

# FAT UPDATE

## FAT PROPHETS AUSTRALIAN SHARE INCOME MODEL PORTFOLIO – MARCH QUARTER 2011

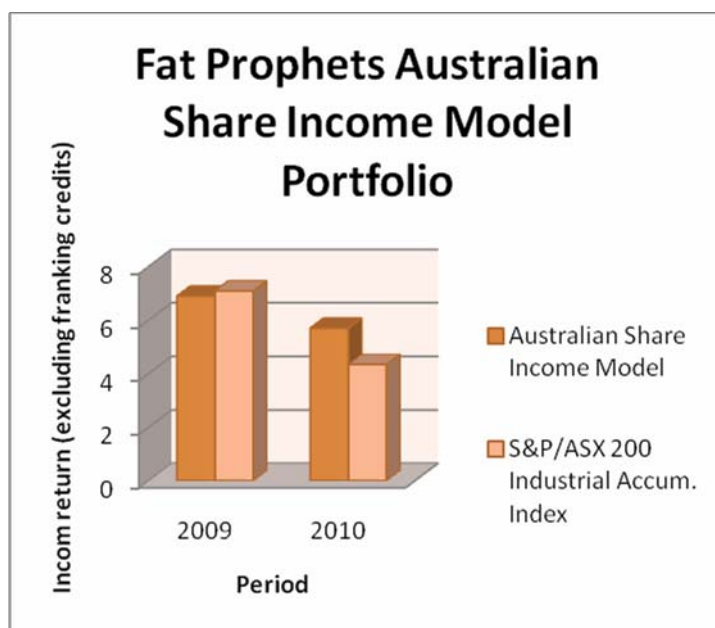
### Investment Objective

The Fat Prophets Australian Share Income Model Portfolio (the ‘Model’) aims to deliver a level of income in excess of that generated by the S&P/ASX200 Industrial Accumulation Index before taking into account Model fees and expenses.

### Model data

Performance as at 31/03/2011	Gross	S&P/ASX 200 Industrial Accumulation Index	Outperformance*
1 Month	0.32%	0.01%	0.31%
3 Months	4.24%	3.55%	0.69%
6 Months	4.67%	4.30%	0.37%
1 Year	0.97%	-0.46%	1.43%
2 Year (%pa)	20.31%	19.63%	0.68%
3 Year (%pa)	-1.52%	-0.40%	-1.12%
Since Inception (%pa)^	-0.77%	-0.29%	-0.48%

\*Shows the difference between Portfolio Gross Return and Benchmark Return  
 ^Model Performance inception date 01/04/2008



### Top 10 Stocks as at 31/03/11

1. Westpac Banking
2. Commonwealth Bank of Australia
3. ANZ Banking Group
4. National Australia Bank
5. Wesfarmers
6. Woolworths
7. Telstra
8. QBE Insurance
9. Transurban
10. Westfield Group

# FAT PROPHETS AUSTRALIAN SHARE INCOME MODEL PORTFOLIO

## Fund Managers Report

Dear Investor,

Equity markets across the globe have remained remarkably resilient despite the abundance of negative news over the period. Unrest in North Africa, the devastating earthquake and tsunami in Japan and further concerns about sovereign debt on the European periphery would be considered by any observer to be considerable challenges for markets to digest. Yet they did and rebounded with vigour. In March alone, the key ASX 200 index was down over 6% at its low but managed to close the month virtually unchanged.

Markets continued to gain confidence in the strength of the US recovery as the data suggests the momentum is to the upside. The key data point here is US unemployment. It is crucial for confidence in the US recovery story that this trend continue as it is still very early days.

In an Australian context, the ASX200 index on a Price Earnings basis has been trailing its long term average by approximately 15%. There are several reasons for this in our view. Firstly, the Aussie dollar reaching unprecedented highs versus the USD has created the perception it is overvalued. Secondly, the federal government has introduced an element of sovereign risk with the proposed mining tax, flood tax and now the carbon tax. Lastly, US equities have represented even better value relative to US bonds where the earnings yield/bond yield gap is more pronounced.

The main challenges ahead for equity markets remain two fold in our view. Massive global stimulus created by US Fed policy potentially winding down at the end of June is a key headwind for equities. The need for austerity programs in the US remains a critical requirement as deficit blowouts and debt levels reach unsustainable levels. We are seeing these austerity programs implemented across Europe as we speak. They are not popular and certainly not growth friendly. It is a fine balancing act that needs to be struck, to maintain what is still anaemic growth whilst dramatically reducing spending.

Lastly, a further challenge for local markets is the falling USD. If the Aussie dollar remains at current levels then the repercussions for many industrial companies will be significant in coming quarters, especially as many boards and CEO's have abandoned significant hedge programs some time ago.

## Australian Share Income Model Portfolio

Positive Influences			Negative Influences		
Company	% Move	Position	Company	% Move	Position
Transfield Infrast.	+26%	Overweight	Newscorp	11%	Underweight
Ardent Leisure	+41%	Overweight	Myer	-9%	Overweight
M2 Telecomm	+28%	Overweight	Coca Cola Amatil	8%	Underweight
Westpac	+10%	Overweight	Incitec Pivot	9%	Underweight
Resmed	-17%	Underweight	Suncorp	-2%	Overweight

## FAT PROPHETS AUSTRALIAN SHARE INCOME MODEL PORTFOLIO

The highlight over the period for the portfolio was the takeover bid for Transfield Services Infrastructure Fund from Thai based group -Ratchaburi. This certainly did help our performance, outpacing the benchmark by 70 basis points over the quarter. This takeover bid does highlight the attractiveness of the infrastructure space to us, as many of these regulated asset plays deliver stable high yielding cash flow and hence high dividend yield with some growth.

We continue to build out our exposure in select property trusts as it is one area where we are finding some value with an improving growth profile. Balance sheets look conservative and capitalisation rates have stabilised across the various sub-sectors. Mirvac is worth highlighting, as we expect development earnings to improve from here as unprofitable high-end projects roll off and newer lower end projects make an increasing contribution to earnings over the coming period.

Elsewhere, we added Bunnings Warehouse Property Trust (BWP) to the portfolio. We are attracted to the strong value proposition here. BWP owns the large Bunnings branded sheds and has no direct exposure to the Bunnings business itself. We took advantage of the weakness in the stock after a recent capital raising which took place at an 11% discount to asset backing. The capital raised was for the acquisition of 13 new BWP properties. This will allow BWP to achieve a greater geographic diversification. The balance of high yield at 7.7% and value (11% discount to NTA) coupled with a decent growth profile (5% compound annual EPU growth) looks very attractive in our view. Importantly debt levels are low, with gearing at 22% post the transaction.

Angus Geddes and Steve O'Hanna

Mint Financial Group Pty Ltd

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# FAT PROPHETS AUSTRALIAN SHARE INCOME MODEL PORTFOLIO

<b>Model Portfolio name</b>	Fat Prophets Australian Share Income
<b>Code</b>	FP0003
<b>Model inception date</b>	1/4/08
<b>Principle investment objective</b>	To invest in a sample of higher yielding securities taken from within and outside the S&P/ASX 200 Industrial Accumulation Index ('Index')
<b>Can derivatives be used?</b>	No
<b>Indicative number of stocks</b>	10-40
<b>Minimum Model investment</b>	\$20,000
<b>Model Provider fees*</b>	
<b>Investment fee</b>	0.45%
<b>Performance fee applicable?</b>	No
<b>Benchmark Index</b>	S&P/ASX 200 Industrial Accumulation Index

\*Please refer to the Fat Prophets Separately Managed Account Product Disclosure Statement for further details

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