Listed Investment Companies

WHITEFIELD & SYLVASTATE

UPDATE

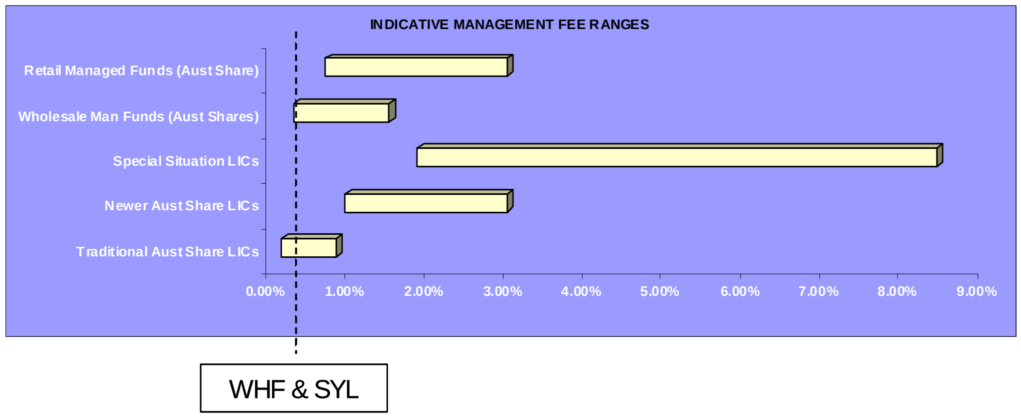
Nov 2009

OUR OBJECTIVES

- **TWO FUNDAMENTAL OBJECTIVES**

A. To produce a sound long term rate of return from investment in a carefully managed portfolio of listed Australian (industrial) shares

B. To provide investors with a **structurally efficient investment vehicle** (Long term MERs 0.35%)



INVESTMENT STRATEGY

Strategy: A style neutral strategy based on the **fundamental analysis of earnings and valuation**

Core of Research & Analysis We utilise a defined analytical methodology which seeks to obtain a qualitative and quantitative portrait of the short, medium and long term earnings which are realistically achievable for each stock, as well as the risks or certainty associated with the achievement of those earnings

Valuation & Return: We quantify the likely investment return obtainable by assessing the value being generated by each company's realistically achievable future earnings over many future years

Macro Factors & Economics We seek to understand the macro-economic and industry influences which are likely to influence stock earnings over future years, an important factor in identifying trends and turning points.

Normalisation of Earnings We seek to understand where a company is in its industry cycle and make allowance for the likely variation in that company's earnings due to cyclical influences

Structured Decision Making Criteria We utilise a structured decision making criteria which takes account of a broad range of factors including valuation, earnings, risks, market conditions and corporate quality.

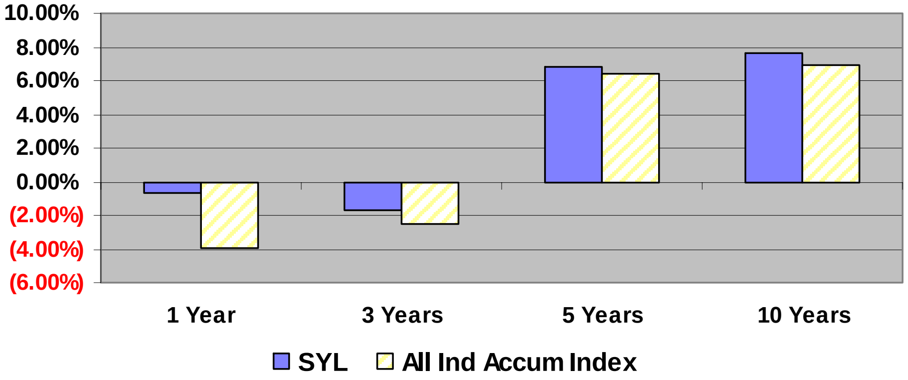
INVESTMENT OUTCOMES: SYLVASTATE

- **SYL portfolio returns for the FYTD were just over 3% above the All Industrials Accumulation (XJIAI) for the full financial year to 31 August 2009**
- **EPS fell by 27% largely from dividend cuts**
- **Earnings are likely to remain low in the first half of the 2010 FY. As the 2010 year progresses however we are likely to see companies flagging future dividend growth as their underlying earnings expand.**
- **FYTD10 (2 months) Returns in line with benchmark at +5%**

Primary return drivers were:

