vanEyk Three Pillars

# van Eyk Three Pillars – December 2008 Quarterly Report

## Financial Results to 31 December 2008

| Company Results – December 08 | | |
|---|---|---|
| | Before tax | After Tax |
| Profit (6 months to December 08) | ($40,769,604.18) | ($27,594,674.86) |
| NTA | $0.79 | $0.86 |
| Share Price (VTP) at 31 December 08 | | 67.5 cents |
| VTP Stock Turnover in December 08 quarter | | **2,313,934** |

| LIC Characteristics – December 2008 | | |
|---|---|---|
| | Actual % | Permitted % |
| Blue Chip | 48.8 | 0 - 60 |
| Growth | 23.4 | 0 - 60 |
| Special Situations | 25.1 | 0 - 60 |
| Cash | 2.7 | |
| **No. of shares in portfolio** | | **37 stocks** |

## Performance Commentary

The company listed on 28 January 2004, with a net asset backing of $0.97 per share. Net asset back is now $0.79 per share or $0.86 per share after allowing for deferred tax assets. Since inception total dividends of $0.35 per share fully franked have been paid.

For the December quarter, the portfolio's fall in value was -21.31 % versus the S&P/ASX 300 Accumulation index fall of -18.48%.

The management expense ratio* for the twelve months to December 2008 was 1.13%. The gross portfolio performance for the twelve months to December 2008 was -38.86%.

*Based on total operating expenses and management fees over net assets

| Top 10 Holdings | |
|---|---|
| Holding | % Portfolio |
| BHP Billiton Ltd | 11.8% |
| Origin Energy | 5.4% |
| Commonwealth Bank | 5.3% |
| Westpac | 5.2% |
| NAB | 4.8% |
| Woolworths | 4.4% |
| ANZ | 3.7% |
| QBE Insurance | 3.6% |
| Beach Petroleum | 2.9% |
| Cabcharge Australia | 2.9% |
| | **50.0%** |

## Dividends

Because VTP is an active investor any unrealised movements in the portfolio are recognised in the profit and loss account and has resulted in negative retained earnings. As a result, the company was unable to pay a dividend in December, as indicated in the Annual Report. It is also unlikely that a dividend will be paid for the year ended 30 June 2009. Paying dividends above the underlying dividend yield of the share portfolio remains a priority for the Board. It is hoped that next financial year the Board will be in a position to resume dividend payments in accordance with its policy. Dividends can be paid from next year's profits without a requirement to recover past negative retained earnings.

## Investment Process and Portfolio Construction

The Three Pillars portfolio results from a disciplined process that incorporates quality assessment, classification, and valuation.

Three sub portfolios of distinct style, namely the Blue Chip, Growth and Special Situations, comprise the overall portfolio, giving a diversified outcome. The sub portfolios are blended with consideration given to the appropriate weightings between large and small companies and industry sectors.

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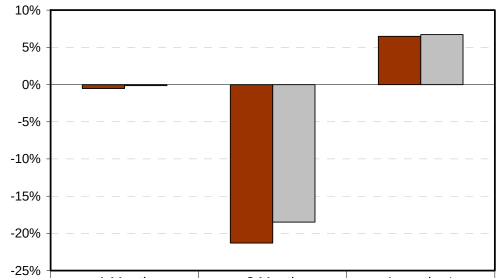
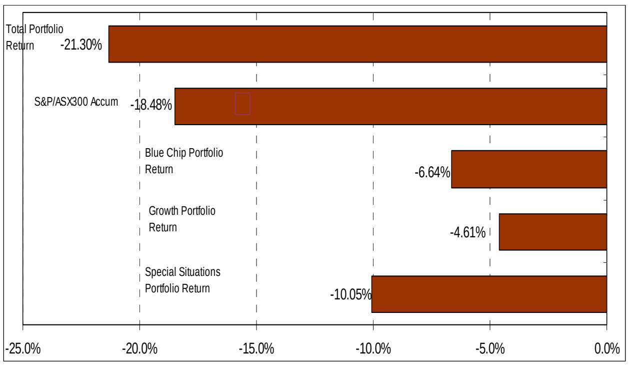
## Returns (Gross)



