

February

**2012**

Net Performance (After Fees)	1 Month	6 Months	1 Year	2 Years	3 Years	*Since inception (Annualised)
Concise Mid Cap Fund Return (%)	4.57	5.07	(3.64)	3.84	17.09	1.16
Mid Cap Masters Index (%)	4.92	2.14	(7.63)	3.21	17.43	(4.16)
Active Performance (%)	(0.35)	2.93	3.99	0.63	(0.34)	5.32

### Market Performance

The Australian equity market followed January's rally with another positive month with the ASX 200 increasing 1.9% during February. Interestingly, the markets two largest sectors weighed on performance with financials declining 0.7% following lacklustre earnings news while the Materials sector declined 1.0%. Industrials and Consumer Discretionary were the strong outperformers rising 6.8% and 6.7% respectively. Energy rose 5% after a sharp rise in the oil price as concerns surrounding Iranian supply intensified. Global equity markets had strong gains in February with the Dow Jones up 2.6%, the S&P500 up 4.2% and the FTSE100 up 3.3%. Commodities continued the strong start to the year with the LME Metals Index gaining 2.3% for the month while the Australian dollar increased 1.0% to finish the month at US\$1.073. The Reserve Bank of Australia (RBA) surprised the market by holding the cash rate at 4.25%. Expectations were for a 25 basis point cut. Despite the RBA decision all four major banks took the decision to raise home mortgage rates independent of the RBA in an attempt to recover declining net interest margins.

The interim company reporting season was held during February with a summary provided in the Outlook commentary below. Corporate activity continued with Billabong (BBG) receiving a non-binding, indicative proposal to acquire all shares in the company for \$3 cash. The proposal was subsequently increased to \$3.30 per share but failed to spark the interest of the BBG Board, particularly major shareholder Gordon Merchant. Discussions have now ceased but BBG is prepared to consider any future proposal that may be in the best interests of shareholders. Additional activity included Wilmar International acquiring 10.1% of Goodman Fielder (GFF) while Crown Limited increased its stake in Echo Entertainment (EGP) to 9.2%.

### Attribution Analysis for the month ended February 2012

Top 5	Bottom 5
Cabcharge Australia	Challenger
Flight Centre	Mount Gibson Iron
Henderson Group	Ramsay Healthcare
Transfield Services	Bendigo & Adelaide Bank
AWE	Ansell

### Fund Performance

In February the Concise Mid Cap Fund returned 4.6% slightly below the benchmark return of 4.9%. Best performers for the month were Cabcharge, Flight Centre and Henderson Group while the poorer performers were Challenger Ltd, Mouth Gibson Iron and Ramsay Healthcare.

Flight Centre (FLT) reported a strong 1H12 result with Profit before Tax increasing 18.4% exceeding market expectations. The leisure market continues to perform extremely well for FLT. Of particular note was the strong growth derived from the corporate market where FLT has been able to rapidly grow market share. During the GFC, FLT management implemented a strategic decision to invest heavily in the corporate travel market while many competitors placed a freeze on deploying any additional capital. As a consequence FLT is now beginning to receive payback on this investment. FLT upgraded guidance for FY12 from between \$265 million and \$275 million to between \$270 million and \$290 million.

Cabcharge (CAB) released its 1H12 profit result with underlying net profit up 11.3% to \$34.6m, exceeding market expectations.

CAB increased its 1H12 dividend to 17 cps up from 1H11 10 cps. Looking at the key drivers of the result, total turnover increased 2.6% to \$551m for the half but Cabcharge accounts increased 5% to \$230m. Member taxi related services revenue increased 8% to \$44.8m as the number of taxis electing to use Cabcharge's Taxi Network services in both NSW and Victoria increased. Commenting on the outlook CAB is confident that the growth seen in the 1H12 will continue into the 2H12. CAB is well positioned to continue to grow its cash flows and is leveraged to the increasing use of cashless technology through MasterCard's PayPass and Visa's payWave technology through its terminals throughout the taxi network.

### Market Outlook

The February reporting season largely met investor expectations. The two speed domestic economy pronounced by the strong outperformance of the mining services sector and significant underperformance of financials as credit growth remains subdued and funding pressures persist.

Consensus earnings expectations were downgraded several times through the course of the July – December period assisting reported results being in line. Despite this, consensus expectations are for industrial company earnings per share growth in excess of 10% for 2H12. Clearly an unachievable number when you consider the majority of this expectation relates to cost cutting. Several thousand jobs were announced as redundant during February but other cost levers are becoming more difficult to pull. Over the course of the last 6 months, PE multiples across the market have diverged considerably so that the spread of PE multiples is far wider today. This divergence is driven by the ongoing macro economic uncertainty particularly in Europe and Asia and the non resource exposed sectors of the domestic economy.

Companies with a high degree of earnings certainty are trading at the top of the PE range while at the other end of the scale you remain hopeful of a takeover in numerous value traps. In between lie selective opportunities to invest in quality companies at reasonable prices who are well positioned to continue recent earnings growth.

It is only through a thorough analysis of underlying cash flows that these opportunities can be identified. It is these companies that are best positioned to continue to grow returns on invested capital and it is this earnings growth that will ultimately be received by shareholders.

\*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 16<sup>th</sup> of April 2008. The since inception figure is annualised.

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