Cochlear, CSL, Resmed, Woolworths, Challenger, the major banks, Toll Holdings

SYL INVESTMENT RETURN VS ALL INDUSTRIALS ACCUMULATION INDEX FINANCIAL YEAR TO 31 AUGUST 2009



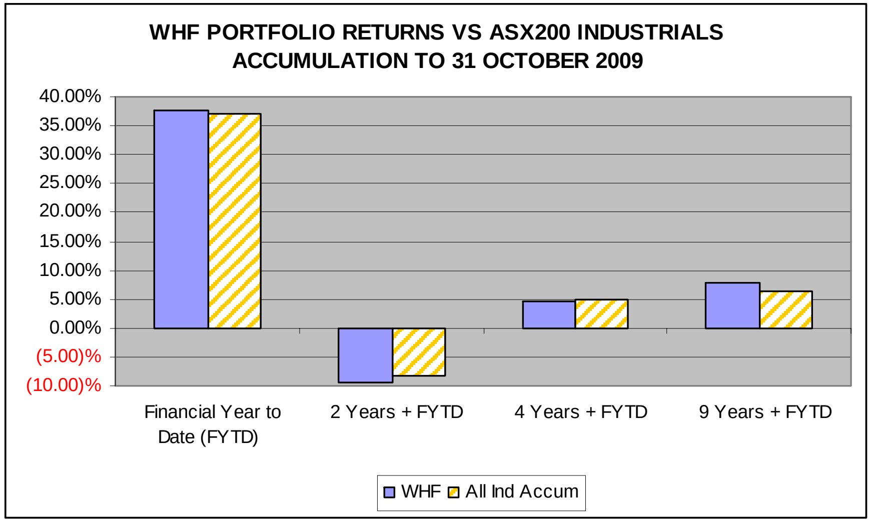
	SYL	All Ind Accum	Diff
1 Year	(0.71%)	(3.90%)	3.19%
3 Years	(1.74%)	(2.48%)	0.74%
5 Years	6.86%	6.46%	0.40%
10 Years	7.67%	6.93%	0.74%

INVESTMENT OUTCOMES: WHITEFIELD

- **WHF portfolio returns for the financial year to date (7 months) are 37.69%, which is 0.67% above the All Industrials Accumulation Index.**
- **WHF portfolio returns 1.66%pa above All Industrials Accum Index over the last 9 years + FYTD**
- **EPS has fallen 40% yoy as companies cut dividends. As with SYL as the 2010 year progresses however we are likely to see companies flagging future dividend growth as their underlying earnings expand.**

Return drivers YTD are:

Positive relative contributions from Challenger, Asciano, Macquarie, Brambles, Harvey Norman, Fairfax Media, strong outright performance from majority of investments

