
MARKETS IN 2010

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Whitefield Ltd & Sylvastate Ltd

PRESENTER PROFILE



- **Angus Gluskie, BEc, CA, FFin**
 - CEO & Director listed Investment Companies Whitefield Ltd and Sylvastate Ltd
 - Managing Director of wholesale funds manager White Funds Management Pty Ltd
 - 25 years experience in financial markets



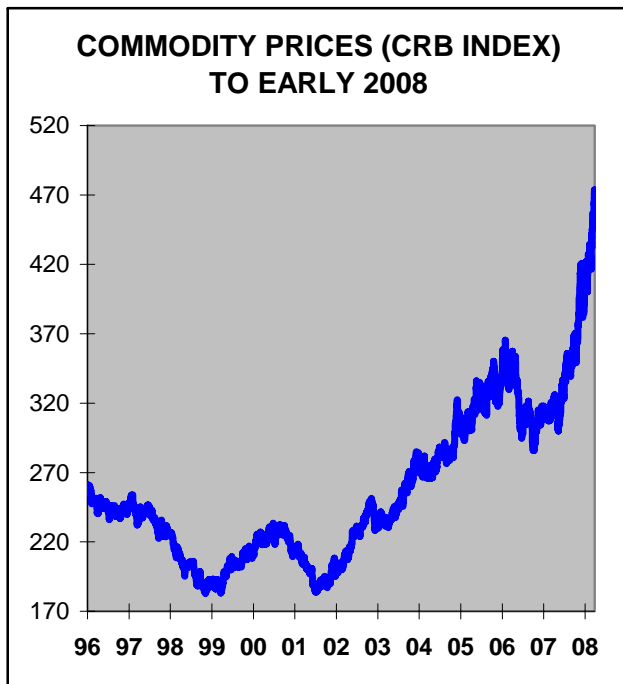
- **Will Seddon, BEc, CFA, SAFin**
 - Senior Investment Analyst wholesale funds manager White Funds Management Pty Ltd
 - Over 6 years experience in funds management and stock analysis

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COMMON ATTITUDES OVER RECENT YEARS

AT THE END OF 2007

POSITION AT START OF THE YEAR	ATTITUDE IN THE PRESS	CORRECT OR NOT IN FOLLOWING YEAR?
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"The start of An unstoppable Super Cycle that will continue for decades"

Subsequent Year Return top to bottom:

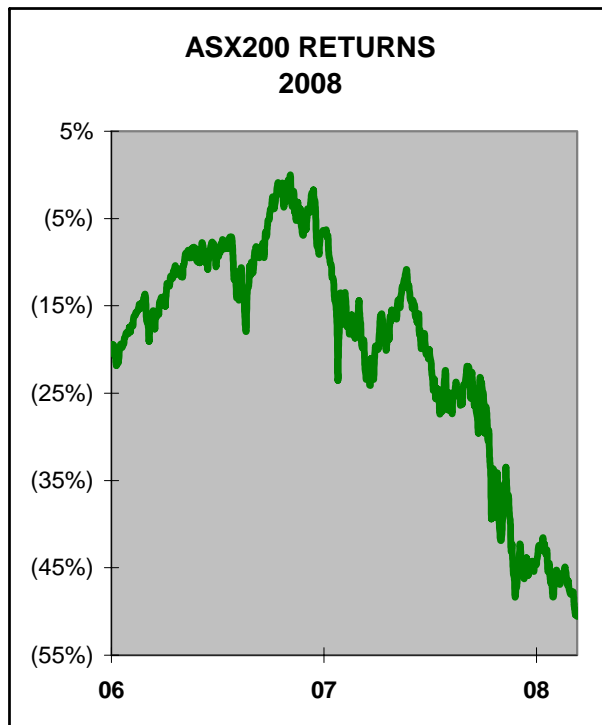
(51%)

CONCLUSION
NOT A GREAT GUIDE TO INVESTING
IN FOLLOWING YEAR

COMMON ATTITUDES OVER RECENT YEARS

AT THE END OF 2008

POSITION AT START OF THE YEAR	ATTITUDE IN THE PRESS	CORRECT OR NOT IN FOLLOWING YEAR?
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"The start of the worst depression in a century"

Subsequent Year Return bottom to top:

60%

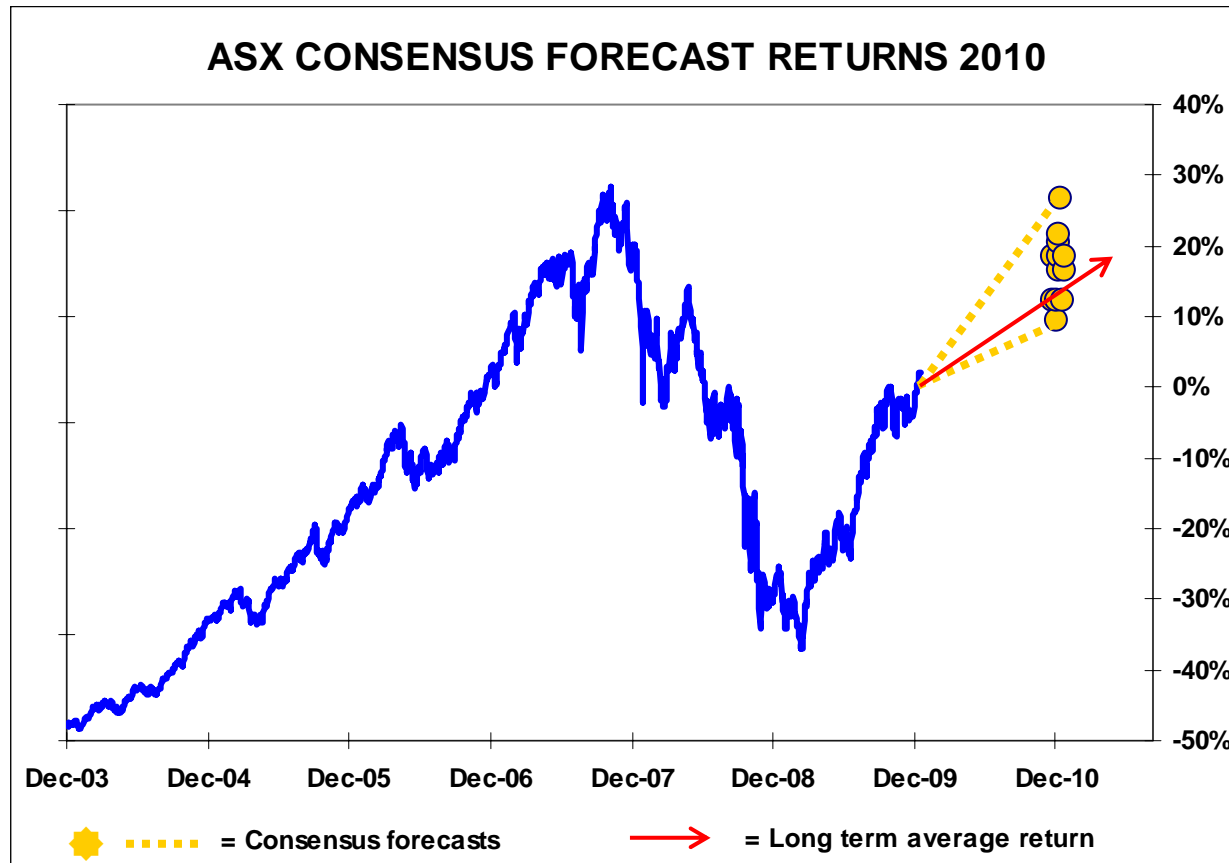
CONCLUSION
NOT A GREAT GUIDE TO INVESTING
IN FOLLOWING YEAR

2009: FUNDAMENTAL VALUE OVERWHELMED FEAR



The last 3 years reveal a fundamental truth about markets. Excesses of optimism create excesses of buying. Excesses of pessimism create excesses of selling. In both cases share prices are pushed away from fundamental value over short periods.

