



portfolio watch

an annual report on the performance of
the **ipac** Diversified Investment Strategies



June 2008

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Note: all numbers have been rounded to one decimal place.

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strategy performance (gross)

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Diversified Investment Strategy No 1	-0.9	-3.9	-2.2	-2.2	4.2	6.1	7.7
Diversified Investment Strategy No 2	-2.8	-11.5	-11.2	-11.2	2.3	7.1	10.5
Diversified Investment Strategy No 3	-3.4	-13.7	-13.9	-13.9	1.6	7.1	11.0
Diversified Investment Strategy No 4	-4.1	-16.5	-17.2	-17.2	0.6	7.2	11.6
Diversified Investment Strategy No 5	-1.9	-8.5	-10.4	-10.4	3.5	n/a	n/a

Notes:

Strategy returns are calculated using month-end hard close exit prices, are gross of management fees, ongoing fees and expenses, assume distributions are reinvested and tax is not deducted.

A 50% currency hedge applies to the cumulative International Shares and International Smaller Companies exposure of each Strategy, excluding Diversified Investment Strategy No 5. For Diversified Investment Strategy No 5 A 50% currency hedge applies to the International Shares exposure.

Past performance is not necessarily indicative of future performance. All figures have been rounded to one decimal place.

sector & market performance (gross of all fees)

	3 mths	6 mths	Fin YTD	1 yr	2 yrs	3 yrs	5 yrs
	%	%	%	%	% pa	% pa	% pa
Australian Cash Sector	2.3	3.5	6.1	6.1	6.3	6.2	6.0
Australian Cash Sector - Strategy 5	2.3	3.5	6.1	6.1	6.3	n/a	n/a
<i>UBSA Bank Bill Index</i>	2.0	3.8	7.3	7.3	6.9	6.5	6.1
Alternative Income Sector	2.6	3.2	8.0	8.0	7.3	n/a	n/a
Alternative Income Sector - Strategy 5	2.6	3.2	8.0	8.0	7.3	n/a	n/a
<i>UBSA Bank Bill Index</i>	2.0	3.8	7.3	7.3	6.9	6.5	6.1
Australian Fixed Interest Sector	0.6	1.7	3.2	3.2	3.6	3.6	4.4
Australian Fixed Interest Sector - Strategy 5	0.4	2.6	4.4	4.4	4.2	n/a	n/a
<i>UBSA Composite Bond Index</i>	0.4	2.6	4.4	4.4	4.2	3.9	4.4
International Fixed Interest Sector	-1.0	1.3	6.8	6.8	5.9	4.6	6.1
International Fixed Interest Sector - Strategy 5	-1.4	1.7	7.7	7.7	6.3	n/a	n/a
<i>Lehman Global Aggregate (Hedged) Index</i>	-0.6	2.1	7.9	7.9	6.8	4.9	6.0
Australian Property Sector	-15.7	-34.3	-41.2	-41.2	-13.0	-3.9	4.4
Australian Property Sector - Strategy 5	-14.2	-31.8	-38.3	-38.3	-11.6	n/a	n/a
<i>S&P/ASX 300 A-REIT Index</i>	-15.8	-31.9	-37.7	-37.7	-11.3	-2.4	5.2
International Property Sector	-9.4	-12.1	-22.3	-22.3	-3.5	n/a	n/a
International Property Sector - Strategy 5	-9.4	-12.1	-22.4	-22.4	-3.7	n/a	n/a
<i>UBS Global Investors Index in AUD Hedged Net Div</i>	-8.5	-10.9	-22.5	-22.5	-4.1	n/a	n/a
Australian Shares Sector	-3.8	-17.3	-15.7	-15.7	4.1	10.6	15.9
Australian Shares Sector - Strategy 5	-5.3	-17.1	-16.8	-16.8	3.2	n/a	n/a
<i>S&P/ASX 300 Accum Index</i>	-1.7	-16.1	-13.7	-13.7	5.6	11.4	16.2
International Shares (Unhedged) Sector	-6.0	-19.2	-21.0	-21.0	-7.7	1.4	4.4
International Shares (Unhedged) Sector - Strategy 5	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<i>MSCI World Ex Australia (\$A Unhedged) Index</i>	-6.6	-18.2	-21.3	-21.3	-7.9	0.6	4.0
International Shares (Hedged) Sector	0.5	-12.4	-13.6	-13.6	3.1	8.3	11.9
International Shares (Hedged) Sector - Strategy 5	-1.9	-13.2	-19.5	-19.5	1.2	n/a	n/a
<i>MSCI World Ex Australia (\$A Hedged) Index</i>	-0.2	-11.1	-13.7	-13.7	3.3	7.8	12.1
International Smaller Companies Sector	-8.6	-19.5	-34.7	-34.7	n/a	n/a	n/a
<i>S&P/Citigroup World <US\$1.5bn Cap (AUD Unhedged Net Div)</i>	-7.0	-18.2	-27.2	-27.2	-11.8	n/a	n/a
Global Emerging Markets Sector	-4.6	-17.6	-5.1	-5.1	10.9	18.7	20.2
<i>MSCI EM in \$A (div reinvested)</i>	-5.7	-19.3	-7.5	-7.5	8.4	17.7	20.8
Alternative Assets Sector - Alpha Strategies	6.6	12.3	14.0	14.0	13.9	n/a	n/a
Alternative Assets Sector - Alpha Strategies - Strategy 5	6.6	6.5	7.4	7.4	9.8	n/a	n/a
<i>UBSA Bank Bill Index</i>	2.0	3.8	7.3	7.3	6.9	6.5	6.1

Notes:

Performance based on ipac Diversified Investment Strategies No. 2 & 5.

Performance figures are calculated using month-end hard close exit prices, are gross of management fees, ongoing fees and expenses, assume distributions are reinvested and tax is not deducted.

The investment performance of managers in the Alternative Assets sector may be lagged by one month or in some cases more.

manager & market performance

(financial year, gross of funds mgt fees)

asset class	manager return %	market return %	above/below index %
Australian Cash Sector			
AllianceBernstein	6.1	7.3	-1.3
Alternative Income Sector			
PIMCO	8.0	7.3	0.7
Australian Fixed Interest Sector			
BGI Index	4.4	4.4	0.0
Credit Suisse	3.1	4.4	-1.3
International Fixed Interest Sector			
BlackRock	6.0	7.9	-1.9
PIMCO	7.8	7.9	-0.2
Australian Property Sector			
BGI Index	-36.8	-37.7	0.9
Legg Mason	-41.9	-37.7	-4.2
SG Hiscock	-40.6	-37.7	-2.9
International Property Sector			
CBRE	-21.2	-22.5	1.3
LaSalle	-23.6	-22.5	-1.2
Australian Shares Sector			
BGI	-14.0	-13.7	-0.4
Integrity	n/a	-13.7	n/a
Schroders	-17.1	-13.7	-3.4
Maple-Brown Abbott	-15.0	-13.7	-1.3
Investors Mutual	-17.6	-13.7	-3.9
Wallara	-12.0	-13.7	1.7
Bernstein Value	-21.2	-13.7	-7.5
MIR	-13.7	-13.7	0.0
Challenger	-29.6	-13.7	-15.9
International Shares (Unhedged) Sector			
BGI Index	n/a	-21.3	n/a
Wellington	-19.8	-21.3	1.4
GMO	-15.7	-21.3	5.5
Bernstein Value	-27.5	-21.3	-6.3
Capital	-18.0	-21.3	3.3
Alliance Growth	-20.4	-21.3	0.9
LSV	-27.5	-21.3	-6.2
International Shares (Hedged) Sector			
BGI Index	-13.6	-13.7	0.1
Wellington	-12.7	-13.7	1.0
GMO	-8.0	-13.7	5.7
Bernstein Value	-20.7	-13.7	-7.1
Capital	-10.3	-13.7	3.3
Alliance Growth	-13.1	-13.7	0.6
LSV	-20.7	-13.7	-7.0
International Smaller Companies Sector			
Arrowstreet	-34.7	-27.2	-7.5
Global Emerging Markets Sector			
Legg Mason	-5.3	-7.5	2.2
Alternative Assets Sector - Alpha Strategies			
ipac Diversified Alpha Fund	n/a	7.3	n/a

Notes:

Performance based on ipac Diversified Investment Strategies No. 2 & 5.

Manager performance is calculated based on month-end hard close valuations using a time-weighted return methodology and are gross of fees and tax. Hedged manager returns are based on month-end hard close exit prices for the Hedged trusts, gross of management fees, ongoing fees and expenses, assume distributions are reinvested and tax is not deducted. External unit trust returns are based on month-end hard close unit prices by the manager, and the Alternatives Asset Sector return is calculated using soft close month-end exit prices

Market return is the return of the nominated market index for each asset class.

BGI Index (AFI, AP & Intl Share – Hedged), Bernstein Value (Aust Shares), are only available in Diversified Investment Strategy No. 5.

investment environment

Markets experience correction after four strong years

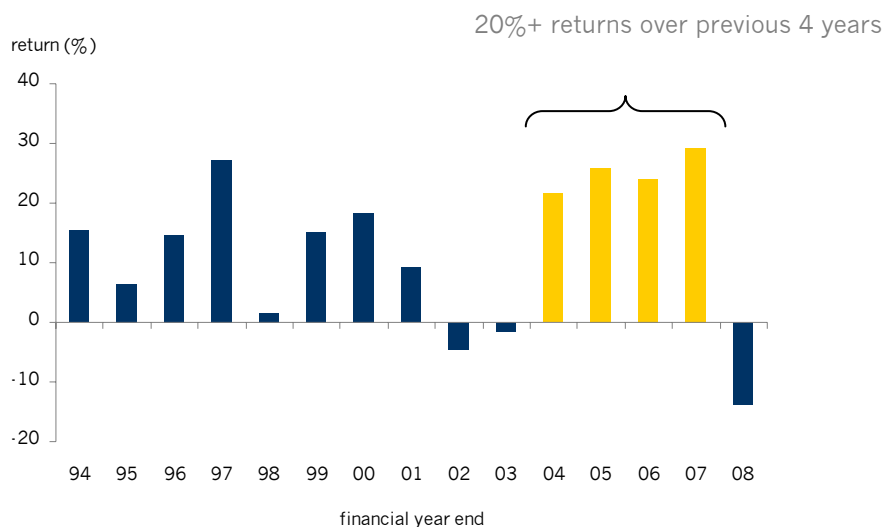
The past few years have seen exceptionally strong returns

For a number of years investors have enjoyed a combination of strong growth, low inflation and stable capital markets. The benign climate of low real interest rates supported increased risk taking and rising asset prices. The past 12 months, however, have been a painful reminder that markets are not always one-way traffic. Over the financial year, markets around the world were hit by a reversal in investor sentiment, and in Australia, the S&P/ASX 300 Accumulation Index recorded its biggest annual fall in 26 years, down 13.7 per cent. Despite the market falls of the past 12 months, the longer-term picture remains encouraging. Over the 5 years to 30 June 2008, Australian shares have fared strongly, delivering in excess of 112 per cent – an average of approximately 16 per cent per annum.

Markets have reversed their upward trend

What we have experienced over the past year is a correction from four glorious years of 20 per cent returns that were underpinned by buoyant consumer, business and investor confidence. The sub prime crisis in the US was the first catalyst to reverse the market's recent upward trend. The second catalyst was the resurfacing of global inflationary pressures, particularly in commodity markets.

Australian share market returns



source: Bloomberg – S&P/ASX 300 Accumulation Index

While most markets were hit over the past year by a reversal in investor sentiment, the standout exception was commodity related investments. A rise in the price of oil to record highs and surging commodity prices resulted in the Energy and Materials sectors of the Australian share market, rising 41.7 and 20.0 per cent respectively.

While shares in Australian resources benefited from surging commodity prices, the majority of the market slumped on debt concerns and profit worries. Sectors such as banks, listed property trusts and infrastructure funds, once regarded as 'safe' areas of the market, came under pressure as investors became more concerned about the high levels of debt in some of these companies. Inflationary pressures that came with the rise in the oil price weakened retail spending, ensuring Consumer Discretionary was the worst performing area of the market (down 40.3 per cent).

As rises in commodity prices began to take effect, the Australian Dollar gained in strength against other major currencies. By May, the Australian Dollar had hit a post-float record high of USc 96.5. This, together with four interest rate rises and increased raw material costs, made for a marked change in business conditions, reportedly some of the toughest experienced in more than a decade. As consumer spending slowed, corporate earnings struggled to keep pace with predictions. By the reporting season in May, profit warnings were announced at a rate not seen since the end of the global recession earlier this decade. However, while some companies suffered,

others flourished. New records were set for takeover activity in the first 5 months of 2008 as cashed-up companies took advantage of low valuations in a series of multi-billion dollar bids.