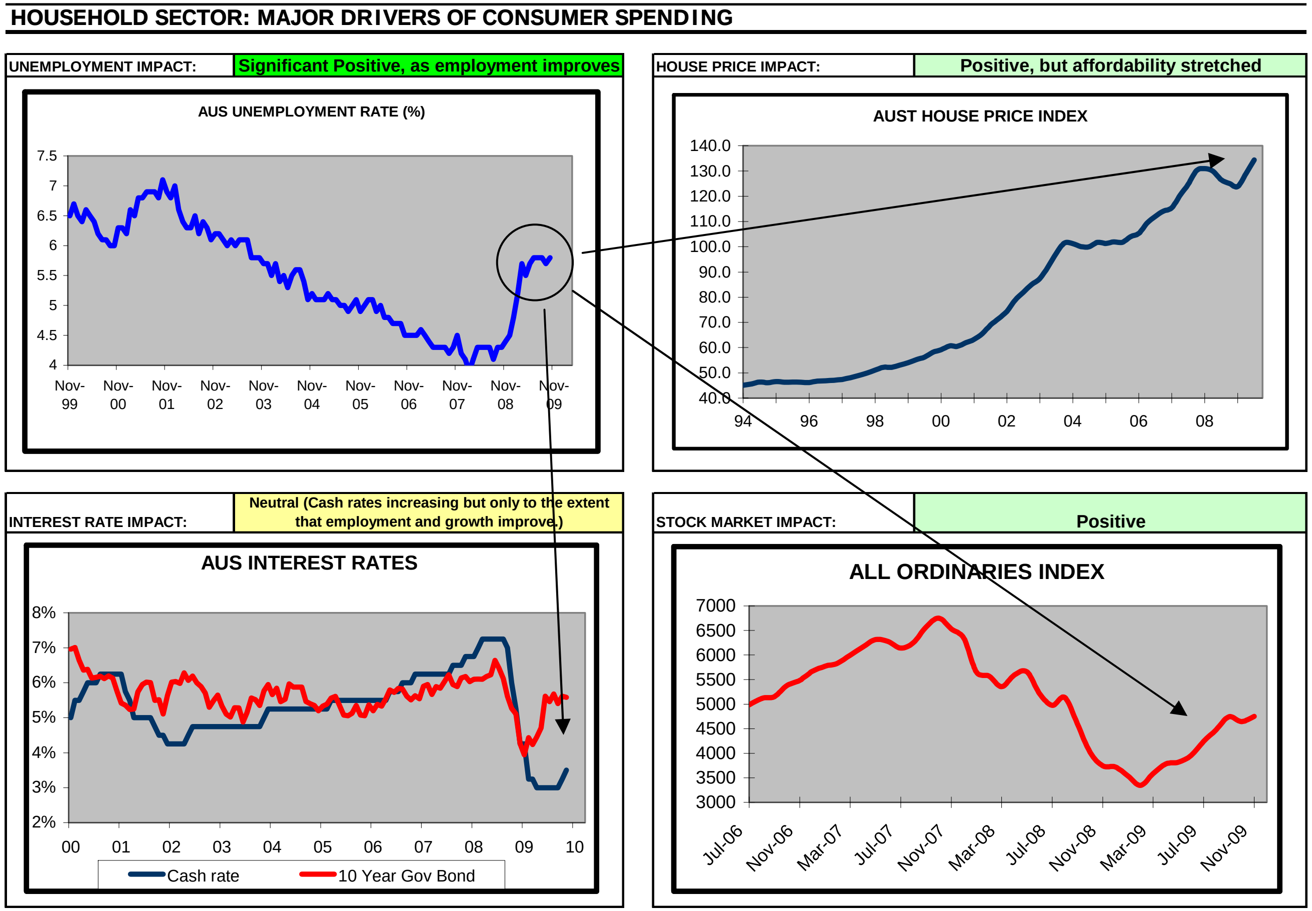


	WHF	All Ind Accum	Diff
Financial Year to Date (FYTD)	37.69%	37.02%	0.67%
2 Years + FYTD	(9.33)%	(8.23)%	(1.09)%
4 Years + FYTD	4.5403%	4.8101%	(0.27)%
9 Years + FYTD	7.89%	6.24%	1.66%

CONSUMER CONDITIONS ARE IMPROVING

The major drivers of consumer wealth are steadily improving, with unemployment proving far more benign than expected.

- ***The resilience of Aust unemployment which has not yet exceeded 6% has been a significant differentiator for the Aust economy..***
- ***The other drivers of consumer spending, including resurgent house prices and the equities market remain a further positive influence.***
- ***While official cash rates are rising, the RBA will seek to lag rate rises behind evidence of further economic growth.***



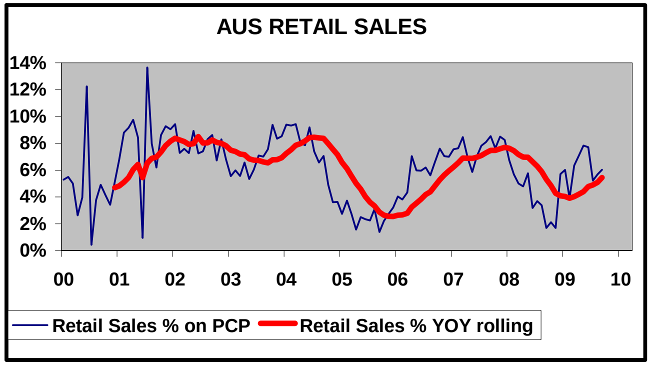
BUSINESS ACTIVITY IS FOLLOWING THE CONSUMER

Corporate activity in Aust is starting to generate momentum, with larger businesses faster to benefit than small business.

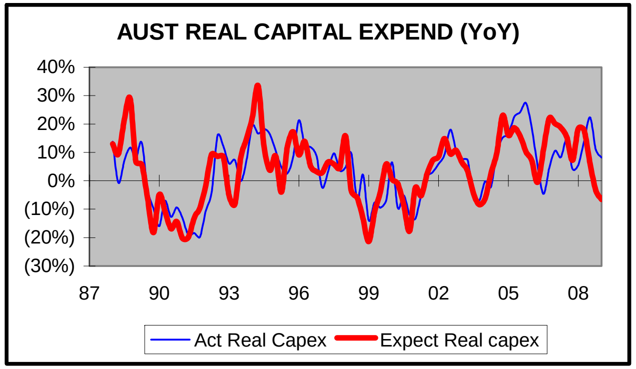
- ***The surprising strength in the consumer is benefiting Corporate Aust through retail turnover and construction activity***
- ***Capex intentions are rising***
- ***2nd stage government stimulus actions are targeted at corporate activity and employment***
- ***While activity has restarted for small business and mature overseas economies, more time will be required for activity levels to return to normal in those areas***

