

Market Review

The S&P/ASX200 Accumulation Index gained 2.1% in a volatile December quarter, with the ebb and flow of equity markets dictated by the fiscal crisis in Europe. In its latest move, the EU agreed new measures to control government borrowing at a summit in December, as well as providing further funding support via the IMF and a plan to introduce the European Stability Mechanism earlier than originally planned. Economic indicators in the euro-zone continued to deteriorate whilst US economic data showed a firming of momentum. Locally, Resources (-2.6%) were affected by weaker commodity prices and concerns over Chinese growth expectations, which led The People's Bank of China to announce a cut to its Reserve Requirement ratio. Banks (6.6%) outperformed as wholesale funding pressure and rising credit spreads eased from November highs.

Corporate commentary during the quarter was on balance downbeat, with profit warnings from retailers before Christmas, including Billabong International Limited, JB Hi-Fi Limited and Kathmandu Holdings Limited.

Fund Performance

Returns	Month	Rolling Quarter	6 Months	1 Year	2 Years p.a.	3 Years p.a.	Since Inception p.a. (4/02/2008)
Portfolio Return	-1.11%	2.51%	-12.48%	-10.76%	-6.46%	7.20%	-2.38%
Benchmark Return	-1.35%	2.12%	-9.71%	-10.54%	-4.68%	7.58%	-4.72%
Outperformance	0.24%	0.39%	-2.77%	-0.22%	-1.78%	-0.38%	2.34%

* S&P/ASX 200 Accumulation Index

The performance data above is based on month end prices before tax. Gross performance is stated excluding all fees, cost and taxation.

Performance Review

The best performing sectors in the S&P/ASX200 Accumulation Index for the quarter were Commercial Services & Supplies (13.0%), Utilities (8.1%) and Telecommunication Services (6.9%). The worst performing sectors were Consumer Durables & Apparel (-27.5%), Retailing (-14.8%) and Materials (-3.1%).

The portfolio outperformed its benchmark this quarter by 0.39%. Overweight positions in AWE Limited and QR National Limited, together with a nil holding in Wesfarmers Limited were the top contributors and made a positive contribution to relative performance. The main detractors were overweight positions in ResMed Inc, BlueScope Steel Limited and Perseus Mining Limited.

Top 10 Stock Holdings

Stock Name	Sector	Fund %
Commonwealth Bank of Australia	Financials - Ex Prop Trusts	10.6%
National Australia Bank Limited	Financials - Ex Prop Trusts	9.6%
BHP Billiton Limited	Materials	7.0%
Rio Tinto Limited	Materials	5.6%
QR National Limited	Industrials	4.7%
Origin Energy Limited	Energy	4.5%
Macquarie Group Limited	Financials - Ex Prop Trusts	4.3%
Australia and New Zealand Banking Group Limited	Financials - Ex Prop Trusts	3.8%
Fortescue Metals Group Ltd	Materials	3.7%
Brambles Limited	Industrials	3.6%
Total % of Top 10 stock holdings		57.4%
Cash & Other including futures		1.8%
Total number of holdings		31

Top 5 Positive Active Stock Positions

Stock Name	Sector	Fund %	Benchmark %	Active %
National Australia Bank Limited	Financials - Ex Prop Trusts	9.6%	5.4%	4.2%
QR National Limited	Industrials	4.7%	0.6%	4.1%
Macquarie Group Limited	Financials - Ex Prop Trusts	4.3%	0.8%	3.5%
Origin Energy Limited	Energy	4.5%	1.5%	3.0%
Lend Lease Group	Financials - Ex Prop Trusts	3.4%	0.4%	3.0%

Top 5 Negative Active Stock Positions

Stock Name	Sector	Fund %	Benchmark %	Active %
Westpac Banking Corporation	Financials - Ex Prop Trusts	0.0%	6.3%	-6.3%
BHP Billiton Limited	Materials	7.0%	11.4%	-4.5%
Telstra Corporation Limited	Telecommunication Services	0.0%	4.3%	-4.3%
Wesfarmers Limited	Consumer Staples	0.0%	3.5%	-3.5%
Woodside Petroleum Limited	Energy	0.0%	1.9%	-1.9%

Top 5 Stock Contributors to Active Performance

Monthly

Stock Name	Contribution %
Newcrest Mining Limited	0.21%
Iluka Resources Limited	0.16%
Macquarie Group Limited	0.14%
Insurance Australia Group Limited	0.12%
Woodside Petroleum Limited	0.11%

Quarterly

Stock Name	Contribution %
AWE Limited	0.41%
Wesfarmers Limited	0.33%
QR National Limited	0.27%
Stockland	0.26%
National Australia Bank Limited	0.24%