2010: CONSENSUS IS MODERATELY BULLISH



Forecasters have traditionally either extrapolated the recent past or anticipated share market returns being close to the long term average of 13% (including dividends) or 10% ex dividends. 2010 is no exception.

THE COLLECTIVE VIEW OF FUND MANAGERS

- **We draw once again from the Russell Investment survey of fund managers:**

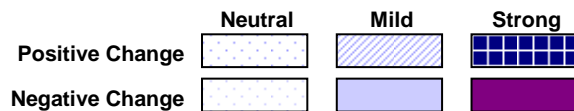
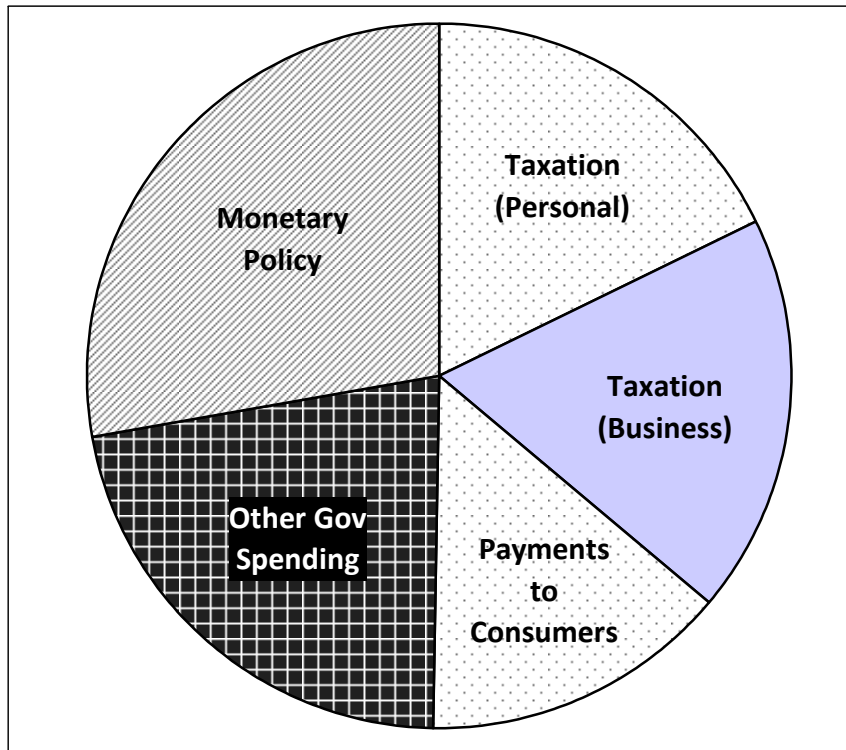
- 18% see the market as undervalued (vs 56% last year and 21% 2 years ago)
- 66% see the market as fairly valued (vs 31% last year, and 36% 2 years ago)
- 16% see the market as overpriced (vs 13% last year and 43% 2 years ago).

(source Russell Investment Group)

In their commentary, fund managers on the whole see market prospects continuing to improve across 2010. Nevertheless they are hesitant to forecast above average returns for the year – at this time.

FISCAL & MONETARY POLICY

GOVERNMENT SECTOR Jan-10
Change in Economic Contribution 2010 vs Neutral Year

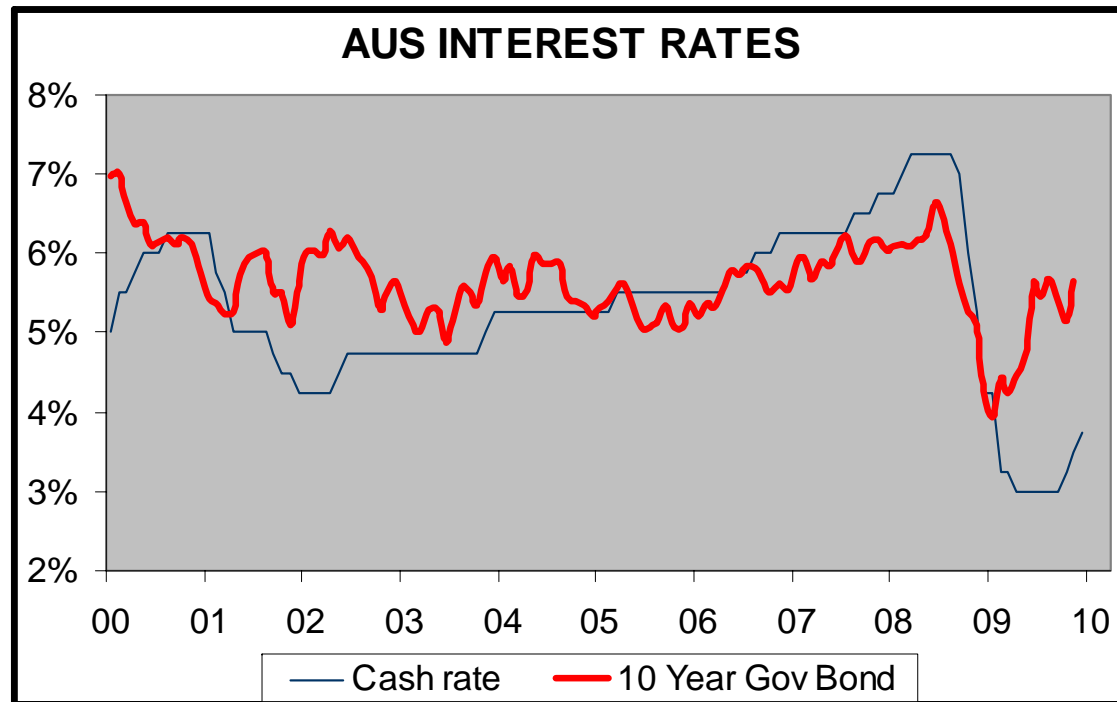


Still Supportive, but Less So than Last Year

- While still supportive of growth, the government contribution to economic activity in 2010 will be less than in 2009 (we have included monetary policy in this category for simplicity)
- Government spending on infrastructure / capital initiatives launched during the recession will continue across 2010 to boost employment
- The absence of stimulus hand-outs, a growing tax take from higher incomes and profits, and higher interest rates present a mild, but probably appropriate, headwind to activity
- US, European and Japanese government support in 2010 is targeted at jobs growth, however the contribution to growth from upfront stimulatory handouts will fade as the year progresses

FISCAL & MONETARY POLICY Cont.

