

# HYPERION FLAGSHIP INVESTMENTS LIMITED

MARCH 2012 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*

Patrick Corrigan AM

Dominic M McGann

Sophie A Mitchell

## COMPANY DETAILS

Hyperion Flagship Investments Limited, ABN 99 080 135 913

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Australia

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## OVERVIEW

Hyperion Flagship Investments Limited's underlying portfolio outperformed its benchmark during the quarter. It returned 10.6 percent versus the benchmark return of 7.5 percent. In comparison, the share price of the company was unchanged during the quarter.

The biggest contributors to the portfolio performance during the quarter were SEEK (+25.7%), Wotif.com (+31.9%) and Carsales.com (+18.8%). The biggest detractors from performance during the quarter were Cochlear (+1.8%), IRESS Market Technology (+4.6%) and JB Hi-Fi (+1.3%).

### UNDERLYING PORTFOLIO PERFORMANCE (as at 31 March 2012)

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio <sup>^</sup>	10.82	10.57	-8.15	13.83	-0.37
UBS Bank Bill Index	-	1.11	4.87	4.42	5.38
S&P/ASX All Ordinaries	3.60	7.51	-10.32	7.75	-5.86

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

## INVESTMENT ACTIVITY

During the March quarter, the portfolio's investments remained unchanged with only a slight reduction to our holding in Macquarie Group.

## OUTLOOK

The short-term financial metrics the companies in the portfolio produced during the reporting season was solid and positive despite several macro related headwinds including the high Australian dollar, the low level of consumer confidence and depressed equity market levels. Given that the overall market produced negative EPS growth during the December 2011 period, we believe the financial performance of the companies in the portfolio was reasonable in the circumstances. The difficult macro conditions that our companies have faced in recent years will normalize in the long-term and provide a one off boost to earnings growth at some stage in the future. In the meantime the organic sales, earnings and dividend growth that the portfolio has been producing should continue to drive valuations higher.

The five year total return outlook for the portfolio continues to look attractive both relative to the likely returns from the overall domestic equity market and in an absolute return sense. The recent general increase in the prices of the stocks in the portfolio when combined with the stable long-term valuations has resulted in the five year forecast total return for the portfolio declining slightly from 22 percent at the end of February to 21 percent as at 31 March 2012. The trailing PE ratio for the portfolio is around 15 times and the forward dividend yield is estimated to be 5.3 percent.

### PORTFOLIO CHARACTERISTICS (as at 31 March 2012)

NAV (tax on realised gains only) – total	\$32,625,065
NAV (tax on realised gains only) – per share	133.5 cents
Concentration of Top 20 Holdings	92.36%
Stocks in the underlying portfolio	25



## FUND MANAGER

Hyperion Asset Management  
Limited, ABN 80 080 135 897  
Level 22  
307 Queen Street  
Brisbane QLD 4000  
Australia

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Brisbane QLD 4001  
Australia

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Email: [flagship@hyperion.com.au](mailto:flagship@hyperion.com.au)  
[www.hyperion.com.au](http://www.hyperion.com.au)

## RECENT AWARDS

Hyperion Asset Management

- ☉ Morningstar  
Fund Manager of the Year 2012  
– Australian Equities (Small Cap)
- ☉ 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.

## SECTOR BREAKDOWN (as at 31 March 2012)

Financials	28.62%
Consumer Discretionary	18.96%
Materials	12.87%
Industrials	9.66%
Information Technology	9.42%
Energy	7.06%
Consumer Staples	6.62%
Health Care	5.33%
Cash and Equivalent	1.46%

## TOP 5 STOCK HOLDINGS (as at 31 March 2012)

Commonwealth Bank of Australia	7.51%
SEEK	7.01%
Woolworths	6.62%
BHP Billiton	6.62%
Rio Tinto	6.25%

## PORTFOLIO VALUATION

Price/Earnings Ratio	15.40
Beta	0.98

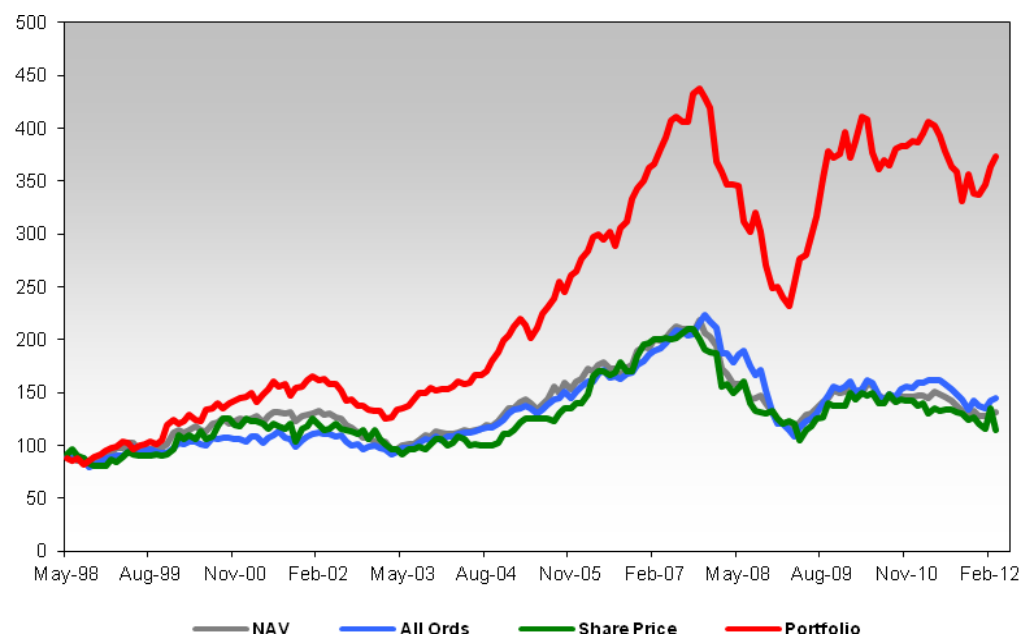
HIP DIVIDEND YIELD	7.33%
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## RISK

Tracking Error	5.11
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## SHARE PRICE (as at 31 March 2012)

(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 Information	AUD 0.0425 at 9 September 2011	AUD 0.03 at 10 May 2012
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)