BUSINESS SECTOR: MAJOR DRIVERS OF ACTIVITY

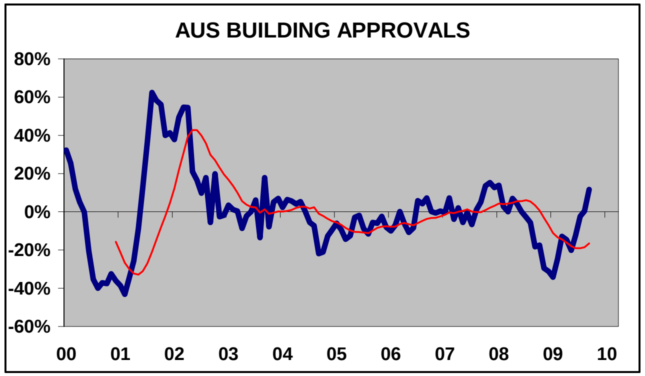
CONSUMER SPENDING:	Moderate Positive



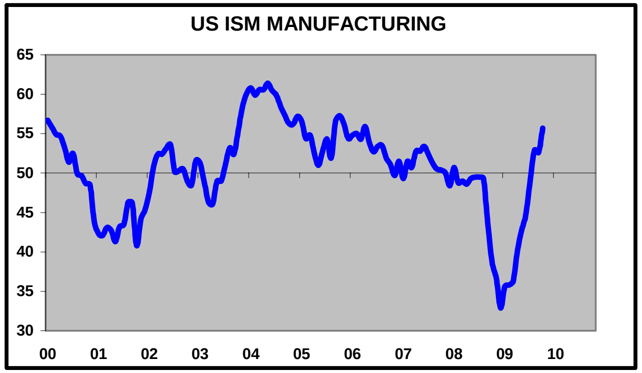
CAPITAL EXPENDITURE:	Bottomed and now growing



CONSTRUCTION:	Positive



MANUFACTURING:	Positive. Activity has restarted but time still needed for volumes to grow meaningfully.



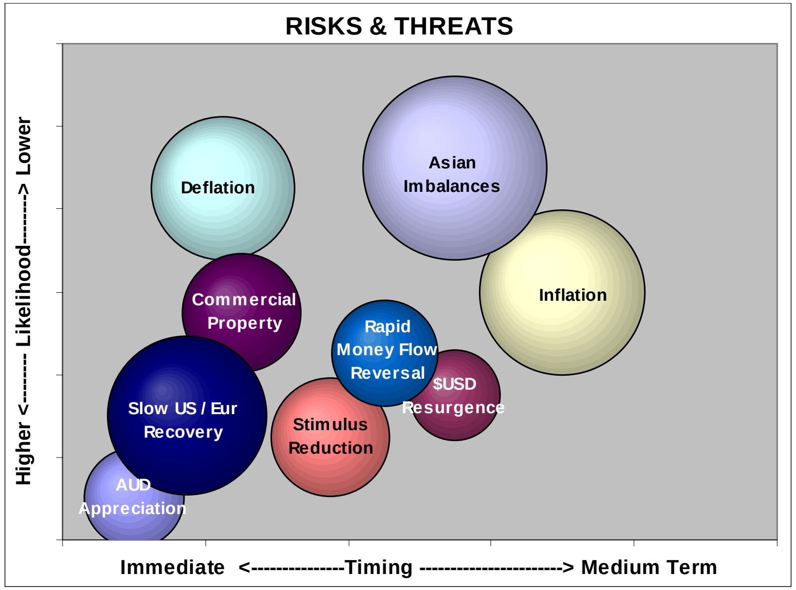
RISKS TO THE RECOVERY

- With unemployment at multi-decade highs in the US and Europe, economic conditions in Japan poor, and developed economy government debt high, a moderate degree of risk remains.

- Economic fundamentals such as retail spending, construction, employment, house prices and markets have improved in sequential months. These factors feed upon themselves, pushing economies into a virtuous cyclical upswing.

- In this environment, perceived risks are less likely to translate to such adverse outcomes.

- Nevertheless large, rapid capital flows have become an unwanted feature of markets, with the potential to exacerbate emerging risks.

