



A Moment with Manny...

Disaster and recovery: the Hyperion perspective

With the scale of the flooding disaster in Queensland only now becoming apparent and growing reports of inundation in Victoria, it has been an exceedingly difficult start to the year for many. We would like to reiterate our thanks to all of the clients and contacts, both here in Australia and overseas, who have contacted us with messages of concern for our Brisbane-based team.

All of our staff are back at their desks after a temporary, two-day move to our Gold Coast office due to power outages and the closure of the Brisbane CBD. Thankfully our offices were left unscathed and even the coffee shop downstairs was back in business within a day or two. We were also fortunate that our homes and families were not affected.

Of course, many thousands have not been so lucky, and our thoughts are with those who have lost loved ones, homes and livelihoods in the recent disaster. Many thousands will not get back to normality – or to business – for many months, if not years, to come.

Like many others in the financial community, here at Hyperion we are looking to see what part we can play in assisting the rebuilding and recovery effort in Queensland.

As many of you will know from conversations with our team, the floods gave us cause to activate our disaster recovery plan for the second time in as many months. The flooding followed an incident in December where a loose neutral connection caused a power surge that damaged computers on three floors of our office building – including ours. In both instances we activated our disaster recovery plan and decamped to our Gold Coast office, where business continued as usual and clients were not inconvenienced in any way. Our systems also operated as normal throughout.

Our experiences underline the need for all of us in our industry to have rigorous procedures in place to ensure business continuity, and the importance of thinking laterally to plan for any possible crisis situation. We could not have imagined that two, such differing crises would befall us in such quick succession, but a rigorous approach to planning left us as prepared as we could have been.

A key component of the success of our plan was that we were able to rely on a number of different locations from which our team could work. While our investment team moved to our Gold Coast office, our trading and client service activities continued as normal from Sydney. Peers in other firms, whose secondary locations are in the same building or the same town, have not been so fortunate.

The flooding crisis also proved the importance of backing up data to both physical and virtual locations – and not just to one or the other. Data is backed up on-site in each of our offices every day, as well as to a virtual server that evening. While many businesses would have thought this overly cautious, we were certainly glad that this was the case when the building in Brisbane that houses our virtual server was flooded and all data was secure on-site in our other offices.

Looking to the future, many expect that our major industries such as mining and agriculture will be among the hardest hit by the floods and investors are asking how the recent disasters will affect the performance of their portfolios. Undoubtedly many funds will suffer ill effects and returns for many, particularly those with short investment horizons, may be impacted.

From Hyperion's perspective, however, the recent events are unlikely to impact on our long-term strategy. As a bottom-up manager, the fundamentals of each company we invest in, rather than their sector, will continue to be the driver of our investment decisions. While we will be maintaining our usual vigilance over any changes in the circumstances of the companies we hold, we believe the stocks we invest in still show superior potential for growth and the performance of our funds over our investment horizon of five years will not be unduly affected by the floods.

Dr Manny Pohl
Chief Executive Officer and Managing Director

Where's the sense in the market's top 10 best performers being loss making companies?

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.

Five year outlook remains strong

The Hyperion Australian Equities Composite and the Hyperion Australian Equities ASX 300 Composite both underperformed the S&P/ASX 300 Accumulation Index during December returning 1.36% and 1.78% respectively versus the index return of 3.77%. The month's largest contributors to active performance included WorleyParsons (+6.11%) and not owning Westfield Group (-21.15%) or Telstra Corporation (-0.71%). The largest detractors from active performance during the month included Platinum Asset Management (-1.77%), The Reject Shop (-18.81%) and JB Hi-Fi (-5.64%).