- While the official cash interest rate has only risen modestly, the margin charged by lenders has also risen by 1%-2%. Collectively the cost to borrowers is steadily approaching a level considered by the RBA to represent “neutral” policy.
- As the year progresses expect modest further increases in cash rates, which may bbe (hopefully) offset in part by some reductions in lender margins.

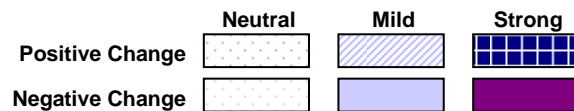
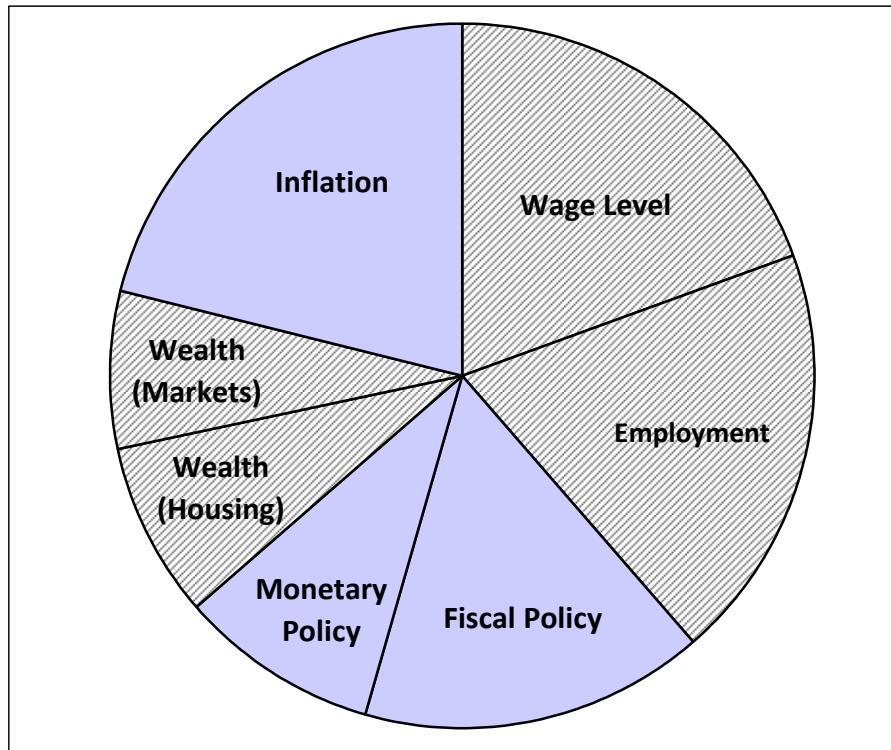


THE CONSUMER SECTOR

CONSUMER SECTOR

Jan-10

Change in Economic Drivers 2010 (v 2009)

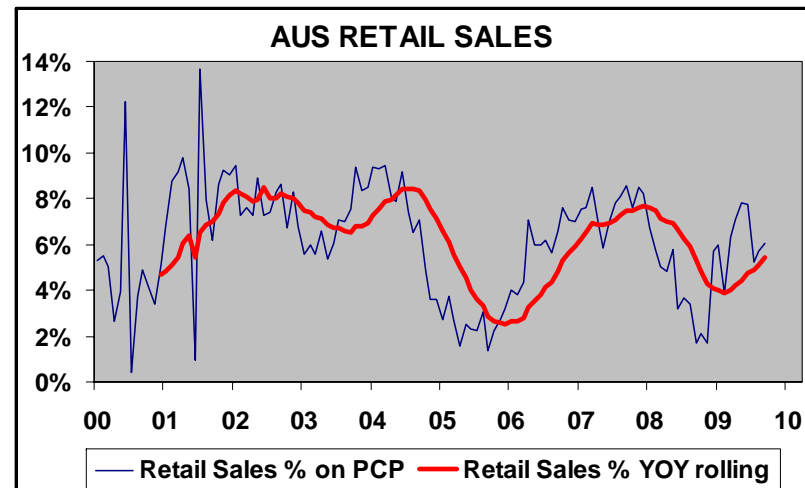
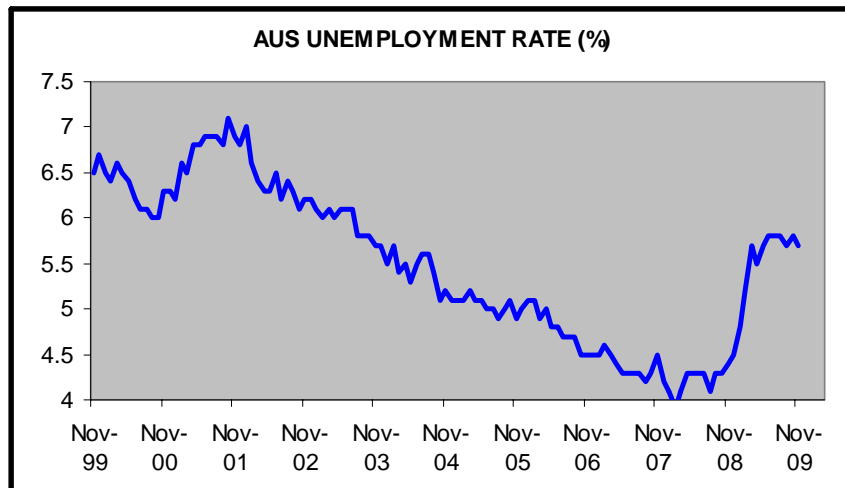


The consumer outlook is neutral to mildly positive for the year

- Consumer affluence is likely to be supported by improved employment, wage growth, and stronger housing and investment markets, all positive drivers of consumer spending
- Rising interest rates and higher costs of living however will limit the spending that would otherwise occur
- The removal of direct government stimulus payments is also a near term constraint
- Consumer spending in the US and Europe is likely to show growth, but from a lower base, while Asian spending ex Japan should also be positive

