

FUND UPDATE

Hyperion Small Growth Companies Fund

December 2010

Fund Objective

To achieve medium to long-term capital growth and income by investing in quality Australian companies.

Fund Overview

The Hyperion Small Growth Companies Fund invests in growth style companies outside the S&P/ASX 100 which pass Hyperion's rigorous investment process. The fund is dominated by companies:

- ☉ that own high quality business franchises
- ☉ with above average growth potential
- ☉ with low levels of gearing
- ☉ with predictable medium to long-term earnings streams

The fund is concentrated, typically comprised of 15-30 stocks, with low turnover.

About Hyperion

Hyperion Asset Management is a boutique Australian equities investment manager. We are:

- ☉ Focussed on delivering high alpha returns across a complete business cycle
- ☉ Research driven with a bottom-up investment process which identifies quality companies
- ☉ Process driven with companies weighted according to their risk adjusted 5 year prospects
- ☉ Stable with a fully aligned investment team

Performance Summary					
	1 mth	3 mths	1 yr	3 yr	5 yr
Fund – Net [^]	-1.67	-0.24	-0.27	1.05	11.21
Net Excess Return – versus S&P/ASX Small Ords Accum Index	-8.74	-11.44	-13.32	6.94	5.67

Performance Comparison to 31 st December 2010 [^]				
	3 mth	1 yr	3 yr	5 yr
Hyperion Small Growth Companies Fund	-0.24	-0.27	1.05	11.21
Aberdeen Australia Small Companies Fund	8.33	17.79	-0.54	7.87
Ausbil Australian Emerging Leaders Fund	10.71	7.95	-2.48	6.86
Schroder – Australian Smaller Companies Fund	7.66	13.78	-1.83	n/a
Eley Griffiths Group – Small Companies Fund	7.41	14.20	-0.53	9.15

[^]Source: Morningstar

Top 10 Holdings

Stock	Weight
IRESS Market Technology	9.68%
Reckon Limited	9.53%
Sky Network Television Limited	9.38%
Wotif.com Holdings Limited	8.64%
The Reject Shop Limited	8.63%
REA Group Limited	8.13%
Platinum Asset Management Limited	6.98%
Carsales.com Limited	6.95%
Count Financial Limited	6.40%
Navitas Limited	4.46%

Sector Holdings

Sector	Absolute Weight	Active Weight
Cons. Discretionary	50.21%	40.32%
Cons. Staples	0.00%	-1.77%
Energy	0.00%	-14.04%
Financials	13.38%	8.54%
Health Care	3.10%	1.07%
Industrials	2.85%	-14.29%
Information Technology	28.88%	25.77%
Materials	0.00%	-35.89%
Property Trusts	0.00%	-6.39%
Telecoms	0.00%	-1.66%
Utilities	0.00%	-3.25%

The Hyperion Investment Process

The investment team has developed a unique process that drives Hyperion's performance. The process involves evaluating companies through both quantitative filters and fundamental analysis. We believe that the economics of a business drives its long term share price. Our process focuses on identifying businesses with superior economics.

We are benchmark insensitive but understand the risks of our high conviction positions. For us, risk is not simply a deviation from an index, but the extent to which a company does not meet our clients' required financial outcome. Therefore, with a view to maximising performance, our process is one of elimination with the result that the final portfolio is one devoid of companies that do not pass our rigorous investment criteria.

Commentary

The Hyperion Small Growth Companies Fund underperformed the S&P/ASX Small Ordinaries Accumulation Index during December. The fund returned -1.67% versus the benchmark return of 7.07%. The largest contributors to active performance during the month included not owning St Barbara (-20.00%), Intrepid Mines (-11.84%) and MEO Australia (-53.61%). The largest detractors to active performance included our positions in The Reject Shop (-18.81%), Sky Network Television (-3.7%) and Navitas (-8.10%).

The portfolio continues to perform as expected in light of the run in resources. While the resources sector has performed well, there has been little change in company earnings to justify such large increases in share prices for these companies. Commodity prices continue to strengthen across the board despite no drastic change in supply or demand for these materials over the past few months. The uncertainty of earnings for these companies over the long-term makes it difficult for us to view them as investment opportunities with the exception of Rio Tinto and BHP, both of which have high quality, low cost assets and are diversified across a number of commodities and mines. However, the benefit the materials sector provides to the overall Australian economy should ultimately improve the earnings capacity of the companies we hold.

Outlook

Looking at the market's best and worst performing stocks over the past quarter it is interesting to note that every one of the top 10 best performing stocks in the ASX 300 were loss making companies. We do not believe this situation is sustainable and thus expect the markets will eventually return to rewarding companies based on business quality and earnings certainty rather than on future promise.

Fund Size	\$14.42M	Platforms	Avanteos Ausmaq BT Wrap CFS – First Wrap Macquarie Wrap ASGARD Ewrap NETWEALTH
APIR code	BNT0101AU		
Minimum Direct Investment	\$20,000	Unit Prices	Application: \$2.1346 Net Asset Value: \$2.1282 Redemption: \$2.1218
MER (From 21st April)	1.25% (plus 15% of outperformance above the S&P/ASX Small Ordinaries Accumulation Index)		
Ratings	Lonsec – Recommended Morningstar – Recommended Zenith – Recommended *Van Eyk – A		

If you have any queries regarding Hyperion's managed funds please don't hesitate to contact:

Pinnacle Investment Management		Hyperion Asset Management	
Adrian Whittingham NSW/QLD	02 8247 6679 distribution@pinnacleinvestment.com.au	Tim Samway	02 8247 6678 tim.samway@hyperionam.com.au
Stefan Visser NSW/QLD	02 8247 3124 distribution@pinnacleinvestment.com.au		
Scott Thomas NSW/QLD	02 8247 3152 distribution@pinnacleinvestment.com.au		
James Martin NSW/QLD	02 8247 3126 distribution@pinnacleinvestment.com.au		

Adam Bullpitt SA/TAS/VIC/WA	03 9640 3801 distribution@pinnacleinvestment.com.au	Racheal Croft	02 8247 6649 racheal.croft@hyperionam.com.au
Andrew Chambers SA/TAS/VIC/WA	03 9640 3898 distribution@pinnacleinvestment.com.au		
General number	1300 010 311		

Hyperion Asset Management

Level 8 , Royal Exchange Building
56 Pitt Street
Sydney NSW 2000

PO Box R604
Royal Exchange NSW 1225
clientservices@hyperionam.com.au

T 1300 550 293
F 02 8247 6657
www.hyperionam.com.au

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