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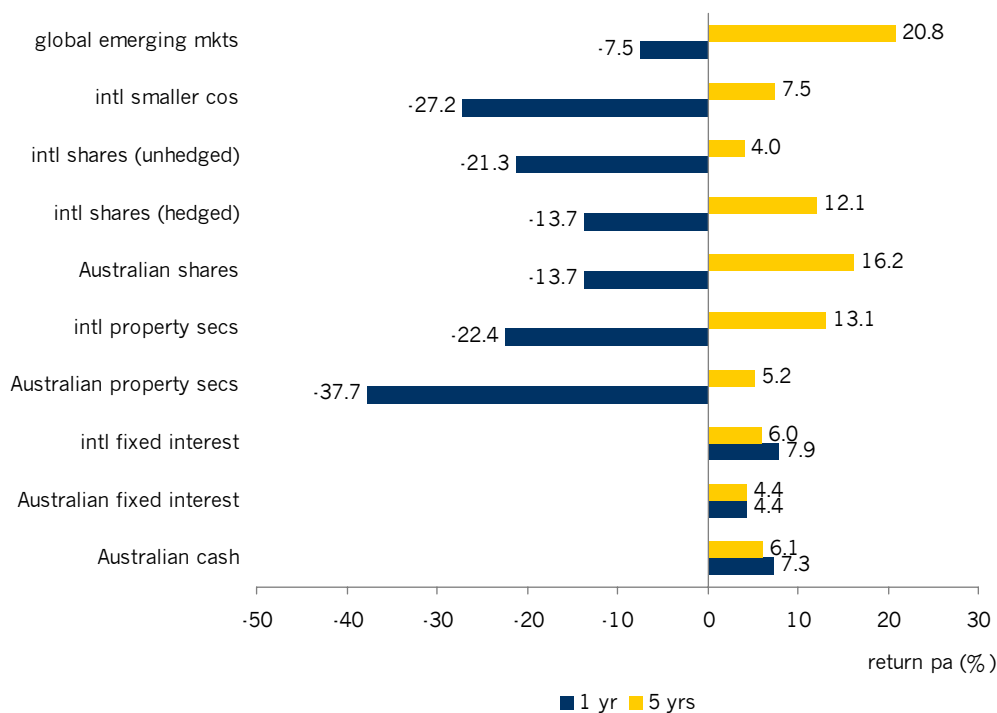
Through the year, central banks operated in different ways to address the conflicts of slowing growth and rising inflation. In the US, the Federal Reserve cut rates from 5.25 to 2 per cent. Although sensitive to the risk of rising inflation, the Federal Reserve remained more concerned about financial system liquidity and stability flowing from the sub prime crisis. In Europe and Japan rates remained on hold, while in an effort to temper the effects of rising inflation, the Reserve Bank of Australia raised rates to a 12 year high of 7.25 per cent.

Good quality, well-valued shares can recover over the long-term

The falls over the past year have not wiped out all the gains the market's made over the previous four years. As the new financial year starts, the Australian sharemarket is back to levels last seen in late 2006.

We are disappointed with portfolio returns over the past year, particularly within Australian shares. However, we continue to monitor our managers, ensuring our portfolios remain well constructed and diversified to meet their longer-term objectives. We also continue to look for opportunities that take advantage of dislocation in markets. During times of stress, investors will often sell good quality assets, as well as poor ones and those exposed to a specific problem. When the stress has eased, good quality, well-valued assets can recover and continue to build solid long-term returns. The only losses not recoverable in the long-run are those locked in by panic sellers and those lost on poor quality assets.

As global market volatility increases, so too does the need for a well diversified portfolio that helps protect investors from any adverse market developments. The table below shows the positive long-term returns of all asset classes. By investing across a number of areas of the market, an actively managed diversified portfolio can lower the effects of volatility and take advantage of market opportunities that arise from panic selling.



source: ipac. Data as of 30 June 2008

market returns for the year

Australian cash

UBSA Bank Bill Index: 1 yr: 7.3%; 5 yrs: 6.1%

Over the year the Reserve Bank of Australia (RBA) raised rates from 6.25% to a 12 year high of 7.25%. Rates were increased by 0.25% in August, November, February and March.

Australian fixed interest

UBSA Composite Bond Index: 1 yr: 4.4%; 5 yrs: 4.4%

Rising inflation, strong domestic demand and higher cash rates contributed to increased market volatility and placed upward pressure on Australian money market rates and bond yields.

international fixed interest

Lehman Global Aggregate (hedged \$A) Index: 1 yr: 7.9%; 5 yrs: 6.0%

A decline in US government bond yields was the major factor behind the sector's firm gains. The emphasis by investors on reducing risk in a slowing growth climate caused sovereign bonds to outperform corporate debt.

Australian property securities

S&P/ASX 300 A-REIT Index: 1 yr: -37.7%; 5 yrs: 5.2%

The lack of confidence in trusts with high levels of gearing or aggressive business models, coupled with the rising cost of debt as a result of the global credit crunch, dealt a large blow to the sector over the year.

international listed property securities

UBS Global Investors Index (hedged): 1 yr: -22.4%

International Property Customised Index: 5 yrs: 13.1%

Concerns over a slowdown in growth, particularly in the US economy, which forms a large component of the Real Estate Investment Trust market, affected sentiment.

Australian shares

S&P/ASX 300 Accumulation Index: 1 yr: -13.7%; 5 yrs: 16.2%

The spread of the US sub prime crisis, rising inflation and concerns over slowing growth weakened sentiment over the year.

international shares

MSCI World ex-Australia Index (\$A hedged): 1 yr: -13.7%; 5 yrs: 12.1%

MSCI World ex-Australia Index (\$A unhedged): 1 yr: -21.3%; 5 yrs: 4.0%

International shares were impacted by weaker investor sentiment as fears rose around the sub prime crisis and global inflationary pressures, particularly in commodity markets.

international smaller companies

S&P/Citigroup World < \$US 1.5 billion cap Index (\$A unhedged): 1 yr: -27.2%

International Smaller Companies Customised Index: 5 yrs: 7.5%

Smaller companies underperformed larger companies during the year, reflecting increased risk aversion among investors who opted for more liquid stocks.

global emerging markets

MSCI EM Index in \$A: 1 yr: -7.5%; 5 yrs: 20.8%

Global emerging markets outperformed developed over the year. Strong initial performance soon gave way to weaker sentiment as concern arose that emerging economies would not be as insulated from weakening growth in the major developed markets as earlier thought.

diversified portfolio performance (gross)

Diversified Investment Strategy No. 1

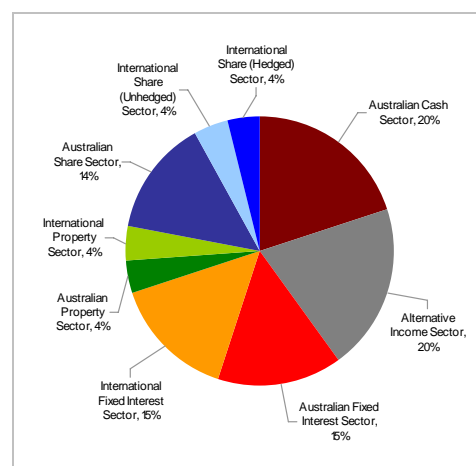
	3 mths %	6 mths %	Fin YTD %	1 yr %pa	2 yrs %pa	3 yrs %pa	5 yrs % pa
Diversified Investment Strategy 1	-0.9	-3.9	-2.2	-2.2	4.2	6.1	7.7
Benchmark	-0.7	-3.2	-1.5	-1.5	4.6	6.2	7.5

Note:

Benchmark is the target weight of the asset class multiplied by the return of the respective market index. The target weight is shown in the pie chart below. See asset allocations vs targets later in the document for current allocations.

return drivers this period

- ~ Absolute portfolio performance has been disappointing over the financial year. The liquidity crisis and dislocation in financial markets provided a volatile environment. The portfolio benefited from exposure to fixed interest and cash however this was not enough to prevent a negative return for the overall portfolio.
- ~ In fixed interest markets, corporate debt underperformed sovereign bonds. Credit spreads widened dramatically as liquidity fell and investors became more nervous about the financial state of some issuers, particularly financial institutions.
- ~ The allocation to growth assets, aimed at benefiting the portfolio over the medium to long-term, hurt performance for the year. Growth assets were impacted by weaker investor sentiment as fears rose around the sub prime crisis and global inflationary pressures.



performance this period

- ~ The alternative income sector benefited from trading strategies as the manager took advantage of market volatility. Although producing a positive return, the cash strategy underperformed the benchmark due to its exposure to corporate securities and Floating Rate Notes. Even high quality corporate paper has been impacted. The manager has retained positions that it believes will recover.
- ~ In Australian fixed interest, the sector was hurt by exposure to corporate credit and 90 day bank bills. Residential mortgage backed securities also negatively impacted return, however the manager believes this position will be rewarded when credit spreads begin to contract. In international fixed interest, both managers underperformed the benchmark. Overweight exposure to corporate credit hurt performance, and long duration positions in the UK detracted from return.
- ~ The Australian shares sector's underperformance of the benchmark resulted from an underweight exposure to Materials and Energy stocks. The weighting to these areas of the market was due to valuation concerns. ipac removed UBS Global Asset Management, replacing the manager, in part, with the newly formed Integrity Investment Management. ipac also removed Investors Mutual (IML). This reflected reduced confidence in the manager's alpha generation potential.
- ~ International shares was down over the year but slightly outperformed the benchmark. Exposure to high quality companies with greater earnings certainty was beneficial. The sector also benefited from an overweight exposure to the Materials and Energy sectors and underweight positions in Financials, Consumer Discretionary and Industrials.

Diversified Investment Strategy No. 2

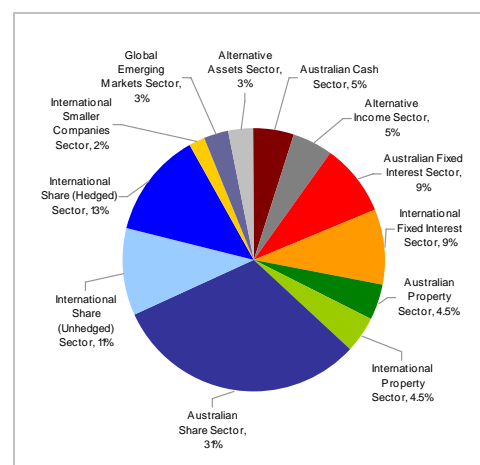
	3 mths %	6 mths %	Fin YTD %	1 yr %pa	2 yr %pa	3 yr %pa	5yr % pa
Diversified Investment Strategy 2	-2.8	-11.5	-11.2	-11.2	2.3	7.1	10.5
Benchmark	-2.4	-10.6	-10.2	-10.2	2.7	7.1	10.4

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- ~ The Australian listed property sector underperformed the benchmark for the year. Exposure to all Rubicon trusts and overweight positions in APN European Retail Trust and Macquarie DDR Trust particularly hurt performance. International listed property performed in line with the benchmark, benefiting from an overweight exposure to the Hong Kong market and good stock selection within that market. In June the sector lost most of the value add made during the year.
- ~ On 1 April 2008 ipac launched the ipac Diversified Alpha Fund, a new approach to managing the alternative investments – alpha strategies held within the portfolio. The Fund outperformed the benchmark in the 3 months since inception, and provided positive return when equity markets fell, highlighting the diversification benefit of an exposure to alternatives.

Diversified Investment Strategy No. 3

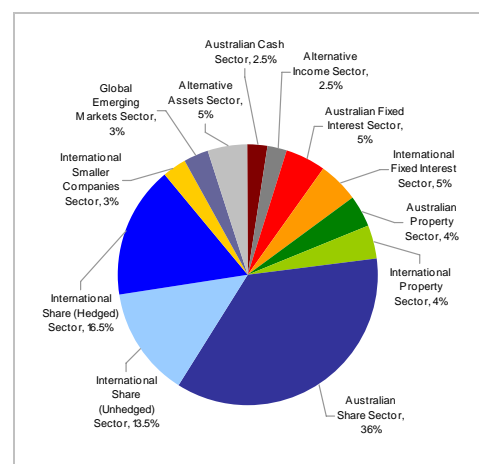
	3 mths %	6 mths %	Fin YTD %	1 yr %pa	2 yr %pa	3 yr %pa	5yr % pa
Diversified Investment Strategy 3	-3.4	-13.7	-13.9	-13.9	1.6	7.1	11.0
Benchmark	-2.7	-12.5	-12.4	-12.4	2.1	7.3	11.1

Note:

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return drivers this period

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Diversified Investment Strategy No. 4

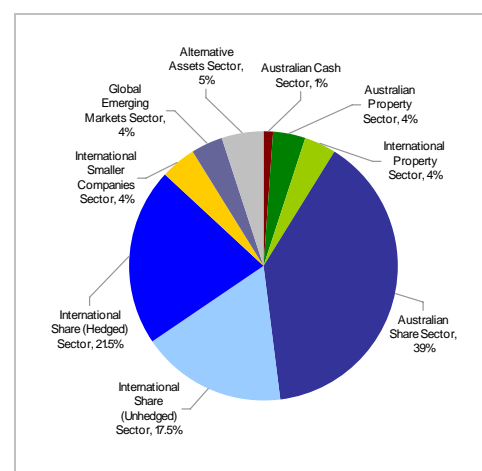
	3 mths %	6 mths %	Fin YTD %	1 yr %pa	2 yr %pa	3 yr %pa	5yr % pa
Diversified Investment Strategy 4	-4.1	-16.5	-17.2	-17.2	0.6	7.2	11.6
Benchmark	-3.3	-14.9	-15.5	-15.5	1.2	7.4	11.6

