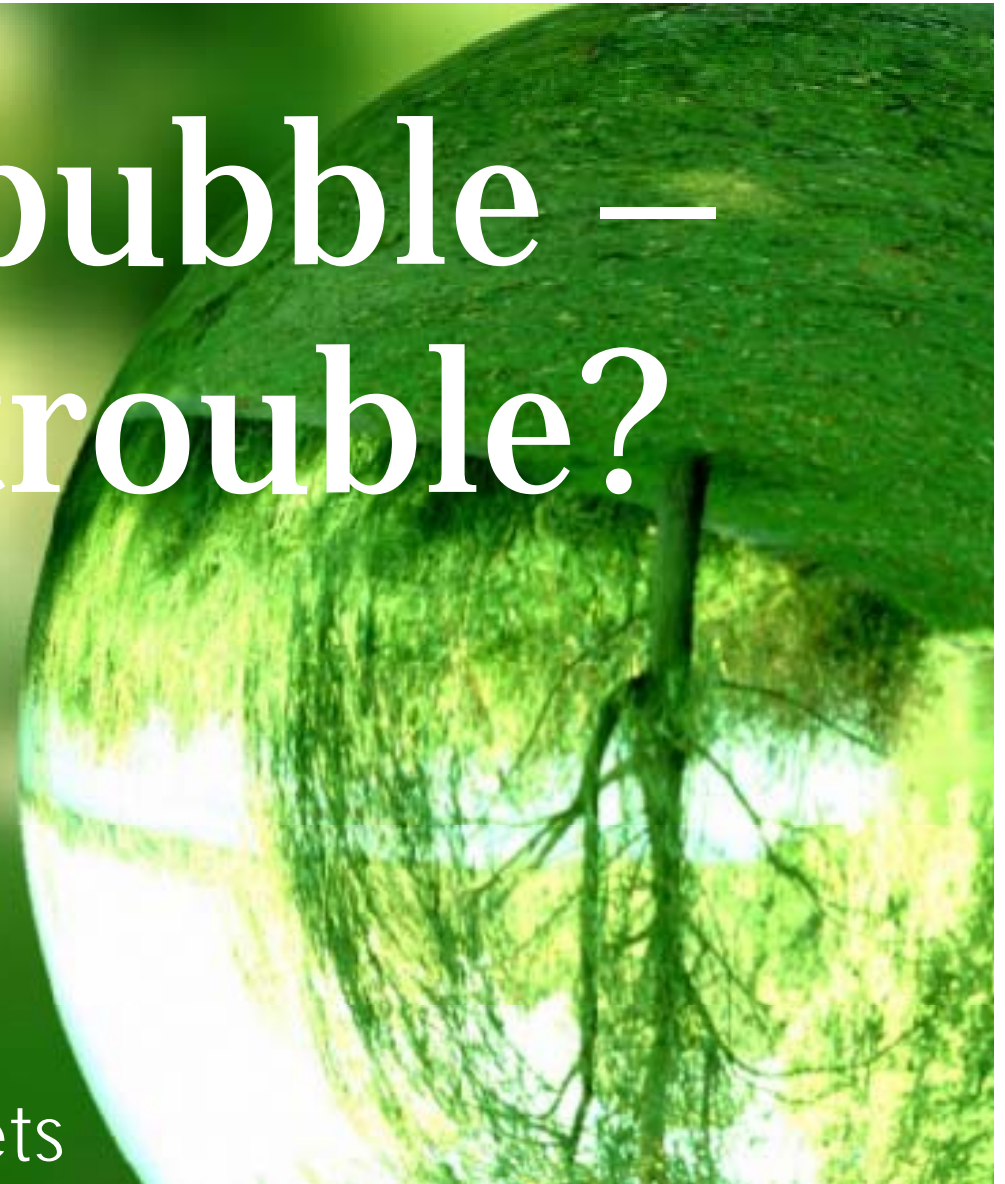


# Bubble, bubble – toil and trouble?

15 February 2011

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facilitating  
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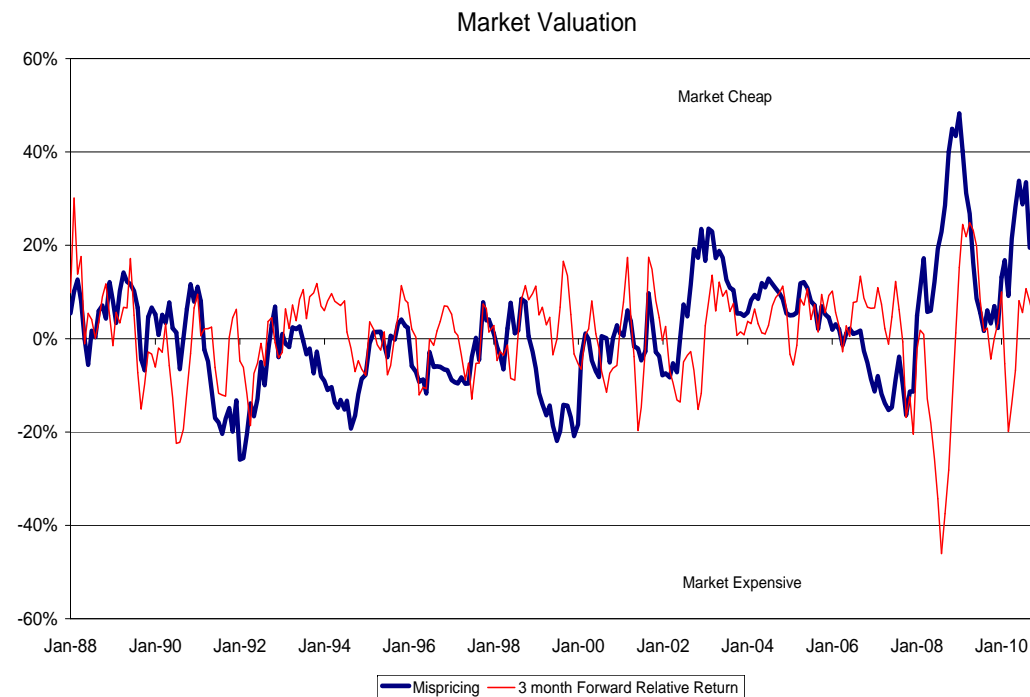
# Sean Fenton

Portfolio Manager

Tribeca Investment Partners

# Market Outlook

- Valuations remain attractive and liquidity is strong
- Earnings Outlook Improving
- Strong Currency is capping some upside to equities



