

# SIM Wholesale Conservative Fund

## Quarterly Investment Report March 2012

### Fund Summary

**Investment Objective:** The objective of this Fund is to provide a quarterly income stream while obtaining some level of capital growth over the medium term.

**APIR Code:** SUN0111AU

**Fund Establishment:** 29 July 2004

**Management Costs:** Up to 0.50% of the Fund's asset value

### Market Review

The SIM Wholesale Conservative Fund outperformed its benchmark in the March quarter by 0.17%.

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%.

Domestic data remains mixed over the course of the quarter. The goods and services trade surplus was up from \$1.34 billion to \$1.71 billion due to a 2% rise in exports vs. a 1% rise in imports, beating market expectations. Building approvals remained weak despite a small rise in January. Private sector credit was up in both January and February and new home sales rose in February for the first time in three months. It is possibly the effect of the lower interest rates starting to filter through to credit growth and better demand for new housing. The ABS job vacancies series rose by 0.7% over the three months to February.

The Reserve Bank of Australia (RBA) maintained the cash rate at 4.25% in February, March and April as was widely expected by market commentators. The April statement indicated that output growth may be slightly weaker than the RBA had previously assumed, but it also "thought it prudent to see forthcoming key data on prices to reassess its outlook for inflation, before considering a further step to ease monetary policy". Clearly the RBA is waiting to see first quarter inflation data, which it gets later in April.

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. 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<sup>\*\*</sup>

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	3.33	5.15	4.67	5.20	8.13	3.25
Distribution Return	1.36	4.18	10.29	7.96	7.15	6.91
Growth Return	1.97	0.97	-5.62	-2.76	0.98	-3.66
Benchmark <sup>*</sup>	3.16	5.26	5.46	5.56	8.00	3.46

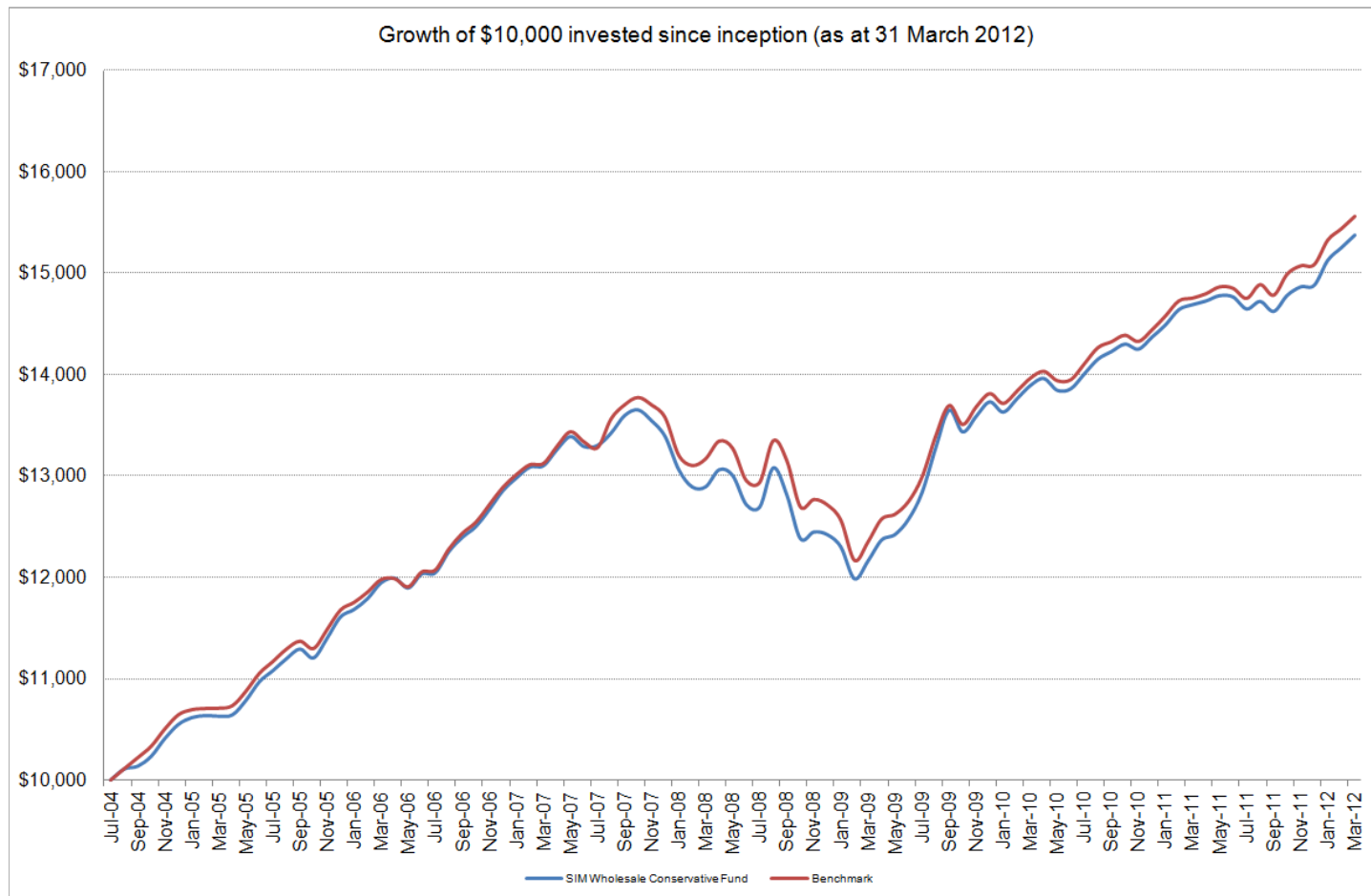
<sup>\*</sup>All performance figures are calculated using hard close end of month exit prices and do not include any entry or exit fees or any taxation consequences and are net of nominal transaction and banking costs in any underlying funds invested in. The performance figures do allow for the historic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

<sup>\*\*</sup>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 Conservative Fund.

# SIM Wholesale Conservative Fund Quarterly Investment Report March 2012

## Performance Graph

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



## Asset Allocations

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

