

# Bookmakers Super Fund

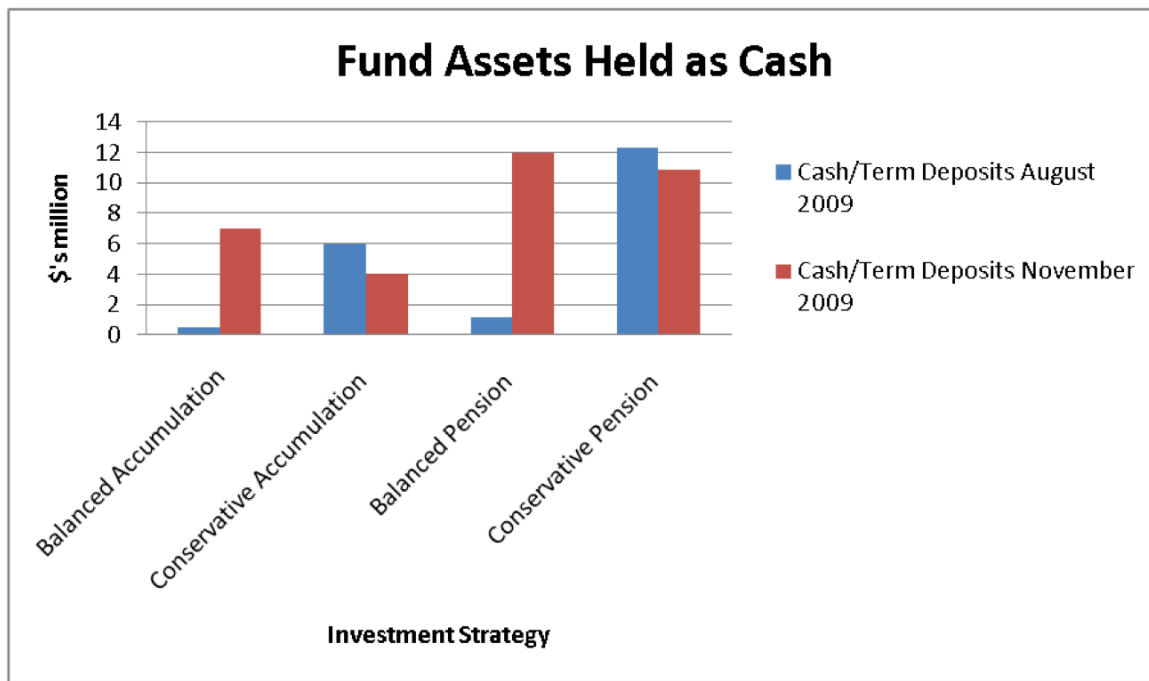
## December 2009 Update

### Fund Liquidity

As highlighted in the October 2009 Update, pleasing progress has been made in improving the liquidity of the Balanced investment strategies in the Bookmakers Super Fund (BSF). This progress has continued and now cash holdings are at or above targeted percentages as shown in the following chart.

Conservative strategies also continue to hold their targeted cash levels as they did in October.

At the same time, the Investment Manager has taken advantage of a number of opportunities to invest a portion of the available cash in better yielding liquid investments.



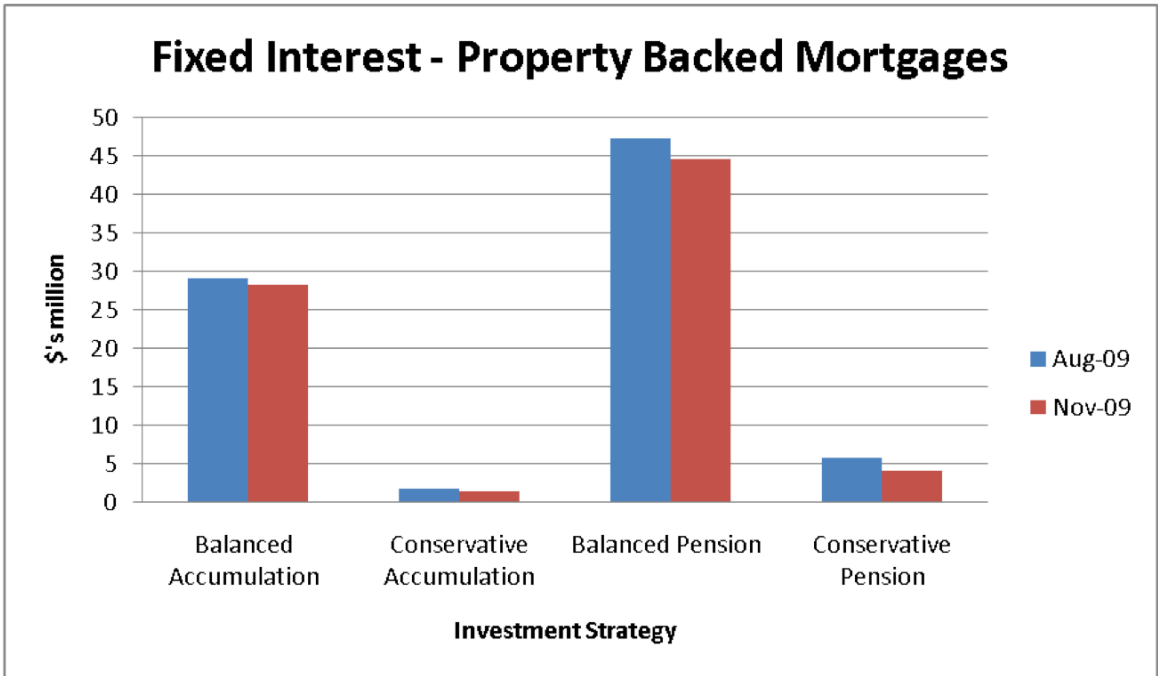
The processing deferral of redemption and switching requests has in part assisted us in re-establishing this improved position. This is as we planned and communicated to members and is an important achievement as it provides the platform for us to progressively return to our usual processing standards.

