# portfolio watch

a quarterly report on the performance of
the **ipac** Diversified Investment Strategies

December 2007

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# strategy performance (gross)

| | 3 mths<br>% | 6 mths<br>% | Fin YTD<br>% | 1 yr<br>% pa | 2 yrs<br>% pa | 3 yrs<br>% pa | 5 yrs<br>% pa |
|---|---|---|---|---|---|---|---|
| Diversified Investment Strategy No 1 | -0.5 | 1.8 | 1.8 | 5.8 | 8.2 | 9.0 | 9.2 |
| Diversified Investment Strategy No 2 | -1.9 | 0.4 | 0.4 | 6.8 | 11.7 | 13.6 | 13.7 |
| Diversified Investment Strategy No 3 | -2.3 | -0.2 | -0.2 | 7.1 | 12.5 | 14.6 | 14.6 |
| Diversified Investment Strategy No 4 | -2.8 | -0.8 | -0.8 | 7.2 | 13.5 | 16.0 | 15.9 |
| Diversified Investment Strategy No 5 | -3.1 | -2.1 | -2.1 | 4.3 | 11.1 | 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 100% 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 % pa | 3 yrs % pa | 5 yrs % pa |
|---|---|---|---|---|---|---|---|
| **Australian Cash Sector** | **1.1** | **2.5** | **2.5** | **5.9** | **6.0** | **6.0** | **5.8** |
| **Australian Cash Sector - Strategy 5** | **1.1** | **2.5** | **2.5** | **5.9** | **6.0** | **n/a** | **n/a** |
| *UBSA Bank Bill Index* | *1.7* | *3.4* | *3.4* | *6.7* | *6.4* | *6.2* | *5.8* |
| **Alternative Income Sector** | **1.3** | **4.6** | **4.6** | **8.4** | **n/a** | **n/a** | **n/a** |
| **Alternative Income Sector - Strategy 5** | **1.3** | **4.6** | **4.6** | **8.4** | **n/a** | **n/a** | **n/a** |
| *UBSA Bank Bill Index* | *1.7* | *3.4* | *3.4* | *6.7* | *6.4* | *6.2* | *5.8* |
| **Australian Fixed Interest Sector** | **0.1** | **1.5** | **1.5** | **3.2** | **3.2** | **4.2** | **4.8** |
| **Australian Fixed Interest Sector - Strategy 5** | **0.3** | **1.8** | **1.8** | **3.5** | **3.3** | **n/a** | **n/a** |
| *UBSA Composite Bond Index* | *0.3* | *1.7* | *1.7* | *3.5* | *3.3* | *4.1* | *4.5* |
| **International Fixed Interest Sector** | **2.6** | **5.4** | **5.4** | **6.2** | **5.3** | **5.9** | **6.9** |
| **International Fixed Interest Sector - Strategy 5** | **3.2** | **5.9** | **5.9** | **6.5** | **5.5** | **n/a** | **n/a** |
| *Lehman Global Aggregate (Hedged) Index* | *2.6* | *5.6* | *5.6* | *6.6* | *5.5* | *5.9* | *6.6* |
| **Australian Property Sector** | **-13.9** | **-10.5** | **-10.5** | **-8.1** | **10.8** | **11.3** | **14.8** |
| **Australian Property Sector - Strategy 5** | **-13.1** | **-9.5** | **-9.5** | **-8.3** | **10.2** | **n/a** | **n/a** |
| *S&P/ASX 300 Property Trust Accum Index* | *-13.0* | *-8.5* | *-8.5* | *-8.4* | *10.8* | *11.5* | *14.8* |
| **International Property Sector** | **-11.9** | **-11.6** | **-11.6** | **-14.9** | **n/a** | **n/a** | **n/a** |
| **International Property Sector - Strategy 5** | **-12.0** | **-11.8** | **-11.8** | **-15.2** | **n/a** | **n/a** | **n/a** |
| *UBS Global Investors Index in AUD Hedged Net Div* | *-12.2* | *-13.0* | *-13.0* | *-16.3* | *7.5* | *n/a* | *n/a* |
| **Australian Shares Sector** | **-2.5** | **1.9** | **1.9** | **14.6** | **19.2** | **20.7** | **21.0** |
| **Australian Shares Sector - Strategy 5** | **-2.4** | **0.3** | **0.3** | **11.1** | **16.7** | **n/a** | **n/a** |
| *S&P/ASX 300 Accum Index* | *-2.7* | *2.9* | *2.9* | *16.2* | *20.3* | *21.0* | *21.1* |
| **International Shares (Unhedged) Sector** | **-1.0** | **-2.2** | **-2.2** | **-1.0** | **5.2** | **10.2** | **7.4** |
| *MSCI World Ex Australia ($A Unhedged) Index* | *-1.6* | *-3.7* | *-3.7* | *-2.6* | *4.2* | *8.3* | *6.7* |
| **International Shares (Hedged) Sector** | **-2.3** | **-1.4** | **-1.4** | **7.3** | **12.2** | **15.3** | **16.9** |
| **International Shares (Hedged) Sector - Strategy 5** | **-5.1** | **-7.3** | **-7.3** | **1.9** | **11.9** | **n/a** | **n/a** |
| *MSCI World Ex Australia ($A Hedged) Index* | *-2.8* | *-2.9* | *-2.9* | *6.0* | *11.6* | *13.9* | *17.0* |
| **International Smaller Companies Sector** | **-9.0** | **-18.8** | **-18.8** | **-9.8** | **n/a** | **n/a** | **n/a** |
| *S&P/Citigroup World <US$1.5bn Cap (AUD Unhedged Net Div)* | *-5.4* | *-11.0* | *-11.0* | *-8.2* | *n/a* | *n/a* | *n/a* |
| **Global Emerging Markets Sector** | **5.2** | **15.2** | **15.2** | **25.7** | **25.9** | **30.0** | **24.6** |
| *MSCI EM in $A (div reinvested)* | *4.4* | *14.6* | *14.6* | *25.1* | *24.1* | *30.1* | *25.4* |
| **Alternative Assets Sector** | **1.3** | **1.5** | **1.5** | **9.0** | **5.2** | **n/a** | **n/a** |
| **Alternative Assets Sector - Strategy 5** | **1.0** | **0.8** | **0.8** | **8.6** | **7.8** | **n/a** | **n/a** |
| *UBSA Bank Bill Index* | *1.7* | *3.4* | *3.4* | *6.7* | *6.4* | *6.2* | *5.8* |

**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
## (3 months, gross of funds mgt fees)

| asset class | manager return % | market return % | above/below index % |
|---|---|---|---|
| **Australian Cash Sector** | | | |
| AllianceBernstein | 1.1 | 1.7 | -0.6 |
| **Alternative Income Sector** | | | |
| PIMCO | 1.3 | 1.7 | -0.4 |
| **Australian Fixed Interest Sector** | | | |
| BGI Index | 0.3 | 0.3 | 0.1 |
| Credit Suisse | 0.1 | 0.3 | -0.2 |
| **International Fixed Interest Sector** | | | |
| BlackRock | 2.0 | 2.6 | -0.6 |
| PIMCO | 3.2 | 2.6 | 0.5 |
| **Australian Property Sector** | | | |
| BGI Index | -12.7 | -13.0 | 0.3 |
| Legg Mason | -14.3 | -13.0 | -1.3 |
| SG Hiscock | -13.6 | -13.0 | -0.5 |
| **International Property Sector** | | | |
| CBRE | -11.8 | -12.2 | 0.5 |
| LaSalle | -12.2 | -12.2 | 0.1 |
| **Australian Shares Sector** | | | |
| BGI | -3.3 | -2.7 | -0.6 |
| Integrity | n/a | -2.7 | n/a |
| Schroders | -3.3 | -2.7 | -0.6 |
| Maple-Brown Abbott | -2.4 | -2.7 | 0.3 |
| Investors Mutual | -1.4 | -2.7 | 1.3 |
| Wallara | -2.0 | -2.7 | 0.7 |
| Bernstein Value | -4.0 | -2.7 | -1.3 |
| MIR | -2.7 | -2.7 | 0.0 |
| Challenger | -2.6 | -2.7 | 0.0 |
| **International Shares (Unhedged) Sector** | | | |
| Wellington | 1.1 | -1.6 | 2.7 |
| GMO | -0.3 | -1.6 | 1.3 |
| Bernstein Value | -4.5 | -1.6 | -2.9 |
| Capital | -1.7 | -1.6 | -0.1 |
| Alliance Growth | 1.0 | -1.6 | 2.6 |
| LSV | -4.3 | -1.6 | -2.7 |
| **International Shares (Hedged) Sector** | | | |
| BGI Index | -2.8 | -2.8 | 0.0 |
| Wellington | -0.2 | -2.8 | 2.5 |
| GMO | -1.6 | -2.8 | 1.2 |
| Bernstein Value | -5.8 | -2.8 | -3.1 |
| Capital | -3.0 | -2.8 | -0.2 |
| Alliance Growth | -0.4 | -2.8 | 2.4 |
| LSV | -5.5 | -2.8 | -2.7 |
| **International Smaller Companies Sector** | | | |
| Arrowstreet | -9.0 | -5.4 | -3.6 |
| **Global Emerging Markets Sector** | | | |
| Legg Mason | 5.1 | 4.4 | 0.6 |
| **Alternative Assets Sector** | | | |
| AXA Rosenberg | 1.4 | 1.7 | -0.3 |
| BGI Total Return Multi-Opportunity Fund | 0.3 | 1.7 | -1.4 |
| BT Global Return Fund | 2.6 | 1.7 | 0.9 |

**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.

The performance of the BT Global Return Fund (net of all fees charged by the manager) & BGI Total Return Multi Opportunity Fund are calculated based on the hard close exit unit price one month lagged as reported by the manager. The market return for the BT Global Return Fund and BGI Total Return Multi Opportunity Fund is also one month lagged.

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), BGI Total Return Multi-Opportunity Fund & BT Global Return Fund (Alternative Assets) are only available in Diversified Investment Strategy No. 5.