The Reject Shop's (TRS) share price came under pressure in December after the company reduced its profit outlook. TRS's revised NPAT guidance is now \$21 - \$22 million in FY 2011, implying a 4% - 8% decline year on year. A poor retail environment in November and December, following reasonable months leading up to these important months, resulted in excess inventory and lower sales than forecast. Whilst the deterioration in trading conditions was unexpected, the company's leverage to trading conditions in these months is not a surprise. The investment team is still very positive about TRS over our 5-year investment horizon as it has a proven business model, a strong management team and strong organic growth potential through the continuation of the store rollout.

| Performance | 1 mth | 6 mth | 1 year | 2 year | 5 year | 10 year |
|---|-------|-------|--------|--------|--------|---------|
| Hyperion Australian Equities Composite | 1.36 | 7.59 | -0.56 | 25.92 | 8.21 | 10.59 |
| Excess Performance over S&P/ASX 300 Accumulation Index | -2.41 | -5.75 | -2.46 | 7.51 | 3.83 | 2.14 |

| Hyperion Australian Equities Composite Top 10 Stock Holdings | | |
|--|-----------------|---------------|
| Stock | Absolute Weight | Active Weight |
| Cochlear | 7.63% | 7.23 |
| Rio Tinto | 7.12% | 3.87 |
| Seek | 6.55% | 6.36 |
| Platinum Asset Management | 6.53% | 6.43 |
| BHP Billiton | 6.39% | -6.85 |
| Commonwealth Bank of Australia | 6.26% | -0.59 |
| Woolworths | 5.05% | 2.20 |
| Macquarie Group | 4.73% | 3.62 |
| WorleyParsons | 4.57% | 4.10 |
| REA Group | 4.15% | 4.09 |

| Performance | 1 mth | 6 mth | 1 year | 2 year | 5 year |
|---|-------|-------|--------|--------|--------|
| Hyperion Australian Equities ASX 300 Composite | 1.78 | 7.43 | -1.56 | 24.94 | 9.50 |
| Excess Performance over S&P/ASX 300 Accumulation Index | -1.99 | -5.91 | -3.46 | 6.53 | 5.11 |

| Hyperion Australian Equities ASX 300 Composite Top 10 Stock Holdings | | |
|--|-----------------|---------------|
| Stock | Absolute Weight | Active Weight |
| Rio Tinto | 8.77% | 5.53 |
| Seek | 7.95% | 7.76 |
| Cochlear | 7.87% | 7.48 |
| BHP Billiton | 7.59% | -5.64 |

| | | |
|--------------------------------|-------|------|
| Commonwealth Bank of Australia | 6.96% | 0.11 |
| Macquarie Group | 5.67% | 4.56 |
| Woolworths | 5.20% | 2.35 |
| Platinum Asset Management | 4.97% | 4.87 |
| WorleyParsons | 4.95% | 4.48 |
| AMP | 4.62% | 3.66 |

Resources stocks continue to do well despite little change in fundamentals

The Hyperion High Conviction Small Growth Companies Portfolio underperformed the S&P/ASX Small Ordinaries Accumulation Index during December. The Fund returned -1.57% 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.

| Performance | 1 mth | 6 mth | 1 year | 2 year | 5 year |
|--|-------|--------|--------|--------|--------|
| High Conviction Small Growth Companies Portfolio | -1.57 | 7.32 | 1.48 | 34.69 | 12.39 |
| Excess Performance over S&P/ASX Small Ords Accumulation Index | -8.64 | -22.59 | -11.57 | 1.28 | 6.86 |

| High Conviction Small Growth Companies Portfolio Top 10 Stock Holdings | | | |
|--|-----------------|---------------|--|
| Stock | Absolute Weight | Active Weight | |
| IRESS Market Technology | 9.68% | 8.88 | |
| Reckon | 9.53% | 9.53 | |
| Sky Network Television | 9.38% | 9.38 | |
| Wotif.com Holdings | 8.64% | 8.10 | |
| The Reject Shop | 8.63% | 8.30 | |
| REA Group | 8.13% | 7.52 | |
| Platinum Asset Management | 6.98% | 5.89 | |
| Carsales.com | 6.95% | 6.52 | |
| Count Financial | 6.40% | 6.40 | |
| Navitas | 4.46% | 3.73 | |

Recent Mandate Wins and Remaining Capacity

Following mandate top ups by several of our clients in November, funds under management figures remained steady during December, a month truncated by the usual Christmas slow down. The institutional pipeline for 2011 is strong with a number of new clients requesting proposals and pitches as part of their reviews for the first half of the new year. Retail funds inflow continued at a steady rate thanks to the support of the financial adviser network.

| 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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