Note:

Benchmark is the target weight of the asset class multiplied by the return of the respective market index. The target weight is shown in the pie chart below. See asset allocations vs targets later in the document for current allocations.

return drivers this period

- ~ Absolute portfolio performance has been disappointing over the financial year. The liquidity crisis and dislocation in financial markets provided a volatile environment.
- ~ The allocation to growth assets, aimed at benefiting the portfolio over the medium to long-term, hurt performance for the year. Growth assets were impacted by weaker investor sentiment as fears rose around the sub prime crisis and global inflationary pressures. In particular, property trusts witnessed dramatic falls in returns, especially in trusts with high levels of gearing or aggressive business models.



performance this period

- ~ The Australian shares sector's underperformance of the benchmark resulted from an underweight exposure to Materials and Energy stocks. The weighting to these areas of the market was due to valuation concerns. ipac removed UBS Global Asset Management, replacing the manager, in part, with the newly formed Integrity Investment Management.
- ~ International shares was down over the year but outperformed the benchmark. Exposure to high quality companies with greater earnings certainty was beneficial. The sector also benefited from an overweight exposure to the Materials and Energy sectors and underweight positions in Financials, Consumer Discretionary and Industrials.
- ~ The Australian listed property sector underperformed the benchmark for the year. Exposure to all Rubicon trusts and overweight positions in APN European Retail Trust and Macquarie DDR Trust particularly hurt performance. International listed property performed in line with the benchmark, benefiting from an overweight exposure to the Hong Kong market and good stock selection within that market. In June the sector lost most of the value add made during the year.
- ~ On 1 April 2008 ipac launched the ipac Diversified Alpha Fund, a new approach to managing the alternative investments – alpha strategies held within the portfolio. The Fund outperformed the benchmark in the 3 months since inception, and provided positive return when equity markets fell, highlighting the diversification benefit of an exposure to alternatives.
- ~ The global emerging markets sector outperformed the benchmark for the year. The main contributor to performance was country selection which consistently weighted the sector towards outperforming markets.
- ~ The international smaller companies sector underperformed the benchmark for the year. Performance was particularly hurt in the first half of the year, and largely driven by stock selection.

Diversified Investment Strategy No. 5

	3 mths %	6 mths %	Fin YTD %	1 yr %pa	2 yr %pa	3 yr %pa	5yr % pa
Diversified Investment Strategy 5	-1.9	-8.5	-10.4	-10.4	3.5	n/a	n/a
Benchmark	-1.6	-8.0	-8.1	-8.1	3.7	n/a	n/a

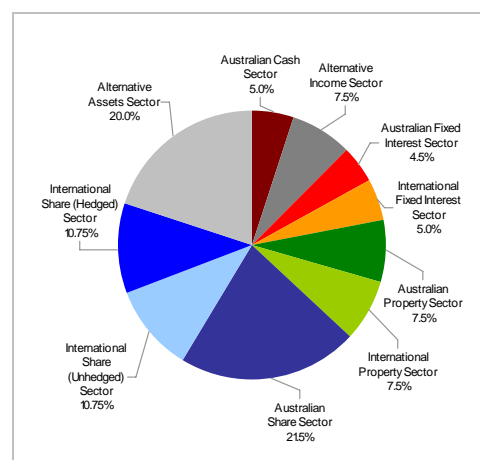
Notes:

Benchmark is the target weight of the asset class multiplied by the return of the respective market index. The target weight is shown in the pie chart below. See asset allocations vs targets later in the document for current allocations.

The investment performance of managers within the Alternative Assets sector may be lagged by one month or in some cases more.

return drivers this period

- ~ Exposure to defensive and alternative assets benefited the performance of this portfolio in the March quarter. While the portfolio return was negative, the performance was better than a balanced fund with a more traditional construction.
- ~ In alternative investments, ipac has a significant allocation to alpha strategies. These are strategies where the return is largely driven by manager skill. The alpha strategies delivered a partial buffer in a period when Australian and international equities both fell significantly. The performance of the alpha strategies highlights the diversification benefit of these approaches in diversified portfolios.
- ~ Australian listed property trusts continued to suffer in the first quarter, hit by concerns over global economic growth, rising interest rates in Australia and an uninspiring reporting season. In general, trusts with offshore property exposure and/or high leverage performed worst.



performance this period

- ~ In Australian shares, the sector outperformed the benchmark by 2.2% during the quarter. Over the 12 month period to 31 March 2008, the sector underperformed by 0.8%. The strongest performing managers for the quarter were Maple Brown Abbott and Investors Mutual Limited, benefiting from a relatively defensive position within their portfolios. The sector's underperformance of the benchmark over the 12-month period was largely driven by its marginal underweight exposure to resource stocks, in particular BHP Billiton, which has risen 58.7% over the past year.
- ~ In international shares, the sector underperformed the benchmark by 0.5% (hedged) for the quarter. Over 12 months the sector was 3.7% behind the index. The main detractor of performance was Bernstein Value.
- ~ In Australian listed property, the sector underperformed the benchmark by 1.4% during the quarter. Over the 12 month period to 31 March 2008, the sector underperformed by 1.9%. SG Hiscock detracted from performance during the quarter as the manager's underweight position in the Leaders hurting returns. In international listed property the sector underperformed the benchmark for the quarter and 12 month period. Country allocation was the main detractor from performance during the quarter, reflecting the wide range of investment returns across regions.
- ~ The managers used in alternative investments are AXA Rosenberg, BGI and BT. AXA Rosenberg's Australian Equity Long Short fund outperformed cash by 3.6% during the first quarter, and by 4.7% over the 12 month period to 31 March 2008. The BGI Multi-Opportunity Fund and BT Global Return Fund underperformed cash by 0.7% and 2.4% respectively for the three months to the end of February 2008.

market, sector & manager performance

This section of the report provides an overview of market and sector performance. Sector commentary is generally for the multi-manager diversified portfolios unless indicated. Individual manager commentary for Alternative Assets provides an overview of the different strategies.

Multi manager sector performance figures are calculated based on the unit holdings for the underlying manager trusts using their respective month-end hard close exit prices. Based on ipac Diversified Investment Strategies No. 2 & 5.

Single manager sector and **manager** performance figures are calculated based on month-end hard close valuations using a time-weighted return methodology and are gross of fees and tax. No fees are applicable to an investor at this level.

Note: Past performance is not necessarily indicative of future performance.

Australian Cash

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	2.3	3.5	6.1	6.1	6.3	6.2	6.0
Sector - Strategy 5	2.3	3.5	6.1	6.1	6.3	n/a	n/a
AllianceBernstein	2.3	3.5	6.1	6.1	6.3	6.2	6.0
Benchmark	2.0	3.8	7.3	7.3	6.9	6.5	6.1

Note:

Benchmark = UBSA Bank Bill Index.

market commentary

Over the year the Reserve Bank of Australia (RBA) raised rates from 6.25% to a 12 year high of 7.25%. Rates were increased by 0.25% in August, November, February and March.

There was a significant widening of the spread between the bank bill index, and the 3 month forecast cash rate that provides a guide to the price of short-term paper. The spread between bank bills and the expected cash rate has traditionally been 5-10 basis points. Through the December, March and June quarters the spread averaged 50-60 basis points. This increased spread reflected heightened concern about lending risk displayed between counterparties.

In this environment, and with the deepening credit crunch in global markets, the RBA took steps to support the financial system. These actions included injecting liquidity into the fixed interest market and making it easier for banks to borrow from the RBA.

Economic data will have a significant influence on the RBA's next move. Strong oil prices, substantial gains in export prices, and the tax cuts in July may put upward pressure on inflation enhancing the case for a rate rise. However, lack of liquidity and concern about the slowing economy may cause the RBA to keep rates on hold.

sector commentary

The sector performed in line with the benchmark for the year.

The cash strategy, managed by AllianceBernstein, has been negatively impacted by its exposure to corporate securities and Floating Rate Notes (FRNs) that represent approximately half of the portfolio. These short duration investments are investment grade and have traditionally provided a small additional return above the cash rate without taking significant risk.

In the current environment even high quality corporate paper has been impacted by widening credit spreads that reduce the market value of existing investments. While the value has fallen, the loss is only realised if the investments are sold.

The manager in this sector is not a forced seller. It has retained positions that it believes will recover. One example is the small exposure to the FRNs of Countrywide Financial. These securities were downgraded following continued problems in the US housing market. The downgrades reduced the value of these securities. The manager continued with the investment believing that Countrywide was an acquisition target. This view was

justified when the Bank of America made a bid for Countrywide and the acquisition was completed on 1 July 2008. AllianceBernstein's expectation that credit rating agencies would upgrade the stock if it was purchased by an institution with a better credit rating was realised – with S&P and Moody's both upgrading Countrywide's credit rating. This upgrade saw the paper recover its value helping fund performance since July 2008.

Alternative Income

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	2.6	3.2	8.0	8.0	7.3	n/a	n/a
Sector - Strategy 5	2.6	3.2	8.0	8.0	7.3	n/a	n/a
PIMCO	2.6	3.2	8.0	8.0	7.3	n/a	n/a
Benchmark	2.0	3.8	7.3	7.3	6.9	6.5	6.1

Notes:

Benchmark = UBSA Bank Bill Index.

sector commentary

This innovative fixed interest strategy outperformed its benchmark by 0.7% for the year.

PIMCO manages this strategy, using the same views for the global fixed interest strategy. The key difference is that the benchmark in this case is cash rather than the Lehman Global Aggregate Index. This gives the manager more freedom to move across the yield curve seeking opportunities rather than have to hold bonds of different durations for risk management purposes.

In the last year, the sector benefited from trading strategies as the manager took advantage of market volatility to purchase undervalued securities that subsequently recovered.

In the June quarter, ipac ensured that the mandate enables PIMCO to allow the opportunistic investment in bank capital securities. These securities are issued by major banks and have historically traded in a similar price range to AAA rated securities. The backing of major banks with strong balance sheets has provided confidence in the quality of these securities and their recovery potential.

The credit crunch has seen sentiment shift with banks having to offer much higher yields on these securities to attract investors worried about the potential for default. The manager's ability to assess the creditworthiness of issuers should enable it to identify those securities with a higher yield where the risk of default is low. This strategy takes advantage of the current market dislocation that ipac expects will have an influence on these securities for some time.

Australian Fixed Interest

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	0.6	1.7	3.2	3.2	3.6	3.6	4.4
Sector - Strategy 5	0.4	2.6	4.4	4.4	4.2	n/a	n/a
BGI Index	0.4	2.6	4.4	4.4	4.2	n/a	n/a
Credit Suisse	0.6	1.6	3.1	3.1	3.6	3.6	4.4
Benchmark	0.4	2.6	4.4	4.4	4.2	3.9	4.4

Notes:

Benchmark = UBSA Composite Bond All Maturities Index.

BGI Index is only available in Diversified Investment Strategy No. 5.

market commentary

UBSA Composite Bond Index: 12 month: 4.4%

Sovereign and corporate bond yields were extremely volatile over the year. The 10 year bond yield rose from 6.26% to 6.45%, but not before reaching a low of 6.05% at the end of March. The 2 year bond yield followed a similar pattern of rises and falls from the starting point of 6.45%, up to 6.85% then down to 6.20% before ending the year at 6.81%.

Inflation was a key influence on the movement of yields. June data had inflation at its highest level since the early 1990s, adjusting for the GST effect. A key driver of the rise of inflation was the increase in the price of oil from US\$70 to US\$140 over the year. Inflation was also stoked by significant price rises in soft commodities.

Rising domestic inflation and higher cash rates made the yield curve more inverse (short-term interest rate expectations higher than long-term rates). Over the year, sovereign bonds outperformed corporate debt. Corporate debt underperformed as credit spreads widened dramatically as liquidity reduced and investors became more nervous about the financial state of some issuers, particularly financial institutions.

sector commentary

The sector underperformed the benchmark by 1.2% for the year. Credit Suisse's investment process seeks to generate return by identifying undervalued securities across the yield curve, known as relative value trades, and by investing in corporate and government debt instruments.

The sector was hurt by its overweight position in 90 day bank bills relative to cash and 3 year bank bills. Most of this negative performance occurred in the December quarter. Exposure to corporate credit detracted from return. The manager was underweight corporate credit at the beginning of the year and mis-timed its move to increase this position as credit spreads increased.

The sector had approximately 15% invested in Residential Mortgage Backed Securities (RMBS). These securities are not represented in the benchmark. This exposure weighed on return however the manager believes this position will be rewarded when credit spreads begin to contract. ipac's research provided confidence in this view and the mandate was adjusted to enable Credit Suisse to invest up to 25% of the portfolio into RMBS to take advantage of the dislocation in this sector. At year end the portfolio had an exposure of 23%. The credit spread on RMBS moved slightly lower over the June quarter but it was not a significant contributor to performance.

sector commentary (Strategy 5)

This sector is managed passively by BGI. The return for the year was in line with the benchmark.