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

# investment environment

Every year sees changes in the economic landscape - and with the introduction of a new superannuation system, a new government, a credit crunch in the United States and a crisis in a major property group, 2007 was no exception. In 2007, volatility returned to the market. The combination of a stronger Australian Dollar, crude oil at times nearing US$100 a barrel and higher domestic interest rates gave many companies and investors no shortage of earnings headaches.

The final quarter of 2007 saw a continuation of volatility in global equities as more bad news emerged about the US sub prime market. Volatility rose mid year as illustrated by the VIX Index shown below. The VIX Index is a global measure of share market volatility. Stocks in housing, construction and financials faced the worst of the backlash as significant losses were reported by US and European banks on their sub prime assets.

During the December quarter, the global credit crunch impacted on Centro Properties Group - Australia's second largest shopping centre owner. Centro's failure to secure funding dramatically drives home the pervasiveness of the global liquidity crisis, and the increased refinancing costs imposed on highly leveraged companies. Trusts with complex, debt laden structures are now under the spotlight, and investors are questioning those trusts with more 'aggressive' business models.

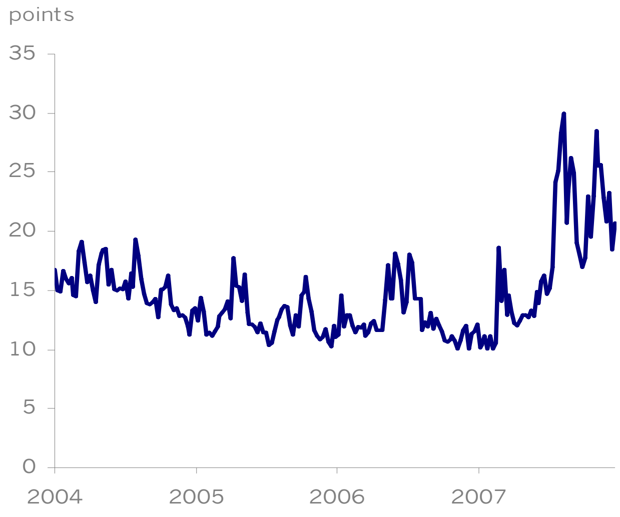
Despite the volatile conditions that dominated the close of 2007, the Australian share market still ended the year on strong ground, posting its fifth double digit calendar year return in succession. The strength of the domestic economy provided some security in the face of renewed credit fears emanating from the US.

The sub prime crisis in the US, and the impact that has been felt across the globe, demonstrates how connected the world is today. In 2008, there will be an increased focus on what is happening in different parts of the world. The key issues for investors will be the risks associated with the slowdown of the US economy, and China and India's ability to effectively remain the engine rooms of growth.

There are significant short-term risks and depending on how these play out, the markets could move quickly up or down. As a long-term investor it is important not to respond to the 'noise' in the headlines as the path will be unpredictable. Over the longer-term the fundamentals do win out, and based on ipac's long-term forecasts, equity markets are priced to deliver returns in line with historical averages. Companies with strong balance sheets and robust, sustainable organic growth may be better placed in what appears to be a maturing earnings cycle.

In this environment, active management and the value of quality research is important to manage risk and to identify opportunities with strong fundamentals. ipac believes the way to achieve investment objectives is to invest in a quality globally diversified portfolio with exposure to a range of asset classes.

**Figure 1: Chicago Board Options Exchange Volatility Index (VIX)**




**source**: Bloomberg

# market returns for the quarter

**Australian fixed interest** returned 3.5% over the year, and 0.3% over the quarter (UBSA Composite Bond Index – All Maturities). A rise in government bond yields reflected inflationary pressures and expectations of future interest rate rises.

**International fixed interest** markets posted a 12 month return of 6.6% for the year to 31 December 2007 as measured by the Lehman Global Aggregate Index (hedged). This return slightly lagged Australian cash which returned 6.7%. International fixed interest returned 2.6% (hedged) in the December quarter. Concern that sub prime mortgage losses would continue to spread led investors to sell out of equity markets for the relative safety of government treasuries.

**Australian property securities** fell 8.4% for the year to 31 December 2007 as measured by the S&P/ASX 300 Listed Property Trust Accumulation Index. In the December quarter, the asset class was down 13.0%, suffering from poor market sentiment as a result of economic uncertainty, widening credit spreads and a repricing of risk. The demise of Centro Properties Group also hurt.

**International listed property securities** fell 16.3% for the year, and -12.2% for the quarter to 31 December 2007 (UBS Global Investors Index hedged). Credit issues emanating from the sub prime mortgage crisis in the US impacted global real estate values, as did uncertainty about the global economy and a slowdown in Merger and Acquisition activity.

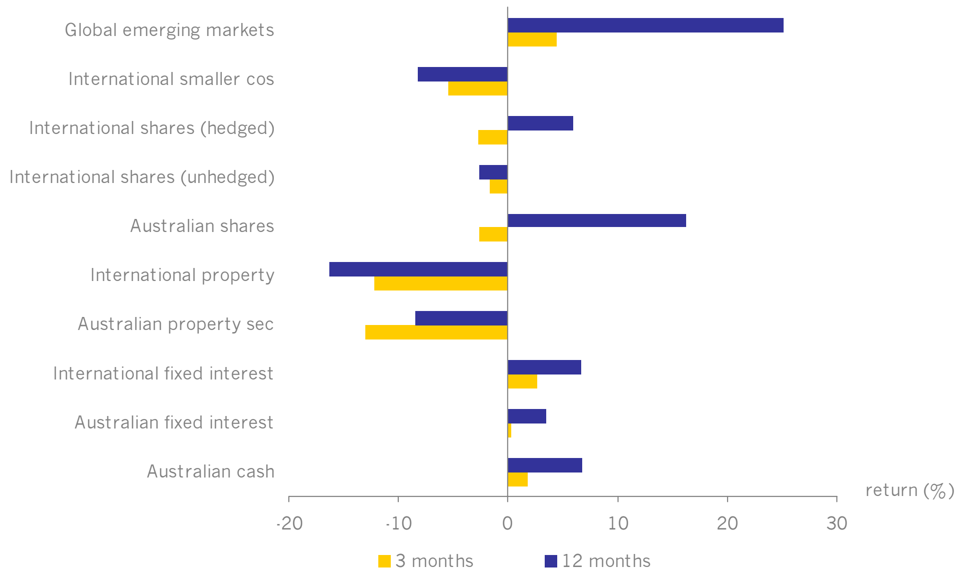
**Australian shares** delivered strong returns for the year to 31 December 2007, gaining 16.2% (S&P/ASX 300 Accumulation Index). However, during the December quarter the domestic market fell 2.7% as renewed credit fears and relatively weak US economic data drove weakness across the market.

**International shares** dropped 2.8% for the December quarter as measured by the MSCI World Ex Australia Index ($A hedged). The unhedged return was -1.6% for the period. Concerns about tighter credit conditions and the slowing US economy continued to affect investor sentiment. For the year, the unhedged return was -2.6%, while the hedged return was 6.0%. The significant difference in the hedged and unhedged returns reflects the rise of the Australian Dollar over the year, however the Australian Dollar fell over the quarter.

**International smaller companies** fell 5.4% in the December quarter as measured by the S&P/Citigroup World < $US 1.5 billion cap Index. The full year return to 31 December 2007 was -8.2%. A reassessment of risk saw investors move from small capitalisation stocks to larger companies.

**Global emerging markets** returned 4.4% for the quarter, and 25.1% for the year to 31 December 2007 as measured by the MSCI EM Index in Australian Dollars. The best performing market for the year was Peru, which returned more than 80%, helped by the resources boom that has generated strong demand for copper. China was also a strong performer, up 63% for the year.

**Figure 2: asset class returns to 31 December 2007**




**source**: ipac, Bloomberg

# diversified portfolio performance (gross)

## Diversified Investment Strategy No. 1

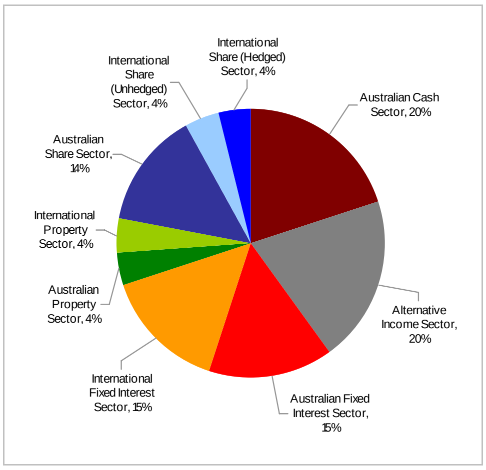
| | 3 mths % | 6 mths % | Fin YTD % | 1 yr %pa | 2 yrs %pa | 3 yrs %pa | 5 yrs % pa |
|---|---|---|---|---|---|---|---|
| Diversified Investment Strategy 1 | -0.5 | 1.8 | 1.8 | 5.8 | 8.2 | 9.0 | 9.2 |
| Benchmark | -0.5 | 1.8 | 1.8 | 5.6 | 8.1 | 8.6 | 8.9 |

**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

~ The impact of sub prime and a slowing US economy reverberated across growth asset classes in the December quarter. While the return from Australian shares was negative for the quarter, the 16.2% increase for the year made a significant contribution to the 12 month return for this portfolio. International shares fell back in the quarter. Australian and global property gave back the gains from earlier in the year although both these asset classes have delivered impressive returns over the longer-term.

~ The innovative alternative income strategy was a strong contributor over the year adding 8.4%. Alternative income outperformed the other fixed interest asset classes and cash for the 12 months. International fixed interest was the best performing mainstream asset class in the December quarter up 2.6% with the index return for the year 6.6%.




### performance this period

~ PIMCO in alternative income delivered a return that was 1.7% above its cash benchmark for the 12 months to 31 December. PIMCO utilises its traditional strategies for cash and fixed interest investing across a basket of global securities. What differentiates this strategy is the portfolio's low average duration (less than one year).

