

Bennelong SGI Global Equities Fund

Monthly performance update

As of 31 July 2010

Market overview

After suffering downward pressure in May and June, global stock markets pushed higher in July. While macro-economic indicators remain mixed, strong corporate results and a sense that the European debt crisis had subsided encouraged investors to return to stock markets. Subsiding concerns in Europe could be readily seen in the strength of the Euro and the British pound compared to the USD. With the Japanese Yen and Australian dollar also strengthening against the USD, it could be argued that US concerns rather than European relief were the key factor in July.

Interestingly, bond investors were also engaged during the month, pushing interest rates lower. At the end of the July, the US 10-year Treasury yield slipped to 2.91%, German bunds were paying 2.7% and the Japanese 10-year bond reached 1.07%. The latter is remarkable considering Japanese bonds yielded 1.4% in early April. Overall, stock investors seemed ready to value the here and now in July, while bond investors appeared to demonstrate their increasing concern for the future.

North America

On a non-currency adjusted basis, the S&P 500 performed better than markets in Japan and Asia, but significantly lagged a resurgent Europe. We were underweight the market over the course of the month which helped performance. The only significant disappointment was Medco Health Solutions, one of our prescription benefit manager (PBM) selections. MHS failed to execute and reported disappointing results; especially relative to our other PBM position Express Scripts. Xerox was the strongest US contributor in July on the back of very strong second quarter results. Other top contributors were spread across a variety of sectors including Microsoft, Altria, Toronto-Dominion Bank, our gold play Osisko Mining and vehicle emissions control company Tenneco.

Europe

Given the currency strength and market return, it is no surprise that every one of our European selections provided a positive return. Stocks in several sectors performed notably well, led by our finance selections Julius Baer, Banco Santander, Standard Chartered Bank and BNP Paribas. After a weak performance June, Marine Harvest staged a strong rebound. Our transportation theme continued to run on the back of Deutsche Lufthansa. Looking ahead, Europe presents a conundrum. The relief rally, on the realisation that the

Euro was not going to collapse and Greece was not going to default, was a powerful one. Whether that momentum continues for the remainder of the year is difficult to answer. We are likely to reduce our current overweight position in European finance given the dramatic performance and approaching price targets. Some of our European finance sector exposure will likely be replaced by telecommunications where our lack of exposure was a negative contributor in July.

Japan

In Yen terms, the Topix index barely moved but the strengthening currency made it a good performer in USD terms. Our performance exceeded the benchmark primarily due to our positions in Hitachi and Sony Financial Holdings. Our attempt at a second bite at the social networking apple turned out less well, as DeNA Corporation experienced a slowdown in subscriber numbers shortly after we initiated our position. Despite the strengthening Yen, we have seen good earnings reports from several Japanese manufacturers. Whether global economic activity can sustain that performance remains to be seen but we have our doubts.

Asia

After out-performing in June, Asia ex-Japan slipped back behind Europe and North America in July. It was also held back by relatively modest currency appreciation. We only have three significant positions in Asia: DBS Bank, Neptune Orient Lines and China National Offshore Oil Company. For the time being we have no positions in Thailand, Indonesia or Malaysia.

Performance

	Fund %	MSCI Index %	Alpha %
1 month	0.45%	0.87%	-0.42%
3 months	-2.88%	-2.93%	+0.05%
1 year	1.46%	0.87%	+0.59%
Since inception*	1.82%	5.60%	-3.78%

*Inception date: 2 April 2009.

NB: performance figures are gross (before fees and expenses)

Regional breakdown

Region	Weight %
Asia (ex Japan)	5.9%
Europe	32.8%
Japan	13.3%
The Americas	44.9%
Cash	3.1%
Total	100%

Positioning and outlook

Our current portfolio is fully invested and carries a predicted beta of 0.97. The predicted annual standard variability of returns is 21.04% in line with the benchmark estimate of 21.08%. Our top ten positions account for 29.9% of the fund. Factor exposures remain modest.

From a sector perspective, we are overweight technology hardware, transportation and healthcare. Our largest underweight positions are in communications, media and consumer non-durables. Emerging markets account for 4.3% of the fund.

Top 10 holdings

Stock name
1. Express Scripts
2. Hitachi
3. Xerox Corp
4. Apple Inc.
5. Sony Financial Holdings
6. Microsoft Corp
7. Marubeni Corp
8. Julius Baer
9. Marine Harvest
10. Altria

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