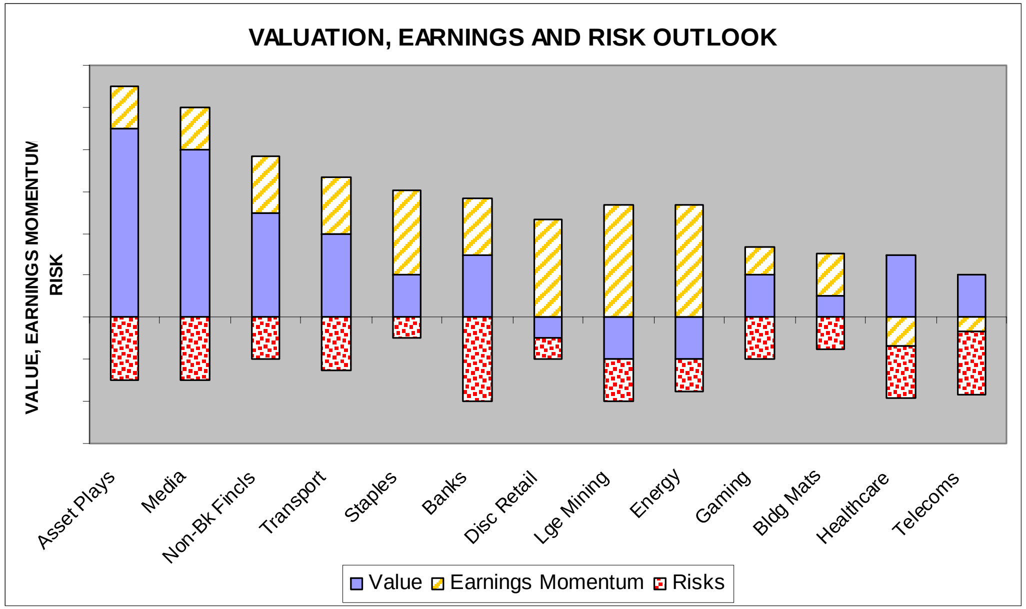


POTENTIAL RISK		
AUD Appreciation:	Short term AUD appreciation a steady detractor for many companies although a net positive for the Australian consumer.	**Likely Short Term**
USD Resurgence:	Beneficial for many Aust companies, but will precipitate falling commodity prices and may promote rising consumer inflation.	**Possible into 2010**
Inflation:	Many counterbalancing factors in the short term (excess capacity, currency, rising cash rates) and more likely to be a threat beyond 2010. Governments will encourage a small degree of inflation to lower indebtedness.	**May emerge into 2011**
Deflation:	A possible near term threat while consumers and governments remain heavily leveraged.	**Less likely assuming credit conditions continue to improve.**
Commercial Property:	A risk, however not overwhelming assuming credit conditions continue to improve into 2010. Larger companies have recapitalised and are able to refinance and make acquisitions.	**Less likely to threaten markets assuming credit conditions continue to improve.**
Stimulus Reduction:	Governments only likely to remove stimulus as growth and employment accelerate.	**Likely, but digestible.**
Money Flow Reversal:	Currencies and commodities have been the most crowded trades of recent times, and have the potential to unwind unfavouraby in 2010 on any USD strength. If USD strength is accompanied by improving global activity the unwind should be manageable, if accompanied by Asian weakness, a USD rally is more problematic.	**Likely but unlikely in the more damaging form.**
Asian Weakness:	There is an unusual degree of uncertainty associated with the new Japanese government and its high debt levels, this is unsettling Japanese investors and could develop into a larger issue. The structural imbalances in the Chinese economy are subject to growing questions from the hedge fund community.	**Possible, but economic news flow remains moderately positive to date.**
Slow US & Eurozone Recovery:	It is possible for US and Euro unemployment to remain high for some time resulting in an extended period of consumer weakness, a soft USD and growing government debt.	**A moderate probability, but not critical for Aust.**

VALUE & EARNINGS

There are pockets of value and growing earnings momentum in the Australian market.

- Greatest value lies in the lagged recovery stocks such as Infrastructure, Media and those impacted by currency
- Evidence of a growing advertising spend, a cyclical uplift in commercial transport and further corporate activity have the potential to draw investor interest to the Infrastructure and Media sectors into 2010
- Currency impacted stocks and sectors including healthcare may lag in early 2010, but would become extremely attractive on any turn in the $USD
- Earnings momentum is likely to grow rapidly across the industrial sector as 2010 progresses.



THE 2010 OUTLOOK

Economic fundamentals and economic news flow are likely to show continuing progressive improvements as we move through 2010.

- News flow on employment (although a lagging indicator), retail sales, construction, manufacturing outcomes, and GDP are likely to be steadily better
- In the near term inflation is unlikely to be viewed as a problem, although investors may become increasingly nervous on this issue as the year progresses
- Central banks will be seeking to neutralise policy initiatives only after evidence of improved growth becomes visible.

The earnings of many companies will gain significant momentum as the year progresses.

- Earnings are coming off an extremely low base in 2009, and consequently earnings growth rates into 2010 will be higher than normal
- As companies pass their first post recession six months, analysts and the companies themselves will obtain greater visibility and a growing confidence as to future earnings, in contrast to their current caution.

