



26 July 2010

**Officium Australian Shares Fund  
Investment Manager's Annual Letter 2010**

Dear Investor,

Although not as eventful as financial year 2009, the 2010 financial year was littered with noteworthy developments. The first quarter of the year saw both the United States and Japan announce that their economies had returned to growth in the June quarter of 2009 as government stimulus measures and monetary policy actions appeared to place the global economy on a recovery path. Corporate earnings also tended to rebound strongly in the first quarter, which led to improvements in investor sentiment. However in the following quarters, debt issues, firstly in Dubai and then in Greece and Southern Europe, saw hopes of a global economic recovery begin to wilt and investor risk aversion return to markets. In this environment the domestic market, as measured by the All Ordinaries Accumulation Index increased by just over 20% in the first quarter, before finishing the year with a return of 13.8%.

**PORTFOLIO SUMMARY**

In the 2010 financial year the net asset value of the Officium Australian Shares Fund increased by 6.4%. Throughout the year the Fund continued to be transitioned from the former Leithner Value Fund, which was an Australian equities Fund, into a Fund of Australian Shares Funds. This transition is almost complete with the majority of the Fund now constituting a diversified mix of Australian share funds that are actively managed by leading investment professionals.

**Antares Lodestar Absolute Returns Trust**

The Antares Lodestar Absolute Returns Trust was added to the Officium Australian Shares Fund in the 2009 financial year and has been a position that we have continued to increase exposure to throughout the 2010 financial year. At the end of June the Trust was the largest holding in the Officium Australian Shares Fund, representing 14.7% of Fund assets. The Trust returned 15.5% for the 12 months to the end of June, with the Fund's volatility being generally lower than the equity market. The Trust is focused on generating absolute returns and adopts a style agnostic active investment approach via a long/short investment mandate. Throughout the year the Fund has been actively managed and has moved from having a net market exposure of 82% early in the financial year to having a net market exposure below 15% late in the financial year. The Trust remains a core holding of the Officium Australian Shares Fund, as it is an investment that we believe will continue to be able to provide a degree of downside protection to the Fund in volatile markets

**Schroder Australian Equity Fund and Maple-Brown Abbott Australian Equity Trust**

The Schroder Australian Equity Fund and Maple-Brown Abbott Australian Equity Trust provided returns of 16.8% and 13.2% in the 12 months to the end of June. In comparison the S&P/ASX 300 Accumulation Index, against which these Funds are benchmarked, returned 13.1% in the corresponding period. Both these holdings

provide the Officium Australian Shares Fund with exposure to quality, large capitalisation Australian companies via the management expertise of two well resourced Fund Managers who have impressive long-term track records. We increased exposure to both holdings throughout the year with combined exposure to these holdings at the end of June 2010 constituting 24.1% of Fund assets.

### **SGH20**

In February 2010, the Officium Australian Share Fund redeemed out of the CP2 Endeavour Fund and invested the majority of the proceeds in the SGH20 Fund. We became increasingly concerned about the future returns prospects of the CP2 Endeavour Fund following key staff departures during our investment term. The SGH20 Fund was seen as a logical replacement for this holding as it provides the Officium Australian Shares Fund with exposure to an index unaware, long only, concentrated Australian equities portfolio with a strong investment track record. Since its inclusion in the portfolio the Fund has performed roughly in line with the S&P/ASX 300 Accumulation Index.

### **Ironbark Karara Australian Small Companies Fund**

The Officium Australian Shares Fund invested in the Patriot Small Companies Fund at the end of the 2009 financial year and continued to add to this exposure throughout financial year 2010. In late April 2010, Patriot Asset Management was acquired by Ironbark Asset Management. Resulting from this transaction, the Patriot Small Companies Fund has been renamed the Ironbark Karara Australian Small Companies Fund and the investment team has been expanded. The Fund provides the Officium Australian Shares Fund with its main exposure to small capitalisation shares. For the 12 months to the end of June the Fund returned 30.5%. In comparison the benchmark S&P/ASX Small Ordinaries Accumulation Index returned 11.2% in the corresponding period.

