

# SYLVA STATE

## QUARTERLY REPORT

QUARTER ENDED 30 NOVEMBER 2009

### Performance Summary

At 30 November 2009

	Last Quarter %	One Year %	Three Years*** %	Ten Years*** %
Total Portfolio	3.69%	30.88%	(3.32%)	7.93%
Benchmark*	4.80%	27.56%	(4.09%)	6.92%
Net Asset Backing (pre-tax)** <sup>1</sup>	2.34%	30.33%	(5.82%)	N/A
Net Asset Backing (post-tax)** <sup>2</sup>	4.66%	20.31%	(2.57%)	N/A
Share Price	8.45%	28.76%	(4.79%)	7.43%

\* ASX 200 All Industrials (XJIAI) \*\* Including Dividends \*\*\* Annualised

1 Investment returns based on net asset backing (pre-tax) represent the investment return prior to any provision for capital gains tax on investments which have not been sold at balance date, but are after the payment of tax at company rates on income and on capital gains on investments which have been sold.

2 Investment returns based on net asset backing (post-tax) represent the investment return after making a provision for capital gains tax on investments held but not sold, and are after the payment of tax at company rates on income and on capital gains on investments which have been sold

### Financial Outcomes

At 30 November 2009

	At 30 Nov 09	At 30 Nov 08	% Change
Investment Revenue	\$941,929	\$1,271,409	(25.9%)
Profit Before Tax & Realised Gains	\$864,099	\$1,150,104	(24.9%)
Income Tax Benefit/(Expense)	\$23,689	\$26,230	(9.7%)
Profit After Tax before Realised Gains	\$840,409	\$1,123,804	(25.2%)
Earnings before Realised Gains Per Share	5.0cps	6.5cps	(22.6%)

### Results Commentary

Sylvastate reports an underlying operating profit after tax and before movements in capital values of \$840,409 for the quarter to 30<sup>th</sup> November 2009. This result is 25% lower than the 1<sup>st</sup> quarter result in the prior year. After allowing for movements in issued shares, underlying operating profit after tax per share decreased by 23%.

As highlighted to investors across the last year the fall in earnings reflects cuts in dividends by many companies in the Australian market.

Sylvastate's investment portfolio generated an investment return of 3.69% for the quarter and 30.88% for the last 12 months. The company's rolling twelve month investment return is 3.32% higher than the All Industrials Accumulation Index over the same period, while the quarterly return was slightly below the Index level.

The strongest contributing investments for the quarter were Virgin Blue, Challenger Group, Transurban, the major Banks, Wesfarmers, Harvey Norman and Fairfax Media.

### Changes to Investment Exposures

Material transactions undertaken by Sylvastate during the quarter involved:

- Increasing exposure or adding holdings in AMP, AGL, Amcor, Boral, the major banks, Orica, Sonic Healthcare, Transurban, QBE, Leighton Holdings and Telstra
- A reduction in our exposure to Brambles, CSL, Consolidated Media, Woolworths and Macquarie Group

### Dividend

Notwithstanding the cuts in dividends across the Australian share market, at this time Sylvastate expects to be able to maintain its own interim and final dividends to shareholders at the same rates as the prior year.

### Net Tangible Assets

At 30 November 2009

NTA (post-tax)	\$66.7m
Shares on Issue	16,566,329
NTA per share (pre-tax)	\$4.00
NTA per share (post-tax)	\$4.02
Share Price	\$3.80
(Discount)/Premium to NTA (pre-tax)	(5.00%)
(Discount)/Premium to NTA (post-tax)	(5.47%)

### Top 20 Holdings

At 30 November 2009

	\$'000	Fund%
Whitefield Ltd	10,100	15.99%
Commonwealth Bank Of Australia	5,573	8.82%
Westpac Banking Corporation	5,228	8.28%
National Australia Bank Limited	4,511	7.14%
ANZ Banking Group Limited	3,902	6.18%
Woolworths Limited	2,862	4.53%
Wesfarmers Limited	2,556	4.05%
Telstra Limited	2,438	3.86%
Macquarie Group Limited	2,438	3.86%
Fairfax Media Limited	2,095	3.32%
QBE Insurance Group Limited	1,714	2.71%
Toll Holdings Limited	1,642	2.60%
News Corp. Class A Non Voting Stock	1,297	2.05%
Asciano Group Limited	1,159	1.83%
Challenger Financial Services Group	1,071	1.70%
Seven Network Limited	995	1.57%
Amp Limited	944	1.49%
CSL Limited	941	1.49%
Suncorp-Metway Limited	917	1.45%
Alesco Corporation Limited	889	1.41%