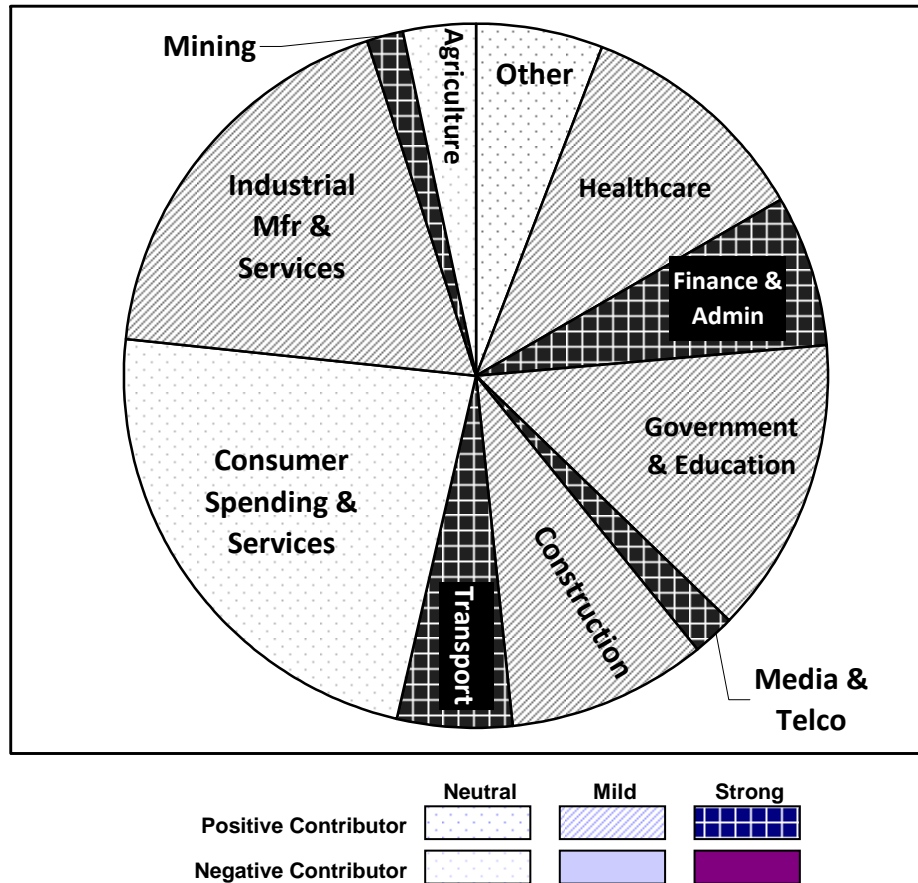
THE CONSUMER SECTOR Cont.

- Notwithstanding the rise in Aust unemployment from 4.5% to 5.9%, the resilience of Australian employment in the midst of the largest market collapse in decades has been remarkable.
- Retail spending has remained moderately firm as a consequence.



THE BUSINESS SECTOR

BUSINESS SECTOR Jan-10
Change in Business Activity Levels 2010 (v 2009)

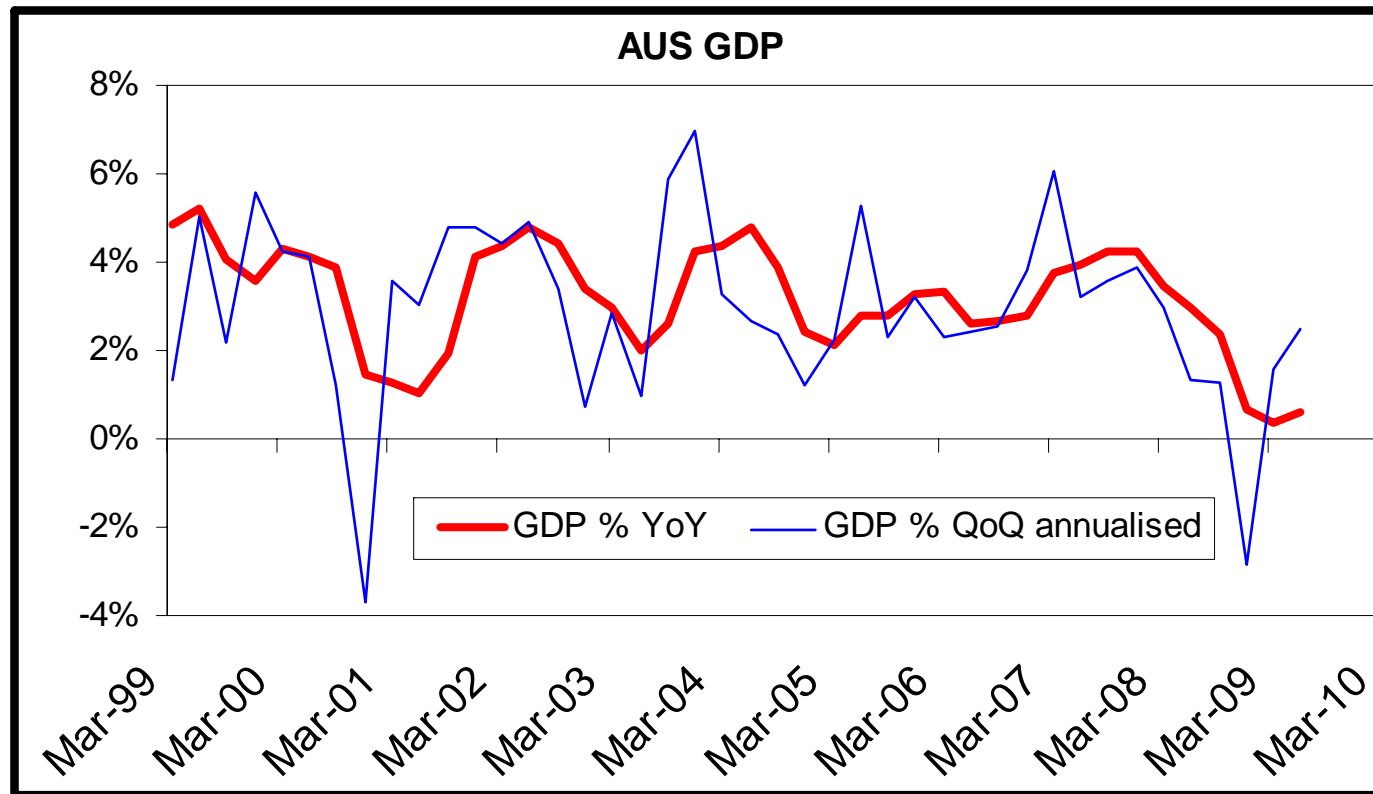


Most business sectors are likely to show growth in activity in 2010

- Business activity is likely to strengthen in the cyclical mining, transport, media and financial sectors throughout 2010
- Construction, education, healthcare, industrial & commercial sectors should reveal modest increases in activity, some of these sectors supported by government initiatives
- In the US, Europe & Japan construction and commercial activity may remain soft for a longer period, however an improved outlook has the potential to emerge as the year develops. Activity levels in these economies should be better than the very weak 2009 period.

