

## ADVANCE AUSTRALIAN SMALLER COMPANIES FUND

as at 31 December 2009

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

	3 months (%)	6 months (%)	1 year (%)	2 years (% p.a.)	3 years (% p.a.)	4 years (% p.a.)	Inception <sup>1</sup> (% p.a.)
Growth Return	8.25	28.86	57.19	-23.12	-17.62	-14.73	-2.50
Distribution Return	0.00	3.16	7.26	15.11	18.08	21.44	16.20
Total Return	8.25	32.02	64.45	-8.01	0.46	6.72	13.70
S&P/ASX Small Cap Accumulation Index	4.88	27.76	57.43	-14.14	-4.80	3.74	12.13

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>1</sup> Inception date 31 December 2004.

Past performance is not a reliable indicator of future performance.

### FUND COMMENTARY

The Advance Australian Smaller Companies Fund, managed by Tribeca Investment Partners (Tribeca), outperformed the benchmark, the S&P/ASX Small Cap Accumulation Index, over the December quarter.

### MARKET PERFORMANCE

Following three dramatic quarters which saw a 5-year low and an 80% rally, Australian small cap equities spent much of the final quarter of 2009 in a trading range. However, thanks to a spell of strength in the final two weeks the index gained 4.88% over the quarter and saw out 2009 at its high for the year. Meanwhile the broader market slightly underperformed with the S&P/ASX 200 Accumulation managing a 3.4% move. The Fund strongly outperformed over the quarter as a number of large overweights performed well.

For much of the December quarter, the index struggled to build on the double-digit rallies of the preceding two quarters. However, the index advanced in five of the last six trading days of December and saw out 2009 at its high for the year. The advance was achieved in spite of rate hikes at each of the three Reserve Bank meetings in the quarter, a weak bond market and a poor performance by the financials, which were pressured by growing concerns over the cost of funding and possible new liquidity requirements. However, resources made up ground after lagging in during the September quarter, even though energy struggled. Capital raising activity did not match the hectic pace of the first half of the year but Macquarie Media (now Southern Cross Media), Mirabella Nickel and ING Industrial Fund were among those seeking fresh equity. Meanwhile corporate activity started to ramp up with the Felix Resources takeover being consummated, while Nufarm flushed out a cornerstone

investor at a price higher than the revised bid from Sinochem. In the large company's space, AXA Asia Pacific was the centre of a contested bid from AMP and National Australia Bank while Lend Lease and Challenger Financial looked to take their listed property trusts in-house with respective bids.

### FUND PERFORMANCE

A positive contributor to the Fund was Matrix Construction & Engineering (MCE) which IPO'd during November to fund plant expansion. MCE produces subsea buoyancy for the Oil & Gas sector and components for rail car dumpers for the iron ore industry. Mount Gibson Iron took its lead from iron ore prices which rebounded strongly from increasing demand out of China and the Indian Government curbing exports, further tightening the market. Thorn Group posted half year results in November that came in well ahead of consensus numbers. Of the other outperformers SAI Global moved to acquire the remaining 36.4% of professional services company Espreon that it didn't already own and Whitehaven Coal was buoyed by rising coal prices and speculation about further consolidation in the coal sector.

Aquila Resources which was not held was a negative contributor. Stronger iron ore and coal prices were cited for the move, though the company is a number of years away from producing iron ore and produces only a small amount of coal. Photon Group revealed softer earnings were likely in FY2010 as it felt the impact of a stronger AUD on its offshore earnings. The manager has exited this position. Programmed Maintenance Services launched a rights issue to fund the takeover of the listed KLM Group, a provider of integrated electrical and communications systems to construction, infrastructure and financial markets. Of the other negative contributors explorer Karoon Gas (not held) moved higher after drilling results

from Poseidon 2 (their second well) indicated the presence of hydrocarbons and Super Cheap Auto lost ground on no news flow

## OUTLOOK

The economic data during December remained positive, although this trend is clearly now consensus and the market barely reacted to the news flow. The RBA increased the cash to 3.75%, the employment data remained strong while housing starts and finance data continued to indicate that the recovery in this sector was still intact.

Heading into 2010 investors appear to be increasingly focused on more stock specific themes rather than the large macro trades which have dominated performance over the last 2 years. Overall market valuations remain attractive, particularly in light of the earnings leverage forecast to emerge in FY11. While Tribeca retain a cyclical bias in their Fund construct, they are increasingly focusing on stocks where the earnings risks continue to remain on the upside and have started to add more attractively priced defensive stocks and, tentatively, companies which are leveraged to the US economy and USD.

## TOP 10 HOLDINGS

	Fund (%)	Benchmark (%)
Ten Network Holdings Ltd	4.24	1.50
Healthscope Ltd	3.94	1.63
SAI Global Ltd	3.81	0.62
Flight Centre Ltd	3.61	1.02
Mount Gibson Iron Ltd	3.24	1.14
Macarthur Coal	3.11	1.42
Wotif.com Holdings Ltd	2.99	0.83
Austar United Communications	2.97	0.81
Resmed Inc	2.96	0.88
Panaust Ltd	2.84	1.44

## SECTOR ALLOCATIONS

	Fund (%)	Benchmark (%)
Consumer discretionary	30.10	7.89
Consumer staple	4.43	3.01
Energy	5.84	14.82
Financial-x-property trusts	5.85	7.35
Healthcare	9.45	9.13
Industrials	15.86	16.79
Information technology	2.54	3.15
Materials	20.20	25.22
Property trusts	2.30	4.09
Telecommunications services	0.00	0.10
Utilities	1.09	8.45
Other	0.00	
Cash	0.80	

Contact Centre: 1800 819 935

Adviser Services: 1300 361 864

[advance.com.au](http://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.