

OPIS Funds gains ground whilst markets decline

MARKET REVIEW

The All Ordinaries Accumulation Index posted its sixth consecutive quarterly loss, falling 1.7% to 31 March 2009. This was despite the market having a strong run in March, rising 8.1%, its largest monthly rise since December 1993. The rebound commenced after positive comments by Citigroup and JP Morgan and efforts by the US Federal Reserve to take toxic mortgage assets off bank balance sheets. Further optimism was fueled by the concerted stimulatory effort of the G20 and no doubt helped by the record low valuations on offer in the current market.

Domestically an absence of major negative stock specific news, combined with a reporting season that was better than investors' bearish expectations, helped the local market to significantly outperform overseas markets. During the quarter the Japanese Nikkei was down 8.5%, the US Dow Jones fell 13.3% and the UK FTSE lost 11.5%.

Oil rose strongly from its lows to end the quarter at around US\$50 bbl, the Australian dollar was flat at US69c (despite falling to US63c at one point), copper rose 38% and gold continued to track higher, up 4% to US\$918 as investors sought it as a hedge against future inflation.

Corporate activity drove the best performers. These included a Canadian pension fund making a cash bid for Macquarie Communications Group (+171%); the Chinese Government owned Chinalco looking to increase its stake in RIO (+49%); and Fortescue Metals (+32%) which informed the market that they had been approached by a number of parties 'to explore investment opportunities'.

The banking sector performed well with a number of the majors citing strong core operational performances. CBA in particular upgraded its guidance slightly, which saw the stock rise 20% in the quarter. This news, combined with an overall improvement in sentiment towards financial stocks, buoyed the other majors including Westpac (+12%) and ANZ (+3%).

Woolworths again demonstrated its very strong de-

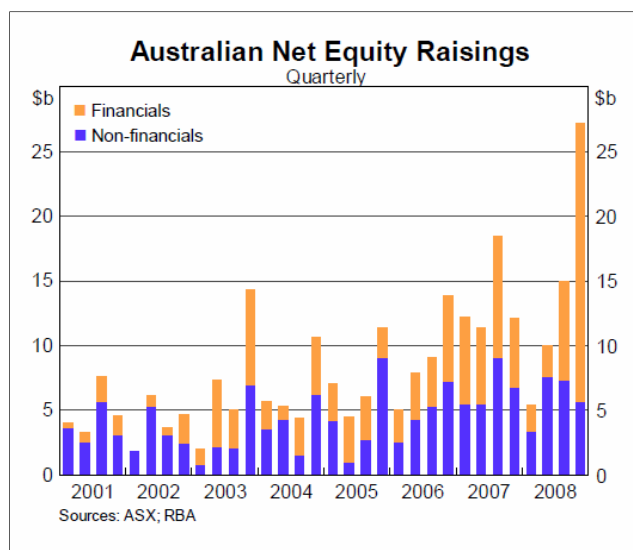
fensive qualities by announcing first half sales numbers that were up 9% on the previous corresponding period. On the retail front, JB HiFi's shareprice rose 18% as its sales, margins and market position continued to strengthen against a very difficult consumer backdrop.

Smaller retailers continued to come under pressure with Rudd's stimulus package unable to offset the macro headwinds. David Jones and Noni B reduced their earnings guidance while Strathfield and Australian Discount Retail (Crazy Clark's and Go-Lo) went into receivership.

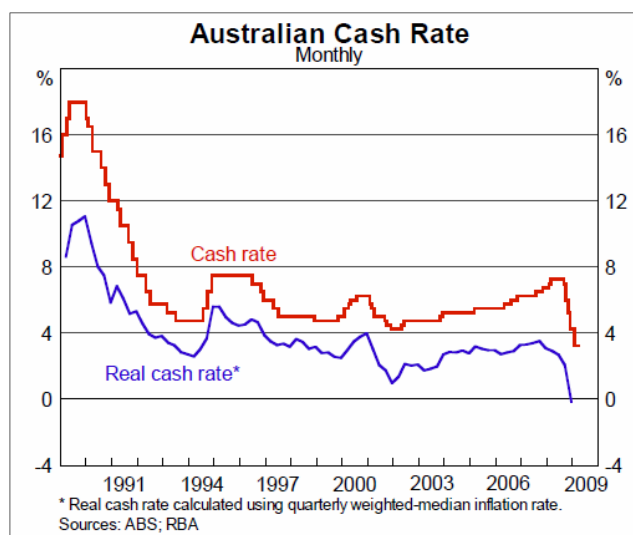
Cyclical stocks fell further out of favour in January and February with poor performances from the likes of Fairfax, Qantas, Brambles, Leightons and CSR which all tumbled by more than 30%. Some cyclical names staged a strong recovery in March as investors began to position themselves for an eventual economic recovery.