# Fixed Interest

Our Fixed Interest asset class includes both listed income securities and property backed mortgages offered directly to developers or through managed investment schemes typically established by licenced mortgage managers. This asset class has contributed significantly the BSF's historic relative investment outperformance.

As we have previously explained, property backed mortgages have been affected by the Global Financial Crisis (GFC). Super Promoters and the Investment Manager have responded accordingly by actively intervening to realise these assets on best possible basis. Good progress continues to be made in this regard. The following chart highlights the total mortgage loans in August 2009 versus November 2009. In total, there has been a 6.5% reduction in loan balances arising from partial or full repayments in what has arguably been the tightest credit market for over 30 years.

We currently have repayments scheduled from contracted sales of property and refinancing that accounts for a further \$10m reduction in loan balances during the January to March quarter. Importantly, credit markets and the ability of business to access new finance continues to improve which we think bodes well for an even higher level of mortgage repayments in subsequent quarters in 2010.



There are three primary categories of Fixed Interest – Mortgages.

### **(1) Property Projects**

BSF has now taken possession of several properties with a total value of approximately \$26m. These properties will be sold, completed and then sold or retained based upon our judgement of what will deliver the best return in the circumstances.

Key activities to date include:

#### **Luxury Houses - Rose Bay, NSW**

The first of the 3 houses on Beaumont Street, Rose Bay was sold by auction on the 11<sup>th</sup> of December at a price that was significantly in excess of our carrying value. The effort to complete the remaining construction work was substantial and our appointed builder and project manager have done a terrific job to meet our sale date. We plan to sell the remaining two houses in the development over the next couple of months. Based upon the sale result of the 1<sup>st</sup> house, we are optimistic that a similar outcome can be achieved with these two houses as well. In that event, a full recovery is expected on our current carrying value and an additional recovery of a significant portion of accrued but unbooked interest.

It's noteworthy that the funding for the remaining construction works was procured through Super Promoter's parent, Diversa Ltd, and positively impacted BSF's efforts to enhance liquidity.

#### **Commercial Building – Pymble, NSW**

Construction certification is in the process of being obtained. Legal action has commenced to recover on the provided guarantee. A Property agent has been appointed to either source a development partner or a buyer for the property.

#### **Residential Land Development – Port Douglas QLD**

The development application is being amended to optimise value for either development or on-sale.

#### **Residential Land Development – Townsville QLD**

Development of final 20 residential lots (part of a 164 lot gated estate. The balance of the estate is fully developed and these last 20 vacant lots are in favourable positions fronting the Golf Course. BSF has entered into an arrangement with an external funding source whereby BSF received payment of 42% of its principle and the construction of townhouses on the lots is being 100% funded by the external source.

Upon progressive completion and sale of the Townhouses, BSF expects to receive full return of our carrying value and accrued but as yet un-booked interest.

## **(2) Third Party Managed Mortgages**

These loans total approximately \$28 million and continue to be managed by licenced mortgage managers. Realisation on the full loan amount and accrued interest is progressively occurring as underlying properties are sold or re-financed.

