

# HYPERION FLAGSHIP INVESTMENTS LIMITED

DECEMBER 2011 UPDATE

SHAREHOLDERS' QUARTERLY REPORT

## OBJECTIVE

Long-term capital growth and income

## STRATEGY

High-conviction portfolio of quality Australian listed equities from a research driven, bottom-up investment philosophy

## LISTED

December 2000

## COUNTRIES WHERE LISTED

Australian Securities Exchange

## ASX CODE

HIP

## RATINGS

- Independent Investment Research – Recommended<sup>1</sup>

## DIRECTORS

Henry R Smerdon AM  
*Chairman*

Dr Emmanuel (Manny) C Pohl  
*Managing Director & CEO*

Patrick Corrigan AM

Dominic M McGann

Sophie A Mitchell

## COMPANY DETAILS

Hyperion Flagship Investments Limited, ABN 99 080 135 913

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## OVERVIEW

Hyperion Flagship Investments Limited's underlying portfolio outperformed its benchmark during the quarter. It returned 2.0 percent versus the benchmark return of 1.0 percent. By comparison, the share price of the Company declined by 6.5 percent during the quarter and is currently trading at a discount to the net tangible assets per share.

All changes made to the share weightings in the portfolio were based on relative valuations of the underlying holdings. The biggest contributors to the portfolio performance during the quarter included Cochlear (+34%), SEEK (+7%) and not owning Newcrest Mining (-12%). The biggest detractors from performance during the quarter included JB Hi-Fi (-26%), Wotif.com Holdings (-10%) and Platinum Asset Management (-8%).

During the quarter, consumers continued to strengthen their personal balance sheets by reducing their consumption. This negatively affected the retail sector prompting JB Hi-Fi to provide a trading update which highlighting that although sales momentum improved in October and November, trading has been challenging with a high level of discounting. This adversely impacted gross profit margins for the first five months of financial year 2012. Given tough trading conditions, JB Hi-Fi provided guidance for first half of financial year 2012 EBIT to be around 5% below the previous corresponding period, subject to Christmas trading being in line with recent trends. This caused a decline in JB Hi-Fi shares of 27 percent during December with Myer down 18.7%, David Jones down 15.7% and Harvey Norman down 12.6%.

## UNDERLYING PORTFOLIO PERFORMANCE (as at 31 December 2011)

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio <sup>^</sup>	10.22	1.96	-12.85	10.56	-0.73
UBS Bank Bill Index	-	1.21	4.99	4.37	5.48
S&P/ASX All Ordinaries	3.12	1.01	-15.18	3.96	-6.14

<sup>^</sup> Source: Hyperion Asset Management

## INVESTMENT ACTIVITY

During the December quarter, our investment in Count Financial was removed from the portfolio as it was acquired by the Commonwealth Bank.

## OUTLOOK

Significant headwinds remain in place globally and earnings growth will be difficult to achieve for all but the best industrial companies. High PER stocks have been de-rated significantly as the post-GFC equity rally floundered. The upcoming reporting season in February should focus investors on those companies that have the ability to grow through difficult conditions. In a subdued macro environment these stocks should be valuable and a re-rating could occur in time. Notwithstanding this, the investment team believes they have identified a quality portfolio of stocks that should grow well above average rates over a five year investment horizon and that valuations remain attractive based on this same time horizon.

## FUND MANAGER

Hyperion Asset Management  
Limited, ABN 80 080 135 897  
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307 Queen Street  
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Australia

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[www.hyperionam.com.au](http://www.hyperionam.com.au)

## RECENT AWARDS

Hyperion Asset Management  
 ☉ Money Management / Lonsec  
Fund Manager of the Year 2010  
– Australian Equities (Small Cap)  
 ☉ The Australian Fund Manager  
Awards 2010  
– Australian Equities Winner

## INVESTMENT PHILOSOPHY

- ☉ Investments should outperform the risk-free rate
- ☉ The price one pays determines the ultimate long-term return
- ☉ High quality growth companies outperform over the longer term

## INVESTMENT PROCESS

### INITIAL SCREENING PROCESS

- ROE
- Revenue Growth
- Interest Cover
- IPOs
- Broker Ideas
- Internal Ideas

### FUNDAMENTAL ANALYSIS

- Understanding the Business Model
- Sustainable Competitive Advantage
- Organic Growth Opportunities
- Assessing Management
- Assessing the Operating Environment

### PORTFOLIO WEIGHTING

- 5 Year Risk Adjusted Total Return
- Top Down Cash Analysis

### HIGH CONVICTION PORTFOLIO OF COMPANIES

This process is the basis for all our Australian equities investment decisions.