~ In Australian shares, the sector return was ahead of the index for the quarter. While the absolute return was strong over the year, the performance was behind the index reflecting the defensive positioning. This positioning was advantageous in November and December when markets fell significantly and the benefit has continued into a volatile new year. Investors Mutual and Wallara were the best performing managers for the quarter. For the year, BGI led the way up 18.8%. ipac introduced Integrity Investment Management in December to replace UBS Asset Management. UBS was placed 'On Watch' following recent staff departures. The team moved to Integrity and their appointment will provide continued exposure to the investment process they used at UBS which was well rewarded in 2007.

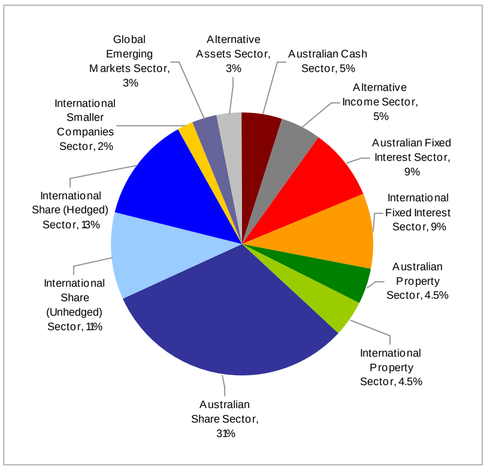
~ With international shares, the sector return was ahead of the index over the quarter and the year. The best performing managers for the 12 months were GMO, Wellington and Alliance Growth, the latter of which outperformed the index by more than 4.0%. The same three managers were the strong performers in the December quarter with Wellington the stand out benefiting from exposure to emerging markets, a bias away from the US and stock selection. Alliance Growth and GMO gained from the resurgence of growth stocks. The MSCI EAFE Growth Index outperformed the MSCI EAFE Value Index by 10.5% for the year, the largest growth over value margin in the 33 year history of these indices.

## 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 | -1.9 | 0.4 | 0.4 | 6.8 | 11.7 | 13.6 | 13.7 |
| Benchmark | -2.0 | 0.5 | 0.5 | 6.6 | 11.5 | 13.0 | 13.4 |

**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




~ The impact of sub prime and a slowing US economy reverberated across growth asset classes in the December quarter. While the return from Australian shares was negative for the quarter, the 16.2% increase for the year delivered more than half the 12 month return for this portfolio. International shares fell back in the quarter. Australian and global property gave back the gains from earlier in the year although both these asset classes have delivered impressive returns over the longer-term.

~ The innovative alternative income strategy was a strong contributor over the year adding 8.4%. Alternative income outperformed the other fixed interest asset classes and cash for the 12 months. International fixed interest was the best performing mainstream asset class in the December quarter up 2.6% with the index return for the year 6.6%.

~ During 2007, the Australian Dollar rose more than 11% against the US dollar. Hedged returns for international shares of 6.0% were well ahead of unhedged returns (-2.6%) for the 12 months. A reversal of fortunes for the Australian Dollar had unhedged returns better in the December quarter highlighting the volatility of currency. The international shares have a 50% hedge to manage this currency risk.

### performance this period

~ PIMCO in alternative income delivered a return that was 1.7% above its cash benchmark for the 12 months to 31 December. PIMCO utilises its traditional strategies for cash and fixed interest investing across a basket of global securities. What differentiates this strategy is the portfolio's low average duration (less than one year).

~ In Australian shares, the sector return was ahead of the index for the quarter. While the absolute return was strong over the year, the performance was behind the index reflecting the defensive positioning. This positioning was advantageous in November and December when markets fell significantly and the benefit has continued into a volatile new year. Investors Mutual and Wallara were the best performing managers for the quarter. For the year, BGI led the way up 18.8%. ipac introduced Integrity Investment Management in December to replace UBS Asset Management. UBS was placed 'On Watch' following recent staff departures. The team moved to Integrity and their appointment will provide continued exposure to the investment process they used at UBS which was well rewarded in 2007.

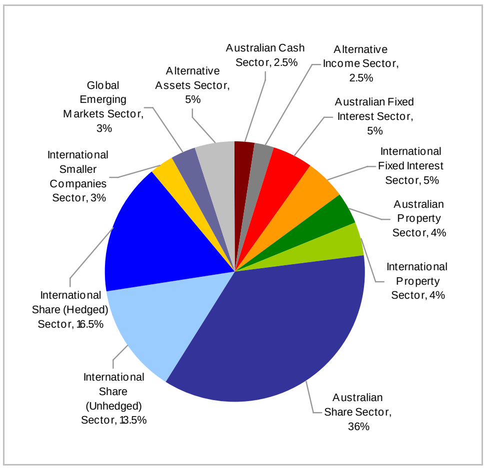
~ With international shares, the sector return was ahead of the index over the quarter and the year. The best performing managers for the 12 months were GMO, Wellington and Alliance Growth, the latter of which outperformed the index by more than 4.0%. The same three managers were the strong performers in the December quarter with Wellington the stand out benefiting from exposure to emerging markets, a bias away from the US and stock selection. Alliance Growth and GMO gained from the resurgence of growth stocks. The MSCI EAFE Growth Index outperformed the MSCI EAFE Value Index by 10.5% for the year, the largest growth over value margin in the 33 year history of these indices.

## 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 | -2.3 | -0.2 | -0.2 | 7.1 | 12.5 | 14.6 | 14.6 |
| Benchmark | -2.4 | 0.0 | 0.0 | 7.0 | 12.4 | 14.1 | 14.5 |

**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




- The impact of sub prime and a slowing US economy reverberated across growth asset classes in the December quarter. While the return from Australian shares was negative for the quarter, the 16.2% increase for the year delivered well over half the 12 month return for this portfolio. International shares fell back in the quarter.
- The Australian listed property trust sector retreated, down 13.0% in the December quarter and -8.4% for the year. Property trusts with higher levels of gearing and those with significant off shore exposure were the worst performers. The fall of Centro Properties Group (Centro) also contributed. The global property sector delivered negative returns over the full year (-16.3%) and the December quarter (-12.2%). Both domestic and global property have delivered impressive returns and a source of diversification.
- During 2007, the Australian Dollar rose more than 11% against the US dollar. Hedged returns for international shares of 6.0% were well ahead of unhedged returns (-2.6%) for the 12 months. A reversal of fortunes for the Australian Dollar had unhedged returns better in the December quarter highlighting the volatility of currency. The international shares have a 50% hedge to manage this currency risk.

### performance this period

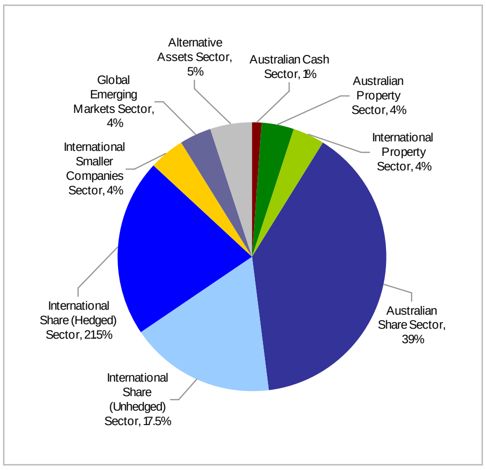
- In Australian shares, the sector return was ahead of the index for the quarter. While the absolute return was strong over the year, the performance was behind the index reflecting the defensive positioning. This positioning was advantageous in November and December when markets fell significantly and the benefit has continued into a volatile new year. Investors Mutual and Wallara were the best performing managers for the quarter. For the year, BGI led the way up 18.8%. ipac introduced Integrity Investment Management in December to replace UBS Asset Management. UBS was placed 'On Watch' following recent staff departures. The team moved to Integrity and their appointment will provide continued exposure to the investment process they used at UBS which was well rewarded in 2007.
- With international shares, the sector return was ahead of the index over the quarter and the year. The best performing managers for the 12 months were GMO, Wellington and Alliance Growth, the latter of which outperformed the index by more than 4.0%. The same three managers were the strong performers in the December quarter with Wellington the stand out benefiting from exposure to emerging markets, a bias away from the US and stock selection. Alliance Growth and GMO gained from the resurgence of growth stocks. The MSCI EAFE Growth Index outperformed the MSCI EAFE Value Index by 10.5% for the year, the largest growth over value margin in the 33 year history of these indices.
- Exposure to Global Emerging Markets was advantageous with this asset class the best performer for the year, delivering 25.1%. The manager, Legg Mason, outperformed slightly over 12 months.

## 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 | -2.8 | -0.8 | -0.8 | 7.2 | 13.5 | 16.0 | 15.9 |
| Benchmark | -2.9 | -0.6 | -0.6 | 7.0 | 13.2 | 15.2 | 15.6 |

**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




~ The impact of sub prime and a slowing US economy reverberated across growth asset classes in the December quarter. While the return from Australian shares was negative for the quarter, the 16.2% increase for the year delivered more than half the 12 month return for this portfolio. International shares fell back in the quarter.

~ The Australian listed property trust sector retreated, down 13.0% in the December quarter and -8.4% for the year. Property trusts with higher levels of gearing and those with significant off shore exposure were the worst performers. The fall of Centro Properties Group (Centro) also contributed. The global property sector delivered negative returns over the full year (-16.3%) and the December quarter (-12.2%).

~ Both domestic and global property have delivered impressive returns and a source of diversification.

~ During 2007, the Australian Dollar rose more than 11% against the US dollar. Hedged returns for international shares of 6.0% were well ahead of unhedged returns (-2.6%) for the 12 months. A reversal of fortunes for the Australian Dollar had unhedged returns better in the December quarter highlighting the volatility of currency. The international shares have a 50% hedge to manage this currency risk.

### performance this period

~ In Australian shares, the sector return was ahead of the index for the quarter. While the absolute return was strong over the year, the performance was behind the index reflecting the defensive positioning. This positioning was advantageous in November and December when markets fell significantly and the benefit has continued into a volatile new year. Investors Mutual and Wallara were the best performing managers for the quarter. For the year, BGI led the way up 18.8%. ipac introduced Integrity Investment Management in December to replace UBS Asset Management. UBS was placed 'On Watch' following recent staff departures. The team moved to Integrity and their appointment will provide continued exposure to the investment process they used at UBS which was well rewarded in 2007.

