

ADVANCE IMPUTATION FUND

as at 31 December 2009

WHOLESALE FUND RETURN AS AT 31 DECEMBER 2009¹

	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	4 years (% p.a.)	5 years (% p.a.)	7 years (% p.a.)
Growth Return	1.10	18.71	22.85	-11.82	-8.87	-6.46	-1.75
Distribution Return	0.00	4.80	8.71	12.76	14.18	14.17	12.05
Total Return	1.10	23.51	31.56	0.94	5.31	7.71	10.30
S&P ASX 200 Accumulation Index	3.39	25.62	37.03	-0.70	5.02	8.36	11.86

¹ 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.

Past performance is not a reliable indicator of future performance.

FUND COMMENTARY

The Advance Imputation Fund, managed by Maple-Brown Abbott Investment Managers (MBA), underperformed the benchmark, the S&P/ASX 200 Accumulation Index, over the December quarter. Stock selection detracted relative to the benchmark, while the cash holding also detracted in a rising equity market.

MARKET OVERVIEW

The Australian share market (S&P/ASX 200 Accumulation Index) increased 3.4% in the December quarter, a relatively subdued return compared to the strong quarterly performance achieved in June and September 2009. For the year, the market increased 37.0%, whilst from its March lows the market increased by 59.6%. The rally was broad based with most of the major sectors enjoying strong double-digit gains.

The year saw defensives outperform the market in the first quarter as investors reduced risk in their portfolio as economic conditions weakened, whilst financial and cyclical sectors outperformed over subsequent quarters as conditions improved.

The resources sector was weak during the early part of 2009 as demand for commodities slumped on declining world industrial production. A more positive outlook on the resources sector mid-way through the year was driven by the inventory restocking cycle (led by China) and improving economic fundamentals. Consequently commodity prices rose sharply which drove strong gains in the resources sector.

The strong performance of resource stocks in 2009 is reflective of the strength, now bordering on dominance, of the Chinese economy. Whilst many of the mature economies registered little, if any, economic growth during the year, the Chinese economy is likely to have grown at around 9%. The Australian economy generally, and the resource stocks in particular, have been a key beneficiary of the growth that China continues to experience (China is now Australia's largest trading partner for both exports and imports).

FUND PERFORMANCE

Not surprisingly, BHP Billiton and Rio Tinto outperformed the market. Over the quarter and also twelve months, the Fund's overweight position in Rio Tinto contributed to portfolio performance whilst this was partly offset by an underweight position in BHP Billiton. Rio Tinto returned 152.6% over 12 months whilst BHP Billiton returned 45.4%.

Looking outside the resources sector, key detractors from relative portfolio performance over the quarter include overweight positions in Aristocrat Leisure and Brambles. Since the start of the rally, Aristocrat Leisure and Brambles have largely underperformed their cyclical peers. Both companies are attractively valued with strong balance sheets. Brambles underperformed during the quarter as the market disliked the AGM trading update and US Review outcomes. Although conditions in the US remain weak and the US Review highlighted additional investment is required to upgrade its offering in the region, MBA believe the longer term prospects for the company remain highly attractive. The company has a solid balance sheet, good cashflow and strong market positions in an industry with high barriers to entry.

Major contributors to relative performance over the quarter include overweight holding in Coca-Cola Amatil together with an underweight holding in Westfield Group. In contrast to the strong relative performance of defensives in 2008, these companies (with less volatile earnings) have largely underperformed cyclicals over the past 12 months. However, zero holdings in expensive defensives (Woolworths, CSL and QBE Insurance Group) have contributed significantly to relative performance and this has partially offset the negative contribution from key holdings including Telstra, Foster's Group and Singapore Telecommunications. Singapore Telecommunications has underperformed the market recently partially as a result of concerns of a mobile price war in India. This is despite positive news announcements regarding the Singapore

business winning the British Premier League broadcasting rights, Australian subsidiary Optus winning mobile market share and Thai associate, AIS benefitting from regulatory changes. The stock is trading on attractive valuations,

providing an attractive opportunity to buy a well managed company with exposure to emerging markets.

The Commonwealth Bank was the best performing major bank by a significant margin, increasing 97.7% over 12 months. As such the Fund's zero holding detracted significantly from performance and together with Brambles was the source of most of the underperformance for the year.

OUTLOOK

Whilst the recent period has been volatile, it is encouraging to see the Fund achieve strong two and three year relative outperformance. MBA are confident the consistent application of their contrarian and value-based philosophy will continue to generate above market returns over the longer term.

TOP 10 HOLDINGS

	Fund (%)	Benchmark (%)
BHP Billiton	9.43	12.78
National Australia Bank	8.32	5.07
Westpac Banking Corp	8.04	6.63
ANZ Banking Group	7.65	5.06
Telstra Corp	6.96	3.37
Rio Tinto	5.36	2.88
Brambles	4.16	0.84
Fosters Group	3.86	0.94
Wesfarmers	3.38	3.20
Origin Energy	2.73	1.30

SECTOR ALLOCATIONS

	Fund (%)	Benchmark (%)
Consumer Discretionary	9.15	3.72
Consumer Staple	15.08	9.72
Energy	4.20	7.91
Financial (ex Property Trusts)	27.26	32.13
Health Care	3.22	4.29
Industrials	5.34	5.49
Information Technology	0.00	0.57
Materials	16.48	24.45
Property Trusts	4.66	5.20
Telecommunications Services	9.25	4.93
Utilities	0.00	1.59
Other	0.00	-
Cash	5.36	-

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 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.