

FUND UPDATE

Hyperion Small Growth Companies Fund

August 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 20-35 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*	-0.57	-1.67	7.42	-0.06	11.30
Net Excess Return – versus S&P/ASX Small Ords Accum Index	-2.37	-4.78	4.73	10.68	8.79

Performance Comparison to 31 st August 2010 ^				
	3 mth	1 yr	3 yr	5 yr
Hyperion Small Growth Companies Fund	-1.67	7.42	-0.06	11.30
Aberdeen Australia Small Companies Fund	1.54	11.09	-3.35	5.71
Ausbil Australian Emerging Leaders Fund	-2.06	0.99	-4.70	5.17
Schroder – Australian Smaller Companies Fund	3.43	5.37	n/a	n/a
Eley Griffiths Group – Small Companies Fund	3.65	8.95	-3.96	7.04

^Source: Morningstar

Top 10 Holdings

Stock	Weight
REA Group Limited	11.04%
Platinum Asset Management Limited	9.07%
Carsales.com Limited	7.38%
IRESS Market Technology Limited	6.99%
Reckon Limited	6.73%
Sky Network Television Limited	6.71%
Count Financial Limited	6.69%
The Reject Shop Limited	6.39%
Wotif.com Holdings Limited	5.26%
Fantastic Holdings Limited	5.13%

Sector Holdings

Sector	Absolute Weight	Active Weight
Cons. Discretionary	53.14%	41.46%
Cons. Staples	0.00%	-3.74%
Energy	0.00%	-11.38%
Financials	15.76%	11.09%
Health Care	2.68%	-1.25%
Industrials	2.12%	-14.32%
Information Technology	23.49%	20.17%
Materials	0.00%	-31.39%
Property Trusts	0.00%	-7.09%
Telecoms	0.00%	-1.78%
Utilities	0.00%	-4.59%

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 August. The fund returned -0.57% versus the benchmark return of 1.80%. The largest contributors to active performance included not owning Cudeco (-54.3%) or Ten Network Holdings (-18.0%) but owning Carsales.com (+6.3%) and Reckon (+7.4%). The biggest detractors for the month included Wotif.com Holdings (-14.9%) and Kathmandu Holdings (-22.5%).

Cudeco's share price collapsed during the month after their most recent drilling results highlighted that the potential size of their copper deposits were not anywhere near what the market was expecting. An absence of exposure to the Resources sector means the fund will underperform when Resources perform well and will outperform when the sector is weak. The strong performance of the fund over the long term is testament to the quality and performance of the companies held in the portfolio. They generate consistent earnings growth and have quality franchises that are not dependant on blue-sky opportunities.

Outlook

The quality of the portfolio was again validated within the August reporting season. The portfolio delivered solid earnings per share growth in the face of testing economic conditions. The current forecast return for the portfolio sits at around 20% pa over the next 5 years and is higher than the portfolio's average past return over 5 years. The quality of the portfolio's holdings and the above average earnings growth outlook should hold the portfolio in good stead over the longer term.

Fund Size	\$12.79M	Platforms	Avanteos Ausmaq BT Wrap CFS – First Wrap Macquarie Wrap ASGARD Ewrap NETWEALTH
APIR code	BNT0101AU		
Minimum Direct Investment	\$20,000	Unit Prices	Application: \$2.0320 Net Asset Value: \$2.0259 Redemption: \$2.0198
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		

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

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