

A High Internal Rate of Return Bodes Well



With the market still rewarding companies that have strong value propositions and low debt levels, the portfolio is well positioned to outperform. The five year IRR for the portfolio remains above its long-term average. While the market looks fairly valued, there should be continued earnings expansion over the next few years which should support equity levels. We note that broker EPS growth forecasts for the market range from flat to -5% in financial year 2010 and +20% to +30% in financial year 2011. In contrast to the market, the portfolio is forecast to deliver modest EPS growth in financial year 2010.

Dr Manny Pohl, Managing Director & Investment Team Chairman

Hyperion's Investment in Quality Helps its Substantial Outperformance

The Hyperion Australian Equities composite outperformed the market by 2.12% in December. The composite returned 5.81% while the S&P/ASX 300 Accumulation Index returned 3.69%. The top contributors to active performance during the month included REA Group (15.29%), Platinum Asset Management (15.38%) and not owning National Australia Bank (-4.26%). The largest detractors from performance included JB Hi-Fi (-2.59%) and not owning QBE Insurance (15.11%) and Woolworths (-0.2%).

Carsales.com and WorleyParsons were upgraded to investment grade. Both decisions were the result of additional analysis and becoming more comfortable with their long-term growth outlooks.

WorleyParsons provides professional engineering services to the resource, infrastructure and energy industries. It has 28,800 staff (32,200 at its peak) in over 110 offices across the globe. Over 85% of its earnings are from the hydrocarbon industry with an estimated 30% described as 'complex projects.' WorleyParsons provides services across the complete life cycle of the project from feasibility studies to optimisation work. WorleyParsons' capabilities are well regarded and the size, length and complexity of oil and gas projects means the barriers to entry are very high. In an energy constrained world and with the continued urbanisation of developing nations, global oil and gas capital expenditure should continue to grow strongly over the long-term.

Performance	1 mth	6 mth	1 year	2 year	5 year	10 year
Hyperion Australian Equities Composite	5.81	32.96	59.45	-1.42	13.74	12.47
Excess Performance over S&P/ASX 300 Accumulation Index	2.12	7.23	21.86	6.91	5.45	3.56

Top 10 Stock Holdings

Stock	Absolute Weight	Active Weight
Seek	7.72%	7.52
Woolworths	6.29%	3.29
Commonwealth Bank of Australia	5.51%	-1.78
Cochlear	5.50%	5.18
IRESS Market Technology	4.87%	4.79
REA Group	4.70%	4.70
BHP Billiton	4.47%	-8.06
Platinum Asset Management	4.45%	4.35
Wotif.com Holdings	4.16%	4.09
Woodside Petroleum	3.91%	1.82

Hyperion Shows Very Strong Performance Over Calendar 2009

The Hyperion Australian Equities ASX 300 composite outperformed the market by 1.73% in December. The composite returned 5.42% while the S&P/ASX 300 Accumulation Index returned 3.69%. The largest contributors to the excess performance during the month included Platinum Asset Management (15.38%), Seek (9.7%) and not owning National Australia Bank (-4.26%). The largest detractors from performance during the month included JB Hi-Fi (-2.59%), Woolworths (-0.2%) and not owning QBE Insurance (15.11%).

Following the recent interest rate increases and early discounting by the major department stores, the broader market has become wary of the potential for weakness in the broader retail sector. The retail trade numbers for December will be watched closely. However, in an interview with Dow Jones Newswires, JB Hi-Fi's Chief Executive Officer, Richard Uechtritz, said that Boxing Day sales volumes were "a lot better than last year" although competitive intensity has been high in the electronics industry in December. JB Hi-Fi's low cost business model, in conjunction with its track record of consistently lowering its cost of doing business, should assist in offsetting any weakness in gross margins. Looking forward, Mr Uechtritz expects recovering consumer sentiment and promotions of major sporting events such as the FIFA World Cup to drive industry sales and offset the withdrawal of the Government's stimulus package.

Performance	1 mth	6 mth	1 year	2 year	5 year
Hyperion Australian Equities ASX 300 Composite	5.42	32.43	58.56	0.32	17.27
Excess Performance over S&P/ASX 300 Accumulation Index	1.73	6.69	20.97	8.65	8.98

Top 10 Stock Holdings		
Stock	Absolute Weight	Active Weight
Seek	8.26%	8.06
Woolworths	7.92%	4.91
Commonwealth Bank of Australia	7.35%	0.06
Cochlear	6.90%	6.57
IRESS Market Technology	5.87%	5.79
BHP Billiton	5.74%	-6.79
Platinum Asset Management	5.46%	5.36
WorleyParsons	5.23%	4.72
Westpac Banking Corporation	5.18%	-1.32
JB Hi-Fi	4.62%	4.41

Big Returns Continue for Small Caps

The Hyperion Small Growth Companies portfolio outperformed the S&P/ASX Small Ordinaries Accumulation Index during December by 2.56%, the fund returned 6.85% versus the index return of 4.29%. The largest contributors to the Funds' outperformance during the month included Carsales.com (19.42%), REA Group (15.29%) and not owning Pacific Brands (-13.41%). The largest detractors from performance during the month included Sky Network Television (1.3%) and The Reject Shop (1.44%) and Count Financial (-1.13%).

Carsales.com is the leading provider of online access to automotive classifieds in Australia. They essentially link buyers and sellers of cars through their website and provide car dealerships with other added extras such as inventory management. Their revenue model differs slightly from the other online businesses we own since they are paid on a per lead basis. However, we are comfortable with the business given our strong understanding of Seek, REA Group and Wotif.com and believe that the company has a very strong competitive advantage derived from its first mover advantage. Carsales.com has more than three times the traffic as the next largest online player, which provides strong barriers to entry in an industry where it is difficult to breakdown a first mover advantage due to the networking effect. We estimate Carsales.com has a 63% share of the online domestic automotive market.

Performance	1 mth	6 mth	1 year	2 year	5 year
High Conviction Small Growth Companies Portfolio	6.85	38.26	78.77	2.70	15.35
Excess Performance over S&P/ASX Small Ords Accumulation Index	2.56	10.50	21.34	16.84	8.62

Top 10 Stock Holdings		
Stock	Absolute Weight	Active Weight
REA Group	9.78%	9.78
IRESS Market Technology	9.02%	8.12
Fantastic Holdings	7.63%	7.63
Carsales.com	7.01%	6.45
Platinum Asset Management	6.70%	5.51
Wotif.com Holdings	6.56%	5.73
Reckon	6.41%	6.41
The Reject Shop	6.32%	5.94
Sky Network Television	6.20%	6.20
Navitas	6.01%	6.01

Recent Mandate Wins and Remaining Capacity

Retail inflow and rising share prices during December contributed to healthy growth in the portfolio's funds under management.

Product Capacity		
PORTFOLIO	UNIVERSE	REMAINING CAPACITY
High Conviction Small Growth Companies	Small Ords	\$142m
Australian Equities ASX 300 Composite	ASX300	\$2.30b
Australian Equities Composite	All Ordinaries	\$0.56b

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