



## **A moment with Manny...**

### ***A question of alignment***

**It is Hyperion's view that not only do investors have every right to ask about a fund manager's own investments; but that the best results are achieved when the fund manager's and client's investment interests are aligned.**

Over the past year or so, as more investors are coming back on stream following the GFC, an increasing number of clients are inclined to ask some probing questions about their portfolio manager's personal investment strategies as compared to their own.

It's not a phenomenon that's confined to Hyperion - rather it's a factor that more and more investors are likely to include in the fund manager selection process and, in our belief, there's a very sound reason for doing so. It is our position that such an alignment puts an additional layer of rigour around the investment process and ensures that the best ideas are put into action for both investors and the fund manager - not held back for personal benefit or because they don't suit the style of the fund concerned.

At Hyperion, our principals have a minimum of 70% of our personal investment assets invested in our own concentrated and benchmark unaware products. It's a position that completely aligns us with our clients. Furthermore, we have voluntarily embargoed ourselves from investing with competitors.

While understanding that some fund managers - typically the larger ones - are simply not in a position to practice what they preach in the same way as Hyperion is able to put "skin in the game". A completely vested interest in the performance of our funds is an issue on which we take the high ethical ground.

So, for example, we believe in buying the highest quality Australian equities and have no need to compromise those beliefs by investing in, say, a value fund to attempt to smooth returns over time. As a boutique manager with a defined investment philosophy, we also have the agility to bypass some of the more unwieldy and, in our view, less efficient, investment paths. This includes one current interpretation of modern portfolio management theory which drives many managers to invest in a large range of stocks, weighted according to the index, and then sit back and wait until they either rise - or fall - with the benchmark.

Hyperion, on the other hand, has the freedom to choose fewer stocks, of higher quality - and without reference to the benchmark - to get the quality, hence returns, for which we are aiming. While at first glance this might give the perception of a less diversified or liquid portfolio, we argue that the underlying risk of our portfolios is, in absolute terms, low. This is because the stocks are selected according to the fundamental quality of the underlying assets rather than the dictates of a benchmark that is not representative of quality or growth.

Furthermore, our focus on the quality end of the spectrum enables other efficiencies that flow through to investors. We can, for example, avoid the intensive time and expense required to manage the proportion of under-performing or borderline stocks that make up any benchmark-driven portfolio.

All in all, Hyperion welcomes a new age of greater transparency and a more discerning investment market. We are more than happy to answer our clients' questions about where and how we invest their money and to assure them that it is in exactly the same way as we invest our own.

Dr Manny Pohl, Managing Director & Investment Team Chairman

## **Portfolio's return outlook is at record highs**

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 five years, which is higher than the portfolio's historical average rolling five year return. 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.

## The long term outlook remains strong for the broad cap strategy

The Hyperion Australian Equities Composite underperformed the S&P/ASX300 Accumulation Index during August. The portfolio returned -1.15% versus the benchmark return of -1.08%. The largest contributors to active performance during the month included JB Hi-Fi (+10.6%) and not owning National Australia Bank (-7.7%) or Telstra (-10.3%). The largest detractors from active performance during the month included Wotif.com Holdings (-14.9%), WorleyParsons (-8.6%) and Billabong International (-17.1%).

Billabong shares fell substantially on the day of the company's results announcement. The company issued a cautious outlook citing deteriorating Australian trading conditions. While the company missed consensus results marginally in financial year 2009/10, management's guidance for 2010/11 (2-8% in constant currency) implied an NPAT of \$149 - \$158 million versus a market consensus NPAT of \$185 million. The large decline in 2010/11 earnings drove the share price fall, highlighting the short term focus of the market in aggregate. Taking a longer term view, we are comfortable with holding Billabong and the evolution of the company's business model. Management's strategy has always been focused on increasing the company's distribution channels. Historically, this has been achieved through a wholesale distribution model. However, with retail outlet growth weakening and management eager to expand the business into new regions, the company has taken on an increasing exposure to retail distribution. While this is not without execution risk, Billabong's management has deepened its retail experience through the careful retention of senior management associated with several retail-based acquisitions.