Source: Tribeca

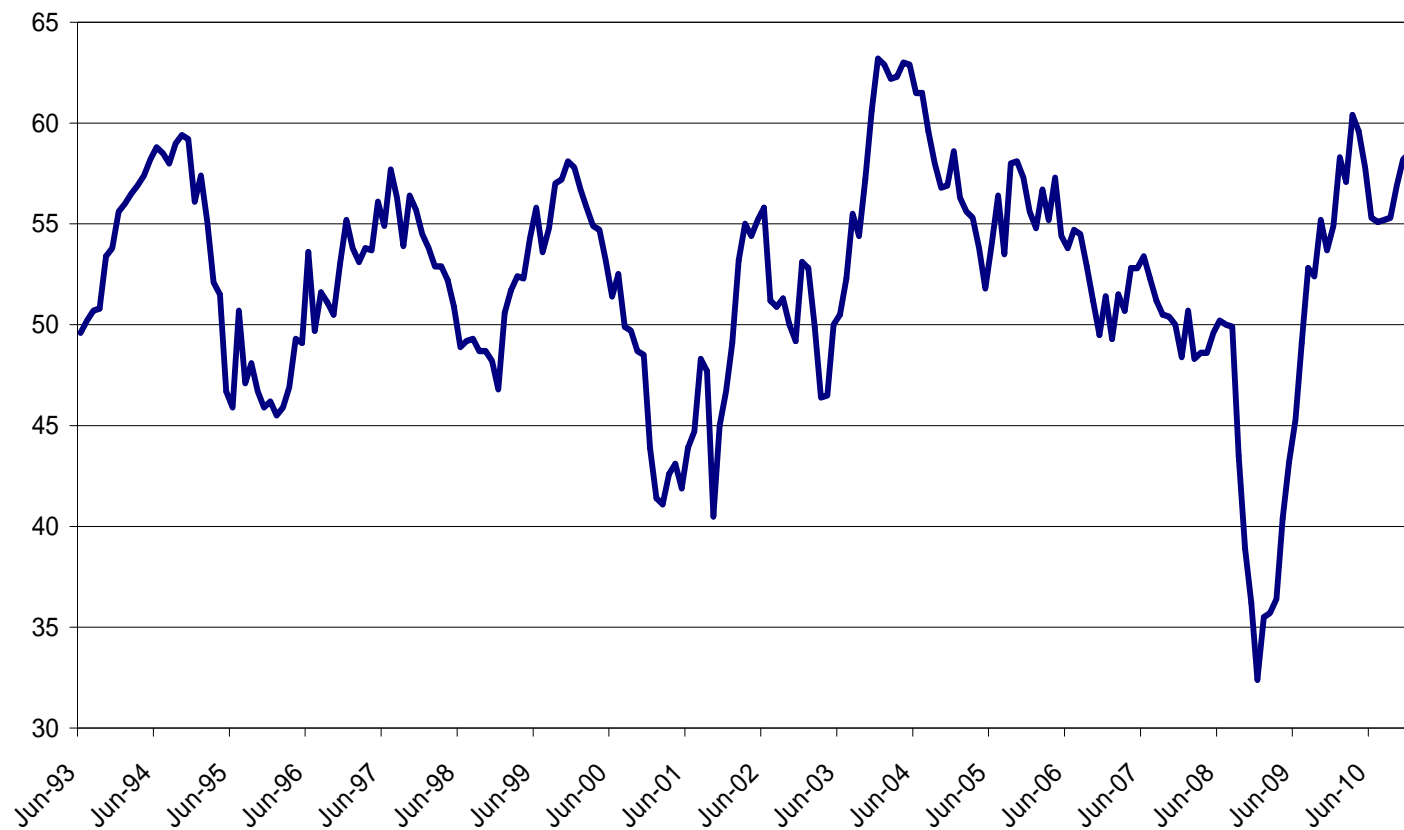
# Australian Market Drivers

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- Global Cyclical (offshore industrials, transport, steel)
  - Growth in developed markets
- Resources (bulk commodities, metals, energy)
  - Emerging market growth
- Domestic Cyclical (building materials, industrial services, retail, media)
  - Domestic growth
- Financials (banks, insurance, diversified financials)
  - Domestic growth, interest rates, market leverage
- Defensives (telcos, healthcare, REITS, infrastructure)
  - Risk appetite, interest rates

