Greencape Wholesale High Conviction Fund

Fund report and commentary – March quarter 2013

Performance	Quarter (%)	1 year (%)	2 years (%) p.a.	3 years (%) p.a.	5 years (%) p.a	Inception (%) p.a.
Greencape Wholesale High Conviction Fund	**9.23**	**18.91**	**6.66**	**5.73**	**5.49**	**9.16**
Growth return	8.80	15.61	3.03	2.57	1.62	4.09
Distribution return	0.43	3.30	3.63	3.16	3.86	5.07
S&P/ASX 200 Accumulation Index	8.15	19.98	6.17	5.25	3.09	4.32
Outperformance (net)	**1.08**	**–1.07**	**0.49**	**0.48**	**2.40**	**4.83**

Returns are calculated **after fees** have been deducted, assuming reinvestment of distributions. No allowance is made for tax. Past performance is not a reliable indicator of future performance.

Investment objective

The Fund aims to outperform its benchmark over rolling three-year periods.

Responsible entity

Fidante Partners Limited

Investment manager

Greencape Capital Pty Ltd

Investment strategy

Greencape is an active, 'bottom–up' stock picker. Whilst Greencape does not target any specific investment style and will invest in stocks displaying 'value' and 'growth' characteristics, its focus on a company's qualitative attributes will generally lead to 'growth' oriented portfolios. This is an outcome of its bottom–up process. As such, Greencape's investment style may be classified as 'growth at a reasonable price'.

Distribution frequency

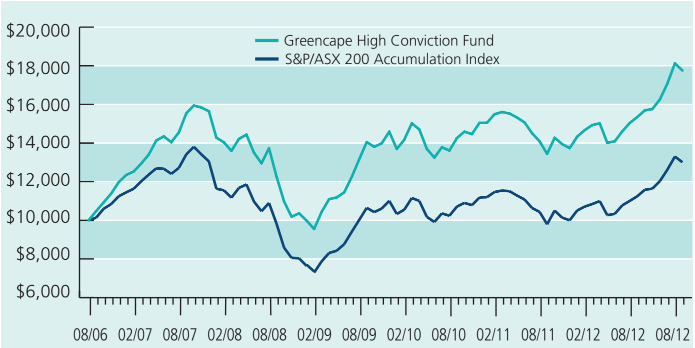
Quarterly

Suggested minimum investment timeframe

At least five years

Greencape High Conviction Fund

Growth of $10,000 invested since inception (net of fees)

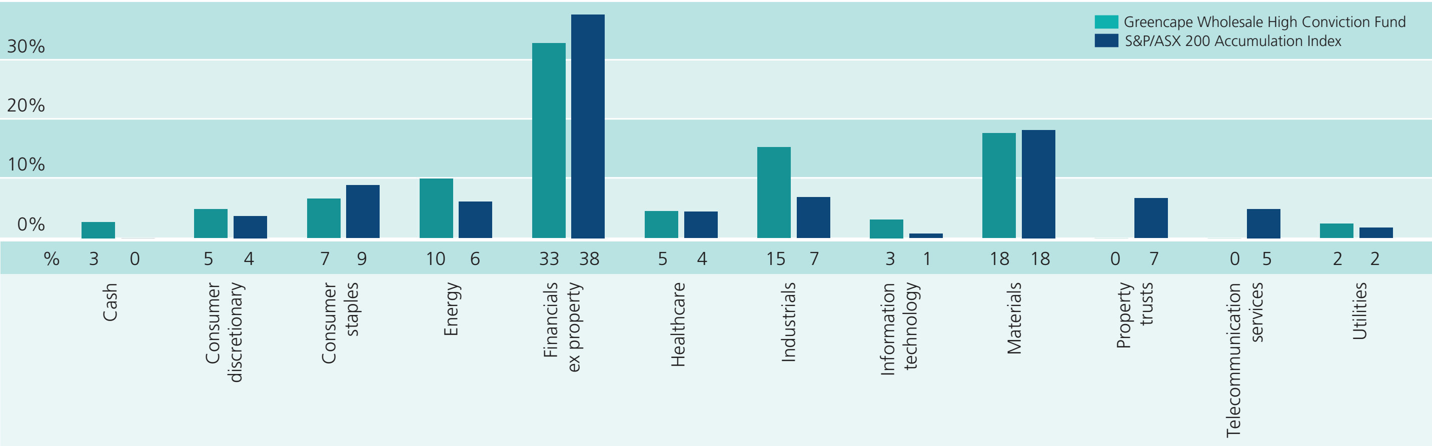


Asset allocation	Current (%)	Range (%)
Securities	97.29%	85–100
Cash	2.71%	0–15

Fund facts	Greencape Wholesale High Conviction Fund
Inception date	11/09/2006
APIR code	HOW0035AU

Fees	Greencape Wholesale High Conviction Fund
Entry fee	Nil
2011/12 ICR	1.16%
Management fee	0.90%p.a.
Performance fee	15% of the Fund's gross performance above the Fund's benchmark.
Buy/sell spread	+0.30%/–0.30%

