

# SIM Wholesale Balanced Fund

## Quarterly Investment Report March 2012

### Fund Summary

**Investment Objective:** The objective of this Fund is to provide modest capital growth and some level of income over the long term.

**APIR Code:** SUN0147AU

**Fund Establishment:** 27 April 2004

**Management Costs:** Up to 0.80% of the Fund's asset value

### Market Review

The SIM Wholesale Balanced Fund underperformed its benchmark for the March quarter.

There was a relatively positive start to the year, with market sentiment improving although yields still remained fairly low. The three-year bond yield rose from 3.13% at the start of the year to 3.48% at the end of March, with 10-year yields up to 3.98% from 3.67%.

Shorter-term bank bill rates fell in January with the market continuing to price in aggressive rate cuts. They rose in February as the market began to change its expectations for the level of likely rate cuts following the Reserve Bank of Australia's (RBA) decision to keep the cash rate at 4.25% at the start of the month. However, due to concerns about the strength of the Australian economy, March saw bank bill rates fall back again so that they actually ended the quarter lower than at the start.

Very strong gains in March were largely responsible for global equity markets' exceptional performance during the first quarter of 2012. The MSCI World ex-Australia (AUD) index gained +10.5% during Q1, while Emerging Markets performed even better with a gain of +12.9%. Among individual sectors, Financials and Information Technology made the biggest advances, while Telecoms and Utilities barely moved during the quarter. Apple was once again the standout stock with a gain of +46% for the first 3 months of the year.

The Australian equity market index, the S&P/ASX 200 accumulation index, rose 8.4% during the quarter. Continuing positive data on the US economy saw a return to 'risk-on' trading during the quarter. US manufacturing, employment, retail sales and housing all continued to strengthen. Locally, the February 2012 company reporting season confirmed that the two-speed economy continues, with companies in the mining and resource sectors delivering solid profit results, while non-mining stocks struggled. Overall earnings were flat from a year ago. A number of earnings downgrades had already been advised to the market, helping to minimise share price falls post the announcements. Corporate actions also featured during the quarter, with takeover offers and speculation thereof in a number of companies including Billabong, Goodman Fielder, Echo and Pacific Brands.

Over the quarter the listed property sector reported steady but generally positive numbers and a reassuringly confident outlook for the rest of 2012. However recent reports of earnings downgrades on the back of weaker retail and residential sectors meant that the sector underperformed the broader equities market particularly in the last part of quarter 1. The consensus amongst the analyst community is avoidance of excessive exposure to the consumer faced REIT names. The S&P/ASX 200 Australian Real Estate Investment Trusts (A-REITs) Accumulation Index gained 7.0% for the quarter whilst the 12-month return was up 1.6%.

### Market Outlook

The domestic economy is still being driven by a strong mining sector and strong expectations of future capital expenditure. The dollar remains absolutely strong which is having knock-on effects on the tradeable sectors and tourism, as well as magnifying fundamental changes in the economy that are affecting sectors such as retail. Retailers are suffering from the increase in internet shopping and the pressure from a strong dollar merely adds to the competitive environment.

There is little the RBA can do to help individual sectors transform, unless we see a significant rise in unemployment leading them to slash rates to very low levels. In 2011, currency appreciation allowed the RBA to cut rates as inflation eased back to the middle of its target range. With the US economy looking stronger, the Australian dollar may start to weaken against the US dollar. If this happens, the role it has been playing in constraining inflation may start to unwind, which the RBA will have to take into consideration. Additionally, Australia's low productivity growth is likely to add to the RBA's concerns over the inflation outlook. This means that we continue to view it as unlikely that the RBA will make more than 50 basis points of cuts. At the same time, the continued strength in the dollar probably rules out any rate hikes.

Our view is that despite the fall in inflation, Australia still has underlying structural inflation partly caused by our low productivity growth. This will play a factor in whether the RBA cuts rates and will prevent them from keeping rates too low. However, a continuing strong currency and concern over bank lending margins could see rates fall to 4.00% (or possibly 3.75%) in 2102.

The Australian share market has delivered positive performance for the year to date, however has lagged the performance of the US share market. Weak profit growth, a strong Australian dollar and structural change have been the key factors weighing on the Australian market.

