

## Investment Style

**SMALL – MID CAP GLOBAL EQUITIES**

## Investment Objective

The Fund will target a 50% cumulative return over a three year investment period (15% p.a. compounded annually). In addition, the fund will seek to outperform the S&P Developed Ex-Australia USD2 - USD10 Billion Index (AUD, Unhedged).

## Fund Investment Strategy

The Fund seeks to identify and capitalise on the long term investment opportunities evident within small to mid cap global equities. The strategy is focused on identifying undervalued small and mid cap equities which traditionally receive less research coverage than larger companies thereby creating significant opportunities for active, skilled managers to create value and outperformance.

## Process

The Fund will be managed with a target return philosophy by two boutique investment management firms with comparable investment styles specialising in the regional markets they have the most knowledge.

Both Vaughan Nelson and Highclere are bottom up, fundamental research oriented firms.

## Characteristics

Unit Price	1.054180
Fund Size (AUD)	125,223,710
Benchmark	S&P Developed Ex-Australia USD2 - USD10 Billion Index (AUD, Unhedged)
Portfolio Inception Date	1 August 2008
Companies In Portfolio	Targeting 80 – 160 holdings
Investment Managers	Vaughan Nelson Investment Management & Highclere International Investors
Total Management Fee	Available upon request
Buy/Sell Spread (bps)	30/30
Portfolio Managers	Ed Makin – Portfolio Manager, Highclere Dennis Alff – Portfolio Manager, Vaughan Nelson
Administrator	State Street Australia Limited
Custodian	State Street Australia Limited

## Contact

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## Performance (% pa)

Performance Returns	1 mth	3 mths	FYTD	1 year	2 year	Inception** (1/08/08)
Total (gross)	-4.29	-2.05	12.41	12.41	N/A	2.56
Benchmark*	-3.99	-1.91	13.24	13.24	N/A	-1.84
Active Return	-0.30	-0.14	-0.83	-0.83	N/A	4.40

\*Benchmark - S&P Developed Ex-Australia USD2 - USD10 Billion Index (AUD, Unhedged)  
\*\* Annualised

## Regional Performance

### Monthly Performance analysis by Region (%)

Sector	Contribution to Return (Fund)	Contribution to Return (Benchmark)
North America	-8.05	-6.80
EAFE (ex Aust)	-0.03	-0.67
<b>TOTAL</b>	<b>-4.29</b>	<b>-3.99</b>

## Portfolio Analysis

### Sector Allocation

Sector	Fund %	Benchmark %	Difference %
Consumer Discretionary	16.12	15.49	0.63
Consumer Staples	6.53	6.57	-0.04
Energy	3.58	6.20	-2.62
Financials	20.86	18.55	2.31
Health Care	5.98	7.31	-1.33
Industrials	15.83	17.54	-1.71
Information Technology	10.99	10.88	0.11
Materials	9.74	10.45	-0.71
Telecommunication	0.97	2.14	-1.17
Utilities	6.01	4.87	1.14
Cash	3.39	0.00	3.39
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>--</b>

Note: Cash shown here reflects cash in all currencies on a look-through basis.

### Regional Allocation (%)

Sector	Fund %	Benchmark* %	Difference %
North America	50.31	54.36	-4.05
United Kingdom	16.43	8.19	8.24
Europe	13.32	12.58	0.74
Nordic	2.37	3.79	-1.42
Japan	11.84	14.41	-2.57
Asia ex Japan	5.15	6.56	-1.41
New Zealand	--	0.11	-0.11
Cash	0.58	--	0.58
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>--</b>

\*S&P Developed Ex-Australia USD2 - USD10 Billion Index (AUD, Unhedged)  
Note: Only cash held in AUD shown here as cash. Total cash on look-through basis may be higher.