Sector exposures as at 31 March 2013

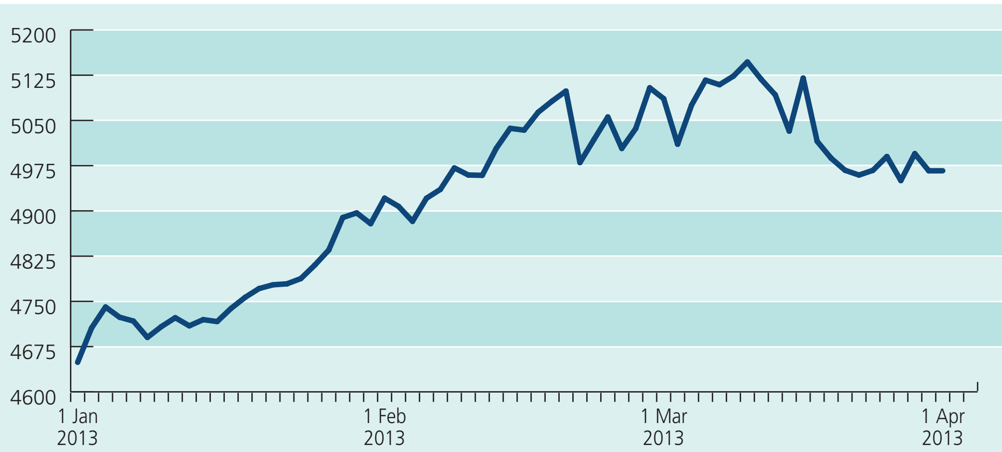


Market review

The S&P/ASX200 Accumulation Index rose 8.15% for the quarter. The Greencape High Conviction Fund outperformed the benchmark and gained 9.23%.

The momentum from the strong December quarter carried on into the new calendar year, with the market[1] gaining 25% over the past nine months. While the quarter started well, problems in the Eurozone, particularly Cyprus, saw the market give back some of its gains late in March. Interestingly, some of the higher beta sectors underperformed the defensive sectors in the rising market. We also witnessed the February reporting season during the period, with the bulk of companies posting results in line with expectations.

S&P/ASX 200 Index



The Reserve Bank of Australia (RBA) sat on their hands during the quarter, leaving rates unchanged in both meetings held over the period. The RBA commentary however indicated a clear easing bias. The ongoing leadership tension in the Australian Labour Party came to a(nother) head in March, with Prime Minister Julia Gillard calling a leadership vote after Simon Crean called for a spill. The Prime Minister won the vote unopposed after Kevin Rudd chose not to run. Local economic data was mixed with disappointing retail sales and building approval numbers while unemployment figures surprised on the upside. In February alone the employment change was +71k, with the market only expecting +10k.

'The less people you have, is usually better than the more guys you have, you just have to make sure they're the right people.'

Peter Wade, Executive Chairman, Mineral Resources, 19/02/2013

[1] ASX200 Accumulation Index.

Unlike previous quarters, fresh central bank stimulus was not needed to boost equity markets, with the exception of Japan where the Bank of Japan (BOJ) increased its inflation target from 1% to 2%. Bowing to government pressure, the BOJ pledged to lend the Japanese government unlimited amounts of yen, with the hope of bringing an end to two decades of deflation and economic stagnation. Unsurprisingly, the yen was weaker during the quarter.

US equity markets enjoyed a stellar quarter, with the S&P500 touching all-time highs. With US cash investors earning negative real rates on their cash accounts and bond prices being bid up, investors have been rotating into equities to boost portfolio income. The 12 month forward yield on the S&P500 sits at around 2.2%, half the level of the ASX200 at 4.4%. US economic data also helped boost markets with both the manufacturing & non-manufacturing ISM index print surprising to the upside. Non-farm payroll numbers not only beat expectations but previous month numbers were also revised upwards. The US unemployment rate also fell to 7.7%.

In Europe, the recent Italian election result (or lack thereof) briefly spooked the market after no party was able to form a majority in the senate, which ultimately led to a hung parliament. However, Italy's effect on the market was benign compared to the shivers Cyprus sent through the bourse in late March. In order to receive a bailout from the International Monetary Fund, a one-off bank deposit levy was proposed whereby 6.7% of accounts under €100,000 and 9.9% for accounts over that amount would be levied. On the day following the announced proposal, more value was wiped off the Australian share market than the annual Cyprus GDP. That original proposal was then renegotiated to exclude a levy on accounts under €100,000, instead imposing a 40% levy on uninsured accounts over that amount. This decision came at the displeasure of many wealthy Russians who use Cyprus as an offshore bank and tax haven.

In China, strong housing price data triggered authorities to impose tightening measures on the market, which included Beijing banning single-person households from buying more than one property and Shanghai prohibiting banks from giving credit to third-home buyers. Both cities also announced a 20% capital gains tax on secondary market sales of properties. These measures were tougher than expected, and came sooner than many investors anticipated.

	March quarter	Year
S&P/ASX200 Accumulation Index	8.1%	20.0%
Best performing sectors		
Consumer discretionary	18.1%	25.7%
Financials ex-property	16.4%	38.3%
Consumer staples	**13.8%**	**35.6%**
Worst performing sectors		
Materials	–8.3%	–10.0%
Property trusts	5.2%	30.7%
Utilities	6.6%	20.6%

Locally, consumer discretionary stocks were the best performers as results, which for the most part were in-line, sent short sellers scrambling to cover their positions. David Jones, Myer, JB Hi-Fi and Fairfax were the major beneficiaries. Other strong results in the sector came from from REA Group, which recorded stronger than expected revenue from a premium classified advertising spend and Premier Investments (PMV) whose result showed a strong turnaround in the performance of the Dotti and Portman's brands. PMV was also helped by index related buying; as it came into the ASX200 in the March rebalance.

