

Wholesale Equity Income Fund

Monthly update

December 2011

Historical risk and return analysis (before fees and expenses)

As at 31 December 2011	1 mth	3 mths	6 mths	1 yr	2 yrs pa	3 yrs pa	Inception pa
Total Fund return (excluding franking)	-0.15%	2.60%	-5.19%	-3.95%	-0.15%	9.64%	4.16%
Total Fund return (including franking)	0.13%	3.08%	-4.21%	-1.31%	1.91%	11.65%	5.89%
Reference index (Note 1)	-1.15%	2.32%	-9.57%	-9.82%	-4.64%	7.39%	-1.11%
Excess return (excluding franking)	1.00%	0.28%	4.39%	5.87%	4.49%	2.26%	5.28%
Distribution returns							
(excluding franking, net of fees)	2.86%	2.93%	5.39%	11.50%	11.08%	12.23%	11.78%
Franking credit returns	0.28%	0.48%	0.97%	2.64%	2.06%	2.00%	1.73%
Reference index dividend yield average	-	-	-	5.21%	5.03%	5.05%	5.10%
Fund volatility (including franking)	-	-	-	7.90%	9.70%	9.81%	10.88%
Reference index volatility	-	-	-	11.24%	12.77%	14.37%	16.45%

Note 1. The S&P / ASX 100 Accumulation Index is used as a reference index as the basis for determining the income and volatility objectives of the fund. While the fund is predominantly invested in equities, this reference index is not expected to closely reflect the return profile of the fund due to the use of equity derivative strategies.

Market insights

- December was a relatively quiet month in the Australian share market. Trading volumes were relatively low, particularly leading into the Christmas and new year holiday period.
- The interest rate cut provided a boost to the market early in the month, but these gains proved to be short lived. In the month as a whole the S&P/ASX 200 Accumulation Index closed 1.35% lower, extending its decline in 2011 to more than 10%.
- Whitehaven Coal and Aston Resources agreed to merge. The merged entity will be the largest independently owned listed Australian coal company with a market capitalisation of around \$5 billion.
- The other notable feature of the market in December was a stream of earnings downgrades from retailers. This followed disappointing sales in the crucial pre-Christmas period. Billabong, JB Hi-Fi and Kathmandu Holdings all revised down their earnings expectations.

Fund activity

- The Fund's exposure to ANZ Banking Group was increased. The stock remains attractively valued relative to peers and we believe a focus on cost management will support earnings growth in the current year. The scale of the position which was covered by options was reduced in order for the Fund to participate in greater upside potential in the share price.
- The position in Foster's Group was removed from the portfolio as the takeover of the stock was completed.
- The Fund continues to apply a range of options – such as buy writes and collars – on top of its underlying portfolio of Australian shares. These positions generate income for the portfolio through the receipt of option premiums, which can provide a meaningful cushioning of losses during adverse market conditions. This was the case in December, when (inclusive of franking credits) the Fund recorded a modest gain while the benchmark index lost ground.

Market outlook and Fund positioning

- Most of the issues which affected equity markets in the second half of 2011 remain unresolved and are likely to continue to dominate investor sentiment in early 2012.
- Financial markets – including equities, bonds and commodities – continue to be driven by the latest headlines regarding the European sovereign debt crisis and proposed solutions to it.
- The Financials sector as a whole is attractively valued and is currently trading at a ~20% discount to the Industrials sector. The banks appear to have greater earnings certainty than many industrials stocks as we approach February's reporting season.
- Some of the large-scale projects that are underway or planned in the mining and energy sectors will underpin growth in these areas of the market over the long term. In the short term, however, share prices of resources companies are likely to be affected by the anticipated growth profile of emerging markets – particularly China – and fluctuations in commodity prices.
- The use of option strategies should result in the Fund exhibiting a lower level of volatility than the Australian share market.

The Colonial First State Wholesale Equity Income Fund aims to generate income of 2.5% per annum above the dividend yield on the S&P/ASX 100 Accumulation index over three years while also offering modest capital growth over the long term. It aims to achieve this return with lower volatility than the S&P/ASX 100 Accumulation index.

The Fund targets this return by investing in Australian equity strategies using the proven process of the Colonial First State Global Asset Management Australian Equities, Core team.

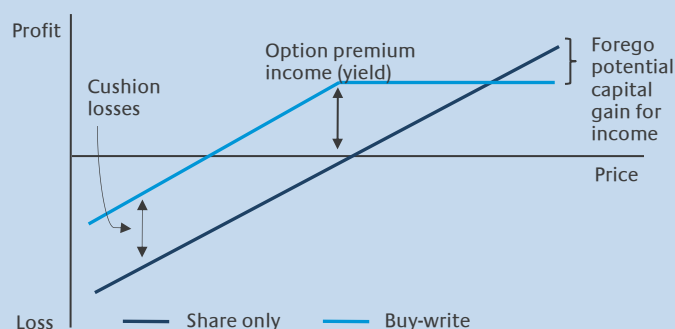
Key features as at 31 December 2011

Fund size (A\$ million)	\$101.9
Reference index	S&P/ASX 100 Accumulation Index
Inception date	March 2008
Distribution frequency	Quarterly
Buy/sell spread	0.25%
Currency exposure	100% AUD

A primer on the buy-write strategy

The buy-write strategy is the most commonly used strategy in this Fund.