The property trust sector remained under substantial pressure with Goodman Group -56%, GPT -52%, and ING Office Fund -48%.

Capital raisings were an ongoing feature with over \$6bn raised in the quarter from companies such as Westfield (\$2.9b), Qantas (\$500m), Fairfax (\$438m) and Suncorp Metway (\$855m).



In economic news, GDP contracted 0.1% in the December quarter, inflation fell to 3.7%, and unemployment edged up to 4.9%. In response to the weakening economic environment, the RBA cut official rates by a full percent to a record low of 3.25% on 4th February 2009.



FUND REVIEW

The Funds performed credibly during the difficult period, with the Premium Fund rising 4.1% and the Dynamic Fund gaining 3.7%. The Funds outperformed the All Ordinaries Index and were significantly ahead of the return posted by the Small Industrials Accumulation Index which fell 7.3%.

The key drivers of the Funds' returns were the strong first half earnings reports from most of our core holdings which was pleasing given the difficult economic backdrop. Highlights included:

CSG Group reported net profit after tax growth of 36% to \$11.1m for the first half year of financial 2009. With a large proportion of its revenue being derived from locked-in government contracts, management stated that the second half will result in another record result.

McMillan Shakespeare saw its first half profit after tax rise 20% to \$9.5m and its dividend increased 13% to 8.5c. We expect ongoing growth for the remainder of FY09 due to McMillan's high exposure to the non-cyclical health and non-profit sectors, strong annuity revenue streams and cash positive balance sheet.

Mermaid Marine, which owns a fleet of vessels and strategic supply base facilities largely supporting the oil and gas industry on the North West Shelf, saw its earnings per share rise 31% to 6.7c as demand in the region continues to remain robust.

JB Hi Fi, mentioned earlier in the market review, was a clear stand-out reporting outstanding sales and profit growth despite the very tough retail environment. The stock was added to the Funds several weeks before the first half result and we have increased the holdings post the strong result.

Service Stream, a provider of infrastructure services to the telecommunications and utilities sector, was the major negative performer for the period. It released an earnings downgrade to the market in February after a Queensland Government infrastructure project was impacted by significant weather delays and cost overruns. We had previously reduced our position in the stock and made the decision to exit the position completely after this negative news flow.

Sunland was also exited earlier in the quarter as a result of fears about asset write-downs and the rapidly deteriorating state of the Dubai property market. Whilst Sunland retains a strong balance sheet, the company has some challenging times ahead exiting projects in Dubai and re-focusing the business on its domestic operations.

The recent market turmoil has seen a number of high quality businesses with strong business models sold down to attractive levels. Many of these businesses have been on our radar for some time but have simply been too expensive. The Opis team has been busy conducting due diligence and meeting with management with a view to identifying the most attractive opportunities.

New additions to the portfolio during the quarter include **Iress**, a provider of information and wealth management systems; **The Reject Shop**, a discount variety retailer of general merchandise with a strong growth profile and outstanding track record; **Platinum Asset Management**, a Sydney based boutique fund manager which specialises in global equities; and **Corporate Express**, an Australian producer of office products to large corporation and governments in Australia and New Zealand.

OUTLOOK

Until recently, fear and uncertainty have been the prevailing emotions gripping the market, resulting in major market swings and share price volatility. Little attention appears to have been focused on underlying fundamentals, with many businesses trading at significant discounts to their stated net tangible assets and, in some cases, at a discount to their cash backings. On the positive side, this environment has provided opportunities to pick up some high quality businesses at very attractive valuations.

However, in the past four weeks, market sentiment has experienced a significant reversal with investors almost falling over themselves to take on additional risk and pour money back into the marketplace. Interestingly, the rebound has not been led by the big blue-chip stocks, but by the smaller end of the market which had been significantly oversold in the bearish malaise.