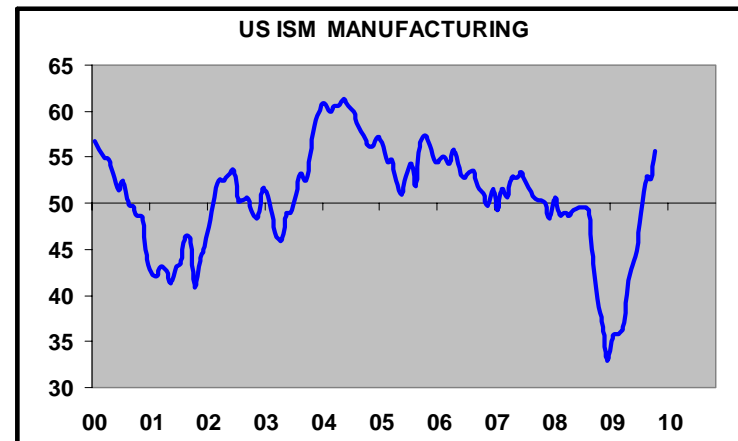
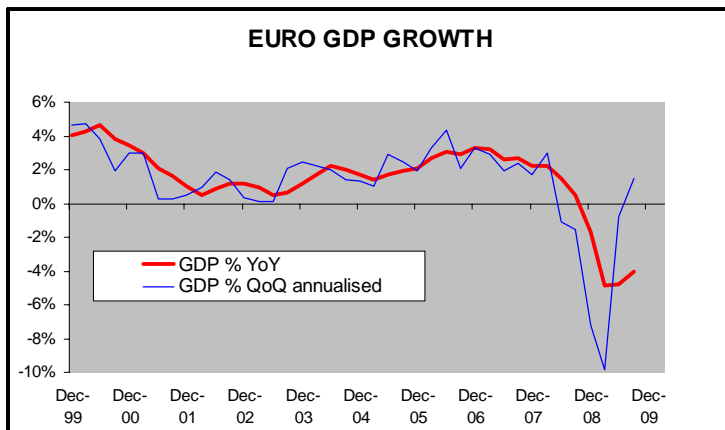
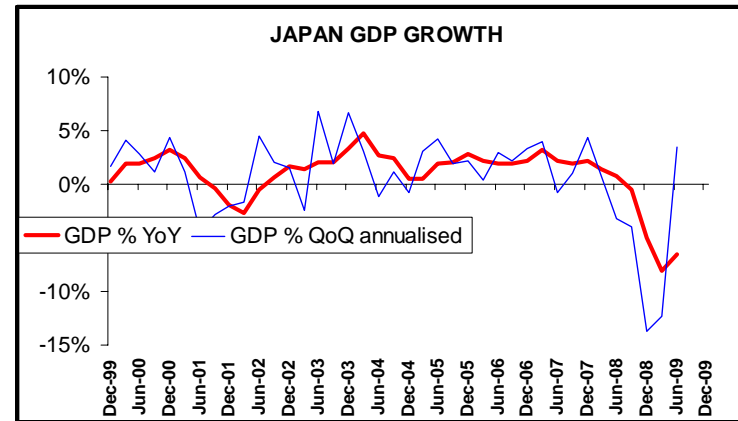
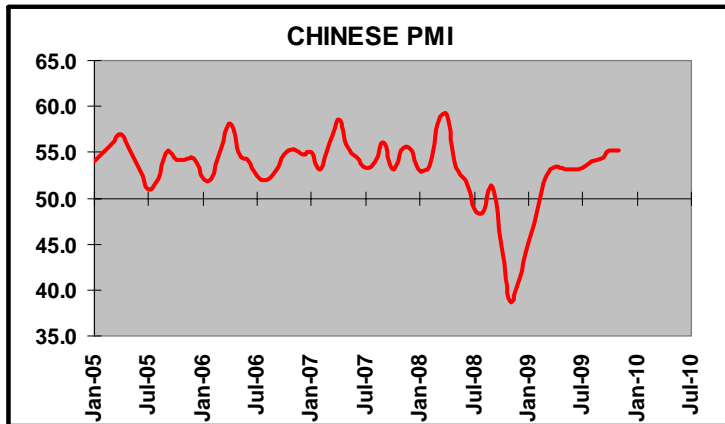
THE BUSINESS SECTOR Cont.

- A clear uptick has emerged in Aust GDP, a trend which is likely to continue for some time.

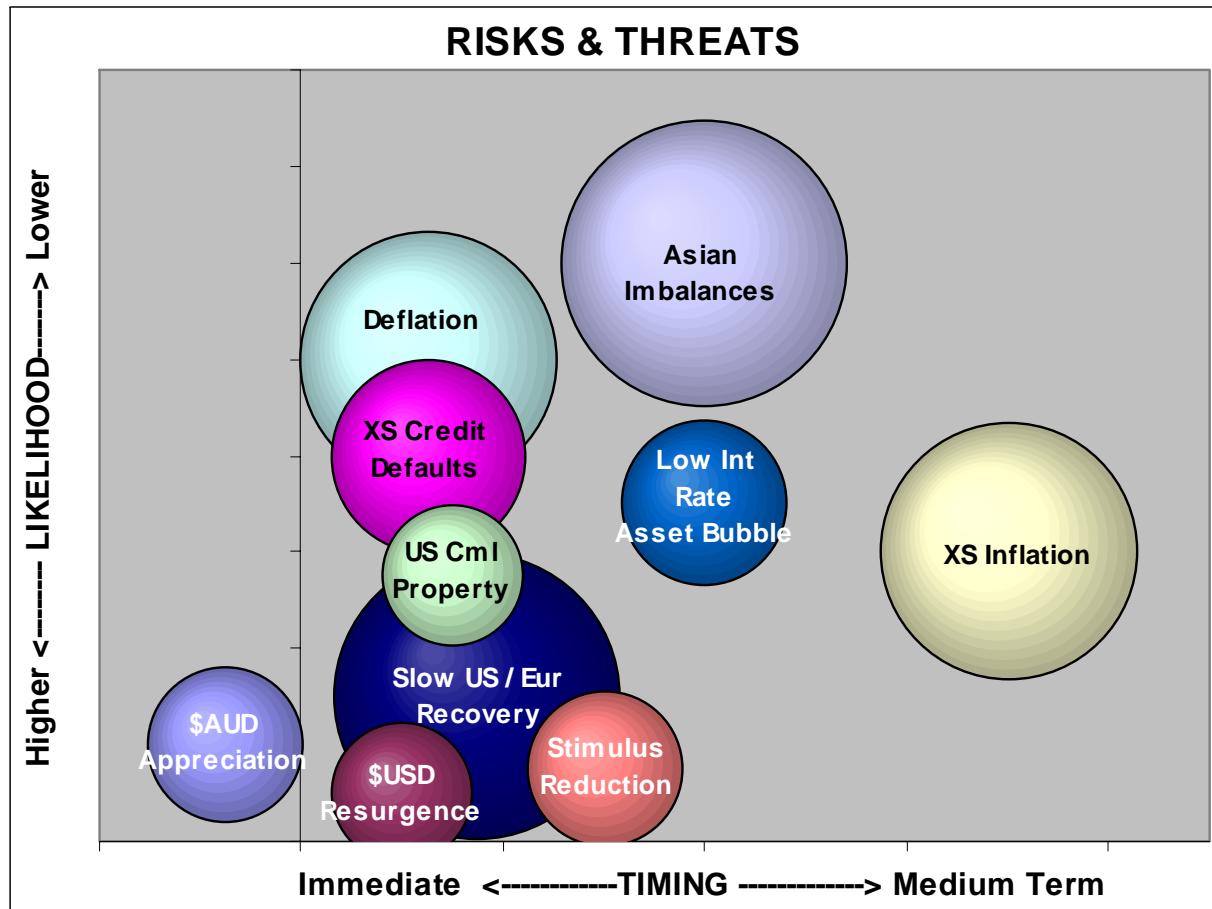


THE BUSINESS SECTOR Cont.