International Fixed Interest

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	-1.0	1.3	6.8	6.8	5.9	4.6	6.1
Sector - Strategy 5	-1.4	1.7	7.7	7.7	6.3	n/a	n/a
BlackRock	-0.5	1.0	6.0	6.0	5.5	4.4	5.9
PIMCO	-1.4	1.7	7.8	7.8	6.3	4.9	6.4
Benchmark	-0.6	2.1	7.9	7.9	6.8	4.9	6.0

Note:

Benchmark = Lehman Global Aggregate (AUD Hedged). For benchmark returns prior to September 2002, the customised Lehman Global Aggregate (AUD Hedged)/JP Morgan Global Govt Bonds Ex Aust (Hedged) benchmark is used.

market commentary

Lehman Global Aggregate (hedged \$A) Index: 12 month: 7.9%

A decline in US government bond yields was the major factor behind the strong gains of the index for the year. The 10 year bond declined from 5.02% to 3.97% reflecting aggressive interest rate cuts by the Federal Reserve, and strong demand for less risky assets.

The Federal Reserve reduced interest rates by 2.25% since the start of 2008 to stimulate economic growth. Among the cuts during the year were two unusually large reductions of 0.75% in January and March highlighting the depth of concern about the state of the economy. By April, sentiment had begun to shift with two members on the Federal Reserve board voting against the 0.25% rate cut.

In the UK, bonds weakened as investors worried that the UK, like the US, would be impacted by housing and credit-led weakness. In Europe, yields ended the year close to where they started.

In June, bond yields came under renewed upward pressure reflecting increased concern that, despite slowing global growth, central banks would move to lift interest rates to suppress inflationary risks.

Corporate credit spreads widened dramatically as investors assessed the impact of the sub prime crisis, slower economic growth and higher inflation. These factors impacted company profits and increased the potential for default on corporate debt.

After signs that the bad news was abating, the ratings downgrade of monoline insurers forced banks to commit further capital to their credit portfolios. This sent Financials plummeting in June. This nervousness has continued into the new financial year with concerns about the future of US mortgage providers, Freddie Mac and Fannie Mae, although the US government has announced they will provide liquidity and other forms of support if required.

sector commentary

The sector underperformed the benchmark by 1.1% for the year.

Blackrock's overweight exposure to corporate credit hurt performance for the year. Although it had been underweight corporate credit, the manager made the decision to increase this exposure a little early and suffered as credit spreads widened. Blackrock was overweight Commercial Mortgage Backed Securities (CMBS) and this position had a negative impact on return for the year, however there was some contraction of spreads in CMBS in the June quarter that benefited the manager's holdings. Currency positions and duration were beneficial for performance within the Blackrock portfolio.

PIMCO marginally underperformed the benchmark for the year. The result for the year was hurt by performance in the June quarter. PIMCO's long duration position in the UK was detrimental to return. The manager had expected interest rates to be cut only for them to stay on hold. An allocation to bank capital securities, which the manager believes offer the potential for strong returns, is yet to be rewarded as credit spreads on these securities continued to widen. Currency also detracted from return, however the manager correctly anticipated the aggressive easing undertaken by the Federal Reserve.

sector commentary (Strategy 5)

The sector underperformed the benchmark by 0.2% for the year.

The result for the year was hurt by performance in the June quarter. PIMCO's long duration position in the UK was detrimental to return. The manager had expected interest rates to be cut only for them to stay on hold. An allocation to bank capital securities, which the manager believes offer the potential for strong returns, is yet to be rewarded as credit spreads on these securities continued to widen. Currency also detracted from return, however the manager correctly anticipated the aggressive easing undertaken by the Federal Reserve.

Australian Property

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	-15.7	-34.3	-41.2	-41.2	-13.0	-3.9	4.4
Sector - Strategy 5	-14.2	-31.8	-38.3	-38.3	-11.6	n/a	n/a
BGI Index	-15.4	-31.2	-36.8	-36.8	-10.8	n/a	n/a
Legg Mason	-17.0	-35.2	-41.9	-41.9	-13.5	-4.2	4.6
SG Hiscock	-14.6	-33.6	-40.6	-40.6	-12.8	-3.7	4.2
Benchmark	-15.8	-31.9	-37.7	-37.7	-11.3	-2.4	5.2

Notes:

BGI Index is only available in Diversified Investment Strategy No. 5.

Benchmark = S&P/ASX 300 A-REIT Index (All Ord Prop Accum prior to 01/04/00).

market commentary

S&P/ASX 300 A-REIT Index: 12 month: -37.7%

Over the financial year, the Australian Listed Property Trust (LPT) market fell 37.7%, bringing to an end an exceptional period of outperformance. Unlisted property, by contrast, appreciated 14.6% over the year. Valuation cycles are backward looking for the unlisted market relative to the listed market. This raises the question about how realistic property valuations are at this time.

Over the past few years the LPT market has changed significantly. The rise of staple securities has seen risk-return profiles of LPTs become much more equity-like in nature, and are no longer stable-yielding investments. This has been manifested in developments of new business models which combine property portfolios with development and fund management activities. In an attempt to generate higher investment returns, many trusts have invested in properties offshore, increasing their debt levels to pay for these assets.

The erosion of confidence in the more aggressive business models, coupled with the rising cost of debt as a result of the global credit crunch dealt a large blow to the more highly leveraged trusts. The collapse of Centro

Properties Group in December triggered renewed concern over the health of all listed property trusts. The more conservative trusts performed best – but even they ended the year in negative territory. CFS Retail was the strongest performer, falling 14.0%, and Westfield, which makes up approximately 40% of the index, fell 18.4%.

Recently, the market has moved into restructuring mode, with many trusts selling assets to reduce gearing levels and some reducing distributions. In June Valad Property Group and Mirvac Group announced the sale of assets which placed pressure on property values. Although faced with an increased amount of supply, rising rental rates are providing some support for future returns. It appears the market is also starting to move into a phase of consolidation which suggests that some value might be starting to re-appear in the market.

sector commentary

Over the year the sector underperformed the benchmark by 3.5%.

During the year, the sector was exposed to a number of trusts that performed extremely poorly, particularly in the first quarter of 2008.

Exposure to all Rubicon trusts contributed to the sector's underperformance. These trusts lost almost 90% of their value over the year, compared to the benchmark falling 37.7%. The trusts fell due to their association with Allco Finance, relatively high gearing, refinancing risk and uncertainty regarding de-gearing strategies. In addition, exposures in the Retail sector, including overweight positions in APN European Retail Trust (-79.1%) and Macquarie DDR Trust (-68.1%) hurt performance. Positions in the Diversified sector, including an overweight exposure to Valad Property Group (-66.3%), Mirvac Group (-76.8%) and GPT Group (-52.4%) also added to underperformance.

During the period, the sector maintained underweight exposures to a number of stocks that the managers regarded as expensive. Examples of these stocks are CFS Retail Property and Westfield which performed relatively well compared to the index due to their low levels of gearing. Although underweight exposures to these trusts contributed to the sector's underperformance of the benchmark, the managers maintain their conviction that these stocks look expensive.

Although the sector's allocation to global Real Estate Investment Trusts (REITs) hurt performance in the first half of the year, exposure to these trusts contributed positively in the latter half as global REITs performed relatively better than the Australian listed property market.

sector commentary (Strategy 5)

The sector underperformed the benchmark by 0.6% for the year.

Half of the sector's allocation is in BGI Index, which aims to replicate the index return. The remaining 50% is allocated to SG Hiscock.

The main contributor to the sector's underperformance of the benchmark was SG Hiscock, who underperformed by 2.9%. This was largely due to the manager's strategic underweight positions in CFS Retail Property Trust and Dexus Property Group, which performed relatively well compared to the index due to their low levels of gearing. In addition, SG Hiscock held no exposure to Commonwealth Property Office Fund, which performed relatively well, falling only 26.3% over the year compared to the benchmark of -37.7%.

Exposure to all Rubicon trusts contributed to the sector's underperformance. These trusts lost almost 90% of their value over the year, compared to the benchmark falling 37.7%. These trusts lost almost 90% of their value over the year due to their association with Allco Finance, relatively high gearing, refinancing risk and uncertainty regarding de-gearing strategies. In addition, strategic overweights to some non-index small capitalisation names including Aspen (only recently part of the index), Trinity and Reckson New York contributed to underperformance.

Although the sector's allocation to global Real Estate Investment Trusts (REITs) hurt performance in the first half of the year, exposure to these trusts contributed positively in the latter half as global REITs performed relatively better than the Australian listed property market. Other positive contributors over the year was the sector's underweight position in Centro Properties Group and Goodman Group which fell 97.1% and 54.0% respectively.

International Property

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	-9.4	-12.1	-22.3	-22.3	-3.5	n/a	n/a
Sector - Strategy 5	-9.4	-12.1	-22.4	-22.4	-3.7	n/a	n/a
CBRE	-9.7	-12.0	-21.2	-21.2	-2.4	n/a	n/a
LaSalle	-9.3	-12.3	-23.6	-23.6	-4.8	n/a	n/a
Benchmark	-8.5	-10.9	-22.5	-22.5	-4.1	n/a	n/a

Notes:

Benchmark = UBS Global Investors Index (net div reinvested) in AUD hedged, which commenced in January 2006.

An international property sector was introduced in January 2006. CBRE & LaSalle performance reporting commenced in February 2006.

market commentary

UBS Global Investors Index (hedged): 12 month: -22.5%

The international listed property market lost more than a fifth of its value over the year, falling 10% in the month of June alone. The fall reflects investor concerns about the impact of the credit crunch and the severity of the US economic slowdown. Global Real Estate Investment Trusts (REITs) tend to be highly geared and have suffered from tighter credit conditions. This has made it harder for them to refinance existing loans, and trusts with higher gearing have been the most affected.

The sharp fall in the market was experienced across countries and securities. Regional returns ranged from -40% for the UK to -2% for Hong Kong. The Hong Kong return was the outlier, as all other regions experienced falls greater than -15%.

Property transaction activity slowed markedly over the year, with some notable exceptions in Europe. Merger and acquisition activity that supported the asset class in the previous financial year ground to a halt with the end of cheap credit. Despite the apparent attractiveness of the large discounts at which global property securities are trading, there is uncertainty over current valuations.

Many REITs are forecasting difficult operating conditions and adjusting their earnings forecasts and distribution guidance downwards. Investor confidence in the asset class and concern about the execution ability of management teams to navigate these stormy waters is contributing to negative sentiment. Development profits and fund management profits are being heavily discounted.

The outlook for economic growth has become increasingly negative, particularly in the US which forms a large component of the global REITs market. Although the US economic slowdown is negative for commercial real estate, at present fundamentals remain supportive of quality office properties.

sector commentary

The sector performed in line with the benchmark for the year.

The sector made strong relative gains early in the financial year, benefiting from an overweight exposure to the Hong Kong market and good stock selection within that market. Exposure to the Canadian market and positive stock selection in Canada also boosted relative returns.

Despite the gains made earlier in the period, the sector suffered in the month of June, losing most of the value add made during the year. Security selection, rather than country selection, was the primary driver of the sector's underperformance of the benchmark for the quarter. Among the positions which detracted from value were an overweight exposure to Singapore based property developer, Guocoland, which fell 45.4%, and commercial property investor, Derwent London, which fell 33.6% over the quarter.

Australian Shares

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	-3.8	-17.3	-15.7	-15.7	4.1	10.6	15.9
Sector - Strategy 5	-5.3	-17.1	-16.8	-16.8	3.2	n/a	n/a
BGI	-2.1	-17.1	-14.0	-14.0	5.7	12.5	17.0
Integrity	-3.1	-16.0	n/a	n/a	n/a	n/a	n/a
Schroders	-6.3	-17.5	-17.1	-17.1	3.0	10.7	16.8
Maple-Brown Abbott	-5.8	-15.4	-15.0	-15.0	4.4	8.5	14.8
Investors Mutual	-8.2	-18.8	-17.6	-17.6	2.6	6.9	12.5
Wallara	-0.8	-16.4	-12.0	-12.0	3.7	11.8	n/a
Bernstein Value	-8.2	-21.3	-21.2	-21.2	0.6	n/a	n/a
MIR	2.6	-12.8	-13.7	-13.7	5.8	12.0	n/a
Challenger	-9.3	-27.0	-29.6	-29.6	-2.3	n/a	n/a
Benchmark	-1.7	-16.1	-13.7	-13.7	5.6	11.4	16.2

Notes:

Benchmark = S&P/ASX 300 Accumulation Index.

Bernstein Value is only available in Diversified Investment Strategy No. 5.

Integrity replaced UBS as an Australian Share sector manager in December 2007.

market commentary

S&P/ASX 300 Accumulation Index: 12 month: -13.7%

The Australian share market fell more than 13% over the year - the first negative financial year since 2002/2003. The year started on a strong note, underpinned by buoyant commodity prices and a robust domestic economy. Towards the end of 2007, however, the spread of the US sub prime crisis, rising inflation and concern over slowing growth weakened sentiment. By the reporting season in May, there were increased profit warnings as higher interest rates, a higher Australian Dollar, rising costs and softening demand took their toll.

The only areas of the market to perform well over the year were Energy and Materials. These sectors gained 41.7% and 20.0% respectively, supported by rising commodity prices and strong demand from emerging markets, in particular China and India. The difference in returns between the best and worst performing sectors was the largest it has been since 2001. While Energy returned 41.7%, Consumer Discretionary was the worst performing sector, falling 40.3%.