Some of this exuberance has stemmed from positive overseas developments including a return to profitability of the major US banks and tentative signs of recovery in China. Further comfort can be taken from the fact that domestic policy makers are showing a willingness to help kick-start the economy. The Reserve Bank of Australia just reduced the official cash rate a further 0.25% to 3.00%, the lowest level since the 1960's. Unlike most other western economies where cash rates are less than 1%, domestic policy makers still have monetary policy as a weapon to stimulate the economy and we expect further rate reductions in the coming six months.

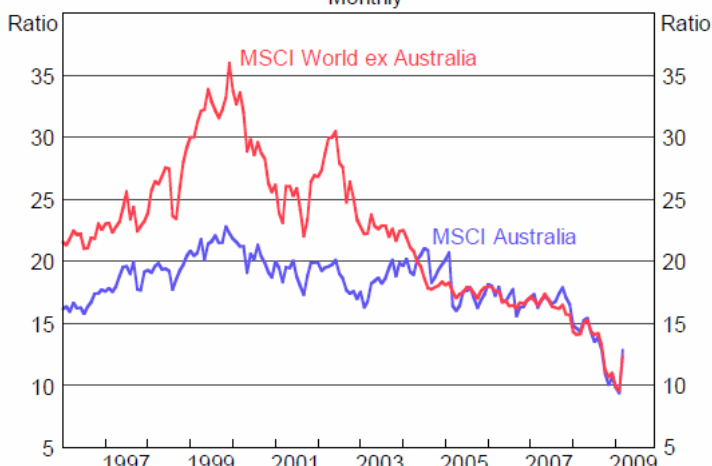
The Federal Government has announced its second fiscal stimulus package entitled the "Nation Building

and Jobs Plan" which delivers a further \$42b over 3.5 years, equating to about 3.5% of GDP in today's dollars. The money is broadly split between a further \$12.7b of cash handouts to low and middle income households and \$28.8b of infrastructure work. The National Broadband Network has also just been announced, a proposed \$40bn+ build that could also be expected to bolster the economy.

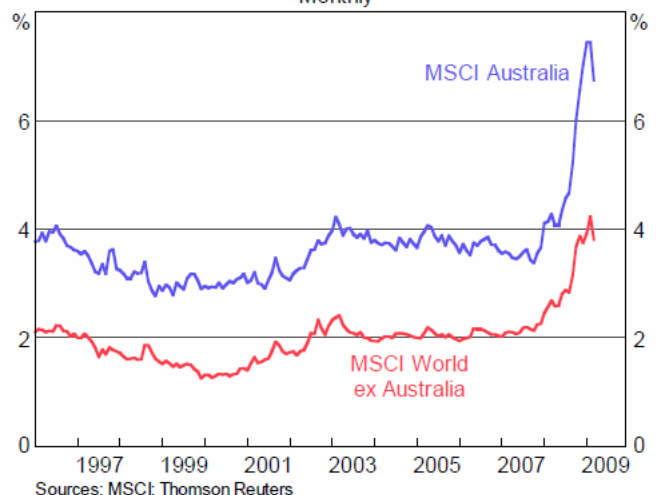
Although there will be a lag, today's monetary and fiscal relief can be expected to cushion the downturn for ordinary Australians and is a cause for cautious optimism. It is expected that further Reserve Bank and federal government relief will be required in coming months but eventually economic sentiment will turn from current low levels. If history is an accurate guide, the stock market can be expected to turn well before the broader economic indicators turn positive.

With the average FY09 PE multiple of our Funds at 9.2x (versus the All Ordinaries Index at 12.9x) and the average dividend yield at 7.7%, our stocks are being priced by the market for some quite disappointing earnings outcomes going forward. No doubt the poor domestic economic outlook will bring its share of challenges, but we firmly believe that our Funds, along with much of the current stockmarket, is oversold and that patient long-term investors will be rewarded in the months and years to come.