Key progress to date includes:

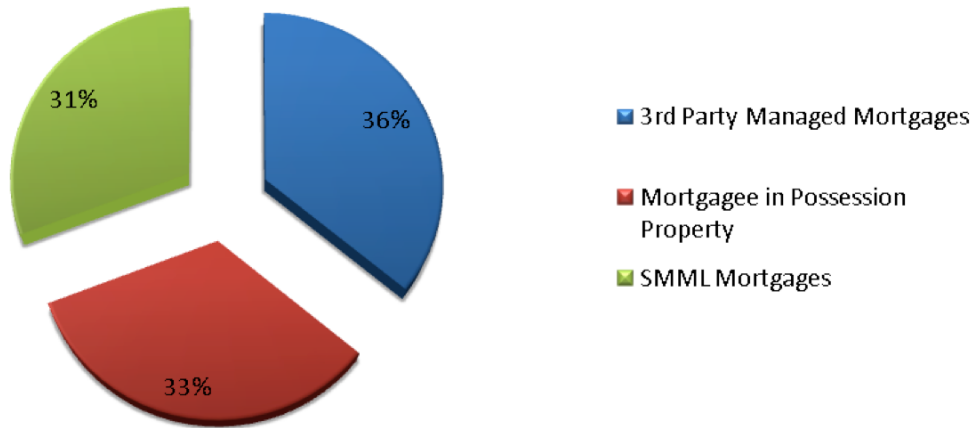
- Vacant residential land at Redcliffe, QLD is due to settle 21 December, returning our entire \$1.4m mortgage investment including unbooked, accrued interest.
- An 80 lot land subdivision in Geraldton, WA is now 59% sold and based on current executed and contracted sales (which in total now exceed our mortgage principle), the Investment Manager believes the loan will return our carrying value including accrued but as yet unbooked interest.
- A previously stalled 16 storey residential development in Townsville has recommenced with completion expected by 31 March with 45% of the units now pre-sold. Based on current sales the Investment Manager believes the loan will return our carrying value including accrued but unbooked interest.

## **(3) SMML (in Receivership) Loans**

Loans in this portfolio total approximately \$24m. We continue to work with Bentley MRI, the appointed receiver to Summit Mortgage Management Limited, to establish realisation plans for each of the loans within this loan portfolio. Two of the 12 properties have sold with a further 2 sale contracts recently issued. Sale negotiations are continuing on several other properties. In these cases, the prices that the receiver obtained were at less than carrying value and will offset better results achieved in other parts of the portfolio.

It is also important to appreciate that whilst the SMML loans form a reasonable portion of the BSF's total mortgage portfolio, they are by no means the majority of it. The chart below shows the break-up of the total BSF mortgage portfolio by type, and demonstrates that SMML is less one third of the total mortgage book.

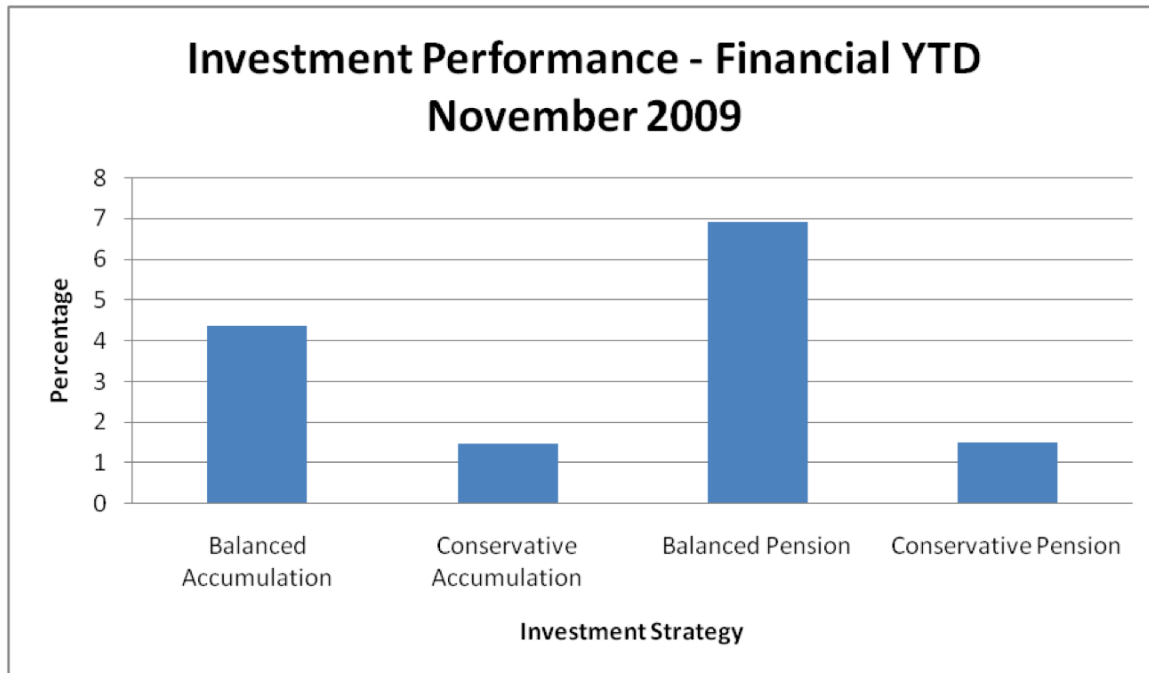
## Fixed Interest - Mortgage Portfolio



## Investment Manager's Update

### Investment Performance – Financial YTD

Performance continues to be positive overall year to date due to the significantly positive returns achieved in the September 2009 quarter as demonstrated below:



## **Investment & Economic Review**

The performance of BSF has improved this financial year thanks to more stable conditions in the mortgage finance sector and resurgence in share prices.

