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PROSPERITY THROUGH PRUDENCE AND PRESCIENCE

Select ASX Sector Views

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About Armytage

Boutique Management

- Established in 1997, Armytage is majority owned and operated by its investment and executive team

Value Investing

- Our disciplined “value-oriented” investment approach, developed over many years, has delivered strong and tax-efficient returns since inception
- The Investment Team consists of 6 investment professionals with an average of 19 years of investment experience

A Spectrum of Investment Solutions

- Armytage specialises in the active management of Australian share portfolios, and we manage assets on behalf of a wide range of investors, primarily via financial intermediaries

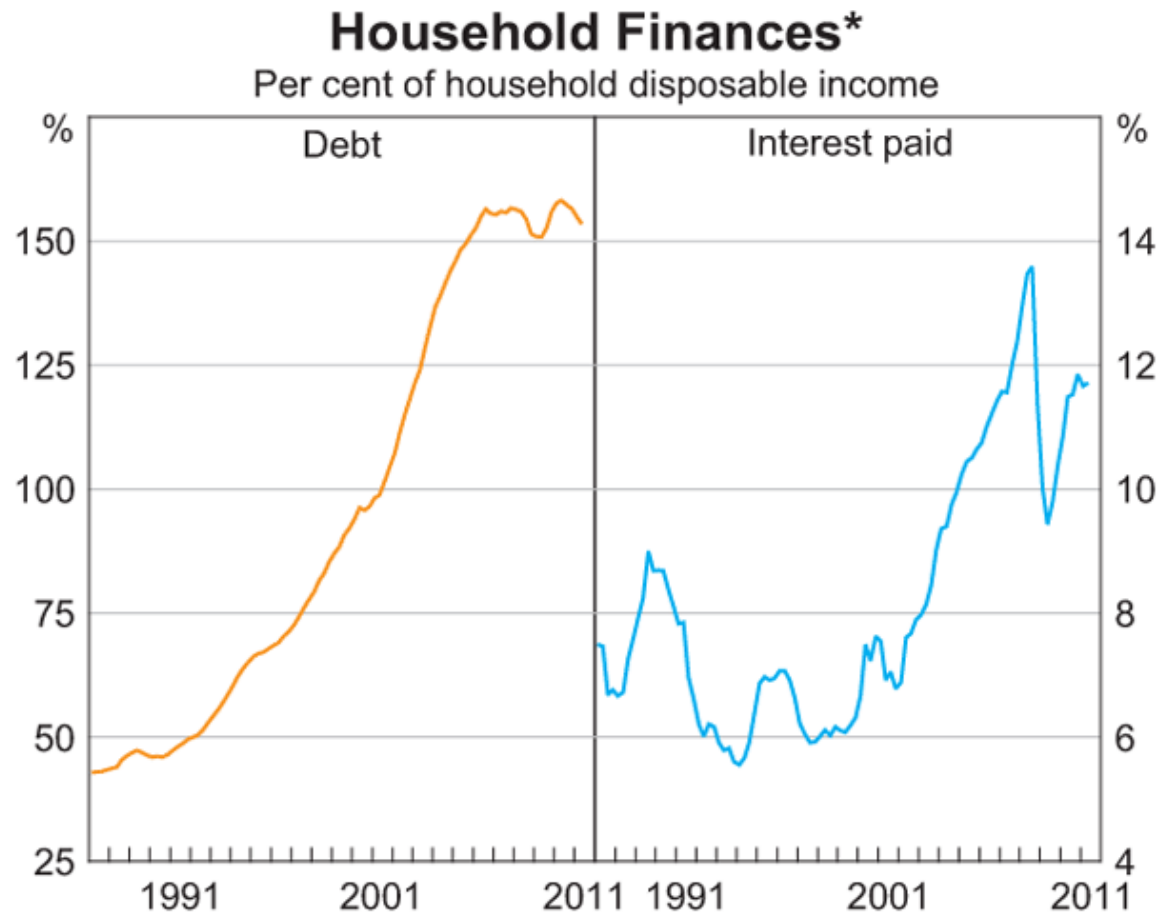


Select Sector View: Key Topics

1. Banking Sector
2. Resources Sector
3. Retail Sector
4. Regulatory/Political Issues



Banking Sector: *Revenue growth is under pressure*



* Household sector excludes unincorporated enterprises; disposable income is after tax and before the deduction of interest payments

Sources: ABS; RBA

Households & businesses are de-leveraging



Banking Sector

- Funding is an ongoing constraint
 - Better positioned than pre GFC
 - Impact of European sovereign & banking crisis
 - NAB and WBC have weakest position
 - ANZ strategy – Asia move deposit driven



Banking Sector: *Regulatory Reform*

- Not as bad as it could have been
- Next downturn, better positioned
- Impact medium term Return on Equity (ROE)