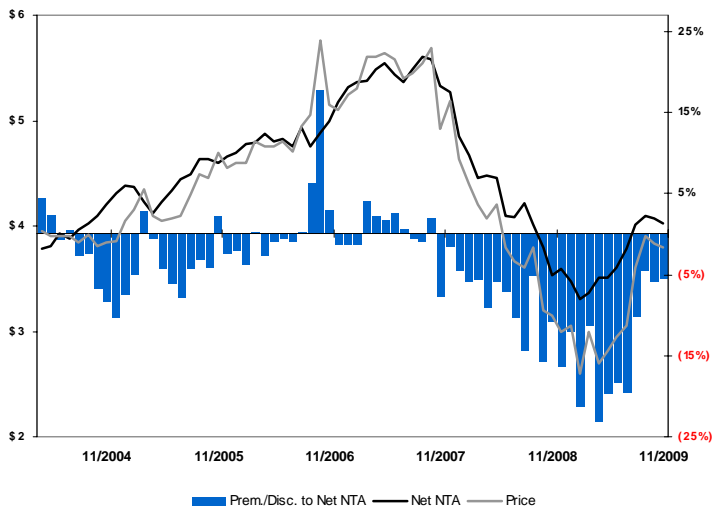
### Sector Breakdown\*

At 30 November 2009

	Fund %
Banks	38.72%
Industrials	15.50%
Financials Excluding Banks	13.56%
Consumer Staple	11.40%
Consumer Discretionary	8.54%
Telecommunication Services	5.15%
Healthcare	4.46%
Materials	1.69%
Utilities	0.98%
Information Technology	0.00%

\*Excluding Whitefield Ltd

## Sylvastate Ltd Premium Discount to Net NTA and Share Price



### Outlook

At this time economic fundamentals are continuing to improve. Fiscal and monetary policy remains supportive for the Australian economy. While some areas of direct government support will be lower in 2010 than 2009, fiscal spending on capital investment and infrastructure continues to encourage growth in employment. While official interest rates are rising, the outright level of monetary policy remains accommodative.

The outlook for the Australian consumer is also positive. Housing and financial asset prices are higher than last year. Wage levels and overall employment are likely to grow as we move through 2010. These drivers will support a modest level of retail sales growth across the calendar year.

The majority of business sectors in the Australian economy are likely to show growth in both profit and activity over the next 12 months.

Collectively, government, consumer and business activity are likely to provide the Australian economy with moderately strong, positive momentum into 2010, an outlook which is favourable for investment markets.

Investors however, should remain alert to the existence of a range of risks and threats to market stability. Such risks include the potential for an unduly slow pick-up in employment, especially in Europe and the US, destabilising currency movements, Asian imbalances (including the impact of high levels of lending in China and the very high debt levels in Japan), and ultimately the risk of inflation.

While some of these risks are large, should global employment and corporate profits continue to show improvement, even if this improvement is slow, it is likely that many of these risks will dissipate or be managed successfully as the year progresses.

Nevertheless, with investment markets currently characterised by very large, mobile capital movements, the Australian share market may experience continuing bouts of volatility in 2010, driven by the ebb and flow of visible risks and opportunities.

In this environment we have continued to position Sylvastate's investment portfolio with a view to constraining areas of potential risk, while building or maintaining exposure towards stocks or sectors offering favourable growth in earnings and return over the medium and longer terms.

Angus Gluskie, Chief Executive Officer  
21<sup>st</sup> January 2010



### Top 5 Contributors to Performance for the Quarter

At 30 November 2009

	Portfolio weight %	Contribution* %
Commonwealth Bank	11.76%	0.75%
Wesfarmers Limited	5.39%	0.59%
ANZ Banking Group Ltd.	7.29%	0.40%
Challenger Financial	0.55%	0.40%
Woolworths Limited	6.01%	0.35%

\*Contribution = weighted contribution to investment performance

### Top 5 Detractors to Performance for the Quarter

At 30 November 2009

	Portfolio weight %	Contribution* %
Brambles Limited	1.48%	(0.13%)
Macquarie Group Ltd.	4.93%	(0.11%)
QBE Insurance Group	3.62%	(0.09%)
Westpac Banking Corp.	11.03%	(0.08%)
AMP Limited	1.99%	(0.08%)

\*Contribution = weighted contribution to investment performance

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