basis points compared to the benchmark's 32% weight dropping 271 basis points. We continue to believe that Europe will be a tale of two regions in 2010 as core countries such as Germany, France, the Nordics and the Netherlands return to growth.

With austerity budgets required to bring national accounts into something resembling balance around the periphery, another year of tough economic

sledding can be expected around the Mediterranean coast and the Irish Sea. Still, we view the concerns surrounding Greece, Spain, Ireland, etc. as political problems rather than anything that will put the European currency project in jeopardy.

#### Japan

Japan's broad-based Topix Index lost less than 1% in January; a commendable performance when we consider that Toyota, Japan's largest stock by market capitalisation, plummeted 10% due to its multi-million unit recall and production halt of models that account for roughly 45% of North American sales. Yen strengthening versus the US dollar helped. While the sharp sell-off in Toyota may tempt some to look at the stock in the hopes of a rebound, we believe that the company's recent missteps are symptoms of larger problems that were several years in the making, and prefer to focus on companies that may benefit from Toyota's tarnished badge.

We are equal weight the Japanese market and our performance roughly tracked the index. Our positioning in Japan has not changed and we still find value in Honda, social networking site Gree, semiconductor equipment manufacturer Tokyo Electron and noodle-maker Toyo Suisan Kaisha; the one significant out-performer over the course of the month.

#### Asia

MSCI Pacific slipped a bit over 1% for the month despite very weak performance in Hong Kong, as concerns of an easy money bubble spurred by the currency's peg to the US dollar undermined the market. China rate fears also contributed to Hong Kong's weakness. We are overweight Asia Ex-Japan, a positive from an allocation point of view but we did not follow up with superior stock selection. To an extent, this was less of an Asian issue than it was a reflection of the weakness in the oil price as three of our significant Asian stocks are energy plays and each had a difficult month. In fact, energy was the poorest performing sector in our global universe.

### Performance

	Fund %	MSCI Index %	Alpha %
1 month	-2.27%	-3.00%	0.73%
3 months	4.22%	3.26%	0.96%
6 months	N/A		
Since inception*	1.26%	7.69%	-6.43%

\*Inception date: 2 April 2009

**Regional breakdown**

Region	Weight %
Asia (ex Japan)	14.6%
Europe	29.4%
Japan	9.3%
North America	46.6%
<b>Total</b>	<b>100%</b>

**Top 10 holdings**

Stock name
1. Life Technologies Corp
2. Express Scripts Inc.
3. Prysmian S.p.A.
4. Check Point Software Technologies Ltd
5. Marine Harvest.
6. Julius Baer Gruppe
7. Ace Ltd.
8. Allegiant Travel
9. Oil Search Ltd
10. DBS Group Holdings

**Positioning and outlook**

Our current portfolio is fully invested and carries a predicted beta of 0.95, while last month's realised beta was 0.99 and tracking error to the benchmark was 5.23%. The expected annual standard deviation of returns stands at 19.62%, below the expected market annual standard deviation of 20.2%. Our top ten positions account for 25.5% of the fund. There have been a number of changes in our top ten positions with Julius Baer entering the list and BAE dropping out. Factor exposures are small with our single largest exposure remaining a tilt toward growth versus value, with VAR of 76 basis points over one month.

The solid relative performance of the fund 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 out-performance through portfolio positioning. Rather, we focus on stock selection.

From a sector perspective, our underweight in Financials has moderated and we are nearly at a benchmark weight due to a new position in a European private bank. Telecommunications currently stands as our largest underweight, while Materials & Processing is our largest overweight. Emerging market positions account for just under 5% of the fund. In January, the Australian dollar was stable against the greenback, implying slight strengthening versus the Euro and slight weakening against the Yen.

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