Having anticipated a recovery well before solid evidence was available, the market will be nervous while they await further positive economic news flow

- The large and rapid money flows which characterised both the fast collapse and recovery in markets are likely to be an ongoing feature of investment markets in 2010.
- Global investors are currently nervous while they await confirmation of the continuation of the recovery through a pickup in European and US fundamentals, particularly employment.

At this time, we consider that fundamentals will ultimately dominate and investors will continue to chase improving earnings.

IMPLICATIONS FOR STOCKS AND SECTORS

BANKING

Value:

Value modestly above current levels at long term margins and volumes, with greatest upside in NAB given its higher risk UK assets.

Earnings:

Housing and business loan growth low for some years.

Moderate potential for corporate activity and employment to be far better than anticipated resulting in upgrades for reduced BDDs.

Growing earnings momentum into 2010 and 2011.

Comment:

Generally positive outlook but some concerns may arise as analysts start to focus on the ultimate levels of deposit funding and bank fee income into 2011.

NON-BANK FINANCIALS

Value:

Value moderately above current levels as market activity recovers.

Earnings:

Significant transactional momentum for MQG through 2010 and 2011 from cyclical recovery and recent acquisitions.

While an earnings recovery for fund managers and market linked stocks will take some time, investors will be fast to anticipate this.

Comment:

MQG and CGF stand out as beneficiaries of the cycle (MQG) and regulatory change (CGF), while greater near term regulatory risk confronts ASX and the fund managers.

IMPLICATIONS FOR STOCKS AND SECTORS

INSURERS

Value:

Modest upside in Australian insurers, and more significant undervaluation emerging in QBE.

Earnings:

Premium rates have firmed domestically and are less weak internationally.
Claims incidence has been favourable, although margins continue to weaken as prior year reserve releases diminish.
Investment earnings are far more favourable this year.

Comment:

IAG has the strongest earnings momentum but fully valued.
QBE continues to be punished by the $AUD headwind, but offers high growth and significant valuation upside on any turn in the $USD.
SUN offering moderate upside, with execution risk.

MEDIA

Value:

Offers some of the largest valuation upside in the Aust market.
Investors have been slow to embrace the sector given the lagged nature of recovery in the advertising cycle.

Earnings:

Earnings momentum is likely to rise steadily from recent trough cycle lows as advertisers return to the market.
Employment, general and housing advertising spend is picking up pace. Technological change in media distribution is likely in 2010 and a wildcard.

Comment:

FXJ and NWS the cleanest plays with strong underlying assets.
SEV offers a heavily undervalued suite of assets, with the market placing nil value on the media JV.
CMJ's assets increasingly attractive on a strategic basis.

IMPLICATIONS FOR STOCKS AND SECTORS

GAMING

Value:
Moderate valuation upside across the sector
Reflects current regulatory uncertainties

Earnings:
Lack of stimulus and rising rates to hurt gaming spend
Strong wealth effect to benefit higher end
US recovery to be slow

Comment:
Gaming review outcomes to dominate earnings
ALL has large upside but could disappoint in Aust, Japan & US
CWN progress in Macau still uncertain
TAH & TTS could gain the most if uniform wagering tax, and retail deregulation would benefit TTS

RETAILING & CONSUMER STAPLES

Value:
Moderate value in staples
Discretionary valuations are mixed
Limited upside in food & beverage but T/O talk continuing

Earnings:
Wealth effect, population growth, strong AUD tailwinds
Rising interest rates and rents, cycling of stimulus, weaker food inflation headwinds
Focus on dominant majors intensifying

Comment:
WES' turnaround of Coles going well, industrials recovery
WOW remains well positioned on the ground.
Of disc retailers JBH least exposed to rising int rates
HVN and MYR undervalued, DJS overvalued

IMPLICATIONS FOR STOCKS AND SECTORS

HEALTHCARE

Value:

Moderate longer term upside.
Currency a major headwind in the near term.

Earnings:

Ex currency, COH likely to benefit from product release cycle for next 2 years. Market getting excited about RMD's new product launch in early 2010.
CSL struggling under flat earnings, soft IVIG and currency.
SHL likely to announce on acquisitions over next 6 months.

Comment:

RMD and COH will have operating momentum into 2010, as may SHL. We are cautious on CSL near term.
This sector offers significant medium term opportunity assuming an ultimate recovery in the USD.

