

## WHOLESALE FUND RETURN AS AT 31 DECEMBER 2009<sup>1</sup>

	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	4 years (% p.a.)	5 years (% p.a.)	Inception <sup>2</sup> (% p.a.)
Growth Return	0.15	5.81	18.91	-5.67	-2.49	3.16	3.03
Distribution Return	0.00	0.66	0.74	2.19	4.36	4.33	3.89
Total Return	0.15	6.47	19.65	-3.48	1.86	7.49	6.92
MSCI All Countries ex Japan Accumulation Index (\$A)	4.60	14.02	33.40	0.21	5.71	10.36	11.01

<sup>1</sup> Performance figures are calculated using withdrawal values and assume that income is reinvested. Annual management fees and expenses have been taken into account, however no allowance has been made for entry fees, tax or any rebates that may be given.

<sup>2</sup> Inception date is 30 June 2004.

Past performance is not a reliable indicator of future performance.

## FUND COMMENTARY

The Advance Asian Equity Fund, managed by Lion Global Investors (Lion), underperformed the benchmark, the MSCI All Countries ex Japan Accumulation Index (\$A) over the December quarter. Chinese banks detracted performance after Premier Wen commented that the authorities would aim to smooth out the red-hot real estate market and the State Council announced the re-imposition of the 5.5% tax on transactions involving residential properties which have been held for less than five years. Meanwhile, Korean and Taiwanese semiconductor and certain technology hardware and equipment stocks which were under-represented in the Fund and which the manager considers to be richly valued, contributed to the performance drag.

## MARKET COMMENTARY

Asia ex-Japan equities rose for a large part of October after China's exports fell at the slowest pace in nine months in September, adding to evidence that the global economy was emerging from its deepest economic recession since World War II. In fact, China's economy expanded at the fastest pace in a year by 8.9% in the September quarter as stimulus spending and record lending growth helped the nation lead the world out of economic recession. Due to fears of an imminent asset bubble, however, regulators in China, Hong Kong, Korea and Singapore stepped up efforts to rein in real estate prices by telling banks they needed to tighten lending standards. Bank of Korea and the Reserve Bank of India also signalled their readiness to raise interest rates in the coming months. Consequently, regional equities slid in the last week of the month.

In November, regional equities resumed their ascent after leaders of the Asia Pacific Economic Co-operation forum pledged to maintain stimulus measures until there is

“durable” growth. Although credit default swaps climbed, Treasuries jumped and stocks around the world dropped sharply on the second last trading day of the month after Dubai World, Dubai government's investment company burdened with USD 59 billion of liabilities, sought to delay repayment on much of its debt. Regional equities continued to rise in December as recent economic data indicated that the global economy was recovering faster than originally expected.

By and large, earnings estimate revisions maintained their positive momentum in the last three months. By the end of the year, earnings per share growth for 2010 was projected to be as high as 29% compared with -4% at the start of the year. The accelerating growth of the region continued to attract foreign fund inflows, particularly from the re-allocation of funds from developed markets, as investors' risk appetite normalized.

## OUTLOOK

As regional equities have fairly priced in the expected earnings for 2010, fulfilment of earnings expectations and confidence in 2011 earnings outlook are essential catalysts for further market upside. China's announcement in December that inflation had turned positive was a signal that rising inflation is likely to be a key theme regionally this year. Lion believe that this is likely to incentivize the private sector to increase capital expenditure as well as provide pricing power to suppliers. In view of the manager's base case view of a low growth outlook for the global economy, Lion believe that central banks are likely to keep interest rates low in the near term. Upside inflation risk through rising commodity prices is the major risk factor. However, a tightening of monetary policy towards normalization rather than restriction is their base case for the later part of 2010. As such, Lion expect investors' risk appetite to remain high in a low rate environment, further supported by re-allocation of funds to emerging Asia.