Financials (ex-property trusts) were the second best performing sector during the quarter. The big four banks, which dominate the index, outperformed the market over the period but the Commonwealth Bank of Australia (CBA) was the only one that posted a result in February. The result itself was strong, as it demonstrated leverage from positive JAWS and better Net Interest

'The cancer on their income statement is the social security funding gap for the Japanese retiree's… last year they sold more adult diapers than kids diapers in Japan… they're having adult diaper fashion shows!'

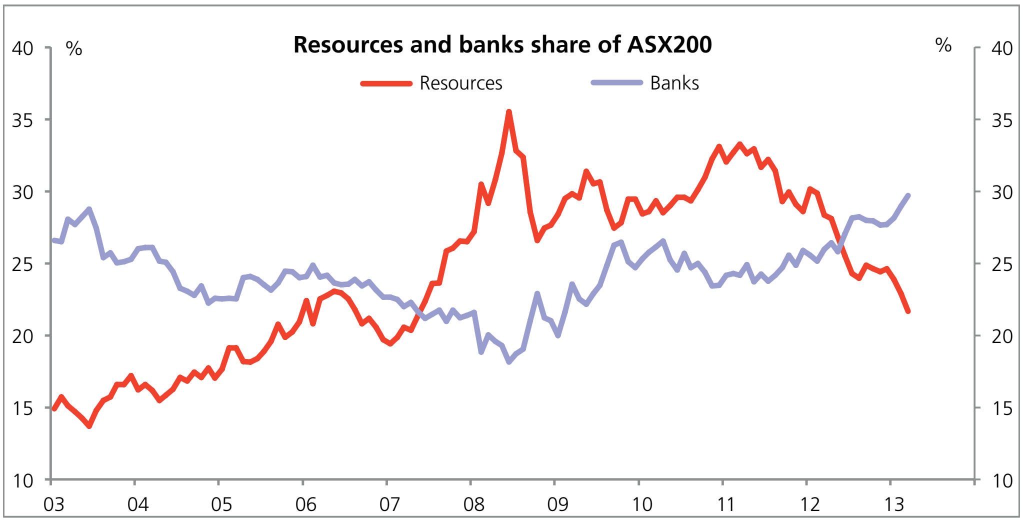
Kyle Bass, Hayman Capital, 01/10/2012

'There were no optimal solutions available, only hard choices'

Olli Rehn, EU Economic and Monetary Affairs Commissioner on the Cyprus bank restructuring deal, 25/03/2013

Margin (NIM). Importantly, the dividend was also higher than expected. In the aftermath of the result, the CBA stock reached a new all-time high and surpassed BHP Billiton as the largest ASX200 index component.

Consumer staples also performed well, with both Woolworths' and Wesfarmers' results beating expectations. Stronger still was Treasury Wine Estates, the world's largest pure play winemaker, which posted an in-line result but rose on bullish outlook comments from management. The company indicated its 2013 vintage is looking positive and likely larger than its high quality 2012 vintage. Strong volume growth in Asia (particularly China and Hong Kong) was also a highlight.



Source: Deutsche Bank

The materials sector was by far the worst performing sector in the market during the quarter, retreating over 8% while every other sector gained. Rio Tinto and Fortescue Metals both performed poorly as iron ore prices fell, which then triggered a number of stockbrokers to lower their forecast numbers. Newcrest Mining announced yet another production downgrade, with the company announcing the detection of damage to the internal brickwork in Autoclave 1 at Lihir, which will see the autoclave shut down for 5-7 weeks during its repair and upgrade. Management also announced access to high grade face positions at Gosowong have been below expectations. This led to a downgrade in FY13 gold production guidance from 2.30-2.50Moz to 2.00-2.15Moz. The stock fell 8% on the day of the announcement.

'Everything mean reverts.'

Maurius Kloppers, CEO of BHP Billiton, 22/02/2013

Property trusts were the second worst performing sector in the market. Westfield Retail Trust (WRT) underperformed after the Lowy Family sold its 7.1% stake in the company in an off-market transaction. Westfield Group (WDC) slightly underperformed the market during the quarter, but was aided by the announcement of the sale of a 49.9% interest in six malls located in Florida USA for US$700m or 1x book value.

Utilities also lagged behind the market during quarter. AGL Energy underperformed the market following concerns over regulatory scrutiny on the company's coal seam gas project in Camden, NSW. The company's half year result however beat expectations. The strong performance of the merchant business was the highlight, aided by the integration of Loy Yang A. The company also reaffirmed full year net profit guidance of $590m-$640m.

[1] A PMI reading above 50 indicates expansion.

Stock view: News Corporation

We like News Corporation (NWS) and continue to believe that it can deliver structural growth across its key divisions. Importantly, management are increasingly focused on delivering shareholder value and their track record post the News of the World phone hacking issue points to a number of positive initiatives. This includes stock buy backs, consolidation of minorities, sale of non-core assets, and the pending demerger of non-broadcasting businesses. Our proprietary research also highlights that NWS has growth options that are potentially underestimated by the market in the medium term.