- The majority of global indicators reveal the start of a similar upwards trend



RISKS TO AN IMPROVING OUTLOOK



- If employment and economic activity maintain an upward trajectory, albeit slow, the majority of these risks are likely to dissipate or be managed successfully

RISKS TO AN IMPROVING OUTLOOK

POTENTIAL RISK		
AUD Appreciation:	AUD appreciation a detractor for many companies, but net positive for the Australian consumer.	Possible, but risk has largely passed.
USD Resurgence:	Beneficial for many Aust companies, but will precipitate falling commodity prices and may promote rising consumer inflation.	Likely as US economy recovers.
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.
US Commercial Property:	A risk, however not overwhelming assuming credit conditions continue to improve through 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.
Low Interest Rate Asset Bubble:	Low interest rates are financing leveraged investment into Asia, Asian linked economies, commodities, and takeovers. If asset prices escalate too far, this has the potential to unwind unfavourably. More likely to be an issue beyond 2010. Debt levels for many companies in Aust are at acceptable levels now, with some exceptions such as oil and gas.	Possible, however a later stage issue.
Excessive Credit Defaults:	A continued run of credit defaults, driven by leveraged sovereign states (eg Greece, Dubai, Eastern Bloc), or a double dip recession are possible. Should growth indicators continue to improve this outcome decreases in likelihood.	Less likely if economic indicators continue to improve.
Asian Weakness:	There is a 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 is moving in a positive direction 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 tepid corporate recovery and growing government debt.	A moderate probability, but not critical for Aust.

RISKS TO AN IMPROVING OUTLOOK

THE IMPACT OF MOBILE GLOBAL CAPITAL

- Global capital flows today are very large, flexible and they move with rapidity
- The market may choose to take a strongly adverse view on any particular risk as it becomes visible (whether or not the risk is ultimately manageable)
- In this event, markets may react (sell off) vigorously to the threat of the risk emerging, in some cases exacerbating the problem.

Investors should recognise that large capital flows have the potential to cause exaggerated movements in market prices.

The movement of share prices away from intrinsic (fair) value as the result of large capital flows may create both buying and selling opportunities for investors.

STOCKS: LATE RECOVERY CYCLICALS

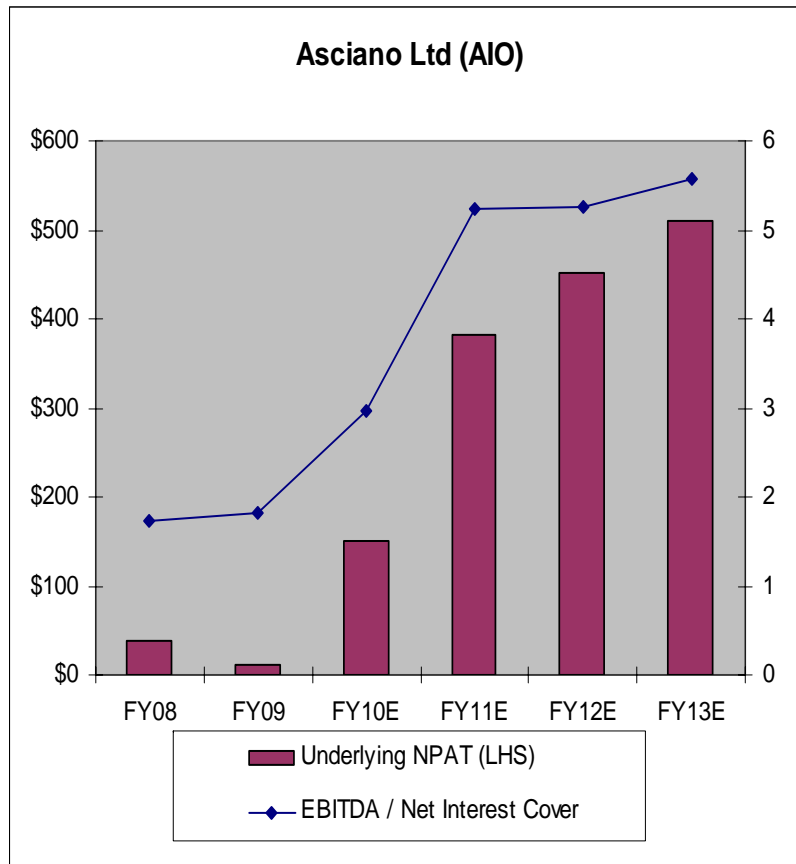
One of the remaining areas of material valuation upside in the Australian market lies in the late recovery cyclical stocks.

LATE RECOVERY CYCLICALS	Greatest Value	Moderate Value	Fair Value	Most Expensive
Earnings recover or risk dissipates late in the recovery cycle, likely to develop earnings momentum as the year progresses	Aristocrat Asciano BT Invest. Fairfax Media MIG MAP News Corp Seven Suncorp	ANZ ASX Bluescope Boral Incitec Lend Lease NAB Perpetual Qantas Virgin Blue Selected REITS	AMP Brambles CBA Westpac	Jms Hardie

Subject to a specific uncertainty or risk as to future earnings

* Value is assessed as the intrinsic value of future forecast earnings relative to current price.

LATE RECOVERY CYCLICALS: ASCIANO



- Coal haulage to double by 2015
- Bulk exports +30-50% by 2012
- Grain exports +50% by 2015
- Restocking to add 5-10%
- \$50m further efficiency benefits
- Credit markets improving
- Net interest cover relatively high
- Capex to fall \$200-300m in FY11
- Recapitalised and refinanced
- Operational improvements
- Expanded & deepened board

STOCKS: CURRENCY EXPOSED

Some stocks sold off on the back of a rising \$AUD in 2009 now offer good upside in 2010 should we continue to see a rising \$USD pushing the \$AUD back to lower levels.

CURRENCY EXPOSED STOCKS	Greatest Value	Moderate Value	Fair Value	Most Expensive
Impacted adversely by rising \$AUD, but benefits from a falling \$AUD (and rising \$USD)	Aristocrat MIG News Corp Resmed	Cochlear CSL Fosters Macquarie Group NAB QBE Selected REITS	Amcor Brambles Crown Sonic	Jms Hardie

Subject to a specific uncertainty or risk as to future earnings

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STOCKS: TEMPORARILY IGNORED

A handful of defensive stocks have been ignored by investors as they offered little leverage to the economic cycle. These stocks now offer moderate value to investors.

The investing public is yet to obtain a level of comfort with Myer, however the stock now offers good value on our, and most analysts' assessment.

TEMPORARILY IGNORED STOCKS	Greatest Value	Moderate Value	Fair Value	Most Expensive
Stocks have been ignored over recent months and as a result offer value		Myer Tabcorp Tattersalls Woolworths		

Subject to a specific uncertainty or risk as to future earnings (if shaded)

* Value is assessed as the intrinsic value of future forecast earnings relative to current price.