A buy-write strategy is where an investor sells a call option and simultaneously buys an equivalent number of securities. By selling a call option, the investor receives an income premium upfront. The strategy does not eliminate equity market risk. However, the income received can provide some downside cushioning over a fall in the stock price. As you can see from the diagram below, selling the call option also limits upside returns.



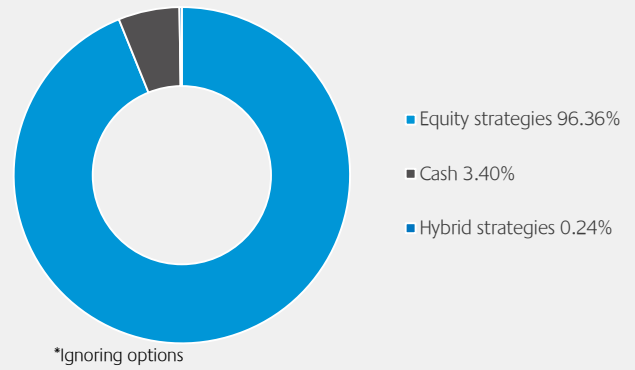
The Equity Income Fund uses options for two primary purposes:

- 1 To enhance the yield of the fund
- 2 To capture dividends and associated franking credits

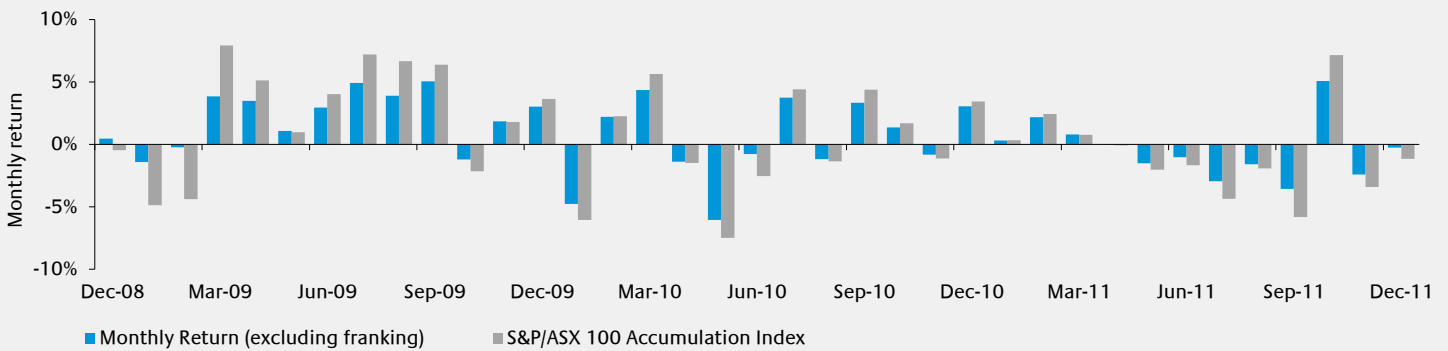
Investment holdings by type as at 31 December 2011

Buy-write strategy	28
Collar strategy	0
Sell-write strategy	0
Share only strategies	14
Hybrid securities	1

Invested exposure* as at 31 December 2011



Monthly returns vs S&P/ASX 100 Accumulation Index (including franking)



Excess returns vs S&P/ASX 100 Accumulation Index (gross returns in AS)



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There are fees and costs payable for managing investments in the Fund that are deducted from the Fund as a whole. The fees payable by investors in the Fund may be negotiated and can differ between investors. For this reason the performance figures used in this document are shown before fees and costs as at 31 December 2011. Investors should have regard to the Information Memorandum or their negotiated fee agreement for further information on the fees and costs applicable to their investment in the Fund.

Neither Commonwealth Bank of Australia nor any of its subsidiaries guarantees or stands behind the performance of the Fund or the repayment of capital by the Fund. Investments in the Fund are not deposits or other liabilities of the Commonwealth Bank of Australia or its subsidiaries; and investment type products are subject to investment risk including loss of income and capital invested.

Colonial First State Investments Limited receives fees for the management of the fund which are explained in the Information Memorandum available by contacting the Institutional Business team on +61 2 9303 6116. Colonial First State Global Asset Management is a registered business name of Colonial First State Asset Management (Australia) Limited ABN 89 114 194 311; further information is available on cfsam.com.au.

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