~ With international shares, the sector return was ahead of the index over the quarter and the year. The best performing managers for the 12 months were GMO, Wellington and Alliance Growth, the latter of which outperformed the index by more than 4.0%. The same three managers were the strong performers in the December quarter with Wellington the stand out benefiting from exposure to emerging markets, a bias away from the US and stock selection. Alliance Growth and GMO gained from the resurgence of growth stocks. The MSCI EAFE Growth Index outperformed the MSCI EAFE Value Index by 10.5% for the year, the largest growth over value margin in the 33 year history of these indices.

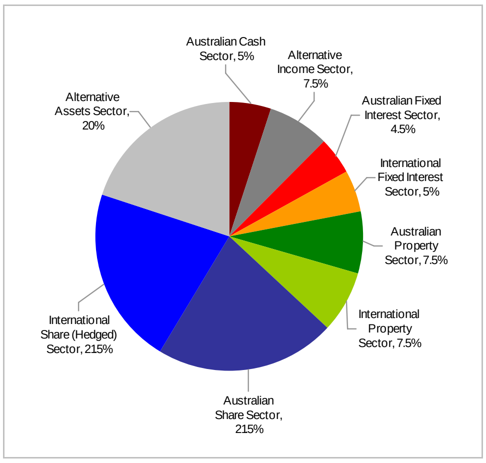
~ Exposure to Global Emerging Markets was advantageous with this asset class the best performer for the year, delivering 25.1%. The manager, Legg Mason, outperformed slightly over 12 months.

## 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 | -3.1 | -2.1 | -2.1 | 4.3 | 11.1 | n/a | n/a |
| Benchmark | -2.4 | -0.1 | -0.1 | 5.5 | 10.8 | 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




- The impact of sub prime and a slowing US economy reverberated across growth asset classes in the December quarter. While the return from Australian shares was negative for the quarter, the 16.2% increase for the year made a significant contribution to the 12 month return for this portfolio. International shares fell back in the quarter.
- The Australian listed property trust sector retreated, down 13.0% in the December quarter and -8.4% for the year. Property trusts with higher levels of gearing and those with significant off shore exposure were the worst performers. The fall of Centro Properties Group (Centro) also contributed. The global property sector delivered negative returns over the full year (-16.3%) and the December quarter (-12.2%). Both domestic and global property have delivered impressive returns and a source of diversification.
- The innovative alternative income strategy was a strong contributor over the year adding 8.4%. Alternative income outperformed the other fixed interest asset classes and cash for the 12 months. International fixed interest was the best performing mainstream asset class in the December quarter up 2.6% with the index return for the year 6.6%.
- The 100% currency hedge hurt this portfolio in the December quarter but was beneficial over the year. The hedged index return of 6.0% for the year to 31 December 2007 was significantly better than the unhedged return of -2.6% for the same period. The international shares have a 50% hedge to manage this currency risk.

### performance this period

- The December quarter saw significant volatility and when a market shock, such as the sub prime issues, causes asset classes such as shares and property to fall significantly, then Pathways Value will also be impacted. Pathways Value is built for a more protracted down market. The absolute return of the portfolio is solid since inception.
- With international shares, the sector performance was below the index for the quarter and the year. The value orientation of the managers was not beneficial as value stocks significantly underperformed growth. The MSCI EAFE Growth Index outperformed the MSCI EAFE Value Index by 10.5% for the year, the largest growth over value margin in the 33 year history of these indices.
- The value bias of the Australian share portfolio was beneficial in the December quarter with the managers in aggregate outperforming the index. The best performing manager was Investors Mutual. Over the full year, the sector return was below the index although the absolute return was high.

~ PIMCO in alternative income delivered a return that was 1.7% above its cash benchmark for the 12 months to 31 December. PIMCO utilises its traditional strategies for cash and fixed interest investing across a basket of global securities. What differentiates this strategy is the low average duration (less than one year).

~ The managers used in alternative assets - BGI, BT and AXA Rosenberg - delivered positive returns helping to cushion the impact of other segments of the portfolio over 2007.

# 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 | 1.1 | 2.5 | 2.5 | 5.9 | 6.0 | 6.0 | 5.8 |
| Sector - Strategy 5 | 1.1 | 2.5 | 2.5 | 5.9 | 6.0 | n/a | n/a |
| AllianceBernstein | 1.1 | 2.5 | 2.5 | 5.9 | 6.0 | 6.0 | 5.8 |
| Benchmark | 1.7 | 3.4 | 3.4 | 6.7 | 6.4 | 6.2 | 5.8 |

**Note:**
Benchmark = UBSA Bank Bill Index.

### market commentary

The UBSA 90 Day Bank Bill Index rose 1.7% for the quarter and 6.7% for the year.

The Reserve Bank of Australia (RBA) increased interest rates on 6 November by 0.25% to 6.75% to combat inflation. Although the RBA kept rates on hold in December, the futures market has priced in a rate rise in early 2008. The RBA raised its underlying inflation forecast to 3.25%, which is above the target band.

### sector commentary

The sector return of 1.1% for the quarter underperformed the benchmark by 0.6%. For the year to 31 December 2007, the return of 5.9% was below the index by 0.8%. The underperformance was largely due to the portfolio's overweight exposure to corporate securities. Corporate bonds and interest rate swap spreads widened significantly over concerns about mortgage security write-downs and weak economic data.

AllianceBernstein seeks to slightly outperform the cash benchmark and has a track record of meeting this objective. The strategy followed by the manager is to hold securities with a slightly higher average yield whilst maintaining the overall portfolio duration similar to the benchmark.

During the final quarter of 2007, Australian fixed interest markets continued to experience significant volatility. The portfolio's overweight exposure to commercial banks and residential mortgage backed securities, and an overweight position in Countrywide Financial hurt performance over the quarter.

## Alternative Income

| | 3 mths % | 6 mths % | Fin YTD % | 1 yr % pa | 2 yrs % pa | 3 yrs % pa | 5 yrs % pa |
|---|---|---|---|---|---|---|---|
| Sector | 1.3 | 4.6 | 4.6 | 8.4 | n/a | n/a | n/a |
| Sector - Strategy 5 | 1.3 | 4.6 | 4.6 | 8.4 | n/a | n/a | n/a |
| PIMCO | 1.3 | 4.6 | 4.6 | 8.4 | n/a | n/a | n/a |
| Benchmark | 1.7 | 3.4 | 3.4 | 6.7 | 6.4 | 6.2 | 5.8 |

**Notes:**
Benchmark = UBSA Bank Bill Index.
An Alternative Income sector was introduced into the Strategies in January 2006. PIMCO performance commenced in February 2006.

### market commentary

The alternative income benchmark, the UBSA 90 Day Bank Bill Index, rose 1.7% for the quarter and 6.7% for the year.

### sector commentary

The sector return for the quarter was 1.3% while over the year the return was 8.4%. PIMCO, who is the only manager for this strategy, underperformed the benchmark during the quarter, but returned 1.7% above the benchmark for the year.

The fourth quarter saw a continuation of the repricing of risk as volatility and liquidity concerns led to a flight to quality. The short duration emphasis of this portfolio has been beneficial over the year due to an increase in inflation, leading the strategy to outperform cash and both global and domestic fixed interest for the year. Over the quarter, the portfolio benefited from its US duration and curve positioning. Exposure to short-term securities helped performance as the US yield curve steepened in response to expectations of further interest rate cuts in the US. The portfolio's underweight exposure to the US Dollar versus other developed currencies further added to performance over the period as we saw continued weakness from the US Dollar.

Swap strategies that were implemented globally detracted from performance during the December quarter as spreads widened to historic highs on the back of liquidity concerns. The portfolio's exposure to mortgage backed securities also hurt performance as this sector underperformed US Treasuries.

## Australian Fixed Interest

| | 3 mths % | 6 mths % | Fin YTD % | 1 yr % pa | 2 yrs % pa | 3 yrs % pa | 5 yrs % pa |
|---|---|---|---|---|---|---|---|
| Sector | 0.1 | 1.5 | 1.5 | 3.2 | 3.2 | 4.2 | 4.8 |
| Sector - Strategy 5 | 0.3 | 1.8 | 1.8 | 3.5 | 3.3 | n/a | n/a |
| BGI Index | 0.3 | 1.8 | 1.8 | 3.5 | n/a | n/a | n/a |
| Credit Suisse | 0.1 | 1.5 | 1.5 | 3.2 | 3.2 | 4.2 | 4.8 |
| Benchmark | 0.3 | 1.7 | 1.7 | 3.5 | 3.3 | 4.1 | 4.5 |

**Notes:**
Benchmark = UBSA Composite Bond All Maturities Index.
BGI Index is only available in Diversified Investment Strategy No. 5.

### market commentary

Domestic fixed interest markets gained 3.5% over the year to 31 December 2007, but only delivered marginal gains for the December quarter, returning 0.3%.

Despite rising interest rates and the sub prime mortgage crisis in the US, a robust domestic economy has continued to provide support to fixed interest. The biggest drivers of Australian growth are strong commodity prices supported by relatively constrained supply and solid demand from China and developing economies. Consumer demand also remained robust, benefiting from low unemployment and wages growth.

Australian government bonds outperformed Australian corporate bonds over the quarter, returning 0.7% and -0.2% respectively. Bond yields continued to rise during the period, reflecting inflationary pressures and expectations of future interest rate rises.

**sector commentary**

The return for the quarter was flat and the return for the year was 3.2% compared to the benchmark return of 3.5% to 31 December 2007. Credit Suisse is the only manager for this sector.

During the December quarter, the portfolio benefited from avoiding lower rated credits, including Countrywide and Bear Stearns, which were among the market's weakest performers. The manager's underweight position in corporate and bank debt also helped performance over the period.

The manager's performance suffered due to widening swap spreads. Australian swap spreads have widened in response to sub prime concerns and expectations of further monetary tightening from the RBA. In November, swap spreads widened to levels not seen since the Asian crisis in the late 1990s.

