

November 2011

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Market Review

Portfolio performance for the month of November was -3.1% versus the benchmark return of -4.3%. The Australian equity market as measured by the Emerging Leaders composite benchmark¹ closed the month 4.3% lower. Equity markets fell in November as investors opted for a more conservative position due to ongoing concerns over a deepening sovereign debt crisis in the European Union that saw Italian bond yields climb to a historical high of more than 7.0%. The deepening crisis also led to credit downgrades to various European governments and the resignations of the leaders in Greece and Italy.

Portfolio Review

At a sectoral level, the Portfolio benefited from the overweight positions in the Industrials and Energy sectors and the underweight positions in the Materials and Information Technology sectors. Conversely the nil holdings in the Utilities and the underweight in LPTs sectors detracted from performance. The overweight in Consumer Discretionary and Telecommunications also detracted from relative performance. At a stock level, the overweight positions in Gloucester Coal, Mineral Resources and Aurora Oil & Gas were the largest positive contributors to performance. Not holding Bluescope Steel also assisted relative performance. Detractors to the Portfolio included the overweight positions in Independence Group, Kagara and Oz Minerals, while the nil holding in Campbell Brothers also detracted from performance.

Outlook

With Europe remaining on the front pages, the near term outlook will be framed by the success or otherwise of any co-ordinated European fiscal plan. The success of the plan will be determined by market acceptance regarding scope and ability to execute. The recent German bond auction and broad based downgrade warnings from ratings agencies have shown that the issues have now permeated all Eurozone countries. This should actually add to the resolve of the Northern Europeans to act quickly and decisively to address the contagion effects. In Asia, the recent Chinese credit loosening should help offset any near term market concerns regarding the sluggish growth data but it remains the case that aggregate global growth forecasts are still too high for 2012 and will be moderated in due course. But despite the rather underwhelming economic setting, valuations still appear to be factoring in a very poor outcome – we still believe one poorer than will eventuate. The market is currently pricing (the S&P/ASX Midcap 50) FY12 at 11.6 times, with FY13 sitting at a modest 10.0 times. Earnings growth for FY12 and FY13 are estimated to be 7.0% and 16.2% respectively, whilst dividend yield for the 2 years is a healthy 5.3% and 5.7%. The S&P/ASX Small Ords are trading at a slightly more aggressive 13.3 times and 10.4 times on anticipated earnings growth of 43.2% and 27.4% respectively.

Portfolio Characteristics

Returns as at 30th November 2011

	Portfolio% [^]	Index*	Value Add%
One Month	-3.1	-4.3	1.2
Three Months	-5.6	-5.9	0.4
One Year p.a	-4.1	-10.0	6.0
Three Year p.a	15.0	10.1	4.9
Five Years p.a	0.7	-3.9	4.6
Since Inception p.a Date: March 2005	7.4	2.7	4.7

Top 10 Stocks

	Portfolio%	Index*	Tilt%
Mineral Resources	5.79	0.46	5.33
Challenger Financial	5.78	1.55	4.23
Oz Minerals	5.66	2.40	3.26
Gloucester Coal	4.93	0.18	4.75
Atlas Iron	3.73	1.66	2.07
Echo Entertainment Group	3.46	1.78	1.68
REA Group	3.44	0.21	3.23
Goodman Group	3.42	2.79	0.63
Ansell	3.38	1.37	2.00
Dexus Property Group	3.18	2.98	0.20

Portfolio Sector Tilts

	Portfolio%	Index*	Tilt%
Energy	9.52	6.64	2.88
Materials	22.71	24.39	-1.68
Industrials	20.53	14.82	5.71
Consumer Discretionary	19.67	15.83	3.84
Consumer Staples	5.06	5.34	-0.28
Healthcare	7.42	8.64	-1.22
Financials (x LPT)	6.13	6.66	-0.54
LPTs	6.59	10.75	-4.16
IT	0.00	0.84	-0.84
Telecommunication	1.66	0.96	0.70
Utilities	0.00	5.13	-5.13
Cash	0.71	0.00	0.71
Total	100.00	100.00	-

*70% S&P/ASX Midcap 50 Acc Index and 30% S&P/ASX Small Ord Acc Index
^ Gross of Fees