

## 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.)	Inception <sup>2</sup> (% p.a.)
Growth Return	4.31	20.74	13.67	-15.14	-8.69	-6.17
Distribution Return	0.00	2.38	7.11	8.69	9.43	8.91
Total Return	4.31	23.12	20.78	-6.46	0.74	2.74
S&P/ASX 200 Accumulation Index	3.39	25.62	37.03	-0.70	5.02	6.68

<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 1 September 2005

Past performance is not a reliable indicator of future performance.

## FUND COMMENTARY

The Advance Concentrated Australian Share Fund, managed by MIR Investment Management (MIR), returned 4.31% over the September quarter, outperforming its benchmark S&P/ASX 200 Accumulation Index. Favourable stock selection in materials and consumer staples were positive for relative performance.

## MARKET PERFORMANCE

The Australian share market posted its third consecutive quarterly gain, albeit at a more modest level compared to the June and September quarters. The resilience of the equity market's recovery was tested during late November when Dubai World said it would seek a six-month stay on \$US64 billion of debt. In addition, the overwhelming bearish sentiment toward the US dollar and fiscal problems in Greece signalled potential for a contrarian play and flight from risk, which subsequently unfolded. Corporate activity was more subdued than previous quarters although higher equities prices provided solid ground for opportunistic capital raisings.

The Materials (+13.9%) sector was the strongest performer over the quarter, led by base metal producers Murchison Metals, Mount Gibson Iron as well as precious metal miner Aquarius Platinum.

Most other sectors posted positive single digit returns over the quarter with the exception of the Energy (-2.3%) and Property Trusts (-5.0%) sectors, with the latter dragged down by index heavyweight Westfield Group (-9.8%). Within the Financials (-0.6%) sector, Banks (-3.1%) also lagged after a strong run, overshadowed by concerns over funding costs, regulatory changes and rate hikes.

Currency remained an important theme during the quarter. Australia became the first economy within the

OECD to raise interest rates since the onset of the global financial crisis, lifting the benchmark rate by 25bps in each of the last three months of the year to finish at 3.75%. The Australian dollar peaked at US94.06 cents on November 17 but its gains were pared to a quarterly rise of only 1.7% as fears of an unwinding of the US dollar denominated carry trade temporarily overwhelmed investors. On December 16, RBA Deputy Governor Ric Battellino stated that monetary policy in Australia was now back in a "normal range". Battellino's dovish comments provided further fuel for a sell-down in the Australian dollar, although many market strategists anticipate rate rises will continue in 2010. Base metals and commodities were stronger over the quarter. The Reuters-Jefferies CRB commodities benchmark gained 9.3%, buoyed by positive economic data and high iron imports from China. Meanwhile, oil rose 12.4% to just under US\$80 in a volatile session that briefly saw the price drop below US\$70 per barrel. Gold again reached new all-time highs in both US dollar and euro terms during the quarter, propelled by news that India's central bank had bought 200 metric tons of bullion from the IMF.

## FUND PERFORMANCE

The Fund outperformed its benchmark over the quarter primarily due to favourable stock selection within the outperforming Materials (+13.9%) sector, which led the market higher on the back of strengthening commodity prices. Moreover, the Fund's favourable stock selection within the defensive Consumer Staples (+4.7%) sector also added to relative returns. The avoidance of stocks that ranked poorly in terms of MIR's value and momentum characteristics, also added around 1% in relative performance to the Fund over the quarter.

The major contributors to relative performance were overweight positions in Rio Tinto, Mount Gibson Iron, Incitec Pivot, Centennial Coal and Macarthur Coal, together with an underweight position in NAB. The Fund

also benefited from its zero exposure to Woodside Petroleum.

Rio Tinto strengthened after signing a binding agreement with BHP Billiton to establish a joint venture that would effectively combine their Western Australian iron ore operations. Mount Gibson instilled confidence in the market by reaching an agreement with former customer Sinom (Hong Kong) for a breach of contract. Fertiliser and industrial chemical company Incitec Pivot posted strong gains in spite of projecting tough conditions in 2010. Centennial Coal rallied after reporting a 22% rise in first quarter sales revenue. The company also stated that demand remained strong within Asia and it expected contract prices to rise in 2010. Macarthur Coal shares rose after the company launched a takeover bid for Noble Group's Gloucester Coal on December 22.

The main detractors from relative returns were overweight positions in Macquarie Group, Caltex Australia, Westfield Group and Myer Holdings, together with an underweight position in BHP Billiton. Also, the Fund's zero exposure to Transurban Group detracted from overall relative returns. Macquarie Group's shares fell despite continuing its acquisition path during the quarter, picking up Fox-Pitt Kelton Cochran Caronia Waller and Blackmont Capital. Caltex lost ground due largely to a significant margin contraction in refining and the protracted and unfavourable deliberations by the ACCC regarding Caltex's bid for the retail assets of Mobil Australia. Shares in Westfield Group weakened in October prior to the release of its September quarter review to the market on November 12. Despite recording strong growth in retail sales in Australia, pressure remained evident in the US. Despite its lacklustre debut on the ASX, Myer reported a 5.2% rise in sales revenue for 1Q10 compared with its previous corresponding period. Furthermore, the company confirmed that it was on track to achieve sales growth of 3.0% and EBIT growth of 10.7% for f 10.7%.

## OUTLOOK

MIR's investment philosophy follows a value bias, targeting a concentrated list of securities that combine to provide discounted price multiples compared with the benchmark. The Fund performed strongly over the quarter, particularly in the month of December as market conditions became more conducive to their investment style.

## TOP 10 HOLDINGS

	Fund (%)	Benchmark (%)
Rio Tinto Limited	9.04	2.88
Westpac Banking Corporation	8.17	6.63
BHP Billiton Limited	6.27	12.78
Macquarie Group Limited	5.13	1.42
Wesfarmers Limited	3.86	3.20
Westfield Group	3.81	2.34
Suncorp-Metway Limited	3.79	0.98
Incitec Pivot Limited	3.17	0.50
GPT Group	2.83	0.46
Macquarie Airports	2.81	0.39

## SECTOR ALLOCATIONS

	Fund (%)	Benchmark (%)
Consumer Discretionary	5.95	3.72
Consumer Staple	3.86	9.72
Energy	5.38	7.91
Financial (ex-Property Trusts)	23.84	32.13
Health Care	0.89	4.29
Industrials	9.85	5.49
Information Technology	0.00	0.57
Materials	29.88	24.45
Property Trusts	16.18	5.20
Telecommunications Services	0.00	4.93
Utilities	1.04	1.59
Other	0.00	-
Cash	3.14	-

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