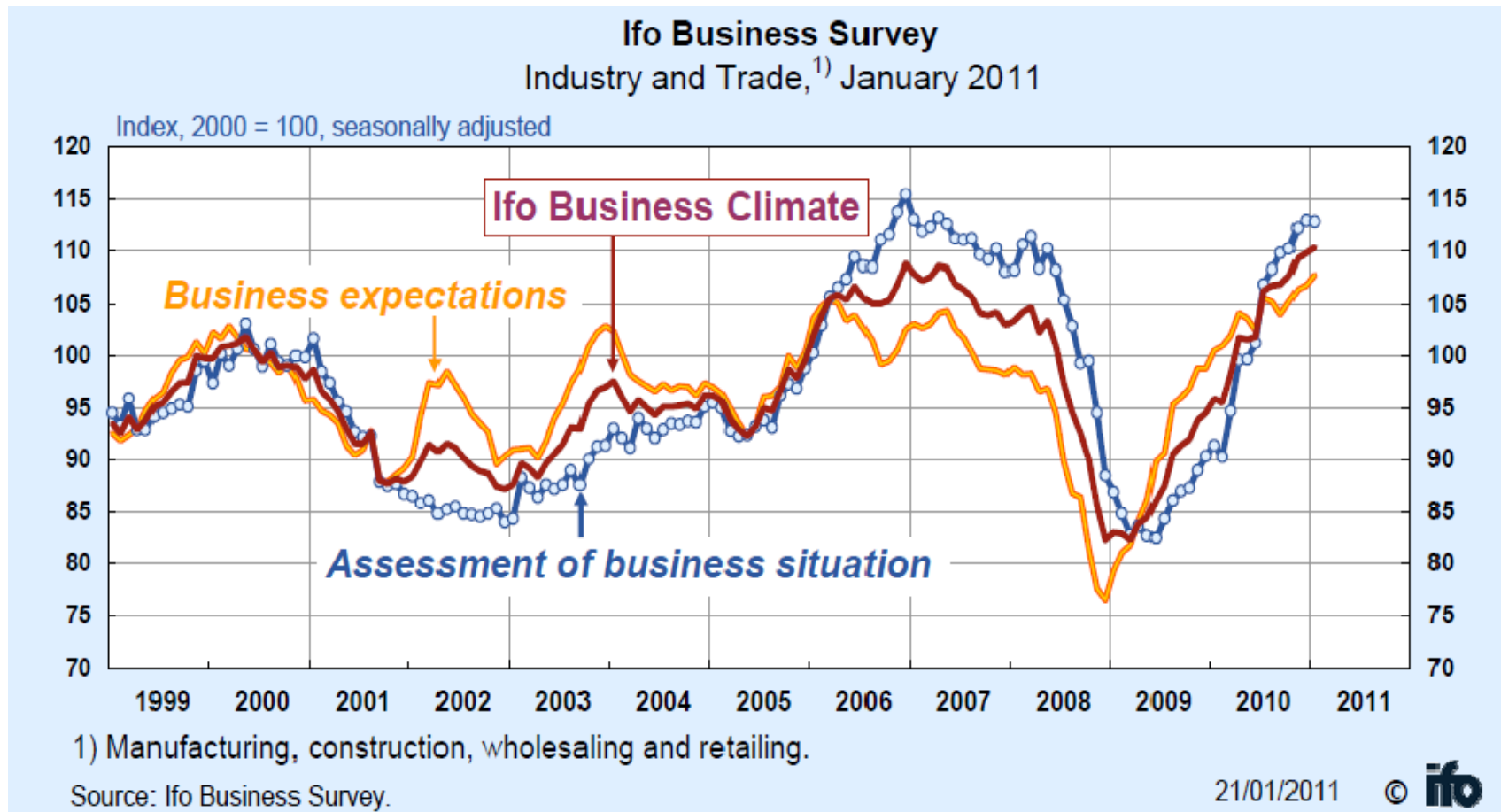
# US Growth Recovering

US Manufacturing PMI



Source: US Institute of Supply Management

# German Upswing Stabilising Europe



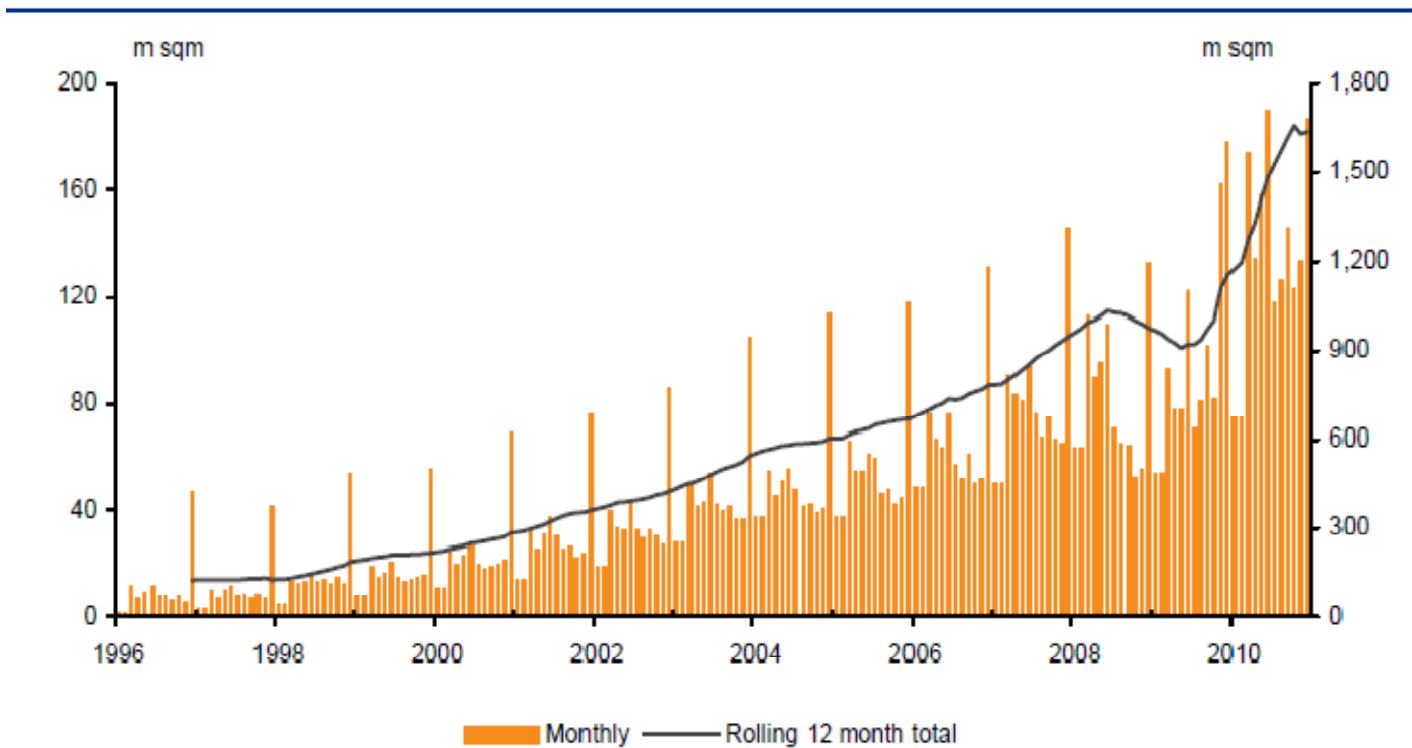
# Global Cyclical

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- Accelerating growth in developed markets will see upside surprise to profits for global cyclical
  - » OVERWEIGHT
- Preferred stocks
  - News Corp
  - Incitec Pivot
  - Brambles
  - Amcor
  - Sims Group

# Chinese Construction Booming

Chinese Floor Space Started



Source: CEIC, NBS, RBS



# Chinese Growth has Risks

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- Positives
  - Underlying trend of urban migration
  - Increasing incomes
  - Internally funded investment
  - Central government committed to growth and cautious about change
- Risks
  - Investment as a percentage of GDP is very high and increasing while growth is slowing
  - Inflation increasing
  - Signs of property speculation
  - Price controls leading to misallocation of resources and overinvestment
  - High dispersion of income and wealth
  - Global pressure to reduce trade surplus