Strong commodity prices boosted the Australian Dollar but in the process also undermined earnings for the Industrial sector both through reduced competition and translation of foreign earnings. Companies with high levels of gearing, or those with revenues directly linked to interest rates, also fared poorly. These included companies in the Consumer Discretionary, Finance, Listed Property Trust and Infrastructure sectors. More defensive sectors, such as Consumer Staples (-9.5%) and Healthcare (-2.7%), steered a middle course.

The strongest performing stock in the index over the year was Riversdale Mining, which gained 259.0%. Another strong performer was Fortescue Metals which ended the year up 252.1%.

Amongst the worst performing stocks for the year was Allco Finance, which ended the year 96.2% down. Investors began selling Allco Finance's stock in January as news broke that the company was having trouble refinancing debt as the global credit crisis took hold. After falling to an all-time low in early 2008 the company's share price made a partial recovery later in the financial year after announcing that outstanding debt would be cut by almost a quarter following the sale of its US wind project.

The Australian sharemarket continued to be impacted by the global contagion of the credit squeeze but also concerns regarding growth and inflation. More recently the Australian economy has been showing signs of slowing, and a weakening consumer is providing additional headwinds to the market. Companies need to cope with margin pressures (interest and input cost rises) and declining outlook expectations, however balance sheets are broadly sound and generally have been fairly conservatively managed.

sector commentary (DIS and Strategy 5)

DIS underperformed the benchmark by 2.0% for the year. Strategy 5 underperformed the benchmark by 3.1%.

The underperformance resulted from the sector's underweight exposure to the Materials and Energy industry sectors which have been the only strong performing areas of the market for the year. An underweight exposure to these areas of the market was due to valuation concerns. The outperformance of these industry sectors compared

to the broader market was so extreme that the sector's overweight exposure to more traditionally defensive areas of the market only had a limited positive impact over the year.

The past year has seen the Australian share market driven by a very small number of stocks, particularly in the Materials and Energy sectors. Independently, a number of the fund managers in the sector have taken a view that these prices are not sustainable and many of the Resources stocks are overvalued. The sector has therefore been underweight the Energy and Materials sectors compared to the index. Within the Materials sector, underweight exposures to BHP Billiton and Fortescue Metals were the most dominant contributors to underperformance. BHP Billiton gained 24.8% over the year, and Fortescue Metals a huge 252.1%.

The sector's overweight exposure to defensive areas of the market such as Consumer Staples, Telecommunications and Healthcare was beneficial to performance. The sector's underweight exposure to Listed Property Trusts, which have been one of the weakest areas of the market this past year, and the sector's cash holding, were also positive.

At a stock level, an overweight exposure to Rio Tinto proved positive for performance. Rio Tinto gained 37.2% over the year on the back of rising commodity prices and a takeover bid from BHP Billiton. An underweight exposure to Goodman Group and Stockland listed property trusts also helped performance, particularly in the June quarter when these trusts fell 28.3% and 22.9% respectively.

Overweight exposures to National Australia Bank and ANZ hurt performance. Both of these stocks fell 35.4%, impacted by investor concerns over the sub prime crisis and the strength of financials' balance sheets.

In the core portfolio, ipac removed UBS Global Asset Management from the sector in December and, in part, replaced the manager with the newly formed Integrity Investment Management. The decision to terminate UBS was driven by the departure of key personnel from the UBS Australian equities team. The previous portfolio manager at UBS established Integrity together with other senior members from the UBS investment team. Following the departure of these team members, ipac was unable to gain sufficient confidence that the manager would deliver the excess return required. The Integrity team implement a similar investment process to the one they used at UBS.

In June ipac removed Investors Mutual (IML) from the Australian shares sector of the core portfolio. The decision to remove IML from the sector was driven by ipac's reduced conviction in the manager's ability to deliver excess returns above the benchmark over a full market cycle, following changes to the structure of the IML team. To satisfy both the continuity of portfolio positioning and to control the risk relative to the benchmark, the balance of the IML allocation was spread between incumbent managers BGI, Schroders and Maple-Brown Abbott.

In June, ipac reduced the allocation to Investors Mutual (IML) within the Australian shares sector of the Strategy 5 portfolio. This reflects ipac's reduced confidence in the manager's "alpha" generation potential, but continuing confidence in IML's delivery of a lower volatility portfolio that is likely to be more resilient in weak markets. The decision to reduce the allocation to IML followed changes to the structure of the manager's team. The portfolio has characteristics which will aid meeting the specific objectives of Strategy 5.

International Shares

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector - Unhedged	-6.0	-19.2	-21.0	-21.0	-7.7	1.4	4.4
Sector - Strategy 5 Unhedged	n/a	n/a	n/a	n/a	n/a	n/a	n/a
BGI Index	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Wellington	-5.8	-20.9	-19.8	-19.8	-8.0	0.4	3.6
GMO	-3.8	-15.4	-15.7	-15.7	-4.9	2.3	n/a
Bernstein Value	-8.2	-20.5	-27.5	-27.5	-9.6	1.6	5.6
Capital	-5.2	-16.3	-18.0	-18.0	-6.6	2.8	5.2
Alliance Growth	-5.5	-21.6	-20.4	-20.4	-8.5	1.4	n/a
LSV	-9.0	-20.0	-27.5	-27.5	-9.9	0.1	n/a
Benchmark	-6.6	-18.2	-21.3	-21.3	-7.9	0.6	4.0
Sector - Hedged	0.5	-12.4	-13.6	-13.6	3.1	8.3	11.9
Sector - Strategy 5 Hedged	-1.9	-13.2	-19.5	-19.5	1.2	n/a	n/a
BGI Index	-0.2	-11.1	-13.6	-13.6	3.4	n/a	n/a
Wellington	0.7	-14.3	-12.7	-12.7	2.8	7.2	11.2
GMO	2.8	-8.3	-8.0	-8.0	6.3	9.3	n/a
Bernstein Value	-1.8	-13.7	-20.7	-20.7	1.1	8.6	13.5
Capital	1.4	-9.2	-10.3	-10.3	4.4	10.0	12.9
Alliance Growth	1.1	-15.0	-13.1	-13.1	2.3	8.4	n/a
LSV	-2.7	-13.2	-20.7	-20.7	0.9	7.1	n/a
Benchmark	-0.2	-11.1	-13.7	-13.7	3.3	7.8	12.1

Notes:

Benchmark Unhedged = MSCI World ex Australia (net dividends reinvested) in A\$ unhedged Index.

Benchmark Hedged = MSCI World ex Australia (net dividends reinvested) in A\$ hedged Index.

BGI Index is only available in Diversified Investment Strategy No. 5.

market commentary

MSCI World ex-Australia Index (\$A hedged): 12 month: -13.7%

MSCI World ex-Australia Index (\$A unhedged): 12 month: -21.3%

After a number of years of strong returns, international share markets were impacted by weaker investor sentiment during the financial year. The strength of the Australian Dollar hurt unhedged returns further, causing the unhedged index to fall 21.3%. The fully hedged return of -13.7% was in line with returns from the Australian share market.

The sub prime crisis in the US was the first catalyst to reverse the market's upward trend. Then followed the resurfacing of global inflationary pressures, particularly in food, energy and commodity markets.

Despite being one of the main causes for the reversal in investor sentiment, the US was one of the markets that fell the least - 14.0% in local currency terms. Canada was the strongest performing of the developed markets, gaining 4.0% over the year. The market benefited from a large constituent of resource and energy stocks which, in turn, benefited from a rise in commodity prices. Hong Kong was also among the best performing markets, gaining 1.5%. Most of the market's returns were concentrated in the first half of the year, and were a result of the market's exposure to China's expansive economy. These returns were later tempered following a correction in the Chinese sharemarket and concerns over the impact of rising inflation and higher Chinese interest rates.

European and Japanese markets were among the worst performing developed markets, falling 23.1% and 25.7% respectively. This was due to concerns about corporate profits in the face of strong local currencies and slowing growth.

Within markets, Energy and Materials sectors did best, gaining 15.1% and 5.6% respectively. These industry sectors were supported by rising commodity prices and strong demand from emerging markets, in particular China and India. Financials (-37.5%), Consumer Discretionary (-30.3%) and Industrials (-19.1%) fared poorly due to the credit crunch, deleveraging, fears of an economic slowdown and the impact of rising inflation on monetary policies. The difference between the best and worst performing areas of the market was a huge 52.6%. Over the

year, value stocks (-27.5%) significantly underperformed growth (-14.8%) as investors rewarded higher quality companies with greater earnings certainty.

sector commentary

The unhedged sector return was above the benchmark by 0.3% for the year.

Exposure to high quality companies with greater earnings certainty was the main contributor to performance. These companies performed well during the market downturn.

During the year, the sector benefited from an overweight exposure to the Materials and Energy sectors, which were the strongest performing areas of the market, gaining 5.6% and 15.1% respectively. Underweight positions in Financials (-37.5%), Consumer Discretionary (-30.3%) and Industrials (-19.1%) also contributed to relative performance.

Key contributors over the year were growth manager GMO and market oriented manager Capital, who each outperformed the benchmark both for the year and the June quarter. GMO's underweight exposure to the underperforming Financials and overweight exposure to outperforming Energy stocks contributed to its relatively strong performance. At the stock level, an overweight exposure to oil-field services company, Halliburton, contributed positively to performance. Halliburton provides energy services and engineering and construction services, as well as manufactures products, for the energy industry. The stock, which was held by both GMO and Wellington, gained 53.8% over the year, helped by the rising price of oil.

Key detractors from performance were the two value style managers, LSV and Bernstein, whose investment style was out of favour during the period. Value managers have generally performed significantly poorer than growth managers over the past year due, in part, to their exposure to Financials. Value managers have strongly outperformed in previous periods.

sector commentary (Strategy 5)

The hedged return for the sector was 5.8% below the benchmark for the year.

The key detractor from performance was that the value style was out of favour during the period. Value managers have generally performed significantly poorer than growth managers over the past year. Value managers have generally performed significantly poorer than growth managers over the past year due, in part, to their exposure to Financials. Value managers have strongly outperformed in previous periods.

An overweight exposure to Telecoms and Financials hurt performance. Although Financials have historically performed reasonably well in times of a market downturn, the impact of the global credit crunch caused investors to question the health of lenders' balance sheets. As a result, Financials was the weakest performing industry sector for the year falling 37.5%.

In May the currency hedging ratio of the sector was reduced from 100% to 50% in order to capture the diversification benefits of currency, to lower portfolio volatility, and improve the sector's resilience in weak markets. The sector had been fully currency hedged since its inception. This currency positioning benefited the return outcomes through the significant rise in the Australian Dollar. Over recent periods, there has been a clear rise in the correlation between the Australian Dollar and equity markets, observed as a tendency for the currency and equity markets to move in similar directions. Introducing some foreign currency exposure can therefore reduce expected volatility and better position the portfolio to be more resilient in weak markets. The change to the sector's currency hedging ratio is driven by ipac's commitment to portfolio risk management rather than being driven by a view on the direction of the Australian Dollar.

International Smaller Companies

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	-8.6	-19.5	-34.7	-34.7	n/a	n/a	n/a
Arrowstreet	-8.6	-19.6	-34.7	-34.7	n/a	n/a	n/a
Benchmark	-7.0	-18.2	-27.2	-27.2	-11.8	n/a	n/a

Notes:

Benchmark = S&P/Citigroup World <US\$1.5bn Cap Range Index (net dividends reinvested) in A\$ unhedged.

The International Smaller Companies sector was introduced into the portfolio in July 2006. Performance commenced in August 2006.

market commentary

S&P/Citigroup World < \$US 1.5 billion cap Index (\$A unhedged): 12 month: -27.2%

Smaller companies underperformed larger companies during the year, reflecting increased risk aversion among investors. As concerns rose surrounding the sub prime crisis in the US and the impact of global inflationary pressures, investors favoured more liquid shares, generally in larger companies.

All regions suffered negative returns during the year. The Nordic region fell the hardest, down 31.3%, followed closely by the Far East (-30.5%) and the Pacific (-29.4%). North America fell the least (-16.6%), helped largely by a weak US Dollar.

Within the Russell 2000 Index, which makes up a large proportion of the international smaller companies index, Energy and Materials sectors were the strongest areas of the market, helped by an increase in demand for commodities. Integrated Oil added 55.0% and Other Energy added 51.6%. Autos (-32.5%) and Financials (-31.1%) were the weakest performing areas of the market. These industry sectors fared poorly as investors feared the effects of an economic slowdown and rising inflation.

This industry sector tends to exhibit higher volatility than large-cap shares, but is a good source of long-term high growth and diversification.

sector commentary

The sector underperformed the benchmark by 7.5% for the year.

Performance was particularly hurt in the first half of the year. In the September quarter contagion from the sub prime mortgage crisis spread to publicly traded equities held by multi-strategy hedge funds. The impact of quantitatively-driven managers selling these stocks was felt more acutely in less liquid asset classes such as smaller companies. This helps to explain the significant underperformance of Arrowstreet.

Towards the end of 2007 losses within the sector were largely driven by stock selection, rather than industry sector, country or basket-specific positions. Exposure to stocks such as Merge Technologies, which fell 73% in the December quarter, and Chesapeake Corporation (down 36.3%) were particularly damaging to performance.