## PORTFOLIO CHARACTERISTICS (as at 31 December 2011)

Pre Tax NAV - total	\$31,425,811
Pre Tax NAV – per share	127.5 cents
Concentration of Top 20 Holdings	90.93%
Stocks in the underlying portfolio	25

## SECTOR BREAKDOWN (as at 31 December 2011)

Financials	28.84%
Consumer Discretionary	18.84%
Materials	13.50%
Information Technology	9.48%
Industrials	9.09%
Consumer Staples	7.00%
Energy	6.87%
Health Care	5.83%
Cash and Equivalent	0.55%

## TOP 5 STOCK HOLDINGS (as at 31 December 2011)

Commonwealth Bank of Australia	8.06%
BHP Billiton	7.20%
Woolworths	7.00%
Rio Tinto	6.30%
SEEK	6.17%

## PORTFOLIO VALUATION

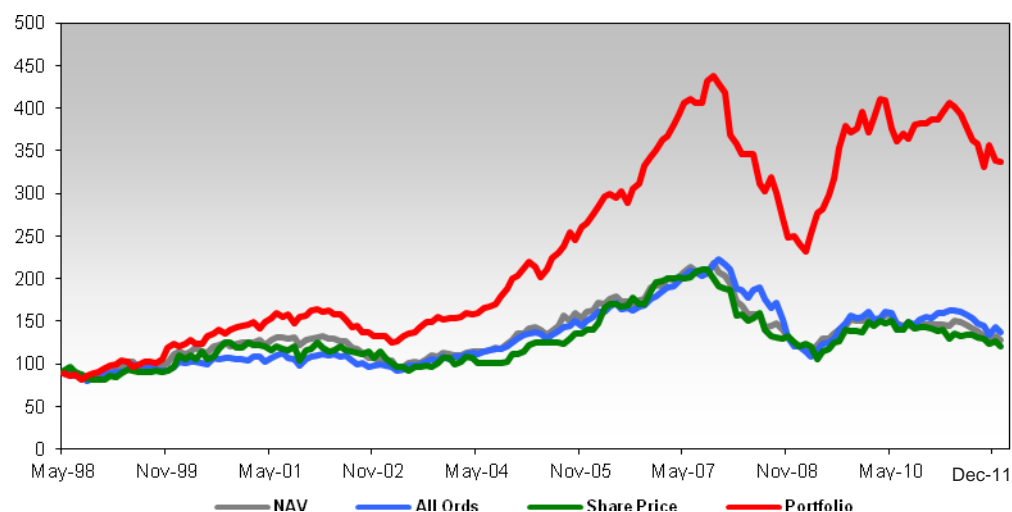
Price/Earnings Ratio	14.86
Beta	1.02
HIP DIVIDEND YIELD	7.33%

## RISK

Tracking Error	5.36
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## SHARE PRICE (as at 31 December 2011)

(after adjusting for the rights issue)



## STRUCTURE AND TERMS

Legal Domicile	Australian Securities Exchange (ASX) Listed Investment Company (LIC)
Fees	Management fee – Nil (2010/2011) Performance fee 15% of the annual outperformance over the UBS Bank Bill Index
MER	0.0%
Reporting and Correspondence	Monthly Net Asset Value prices on <a href="http://www.asx.com.au">www.asx.com.au</a> and <a href="http://www.hyperionfi.com.au">www.hyperionfi.com.au</a> , quarterly reports, half-yearly and annual reports
Dividend	AUD 0.0425 at 9 September 2011      AUD 0.0425 at 11 March 2011
Auditor	BDO Audit (QLD) Pty Ltd
Registry	Computershare Investor Services Pty Limited
Share price and NAV	<a href="http://www.hyperionfi.com.au">www.hyperionfi.com.au</a>

<sup>1</sup> This opinion is provided by Independent Investment Research and must be read together with whole report including the disclaimer and relevant legal notices which can be found at [www.independentresearch.com.au](http://www.independentresearch.com.au)