The key structural revenue drivers for NWS includes; (1) continued upside from retransmission fees for US broadcast TV; (2) affiliate fee growth from its cable channels and (3) expansion of Fox International Channels.

Retransmission fees are sought by NWS (and other similar broadcast networks) from cable operators who need to carry NWS related programming (along with their own cable offerings) in order to sustain their subscriber base. With negotiations and reviews ongoing and spread over a number of years given the timing of agreements, there is upwards pressure on fees paid to NWS. This is an industry wide development and should continue to increase through the cycle.

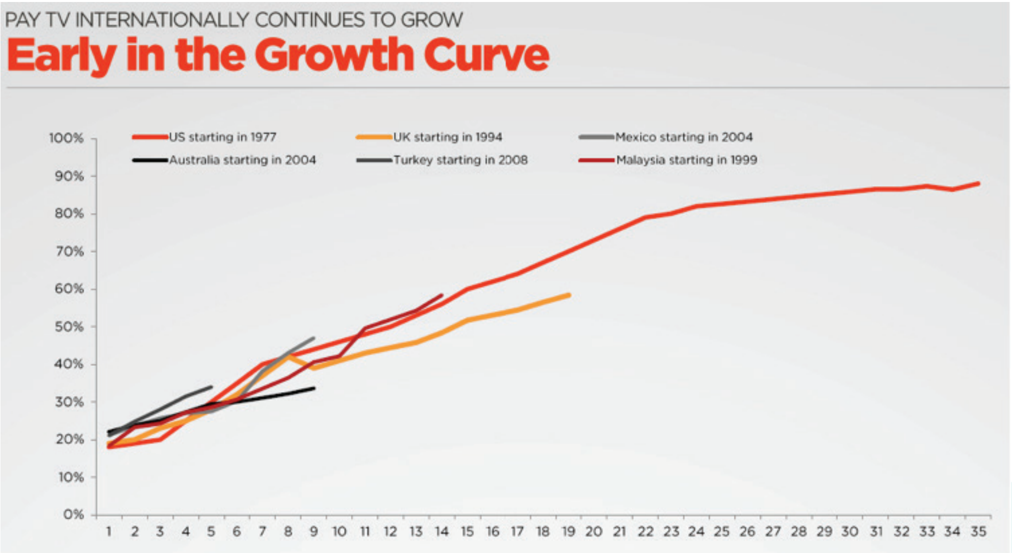
Affiliate fee growth from the strength of the channels that NWS owns continues to drive earnings. A good example of this is the new FOX SPORTS 1 channel which was recently announced. This will be a national sports network (in a similar way in which ESPN currently dominates US national sports). NWS currently owns a material suite of long term sports rights and its ability to manage and leverage this into a national sports network in order to drive higher affiliate fees is a real option that should play out over the medium term. Our proprietary research conducted prior to the official announcement highlighted upside risk to earnings and that management's ability to execute on these plans looks strong.

Fox International is on track to be a significant driver of earnings for NWS. NWS already has a breadth of content across genres (with sunk production costs), and is in a unique position to leverage this across new and emerging geographies where pay TV penetration is relatively low. This is likely to drive strong growth through the cycle as emerging markets mature and penetration increases.

'The world is changing very fast. Big will not beat small anymore. It will be the fast beating the slow.'

Rupert Murdoch

2012 Fox International Presentation by Hernan Lopez, President and CEO of Fox International Channels:



WHAT SETS FOX INTERNATIONAL CHANNELS APART?

Scale in High-Growth Markets

6 of FIC's top 10 markets are emerging markets.

	FY12 OPINC	EMERGING MARKET	PAY TV PENETRATION	# OF FIC CHANNELS
COUNTRY #01	$93m	✗	37%	8
COUNTRY #02	$88m	✓	21%	11
COUNTRY #03	$48m	✓	44%	28
COUNTRY #04	$40m	✗	27%	6
COUNTRY #05	$40m	✓	66%	27
COUNTRY #06	$31m	✓	58%	26
COUNTRY #07	$24m	✓	50%	27
COUNTRY #08	$23m	✗	88%	26
COUNTRY #09	$22m	✗	64%	14
COUNTRY #10	$19m	✓	80%	8
		6		

Due to the corporate structure and a number of other issues, NWS has historically traded at a discount to its US peers. We think that in time, the underlying business franchise can continue to re-rate as this discount is unwound and the broader market further appreciates both the underlying growth in earnings as well the upside that our proprietary research has identified. We continue to think the NWS has a good chance of continuing to deliver strong total shareholder return, outperforming the broader Australian market.

Macro observations

This quarter we undertook research trips to China, Europe and the US.

China observations

Since the iron ore sell off in September/October 2012, China's recovery has largely been built on re-stocking ahead of the seasonally strong April/May period, but to date this recovery has been slower than usual and consistently across meetings, no one had seen a fundamental pick-up in demand as yet. Most people we spoke to said it was too early to tell where demand sits right now given people make long treks to/from home around Chinese New Year, but by the end of March they expect to have a clearer picture.

Property construction looks to continue to be the biggest driver of steel demand going forward, however the government's tightening measures introduced create some risk to the growth outlook. As demand is dependent on policy, and early indications are that the new government is not going to stimulate at the expense of getting the economic imbalances back in order.

Infrastructure demand is moving into less steel intensive areas and local government funding constraints are becoming more evident, both of which should limit the sector's contribution to steel demand.