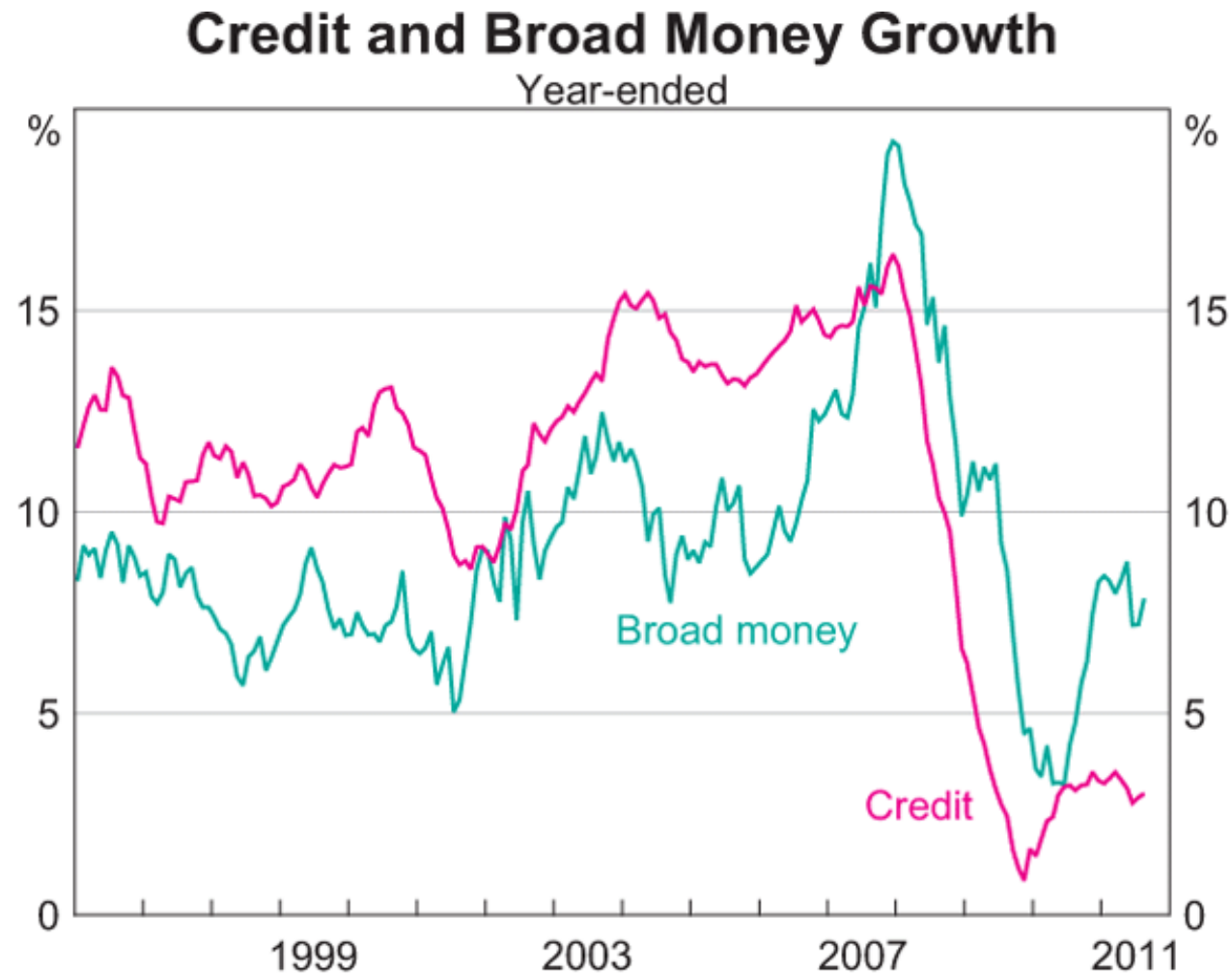


Banking Sector: *EPS Growth*

- Entering a “utility state” (ex-offshore growth)
 - Near term – macro risk from Europe
 - Medium term – capital management in time



Banking Sector: *Credit Growth*



Source: RBA



Banking Sector: *Credit Growth*

- Business credit growth pushed out again:
 - Political uncertainty
 - Domestic economic conditions (ex Resources, Oil & Gas Sectors)
 - European outlook/US lesser issue (at present)
- Housing credit growth:
 - Is 5% - 6% the new norm?
 - Unemployment



Banking Sector: *Net Interest Margin*

- Likely cycled much of the margin pressure – oligopoly industry structure
- European sovereign and banking crisis raising funding risks



Banking Sector: *Mergers & Acquisitions*

- Domestic/NZ challenging
- Asia logical
 - Excess deposits
 - Domestic sensitivities
- ANZ best positioned, but ROE drag while building scale
- European banking sector contraction presents opportunities