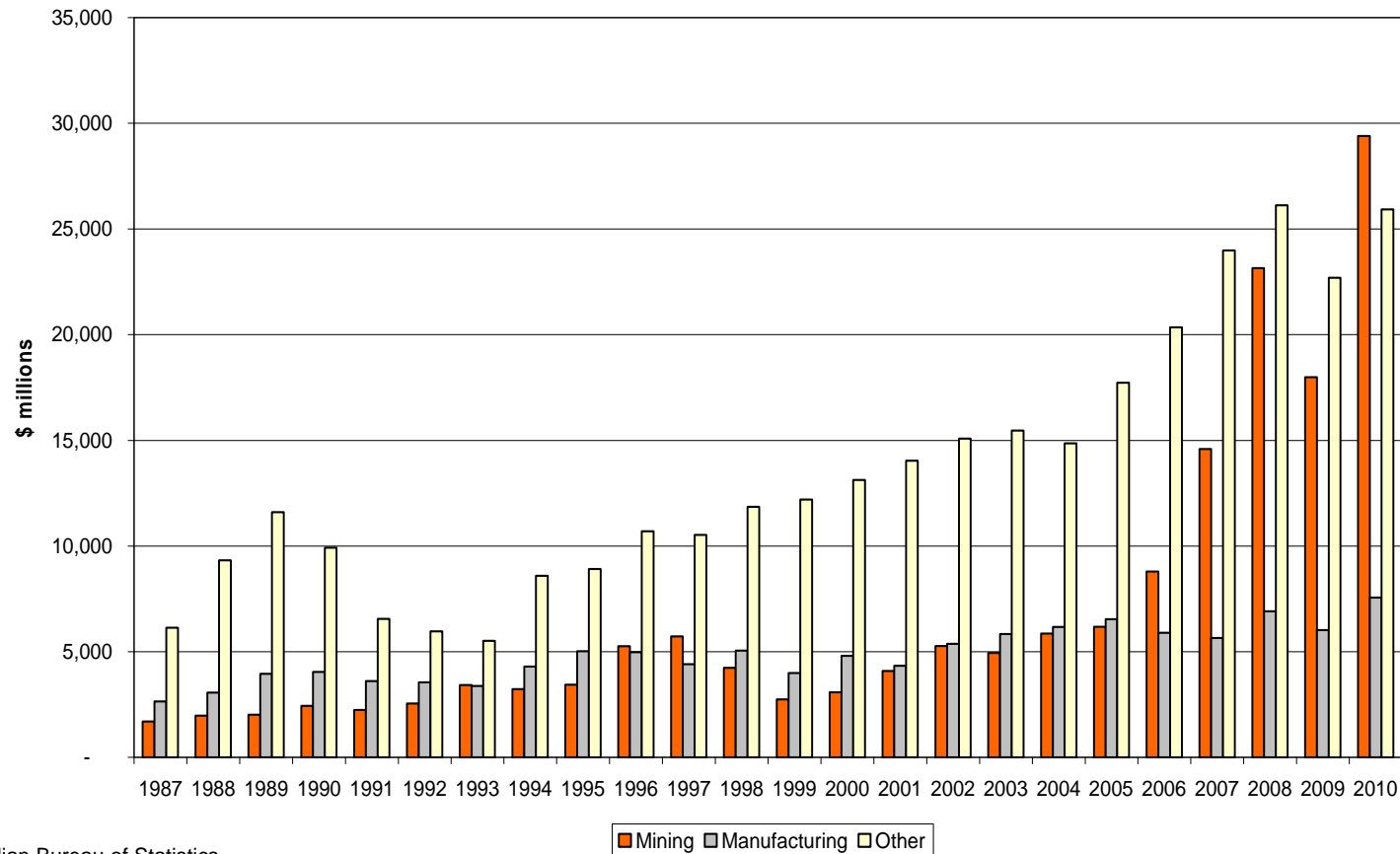
# Resources

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- Chinese structural growth story for medium term, but chance of correction in the near term with tightening measures.
  - » NEUTRAL
- Preferred Stocks
  - Equinox
  - PanAust
  - Gloucester Coal
  - BHP Billiton