INFRASTRUCTURE

Value:

Large valuation opportunities
Market metrics reflective of tight credit markets and risk aversion
Sector re-rating underway, more to come

Earnings:

Strong leverage to economic recovery
AIO, MAP, MIG operationally performing well
Market concern re MIG debt levels remains

Comment:

AIO large upside, market underestimating E upside
MAP solid with upside
MIG largest valuation upside, opps good, gearing high
Recently added TCL, while stock price languishing

IMPLICATIONS FOR STOCKS AND SECTORS

OTHER INDUSTRIALS

Value:

Transport & Logistics undervalued
Contractors undervalued, strong business momentum

Earnings:

Airline E currently weak, recovery closer
Logistics leverage to recovery under-appreciated
Infra and LNG spend strong driver of contractors

Comment:

TOL well placed, Freight Forwarding tracking well
Risks increasing for BXB following CHEP USA review
QAN & VBA good recovery stories
LEI benefitting from stimulus and LNG capex
IPL and ORI positioned for soft and hard commodity rebound

TELECOMMUNICATIONS & UTILITIES

Value:

Valuations are relatively full except TLS
Value destruction a key theme still

Earnings:

Defensive characteristics
Long term earnings uncertainty - structural changes

Comment:

TLS now viewed as value play and NBN might be less severe
AGK to benefit from alternative energy, but lower
energy consumption could be more significant

IMPLICATIONS FOR STOCKS AND SECTORS

MATERIALS

Value:

BLD and BSL undervalued
CSR and JHX fully valued

Earnings:

Aust housing slow but solid recovery
US housing close to bottom, long road ahead
Aust Infra activities very strong in FY11
Commercial and Industrial weak for 2 years yet

Comment:

BLD good way to play strong domestic themes US recovery
JHX price implies high margins indefinitely and new product successes, some potential disappointment
Strong AUD and overcapacity to cap BSL price

METALS, MINING & ENERGY

Value:

Limited upside in large miners and energy on value.
Becomes an interesting proposition if the $USD turns due to rising economic activity.

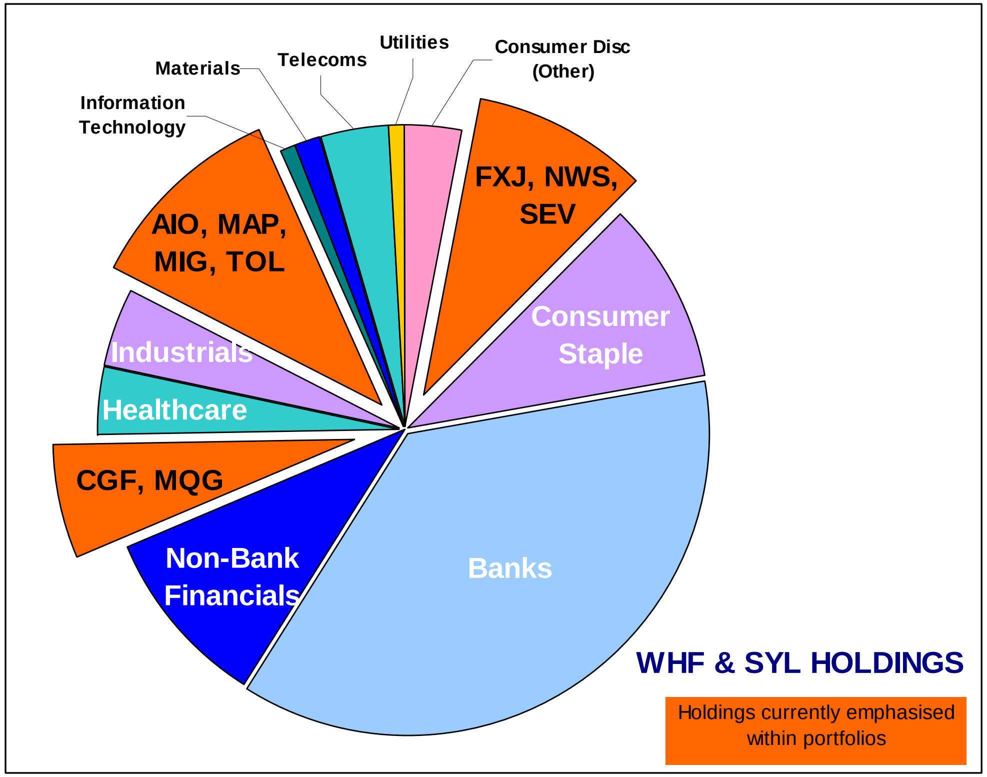
Earnings:

Strength in spot prices in the near term and low comparables will see moderate near term momentum in earnings.
Increased taxation and a growing carbon cost will provide unwanted headwinds beyond 2010.