Banking Sector

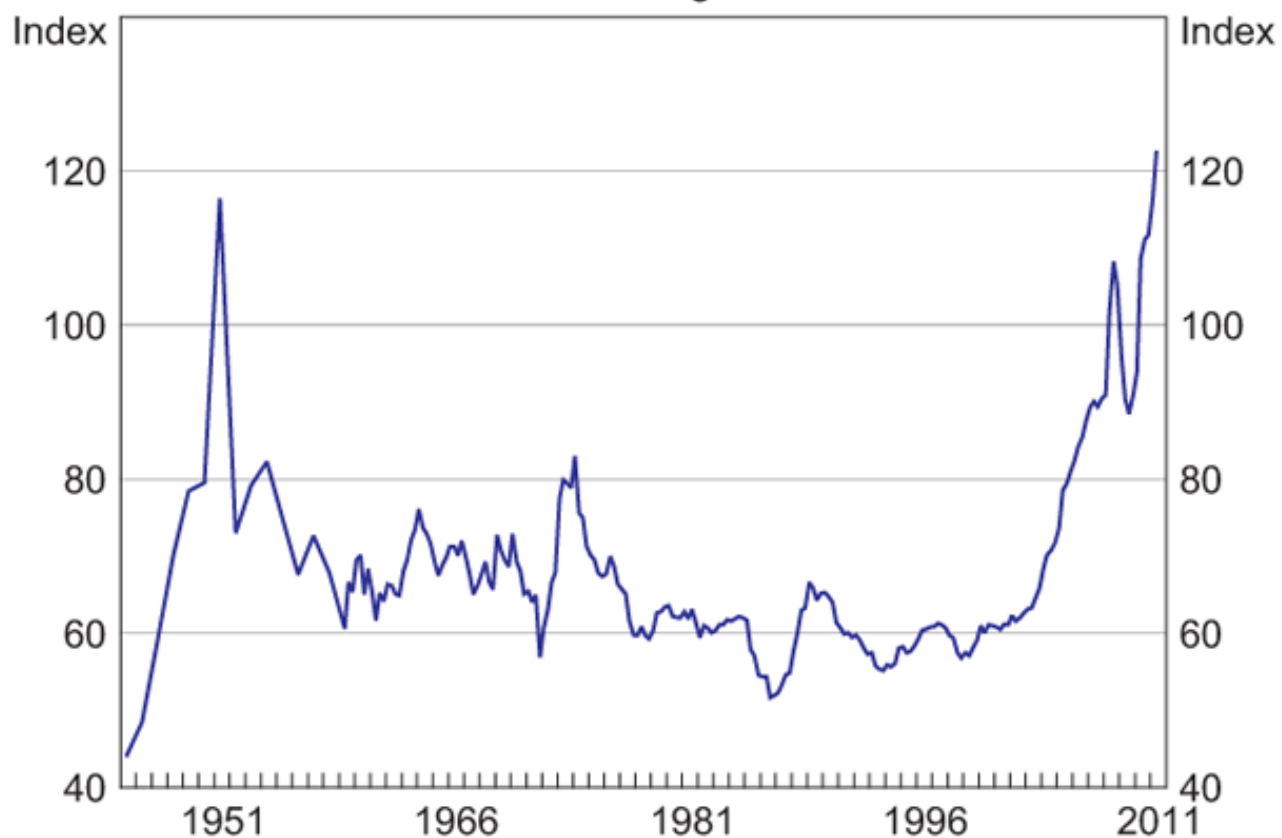
NAB	Suits a more aggressive stance on economic outlook
WBC	Suits a more risk averse stance
ANZ	Opportunities for Asian expansion likely to emerge
CBA	New CEO with a growth mandate



Resources Sector

Terms of Trade*

2008/09 average = 100



* Annual data are used prior to 1960

Sources: ABS; RBA

- Commodity prices peaked in April 2011
- Difficult to see what can drive prices back to those levels



Resources Sector: *Structural vs Cyclical pressures*

- Structural issues facing sector:
 - Labour shortages (global issue)
 - Deeper mines and lower grades
 - Infrastructure costs increasing
 - Rising taxes (e.g. MRRT, Carbon Tax)
- These costs are not going to fall as commodity prices decline
 - Impact on M-T margins



Resources Sector: *China*

- Key to demand/marginal supply
- Domestic inflation pressures are easing
- Risks are:
 1. Policy mis-steps
 2. European and US growth slowdown – impact on China
 3. Over-build – 2009 growth in Money Supply



Resources Sector: *BHP Key Drivers*

1. Commodities views:

- Global IP growth is slowing
- China
- Supply response (e.g. 3X Australian majors adding 300MT+)

2. Peak earnings?

- Where are we in the earnings cycle?
 - Prices may have peaked
 - Cost pressures are structural
- EBITDA margins