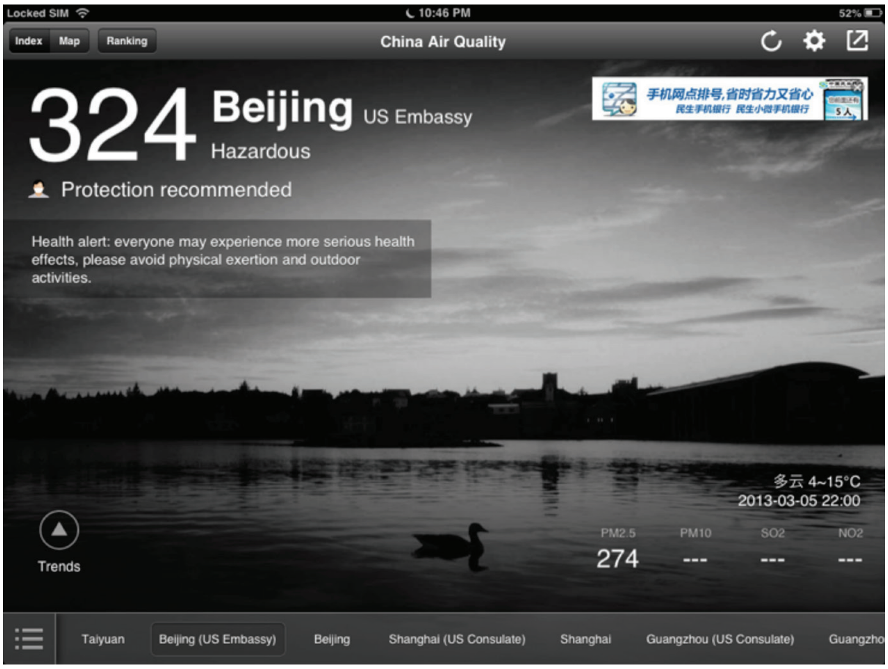
Other observations:

- **Sentiment:** Copper parts supplier – 'To summarise, the current market sentiment is not good';
- **Price of iron ore:**
  - Chinese domestic iron ore supply is coming with up to 100mt from the north expected as they come out of winter and new mines are being invested in, although it is unclear whether this will lift total Chinese production or act to offset smaller mines shutting due to environment/safety issues;
  - Commodities Trader – 'Steel mills have had negative margins for 3 months so it can't go on forever. But steel demand should pick up from late April';

'The beneficial effect of State intervention, especially in the form of legislation is direct, immediate, and so to speak visible, whilst its evil effects are gradual and indirect, and lie out of sight.'

Albert Venn Dicey, 1905

- **Thermal coal:** Inventories are high and strong supply growth is continuing, as the 'over-supply situation may not change for 3 years';
- **Aluminium:** No production cuts despite loss making smelters, in fact supply should still grow marginally ahead of demand;
- **Copper:** Real demand is growing circa 5% p.a. but inventories have very quickly built up to ~1mt (collateral for borrowing) and in the next month or so should tick higher.
- **Property construction:** Whilst driving around several cities we observed plenty of residential towers under construction (no cranes moving) or complete. Most buildings were empty with billboards citing agent phone numbers. This was especially so in Taiyuan (Tier 3 city) and Foshan (Tier 2), but lack of active cranes was also evident in Shanghai.
- **Pollution:** The pollution was terrible in Taiyuan and Beijing, while noticeable in Foshan/Shanghai but not so bad compared to other big cities around the world. The pollution was evident in the way the outside air smelt.



- **Taiyuan hotel:** We came across a very big, luxurious hotel that's 2 years old, but a long way out of the city centre. I counted only 10 other guests, the lady at check-in commented that they are very quiet since they're in a bad location.

'With our efforts, China will sustain relatively high economic growth, but not super-high economic growth. It is not necessary.'

Chinese President Xi Jinping, 8/4/2013

European observations

As part of our UK and European efforts we met with healthcare supply chain participants in London, Brussels, Germany and France.

The general tone remains one well entrenched in austerity. Consistent with this is a real impetus for work currently done by the public sector to transfer to the private sector – and therein lies the material opportunity for the likes of ASX listed Sonic Healthcare and Ramsay Healthcare. Whilst in theory this makes sense, execution is riddled with complexity. This is no more true than in the UK, where the NHS (public system) is "the closest thing the UK has to a uniform religion". Having said that, significant headway appears to have been made over the past year or so the deal with some of the hurdles: including the all-important need to find a solution to preserving the £300b odd of related pension liabilities – perhaps that's where the elevated sense of religion comes from!

Generally, funding and in particular public funding, is where the risk lies for all healthcare providers – as irrespective of the increased involvement of the private sector, the public sector will remain dominate across both the UK and the continent.

USA observations

Our travels to the US saw us visit no fewer than 7 cities where we undertook a deep dive assessment of the opportunity set for Brambles in RPC's (reusable plastic creates) which are used in the produce supply chain, between the grower and supermarket.

As a result of meeting with 21 supply chain participants throughout the week, we surmise that RPC's are well placed to continue to displace corrugated wax boxes over time and Brambles, through the recently acquired IFCO, are likely to remain the dominant player in that space. We also received real time affirmation from Brambles' US customer base that the cultural change led by Tom Gorman and his team continues to gain traction, giving us greater line of sight to both revenue growth and cost management opportunities.