# Australian Mining Boom

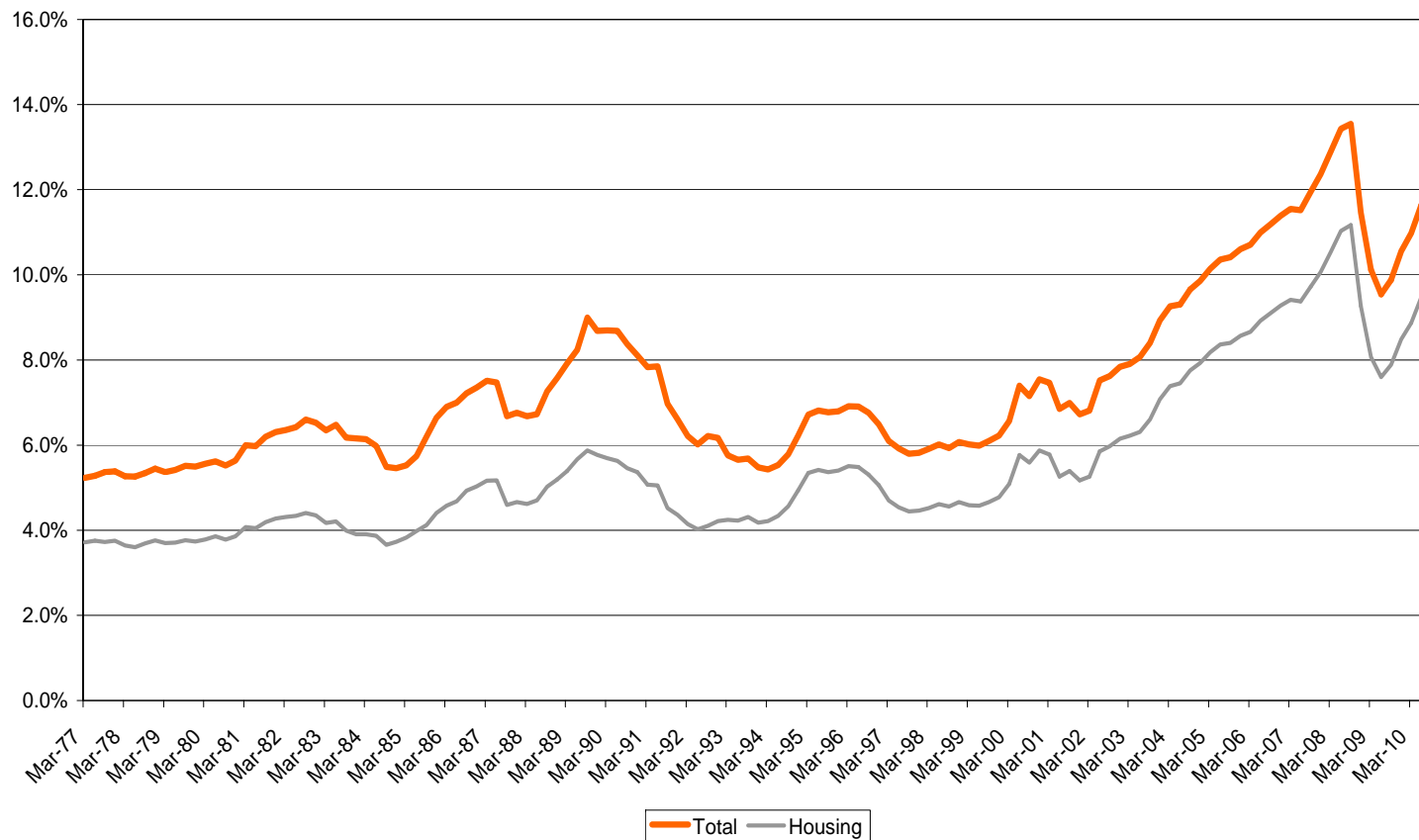
Australian Expected New Private Capital Expenditure