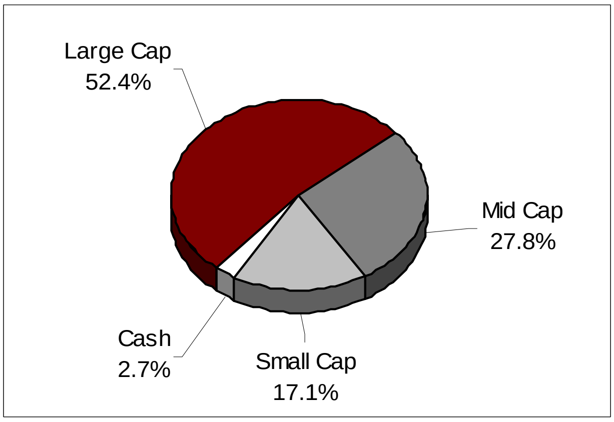

| | 1 Month | 3 Month | Inception* |
|---|---|---|---|
| van Eyk Three Pillars | -0.52% | -21.31% | 6.48% |
| S&P/ASX 300 Accumulation Index | -0.14% | -18.48% | 6.73% |

*returns shown are annualised since inception numbers

## Quarterly Return Attribution (Gross)




## Market Cap Exposure




## Market:

Regarding the equity market, the best thing about 2008 is that it's over! For the December quarter, the ASX 300 index was down another 19.3% resulting in an unprecedented 41.7% fall for the calendar year.

The continued adverse developments in world credit markets continue to render a very abrupt slowdown in economic activity. Not only is there a much increased likelihood of a synchronised global recession, but also a potentially lengthy duration as deflation becomes a very real scenario due to the sheer scale of the credit and asset price bubble.

Policymakers are turning to massive fiscal stimulus packages and interest rate cuts in order to cushion the blow, but the reality is that until balance sheets are repaired and the world banking sector returns to some semblance of normality, the outlook for equities in the shorter term at least is poor. Nonetheless, recessions do end, and while the equity markets continue to discount a very poor outcome, great value is appearing and as the macro outlook improves over time equity markets will recover.

GICS Sector performances for the period;

Best sector;

- Healthcare -6.3%
- Utilities -6.8%
- Telecoms -8.9%

Worst sectors;

- Cons. Disc -25.5%
- Industrials -24.3%
- Financials -22.2%

## Portfolio:

The allocation between the three sub portfolios or 'pillars', was:

- Blue Chip 48.8%
- Growth 23.4%
- Special Situations 25.1%
- Cash 2.7%

Over the quarter the portfolio underperformed its benchmark by 2.83%, in one of the worst quarters in living memory. The underperformance in the period was driven by three exposures related to mining services/consumables which were sold down heavily due to disintegrating sentiment towards resources. However, illustrating the blanket and panic driven nature of much selling, the three worst contributors were sold down to low single digit forward P/E ratios, implying a near collapse in the prospects for these particular companies, which is unlikely in our view.

Overweight exposures to healthcare, quality defensives and gold stocks added value relative to market. Underweight exposures to some of the larger cyclicals and financials also added value.

Stocks producing largest contributions to performance during the quarter;