### **Emerging Resources Company Share Fund**

The Emerging Resources Company Share Fund reported strong returns in the first six months of the financial year and was trimmed back to target weighting in November as a result. However, the returns in the last half of the financial year were weaker as the resource sector faced multiple headwinds ranging from a decrease in investor risk appetite throughout the world to uncertainty regarding the domestic tax regime. In this environment the Emerging Resources Company Share Fund provided a 12 month return of -2.6%. At the end of June 2010, the Fund constituted 4.7% of the Officium Australian Shares Fund and is a holding that provides the Fund with exposure to low cost emerging producers that stand to benefit from the long term growth of the Asian region and the associated demand for resources.

## **LEGACY HOLDINGS**

### **Coolangatta and Mahogany Notes**

As at June 30, 2010 the Coolangatta and Mahogany Notes constitute 11.0% of the Officium Australian Shares Fund. These notes are collateralised debt obligations whose returns were to be linked via a swap agreement to the financial performance of a wide range of companies and to be paid by an entity associated with Lehman Brothers. The collapse of Lehman Brothers in September 2008 triggered a default under the swap agreement. This should have entitled the Fund to the repayment of its full investment amount which was supported by GE floating rate notes for the Coolangatta Notes and ANZ floating rate notes for the Mahogany Notes; both high quality pools of collateralised assets. This repayment has not been received by investors and has been challenged in court.

The UK courts held that investors were entitled to the collateral. However the US Bankruptcy Court disagreed, in a judgment that has been heavily criticised for its

broader ramifications for the securitisation market. We have been carrying the value of the notes at the estimate provided by an independent expert who wrote down the carrying value of the Mahogany Capital Notes by approximately 30% and the Coolanagatta Junior Notes by close to 45% following the decision of the US Bankruptcy Court. These write downs detracted significantly from the performance of the Fund during the year. The judgment of the US Bankruptcy Court has been appealed and we continue to monitor the position carefully.

### **Remaining Legacy Holdings**

Steps were actively taken throughout the year to transition the portfolio to a Fund of Funds portfolio. This resulted in listed holdings in the LinQ Resources Fund, Resolute Mining, Beach Energy and STW Communications being exited. The remaining legacy positions in the portfolio include the Multiplex Property Income Fund and an investment in the Elders hybrid notes, which when combined with the holdings in the Coolangatta and Mahogany Notes, account for 16.8% of the portfolio, as at the end of June 2010.

### **MARKET OUTLOOK**

Currently, we view the Australian market as trading around fair value. As a whole the market does not appear to be a bargain, nor does it appear to be expensive. As such, we expect reasonable returns from the Australian share market in coming periods, although would caution that these returns are likely to involve ongoing volatility. The Officium Australian Shares Fund has a diversified mixture of underlying managers who are well positioned to be able to take advantage of this volatility.

We thank you for your continued support through what has been a volatile 12 months. If you have any questions regarding the Fund please do not hesitate to contact me at [admin@officiumcapital.com.au](mailto:admin@officiumcapital.com.au) or by phone on (07) 3876 4333. Also, please visit our website, [www.officiumcapital.com.au](http://www.officiumcapital.com.au) to view the latest unit prices, performance data, product disclosure statements and monthly investment reports.

Yours sincerely



John Nunan

### **Important Information**

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The product disclosure statement ("PDS") for the Officium Australian Shares Fund is issued by Officium Capital. The PDS details the terms of the offer and if you wish to invest in the Fund, then you should consider the contents of the PDS, consider whether or not an investment in the Fund is appropriate for you and complete the application form accompanying the PDS. You should also consider the PDS in deciding whether to continue to hold an interest in the Fund.

Past performance should not be taken as an indication of future performance. This information does not take into account your investment objectives, financial situation or particular needs. Before making any

investment decision, you should obtain and carefully consider the PDS, having regard to your investment objectives, financial situation and particular needs.