Source: Australian Bureau of Statistics

# ...but, Households Highly Geared

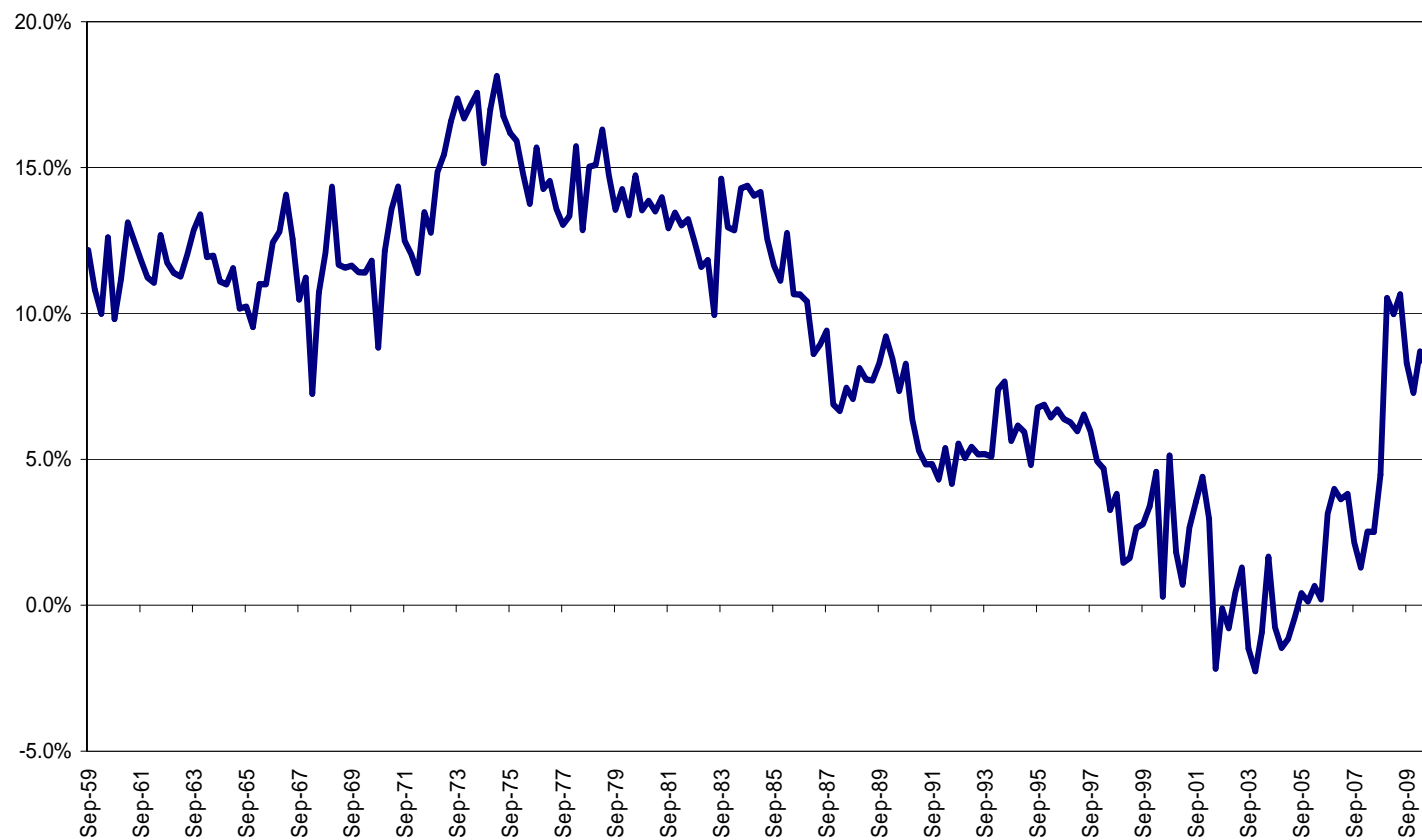
Interest payments to disposable income



Source: Reserve Bank of Australia

# ...and Saving More

Savings Ratio



Source: Australian Bureau of Statistics

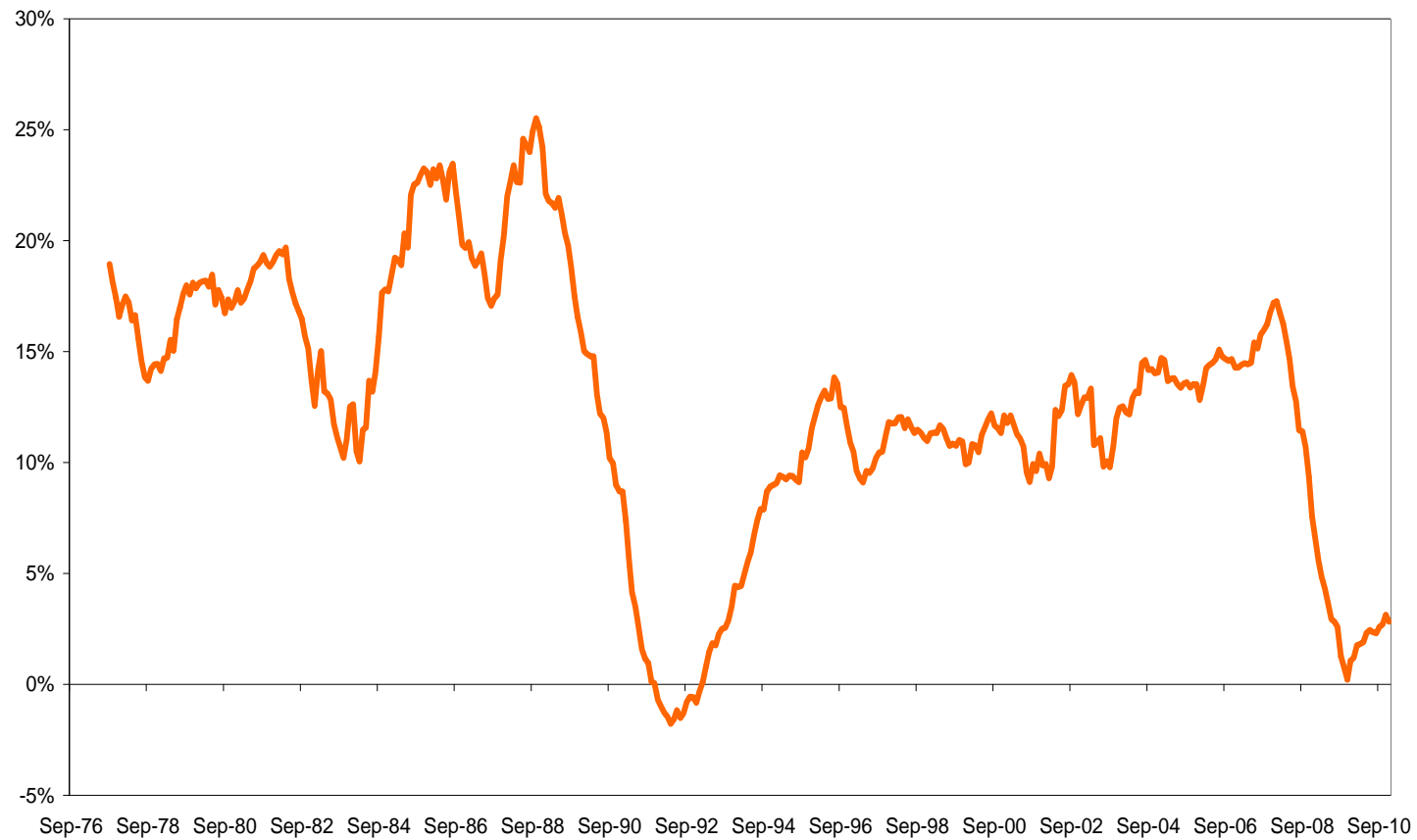
# Domestic Cyclical

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- High commodity prices to keep driving the mining investment boom
  - » OVERWEIGHT Mining Services
- Increasing inflation, interest rates and high house prices to constrain household spending
  - » UNDERWIGHT Retail and Building Materials
- Preferred Stocks
  - Boart Longyear
  - Bradken
  - Graincorp

