



Inside the investment team...

Reasons for optimism and good cheer!

Warren Buffett (paraphrasing Benjamin Graham) once noted:

"In the short run the market is a voting machine – reflecting a voter-registration test that requires only money, not intelligence or emotional stability – but in the long run, the market is a weighing machine."

This is a timely reminder that the excessive market volatility we are currently experiencing is the result of investors voting (yet again) in the short-run. As expected, the weight of the individual companies in our portfolios has largely been ignored over the last year.

With the holiday season rapidly approaching, we think it's time to take a break from the negative global economic news and remind ourselves that Australian companies are still, on average, expecting to grow their earnings at a rate in the high single digits in the current financial year and that the companies in our portfolio are expecting a better earnings result than this in both the short and the long term.

Even if the news from Europe doesn't improve soon and there is no reason to expect it to do so, we expect quite reasonable returns from equities in the coming year in spite of the poor global macro outlook. Price Earnings ratios could go lower, but are essentially range bound. The way forward is now an earnings and dividend story and dare we say, that there is real reason for optimism and a modest amount of good cheer!

So with a positive and festive spirit from all the staff at Hyperion, we thank you for your support in the year just passed and we wish you the very best for Christmas and a very happy New Year.

Developments in Europe continue to play havoc with local equity markets

Macro events and conditions in Europe continue to dominate equity markets both overseas and domestically. Daily volatility remains elevated with market movements dictated by overnight headlines. However, the investment team remains confident that above average returns will be delivered over a five year period as the quality of the portfolio remains high and valuation levels are attractive. In subdued economic conditions, earnings growth is scarce and our portfolio should eventually be rewarded for delivering double digit earnings and dividend growth.

Market instability produces short-term challenges

Both the Hyperion Australian Equities composite and the Hyperion Australian Equities ASX 300 composite underperformed the market during November. The Hyperion Australian Equities composite returned -5.10% and the Hyperion Australian Equities ASX 300 composite returned -5.38% versus the S&P/ASX 300 Accumulation Index return of -3.44%.

Asset selection was the biggest detractor to active returns for the Hyperion Australian Equities composite during the month. The top three contributors to active performance during the month included Brambles (+6.65%), BHP Billiton (-7.62%) and Woolworths (+3.40%). The largest detractors from active performance included Navitas (-19.28%), SEEK (-7.88%) and Rio Tinto (-9.04%).

Asset selection was the biggest detractor to active returns for the Hyperion Australian Equities ASX 300 composite during the month with the top three contributors to active performance during the month being Brambles (+6.65%), BHP Billiton (-7.62%) and IRESS Market Technology (-0.53%). The largest detractors from active performance included Navitas (-19.28%), Rio Tinto (-9.04%) and SEEK (-7.88%).

Navitas held its AGM on 22 November 2011. While there were some positive signs, the market responded negatively to the reported decline in equivalent full time student units (EFTSU) across Navitas's University Pathways division. The market had expected that the visa headwinds had already worked their way through the company's financials. Conversely, the North American enrolments were up 42% year-on-year and Singapore

enrolments increased by 35% for the same period. We had included a decline in the EFTUs in our numbers but we had not forecast this decline to be as large. We believe that the Knight Review will favourably impact the business and mitigate some of these issues over time.

Performance	1 mth	6 mth	1 year	2 year	5 year	Since inception (Oct 96)
Hyperion Australian Equities Composite	-5.10	-13.54	-10.89	-3.82	0.69	12.70
Excess Performance over S&P/ASX 300 Accumulation Index	-1.67	-3.21	-4.62	-1.52	2.09	4.43

Hyperion Australian Equities Composite Top 10 Stock Holdings		
Stock	Absolute Weight (%)	Active Weight (%)
Rio Tinto	7.03	-4.04
BHP Billiton	7.01	4.30
SEEK	6.84	6.66
Commonwealth Bank of Australia	6.42	-0.96
Cochlear	6.01	5.70
Sky Network Television	5.08	5.08
WorleyParsons	4.93	4.41
ANZ	4.52	-0.63
AMP	4.49	3.32
Woolworths	4.43	1.47

Performance	1 mth	6 mth	1 year	2 year	5 year	Since inception (May 03)
Hyperion Australian Equities ASX 300 Composite	-5.38	-14.83	-11.86	-5.20	1.86	11.98
Excess Performance over S&P/ASX 300 Accumulation Index	-1.94	-4.51	-5.59	-2.89	3.26	3.65

Hyperion Australian Equities ASX 300 Composite Top 10 Stock Holdings		
Stock	Absolute Weight (%)	Active Weight (%)
BHP Billiton	9.27	-1.80
Rio Tinto	8.24	5.53
Cochlear	6.61	6.30
Commonwealth Bank of Australia	6.47	-0.91
SEEK	6.41	6.22
AMP	5.77	4.60
WorleyParsons	5.64	5.12
ANZ	5.42	0.27
Woolworths	4.78	1.82
Brambles	4.50	3.46

Navitas faces short term headwinds from inclement visa conditions

The Hyperion Small Growth Companies Fund underperformed the S&P/ASX Small Ordinaries Accumulation Index during the month. The fund returned -4.53% versus the benchmark return of -3.71%. The largest contributors to positive performance during the month included Domino's Pizza Enterprises (+12.04%), Count Financial (+1.08%) and IRESS Market Technology (-0.53%). The biggest detractors from active performance included Navitas (-19.28%), Wotif.com Holdings (-10.00%) and not owning Beach Energy (+19.49%).

Navitas held its AGM on 22 November 2011. While there were some positive signs, the market responded negatively to the reported decline in equivalent full time student units (EFTSU) across Navitas's University Pathways division. The market had expected that the visa headwinds had already worked their way through the company's financials. Conversely, the North American enrolments were up 42% year-on-year and Singapore enrolments increased by 35% for the same period. We had included a decline in the EFTUs in our numbers but we had not forecast this decline to be as large. We believe that the Knight Review will favourably impact the business and mitigate some of these issues over time.

Performance	1 mth	6 mth	1 year	2 year	5 year	Since inception (Oct 02)
High Conviction Small Growth Companies Portfolio	-4.53	-4.18	-3.60	2.13	4.32	12.98
Excess Performance over S&P/ASX Small Ords Accumulation Index	-0.71	9.46	9.71	5.31	9.13	15.82

High Conviction Small Growth Companies Portfolio Top 10 Stock Holdings		
Stock	Absolute Weight (%)	Active Weight (%)
IRESS Market Technology	9.96	9.15
Count Financial	9.36	9.36
Sky Network Television	9.20	9.20
REA Group	9.07	8.36
Carsales.com	8.40	7.35
Wotif.com Holdings	7.29	6.86
Platinum Asset Management	6.86	5.90
Dominos Pizza	6.01	6.01
Reckon	5.41	5.41
Navitas	5.03	4.28

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