The manager's relative value strategy, which is positioned to take advantage of pricing anomalies in the yield curve, also detracted from performance over the quarter. Although pricing anomalies have become more extreme in recent months, the manager maintains its view that there will be a correction as the market dislocation subsides.

**sector commentary (Strategy 5)**

The manager, BGI, returned 0.3% for the quarter and 3.5% for the year, in line with the index.

## International Fixed Interest

| | 3 mths % | 6 mths % | Fin YTD % | 1 yr % pa | 2 yrs % pa | 3 yrs % pa | 5 yrs % pa |
|---|---|---|---|---|---|---|---|
| Sector | 2.6 | 5.4 | 5.4 | 6.2 | 5.3 | 5.9 | 6.9 |
| Sector - Strategy 5 | 3.2 | 5.9 | 5.9 | 6.5 | 5.5 | n/a | n/a |
| BlackRock | 2.0 | 5.0 | 5.0 | 5.9 | 5.1 | 5.8 | 6.7 |
| PIMCO | 3.2 | 6.0 | 6.0 | 6.5 | 5.5 | 6.0 | 7.2 |
| Benchmark | 2.6 | 5.6 | 5.6 | 6.6 | 5.5 | 5.9 | 6.6 |

**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**

As 2007 drew to a close, concern that sub prime mortgage losses would continue to spread led many investors to sell out of equity markets for the relative safety of government treasuries.

During the December quarter, US bonds were the strongest performing sector, returning 3.6%, followed by Asia Pacific (+2.7%) then European bonds (+1.7%). Treasuries (+2.7%) and government-related securities (+2.9%) outperformed corporate bonds which returned 1.7%.

Demand for US Treasuries has risen even though the Federal Reserve cut interest rates in August by 0.50% and by 0.25% in both October and December 2007. As a result, the 10-year yield fell in November to its lowest level since March 2004.

Within corporate bonds, higher quality securities performed better than those with lower credit ratings as investors reassessed risk.

**sector commentary**

Over the December quarter, the sector return matched the benchmark performance of 2.6%. PIMCO's portfolio outperformed by 0.6% during the period while BlackRock underperformed by the same amount. The sector return for the year was 6.2% compared to the index performance of 6.6%.

PIMCO gained from its long US duration position during the December quarter. The portfolio also benefited from a steepened UK yield curve as the market adjusted to the shift in the Bank of England's policy towards further interest rate easing.

An underweight exposure to the US Dollar versus other developed currencies further added to PIMCO's performance during the quarter. Detractors of performance included the portfolio's overweight exposure to mortgage backed securities which suffered on the back of sub prime fears. In addition, the swap strategies that have been implemented in the portfolio detracted from performance as swap spreads widened during the period.

BlackRock's short duration position in the US hurt performance during the quarter as the yield curve flattened. An overweight exposure to long-dated securities on the Euro curve hurt performance, as did a slight underweight position in short-dated Japanese securities. An overweight exposure to US collateralized mortgage backed securities and asset backed securities also detracted from performance over the period. In contrast, an underweight exposure to long-dated UK securities helped performance, and there was some value added from overweight positions in Denmark and Norway and an underweight position in Pfandbriefs, a German security.

**sector commentary (Strategy 5)**

The manager, PIMCO, returned 3.2% for the quarter ended 31 December 2007, outperforming the benchmark by 0.6%.

## Australian Property

| | 3 mths % | 6 mths % | Fin YTD % | 1 yr % pa | 2 yrs % pa | 3 yrs % pa | 5 yrs % pa |
|---|---|---|---|---|---|---|---|
| Sector | -13.9 | -10.5 | -10.5 | -8.1 | 10.8 | 11.3 | 14.8 |
| Sector - Strategy 5 | -13.1 | -9.5 | -9.5 | -8.3 | 10.2 | n/a | n/a |
| BGI Index | -12.7 | -8.2 | -8.2 | -8.0 | 10.8 | n/a | n/a |
| Legg Mason | -14.3 | -10.3 | -10.3 | -8.0 | 11.0 | 11.8 | 15.2 |
| SG Hiscock | -13.6 | -10.6 | -10.6 | -8.2 | 10.3 | 10.6 | 14.2 |
| Benchmark | -13.0 | -8.5 | -8.5 | -8.4 | 10.8 | 11.5 | 14.8 |

**Notes:**
BGI Index is only available in Diversified Investment Strategy No. 5.
Benchmark = S&P / ASX 300 Property Accumulation Index.

**market commentary**

The S&P/ASX 300 Listed Property Trust (LPT) Index fell 13.0% in the fourth quarter, underperforming the broader share market by more than 10%. Over the year, the sector delivered its worst performance since 1979, as the index fell 8.4%.

The key factors influencing the dramatic fall in Australian LPTs during the December quarter were the sub prime mortgage crisis, an increasingly weak US housing market, and growing concerns about a slowing US economy. Approximately 40% of Australian LPT assets are located offshore, and are vulnerable to these uncertainties. In addition, the rising margins on debt and increased reluctance of banks to lend to highly geared borrowers contributed to poor market sentiment.

Within Australian property, the better performing sub sectors were Diversifieds (-7.4%) and Commercial (-10.5%), while the worst performing areas of the market were Industrials (-24.1%) and Retail (-15.1%). The best performing stocks were Mirvac Group (+11.6%) and Macquarie Leisure Trust (+5.5%) while Centro Properties Group and Centro Retail Trust took the greatest hammering, falling 86.3% and 41.7% respectively.

Centro's failure to secure funding dramatically drives home the pervasiveness of the global liquidity crisis, and the increased refinancing costs imposed on highly leveraged companies. The dramatic fall in Centro's share price has put LPTs with complex, debt-laden structures under the spotlight, and has caused investors to question those trusts with more 'aggressive' business models.

**sector commentary**

The sector return of -8.1% was slightly above benchmark (+0.3%) for the year to 31 December 2007. However over the December quarter the sector return of -13.9% underperformed the benchmark return of -13.0%.

The sector's performance during the quarter was impacted by holdings in Centro Properties Group and Centro Retail Group that fell 86.3% and 41.7% respectively. The dispersion of returns from other listed property trusts was very wide during the quarter. The best performer, Mirvac Group, returned 11.6% while the weakest performer, Valad Property Group, returned -32.4%.

Although SG Hiscock underperformed the benchmark by 0.6% for the December quarter, over the year the manager was 0.2% above the benchmark. An underweight exposure to Centro Properties Group and Goodman Group contributed positively to performance, as did the manager's overweight exposure to Maguire (USA). SG Hiscock is able to invest a small percentage of their portfolio offshore to increase the opportunities to add value. The portfolio's underweight exposure to Westfield, Stockland Group and Stockland detracted from relative performance.

Legg Mason underperformed the benchmark over the quarter by 1.3% but over the year outperformed by 0.4%. The portfolio benefited from an underweight position to Centro Properties Group and an underweight position in Goodman Group. The overweight position in Mirvac Group helped performance. Goodman suffered contagion from Centro given its large offshore exposure, while Mirvac was largely insulated given its diversified domestic exposure. The overweight exposure to Valad Property and Macquarie DDR detracted from performance, impacted by the fallout from Centro. Underweight exposures to Westfield and DB Reef Trust and the absence of any exposure to CFS Retail Property, further hurt relative performance for the quarter.

**sector commentary (Strategy 5)**

The managers, SG Hiscock and BGI Index, achieved a combined return of -13.1% for the quarter in line with the benchmark. Over the full year the return of the sector was -8.3%.

## International Property

| | 3 mths % | 6 mths % | Fin YTD % | 1 yr % pa | 2 yrs % pa | 3 yrs % pa | 5 yrs % pa |
|---|---|---|---|---|---|---|---|
| Sector | -11.9 | -11.6 | -11.6 | -14.9 | n/a | n/a | n/a |
| Sector - Strategy 5 | -12.0 | -11.8 | -11.8 | -15.2 | n/a | n/a | n/a |
| CBRE | -11.8 | -10.5 | -10.5 | -13.5 | n/a | n/a | n/a |
| LaSalle | -12.2 | -13.0 | -13.0 | -16.6 | n/a | n/a | n/a |
| Benchmark | -12.2 | -13.0 | -13.0 | -16.3 | 7.5 | 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**

International listed property fell 12.2% during the December quarter, and suffered its worst annual return since 1989, falling 16.3%. Half of the loss of value for the year occurred in November when negative sentiment, evident since the start of the US sub prime crisis, really took effect. The falls for this asset class reflect two factors - concern about the impact of the credit crunch and uncertainty around the severity of the US economic slowdown.

Global real estate securities tend to utilise leverage, and tighter credit conditions have made it harder to finance existing loans. For loans that have been refinanced the cost has been higher which has had a direct impact on profitability. Loan conditions have also tightened in many cases with lenders requiring some borrowers to reduce their debt levels, thereby impacting the availability as well as the cost of capital.

Uncertainty about the global economy, in particular the US, hurt the asset class during 2007, and particularly in the December quarter. Lower growth may impact consumer spending in shopping malls and if the US economy is to move into recession it could lead to increased office vacancies.

All major regions posted negative returns for the December quarter. The US fell 13.0%, UK fell 14.9%, Continental Europe fell 11.6% and Australia fell 12.2%. The exception was Hong Kong which rose 4.1%, benefiting from exposure to China. The Hong Kong Dollar is also tied to the US Dollar and the cuts in US interest rates were regarded as a stimulus for the Hong Kong market.

**sector commentary**

The international property portfolio outperformed the benchmark during the December quarter (+0.3%) and for the year (+1.4%). The return for the December quarter was -11.9% while the return was -14.9% for the year to 31 December 2007. A reallocation of capital away from cyclical areas of the market towards more defensive sectors such as healthcare and high-end regional malls provided some relief.

Country allocations within Asia, specifically the overweight positions in Hong Kong, Japan and Singapore, provided a positive boost to performance during the period. In addition, an overweight exposure to Canada was positive for performance. Canada is perceived as a mature and stable market, and many Canadian securities have benefited from the government's announcement that international expansion of assets will not incur unfavourable tax treatment.

