

# Bennelong Concentrated Australian Equities Fund

## Monthly performance report

As at 31 December 2011

### Market review

The Australian equity market (S&P/ASX 300 Accumulation Index) posted a -1.44% return over the month, which translated into a -10.98% return for the calendar year.

Equity market volatility in 2011 was fuelled by a number of factors. We saw rising tension in the Middle East early in the year. This was followed by the nuclear crisis and production shutdown in Japan as a result of damage caused by the earthquake and tsunami. In the US, Standard & Poors surprised investors by downgrading the US credit rating from AAA to AA+. At the same time, there were increasing signs of inflation emerging in China. More recently, the world has been focused on the European sovereign debt crisis, and what it means for financial markets.

Company news during the month saw more downgrades to earnings expectations, led by retailers including Billabong and JB Hi-Fi. The Bank sector warned about the risk of rising funding costs despite the RBA cutting rates. M&A activity was prominent in the coal sector with Aston Resources and Whitehaven Coal announcing a merger proposal, while Gloucester Coal confirmed it had entered into a merger proposal discussion with China's Yanzhou Coal Mining Company.

In economic news, the RBA cut its cash rate a further 25bps in December taking it to 4.25%. RBA Governor Glenn Stevens cited the increasing likelihood of a global economic slowdown as a result of sovereign credit and banking problems in Europe, together with cautious behaviour by firms and households.

International economic news continues to focus on the European debt crisis, which is raising questions about Eurozone governments' rising levels of debt, falling economic growth, and rising yields on government bonds.

### Strategy in review

The Bennelong Concentrated Australian Equities Fund achieved a -2.79% return for the month compared to the S&P/ASX 300 Accumulation Index return of -1.44%. This translated into a 12-month return of -8.18% versus the S&P/ASX 300 Accumulation Index return of -10.98%.

The underperformance was attributable to negative contributions from overweight positions in the Gaming & Leisure and Non-Bank Financial Institutions sectors. This was partially offset by positive contributions from underweight positions in the Gold and Energy sectors, together with overweight positions in the Metals & Mining sector.

### Performance

Timeframe	Fund return	Benchmark <sup>#</sup>	Value added
1 month	-2.79%	-1.44%	-1.35%
3 months	2.28%	2.05%	+0.23%
1 year	-8.18%	-10.98%	+2.80%
2 years	-0.35%	-4.76%	+4.41%
Since Inception*	14.00%	9.74%	+4.26%

NB: performance figures are net of investment fees, administration fees and gross of any earnings tax

<sup>#</sup> S&P ASX 300 Accumulation Index

\*Inception date: 30 January 2009

### Outlook

The market is currently trading on 10.4x consensus earnings forecasts for 2011-12 with a corresponding yield of 5.0%. Earnings expectations have more than halved over the past six months and are forecast to grow 8.8% in the current year.

While we are cautious about the significant hurdles challenging economic activity and capital markets, this is masking some attractive investment opportunities. We believe the prudent way to manage this is to target high quality companies that can deliver positive earnings surprises relative to expectations.

## Contact details

For more information, visit [www.bennfundsmanagement.com.au](http://www.bennfundsmanagement.com.au) or call 1800 895 388.

The Fund is managed by Bennelong Australian Equity Partners, a Bennelong Funds Management boutique.

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