# Credit Growth Structurally Lower

Australian Credit Growth



Source: Reserve Bank of Australia

# Financials

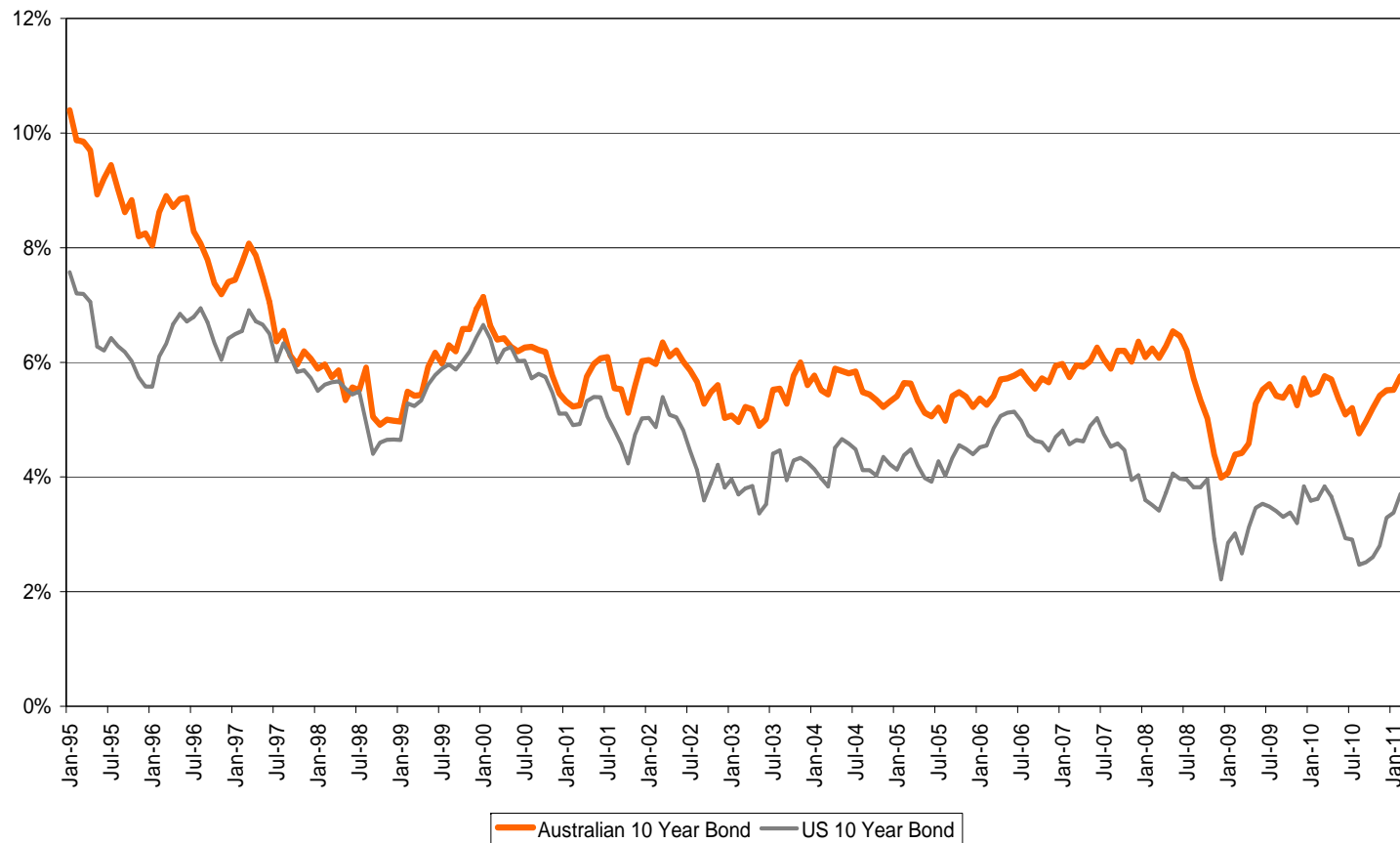
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- Credit growth will be closer to nominal GDP, but bad debts have stabilised
- New capital and liquidity standards have provided uncertainty, but nearly resolved
- Market leverage provides upside
- Value exists
  - » OVERWEIGHT
- Preferred Stocks
  - ANZ Banking Group
  - National Australia Bank
  - Challenger



# Higher Yields Pressure Valuations

Bond Yields



Source: Reserve Bank of Australia

# Growth

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- Healthcare has strong long term demographics, but government funding pressures in the short term
- Long duration growth pressured by higher bond yields
  - » UNDERWEIGHT
- Preferred Stocks
  - ResMed
  - Flight Centre

# Defensives

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- Stronger equity market and higher short rates not a good combination
- Preferred Stocks
  - ResMed
  - Transurban Group

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