'We all know what to do, we just don't know how to get re-elected after we have done it.'

Jean-Claude Juncker, Prime Minister of Luxembourg, March 2007

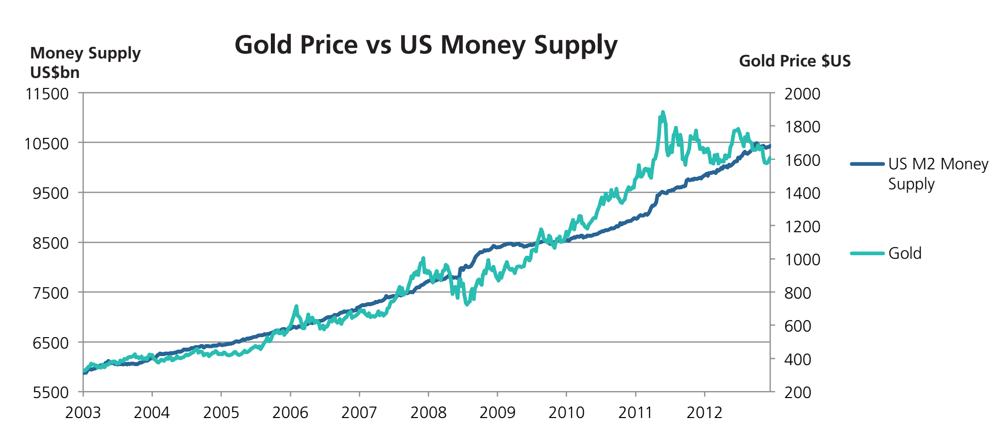
Gold: Is it losing its shine?

The spot price of gold has increased each year for the past 12 years running, multiplying by nearly six times since the end of 2000. Over the last quarter however, the spot price has tumbled, causing a widespread sell-off of listed gold names while global equity indexes rallied.

Gold can be viewed as a currency as much as a commodity. However, unlike fiat currency which can be printed at a whim, the gold supply worldwide grows at only a modest rate, around 2% per year. Compared to other commodities, the production of gold has a relatively long lead time; new mines can take upwards of ten years before any production takes place. This makes the gold supply inelastic and largely unresponsive to changes in demand.

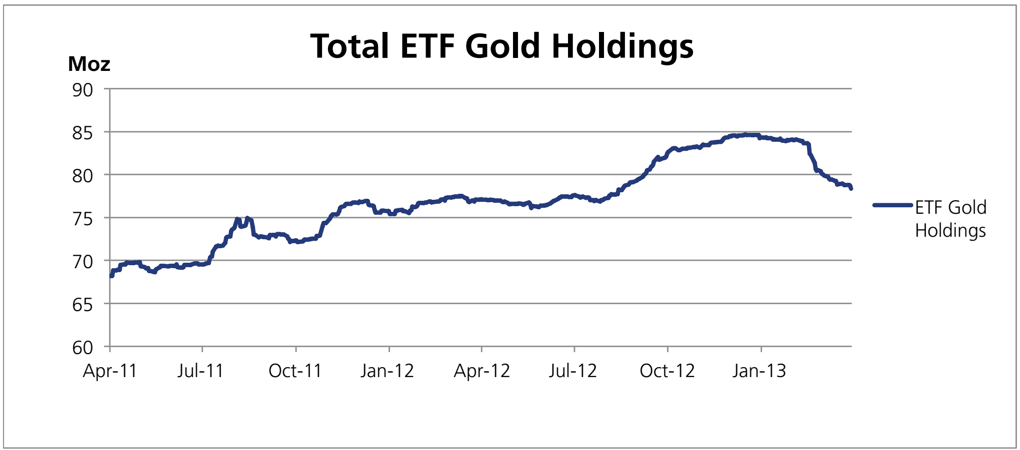
Up until the 1930's, the world's developed economies operated under a Gold Standard monetary system whereby governments were required to set the prices of their currencies in terms of an ounce of gold. The exchange rate between two countries was determined by the economic difference for an ounce of gold between two the currencies. Therefore any increase in the money supply was required to be matched by an increase in the gold supply. In 1944, a quasi-gold standard was introduced in the form of the Bretton Woods system, whereby countries would tie their exchanges rates relative to the USD. The US Government then committed to fixing the USD's value as $35 per ounce of gold, thereby all currencies operating under the system also had a fixed value in terms of gold. This system was abandoned by President Nixon in 1973, allowing central banks to print money on a large scale.

In the past ten years, we can see the US money supply has grown enormously, and unsurprisingly, so has the price of gold.



Source: Bloomberg.

So what has happened during the quarter to trigger gold's underperformance? Flows in Exchange Traded Funds (ETF's) may hold the answer. ETFs are seen as an efficient way to gain exposure to gold as investors pay cheaper storage costs than holding the physical, and they also avoid any unsystematic risk from holding gold mining companies. ETFs have experienced record outflows this quarter, year to date ETF holdings of gold have decreased almost 7% from 85 Moz to 79 Moz.