WOOLWORTHS: TEMPORARILY IGNORED

Used as a funding source, undervalued

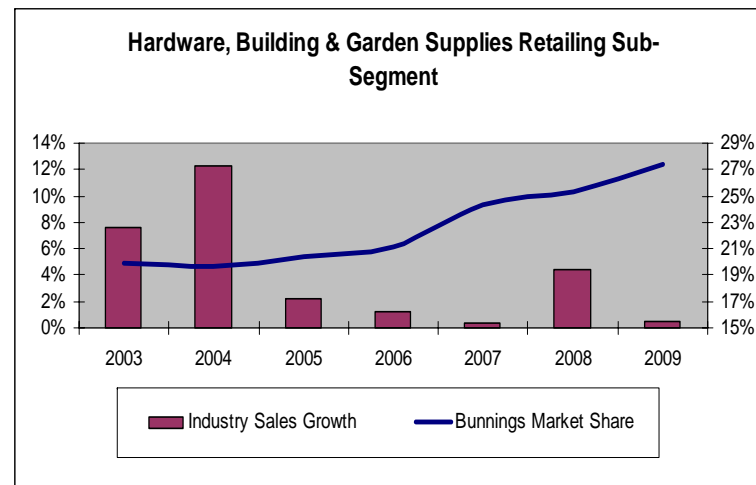
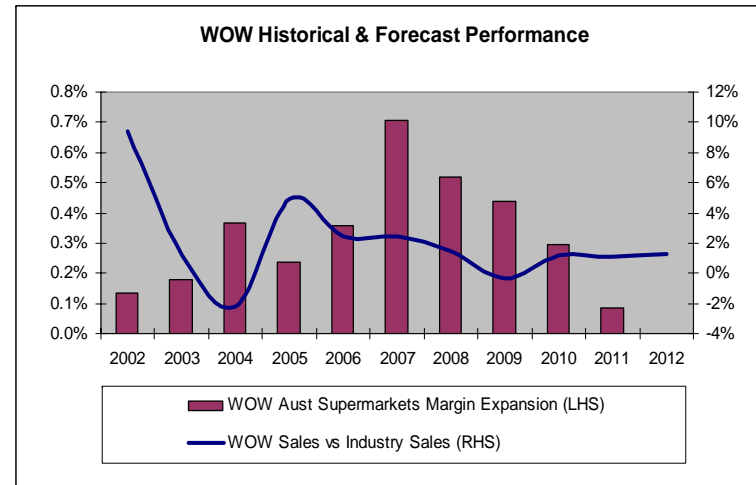
Outlook relatively strong for supermarkets

Market is under-estimating management ability to grow earnings in spite of rising competition

Home Improvement:

- Large sector, highly fragmented
- Sound strategy with low risk in the start-up phase

Upside risk to earnings & valuations



MYER: TEMPORARILY IGNORED

Market forecasting historical 3% industry rev growth rate to continue.

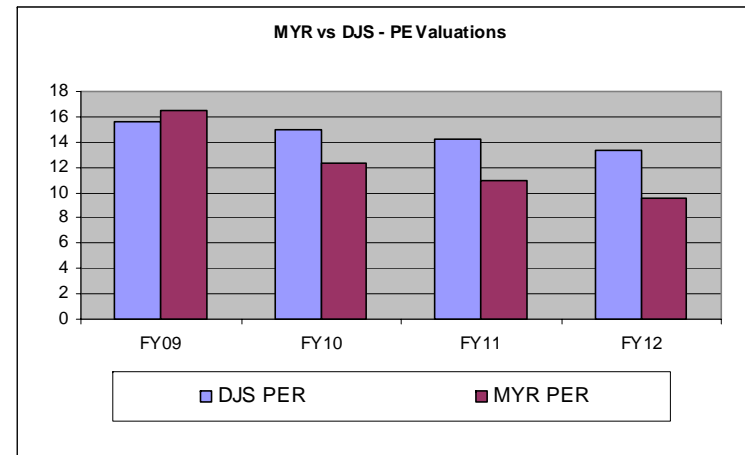
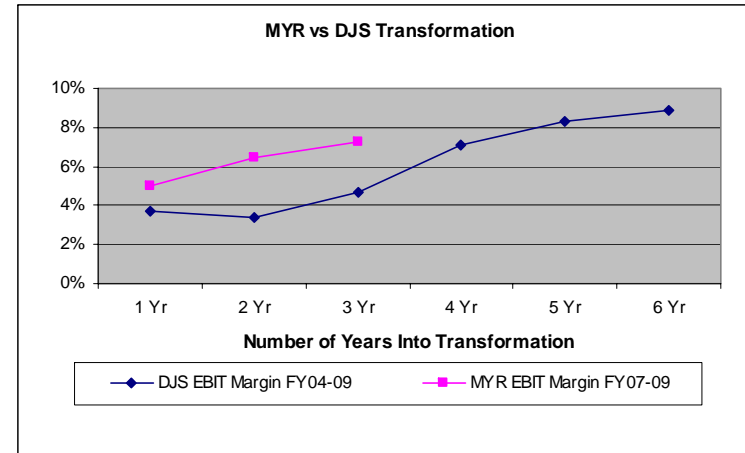
Historically prices have been flat, but will begin to rise as a peak in the AUD and the end of cost-out programs see industry costs inflate

We expect medium term revenue growth to be 4-5%.

Potential for a further 300bps EBIT margin expansion

Market under-appreciating growth prospects vs DJS

Offers valuation upside



STOCKS: ONGOING EARNINGS MOMENTUM

With some exceptions, the majority of stocks exhibiting high visibility earnings momentum appear fully priced, and in some cases expensive.

Where the earnings momentum can be maintained, these stocks have the potential to deliver market or above market returns as investors chase their relative earnings certainty or as company earnings surprise to the upside.

ONGOING EARNINGS MOMENTUM	Greatest Value	Moderate Value	Fair Value	Most Expensive
Stocks are already perceived to have earnings momentum and earnings are likely to continue to improve		Macquarie Grp Orica Toll Holdings Transfield Serv	AGL C-Cola Amatil Challenger Computershre Harv Norman IAG JB Hi Fi Leighton Metcash United Group Wesfarmers Worley Parsns	Alumina BHP David Jones RIO Santos Woodside

TOLL HOLDINGS: ONGOING EARNINGS MOMENTUM

Relatively defensive transport play

- High exposure to consumer
- Some counter-cyclical elements

Strong organic growth potential

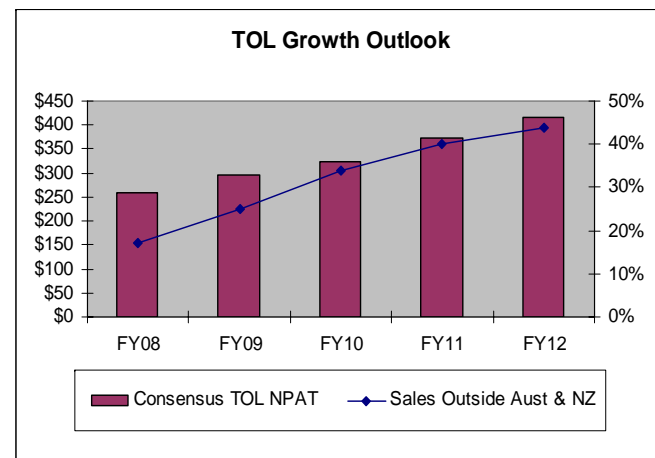
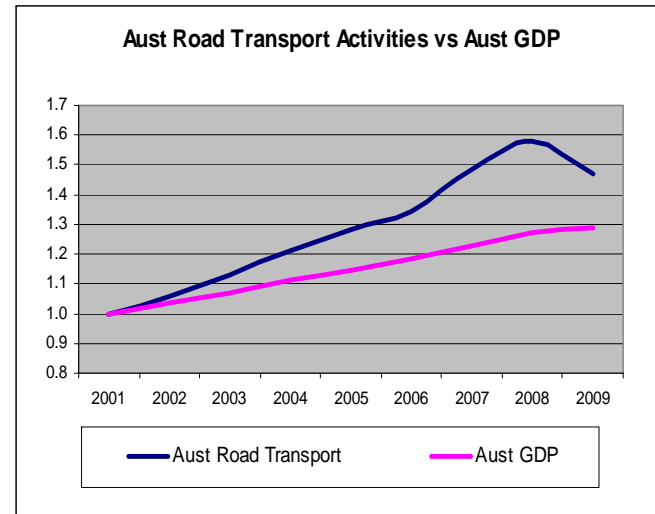
- Aust & Asian eco strength
- Increasing international trade and outsourced logistics

