



A moment with Manny...

Manny Pohl explains how Hyperion returned +0.04% versus the market's -20.34% during the GFC¹ – and could do it again if we face a double-dip recession

For the last two years running, Hyperion has been recognised as the best performing long-only Australian equities manager in the country over one year as ranked by the Mercer Australian Shares Survey². During the worst period of economic instability in living memory we have delivered returns for our investors well in excess of other managers, and believe it is our unique approach to risk management that has contributed to us being able to do this.

Debunking CAPM & VAR

It all starts with our definition of risk. What risk *isn't* for Hyperion is just as important as what it is. It has nothing to do with tracking error or volatility in daily share prices, the two sacrosanct parameters our industry has been built and raised on. We definitely *don't* use the capital asset pricing model or value at risk (VAR) analysis.

For Hyperion, risk is the extent to which we meet our expected return over the ensuing five year period.

Doing what we say we will do

If one's measurement of risk is the extent to which one meets investors' expectations of return, then one has to invest in companies that are going to meet expectation and hence minimise that risk. To do this we select the best quality companies on the market. One of our quality measures is the predictability of company earnings. If we get this right, (the companies we invest in have a highly predictable earnings stream, and our assessment of valuations in the market is accurate approximately 80% of the time) our return will be very close to our forecast and risk will be minimised for investors.

Double dip?

So, if a double dip recession is on the horizon, how will our approach see us through? Well, an inherent part of our process when deciding on whether or not to invest in a particular stock is to focus on characteristics that enable a company to survive a business cycle. We buy companies that have strong management and financials. These companies have interest charge cover sufficient to survive a really tough economic situation. We also research qualitative factors to understand the risks in a business that can't be ascertained through the numbers alone.

Measuring risk? Ridiculous!

To paraphrase Milton Friedman, everyone knows risk is there. One endeavours to adjust for it in the way one invests, but it can't be measured. To pretend that it's measurable is so far off the mark it's just ridiculous.

What we can do is get back to basics – understand what you're investing in, stick to the fundamentals and look for returns over the medium to long term. That's how to manage risk the Hyperion way.

Dr Manny Pohl, Managing Director & Investment Team Chairman

Earnings forecast downgrades leaves market uncertain

The current global outlook remains cautious in the near term but provides opportunities to acquire quality companies at attractive prices. The current internal rate of return on the portfolio is again above 20%. Despite the long list of companies 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.

¹ For the year ended 30 June 2009, Hyperion's Australian equities (large cap) strategy returned +0.04% versus the S&P/ ASX 300 Accumulation Index which returned -20.34%.

² Mercer Australian Shares Survey, long only category, over 1 year to 30 June 2009 and again over 1 year to 30 June 2010.

Short term pull back but long term performance for broad cap still strong

The Australian Equities Composite underperformed in June returning -3.31% versus the S&P/ASX 300 Accumulation Index return of -2.65%. The largest contributors to active performance during the month were Cochlear (+2.1%), IRESS Market Technology (+3.21%) and JB Hi-Fi (+2.8%). The largest detractors from performance within the portfolio were Macquarie Group (-14.33%) and Seek (-6.41%), and not owning Telstra Corporation (+10.54%).

Telstra rallied during the month following the announcement that Telstra and the Government (NBNC0) had signed a non-binding financial heads of agreement regarding Telstra's participation in the national broadband network. The transaction, if completed, would deliver a reported \$11 billion in benefits to Telstra. This would comprise: (1) \$9 billion from an agreement between Telstra and NBNC0 for the use of Telstra's infrastructure and progressive migration of Telstra's fixed line customers; and (2) \$2 billion in costs savings for Telstra. Telstra intends to ask shareholders to approve the transaction in the first half of calendar 2011.