In the first quarter of 2008 the sector performed marginally better than the index, benefiting from a substantial underweight exposure to Financials and Consumer Discretionary sectors which performed poorly during the period. At a stock level, exposure to the Canadian company Energy Fuels helped performance. The stock rose 21.3% during the quarter after the company announced that it was adding the first fully permitted uranium/vanadium mine to its assets.

Global Emerging Markets

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	-4.6	-17.6	-5.1	-5.1	10.9	18.7	20.2
Legg Mason	-4.6	-17.7	-5.3	-5.3	10.7	18.5	n/a
Benchmark	-5.7	-19.3	-7.5	-7.5	8.4	17.7	20.8

Note:

Benchmark = MSCI Emerging Markets Index in A\$ unhedged with Net Dividends Reinvested.

market commentary

MSCI EM Index in \$A: 12 month: -7.5%

Global emerging markets outperformed developed markets over the year. The first half of the period was characterised by strong performance, which soon gave way to weaker sentiment as concern arose that these economies would not be as insulated from weakening growth in the major developed markets as earlier thought.

Within emerging markets, Latin America and Europe/Middle East/Africa (EMEA) outperformed Asia, largely as a result of rising demand for commodities. Latin America, which gained 10.7%, and EMEA, up 3.7%, is an energy and material-rich region. Asia, however, is heavily reliant on importing these resources. A sharp rise in the price for resources subsequently had an adverse impact on the Asian market which fell 7.1% over the year. A sharp fall of 9.0% in the Indian market also contributed to the Asian decline. Higher inflation as a result of rising oil prices, slowing growth and a domestic liquidity squeeze all contributed to poor performance in the Indian market. Weakness in the Chinese market, which fell 1.6%, was in response to action to raise interest rates. Rates were raised in response to the impact of surging commodity prices, particularly grain, on inflation.

Energy and Materials, which gained 35.4% and 16.9% respectively, were the strongest performing sectors – driven by a surge in commodity prices. The weakest areas of the market were Consumer Discretionary, which fell 16.3%, and Information Technology, down 16.9%. As in the developed markets, these sectors fared poorly due to the credit crunch, fears of an economic slowdown and the inevitable monetary policy response to rising inflation.

sector commentary

The sector outperformed the benchmark by 2.8% for the year.

The main contributor to performance was country selection which consistently weighted the sector towards outperforming markets.

The sector's overweight exposure to Brazil was a significant contributor to performance, with the Brazilian market's return of 26.8% for the year far exceeding the index. The sector's overweight exposure to Russia produced volatile results over the year but made an overall positive contribution, as did stock selection within Russia which was heavily weighted towards Energy stocks. The sector's underweight exposures to Mexico and Korea also helped performance over the year.

Stock selection generally was more mixed in results. Among the sector's largest active positions have been an overweight to Petrobras and an underweight position in CVRD. These are Brazilian energy and materials stocks whose prices have risen solidly, up 92.1% and 33.2% respectively over the past year.

The sector is currently underweight Latin America, reflecting a negative outlook for Chile and Columbia. The holdings in Asia are also below benchmark exposure, while the sector maintains an overweight exposure to Russia and Eastern Europe. The sectoral tilts to Consumer Discretionary and Industrials have been countered by a tilt away from Healthcare and Utilities.

Alternative Assets – Alpha Strategies

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	6.6	12.3	14.0	14.0	13.9	n/a	n/a
Sector - Strategy 5	6.6	6.5	7.4	7.4	9.8	n/a	n/a
ipac Diversified Alpha Fund	6.6	n/a	n/a	n/a	n/a	n/a	n/a
Benchmark	2.0	3.8	7.3	7.3	6.9	6.5	6.1

Notes:

Benchmark = UBSA Bank Bill Index.

Sector – Strategy 5.

ipac Diversified Alpha Fund

On 1 April 2008 ipac launched the ipac Diversified Alpha Fund, a new approach to managing the alternative investments held within the multi-manager portfolios. The Fund is a diversified absolute return style portfolio. It aims to deliver cash plus 2-4% per annum with low correlation with equity markets, providing an excellent source of diversification.

The ipac Diversified Alpha Fund consolidates ipac's existing investments in alternative alpha strategies into one underlying fund, into which the multi-manager portfolios then invest. The main driver of return within the Fund is manager skill rather than market direction. Many of the strategies within the Fund invest in standard liquid markets but eliminate actual market exposure. Other strategies operate in non-standard markets and aim to generate absolute returns from inefficiencies unrelated to mainstream market direction.

The managers included in the ipac Diversified Alpha Fund in its initial stage are the BGI Total Return Multi-Opportunity Fund, the AXA Rosenberg Long/Short Fund and a new investment in the Prisma Global Multi-Strategy Fund. As the portfolio evolves and new opportunities emerge, a greater diversity of manager and alpha sources will be added progressively.

ipac's appointment of Prisma Global Multi-Strategy Fund (Prisma) replaces BT Global Return Fund, a global fund of hedge funds. ipac identified Prisma through its extensive research and believes the offshore manager has a compelling investment proposition. Prisma invests across a range of strategies and investment markets, with great emphasis on diversification, risk management and downside protection. It deliberately seeks to derive its active returns with a lower correlation to traditional asset classes, such as shares and bonds, compared to other multi-strategy-type funds.

For the 3 month period since inception the Fund returned 6.6% against a benchmark of 2.0%. All managers outperformed the benchmark during the period, with stock selection the main driver of performance.

Earlier in the financial year, manager performance was mixed. AXA Rosenberg outperformed its benchmark by 15.1% for the year, while BGI marginally underperformed by 0.3%. From the end of 2007 the investment environment was exceptionally difficult for hedge funds. The global liquidity crisis and fears of a US recession caused a severe dislocation in markets, especially in credit markets, and this impacted the ability of hedge fund managers to execute strategies. As a result, wider credit spreads, liquidity issues in the marketplace and higher market volatility impacted negatively on manager performance.

fund manager summary

ipac's fund managers are rigorously selected and they are managed with the same intensity. ipac maintains a constant dialogue with managers. In addition, more formalised monitoring occurs monthly, quarterly and annually. Below is an overview of each manager.

fund manager	status	Notes
Australian Cash		
AllianceBernstein	Preferred	AllianceBernstein seeks to add value by investing in securities with a higher average yield relative to the benchmark, ensuring securities are well diversified and the average length of maturity of the portfolio matches that of the benchmark.
Alternative Income		
PIMCO	Preferred	PIMCO's Short-Term Strategy captures excess returns by exploiting four primary structural inefficiencies found in the bond yield curve (term premium, liquidity premium, credit premium and volatility premium). The strategy is applied without reference to constituents of the Lehman Global Aggregate Index and is benchmarked to UBS Bank Bill Index.
Australian Fixed Interest		
BGI (index)	Preferred	BGI aims to replicate the return of the UBS Composite Bond Index.
Credit Suisse	Preferred	Credit Suisse seeks to add incremental value through relative value trades in yield curve anomalies, security mispricings and credit positioning.
International Fixed Interest		
BlackRock	Preferred	BlackRock uses multiple strategies to add value. It uses traditional strategies – duration, country and currency positions in measured ways whilst exploiting relative value strategies that include yield curve, sector allocation and security selection.
PIMCO	Preferred	PIMCO's portfolios are built to generate alpha from country allocation, portfolio duration, curve and sector positioning. The manager's focus is on identifying term (secular) and medium term (cyclical) drivers of fixed interest markets.
Australian Property		
BGI (Index)	Preferred	BGI aims to replicate the return in line with the designated index.
Legg Mason	On Watch	The manager values trusts from a capital markets' perspective and has captured the shift towards corporate earnings growth within this sector. The new portfolio manager has been in place for more than a year and continued good stock selection has generated solid relative performance. This provides some confidence and the On Watch status will be revisited when the sector review is completed.
SG Hiscock	Preferred	SG Hiscock combines bottom-up fundamental research and a disciplined valuation process to identify companies that are undervalued relative to their long-term value.
International Property		
CBRE	Preferred	CBRE is an active, fundamental manager that aims to identify undervalued real estate securities. Multiple valuation metrics are employed in addition to an assessment of the quality of management and capital structure. CBRE's security valuation and top-down research is enriched by the on-the-ground real estate information available within its parent organisation which is one of the world's largest global real estate services firms.
LaSalle	Preferred	LaSalle is an active, value-orientated manager that constructs portfolios with regional, country and property sector diversification. LaSalle's access to direct real estate research through its parent JLL complements its proprietary securities analysis and valuation tools.

Australian Shares		
BGI	Preferred	BGI has highly developed multi-factor approach developed within a well-established global research framework. Chief Investment Officer and Chief Executive, Morry Waked, provides strong local leadership and is supported by a highly skilled research team. Our expectations of alpha delivery remain positive.
Integrity	Preferred	Integrity's investment team is well experienced in applying their disciplined process. This has a slight emphasis on valuation but aims to identify mispriced long term sustainable value and is likely to perform strongest when markets are drive by valuations and fundamentals.
Schroders	Preferred	We continue to believe that the investment team is strong and applies their pragmatic growth approach in a thoughtful and effective way.
Maple-Brown Abbott	Preferred	MBA has maintained a moderate value-orientation in the portfolio consistent with its stated investment approach. We believe that the quality of the investment team and disciplined process will add value over the long term and that MBA is a manager that provides an additional source of return in a diversified portfolio.
Investors Mutual	On Watch	Investors Mutual has a value-orientation and a strong emphasis on managing the risk of downside performance through identifying quality companies with reliable earnings.
Wallara	Preferred	The team at Wallara are focused on making long-term investments in quality growth companies that generate shareholder value and apply this approach consistently. Aply led by Peter Wetherall, their long-term, high conviction approach means some short-term volatility can be expected when the market environment is not suited to the manager's approach.
Bernstein Value	Preferred	Bernstein Value continues to apply their value approach using both quantitative and qualitative insights and their extensive global research resources and continue to meet our expectations.
MIR	Preferred	MIR's differentiated stock selection process uses a blend of quantitative and qualitative approaches. Whilst MIR has experienced a number of changes in personnel, roles and team structure, the quality of the research team remains high. This is a concentrated portfolio and as such, may experience periods of significant underperformance.
Challenger	Preferred	Challenger's high conviction portfolio seeks to identify stocks likely to benefit from either industry restructuring or those that are in corporate turnaround situations. We believe the Challenger team lead by Head of Equities, Peter Greentree, is of a high quality. We believe they will continue to identify good investment ideas and build portfolios that will generate good alpha over the long term, although likely to be very volatile over shorter periods.
International Shares		
BGI (Fission)	Preferred	This fund aims to deliver index returns.
Wellington	Preferred	Wellington's global industry research analysts construct a global shares portfolio with similar industry weightings to the benchmark.
GMO	Preferred	GMO is a quantitative manager that combines price and earnings momentum models with an intrinsic value model to select stocks. The strong growth bias of the portfolio may mean in periods when value themes dominate the manager will under perform, but recent outperformance is reflective of the manager's bias towards quality stocks.
Bernstein Value	Preferred	Bernstein Global Value identifies undervalued companies through intensive bottom-up fundamental research. The manager's use of quantitative investment screens combined with extensive qualitative industry-orientated research should enable the manager to identify high quality value stocks to outperform over the long-term.
Capital	Preferred	Capital is an active, fundamental, bottom-up manager that aims to invest in high quality businesses with a sustainable competitive advantage and that are reasonably priced relative to their long-term earnings potential. The managers' willingness to take substantial stock, sector and country bets may mean at times that the portfolio's performance may differ substantially from that of the benchmark.
Alliance Growth	Preferred	Alliance Global Research Growth is an active, fundamental, bottom-up manager that employs a growth-oriented approach to construct a portfolio

		that is managed by global research industry analysts.
LSV	Preferred	LSV is a quantitative manager with a deep value-orientation and a mid to small cap bias. LSV focuses on fundamental value in combination with momentum measures. This should enable the manager to outperform over the long-term.
International Smaller Companies		
Arrowstreet	Preferred	Arrowstreet employs a quantitative approach to stock selection, evaluating securities across country, sector, basket and stock dimensions. A diverse set of predictive factors are estimated across each dimension. The quantitative approach allows Arrowstreet to apply its insights across a broad range of stock opportunities.
Global Emerging Markets		
Legg Mason	Preferred	Legg Mason combines bottom-up and top-down fundamental analysis. Relative, risk-adjusted valuations are the key to its process, incorporating country risk estimates with analyst stock ratings.
Alternative Investments - alpha strategies (ipac Diversified Alpha Fund)		
Prisma Global Multi-Strategy Fund	Preferred	The Prisma Global Multi-Strategy Fund is a global fund of hedge funds. Prisma seeks to operate a “low beta” approach where the main driver of return is manager skill rather than the direction of markets. That is, many of the strategies within the Fund invest in standard liquid markets but eliminate actual market exposure. In doing so Prisma aim to derive a return that has a low correlation to the returns from traditional asset classes such as shares and bonds. In implementing their process, Prisma emphasises diversification, risk management and downside protection.
BGI Total Return Multi-Opportunity Fund	Preferred	The BGI Total Return Multi-Opportunity Fund is a single manager, multi-strategy fund. BGI is unparalleled in its depth of resources and focus on research and development. The quantitative investment process is transparent and seeks to deliver consistent, risk-controlled absolute returns over time that are uncorrelated with traditional asset classes. The manager continues to generate returns in line with expectations.
AXA Rosenberg	Preferred	AXA Rosenberg is an active bottom-up quantitative manager who aims to identify stocks that are undervalued compared to peers, and have attractive earnings yields. AXA Rosenberg’s portfolio displays significantly higher earnings yield and lower price-to-book and price-to-earnings than the market. The portfolio’s strong valuation focus combined with market-orientated signals, such as earnings revisions should enable the portfolio to deliver superior returns over the medium-term.