At a stock level, the portfolio benefited from its investment in Sun Hung Kai, Hong Kong's largest property developer by market value. The largest positive contribution to relative performance during the quarter was the portfolio's underweight exposure to Australian Listed Property Trusts, Centro Properties Group and Macquarie Goodman. Exposure to Health Care Properties, the largest real estate investment trust focusing on properties serving the healthcare industry, and an overweight position in Ventas Realty, also contributed to performance during the period.

## Australian Shares

| | 3 mths % | 6 mths % | Fin YTD % | 1 yr % pa | 2 yrs % pa | 3 yrs % pa | 5 yrs % pa |
|---|---|---|---|---|---|---|---|
| Sector | -2.5 | 1.9 | 1.9 | 14.6 | 19.2 | 20.7 | 21.0 |
| Sector - Strategy 5 | -2.4 | 0.3 | 0.3 | 11.1 | 16.7 | n/a | n/a |
| BGI | -3.3 | 3.7 | 3.7 | 18.8 | 21.9 | 22.7 | 22.6 |
| Integrity | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Schroders | -3.3 | 0.4 | 0.4 | 13.9 | 19.3 | 21.1 | 21.4 |
| Maple-Brown Abbott | -2.4 | 0.5 | 0.5 | 10.5 | 16.4 | 17.6 | 18.5 |
| Investors Mutual | -1.4 | 1.5 | 1.5 | 13.1 | 17.0 | 16.6 | n/a |
| Wallara | -2.0 | 5.3 | 5.3 | 17.2 | 18.9 | 21.4 | n/a |
| Bernstein Value | -4.0 | 0.2 | 0.2 | 13.8 | 18.9 | n/a | n/a |
| MIR | -2.7 | -1.1 | -1.1 | 8.0 | 17.3 | n/a | n/a |
| Challenger | -2.6 | -3.5 | -3.5 | 8.9 | 18.6 | n/a | n/a |
| Benchmark | -2.7 | 2.9 | 2.9 | 16.2 | 20.3 | 21.0 | 21.1 |

**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**

The Australian equity market posted its first negative quarterly return in 18 quarters, falling 2.7% in the December quarter.

While October saw the market up 2.9% in the month, volatility returned in November and December as renewed credit fears drove weakness. Domestic stocks in housing, construction and financials faced the worst of the backlash as significant losses were reported by US and European banks on their sub prime assets.

Although the final quarter saw Australian equities fall, the total return for the year was still in the double digits at 16.2%. On a global basis, Australian equities were one of the strongest performing markets.

Around half of the annual return from the Australian market came from BHP Billiton and Rio Tinto, which rose 14.9% and 59.7% respectively. Towards the end of the year, BHP Billiton launched a massive $A272 billion takeover bid for its Anglo-Australian mining rival, in what could be one of the world's biggest merger deals. Although Rio Tinto rejected BHP's offer, the world's biggest miner vowed to keep pursuing its takeover target. Analysts estimate that if BHP succeeds with its bid the combined company would be roughly the same size as global computer giant, Microsoft.

The best performing sectors for the December quarter were Telecommunications (+8.0%), Consumer Staples (+7.4%) and Energy (+1.5%), while Property Trusts (-13.0%), Financials (-5.3%), and Industrials (-7.1%) were the weakest.

**sector commentary**

The sector return was -2.5% for the December quarter, ahead of the index return of -2.7%. The absolute return was strong over the year at 14.6%, however the sector was behind the benchmark of 16.2%.

The more defensive positioning of the portfolio was advantageous in November and December when markets fell significantly. The benefit of this positioning has continued into a volatile new year.

In December, ipac introduced Integrity Investment Management to replace UBS Asset Management. UBS was placed 'On Watch' following recent staff departures. The team moved to Integrity and their appointment will provide continued exposure to the investment process they used at UBS which was well rewarded in 2007.

October saw a continuation of the theme that drove the market for much of the year, namely a focus on near-term earnings. The major beneficiaries were a narrow group of resource and resource related companies (Leighton, United Group, Worley Parsons and Fortescue Metals). Sentiment reversed in November and December with a greater emphasis on earnings certainty and defensiveness which assisted portfolio performance. The takeover bid for Rio Tinto by BHP was a positive given the portfolio overweight to Rio Tinto. An underweight to Property Trusts also helped.

Investors Mutual, a deep value manager, and Wallara, a growth manager, were the best performing managers for the quarter. The good performance of both highlights the benefit of exposure to different sources of return across the style spectrum. Wallara and Investors Mutual were underweight the Property Trusts sector (especially Centro) and had exposure to stocks that rallied in November and December. Investors Mutual benefited from the strong rise of more defensive stocks such as Telstra. A higher cash holding than normal was also advantageous in a falling market. Wallara had a significant exposure to the healthcare sector that rose strongly for the quarter with Resmed a key holding. Resmed benefited from takeover speculation. Newcrest Mining was the best performing stock for Wallara, driven up by the strong rally in the gold price.

While BGI found the December quarter difficult, this manager was the best performer for the year up 18.8%. MIR and Challenger had better December quarters, both matching the index, however their returns for the year reflected poor September quarters where they were hurt by underweight positions in BHP.

## sector commentary (Strategy 5)

The sector return was -2.4% for the December quarter, better than the index return of -2.7%. The absolute return was strong over the year at 11.1%, however the better performance of the growth style over value led the portfolio to underperform the benchmark of 16.2%.

The more defensive positioning of the portfolio was advantageous in November and December when markets fell significantly. The benefit of this positioning has continued into a volatile new year.

Investors Mutual, a deep value manager, was the best performing manager for the quarter. Investors Mutual was underweight the Property Trusts sector (especially Centro) and had exposure to stocks that rallied in November and December. Investors Mutual benefited from the strong rise of more defensive stocks such as Telstra. A higher cash holding than normal was also advantageous in a falling market.

Bernstein Value had a disappointing December quarter hurt by falls in three key holdings. Downer, an engineering services company, fell after a profit warning. Mining group Perilya was impacted by softer zinc and lead prices; while the sensitivity of PaperlinX to movements in the Australian Dollar was a negative for its share price.

## International Shares

| | 3 mths % | 6 mths % | Fin YTD % | 1 yr % pa | 2 yrs % pa | 3 yrs % pa | 5 yrs % pa |
|---|---|---|---|---|---|---|---|
| Sector - Unhedged | -1.0 | -2.2 | -2.2 | -1.0 | 5.2 | 10.2 | 7.4 |
| Wellington | 1.1 | 1.3 | 1.3 | 0.9 | 6.1 | 9.6 | 7.0 |
| GMO | -0.3 | -0.4 | -0.4 | 1.1 | 5.4 | 9.5 | n/a |
| Bernstein Value | -4.5 | -8.9 | -8.9 | -7.3 | 5.6 | 11.2 | 9.7 |
| Capital | -1.7 | -1.9 | -1.9 | 0.1 | 3.9 | 9.6 | n/a |
| Alliance Growth | 1.0 | 1.5 | 1.5 | 1.7 | 4.9 | 11.4 | n/a |
| LSV | -4.3 | -9.4 | -9.4 | -6.0 | 4.6 | 9.5 | n/a |
| Benchmark | -1.6 | -3.7 | -3.7 | -2.6 | 4.2 | 8.3 | 6.7 |
| Sector - Hedged | -2.3 | -1.4 | -1.4 | 7.3 | 12.2 | 15.3 | 16.9 |
| Sector - Strategy 5 Hedged | -5.1 | -7.3 | -7.3 | 1.9 | 11.9 | n/a | n/a |
| BGI Index | -2.8 | -2.8 | -2.8 | 6.1 | 11.7 | n/a | n/a |
| Wellington | -0.2 | 1.8 | 1.8 | 9.3 | 13.2 | 14.9 | 16.6 |
| GMO | -1.6 | 0.3 | 0.3 | 9.6 | 12.5 | 15.0 | n/a |
| Bernstein Value | -5.8 | -8.2 | -8.2 | 0.6 | 12.7 | 16.7 | 19.7 |
| Capital | -3.0 | -1.2 | -1.2 | 8.6 | 11.1 | 15.1 | n/a |
| Alliance Growth | -0.4 | 2.2 | 2.2 | 10.2 | 12.0 | 17.0 | n/a |
| LSV | -5.5 | -8.6 | -8.6 | 2.2 | 11.8 | 15.1 | n/a |
| Benchmark | -2.8 | -2.9 | -2.9 | 6.0 | 11.6 | 13.9 | 17.0 |

**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**

[regional market returns are provided in local currency, net of dividends]

Global share markets experienced volatility in the December quarter as concerns about tighter credit conditions and a protracted housing slump in the US continued to affect investor sentiment. In November, the international share index fell 4.4% in local currency terms. This was the biggest monthly decline of the index since 2002.

Over the year the hedged index returned 6.0% while the unhedged index delivered -2.6%. The significant difference in the hedged and unhedged returns reflects the impact of the Australian Dollar on investments, which rose 11% against the US Dollar over the year. During the December quarter, the unhedged index (-1.6%) outperformed the hedged index (-2.8%) as the Australian Dollar fell in value against the US Dollar.

The dispersion of returns within international equity markets narrowed during the quarter. Within developed markets, Europe outperformed the UK, the UK outperformed the US, and the Japanese market was the weakest of the four regions, losing more than 8%.

The period was characterised by the outperformance of growth stocks over value stocks. The MSCI EAFE Growth Index outperformed the MSCI EAFE Value Index by 10.5% for the year, the largest differential between growth and value in the 33 year history of these indices. This divergence is reflected in the significant differences in fund manager returns. Growth managers outperformed in 2007, while value managers have done better in previous years. This highlights the benefit of exposure to both investment styles.

During the December quarter, the strongest performing sectors were Utilities which rose 6.1% and Energy which gained 4.1%. The weakest performing sectors were Real Estate (-10.3%), Financials (-9.8%) and Consumer Discretionary (-7.8%).

### sector commentary

The unhedged sector return for the quarter was -1.0%, ahead of the index performance of -1.6%. The yearly return of -1.0% for the sector was also better than the unhedged benchmark that returned -2.6%.

