



A moment with Manny...

The risk is in the benchmark

As a boutique manager with a defined investment philosophy, we have the independence 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 and weight them according to the index. This is an approach that does not include understanding the fundamentals of each of the stocks making up the portfolio nor the index itself for that matter.

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, that we aim to achieve on behalf of our clients.

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 in the portfolio are selected according to the fundamental quality of the underlying business rather than the dictates of a benchmark that is unconcerned about quality or growth.

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

This is not the case with many larger or index funds. In a manner that's analogous to the teacher who must cater for the poor performers in the classroom, these larger funds must typically spend a lot more time nursing poorer stocks, keeping an eye on performance, margins and risks. In short, there's a lot more time and cost involved in monitoring and managing across that broader ground; time and cost that we can be put into making quality choices in the first place.

Dr Manny Pohl, Managing Director & Investment Team Chairman

Portfolio's return outlook is at record highs

The current global outlook remains cautious in the near term but provides opportunities to acquire quality companies at good prices. The current internal rate of return on the portfolio is again above 20% and at the same level it was in March 2008. Despite the long list of companies outside our portfolio that downgraded earnings guidance over the past few months, the investment team remains confident that its quality portfolio will produce strong results during the upcoming reporting season.

Short term pull back but long term performance still strong

The Hyperion Australian Equities Composite underperformed the benchmark during July. The portfolio returned 2.19% versus the S&P/ASX 300 Accumulation Index return of 4.48%. The largest contributors to active performance during the month included Platinum Asset Management (12.39%), Seek (7.99%) and not owning QBE (-8.24%). The largest detractors of performance included Cochlear (-4.9%), IRESS Market Technology (-5.06%) and Woolworths (-4.55%).

Performance	1 mth	6 mth	1 year	2 year	5 year	10 year
Hyperion Australian Equities Composite	2.19	0.56	18.77	12.63	9.89	11.03
Excess Performance over S&P/ASX 300 Accumulation Index	-2.29	0.45	8.73	13.27	5.03	3.43

Top 10 Stock Holdings		
Stock	Absolute Weight	Active Weight
Seek	7.77%	7.55
Platinum Asset Management	7.30%	7.20
BHP Billiton	6.65%	-5.85
Cochlear	6.20%	5.83
Commonwealth Bank of Australia	6.12%	-1.43
Woolworths	5.52%	2.55
RIO Tinto	5.05%	2.20
REA Group	5.03%	5.03
IRESS Market Technology	4.03%	3.96
WorleyParsons	3.84%	3.41

ASX 300 returns +6% outperformance over the long-term

The Hyperion Australian Equities ASX 300 Composite underperformed in July, returning 2.42% versus the S&P/ASX 300 Accumulation Index return of 4.48%. The largest contributors to active performance during the month included Platinum Asset Management (12.39%), Seek (7.99%) and not owning QBE Insurance (-8.24%). The largest detractors to active performance included Cochlear (-4.90%), IRESS Market Technology (-5.06%) and Woolworths (-4.55).

QBE announced a poor result during the month. It pre-announced its upcoming results which missed their mid June guidance number. The company's insurance profit margin for the first half of 2010 was 15.7% versus the guidance of 16% - 18%. The cause of the margin compression was the incorrect accounting of interest rate mismatches on its balance sheet. During the month QBE acquired Secura, a European insurer, and increased its holding in Elders to 10%. The investment team does not hold QBE because it does not believe QBE has a sustainable competitive advantage that would result in predictable, long-term earnings.

Performance	1 mth	6 mth	1 year	2 year	5 year
Hyperion Australian Equities ASX 300 Composite	2.42	0.89	16.64	12.88	11.49
Excess Performance over S&P/ASX 300 Accumulation Index	-2.06	0.78	6.60	13.52	6.63

Top 10 Stock Holdings		
Stock	Absolute Weight	Active Weight
Seek	8.37%	8.15
BHP Billiton	7.32%	-5.17
Platinum Asset Management	6.96%	6.86
Cochlear	6.90%	6.53
Woolworths	6.81%	3.84
Commonwealth Bank of Australia	6.39%	-1.16
Macquarie Group	5.22%	4.03
WorleyParsons	4.97%	4.53
RIO Tinto	4.91%	2.06
AMP	4.66%	3.64

Small cap portfolio stays out of non-diversified miners

The Hyperion High Conviction Small Growth Companies Portfolio underperformed the benchmark during the month. The portfolio returned 0.88% versus the S&P/ASX Small Ordinaries Accumulation Index return of 5.21%. The majority of the portfolio's active performance came from not owning stocks in the benchmark, with the largest active contributors including Platinum Asset Management (11.54%) and not owning Eldorado Gold (-15.32%) or St Barbara (-15.71%). The largest detractors from active performance included REA Group (-4.97%), IRESS Market Technology (-4.83%) and Count Financial (-2.60%).

Both Eldorado Gold and St Barbara are gold producers. Their almost identical decline in value over the month provides an insight into why we generally do not invest in non-diversified mining companies such as these companies. The gold price declined by approximately 12% during the month, and both companies declined similarly. Their competitive advantage is derived from having the best quality ore and/or having the ability to produce gold at the lowest possible cost. While these businesses may be well run, their lack of diversification and hence high reliance on the gold price, makes it hard to predict their earnings with any degree of certainty and predictability of earnings is a key requirement of our investment process.

Performance	1 mth	6 mth	1 year	2 year	5 year
High Conviction Small Growth Companies Portfolio	0.88	-1.26	26.66	20.62	13.66
Excess Performance over S&P/ASX Small Ords Accumulation Index	-4.33	-0.16	19.37	26.60	10.64

Top 10 Stock Holdings		
Stock	Absolute Weight	Active Weight
REA Group	11.00%	11.00
Platinum Asset Management	10.06%	8.91
Carsales.com	7.18%	6.66
Count Financial	7.11%	7.11
IRESS Market Technology	6.68%	5.80
The Reject Shop	6.34%	5.90
Sky Network Television	5.83%	5.83
Reckon	5.58%	5.58
Wotif.com Holdings	5.07%	4.42
Navitas	4.65%	3.77

Recent Mandate Wins and Remaining Capacity

July was another positive month for fund inflow. Retail funds continue to grow through the financial planner network on the back of Hyperion's positive ratings for its SMA and unit trust products. On the institutional side, interest in Hyperion's ASX300 strategy translated to two mandate wins with all the flows/transitions associated with these new mandates due for completion by August.

Product Capacity		
PORTFOLIO	UNIVERSE	REMAINING CAPACITY
High Conviction Small Growth Companies	Small Ords	\$0.1b
Australian Equities ASX 300 Composite	ASX 300	\$0.9b
Australian Equities Composite	All Ordinaries	Soft closed

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