

Dalton Nicol Reid

Investment Review – February 2010

Market Wrap

Monthly Performance Overview:-

- Investors continued to weigh up the consequences of potential sovereign default risks emerging in Europe and a slowing Chinese economy against a backdrop of generally better than expected earnings being reported in the US, Europe and Australia.
- High Conviction outperformed the market. The main contributors were Westpac, Wesfarmers and News Corp. Socially Responsible underperformed due to no holding in Wesfarmers. Income was largely in line despite a strong contribution from the Banks.
- The fixed interest and property portfolios performed slightly below the benchmark.

AS AT 28 FEBRUARY 2010	1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS	5 YEARS
INTERNATIONAL EQUITIES						
Dow Jones Industrial	2.56%	-0.19%	8.73%	46.19%	-5.59%	-0.83%
MSCI World Index	1.23%	-0.98%	4.40%	50.94%	-8.73%	-0.75%
AUSTRALIAN EQUITIES						
S&P/ASX 200	1.49%	-1.35%	3.54%	38.67%	-7.36%	2.14%
FIXED INTEREST						
UBS Comp Bnd (0+yr)	0.50%	1.46%	3.65%	3.45%	6.62%	6.15%
UBS Corp Bd (0+yr)	0.64%	1.97%	4.59%	7.05%	6.68%	6.31%
PROPERTY						
S&P/ASX 200 A-REIT	-0.21%	-1.14%	-0.67%	30.40%	-29.23%	-13.36%

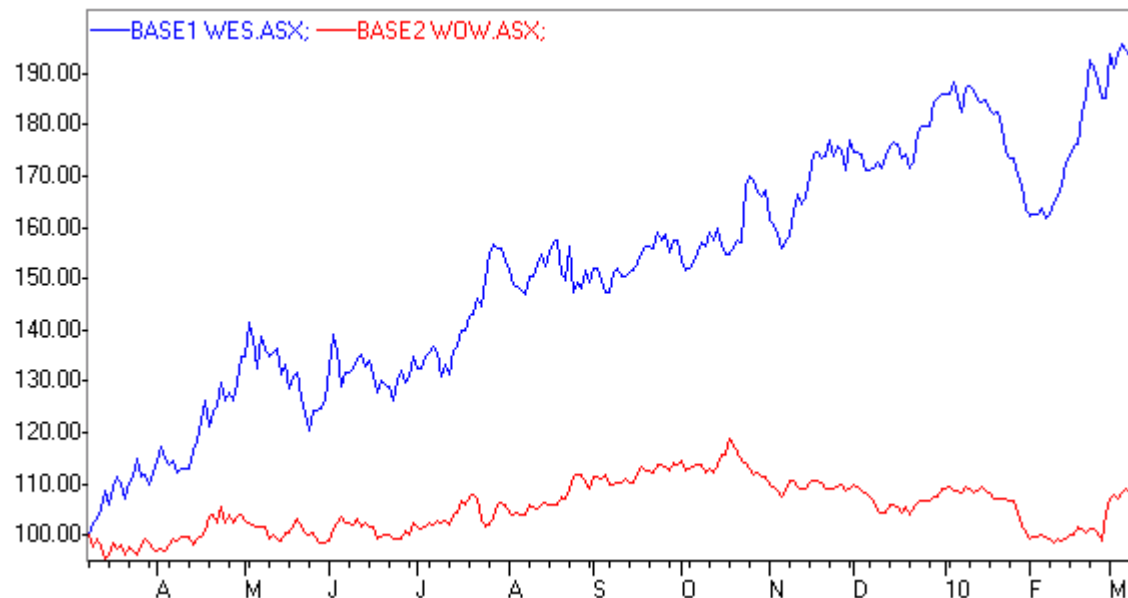
Reporting Season Review

- The reporting season is an important period for us for the following reasons:
 - Review the performance of the companies we are invested in and to speak to management regarding the outlook for the company.
 - Re-test our thesis regarding the quality of the underlying business.
 - Review the performance of other companies within the market.
- The good news from the reporting season is that the overall performance was very strong. The market has upgraded forecasts by 4% and is now expecting positive earnings growth in 2010.

