

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

	3 months (%)	6 months (%)	1 year (%)	2 years (%)	3 years (%)
Growth	3.81	25.21	29.35	-16.11	-15.62
Distribution	0.00	1.85	5.94	9.36	15.45
Total	3.81	27.07	35.29	-6.75	-0.17
Benchmark <sup>2</sup>	3.39	25.62	37.03	-8.16	-0.70

<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> Benchmark: S&P ASX 200 Accumulation Index

Past performance is not a reliable indicator of future performance.

## INVESTMENT MARKET COMMENTARY

The Australian equity market lost some steam heading into the last quarter of 2009 but still managed to finish at a 12 month high delivering a robust 3.4% for the past three months and 37.6% for the calendar year. The market has now surged approximately 60% from its March lows but still remains around 20% down from its pre-credit crisis high in November 2007.

The latest data on the Australian economy suggest that it is one of the best performing major economies in the world. Most sectors of the economy continued to show solid growth towards the end of 2009. Rising business confidence and increases in employment suggest the growth will continue through to 2010. However, the fiscal stimulus induced boost to the consumer sector has moderated largely as a result of RBA's interest rate hike and even higher lending rate rises from banks.

Investor sentiments were mostly influenced by macro economic issues like the delay in Dubai World's debt repayment, possible Greek sovereign debt default, the pace of the economic recovery, interest rates, currency and commodity prices. Company specific announcements also had their influences on the market with capital raisings, M&A and profit results all influencing price movements.

There is a general air of optimism amongst the companies with many going through an inventory restocking process in anticipation of a pick up in sales. Key issues for investors to consider are: How much of the

recovery has already been priced in, how sustainable is it, and what are the influences on the market as the fiscal stimuli works through and leaves the global economy.

Materials stocks soared during the December quarter and drove most of the positive performance as commodity prices strengthened on the back of a weak US dollar and the prospects of increased demand as the global economic recovery gathers pace. At the other end of the scale, the worst performing sectors were energy and financial. Despite rising oil prices, energy stocks slid on disappointing profit announcements and equity raisings, while financials were under pressure due to concerns about funding costs as the RBA raised its official interest rate by a successive third time in December. Both large and smaller companies performed solidly during the December. Increase in risk appetite has supported the strength of smaller companies over the past nine months. Smaller companies have outperformed their larger peers by more than 20% over the year.

## FUND AND MANAGER PERFORMANCE COMMENTARY

Over the quarter, the Fund outperformed the benchmark, returning 3.8% after wholesale fees, with the S&P/ASX 200 Accumulation Index delivering a solid 3.4%. The performance of the underlying managers varied over the quarter with the blended portfolio up solidly relative to the benchmark. The allocation to smaller companies manager's also assisted performance.

Alleron substantially outperformed during the quarter. Strong stock selection and overweight to Financials added the majority of outperformance during the quarter with the portfolio benefiting from the AXA take-over bids. Overweight to the Consumer Discretionary, and Healthcare sectors detracted as the sectors lagged, however, the stocks preferred by Alleron more than offset the sector positioning as they rose strongly. Stock selection also assisted in Industrials and Property Trusts. An underweight to Consumer Staples detracted slightly.

Stock specific gains included AXA, Seek, gaining on positive jobs vacancies and improved economic outlook, while ConnectEast, benefited from strong traffic growth. Stocks that detracted also included overweights in Arrow Energy, declining due to their partner in their first LNG Project and David Jones, declined on profit taking.

Alleron believes that the recent corporate activity confirms that companies with strategic assets could offer significant value to competitors helping to support the current valuation of many favoured companies.

MIR ended the year strongly helping it to outperform during the quarter and recover some of its previous underperformance. The portfolio benefited from an overweight position and favourable stock selection within Materials. Stock selection in the Consumer Staple sector also added value, as did the portfolio's underweight and stock selection in Energy. Stock selection in Property Trusts also helped lift the portfolio in December. Major contributors included, Rio Tinto, Mount Gibson Iron, Incitec Pivot, and an underweight to NAB and zero weight to Woodside Petroleum. Stock selection in Financials detracted from some of the outperformance, with Macquarie Group detracting. Holdings in Caltex, Westfield Group, Myer Holdings and an underweight to BHP also detracted slightly. New financial data post the June and September reporting seasons resulted in some portfolio movements. The portfolio moved significantly into the Property Trusts and also favours the Property Trusts, Materials, Industrials, Consumer Discretionary and Utilities sectors.