Strong acquisitive growth potential

- Excellent track record
- Strong cash flow and low debt
- Cross-selling opportunities

Toll Global Forwarding

- Asian mkt very large and fragmented
- Large margin uplift potential



STOCKS: FADING EARNINGS MOMENTUM

The restructuring of the Australian telecommunications industry presents a material risk to Telstra's longer term earnings outlook.

A rising \$USD, and a growing appetite for risk could result in gold prices falling from current cyclical highs. Such an outcome could see a sharp reversal in the attractiveness of gold stocks. [This adverse outcome may not eventuate should investors' perception of gold as an inflationary hedge continue to support the gold price].

FADING EARNINGS MOMENTUM	Greatest Value	Moderate Value	Fair Value	Most Expensive
Stock has current earnings momentum however conditions potentially hinder it in 2010 or beyond		Telstra		Newcrest

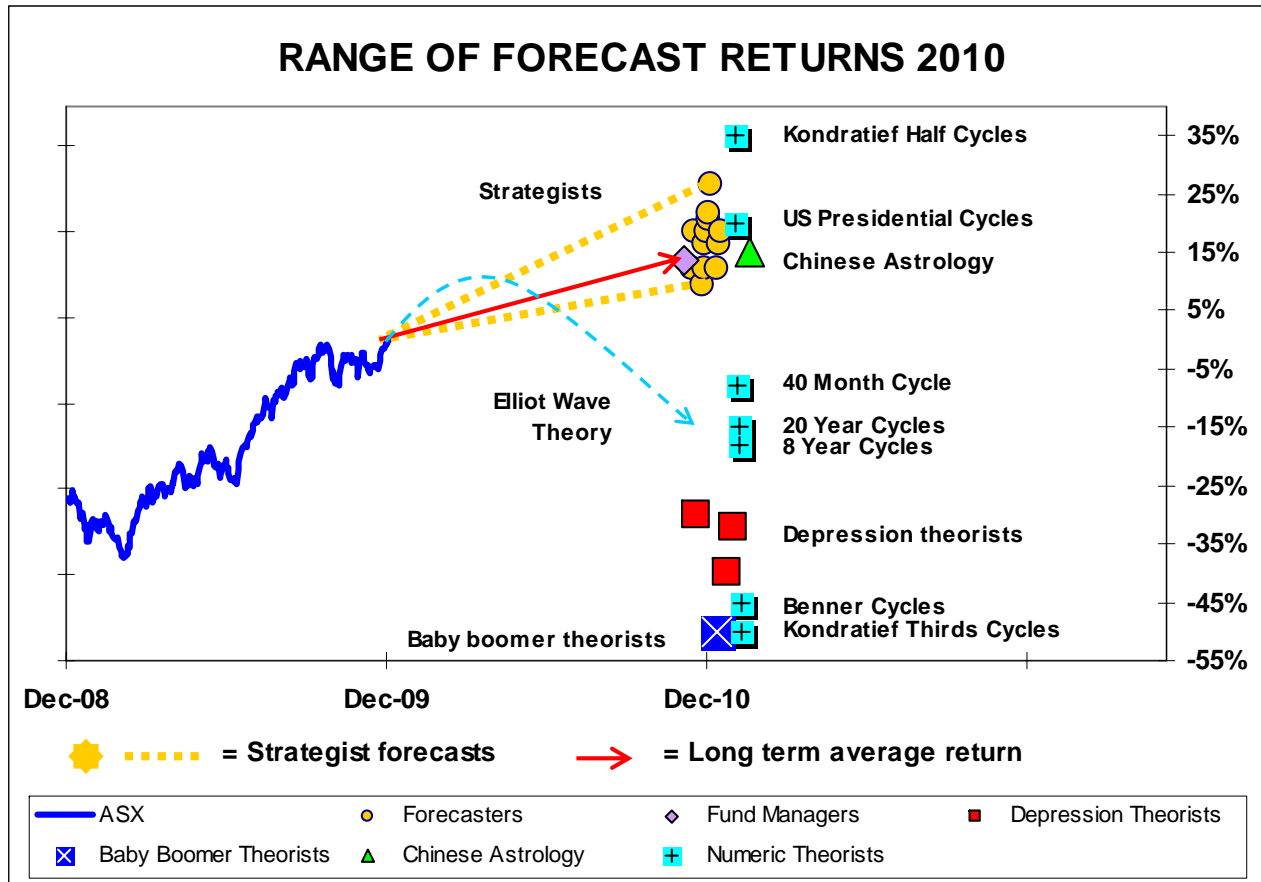
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LISTED INVESTMENT COMPANIES

- Many of you may be familiar with listed investment companies, companies which trade on the ASX in which you can buy shares, and where the companies in turn hold a **diversified professionally managed investment portfolio**.
- If you are followers of the LIC market, we always hope you take some time to look at **Whitefield and Sylvastate**, which are two of the oldest listed investment companies in Australia, and which we consider offer an exceptionally cost efficient structure for shareholders with Management Expense Ratios of approximately 0.35%.

A FORECAST FOR EVERY PERSON?



WARNING: White Funds Management wants to take absolutely no responsibility for any of the wild and dangerous forecasts on this chart, happily admits to having no skill or experience in Astrology, Numerology, and Wave Theory, does not guarantee the veracity of any piece of data on this graph, and recommends investors make no investment decisions on the basis of this page whatsoever.

CONCLUSION FOR 2010

Market Overall

- Fiscal and monetary policy remain supportive, but less so in 10 than 09
- Consumer financial well-being improving through 2010
- Majority of business sectors to experience higher activity levels in 2010
- 2010 likely to represent the second year in a virtuous upwards spiral of economic activity
- Australian share market to show a return of 25% for 2010

Sectorally

- Late recovery cyclicals Infrastructure and Media to perform well as earnings momentum gathers pace and risk recedes
- A resurgence in currency-exposed stocks as the \$USD rises (and \$AUD softens) including QBE, News Corp, Resmed, Cochlear, CSL and Sonic
- Moderate outcomes from currently ignored mainstream stocks including Woolworths and Myer
- Continuing earnings momentum to support Financials, Transport, Retail, Developers, Services, and Resources but we prefer those with some valuation support including Macquarie, Toll Holdings and Leighton
- Cautious on headwinds to Telecommunications and Gold