portfolio management report

summary of investment activity since 1 July 2005

Date	sector	change	rationale
Aug 05	Australian shares	Appointed Challenger Financial Services Group	~ The portfolio is constructed with little reference to the benchmark, allowing for a high conviction and concentrated portfolio. This approach to investing is unique in Australian shares managers and well differentiated from other investment mandates employed by ipac.
Jan 06	Alternative income	Appointed PIMCO to manage this new asset class	~ Appointment of the PIMCO Short-Term Strategy is designed to maximise current income, while preserving capital and providing daily liquidity. ~ The strategy can be attractive in a rising interest rate environment because the added yield may more than offset the bond price depreciation associated with rising rates. ~ Appointment of this asset class and fund manager is expected to enhance the return potential of the portfolio and provide further diversification.
Jan 06	International property	Appointed CB Richard Ellis Global Real Estate Securities and LaSalle Investment Management (Securities) to manage this new asset class on a 50/50 basis	~ Appointment of CBRE is expected to generate an alpha of at least 2% above the benchmark. Two-thirds of the excess return is expected to come from stock selection, with the remainder coming from country allocation. ~ LaSalle is expected to generate at least 1.5% excess return over rolling 3-5 year periods. ~ Appointment of this asset class and these two managers are expected to enhance the return potential of the portfolio and provide further diversification.
June 06	International shares	Increased the weighting to style differentiated managers from 50% to 55% in the sector	~ Style differentiated managers have a value or growth bias while core managers do not seek to take explicit style 'bets'. ~ These changes increased the likelihood of achieving outperformance relative to the benchmark return without substantially increasing the level of risk.
July 06	International Smaller Companies	Appointed Arrowstreet to manage this new asset class	~ The appointment was made following a review of the asset allocation strategy. ~ Preference was to have a manager with an innovative quantitative approach and low funds under management. ~ Arrowstreet's investment philosophy focuses on behavioural and information mis-pricing in the market.
Nov 06	Australian shares	Review sector construction and manager allocation	~ Reviewed existing manager line-up. Comfortable with current managers and allocations.
Mar 07	Australian property	Review sector construction and manager allocation	~ Remain comfortable with existing managers. ~ Recommendations to potentially identify new opportunities to generate return while managing risk.
June 07	International shares	Consider core manager line-up and manager allocations	~ Review underway. Will consider alternatives to current managers used in the core component. ~ Initial research has identified potential

Date	sector	change	rationale
			<p>opportunities that would incorporate other investment approaches into the portfolio.</p> <p>~ Consider manager allocations as part of this review.</p>
June 07	Australian shares	UBS Asset Management placed On Watch	~ Assess impact of staff departures, including the Head of Australian Equities Paul Fiani.
Dec 07	Australian shares	Integrity appointed	<p>~ UBS Asset Management has been removed and Integrity Investment Management has been appointed to the line up of Australian shares managers.</p> <p>~ The decision to remove UBS was made following a review concluding we have insufficient confidence the new UBS team that can deliver the required excess returns in the future, following the departure of several key members of the investment team.</p> <p>~ In light of the appointment of Integrity, we have adjusted the manager allocations within the Australian Equities sector to optimise the diversification benefits offered by the new mix of managers.</p>
Feb 08	Australian shares	Investors Mutual placed "On Watch"	~ Following the departure of key investment team staff, the decision was made to place Investors Mutual "On Watch".
Apr 08	Alternative investments	Launch ipac Diversified Alpha Fund	<p>~ Consolidates ipac's existing investments in alternative alpha strategies into one underlying fund into which the multi-manager portfolios then invest.</p> <p>~ The return from alpha strategies is expected to have a low correlation with the drivers of return in mainstream asset classes. An allocation to the ipac Diversified Alpha Fund in diversified portfolios aims to improve overall portfolio diversification.</p> <p>~ The managers included in the ipac Diversified Alpha Fund in its initial stage are:</p> <ul style="list-style-type: none"> ▪ BGI Total Return Multi-Opportunity Fund ▪ AXA Rosenberg Long/Short Fund ▪ new investment in the Prisma Global Multi Strategy Fund
May 08	Australian shares	Investors Mutual terminated for DIS 1,2,3 &4 Investors Mutual allocation reduced for Dis 5	<p>~ Following its "On Watch" status, ipac has removed Investors Mutual (IML) from the line up of Australian share managers for DIS 1,2,3 & 4.</p> <p>~ and reduced the allocation to IML within DIS by 5%.</p> <p>~ ipac has retained IML with a 30% allocation in the Australian shares component of DIS 5. This allocation reflects ipac's continued confidence in IML's ability to select lower volatility stocks that are more resilient in weak markets.</p>
May 08	International shares	Currency exposure introduced – DIS 5	<p>~ ipac has reduced the level of currency hedging of the international shares component in DIS 5 from 100% hedged to 50% hedged.</p> <p>~ ipac believes that the introduction of currency exposure is appropriate at this point to reduce potential portfolio volatility and diversification.</p>

manager allocations vs targets

	manager	Div 1-4 allocation %	Div 1-4 target %	Div 5 allocation %	Div 5 target %
Australian Cash Sector	AllianceBernstein	100.0	100.0	100.0	100.0
Alternative Income Sector	PIMCO	100.0	100.0	100.0	100.0
Australian Fixed Interest Sector	BGI Index	0.0	0.0	100.0	100.0
	Credit Suisse	100.0	100.0	0.0	0.0
International Fixed Interest Sector	BlackRock	50.2	50.0	0.0	0.0
	PIMCO	49.8	50.0	100.0	100.0
Australian Property Sector	BGI Index	0.0	0.0	51.0	50.0
	Legg Mason	49.7	50.0	0.0	0.0
	SG Hiscock	50.3	50.0	49.0	50.0
International Property Sector	CBRE	49.8	50.0	50.5	50.0
	LaSalle	50.2	50.0	49.5	50.0
Australian Share Sector	BGI	22.8	23.0	0.0	0.0
	Integrity	5.3	5.0	0.0	0.0
	Schroders	21.6	22.0	0.0	0.0
	Maple-Brown Abbott	18.3	18.0	35.3	35.0
	Investors Mutual	0.0	0.0	27.5	30.0
	Wallara	18.2	18.0	0.0	0.0
	Bernstein Value	0.0	0.0	14.7	15.0
	MIR	7.1	7.0	22.5	20.0
Challenger	6.7	7.0	0.0	0.0	
International Share (Unhedged) Sector	BGI Index	0.0	0.0	20.6	20.0
	Wellington	25.4	25.0	0.0	0.0
	GMO	15.9	15.0	0.0	0.0
	Bernstein Value	16.6	17.5	48.6	50.0
	Capital	20.0	20.0	0.0	0.0
	Alliance Growth	14.7	15.0	0.0	0.0
	LSV	7.4	7.5	30.8	30.0
International Share (Hedged) Sector	BGI Index	0.0	0.0	23.6	20.0
	Wellington	24.7	25.0	0.0	0.0
	GMO	15.4	15.0	0.0	0.0
	Bernstein Value	17.6	17.5	47.1	50.0
	Capital	20.0	20.0	0.0	0.0
	Alliance Growth	14.8	15.0	0.0	0.0
	LSV	7.5	7.5	29.3	30.0
International Smaller Companies Sector	Arrowstreet	100.0	100.0	0.0	0.0
Global Emerging Markets Sector	Legg Mason	100.0	100.0	0.0	0.0
Alternative Assets Sector - Alpha Strategies	Prisma Global Multi-Strategy Fund	55.6	n/a	55.6	n/a
	BGI Multi-Opp Fund	28.2	n/a	28.2	n/a
	AXA Rosenberg Long/Short Fund	16.2	n/a	16.2	n/a

Notes:

Allocation % based on ipac Diversified Investment Strategies No. 2 & 5

Target % based on agreed allocation within each asset class.

All monies held in BT Global Return Fund were redeemed as at 29 February 2008. The proceeds from this redemption were invested into Cash in the interim period between receipt of the funds and purchasing units in the ipac Diversified Alpha Fund as at 1 April 2008.

Totals may not add up to 100% due to the rounding of individual components.

asset allocations vs targets

	Div No 1	target	Div No 2	target	Div No 3	target	Div No 4	target	Div No 5	target	InTech Cons Growth	InTech Growth	InTech High Growth
	%	%	%	%	%	%	%	%	%	%			
Australian Cash Sector	20.8%	20.0%	5.4%	5.0%	3.7%	2.5%	0.8%	1.0%	5.8%	5.0%	28.9	3.3	1.2
Alternative Income Sector	20.0%	20.0%	5.3%	5.0%	2.7%	2.5%	0.0%	0.0%	7.8%	7.5%	0.0	0.0	0.0
Australian Fixed Interest Sector	15.3%	15.0%	9.6%	9.0%	5.4%	5.0%	0.0%	0.0%	4.9%	4.5%	34.0	13.1	0.9
International Fixed Interest Sector	14.5%	15.0%	9.4%	9.0%	5.1%	5.0%	0.0%	0.0%	4.8%	5.0%	12.8	8.3	1.5
Defensive Assets	70.5%	70.0%	29.7%	28.0%	16.9%	15.0%	0.8%	1.0%	23.3%	22.0%	75.8	24.7	3.6
Australian Property Sector	3.6%	4.0%	4.0%	4.5%	3.9%	4.0%	4.0%	4.0%	7.1%	7.5%	2.2	5.6	1.7
International Property Sector	3.9%	4.0%	4.1%	4.5%	3.8%	4.0%	3.9%	4.0%	6.7%	7.5%	0.8	6.1	1.1
Australian Share Sector	13.6%	14.0%	30.6%	31.0%	34.9%	36.0%	39.1%	39.0%	20.1%	21.5%	12.7	36.5	50.9
International Share (Unhedged) Sector	4.1%	4.0%	10.6%	11.0%	13.9%	13.5%	18.4%	17.5%	10.5%	10.8%	8.5	27.1	42.7
International Share (Hedged) Sector	4.3%	4.0%	12.8%	13.0%	17.5%	16.5%	22.6%	21.5%	9.8%	10.8%	0.0	0.0	0.0
International Smaller Companies Sector	0.0%	0.0%	1.9%	2.0%	2.7%	3.0%	4.1%	4.0%	0.0%	0.0%	0.0	0.0	0.0
Global Emerging Markets Sector	0.0%	0.0%	3.3%	3.0%	3.2%	3.0%	4.1%	4.0%	0.0%	0.0%	0.0	0.0	0.0
Growth Assets	29.5%	30.0%	67.4%	69.0%	79.9%	80.0%	96.2%	94.0%	54.2%	58.0%	24.2	75.3	96.4
Alternative Assets Sector	0.0%	0.0%	2.8%	3.0%	3.3%	5.0%	3.1%	5.0%	22.5%	20.0%	0.0	0.0	0.0
Alternative Assets	0.0%	0.0%	2.8%	3.0%	3.3%	5.0%	3.1%	5.0%	22.5%	20.0%	0.0	0.0	0.0

Notes:

The exposure to each asset class is managed within a range of +/- 3% of the target asset allocation. Totals may not add up to 100% due to the rounding of individual components.

All monies held in BT Global Return Fund were redeemed as at 29 February 2008. The proceeds from this redemption were invested into Cash in the interim period between receipt of the funds and purchasing units in the ipac Diversified Alpha Fund as at 1 April 2008.

InTech Conservative Growth is comparable with Diversified Strategy No. 1.

InTech Growth is comparable with Diversified Strategy No. 2 & 3.