The portfolio benefited from the strong performance of Wellington, Alliance Growth and GMO who all outperformed in the December quarter. These three managers were also the best performers over the year. Alliance and GMO benefited from the resurgence of growth stocks in 2007 while Wellington generated most of its outperformance in the December quarter.

Wellington added value in every sector in the December quarter except Healthcare. The investment process is sector neutral making stock selection the key driver of return. The outworking of this stock selection led to a bias away from the US, which was beneficial as the US economy faltered, and a preference for stocks in emerging markets that were the best performing asset class for the quarter and the year. Stock selection in Industrials, Consumer Staples and Financials was particularly beneficial.

Alliance Growth benefited from stock selection in the Materials and Energy sectors. Overweight positions in Rio Tinto, Russian gas company Gazprom and Brazilian energy company Petrobras were advantageous. Not holding US financial companies like Citigroup and Bank of America also helped as these stocks were hurt by the impact of sub prime and the credit crunch.

GMO gained from a process that identifies momentum signals explicitly. Momentum works well when growth investing is the driver of markets and this was the case globally in 2007. Momentum signals led GMO to have holdings in technology companies - Apple in the US and Nintendo in Japan. Both these stocks outperformed the broader market. Momentum signals also led to investments in financial infrastructure such as stock exchanges that were prime targets for sovereign wealth funds. Utilities also experienced price momentum later in the year as the market became more defensive. GMO's country and currency positioning also contributed positively.

The value managers found the going tougher after the previous few years of good performance. LSV and Bernstein Value were the laggards in the December quarter and for the year.

### sector commentary (Strategy 5)

The sector portfolio returned -5.1% for the quarter, behind the hedged benchmark return for the December quarter of -2.8%. Over the full year the return was 1.9%, underperforming the benchmark return of 6.0%.

The sector has been constructed to be more defensive and has a bias to managers with a value approach to investing. It is generally expected that value managers will tend to outperform in protracted downturns. In the December quarter, the sub prime issue, coupled with fears of recession in the US have seen concern about risk lead to significant falls in equity and property markets. When markets fall heavily value managers will also be impacted, however if the downturn persists the value orientation of the managers is an advantage given the generally lower price paid for stocks.

Growth stocks outperformed value stocks over the quarter and the year. As a result, Bernstein Value and LSV found the environment difficult. Both managers underperformed for the quarter and the year. Both have impressive longer-term track records. The other manager in this portfolio is an index fund managed by BGI.

The 100% currency hedge hurt this portfolio in the December quarter but was beneficial over the year. The hedged index return of 6.0% for the year to 31 December 2007 was significantly better than the unhedged return of -2.6% for the same period.

## International Smaller Companies

| | 3 mths % | 6 mths % | Fin YTD % | 1 yr % pa | 2 yrs % pa | 3 yrs % pa | 5 yrs % pa |
|---|---|---|---|---|---|---|---|
| Sector | -9.0 | -18.8 | -18.8 | -9.8 | n/a | n/a | n/a |
| Arrowstreet | -9.0 | -18.8 | -18.8 | -9.8 | n/a | n/a | n/a |
| Benchmark | -5.4 | -11.0 | -11.0 | -8.2 | n/a | 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

International smaller companies fell 5.4% during the December quarter. Investor concerns about the impact of a slowing US economy and the potential for rising inflation heightened uncertainty and drove stock prices lower. The impact of these concerns was felt most strongly in smaller capitalisation stocks. Small capitalisation stocks in the US fell 4.9% during the quarter, as measured by the Russell 2000 Index. This compares to a fall of 3.8% by US large capitalisation stocks, as measured by the S&P 500 Index. The US is home to around half of the small capitalisation stocks in the global small caps index.

Larger capitalisation stocks are often better placed if the economic environment deteriorates as they tend to have more revenue sources and are better able to protect profit margins. Sectors such as Basic Materials that had previously done well, fell in the December quarter as market momentum shifted.

### sector commentary

The sector performance of -9.0% for the quarter was below the benchmark by 3.6%. For the full year, the return was -9.8%.

Arrowstreet has given back the gains from earlier in the calendar year. Losses within the portfolio were largely driven by stock selection, rather than sector, country or basket-specific positions. Holdings in select US Materials and the allocation to US Healthcare stocks had a negative impact on the portfolio's relative return. An overweight exposure to a Portuguese cement company and a South Korean explosives producer also detracted from performance.

The portfolio's overweight exposure to the US was reduced during the quarter, based on less attractive relative stock valuations, and Japan was moved to an underweight position.

## Global Emerging Markets

| | 3 mths % | 6 mths % | Fin YTD % | 1 yr % pa | 2 yrs % pa | 3 yrs % pa | 5 yrs % pa |
|---|---|---|---|---|---|---|---|
| Sector | 5.2 | 15.2 | 15.2 | 25.7 | 25.9 | 30.0 | 24.6 |
| Legg Mason | 5.1 | 15.0 | 15.0 | 25.5 | 25.7 | n/a | n/a |
| Benchmark | 4.4 | 14.6 | 14.6 | 25.1 | 24.1 | 30.1 | 25.4 |

**Note:**
Benchmark = MSCI Emerging Markets Index in A$ unhedged with Net Dividends Reinvested.

### market commentary

Global emerging markets returned 4.4% for the quarter. The return was helped by the falling value of the Australian Dollar that contributed almost half the gain.

Emerging markets have had a strong run in recent years (the five year return was 25.4% per annum to 31 December 2007). Emerging economies have become more robust and are less reliant on export demand as rising domestic demand contributes to growth. The rise in emerging markets is illustrated by the increased representation of these markets in the MSCI All Country World Index. This index is composed of companies in markets where foreign investment is permitted. In 1989, emerging markets represented 1% of the index. Today they represent more than 10%.

In the December quarter, some of the markets that had previously been the strongest performers experienced a downturn in sentiment as investors took profits. China had its worst quarter in three years, and Peru and Hong Kong suffered negative returns. Egypt, Jordan, India and Indonesia were the strongest performers during the period.

The strongest performing sector during the quarter was Energy, up almost 20% in local currency terms. For the year the sector delivered a return of 44%. Materials was the worst performing sector for the quarter, however on an annual basis this sector still provided a strong return of 48%.

### sector commentary

The sector return of 5.2% outperformed its benchmark by 0.8% for the December quarter, benefiting from both country and stock selection. The full year return was 25.7%, better than the benchmark return of 25.1%.

An overweight exposure to Brazil and an underweight position in Korea were the key factors that drove performance. An overweight position in Argentina detracted from performance, as did an underweight exposure to India, which was one of the top-performing markets over the quarter.

Stock selection in Russia and China contributed positively to the portfolio's performance. An improved political landscape, combined with strong industrial production and retail sales, helped propel the Russian market higher over the quarter. In addition, an overweight position in Brazilian stock Petrobras, contributed positively to returns. This stock had a stellar quarter benefiting from rising oil prices and well-received investment plans.

Indian and Mexican stocks detracted from performance during the period. The portfolio's holding in Compartamos, a Mexican microfinance company, was increased during the quarter following the recent underperformance of the stock. Likewise, the manager took an active position in America Movil, a Mexican telecommunications company. America Movil suffered from poor performance despite an ability to deliver strong earnings.

The portfolio's highest conviction idea had previously been its overweight position in CNOOC, the Chinese state-owned oil giant. This position was trimmed and profits taken during the quarter with the proceeds reinvested into Cairn India, an Indian energy company.

## Alternative Assets

| | 3 mths % | 6 mths % | Fin YTD % | 1 yr % pa | 2 yrs % pa | 3 yrs % pa | 5 yrs % pa |
|---|---|---|---|---|---|---|---|
| Sector | 1.3 | 1.5 | 1.5 | 9.0 | 5.2 | n/a | n/a |
| Sector - Strategy 5 | 1.0 | 0.8 | 0.8 | 8.6 | 7.8 | n/a | n/a |
| AXA Rosenberg | 1.4 | 1.6 | 1.6 | 9.0 | 5.2 | n/a | n/a |
| BGI Total Return Multi-Opp Fund | 0.3 | 0.1 | -0.5 | 9.5 | 8.2 | n/a | n/a |
| BT Global Return Fund | 2.6 | 1.5 | 1.2 | 10.3 | 9.6 | n/a | n/a |
| Benchmark | 1.7 | 3.4 | 3.4 | 6.7 | 6.4 | 6.2 | 5.8 |

**Notes:**

Benchmark = UBSA Bank Bill Index.

Sector – Strategy 5 - The investment performance of AXA Rosenberg, BGI and BT within the Alternative Assets sector may be lagged by one month or in some cases more. The performance of the BT Global Return Fund is net of all fees charged by the manager.

### AXA Rosenberg Aust Equity Long Short Fund

AXA Rosenberg returned 1.4% for the quarter, 0.3% below the cash benchmark. The manager has outperformed over the year with a return of 9.0%, 2.3% above the benchmark.

Outperformance in November was not enough to compensate for underperformance in October and December. The portfolio has a value orientation and is more likely to do well in value driven markets. However, the introduction of the process enhancement last January, that increased the focus on near-term earnings, helped performance over 2007 when the market rewarded near-term earnings potential. The benefit of the enhancements is evidenced through the overweight to mining stocks which has helped over the year to the end of December.

### BGI Total Return Multi Opportunity Fund

BGI returned 0.3% for the three months to 30 November, 1.4% below its cash benchmark for the same period. Over the year, the return of 9.5% compares favourably with the index return of 6.7%.

The portfolio was hurt in the three months to 30 November by poor performance in the final month. The manager underperformed by 3.7% for the month. The portfolio was impacted by the change in market sentiment as concerns about credit markets and economic conditions in the US saw value detracted across all strategies. The developed market currency strategy was a significant detractor.

In October, the global macro strategies (mainly through currency) and fixed interest strategies added value. Over the year to the end of November, the portfolio construction that provides exposure to 26 strategies added value above the benchmark.