P/E Ratios
Monthly



Dividend Yields
Monthly



**FUND
HOLDINGS**

STOCK	Price (\$)	Dynamic	Premium	Mkt Cap (\$m)	PE09x	Div Yld 09
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Fund holdings only available to OPIS unitholders

FUND STATISTICS

Performance *	Dynamic Equity	Premium Equity	Small Ind Accum	All Ords Accum	Small Ords Accum
Unit Price at 31/03/09	1.0695	0.8129	3367.1	23739.9	3581.8
1 Month	8.5%	8.6%	9.2%	8.1%	10.2%
3 Months	3.7%	4.1%	-7.3%	-1.7%	-2.0%
1 Year	-47.4%	-45.5%	-44.3%	-31.3%	-45.8%
3 Years (p.a.)	-23.2%	-22.6%	-18.1%	-7.6%	-13.8%
5 Years (p.a.)	-7.3%	-6.8%	-2.6%	5.0%	1.1%
7 Years (p.a.)	-0.5%	-1.0%	-0.1%	5.0%	3.3%
Annualised return since incep.	5.4%	4.5%	0.1%	5.2%	3.2%
Fund Size	\$29.6m	\$19.6m			

MAJOR MOVES	PRICE CHANGE	CONTR DYNAMIC	CONTR PREMIUM
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ADDED or INCREASED	REMOVED or DECREASED
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Fund holdings only available to OPIS unitholders

* Past performance is not a reliable indicator of future performance. The Total Returns of the OPIS Capital Premium Equity Fund and the OPIS Capital Dynamic Equity Fund over specified periods are shown in the following table. This table contains information regarding Total Returns to 31 March 2009. Total Returns are calculated after taking into account performance fees. Where OPIS Capital generates a return on a Fund over and above the performance hurdle of 15% in any financial year, a performance fee of 20.5% of all profits above this level is charged to the Fund directly. Before 1 July 2004, performance fees were not paid out of the Fund but billed by OPIS Capital directly to investors. In this table, the Total Returns for the period prior to 1 July 2004 have been adjusted to reflect the paid performance fees as if the fees were paid out by the Fund. The Total Return performance figures quoted are historical, calculated using end of month mid prices and do not allow the effects of income tax or inflation. Total Returns assume the reinvestment of all distributions. The performance is quoted net of all fees and expenses. The Small Industrials Index does not incur these costs. This information is provided for general comparative purposes. Positive returns, which the Funds are designed to provide, are different regarding risk and investment profile to index returns.

COMPANY CONTACT

FLOATS / PLACEMENTS

Fairfax

Suncorp-Metway

Westfield

TRADING UPDATES

AJ Lucas

iiNet

realestate.com.au

Ansell

IMF (Australia) Ltd

Reckon

ASG

Intermoco

Redflex Holdings

Ausenco

IRESS Market Technology

Retail Food

Austbrokers Holdings

JB Hi-Fi

Runge

Australian Wealth Management

JB Hi-Fi

SAI Global

Bradken

Jetset Travelworld Ltd

Salmat

Breville

Lodestone Exploration

Sedgman

Carnarvon Petroleum

Macquarie Leisure Trust

Seek

CBA

McMillan Shakespeare

Service Stream

Coffey International

Melbourne IT

Slater & Gordon

Count Financial

Mermaid Marine Australia

SMS Management & Technology

Crane

Mesbon China Nylon

Snowball

CSG

Monadelphous

Southern Cross Electrical

Customers

National Australia Bank

Sp Ausnet

David Jones

Navitas

Suncorp-Metway

Domino's Pizza Enterprises

News Corporation

Sunland

Entertainment Media & Telecoms Corporation

NIB Health

Super Cheap Auto

Fairfax Media

Nick Harris PWK

Talent2 International

Fantastic Holdings

NRW Holdings

Tassal

G.U.D. Holdings

Oaks Hotels & Resorts

The Reject Shop

GPM

Oakton

Tox Free Solutions

Hastie

Peet

Tranzact Financial Services

Healthscope

Photon

United

HFA Holdings

PIPE Networks

UXC

Hills Industries

Platinum Asset Management

Walter Diversified Services

Hutchison Telecom

Programmed Maintenance Services

Warrnambool Cheese & Butter Factory Co.Hold.Ltd

SITE VISITS

Ausenco

Fairfax Media

PIPE Networks

Austbrokers Holdings

iiNet

Seek

Australian Wealth Management

IRESS Market Technology

Tassal Group

CSG

JB Hi-Fi

Service Stream

Fantastic Holdings

Oakton

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