- Sonic Healthcare 0.66%
- Beach Petroleum 0.58%
- Lihir Gold 0.53%



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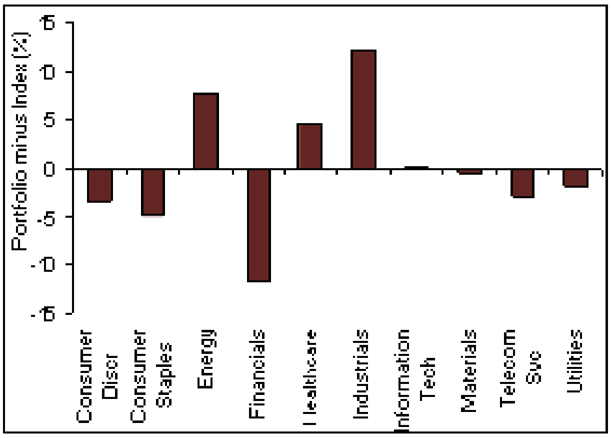
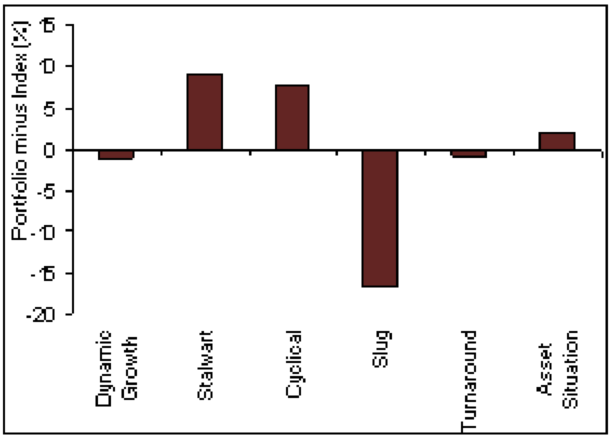
## GICS (Global Industry Classification Standard) Sector Exposure Relative to Index




## van Eyk Stock Classification Relative to Index




## Aggregate Portfolio Ratios

| | ASX300 Index | van Eyk Three Pillars |
|---|---|---|
| Price Earnings | 10.6 | 11.0 |
| Price to Book | 1.5 | 1.8 |
| Dividend Yield (%) | 6.5 | 5.6 |
| Price to Sales | 1.2 | 1.4 |
| Return on Equity (%) | 14.2 | 21.0 |

## Portfolio (continued)

Stocks detracting for the quarter include;

- Bradken -1.76%
- Imdex -0.84%
- Emeco -0.71%

The overall portfolio strategy remains well positioned for the current environment. The sector exposures maintain an overweight to healthcare, and selected high quality industrials. The portfolio remains underweight to financials, property, utilities and consumer.

The portfolio also remains heavily tilted towards 'quality' companies as defined by our proprietary criteria.

## Outlook:

On the back of the very steep falls in the stock market, aggregate market valuations look very reasonable, even allowing for significant earning downgrades and moribund outlook statements expected over the reporting season which kicks off next month. Indeed, some compelling long term value has opened up in areas. The forward P/E multiple for the ASX 300 is 9.7 times at the time of writing, as such we expect the market should find support roughly around current levels. Solid dividends, expected interest rate cuts and falling bond yields should only support valuations and the relative attractiveness of stocks compared to other asset classes, however given the worsening developments to the macro backdrop the outlook for equity markets making significant gains is subdued. In short, we envisage a return to single digit, to low double digit annual returns in the medium term.

The effects of the credit crunch have shown no boundaries and indeed the result has been an incredibly rapid slowdown in most economies as the debacle in financial markets spread into the real world and consumer and business activity hit a wall. Excess credit creation, excess leverage and excess asset price speculation has been a worldwide phenomenon. Deleveraging and balance sheet repair will be an ongoing theme, for consumers, companies, and indeed entire countries, for some time.

While a prolonged recession in most world economies is now accepted as inevitable, equity markets look forward and as the deleveraging process advances, asset price falls stabilize and investors become comfortable with improving balance sheets (especially for the banks), the considerable stimulus being applied will combine to translate into a resumption of growth expectations and thus a climate for equities to make positive returns.

We continue to expect an environment of continued high volatility over a broad trading range, and we see an increase in value opportunities opening up over a growing number of stocks on our watch list, which should reward active stock selection over time. We expect some support around current levels for the Australian stock market as cheap valuations should help limit downside, however earnings risk has dramatically increased and sentiment has dramatically decreased. We aim to exploit ongoing volatility by focussing on our key criteria of quality, growth and valuation.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