## Monthly performance (gross % pa)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2010	-1.30	0.23	4.08	2.49	-0.14	-4.29							
2009	2.58	-8.30	-2.78	5.96	-1.47	-0.40	6.61	2.84	1.57	-6.18	1.88	4.71	5.99
2008	--	--	--	--	--	--	--	10.19	-4.57	-1.01	-3.70	-2.05	--

## Top Ten Portfolio Holdings

Stock	Country	Sector	% of Fund
XL Capital Ltd Class A	United States	Financials	1.30
Smith + Nephew PLC	United Kingdom	Health Care	1.19
Reed Elsevier PLC	United Kingdom	Consumer Discretionary	1.17
The Bank of Yokohama Ltd	Japan	Financials	1.16
Wing Hang Bank Ltd	Hong Kong	Financials	1.15
Shimano Inc	Japan	Consumer Discretionary	1.15
Standard Life PLC	United Kingdom	Financials	1.12
ICAP PLC	United Kingdom	Financials	1.11
The Sage Group PLC	United Kingdom	Information Technology	1.09
Suruga Bank Ltd	Japan	Financials	1.08

## Market Commentary

The market decline continued in June, with the more cyclical sectors leading the market down on economic growth concerns. The portfolio declined -4.29% with the S&P Developed Ex-Australia US\$2 - \$10 Billion Index falling similarly by -3.99%

## EAFE Component

At the country level, Europe's best performer was Switzerland, up over 4%, followed by Finland and Sweden, up 2% to flat. Greece and Norway fared particularly badly, down to 7% to 11% pulled down mainly by the banks, though both have seen a rebound in July. The Republic of Korea, Hong Kong and Singapore proved to be Asia's outperformers, up 3-4% whilst Japan lagged and was down around 2%.

At the sector level, Utilities, Consumer Staples and Information Technology were all good performers whilst Industrials, Materials and Health Care were relative underperformers. Good stock selection generally boosted portfolio performance relative to the benchmark, although Consumer Staples was an exception here and proved a detractor to relative performance.

Over the period, new positions were initiated in UBI Banca (Italy), Finmeccanica (Italy) and Hisamitsu Pharmaceutical (Japan) and profits were taken in S1 (Korea).

## North America Component

For the month, the North American component of the Benchmark Index was down around -6%. All sectors except Telecommunications declined for the month. Sectors less vulnerable to a potential economic slowdown such as Health Care, Staples and Telecommunications declined less. Detracting the most from performance was the Consumer Discretionary sector, with shoe retailer Collective Brands and Bally Technologies, which manufactures casino gaming devices, both declining as concerns regarding consumer spending grew. The Financial sector was the second largest detractor from performance, led by weakness in the capital markets stocks. MF Global, a broker for exchange traded futures and options, and TD Ameritrade, an online retail brokerage firm, contributed negatively to results as financial markets tumbled and volumes slowed. The Industrials sector also continued its May weakness, led by a decline in the highly cyclical machinery stocks as economic growth concerns continued. Weakness in the Materials sector pressured returns with pullbacks in chemical company Celanese, and bottling company Owens Illinois, also on growth concerns. Partially offsetting the negative returns were positive contributions from Annaly Capital Management, a mortgage REIT with a very attractive dividend yield, Concho Resources, an onshore oil and gas exploration company which benefitted from a move to onshore plays as a result of the Gulf oil spill, and Ace Ltd., a property casualty company which held up well given its very attractive valuation.

Over the period, new positions were initiated in J. M. Smucker, Kroger, and several electric utilities such as American Electric Power, PG&E Corp and Wisconsin Energy. Profits were taken in Macy's and Best Buy among others.

## Market Outlook

As we enter the second half of 2010, global equity markets remain concerned about the continued side-effects of the deflating credit balloon which peaked three years ago and continues to come down. Despite best efforts of major governments to support faith in the financial markets, and the banks in particular, the consumers and corporates of the west remain risk averse, and banks have made it expensive and difficult to gain access to credit. The attention of the investment community has turned from the banking sector to the balance sheet of weaker economies in the periphery of Europe and to states and municipalities in the larger countries, such as the US and China. A reduction in central and local government debt, higher taxes and higher unemployment seem unavoidable. The next wave of concern is likely to focus on the aftermath of the massive infrastructure boom in China, and how the local governments are going to pay for it.

Generally, equity markets will continue to be volatile until economic data and corporate earnings reveal whether this is a double-dip recession or a mid-cycle slowdown. The managers expect the economy to continue to grow, but at a slow and "choppy" pace. One silver lining is that as credit recedes, asset price inflation is likely to cool markedly, improving the cost of living for most consumers. The other major positive is that most of these fears are now being reflected in the valuations of those stocks most vulnerable to a downturn.