Reporting Season Review

CONSUMER STAPLES

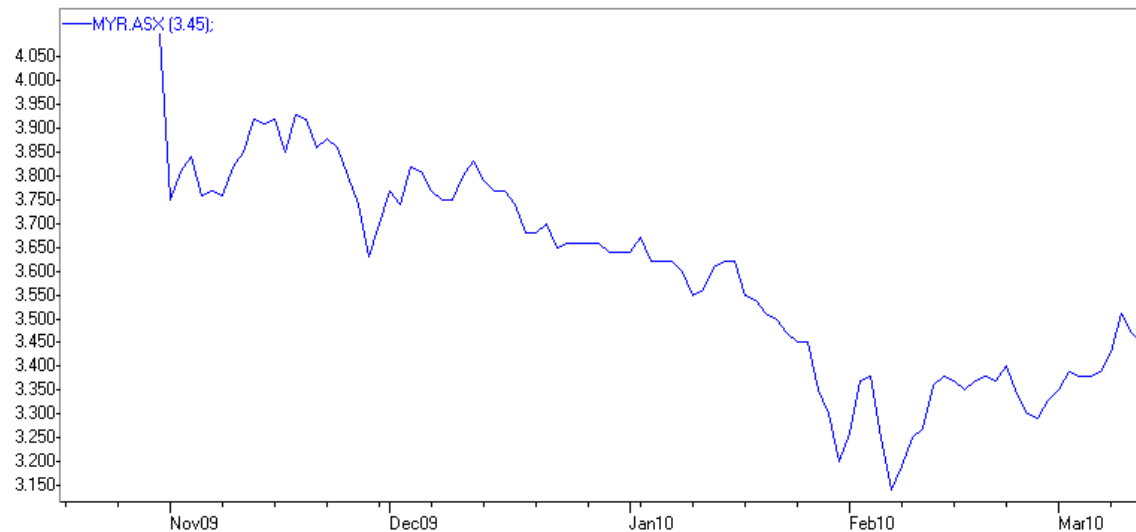
- Wesfarmers the highlight with Coles turnaround taking shape



Reporting Season Review

CONSUMER DISCRETIONARY

- Media stocks generally performed well as cycle bounces
- Newscorp – Avatar driving strong growth
- Discretionary retailers were mixed



Reporting Season Review

HEALTHCARE

- Domestic healthcare companies struggling with regulatory uncertainty.
- The device companies (Cochlear and Resmed) produced stellar results.
- Invocare solid despite a warm winter reducing the death rate.

PROPERTY

- The property sector was better with valuations falls slowing.
- Retail was the strongest asset class.
- Domestic office demand remaining very resilient.
- Developers shifting focus from first home buyers to “upgraders”.

Reporting Season Review

BANKS

- Profit upgrades associated with lower bad debts.
- The outlook for the banks remains robust.

DIVERSIFIED FINANCIALS

- QBE sold off.
- QBE is trading at a very low multiple on cyclically low earnings.
- Henderson's result was 10% better than the market was anticipating.

Reporting Season Review

TELECOMMUNICATION

- Telstra produced one of the big misses – structural challenges.

INDUSTRIALS

- Within transport Qantas and Toll Holdings had disappointing results – cycle not yet kicking in.
- Brambles waiting for the cycle to bounce.
- The Australian Infrastructure Fund – Passenger numbers and re-furbs kicking in.
- Mining services and infrastructure – WA out-performing.
- One of the highlights of the reporting season was the performance of the Internet stocks such as Seek, Wotif and Carsales.

Reporting Season Review

MATERIALS

- RIO and BHP – cost saving driving growth.
- Amcor - cost cutting driving a good outcome but Alcan the future.

ENERGY

- LNG project outcomes will drive the stocks.
- Origin result was above the market but largely due to a lower tax rate and interest charged.
- Worley (despite downgrading a month ago) surprised the market with a better than expected result.

Reporting Season Review

SUMMARY

- The good news from the reporting season is that the overall performance was very strong. The market has upgraded forecasts by 4% and is now expecting positive earnings growth in 2010.
- Pleased with the performance of our companies. It was one of the stronger reporting seasons we have experienced.
- The strongest results included:
 - Wesfarmers – Coles turnaround on track
 - Banks – Bad debt cycle improving
 - Major resources – cost cutting delivering
 - Australian Infrastructure – strong growth in passengers at Gold Coast and Perth airports
 - Henderson’s – delivering on New Star acquisition
 - News Corp – the cycle is turning and Avatar delivering
 - Seek – Education delivering and structural gain from newspapers
- The weakest result was QBE which is suffering the headwinds from low interest rates and high A\$.

Portfolio Moves

- High Conviction and Socially Responsible
 - Sold Astar - competitive environment appears to be deteriorating
 - Sold Prime Infrastructure - the regulatory environment for the company has deteriorated significantly
 - Bought Australian Infrastructure - benefiting from a strong rebound in travel
 - Bought Amcor – Alcan acquisition is expected to be very accretive
- Income
 - Sold Prime Infrastructure - the regulatory environment for the company has deteriorated significantly
 - Increased Banks - strong market position, the bad debts are in decline and dividends are set to be lifted

Portfolio Themes

- International franchise stocks with exposure to an improving global economy.
- Defensive stocks without issues.
- Avoid early cycle plays.
- Avoid companies exposed to Govt related regulation.
- Still a buyers market – look for companies with strong balance sheets.
- Capex spend is increasing – increase exposure to those companies that benefit.
- Major banks in profit upgrade cycle.
- Resources benefiting from iron ore prices but might struggle to push on once those prices are announced.

SOURCES

ABN AMRO

Austock

Citigroup

GSJBWere

Macquarie Equities

Morningstar

UBS

Van Eyk

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