

# SIM Wholesale Growth Fund

## Quarterly Investment Report March 2012

### Fund Summary

**Investment Objective:** The objective of this Fund is to provide strong capital growth and some level of income over the long term by investing in Australian and overseas shares, fixed interest securities and other investments including listed property trusts.

**APIR Code:** SUN0113AU

**Fund Establishment:** 12 May 2004

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

### Market Review

The SIM Wholesale Growth Fund underperformed its benchmark in the March quarter.

The Australian 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.

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.

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%.

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.

### Market Outlook

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.

Despite surging stock prices in March, global equity markets appear to be stalling once again and are already down 3% during the first 10 days of April. The US consumer remains a major driver of the world's largest economy, and it's no surprise that very strong retail sales in February coincided with a 26% increase in the S&P 500 Index from its September 2011 low. There is also the ongoing economic problems in Europe and China's recent downgrade of its GDP growth forecast, which gives us comfort in keeping the Fund positioned for downside protection.

The bond market is still adjusting from its previously extreme expectations of rate cuts, but is troubled by the "risk on" / "risk off" movements in the financial markets. Commonwealth government securities (CGS) remain expensive and as one of the few remaining countries with an AAA rating from all three rating agencies, prices are being driven by flight to safety buying from foreign investors. Another factor affecting CGS is that US Treasury bond rates remain expensive as the US Federal Reserve continues its various programmes to keep long-term risk premiums low. Non-CGS paper remains cheap compared with government bonds.

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.

### 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	6.25	8.54	-1.08	1.14	9.31	-2.46
Distribution Return	1.63	4.06	7.42	5.48	4.93	5.12
Growth Return	4.62	4.48	-8.50	-4.34	4.38	-7.58
Benchmark*	7.14	9.77	-0.11	1.93	9.80	-1.29

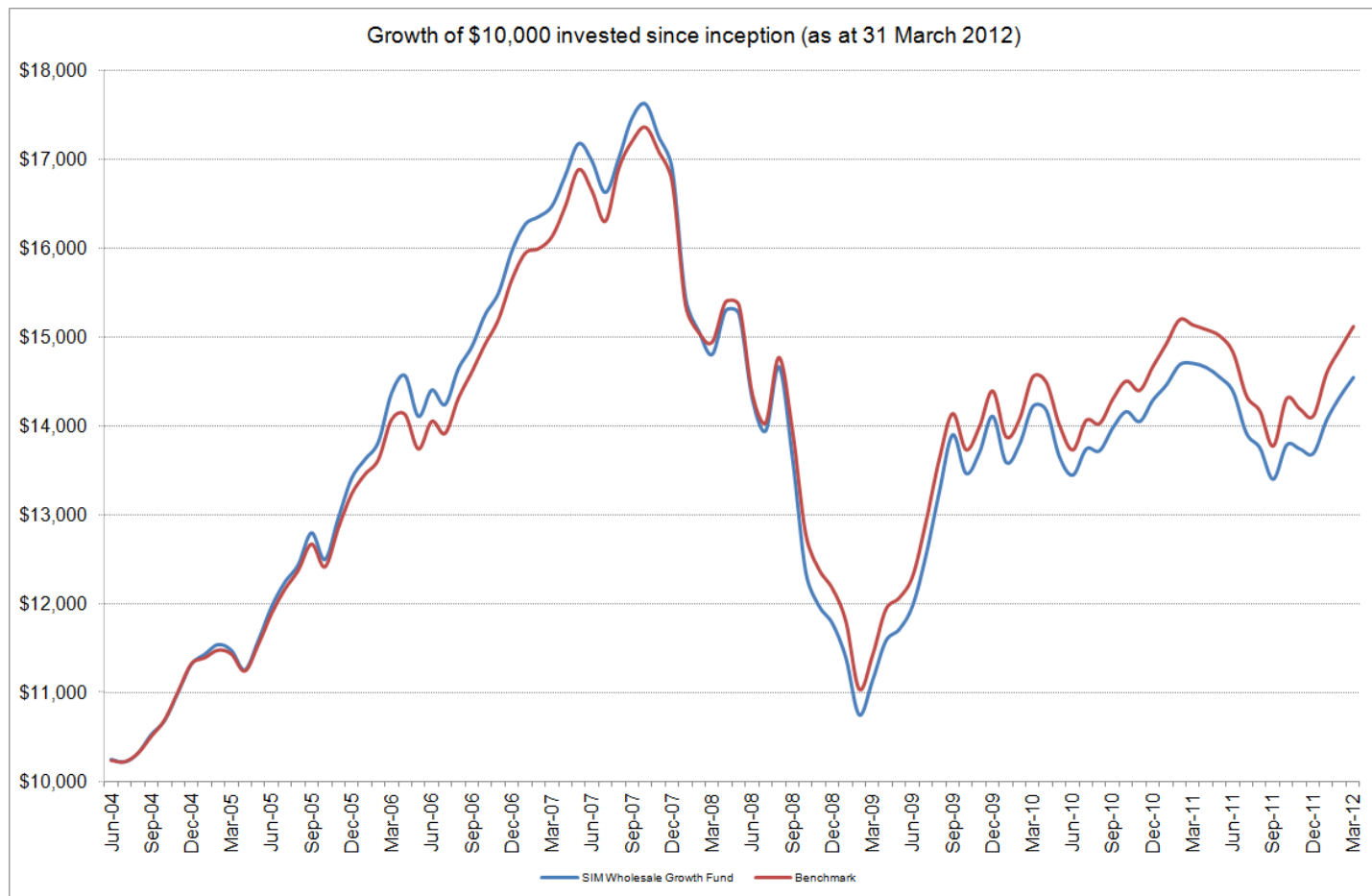
\*All performance figures are calculated using hard close end of month exit prices and do not include any entry or exit fees or any taxation consequences and are net of nominal transaction and banking costs in any underlying funds invested in. The performance figures do allow for the historic ongoing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

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## Performance Graph

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



## Asset Allocations

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

