CONCISE
ASSET MANAGEMENT

"Building a path to your financial future".

December

2012

Net Performance (After Fees)	1 Month	6 Months	1 Year	2 Years	3 Years	*Since inception (Annualised)
Concise Mid Cap Fund Return (%)	4.94	9.97	9.68	(2.67)	0.45	0.49
Mid Cap Masters Index (%)	3.25	12.14	11.69	(4.09)	(0.51)	(3.52)
Active Performance (%)	1.69	(2.17)	(2.01)	1.42	0.96	4.01

Market Performance

In December the ASX 200 gained 3.4% while the 12 month return of 20% was driven by the Top 50 return of 22%. The Mid Cap and Small Cap indices performed well for the year but lagged the broader index returning 11.6% & 6.5% respectively. The best performing sector returns for the year were; Healthcare (+47%) Telecommunications (+42%) and Property Trusts (+33%) while the underperforming sectors included; Energy (-0.5%), Materials (+2.7%) and Industrials (+11%). In December, the Reserve Bank of Australia cut the official cash rate for the fourth time in 2012 by 0.25% to 3.0%. Despite the rate cut consumer and business sentiment indexes both fell in December. The Australian Government announced that the Federal Budget was unlikely to return to surplus in 2012-13, with the Treasurer stating that tax receipts were weaker than originally forecast.

In company news during the month, Australand Property Group (ALZ) rallied 18.6% after fellow property company, GPT Group (GPT) offered a conditional takeover bid for ALZ's Commercial and Industrial property portfolio and C&I businesses at a 5% premium to book value. ALZ has rejected the offer. Billabong (BBG) received an indicative, non binding and conditional proposal from a consortium comprising its current American President, Paul Naude. The consortium has offered $1.10 cash per share. Grain Corp (GNC) rejected a revised higher offer from Archer Daniels Midland (ADM) of $12.20 per share (previously $11.75). Despite ADM receiving FIRB approval to take its stake to 19.9%, the Grain Corp Board views the revised offer as materially undervaluing the company. Fairfax Media (FXJ) announced the sale of its remaining 49% stake in Trade Me for $616 million. Fairfax intends to use the proceeds to retire debt and invest in early stage digital assets.

Attribution Analysis for the month ended December 2012

Top 5	Bottom 5
Ausdrill	AWE
Atlas Iron	Gindalbie Metals
Australand Property	Ansell
Transfield Services	Resmed
Whitehaven Coal	OZ Minerals

Fund Performance

The Concise Mid Cap strategy returned 4.94% in the month of December exceeding the benchmarks 3.2% gain. For the quarter the strategy returned 8.1% outperforming the benchmarks 6.4% return. Better performers for the month included; Ausdrill Ltd, Atlas Iron, Australand Property Group and Whitehaven Coal. The poorer performers were; Gindalbie Metals, AWE Ltd, Ansell and Oz Minerals.

During the month Australand Property Group (ALZ) received an unsolicited approach from GPT Group (GPT) to acquire its Investment Property Portfolio and Commercial and Industrial development businesses. The proposal involves ALZ retaining the residential development business and remaining a listed entity. The highly conditional proposal was rejected by the ALZ board stating "the Proposal does not provide a compelling value proposition and is not in the best interests of Australand's security holders". Subsequently, GPT reaffirmed its commitment to progressing its proposal while ALZ's major shareholder, CapitaLand with 59.3% has commenced a strategic review of its investment

ALZ is a well managed, diversified property business supported by a securely leased Investment Property portfolio that continues to generate significant cash flow. We continue to believe that highly cash generative businesses will remain a desired acquisition target in the prevailing environment.

Market Outlook

Equity markets rallied hard in the second half of 2012 as central banks across the globe did "whatever it takes" to restore confidence in financial markets. The continued abundance of liquidity in financial markets in 2012 kept global interest rates at historical lows. The upshot of the low interest rates and mildly improved global economic conditions saw global equity market's 1-year forward PE's expand rapidly ending the year well above the years starting level. The S&P 500 PE expanded from 11.7x to 12.8x, the FTSE 100 from 9.3x to 11x, while the Hang Seng went from 9.3x to 10.9x. In Australia the ASX 200 expanded from a PE of 10.4x, finishing the year at 14.0x, despite 1-year forward earnings growth falling from 11.9% to 5.2%. Looking forward, if equity market returns of 2012 are to be consolidated then solid earnings growth needs to come through to support the markets current PE. The key drivers to Australian corporate earnings over the next 12 months will be domestic macro conditions and the impact of the Reserve Bank of Australia's (RBA) rate cuts. China will continue to play a large role in Australia's GDP growth, while the US and Europe will impact investor sentiment and drive market volatility.

The Australian domestic economic outlook for 2013 is likely to see a decline in resource investment while public spending will continue to be constrained at both Federal and State level. To offset these economic drags a pick-up in consumer consumption, improved growth in residential and non residential dwelling starts and private investment outside of the resources sector needs to take place. While the RBA cut the official cash rate four times to 3.0% in 2012, further cuts seem likely, as lower interest rates seem to be the key lever to stimulate a cautious consumer into spending, or discourage further savings, while encouraging corporate Australia to invest at attractive borrowing rates.

China continues to be an important driver of Australia's economic growth. Recent PMI and IP data suggests that China's economic growth is trending up driving demand for basic materials as manufacturers restock. We expect this restocking to ease and prices to react accordingly heading into the second half of the year. China's key focus is now on developing a more sustainable domestic led economy over the medium to long term. This will be the key driver to the demand for base metals as Chinese consumers purchase higher quality dwellings, automobiles and appliances. We continue to see Australian resource companies benefitting from this growth over the medium term.

Current Australian conditions remain subdued for many industries and while top line revenue growth remains scarce companies will continue to focus on protecting profits by improving productivity. While domestic cyclical stocks outperformed late in the December quarter, we are of the view that earnings in the short term will not justify these share price gains. In the current environment we would expect that more mergers and acquisitions will occur as the cost of funds remains attractive. Listed companies that generate excess cash flows trading below their intrinsic value are most likely to be acquired. We will continue to focus on companies that can generate growing cash flows that can pay dividends, maintain a healthy balance sheet and re-invest into growth projects.

*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.

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