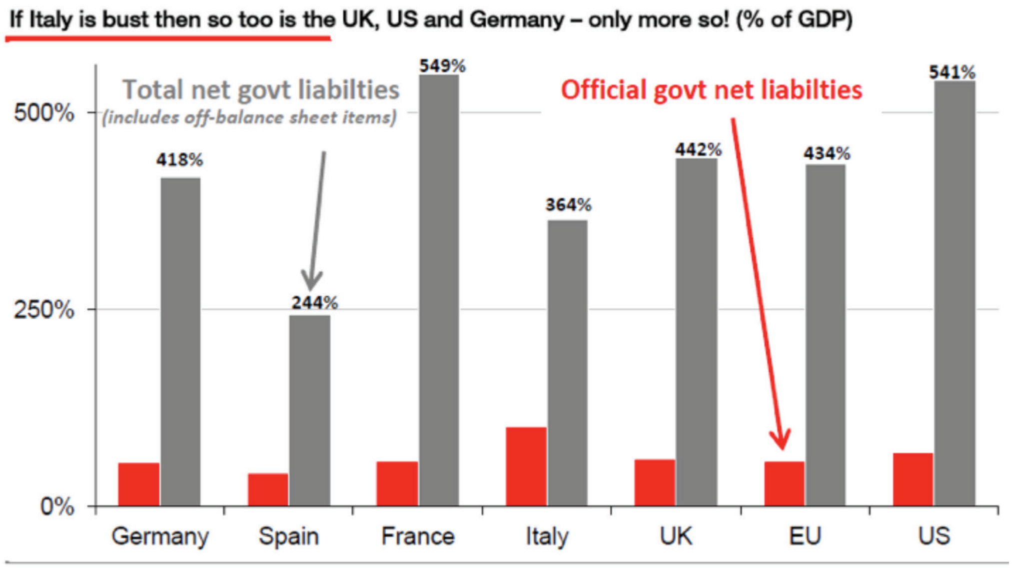
Source: Bloomberg.

A few factors have been working against gold this year. Equity markets and investor confidence have risen, reducing the perceived need for gold as insurance against financial turmoil. Inflation expectations have also tempered, and there is an increasing belief among global investors that the end is in sight for Quantitative Easing. Therefore the switch out of gold into equities has been a popular trade, especially among hedge funds, including the fund run by legendary investor George Soros which cut its ETF holding in half in February.

'The more corrupt the republic is, the more laws it has.'

Tacitus, Roman historian in first century AD.

Despite its recent sell-off, the term story is still appears to be intact for gold. Globally, the debt load for government is large and even bigger when you factor in off balance-sheet liabilities.



Source: SocGen, OECD.

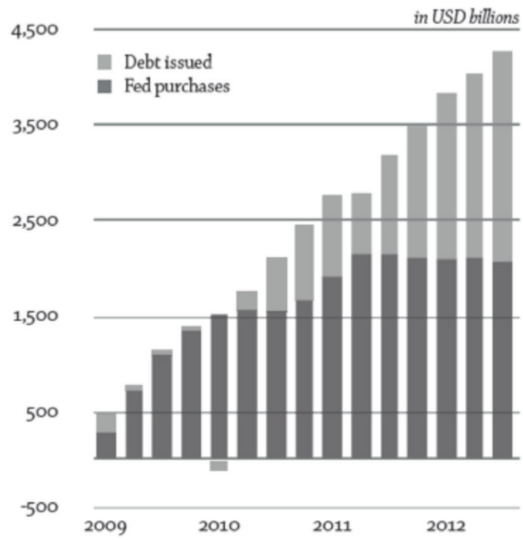
But the EU countries are still nowhere near the 3.0% deficit/GDP upper limit targets despite several years of 'austerity'. And in fact in France, Netherlands, and Spain the deficit forecasts are getting worse compared to 5 months ago.

Net lending (+) or net borrowing (-), general government (as a percentage of GDP)

						End Feb 2013 forecasts			*Early Nov 12 forecasts*		
	2007	2008	2009	2010	2011	2012e	2013e	2014e	*2012e*	*2013e*	*2014e*
Germany	0.2	-0.1	-3.1	-4.1	-0.8	0.1	-0.2	0.0	*-0.2*	*-0.2*	*0.0*
France	-2.7	-3.3	-7.5	-7.1	-5.2	-4.6	-3.7	-3.9	*-4.5*	*-3.5*	*-3.5*
Netherlands	0.2	0.5	-5.6	-5.1	-4.5	-4.1	-3.6	-3.6	*-3.7*	*-2.9*	*-3.2*
Italy	**-1.6**	**-2.7**	**-5.4**	**-4.5**	**-3.9**	**-2.9**	**-2.1**	**-2.1**	***-2.9***	***-2.1***	***-2.1***
Spain	**1.9**	**-4.5**	**-11.2**	**-9.7**	**-9.4**	**-10.2**	**-6.7**	**-7.2**	***-8.0***	***-6.0***	***-6.4***
Portugal	-3.1	-3.6	-10.2	-9.8	-4.4	-5.0	-4.9	-2.9	*-5.0*	*-4.9*	*-2.9*
Ireland	0.1	-7.4	-13.9	-30.9	-13.4	-7.7	-7.3	-4.2	*-8.4*	*-7.5*	*-5.0*
Greece	-6.5	-9.8	-15.6	-10.7	-9.4	-6.6	-4.6	-3.5	*-6.8*	*-5.5*	*-4.6*
Japan	-2.1	-1.9	-8.8	-8.3	-8.9	-9.1	-9.1	-8.0	*-8.3*	*-7.9*	*-7.7*
United Kingdom	-2.8	-5.1	-11.5	-10.2	-7.8	-6.3	-7.4	-6.0	*-6.2*	*-7.2*	*-5.9*
United States	-2.8	-6.4	-11.9	-11.3	-10.1	-8.5	-6.6	-5.9	*-8.5*	*-7.3*	*-6.2*

Source: SocGen, European Commission.