Resources Sector: *BHP Key Drivers*

3. Volume growth

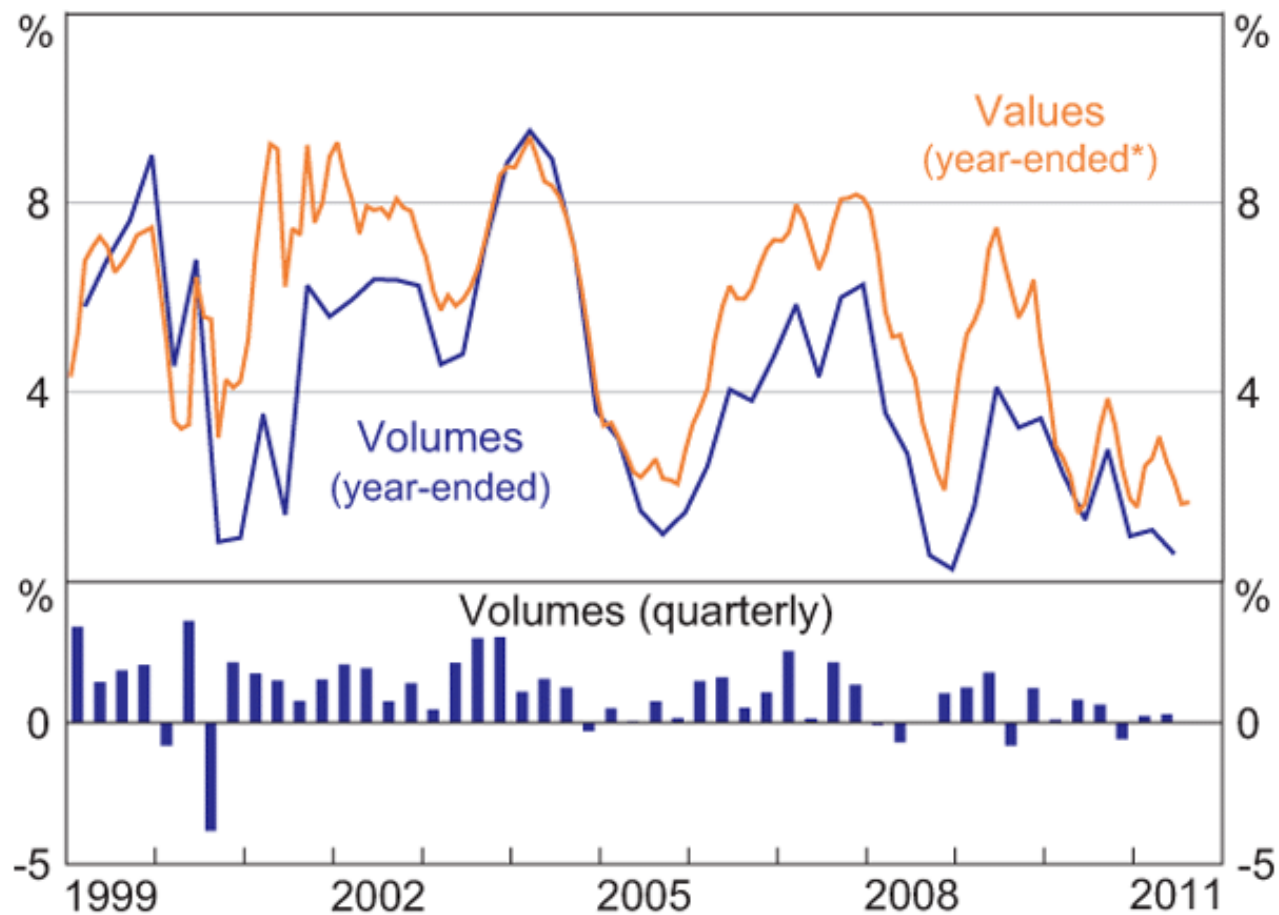
- Major expansion program, including
 - Olympic Dam
 - Outer Harbour expansion at Port Hedland
 - QLD coking coal
 - Jansen Potash
 - US shale gas
- Massive commitment of Free Cash Flow (FCF)

4. US Energy Bet – US Shale Gas

How does this thinking impact views on other Resources stocks?



Retail Sector: *Retail Sales Growth*



* Percentage change over year to latest three months

Source: ABS



Retail Sector: *Under Pressure*

- Sales volumes/price deflation
- Changing preferences
- Cautious consumer - households deleveraging
- Retail Rents



Regulatory/Political Issues

- Minority Government
- Regulatory risk
 - Telecommunications – NBN (reaching resolution)
 - Infrastructure – AER/ACCC (certainty for a period from AER)
 - Labour market re-regulation
 - Banking – Basel/Domestic
 - Wealth Management
 - MRRT/Carbon Tax
 - Healthcare – rebate
- What's next?



For Further Information



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