Performance	1 mth	6 mth	1 year	2 year	5 year	10 year
Hyperion Australian Equities Composite	-1.15	-4.96	4.84	8.58	8.92	10.59
<b>Excess Performance</b> over S&P/ASX 300 Accumulation Index	-0.07	-2.00	2.77	11.70	4.70	3.28

Top 10 Stock Holdings		
Stock	Absolute Weight	Active Weight
Seek	7.16%	6.94
Platinum Asset Management	6.60%	6.51
Woolworths	6.25%	2.98
BHP Billiton	5.90%	-5.90
Cochlear	5.83%	5.46
Commonwealth Bank of Australia Ltd	5.63%	-1.76
REA Group	5.02%	5.02
RIO Tinto	4.83%	1.93
Macquarie Group	4.53%	3.31
Sky Network Television	4.44%	4.44

## Quality Australian equities hold up during reporting season

The Hyperion Australian Equities ASX 300 Composite underperformed the S&P/ASX300 Accumulation Index during August. The portfolio returned -1.89% versus the benchmark return of -1.08%. The largest contributors to active performance during the month included JB Hi-Fi (+10.6%), not owning National Australia Bank (-7.7%) and our relative overweight position in Woolworths (+7.6%). The largest detractors from active performance included Wotif.com Holdings (-14.9%) WorleyParsons (-8.6%) and Billabong (-17.1%).

Wotif.com Holdings shares declined substantially on the day that management announced the company's results. Despite reporting 20% growth in earnings year on year, Wotif's earnings growth declined substantially in the second half of the financial year. Management commentary suggested that the strong first half was achieved in ideal operating conditions for the company and repeating that performance would be very difficult in the short-term. A strong Australian dollar, buoyant corporate market and distressed overseas room rates mean Australian travellers are now looking offshore for bargains. The investment team believes that this will persist throughout 2010/11, however Wotif is well placed to continue to benefit from its market leading position and growth in online bookings despite a tough short term operating environment.

Performance	1 mth	6 mth	1 year	2 year	5 year
Hyperion Australian Equities ASX 300 Composite	-1.89	-5.12	2.52	8.53	10.56
<b>Excess Performance</b> over S&P/ASX 300 Accumulation Index	-0.81	-2.17	0.45	11.64	6.34

Top 10 Stock Holdings		
Stock	Absolute Weight	Active Weight
Seek	7.72%	7.49
BHP Billiton	7.59%	-4.21
Platinum Asset Management	7.16%	7.06
Cochlear	6.77%	6.40
RIO Tinto	6.70%	3.81
Commonwealth Bank of Australia	6.50%	-0.89
Woolworths	6.44%	3.18
Macquarie Group	5.18%	3.95
WorleyParsons	5.14%	4.74
AMP	4.70%	3.71

## Small cap strategy highlights pitfalls of the resources sector

The Hyperion Small Growth Companies Portfolio underperformed the S&P/ASX Small Ordinaries Accumulation Index during August. The portfolio returned -0.46% versus the benchmark return of 1.80%. The largest contributors to active performance included not owning Cudoco (-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%).

The share price of Cudoco, which we do not own, collapsed during the month after its most recent drilling results highlighted that the potential size of its copper deposits were not anywhere near what the market was expecting. This event highlights how 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.

Performance	1 mth	6 mth	1 year	2 year	5 year
High Conviction Small Growth Companies Portfolio	-0.46	-6.18	9.56	15.90	12.30
<b>Excess Performance</b> over S&P/ASX Small Ords Accumulation Index	-2.26	-7.35	6.86	21.95	9.79

Top 10 Stock Holdings		
Stock	Absolute Weight	Active Weight
REA Group	11.04%	11.04
Platinum Asset Management	9.07%	7.97
Carsales.com	7.38%	6.81
IRESS Market Technology	6.99%	6.15
Reckon	6.73%	6.73
Sky Network Television	6.71%	6.71
Count Financial	6.69%	6.69
The Reject Shop	6.39%	5.92
Wotif.com Holdings	5.26%	4.69
Fantastic Holdings	5.13%	5.13

## Recent Mandate Wins and Remaining Capacity

The two ASX 300 strategy mandate wins booked in July completed transition in August positively effecting Hyperion's funds under management figures for the month. Retail interest remains strong with research house Lonsec upgrading its rating on Hyperion's Australian Growth Companies Fund to 'Highly Recommended'.

Product Capacity		
PORTFOLIO	UNIVERSE	REMAINING CAPACITY
High Conviction Small Growth Companies	Small Ords	\$0.05b
Australian Equities ASX 300 Composite	ASX 300	\$0.8b
Australian Equities Composite	All Ordinaries	Soft closed

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