Since 2009, The Fed in the US has monetised 50% of US Debt.

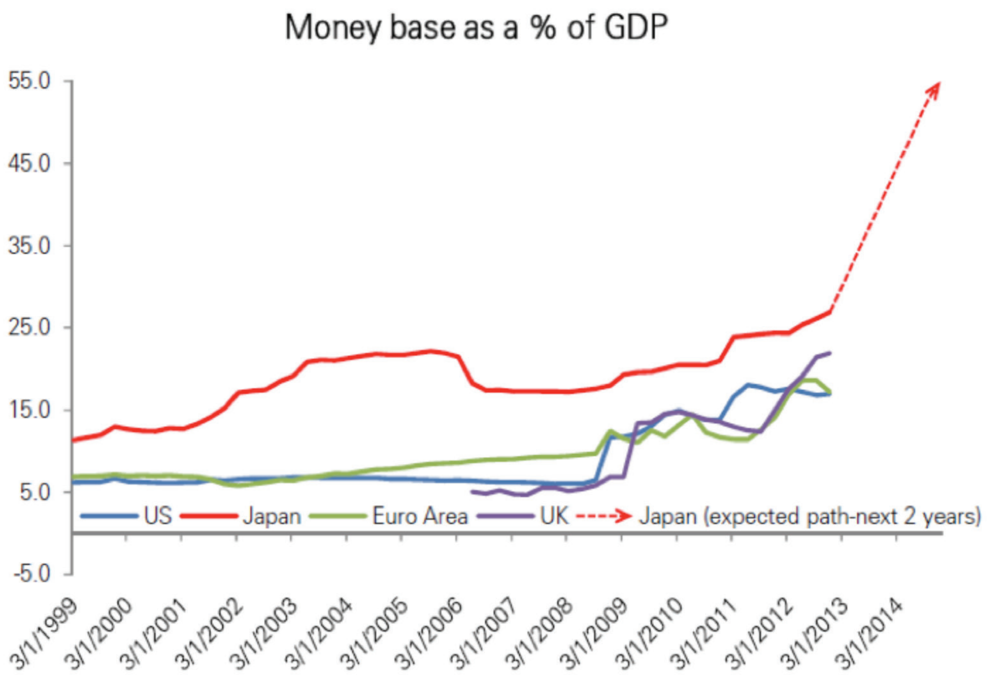


Source: Edelweiss Holdings.

'A rescue programme agreed for Cyprus on Monday represents a new template for resolving euro zone banking problems and other countries may have to restructure their banking sectors.'

Jeroen Dijsselbloem, Dutch Finance Minister, 25/03/13

It looks likely the European Central Bank will have to be 'more loose' in its monetary policy, and join the zero-rate club which will be supportive of gold. Whilst the US economic improvement should offset this to some degree, as discussed previously, we have seen much of this economic optimism play out against the gold price to date. Fed president Ben Bernanke originally committed to the Fed's Zero Interest Rate Policy (ZIRP) until the end of 2014, then pushed it back to mid-2015 and has since again changed that policy, now taking the unprecedented move of committing to ZIRP until the unemployment rate falls to 6.5%. The rate currently sits at 7.7%, and has not been at 6.5% since 2008. In addition, as discussed earlier, Japan's determination to reach a 2% inflation target will see it increase its monetary base as a share of GDP by more than double what the US achieved!



Source: Deutsche Bank.

Outlook

Reporting season provided some evidence that the market was beginning to differentiate between short term earnings delivery and longer term growth capability. We noticed some stocks managed to rally despite missing short term expectations if they could demonstrate to the market that longer term growth drivers were in place. This extension of the investment horizon is considered an important milestone as the market emerges from the global financial crisis.

The yield thematic also shifted from the market's demand for absolute dividends, to the market finally rewarding companies that can be expected to grow dividends. The implication of this market behaviour is considered constructive towards bottom up fundamental stock picking. Greencape remains cautious towards macro-economic growth expectations; however our conviction towards backing in "self-help" longer duration growth stories has improved over the quarter.

'The concern has been raised that by keeping interest rates very low the Fed induces people to take greater risks in their financial investments and that in turn could lead to instability later on.'

Ben Bernanke, 14/01/2012

'The most dangerous error is failure to recognise our own tendency to error..'

B.H. Liddell Hart

More information

To find out more about investing with Greencape, please contact:

Fidante Partners Investor Services team on: **13 51 53**

Visit the Greencape website: **www.greencapecapital.com.au**

Email Greencape at: **bdm@greencapecapital.com.au**

Financial advisers

For more information please contact:

Cathryn Franks
National Sales Manager
Fidante Partners

Phone: **+61 2 9994 7606**

Email: **cfranks@fidante.com.au**

Institutional investors and asset consultants

For more information please contact:

James Duck
Institutional Business Development Manager
Fidante Partners

Phone: **+61 3 9947 9414**

Email: **jduck@fidante.com.au**

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