Solid progress has been made towards liquidating some mortgage and property assets and we expect that this will accelerate in 2010.

The investment portfolio remains purposely underweight shares relative to the pre-approved asset allocation range and has built up a significant amount of cash and term deposits, now representing a little more than 10% of the Balanced Strategy. This level of liquid assets is higher than the targeted portfolio Cash range and is designed to facilitate the return to our usual transaction processing timeframes and as a prudent counter-balance to the more illiquid assets of the Fund.

## **Shares**

The Australian stock market, as measured by the benchmark S&P ASX 200 Index, has risen by about 18% since the beginning of the 2009/10 financial year. This period of market strength was mostly apparent during July, August and September, but has generally trended sideways since.

Looking forward, the stock market is likely to continue its recent neutral trend due to the lingering economic effects of the global financial crisis and is the reason why we continue to maintain an underweight equity position. In 2010 share price appreciation may be constrained by the dilutive effect of the many share issues that occurred in 2009.

Our market forecast for 2010 suggests that this sideways market pattern may prevail for a while. Within this pattern there will be the usual up and down volatility and members should not be surprised to see this occur from month to month in 2010

Share performance into 2010 will be also be driven by the capacity for companies to report reasonable profits and dividends, and this in turn will be dictated by the pace of economic growth. As economic growth will remain constrained, share price appreciation may be modest, so it remains our strategy to retain higher than usual levels of cash within the BSF portfolios, with the intent of acquiring more shares in leading companies either via discounted share offers or during periods of market weakness.

Approximately 26% of the Balanced component of the BSF is invested in Australian shares. This level remains lower than the Funds' normal targeted level of 40% as a result of the above rationale. The largest share investments of the Balanced Option are BHP Billiton, ANZ Bank, Commonwealth Bank, Westpac and National Australia Bank. The Conservative Option owns no shares.

## **Property**

Commercial property values around Australia have come under significant pressure in the last two years, particularly incomplete or vacant properties. The BSF's directly owned properties are performing satisfactorily, with occupancy at a high level and rent being received.

A few properties acquired by the BSF pursuant to exercising mortgagee power are being prepared for sale, e.g. Rose Bay luxury properties, and these sales campaigns will add to the liquidity of the Fund as determined at the time.

## **Interest Rates**

In early December the Reserve Bank of Australia raised the cash interest rate to 3.75%, the third successive monthly raise of 0.25%. This change in policy followed better than expected economic growth in Australia, and an expectation that Australia's major trading partners will perform more strongly than the OECD average in 2010.

We expect the Reserve Bank to steadily raise short term interest rates during 2010 towards 5%, such that the yield curve gradually flattens. The yield curve represents the relationship between short term and long term interest rates, and short term rates rising towards the long term level is a normal phenomenon during this stage of an economic cycle.

The 10 year Australian Government bond yield remains at about 5.5%, having risen from the January 2009 low point of about 3.9%.

## **Outlook**

The BSF investment portfolio has stabilized after a poor period. The deliberate lower weighting in shares should partially protect the fund from any market downturn and the high level of cash is tactically held as a liquidity buffer and to deliver relatively modest positive returns reflective of the lower risk approach to the current holdings of growth assets.

The goal for 2010 is to successfully sell and/or redeem selective property, mortgage and fixed interest assets so that these funds can be reapplied to a broader portfolio of assets.

2010 should be a satisfactory year, punctuated by periods of market volatility, both negative and positive. The major investment hurdle continues to be the lingering effect of the global financial crisis and, in particular, the likelihood of higher public sector debt, rising interest rates and lower company earnings per share.

## **Christmas 2009**

We find ourselves at the end of another year that has seen some ups and downs for the BSF, however we are pleased with the progress achieved since July.

It would appear that the world has avoided a complete financial collapse and that Australia has fared particularly well. We are confident that the outlook for the BSF is very positive and look forward to working with our new partners from Diversa to continue to improve the fund and the services we offer.

We would like to thank you for your continued support of the BSF and take this opportunity to wish all our members a joyous Christmas and a healthy and prosperous New Year.

The office of the BSF will be closing at 5pm on Wednesday 23 December and reopening on Monday 4 January 2010.

For emergencies during this period you may contact the office on 1300 880 736 where a recorded message will provide a mobile number.

Alternatively, you may email [peterh@BookmakersSuperFund.com.au](mailto:peterh@BookmakersSuperFund.com.au)