

# Bennelong Concentrated Australian Equities Fund

## Monthly performance update

As at 31 May 2010

### Market review

The Australian market (S&P/ASX 300 Accum Index) closed 7.5% lower during May. In Australia, investor sentiment was focused on the Rudd government's proposed new resource tax. This was compounded by the ongoing European sovereign debt issues and concerns about China's strategy to slow investment in the property sector. Underperforming sectors are Transport (-12.7%), Financials (-10.4%), and Capital Goods (-11.3%). Outperforming sectors include Consumer Staples (-1.2%), Healthcare (-4.0%) and REITs (-4.3%).

Investors reacted negatively to the Rudd government's proposed new Resource Super Profit Tax (RSPT) and its implications for earnings and valuations while largely overlooking the reduction in the corporate tax rate and increase in the superannuation guarantee levy. The RSPT prompted investors to consider the risk of further Government intervention and regulation.

Macro-economic news was mixed during the month. European sovereign debt concerns resulted in the European Union and IMF €750bn bailout package while there were credit downgrades for Portugal and Spain. The US economy continues to show signs of improvement albeit from a low base. In Australia, retail sales are starting to show the impact of life after fiscal stimulus, while building approvals and employment remain strong. The RBA increased interest rates 0.25% to 4.5%.

M&A activity was led by Heathslope receiving interest from numerous private equity groups. Foster's Group announced plans to de-merge its wine and beer businesses. A consortium of miners bid for Queensland Rail ahead of a potential IPO. As the financial year end approaches several companies have revised profit guidance down including Virgin Blue and Sonic Healthcare.

### Strategy in review

The Bennelong Concentrated Australian Equities Fund achieved a -8.80% return for the month versus the S&P/ASX 300 Accumulation Index return of -7.54%. The underperformance can be attributed to overweight positions in the Leisure and Construction sectors together with an underweight position in the Consumer Staples sector. This was partially offset by the positive returns attributable to the overweight position in the Healthcare sector and underweight position in the Bank sector.

### Outlook

Investors are currently highly risk averse as a result of rising interest rates, fiscal fade, European debt and Chinese property concerns. Furthermore, as we approach a Federal election investors will be seeking further clarity regarding the risk of regulatory change and tax reform and what it means for earnings and valuations. Headline valuations are inexpensive compared to historical averages (2011 PER below 12x), however earnings growth forecasts arguably carry downgrade risks. The portfolio strategy has a bias to stocks with leverage to an improving US economy while being mindful of stocks believed to be at risk of earnings downgrades.

### Performance

Performance	1 mth	3 mths	1 year	Since Inception*
Bennelong Concentrated Australian Equities Fund	-8.80%	-4.35%	26.48%	27.84%
Benchmark <sup>#</sup>	-7.54%	-3.55%	20.72%	24.26%
Value added	-1.26%	-0.80%	+5.76%	+3.58%

\* Inception date: 30 January 2009 <sup>#</sup> S&P ASX 300 Accumulation Index