BTIM outperformed over the quarter driven by strong stock selection in the Materials Industrials and Healthcare Sectors. The portfolio's overweight to News Corp assisted as it rose on the success of the film; Avatar. Asciano increased on coal haulage contracts, while overweights in QBE and Qantas also assisted performance supported by global interest rates and economic recovery respectively. BTIM's holding in Metcash detracted slightly as it acquired Mitre10, and Lihir Gold detracted as it gave back some recent gains. BTIM's key positions remain similar with selected domestic cyclicals with good value and robust near term earnings prospects. The portfolio also retains its leverage to Chinese Economic growth, through RIO, and energy demand, through Oil Search.

Ausbil performed in line with the market during the quarter. The portfolio benefited from its overweight in Materials and underweight in Property Trusts and Energy, however, overweight positions in Financials and Consumer Discretionary offset these gains. At a stock level, the overweight positions in Rio Tinto, Wesfarmers, News Corp and Amcor assisted performance, as did Ausbil's zero holding in Westfield Group. Offsetting this solid performance were overweight positions in NAB, Macquarie Bank and ANZ. Ausbil's believes that earnings growth for FY10 still appears conservative and that the market remains reasonable value. The portfolio remains positioned to benefit from a recovery in

corporate earnings and more specifically a recovery that is both earlier and of greater magnitude than currently forecast. The portfolio is tilted towards Banking, Mining, Retailing, Building Materials, Transportation and Media and underweight the more defensive sectors.

Schroders underperformed over the quarter, however, solidly outperformed over 2009. During the quarter the portfolio was held back by stock selection in Banking, Materials and Industrial sectors. Partially offsetting this detraction was the underweight positions to Property Trusts, Financials and Energy. The portfolio benefited from positions in stocks with more positive outlook on future earnings prospects, including Incitec Pivot and Virgin Blue. Stocks that negatively impacted included Brambles on management changes and uncertainty over its wooden pallets as well as Gunns, Transpacific Industries and Iluka Resources. Schroders believes that few sectors of the market are obviously undervalued and as a result the portfolio does not have hugely aggressive sector positions, focusing instead on companies which are less reliant on assistance from external factors such as commodity prices or improving economic growth outlook.

#### MANAGER ALLOCATION

The current manager line-up and allocation to each manager is as follows:

	Style	Current Allocation (%)
Ausbil Dexia	Thematic/Core	23.3
Schroders	Conservative Growth	22.9
BT	Core	21.9
MIR	Value/Momentum	14.1
Alleron	Growth	10.2
Contango	Small caps	2.5
Northcape	Small caps	2.0
Souls	Small caps	2.5

TOP 10 PORTFOLIO HOLDINGS

		Portfolio (%)	Benchmark (%)	+/- (%)
1	BHP Billiton	10.18	12.82	-2.64
2	National Australia Bank	5.15	5.09	-0.06
3	Australia And New Zealand Banking Group	4.90	5.08	-0.18
4	Commonwealth Bank Of Australia	4.84	7.46	-2.62
5	Rio Tinto	4.79	2.89	1.90
6	Westpac Banking Corporation	4.50	6.65	-2.15
7	Wesfarmers	3.04	3.21	-0.17
8	Suncorp-Metway	2.36	0.98	1.38
9	Telstra Corporation	2.19	3.38	-1.19
10	QBE Insurance Group	2.04	2.32	-0.28
<b>TOTAL</b>		<b>44.00</b>	<b>49.87</b>	

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 has been made available to financial advisers only. It must not be made available to any retail client and any information contained in it must not be communicated to any retail client and attributed to Advance. This document is issued by Advance and is current as at 31 December 2009.