CONCISE
ASSET MANAGEMENT

August

2013

Net Performance (After Fees)	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	*Since inception (Annualised)
Concise Mid Cap Fund Return (%)	**4.98**	**4.76**	**0.63**	16.40	5.12	3.39	1.79
Mid Cap Masters Index (%)	**3.16**	**2.90**	(2.72)	15.40	3.35	3.65	(-2.21)
Active Performance (%)	**1.82**	**1.86**	**3.35**	1.00	**1.77**	(0.26)	**4.00**

Market Performance

Global sharemarkets posted negative returns in August as investor concerns on the US Federal Reserve possibly tapering its bond buying program weighed heavily on sentiment. The Dow Jones declined 4.4% while the S&P 500 & FTSE 100 both fell 3.1%. Commodity markets had a good month with the LME Metals Index rallying 2.4% and iron ore rallied 6.1% to finish the month at US$138.30/t. Gold's increase of 5.3% during the month is partially explained by the escalating crisis in Syria, while the price of oil rose 2.5% to finish the month at US$107 a barrel. The Australian dollar finished the month at US$0.89 as the Reserve Bank of Australia cut the official cash rate by 0.25% to 2.50%.

The ASX 200 gained 2.5% during the month as investors reacted positively to the FY13 August profit reporting season. Overall, ASX 200 companies posted a moderate 3.3% growth in earnings over the 12 month period ending June 30 2013. Despite subdued earnings growth, close to 50% of companies in the ASX 200 lifted payout ratios higher than the previous year. Consensus analyst forecasts are for FY14 earnings growth of ~8%, with the resource sector being a large contributor as miners are expected to improve operating margins.

Company highlights for the reporting season include; Ansell reported a 5% rise in FY13 net profit to US$140 million as group operating margins expanded 20 basis points to 12.4%. Improvements in working capital drove a 31% increase in free cash flow which saw an 8.6% increase in the full year dividend. Cochlear disappointed investors by posting a 6.1% decline in net profit to $132 million. Product sales were weak increasing 1% to $715 million while debt increased to $105 million. Virgin Australia (VAH) reported an underlying pre tax loss of $73 million for FY13 being well below market expectations. VAH management cited a competitive operating environment, the carbon tax, additional transformation costs and issues regarding the implementation of its new booking system, Sabre.

Attribution Analysis for the month ended Aug 2013

Top 5	Bottom 5
Challenger	Bendigo & Adelaide Bank
Regis Resources	Duet Group
Southern Cross Media	AWE
Alacer Gold	Treasury Wines
Sandfire Resources	Western Areas

Strategy Performance

The Concise Mid Cap Fund posted a 5.0% return for the month exceeding the benchmark return of 3.2%. Strong performers for the month included; Challenger Limited (CGF), Regis Resources (RRL), Southern Cross Media (SXL) and Sandfire Resources (SFR). Poor performers for the month included; Bendigo & Adelaide Bank (BEN), Duet Group (DUE), AWE Limited (AWE) and Treasury Wine Estates (TWE).

Challenger Limited (CGF) reported a FY13 profit result of $309m which was inline with market expectations. CGF paid a 10.5 cent dividend and lifted its target dividend payout ratio to 35-40% of underlying profits in FY14. Encouragingly CGF's guidance for its Life division in FY14 of $465-475 million was well ahead of analyst expectations.

Fletcher Building (FBU) gained 6.1% over the month after reporting a 3% increase in profit to NZ$326 million. Pleasingly cashflow from operations was 25% higher at NZ$559 million. Commenting on the FY14 outlook, management stated they expect continued strong growth in New Zealand construction markets throughout FY14. While Australian markets are anticipated to show little improvement FBU remains well positioned to any improvement in commercial construction in North America and China.

Downer EDI (DOW) increased 10% in August following an encouraging profit result and solid earnings outlook. For FY13 DOW reported a net profit of $215 million, an increase of 10.3% over the previous year. Operating cash flows were strong up 24% to $452 million allowing DOW to declare a final dividend of 11 cents per share. While the outlook for the civil and mining contractor division looks challenging, DOW remains committed to securing FY14 revenue and reducing costs through its Fit 4 Business program which has achieved $250m of savings to date.

During the month we sold out of our positions in both IOOF Ltd (IFL) and Henderson Group (HGG) following strong share price appreciation over the last 12 months. We consider that at current trading levels, both companies are over valued as investors are now capitalising earnings that will be difficult to replicate in FY14. For example, HGG a year ago reported an underlying profit of £82.8 million which included performance fees of £22 million and was trading on a 12 month forward PE of ~9.0x. Last month HGG reported an underlying profit of £101.1 million which includes performance fees of £57.5 million and currently trading on a 12 month forward PE of ~13.0x.

Outlook

On a macro level we believe the four large global economies of the USA, Europe, China and Japan will show simultaneous growth in FY14. Recent economic data is supportive of this view and while growth will not be spectacular, simultaneous growth provides a very positive backdrop for equity markets.

Domestically, conditions remain subdued with confidence low across both business and consumers. The RBA is doing its bit, by lowering the official cash rate to 2.50% in August while the 8 month wait for the Federal election is almost over.

Yield has been the dominant theme in equity markets over the last 12 months as investors were focused on short term earnings certainty in a constantly changing macro economic environment. Sentiment is now changing, with the backdrop outlined above and rising long term bond rates investors are now extending their investment horizon beyond the short term. Companies well placed to deliver earnings growth will outperform over the next 12 months. In a low growth, albeit growing economic environment it is less mature businesses with leading market positions and supportive capital structures that will deliver meaningful earnings growth. Many mid cap companies fit this bill.

*The Mid Cap Masters Index is a price and accumulation price, free float adjusted index calculated daily for Concise on behalf of S&P. The constituent universe of index is the S&P/ASX 200 excluding the S&P/ASX 50. * The CMCF commended on the 16th of April 2008. The since inception figure is annulaised.

Concise Asset Management
AFSL 320497
T | 03 9642 8968

L11, South Tower
459 Collins Street
MELBOURNE VIC 3000

E | info@conciseam.com.au
W | www.conciseam.com.au