Comment:

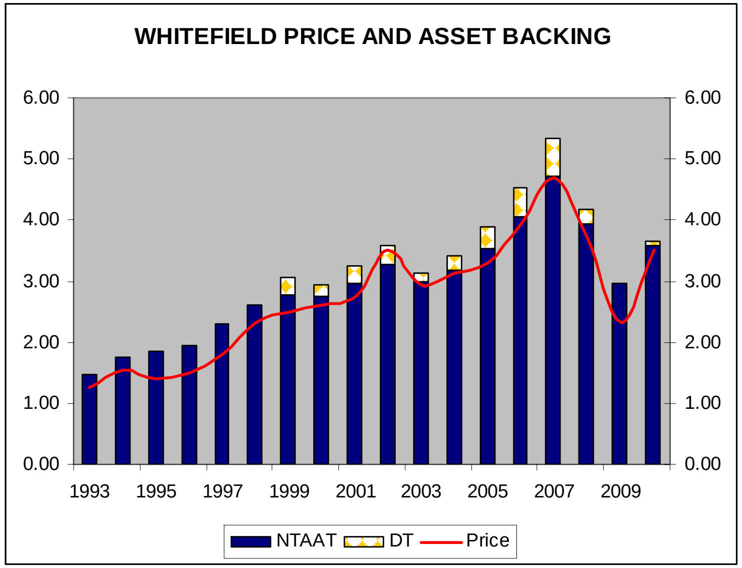
Earnings momentum will be viewed favourably in the near term.
Plenty of corporate interest in the sector.
Developments in taxation, carbon cost impacts and currency may disturb investors as the year progresses.

CURRENT PORTFOLIOS



TOP 20 HOLDINGS
Commonwealth Bank of Australia
Westpac Banking Corporation
National Australia Bank Limited
Australia and New Zealand Banking Group Limited
Woolworths Limited
Wesfarmers Limited
Macquarie Group Limited
Fairfax Media Limited
Telstra Corporation Limited
Asciano Group
QBE Insurance Group Limited
Toll Holdings Limited
CSL Limited
Macquarie Infrastructure Group
Seven Network Limited
News Corporation
Challenger Financial Services Group Limited
AMP Limited
MAP Group
Suncorp-Metway Limited
Alesco (SYL only)

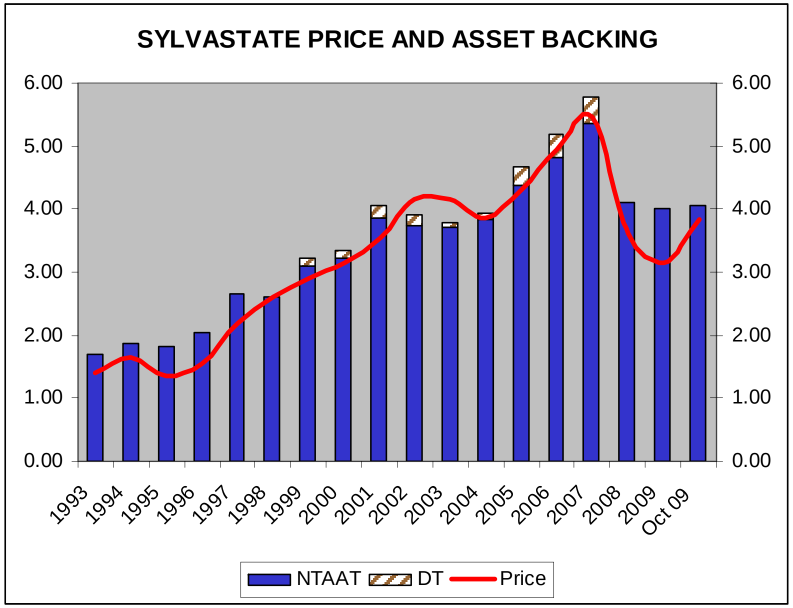
PRICING & NTA



Whitefield NTA (Oct Post Div)

NTA Before Deferred Tax on Unrealised Gains $3.66

NTA After all Tax $3.57



Sylvastate NTA (Oct)

NTA Before Deferred Tax on Unrealised Gains $4.05

NTA After all Tax $4.07

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CONCLUSION

INVESTMENT

- We are likely to see a steady pattern of progressively better economic news flow as 2010 develops
- Earnings of many companies will be coming off a very low base
- Earnings momentum will steadily build as economic fundamentals improve and companies and analysts upgrade their currently cautious expectations
- Greatest valuation upside lies in media and a selection of infrastructure and financial stocks which may be supported by a resurgence in activity levels, lower discount rates as perceptions of risk diminish, and a weight of money flows

OVERALL 2009/10

- Reported earnings per share (based on underlying investment income) will start to grow again as we move into 2010
- We will be seeking to maintain our dividend in line with the prior year to provide consistency of earnings to our investors
- We would hope that we can obtain a further moderate uplift in market prices of our portfolio towards a fuller valuation as the economic recovery solidifies