

# Bennelong Concentrated Australian Equities Fund

## Monthly performance update

As at 30 June 2010

### Market review

The Australian market (S&P/ASX 300 Accum Index) closed 2.65% lower during June. Equity markets ended the financial year on a negative note as a result of continuing sovereign debt problems, moderating Chinese growth, and political upheaval following the Resources Super Profits Tax (RSPT) debacle. The out-performing sectors included Telecommunications (+9.5%), Utilities (+0.7%) and Consumer Staples (+0.5%). The underperforming sectors included Industrials (-8.0%), Financials ex-REITs (-5.9%) and Consumer Discretionary (-5.3%).

Investor and corporate confidence continued to react negatively to speculation that the RSPT format could extend to other sectors. This ultimately led to a change of leadership of the Australian Labor Party and Julia Gillard replaced Kevin Rudd as Prime Minister. As a first order of business the new PM dumped the RSPT for the new Mineral Resource Rent Tax (MRRT) which was met with general approval by the mining companies and investors.

In company news, NewsCorp announced an offer for the remaining 61% of BSKyB. Telstra also announced they had signed a non-binding heads of agreement with regards to a sale of its copper network and related infrastructure to NBNCo. Ahead of the mid-year profit announcements several companies suffered earnings downgrades, including Macquarie Bank, Elders, Downer, Brambles, Toll Holdings and Virgin Blue.

Economic news was mixed in June. Despite a strong unemployment rate, consumer confidence and housing finance data weakened. GDP growth achieved +0.5% in the March quarter. The RBA decided to leave interest rates unchanged at 4.5% while the AUD/USD rebounded marginally to close the month at 85.5 cents.

### Strategy in review

The Bennelong Concentrated Australian Equities Fund achieved a -0.90% return for the month versus the S&P/ASX 300 Accumulation Index return of -2.65%. The out-performance can be attributed to overweight positions in the Miscellaneous Services, Healthcare and Retailing sectors. This was partially offset by the negative returns attributable to underweight positions in the Telecommunications and Energy sectors.

### Outlook

The outlook for Australian equities hinges on cheap valuations (2011 price-to-earnings of 11.4x) which mask above-average profit expectations (2011 earnings growth forecast of 32%). We are encouraged by the strength of the labour market and the improving outlook for business capex (especially mining related capex). Corporates are generally well positioned with strong balance sheets and improving cash flows. However, we remain cautious about the risks to earnings having already seen a large number of profit downgrades. The RSPT debacle reminded investors about the risk of potentially bad policy. Accordingly, investors will be closely monitoring the Federal Election and its implications for business and consumers.

### Performance

Performance	1 mth	3 mths	1 year	Since Inception*
Bennelong Concentrated Australian Equities Fund	-0.90%	-11.05%	20.11%	25.23%
Benchmark <sup>#</sup>	-2.65%	-11.20%	13.05%	20.39%
Value added	+1.75%	+0.15%	+7.06%	+4.84%

\* Inception date: 30 January 2009 <sup>#</sup> S&P ASX 300 Accumulation Index  
**NB:** performance figures are gross (before fees and expenses)