

May

**2012**

| Net Performance (After Fees)    | 1 Month | 6 Months | 1 Year  | 2 Years | 3 Years | *Since inception (Annualised) |
|---------------------------------|---------|----------|---------|---------|---------|-------------------------------|
| Concise Mid Cap Fund Return (%) | (8.97)  | (0.39)   | (9.84)  | (0.28)  | 8.74    | (1.07)                        |
| Mid Cap Masters Index (%)       | (8.10)  | 0.35     | (12.25) | (0.02)  | 6.42    | (5.78)                        |
| Active Performance (%)          | (0.87)  | (0.74)   | 2.41    | (0.26)  | 2.32    | 4.71                          |

### Market Performance

May proved to be a very difficult month for investors with the risk of a Greek exit from the European Union and a liquidity flight from risk assets driving global equity markets lower. The ASX 200 performed poorly declining 7.3% for the month while the Dow Jones and S&P 500 fell 6.2% & 6.3% respectively. European equity markets were also sold off aggressively with the FTSE 100 declining 7.7% and the German Dax falling 7.3%. The equity market declines saw government bond yields pushed to new record lows. The Australian 10-year yield fell to a new post war low of 2.86%, the US 30 year finished the month at 2.64%, while German two year Bunds briefly recorded a zero yield late in the month. The Reserve Bank of Australia cut the cash rate by 0.5% to 3.75%, while the Australian dollar decline 6.7% to finish the month below parity at US\$0.97.

For the month the best performing sectors on the ASX 200 were Utilities (+1.6%) and Telecommunications (+0.2%) while Materials (-11.0%) and Energy (-10.2%) were the worst performing sectors. In corporate news, Dulux bid \$2 cash per share for Alesco after it had acquired a 19.9% interest in the company through an off-market purchase at \$2 a share. Surf retailer Billabong appointed former Target MD Launa Inman as CEO replacing Derek O'Neill. Boral's MD Mark Selway was stood down by the board during the month despite the board recognising that during his tenure operational improvement was excellent. Energy Infrastructure company SP Ausnet (SPN) launched a \$434 million entitlement offer during the month. SPN said the proceeds will be used to fund expansion of its regulated asset base while supporting its credit ratings. SPN will raise the funds through a 3 for 20 non renounceable entitlement offer which is a 15% increase of the issued capital.

### Attribution Analysis for the month ended May 2012

| Top 5                       | Bottom 5                  |
|-----------------------------|---------------------------|
| Ramsay Health Care Ltd      | Sims Metal Management Ltd |
| Dexus Property Group        | Challenger Ltd            |
| Cabcharge Australia Ltd     | Henderson Group PLC       |
| Bendigo & Adelaide Bank Ltd | Flight Centre Ltd         |
| AWE Ltd                     | Ausdrill Ltd              |

### Portfolio Performance

The Concise Mid Cap Fund posted a disappointing return of -8.87% for the month below the benchmark return of -8.10%. The best performers for the month were; Ramsay Healthcare, Dexus Property Group, Cabcharge, Bendigo & Adelaide Bank and Ansell. The poor performers were; Sims Metal Group, Challenger Ltd, Henderson Group and Flight Centre.

Scrap metals and recycling company Sims Metal Group (SGM) released an earnings update during the month advising that FY12 profit will be below FY11. SGM earnings continue to be affected by weak global economic conditions. Specifically, SGM highlighted softness in volumes and price in the ferrous (scrap metals) market and reduced liquidity in trading markets. While the downgrade is disappointing we believe SGM's underlying fundamentals remain sound. Current scrap prices are trading well below long term averages with scrap prices linked to economic conditions particularly US Industrial Production (IP).

Leading indicators suggest trading conditions are improving in both US manufacturing activity and US non-residential construction spend. These two indicators, while still well below 2007/08 highs are trending higher. SGM is well placed to benefit from improving US IP and continues to generate positive operating cash flows in the prevailing difficult trading environment. SGM's balance sheet has minimal gearing with net debt/net debt + equity currently around 8%.

### Market Outlook

During May we undertook several investment trips throughout Australia to visit companies and industry leaders. Notably, we travelled to the Pilbara region where we met with numerous mining companies and providers of mining services together with the Port Headland Port Authority (PHPA). While debate continues regarding the outlook for iron ore over the medium term, our visit to Port Headland clarified current infrastructure arrangements, bottle necks, proposed new infrastructure and the ability of the port to handle proposed tonnages from BHP, Fortsecue, Hancock Prospecting and Atlas Group.

We continue to believe Chinese demand for iron ore is robust in the medium to long term supported by a number of key drivers. China needs to replace internal low grade high cost ore which is rapidly depleting. China currently supplies approximately 100mtpa of internal low grade iron ore to its steel mills. As ore grade continues to decline and costs per tonne increase, internal tonnes will be replaced by lower cost, higher quality seaborne iron ore. Additionally, Chinese urbanisation is yet to be complete, with McKinsey & Company estimating that 200 million people are expected to move into Chinese cities over the next 20 years. Only 4 Tier 1 cities contribute 17% of Chinese urban GDP while 38 Tier 2 cities contribute 38% of urban GDP. As more Tier 2 cities become Tier 1 and Tier 3 cities (138) become Tier 2 this urbanisation supports medium to long term demand for iron ore, a key input for steel manufacturing. Urbanisation and the associated infrastructure (railways, roads, bridges, & social housing) will see demand for steel continue to grow. When reviewing the supply side of the equation, major iron ore producers are expected to increase tonnes into the seaborne iron ore market over the medium term which will support a balanced market. But project delays and/or cancellations along with ore grade degradation, particularly in South America, could potentially see demand outpacing supply putting a floor under iron ore prices.

While volatility will continue until Europe stabilises we maintain a diversified exposure to companies who have the ability to grow earnings and generate sustainable value for shareholders. Our research effort remains focused on identifying high quality businesses which have the ability to grow cash flows, have supportive balance sheets and operating business models which will benefit from any improvement in underlying business conditions.

\*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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