Lion's strategy is to stay invested and be selective on markets and sectors. Apart from a constructive view on China for its long term structural growth potential, Lion are also sanguine on Taiwan as they expect improvement in cross-strait ties culminating in the Economic Co-operation Framework Agreement (ECFA) to set the stage for a secular re-rating of Taiwanese equities. Increased confidence in the long term prospects of Taiwan has already seen capital repatriation back home. In terms of sectors, Lion view the financial and consumer sectors as long-term themes. Rising middle class and affluence, coupled with China's change in its growth model to one that is more domestic-driven, will directly benefit these sectors. As real interest rates stay low, the financial sector will also continue to benefit from asset reflation.

### TOP 10 HOLDINGS

	Country	Weight (%)
China Construction Bank Corporation	China	5.41
LG Electronics Incorporated	South Korea	4.57
KB Financial Group Incorp	South Korea	4.21
Industrial & Commercial Bank of China	China	3.88
President Chain Store Corporation	Taiwan	3.77
Shinsegae Company Limited	South Korea	3.22
CNOOC Limited	China	2.90
Advanced Info Service Public Company Limited	Thailand	2.77
PetroChina Co Limited	China	2.55
BOC Hong Kong (Holdings) Limited	Hong Kong	2.46

### SECTOR ALLOCATIONS

	Fund (%)	Benchmark (%)
Consumer discretionary	6.8	6.9
Consumer staples	7.2	4.3
Energy	7.5	8.3
Financials	40.3	32.6
Health care	1.1	0.5
Industrials	4.5	10.3
Information technology	6.2	18.4
Materials	3.3	7.7
Telecommunications services	16.1	7.1
Utilities	1.9	4.0
Cash	4.9	-

### COUNTRY ALLOCATIONS

	Fund (%)	Benchmark (%)
China	28.5	26.6
Hong Kong	12.5	11.3
India	6.3	10.9
Indonesia	1.8	2.7
Korea	16.6	18.9
Malaysia	1.7	4.0
Philippines	-	0.6
Pakistan	-	-
Singapore	5.5	6.7
Taiwan	17.7	16.4
Thailand	4.3	1.9
Cash	4.9	-

Contact Centre: 1800 819 935

Adviser Services: 1300 361 864

advance.com.au

Units in the Advance managed funds (Funds) are issued by Advance Asset Management Limited (Advance) ABN 98 002 538 329 AFSL No. 240902. Before making a decision whether to acquire, or to continue to hold an interest in a Fund, investors should obtain and consider the current Product Disclosure Statement (PDS) for the Fund, available at [advance.com.au](http://advance.com.au) or via 1300 361 864. The information in this document is of a general nature only and has been prepared without taking into account the objectives, financial situation or needs of any particular person. It is not intended to constitute a comprehensive statement on any matter and should not be considered or relied upon as such. Before acting on the information, a person should consider its appropriateness, having regard to their objectives, financial situation and needs. The information is derived from sources believed to be accurate at the time of issue; however, information from third parties has not been independently verified. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which any outlooks given in this document are based are reasonable, the outlooks may be based on incorrect assumptions or may not take into account known or unknown risks and uncertainties. Advance is a member of the Westpac Group, which includes Westpac Banking Corporation ABN 33 007 457 141 (Westpac) and St.George Bank Limited ABN 92 055 513 070 (St.George). An investment in a Fund does not represent an investment in, deposit with or other liability of Westpac, St.George or any other member of the Westpac Group. It is subject to investment risk, including possible delays in repayment and loss of income and principal invested. Neither Westpac, St.George nor any other member of the Westpac Group stands behind or otherwise guarantees the capital value of an investment in a Fund or the performance of a Fund. While the information in this document is given by Advance in good faith, it does not warrant that it is accurate, reliable or free from error or omission. Subject to any terms implied by statute which cannot be excluded, neither Advance nor any other company in the Westpac Group and their directors, employees and associates accept any responsibility for errors in, or omissions from the information. This document is issued by Advance and is current as at 31 December 2009.