Performance	1 mth	6 mth	1 year	2 year	5 year	10 year
Hyperion Australian Equities Composite	-3.31	-7.57	22.90	10.37	9.93	10.86
Excess Performance over S&P/ASX 300 Accumulation Index	-0.66	2.52	9.84	15.47	5.44	3.90

Top 10 Stock Holdings		
Stock	Absolute Weight	Active Weight
Seek	7.35%	7.13
Cochlear	6.86%	6.45
BHP Billiton	6.37%	-5.89
Platinum Asset Management	6.11%	6.02
Woolworths	6.10%	2.85
Commonwealth Bank of Australia	5.97%	-1.33
REA Group	5.37%	5.37
RIO Tinto	5.26%	2.44
IRESS Market Technology	4.44%	4.35
Sky Network Television	3.91%	3.91

ASX 300 strategy posts double digit out-performance over the long term

The Hyperion Australian Equities ASX 300 Composite underperformed in June returning -3.91% versus the S&P/ASX 300 Accumulation Index return of -2.65%. The largest contributors to active performance during the month were Cochlear (+2.1%), IRESS Market Technology (+3.21%) and JB Hi-Fi (+2.80%). The largest detractors from active performance were Macquarie Group (-14.33%) and Brambles (-17.89%), and not owning Telstra Corporation (+10.54%).

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Performance	1 mth	6 mth	1 year	2 year	5 year
Hyperion Australian Equities ASX 300 Composite	-3.91	-8.37	21.34	10.18	11.47
Excess Performance over S&P/ASX 300 Accumulation Index	-1.26	1.72	8.29	15.28	6.98

Top 10 Stock Holdings		
Stock	Absolute Weight	Active Weight
Seek	8.51%	8.29

BHP Billiton	7.18%	-5.07
Platinum Asset Management	6.92%	6.83
Cochlear	6.80%	6.39
Woolworths	6.56%	3.31
Commonwealth Bank of Australia	6.51%	-0.80
RIO Tinto	5.32%	2.50
WorleyParsons	4.93%	4.49
Macquarie Group	4.46%	3.22
IRESS Market Technology	4.30%	4.22

Small cap portfolio goes from strength to strength

The Hyperion High Conviction Small Growth Companies Portfolio outperformed in June returning -1.45% versus the S&P/ASX Small Ordinaries Accumulation Index return of -3.73%. The largest contributors to active performance were Sky Network Television (+9.24%), Count Financial (+6.41%) and IRESS Market Technology (+3.21%). The largest detractors from active performance were Fantastic Holdings (-20%), Wotif.com (-8.94%) and not owning Riversdale Mining (+11.88%).

Wotif.com Holdings (WTF) issued financial year 2009/10 NPAT guidance of \$52 million to \$56 million (compared with financial year 2008/09 NPAT of \$43.5 million). This was moderately below market expectations, although it has resulted in significant share price pressure with WTF now trading at a meaningful forward PER discount to the other listed online players. Despite slowing short term growth rates in room volumes, we remain confident of WTF's longer term outlook and value proposition. WTF has an estimated market share of 50% in the growing online segment, which is currently only 16% of total hotel bookings.

Performance	1 mth	6 mth	1 year	2 year	5 year
High Conviction Small Growth Companies Portfolio	-1.45	-5.44	30.73	21.92	14.01
Excess Performance over S&P/ASX Small Ords Accumulation Index	2.28	7.53	19.55	32.81	11.27

Top 10 Stock Holdings		
Stock	Absolute Weight	Active Weight
REA Group	10.60%	10.60
Platinum Asset Management	7.83%	6.75
Carsales.com	7.82%	7.28
IRESS Market Technology	7.35%	6.37
Count Financial	7.17%	7.17
The Reject Shop	6.57%	6.12
Sky Network Television	5.83%	5.83
Reckon	5.64%	5.64
Navitas	5.23%	4.23
Wotif.com Holdings	4.79%	4.07

Recent Mandate Wins and Remaining Capacity

June was a solid month for financial adviser inflow given Hyperion's strong ratings across a number of retail-focused rating agencies. On the institutional side, an existing client redirected funds from another manager to Hyperion's Australian Equities (ASX 300) strategy, topping up their existing holdings with us.

Product Capacity		
PORTFOLIO	UNIVERSE	REMAINING CAPACITY
High Conviction Small Growth Companies	Small Ords	\$0.1b
Australian Equities ASX 300 Composite	ASX 300	\$1.0b
Australian Equities Composite	All Ordinaries	Soft closed

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