### Fund Performance\*

Period ending 31 March 2012	3 months %	6 months %	1 year %	2 years % p.a.	3 years % p.a.	5 years % p.a.
Total Return	4.52	6.63	2.84	3.79	8.87	0.86
Distribution Return	2.93	4.09	9.37	7.07	6.38	6.03
Growth Return	1.59	2.54	-6.53	-3.28	2.49	-5.17
Benchmark†	4.66	7.03	3.70	4.42	8.87	1.65

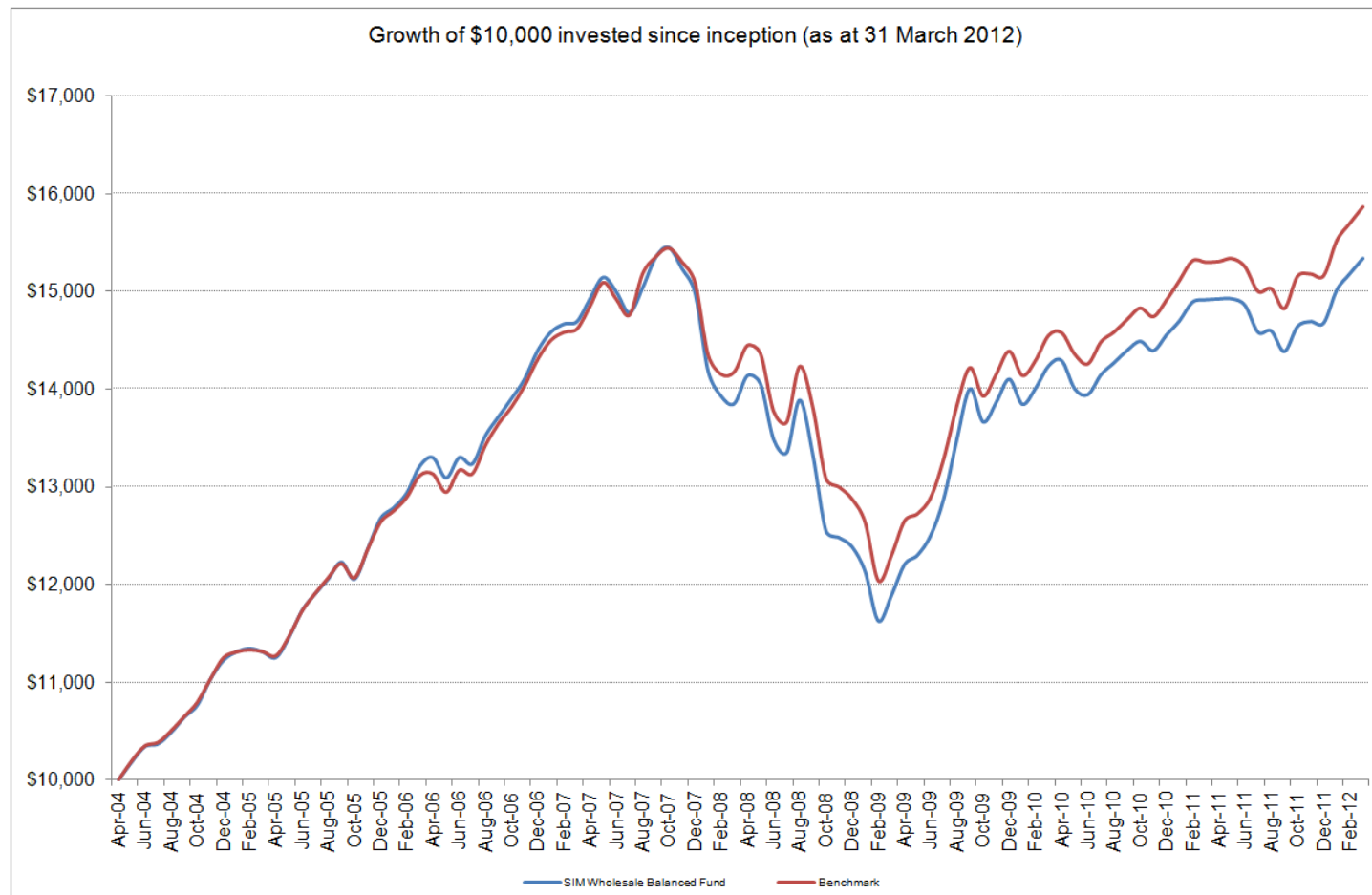
\*All performance figures are calculated using hard close end of month exit prices and do not include any entry or exit fees or any taxation consequences and are net of nominal transaction and banking costs in any underlying funds invested in. The performance figures do allow for the historic ongoing fee. Income and distributions are assumed to be reinvested back into the Fund.

†The Fund's benchmark is a composite index constructed using the applicable asset class index, weighted according to the Fund's benchmark asset allocation which can be found on page 5 of the SIM Wholesale Balanced Fund.

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## Performance Graph

This graph compares the value of \$10,000 invested in the SIM Wholesale Balanced Fund since April 2004 against its benchmark.



## Asset Allocations

This graph shows the effective asset allocation for the SIM Wholesale Balanced Fund, compared with that of its benchmark.