InTech High Growth is comparable with Diversified Strategy No. 4.

top 10 holdings - Diversified Investment Strategies 1 - 4

Australian Shares			International Shares	
		% sector		% sector
1	BHP BILLITON LTD	116%	POTASH CORP SASK INC	17%
2	NATL AUSTRALIA BK	6.0%	E ON AG	1%
3	RIOTINTO LIMITED	4.9%	CANADIAN NATURAL RES LTD	1%
4	AUST +NZ BANK GRP	4.7%	NESTLE SA	10%
5	TELSTRA CORP	4.7%	MICROSOFT CORP	0.9%
6	WESTPAC BKG CORP	4.1%	WAL MART STORES INC	0.9%
7	CMNWLTH BK OF AUST	3.2%	CHEVRON CORP	0.9%
8	WOODSIDE PETROLEUM	3.0%	XSTRATA	0.9%
9	WOOLWORTHS LTD	2.7%	EXXON MOBIL CORP	0.8%
10	BRAMBLES LTD	2.7%	SANOFI AVENTIS	0.7%

Australian Property Securities			International Property	
		% sector		% sector
1	WESTFIELD GROUP	37.5%	UNIBAIL RODAMCO	5.4%
2	STOCKLAND	9.5%	WESTFIELD GROUP	5.1%
3	GPT GROUP	8.8%	SIMON PPTY GROUP INC NEW	4.5%
4	MIRVAC GROUP	6.6%	PROLOGIS	4.1%
5	VALAD PROPERTY GP	4.9%	VORNADORLTY TR	3.6%
6	GOODMAN GROUP	4.2%	AVALONBAY CMNTYS INC	2.7%
7	MACQUARIE OFFICE	3.5%	GPT GROUP	2.6%
8	MACQUARIE COUNTRYWIDE	3.2%	BOSTON PPTYS INC	2.5%
9	DEXUS PROPERTY GP	2.9%	CAPITALAND	2.4%
10	MACQUARIE DDR TST UNITS N	1.9%	SL GREEN RLTY CORP	2.0%

top 10 holdings - Diversified Investment Strategy 5

Australian Shares		% sector	International Shares		% sector
1	BHP BILLITON LTD	11.1%	CHEVRON CORP		2.4%
2	TELSTRA CORP	6.7%	CONOCOPHILLIPS		19%
3	WESTPAC BKG CORP	6.6%	ROYAL DUTCH SHELL		19%
4	NATL AUSTRALIA BK	6.6%	EXXON MOBIL CORP		15%
5	AUST +NZ BANK GRP	4.8%	JPMORGAN CHASE +CO		15%
6	RIOTINTO LIMITED	4.2%	BASF SE		14%
7	FOSTERS GROUP	2.6%	PFIZER INC		14%
8	AMCOR LIMITED	2.6%	VODAFONE GROUP		13%
9	ORIGIN ENERGY	2.4%	ENI		1.1%
10	WESTFIELD GROUP	2.3%	TOTAL SA		10%

Australian Property Securities		% sector	International Property		% sector
1	WESTFIELD GROUP	37.8%	UNIBAIL RODAMCO		5.4%
2	STOCKLAND	10.9%	WESTFIELD GROUP		5.1%
3	GPT GROUP	7.2%	SIMON PPTY GROUP INC NEW		4.5%
4	GOODMAN GROUP	5.2%	PROLOGIS		4.1%
5	VALAD PROPERTY GP	5.1%	VORNADO RLTY TR		3.6%
6	DEXUS PROPERTY GP	5.0%	AVALONBAY CMNTYS INC		2.7%
7	MIRVAC GROUP	4.8%	GPT GROUP		2.6%
8	MACQUARIE OFFICE	2.5%	BOSTON PPTYS INC		2.5%
9	MACQUARIE COUNTRYWIDE	2.2%	CAPITALAND		2.4%
10	ABACUS PROPERTY GROUP	1.7%	SL GREEN RLTY CORP		2.0%

sector allocations vs benchmark - Diversified Investment Strategies 1 - 4

Australian Shares – portfolio vs benchmark (by sector)

sector	% allocation	% S&P/ASX 300
CONSUMER DISCRETIONARY	5.7%	3.9%
CONSUMER STAPLES	7.7%	7.9%
ENERGY	7.1%	9.0%
FINANCIALS EXCLUDING PROPERTY TRUSTS	26.4%	26.0%
HEALTH CARE	4.7%	3.0%
INDUSTRIALS	9.7%	6.6%
INFORMATION TECHNOLOGY	1.0%	0.7%
LISTED PROPERTY TRUSTS	2.9%	6.6%
MATERIALS	28.0%	30.2%
TELECOMMUNICATION SERVICES	5.8%	4.7%
UTILITIES	1.0%	1.5%

International Shares & Fixed Interest - portfolio vs benchmark (by country)

	International Shares		International Fixed Interest	
	% allocation	% MSCI	% allocation	% Lehman Global Aggregate Index
NORTH AMERICA	50.5%	54.1%	55.5%	40.8%
EUROPE (EXCLUDING UK)	23.7%	23.3%	24.0%	33.1%
UK	8.9%	10.6%	6.1%	5.3%
ASIA (EXCLUDING JAPAN)	1.9%	1.6%	0.0%	1.4%
JAPAN	9.4%	10.4%	11.1%	16.9%
OTHER	0.0%	0.0%	3.3%	0.7%
EMERGING MARKETS	5.5%	0.0%	0.0%	1.8%

International Shares – portfolio vs benchmark (by sector)

sector	% allocation	% MSCI
CONSUMER DISCRETIONARY	9.7%	9.0%
CONSUMER STAPLES	6.7%	8.2%
ENERGY	13.5%	13.8%
FINANCIALS INCLUDING PROPERTY TRUSTS	18.4%	19.6%
HEALTH CARE	10.3%	9.1%
INDUSTRIALS	9.9%	11.5%
INFORMATION TECHNOLOGY	11.9%	11.1%
MATERIALS	11.7%	7.9%
TELECOMMUNICATION SERVICES	4.1%	4.6%
UTILITIES	3.9%	5.2%

Note:

Totals may not add up to 100% due to the rounding of individual components.

Australian Fixed Interest – portfolio vs benchmark

type of security	% allocation	% UBSA Composite Bond Index
GOVERNMENT	-0.4%	20.3%
SEMI GOVERNMENT	0.0%	28.1%
CORPORATE / OTHER	100.4%	51.6%

International Fixed Interest – portfolio vs benchmark (by sector)

sector	% allocation	% Lehman Global Aggregate Index
ASSET BACKED / OTHER	37.8%	20.8%
CORPORATE	27.9%	17.3%
GOVERNMENT	34.3%	61.9%

Australian Property Securities - portfolio vs benchmark

	% allocation	% S&P/ASX 300 A-REIT Index
COMMERCIAL	6.7%	7.7%
DIVERSIFIED	38.6%	34.0%
HOTEL	0.0%	0.0%
INDUSTRIAL	4.8%	9.3%
RETAIL	46.9%	49.0%
OTHER	3.0%	0.0%

International Property Securities - portfolio vs benchmark

	% allocation	% UBS Global Property Investors Index
NORTH AMERICA	48.4%	52.1%
EUROPE EXCLUDING UK	15.3%	15.5%
UK	8.5%	8.6%
JAPAN	4.9%	5.6%
ASIA EX JAPAN	9.6%	5.1%
OTHER	13.3%	13.1%

Global Emerging Markets - portfolio vs benchmark

	% allocation	% MSCI EM Index
LATIN AMERICA	21.4%	25.5%
ASIA EX JAPAN	48.1%	48.6%
EUROPE / MIDDLE EAST / AFRICA/OTHER	30.4%	25.9%

Note:

Totals may not add up to 100% due to the rounding of individual components.

sector allocations vs benchmark – Diversified Investment Strategy 5

Australian Shares – portfolio vs benchmark (by sector)

sector	% allocation	% S&P/ASX 300
CONSUMER DISCRETIONARY	9.9%	3.9%
CONSUMER STAPLES	7.9%	7.9%
ENERGY	7.4%	9.0%
FINANCIALS EXCLUDING PROPERTY TRUSTS	26.2%	26.0%
HEALTH CARE	1.7%	3.0%
INDUSTRIALS	8.5%	6.6%
INFORMATION TECHNOLOGY	0.0%	0.7%
LISTED PROPERTY TRUSTS	3.0%	6.6%
MATERIALS	25.5%	30.2%
TELECOMMUNICATION SERVICES	8.7%	4.7%
UTILITIES	1.1%	1.5%

International Shares & Fixed Interest - portfolio vs benchmark (by country)

	International Shares		International Fixed Interest	
	% allocation	% MSCI	% allocation	% Lehman Global Aggregate Index
NORTH AMERICA	47.6%	54.1%	56.5%	40.8%
EUROPE (EXCLUDING UK)	26.9%	23.3%	22.6%	33.1%
UK	9.9%	10.6%	3.0%	5.3%
ASIA (EXCLUDING JAPAN)	1.3%	1.6%	0.0%	1.4%
JAPAN	11.1%	10.4%	12.5%	16.9%
OTHER	0.1%	0.0%	5.4%	0.7%
EMERGING MARKETS	2.9%	0.0%	0.0%	1.8%

International Shares – portfolio vs benchmark (by sector)

sector	% allocation	% MSCI
CONSUMER DISCRETIONARY	10.3%	9.0%
CONSUMER STAPLES	4.4%	8.2%
ENERGY	16.9%	13.8%
FINANCIALS	24.3%	19.6%
HEALTH CARE	8.0%	9.1%
INDUSTRIALS	9.1%	11.5%
INFORMATION TECHNOLOGY	8.2%	11.1%
MATERIALS	11.7%	7.9%
TELECOMMUNICATION SERVICES	4.5%	4.6%
UTILITIES	2.5%	5.2%

Note:

Totals may not add up to 100% due to the rounding of individual components.

Australian Fixed Interest – portfolio vs benchmark

type of security	% allocation	% UBSA Composite Bond Index
GOVERNMENT	20.3%	20.3%
SEMI GOVERNMENT	28.1%	28.1%
CORPORATE / OTHER	51.6%	51.6%

International Fixed Interest – portfolio vs benchmark (by sector)

sector	% allocation	% Lehman Global Aggregate Index
ASSET BACKED / OTHER	33.5%	20.8%
CORPORATE	34.9%	17.3%
GOVERNMENT	31.6%	61.9%

Australian Property Securities - portfolio vs benchmark

	% allocation	% S&P/ASX 300 A-REIT Index
COMMERCIAL	7.9%	7.7%
DIVERSIFIED	37.7%	34.0%
HOTEL	0.0%	0.0%
INDUSTRIAL	6.4%	9.3%
RETAIL	45.3%	49.0%
OTHER	2.7%	0.0%

International Property Securities - portfolio vs benchmark

	% allocation	% UBS Global Property Investors Index
NORTH AMERICA	48.4%	52.1%
EUROPE (EXCLUDING UK)	15.3%	15.5%
UK	8.5%	8.6%
JAPAN	4.9%	5.6%
ASIA (EXCLUDING JAPAN)	9.6%	5.1%
OTHER	13.3%	13.1%

Note:

Totals may not add up to 100% due to the rounding of individual components.

historical financial year returns – income & growth

Fund Name	Date	1 Yr rolling rtn % pa (net)	1 Yr Growth %	1 Yr Distribution %
Diversified Investment Strategy No. 1	30-Jun-02	1.32%	-4.33%	5.65%
Diversified Investment Strategy No. 1	30-Jun-03	5.20%	-1.18%	6.38%
Diversified Investment Strategy No. 1	30-Jun-04	8.56%	6.60%	1.96%
Diversified Investment Strategy No. 1	30-Jun-05	11.00%	1.76%	9.23%
Diversified Investment Strategy No. 1	30-Jun-06	9.44%	1.68%	7.75%
Diversified Investment Strategy No. 1	30-Jun-07	10.25%	-1.62%	11.87%
Diversified Investment Strategy No. 1	30-Jun-08	-2.87%	-10.91%	8.04%
Diversified Investment Strategy No. 2	30-Jun-02	-6.88%	-10.12%	3.24%
Diversified Investment Strategy No. 2	30-Jun-03	-1.30%	-6.06%	4.76%
Diversified Investment Strategy No. 2	30-Jun-04	15.45%	11.93%	3.52%
Diversified Investment Strategy No. 2	30-Jun-05	14.65%	7.48%	7.16%
Diversified Investment Strategy No. 2	30-Jun-06	16.54%	10.95%	5.60%
Diversified Investment Strategy No. 2	30-Jun-07	17.00%	4.65%	12.34%
Diversified Investment Strategy No. 2	30-Jun-08	-11.96%	-20.48%	8.52%
Diversified Investment Strategy No. 3	30-Jun-02	-10.68%	-13.16%	2.48%
Diversified Investment Strategy No. 3	30-Jun-03	-4.22%	-8.25%	4.04%
Diversified Investment Strategy No. 3	30-Jun-04	17.59%	12.99%	4.60%
Diversified Investment Strategy No. 3	30-Jun-05	14.89%	8.58%	6.30%
Diversified Investment Strategy No. 3	30-Jun-06	18.03%	12.89%	5.14%
Diversified Investment Strategy No. 3	30-Jun-07	18.93%	7.36%	11.57%
Diversified Investment Strategy No. 3	30-Jun-08	-14.70%	-24.22%	9.52%
Diversified Investment Strategy No. 4	30-Jun-02	-13.70%	-15.21%	1.52%
Diversified Investment Strategy No. 4	30-Jun-03	-6.34%	-9.79%	3.45%
Diversified Investment Strategy No. 4	30-Jun-04	20.28%	17.05%	3.23%
Diversified Investment Strategy No. 4	30-Jun-05	15.02%	9.12%	5.90%
Diversified Investment Strategy No. 4	30-Jun-06	20.78%	15.76%	5.02%
Diversified Investment Strategy No. 4	30-Jun-07	21.01%	10.04%	10.98%
Diversified Investment Strategy No. 4	30-Jun-08	-17.95%	-26.36%	8.41%
Diversified Investment Strategy No. 5	30-Jun-07	18.48%	5.55%	12.93%
Diversified Investment Strategy No. 5	30-Jun-08	-11.17%	-18.60%	7.43%