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Fund Update - Institutional Clients

January 2012

Tyndall Enhanced Cash Fund

Fund Objective

The Fund aims to outperform the UBSA Bank Bill Index (before fees).

Fund Details - 31 January 2012

Responsible Entity	Tyndall Asset Management Limited
APIR Code	SUN0039AU
Fund Size	$1099.06 million
Unit price	$1.0557
Minimum Initial Investment	$500,000
Inception Date	30 November 1995

The unit price is ex price, ie month end soft close unit price, net of distribution. Entry and exit fees do not apply.

Fund Performance to 31 January 2012

	Fund (%)	Index (%)	Excess Return (%)
1 month	0.52	0.39	0.13
3 months	1.29	1.19	0.10
6 months	2.32	2.44	-0.12
1 year	5.54	4.96	0.58
3 years p.a.	5.68	4.37	1.31
5 years p.a.	5.81	5.45	0.36
10 years p.a.	5.77	5.45	0.32
Since inception p.a.	5.82	5.56	0.26

Fund and index returns are gross unit price returns and represent the total return.
Index = UBSA Bank Bill Index

Market Commentary

Shorter-term bank bill rates fell in January, as the market continues to price aggressive rate cuts. The 1-month rate fell to 4.35% from 4.50%, the 3-month rate to 4.34% from 4.48%, and the 6-month rate to 4.32% from 4.43%. However, the dollar enjoyed an extremely strong month on the back of increased optimism and a bit more risk appetite, ending January at US$1.06.

The market continued to look for multiple Reserve Bank of Australia (RBA) rate cuts, but the extent of that easing beyond the next three months was reduced. Generally, markets were more confident because of an absence of new negative developments in the European debt crisis, with credit spreads generally tightening following the European Central Bank's (ECB's) new long-term repo operations.

Despite widespread anticipation of a cut, the RBA confounded market expectations at the start of February by keeping rates at 4.25%. The accompanying Statement of Monetary Policy was vague but indicated that recent positive US data and ECB's actions to relieve financial pressure in Europe has somewhat alleviated the concerns that the RBA had in December.

Fund Performance

The Fund returned 0.52%, which was 0.13% over the bank bill benchmark return in January. The customarily quiet month of January continued to benefit from the sizeable purchases under the European Central Bank's (ECB's) three-year Long-Term Refinancing Operation program (LTRO) and the expected second round of operation in February, as well as generally better than expected US data. Sentiment did not seem to be affected by S&P's negative rating actions on most of the Eurozone countries, including the loss of France and Austria's AAA ratings. In fact, sovereign debt auctions found healthy demand with lower yields. Ongoing European sovereign concerns focused on Greece and Portugal this month. The global senior bank bond market re-opened with issuance from some highly rated banks in The Netherlands and Sweden–Rabobank, Nordea and ABN Amro Domestic issuance was dominated by covered bonds from the four major banks. Floating-rate note (FRN) credit outperformed short-term bank bills this month. European and US banks and financials outperformed significantly as a result of the improved sentiment and pent-up demand for risk assets due to risk-off strategy in the last quarter of 2011. Australian banks' senior paper widened following the inaugural issuance of covered bonds domestically.

Outlook

The RBA's recent cuts in the cash rate have been possible because the strong dollar is keeping inflation down at the same time as there has been global uncertainty and serious concerns around Europe. However, 2011 ended with the headline inflation rate at 3.1% and the core rate at 2.6%. These numbers are not low enough to justify the current market pricing of future cash rates at 3.2% by the end of 2012. We continue to feel that the market is pricing far too aggressively in terms of rate cuts.

Another issue that has been dominant this month is bank funding rates. This may cause the RBA to think about dropping rates further to prevent bank lending margins from rising. The CBA's recent domestic covered bond issue at wide rates is being seen as a political exercise to show that their funding costs have risen. The present state of the economy is marginal in justifying additional rate cuts, but this issue might allow rate cuts to get over the line. In addition, if the RBA thinks that the banks will only partially pass on a rate cut to consumers, this might push them into cutting more than another 25 basis points.

In our view, if the RBA cuts much lower, it could be problematic given that core inflation is in the middle of its target band and underlying structural inflation persists due to low productivity growth. However, if the strong currency run continues and concerns over bank lending margins remain or intensify, we could see rates fall to 3.75% in 2102, although we think that the domestic economic environment will constrain it from cutting further than that.

Sector Allocation

(including top 2 stocks)	Maturity	Fund %
Floating Rate Notes		44.70
Colonial Finance	2012	2.11
Australia & New Zealand Banking Group	2013	1.83
Mortgage Backed Securities		40.12
Reds Trust	2040	1.48
Crusade Global Trust	2013	1.34
Subordinated Debt		2.11
Australia & New Zealand Banking Group	2017	1.19
Westpac Banking Corporation	2012	0.92
Promissory Notes		0.46
Volkswagen	2012	0.46
Unit Trusts		12.60
Tyndall Cash Fund		12.60
Cash		0.01
Total Allocation		100.00

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