Bottom 5 Stock Detractors to Active Performance

Monthly

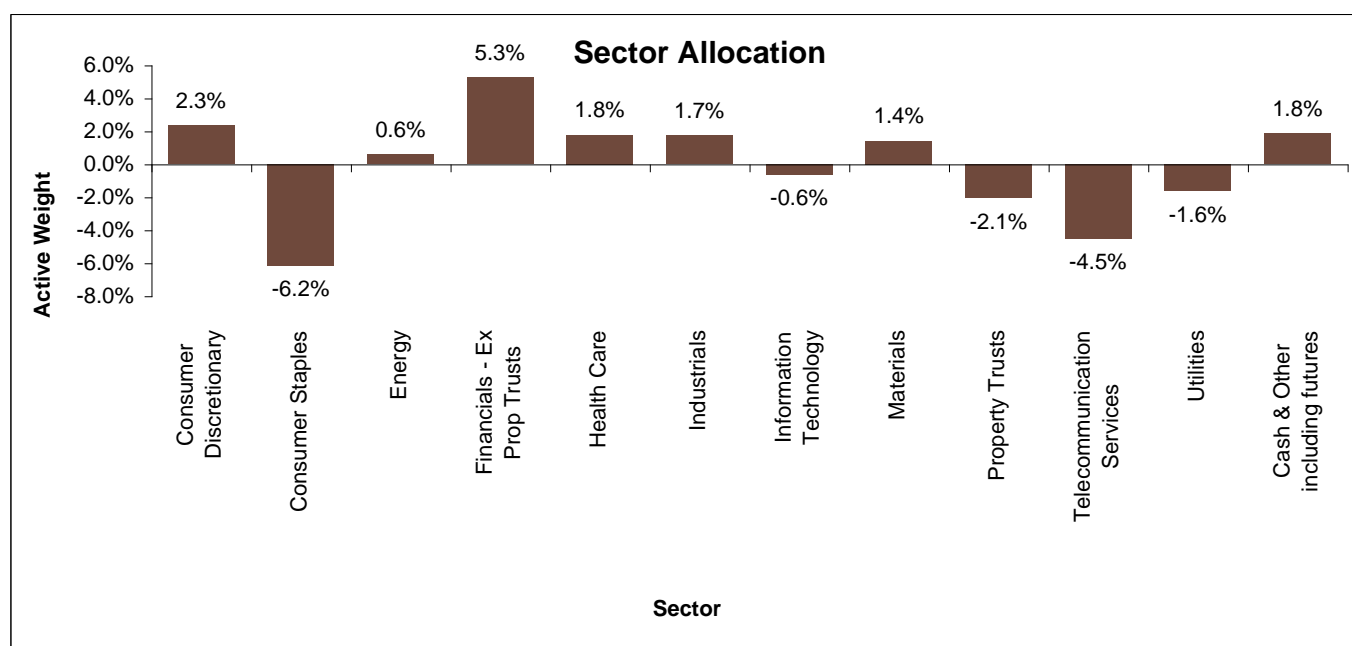
Stock Name	Contribution %
Perseus Mining Limited	-0.28%
Telstra Corporation Limited	-0.27%
Henderson Group	-0.21%
Fortescue Metals Group Ltd	-0.15%
Origin Energy Limited	-0.13%

Quarterly

Stock Name	Contribution %
ResMed Inc.	-0.53%
BlueScope Steel Limited	-0.45%
Perseus Mining Limited	-0.40%
Henderson Group	-0.31%
Telstra Corporation Limited	-0.23%

Sector Allocation

Sector	Fund %	Benchmark %	Active %
Consumer Discretionary	5.9%	3.6%	2.3%
Consumer Staples	2.0%	8.1%	-6.2%
Energy	7.7%	7.1%	0.6%
Financials - Ex Prop Trusts	38.1%	32.8%	5.3%
Health Care	5.4%	3.6%	1.8%
Industrials	8.5%	6.8%	1.7%
Information Technology	0.0%	0.6%	-0.6%
Materials	26.4%	24.9%	1.4%
Property Trusts	4.2%	6.2%	-2.1%
Telecommunication Services	0.0%	4.5%	-4.5%
Utilities	0.0%	1.6%	-1.6%
Cash & Other including futures	1.8%	0.0%	1.8%
Total Allocation	100.0%	100.0%	



Market Outlook

At the time of writing, the US economy continues to show encouraging signs despite the ongoing debt concerns in Europe. Manufacturing output increased the most in six months, with the Institute of Supply Managements purchasing managers index rising to 53.9 in December from 52.7 in November. China's official PMI also moved from contraction to expansion, rising to a better-than-expected 50.3 in December. In Europe, the ECB lowered its key interest rate by 25bps for the second time in two months, as S&P and Fitch put six countries on credit watch keeping investors wary.

Locally, consumer confidence declined 8.3% in December, reversing the 6.3% rise in November and forcing it to track below trend. This is despite the two RBA interest rates cuts and ensuing profit downgrades in the retail sector late in December. On the other hand, domestic manufacturing recorded expansion for the first time in six months, with the Australian PMI reaching 50.2 from 47.8 in November.

Risk Management

There have been no breaches of the risk management statement during the period.

Organisation, People and Process

There were no changes to the investment team or process during the period.

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