### BT Global Return Fund

The manager outperformed for the three months to 30 November, delivering a return of 2.6% compared to 1.7% for the benchmark over the same period. For 12 months, the performance was strong with a return of 10.3% well ahead of the index return of 6.7%.

The manager outperformed in September and October. In these months, value was added across credit strategies, event driven strategies and hedged equity managers. Short biased strategies found this environment difficult. In November the situation reversed somewhat. Credit oriented strategies and hedged equity strategies found it a challenging month while short biased strategies benefited from the change in sentiment.

For the year to the end of November, diversified exposure to 55 managers across 12 strategies has delivered significant value add of 3.6%.

# 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. The portfolio is expected to deliver a modest premium above the benchmark. |
| **Alternative Income** | | |
| PIMCO | Preferred | PIMCO seeks to add value above cash by exploiting structural inefficiencies at the short end of the yield curve, including term premium, liquidity premium and credit premium volatility. The fund utilises most sectors of the global bond market for its opportunity set. |
| **Australian Fixed Interest** | | |
| BGI (index) | Preferred | BGI continues to provide returns in line with the designated index. |
| Credit Suisse | Preferred | Credit Suisse seeks to add incremental value through relative value trades in yield curve anomalies, security mispricings and credit positioning. The proprietary models and quality of the team are important features and continue to meet expectations. |
| **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 has an outstanding depth of resources to manage the portfolio, both through the quality of individuals and the systems used to support the global process. Portfolios are built to generate alpha from multiple sources including active decisions on country allocation, portfolio duration, curve and sector positioning. |
| **Australian Property** | | |
| BGI (Index) | Preferred | BGI continues to provide returns 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 real estate securities 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 whilst he has seen his role expand significantly over the last year, he remains supported by a deep and 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 driven 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 | Maple-Brown Abbott 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 is a manager that provides an additional source of return in a diversified portfolio. |
| Investors Mutual | Preferred | Investors Mutual has a value-orientation and a strong emphasis on managing the risk of downside performance through identifying quality companies with reliable earnings. The portfolio provides a different focus within a diversified portfolio and one that should outperform the benchmark over the long-term. |
| 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. Ably led by the experienced 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 and is well-structured to manage the process and deliver excess returns. This is a high conviction 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 generate good alpha. |

| | | |
|---|---|---|
| **International Shares** | | |
| BGI (Fission) | Preferred | This fund aims to deliver index returns. |
| Wellington | Preferred | Wellington constructs a global shares portfolio with similar industry weightings to the benchmark. There has been a turnaround in Wellington's performance as long held stocks by the manager were rewarded by the market. |
| GMO | Preferred | GMO is a quantitative manager that combines price and earnings momentum models with an intrinsic value model to select stocks. GMO has outperformed the benchmark over the year helped by the good performance of large cap growth stocks. |
| Bernstein Value | Preferred | Bernstein Value identifies undervalued companies through intensive bottom-up fundamental research. Bernstein has underperformed the index in 2007 as stock selection detracted from performance and value style was out of favour. |
| 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. Capital outperformed the index in 2007. |
| Alliance Growth | Preferred | Alliance 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. Alliance has added value through strong stock selection. Outperformance of growth stocks also contributed to returns. |
| LSV | Preferred | LSV is a quantitative manager with a deep value-orientation and a mid to small cap bias. Despite LSV's stated preference for small-to-mid-cap stocks, the manager has been finding better value in large-cap value stocks. LSV has underperformed the index in 2007 as stock selection detracted from performance and value style was out of favour. |
| **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 Assets** | | |
| AXA Rosenberg | Preferred | The AXA Rosenberg long/short Australian equities strategy is a single manager, single strategy portfolio. It aims to maximise active returns while controlling risk by holding approximately equal exposures of long and short positions in stocks listed on the Australian Stock Exchange. |
| BGI Total Return Multi Opportunity Fund | Preferred | The BGI Total Return Multi-Opportunity Fund is a single manager, multi-strategy fund. BGI can call upon deep resources to focus on quantitative 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. |
| BT Global Return Fund | Preferred | The BT Global Return Fund is a fund of hedge funds that aims to deliver superior risk adjusted returns over time. Returns are expected to have low volatility and low correlation with share and fixed interest markets. |

# 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.<br>~ 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.<br>~ 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.<br>~ LaSalle is expected to generate at least 1.5% excess return over rolling 3-5 year periods.<br>~ 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'.<br>~ 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.<br>~ Preference was to have a manager with an innovative quantitative approach and low funds under management.<br>~ Arrowstreet's investment philosophy focuses on behavioural and information mis-pricing in the market. |

| | | | |
|---|---|---|---|
| Mar 07 | Australian property | Review sector construction and manager allocation | ~ Remain comfortable with existing managers.<br>~ 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.<br>~ Initial research has identified potential opportunities that would incorporate other investment approaches into the portfolio.<br>~ Consider manager allocations as part of this review. |
| 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 | ~ UBS Asset Management has been removed and Integrity Investment Management has been appointed to the line up of Australian shares managers.<br>~ 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.<br>~ The previous manager at UBS, Paul Fiani, established Integrity Investment Management and is joined by the other senior members from the team.<br>~ Integrity's appointment will ensure continuity within the overall Australian shares portfolio as they will apply a similar investment process implemented at UBS.<br>~ Integrity is a core, fundamental valuation driven manager with a Discounted Cash Flow based approach to valuation.<br>~ 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. |

# manager allocations vs targets

| asset class | 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 | 50.4 | 50.0 | 0.0 | 0.0 |
| | PIMCO | 49.6 | 50.0 | 100.0 | 100.0 |
| Australian Property Sector | BGI Index | 0.0 | 0.0 | 55.3 | 50.0 |
| | Legg Mason | 50.1 | 50.0 | 0.0 | 0.0 |
| | SG Hiscock | 49.9 | 50.0 | 44.7 | 50.0 |
| International Property Sector | CBRE | 48.1 | 50.0 | 50.0 | 50.0 |
| | LaSalle | 51.9 | 50.0 | 50.0 | 50.0 |
| Australian Share Sector | BGI | 20.6 | 21.0 | 0.0 | 0.0 |
| | Integrity | 10.1 | 5.0 | 0.0 | 0.0 |
| | Schroders | 16.3 | 20.0 | 0.0 | 0.0 |
| | Maple-Brown Abbott | 13.7 | 15.0 | 30.4 | 30.0 |
| | Investors Mutual | 7.0 | 7.0 | 34.6 | 35.0 |
| | Wallara | 17.0 | 18.0 | 0.0 | 0.0 |
| | Bernstein Value | 0.0 | 0.0 | 15.7 | 15.0 |
| | MIR | 7.2 | 7.0 | 19.2 | 20.0 |
| | Challenger | 8.0 | 7.0 | 0.0 | 0.0 |
| International Share (Unhedged) Sector | Wellington | 25.1 | 25.0 | 0.0 | 0.0 |
| | GMO | 15.3 | 15.0 | 0.0 | 0.0 |
| | Bernstein Value | 17.4 | 17.5 | 0.0 | 0.0 |
| | Capital | 20.1 | 20.0 | 0.0 | 0.0 |
| | Alliance Growth | 15.7 | 15.0 | 0.0 | 0.0 |
| | LSV | 6.3 | 7.5 | 0.0 | 0.0 |
| International Share (Hedged) Sector | BGI Index | 0.0 | 0.0 | 20.9 | 20.0 |
| | Wellington | 25.8 | 25.0 | 0.0 | 0.0 |
| | GMO | 14.4 | 15.0 | 0.0 | 0.0 |
| | Bernstein Value | 16.6 | 17.5 | 50.5 | 50.0 |
| | Capital | 18.8 | 20.0 | 0.0 | 0.0 |
| | Alliance Growth | 16.9 | 15.0 | 0.0 | 0.0 |
| | LSV | 7.6 | 7.5 | 28.6 | 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 | AXA Rosenberg | 100.0 | 100.0 | 3.7 | 25.0 |
| | BGI Total Return Multi-Opp Fund | 0.0 | 0.0 | 44.4 | 30.0 |
| | BT Global Return Fund | 0.0 | 0.0 | 51.8 | 45.0 |

**Notes:**

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

Target % based on agreed allocation within each asset class.

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

# asset allocations vs targets

| asset class | 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 | 20.9% | 20.0% | 5.6% | 5.0% | 2.8% | 2.5% | 1.2% | 1.0% | 5.4% | 5.0% | 28.8 | 1.1 | 0.2 |
| Alternative Income Sector | 20.5% | 20.0% | 5.3% | 5.0% | 2.6% | 2.5% | 0.0% | 0.0% | 7.8% | 7.5% | 0.0 | 0.0 | 0.0 |
| Australian Fixed Interest Sector | 15.2% | 15.0% | 9.2% | 9.0% | 5.0% | 5.0% | 0.0% | 0.0% | 4.7% | 4.5% | 30.8 | 12.1 | 0.8 |
| International Fixed Interest Sector | 15.1% | 15.0% | 9.4% | 9.0% | 5.2% | 5.0% | 0.0% | 0.0% | 5.6% | 5.0% | 15.4 | 9.1 | 1.3 |
| **Defensive Assets** | **71.7%** | **70.0%** | **29.5%** | **28.0%** | **15.6%** | **15.0%** | **1.2%** | **1.0%** | **23.5%** | **22.0%** | **74.9** | **22.3** | **2.3** |
| Australian Property Sector | 3.0% | 4.0% | 4.0% | 4.5% | 3.7% | 4.0% | 3.8% | 4.0% | 7.2% | 7.5% | 2.3 | 5.9 | 1.5 |
| International Property Sector | 3.6% | 4.0% | 3.8% | 4.5% | 3.3% | 4.0% | 3.9% | 4.0% | 7.0% | 7.5% | 0.9 | 4.8 | 1.4 |
| Australian Share Sector | 14.3% | 14.0% | 31.0% | 31.0% | 37.1% | 36.0% | 39.9% | 39.0% | 23.2% | 21.5% | 12.7 | 38.8 | 51.8 |
| International Share (Unhedged) Sector | 3.7% | 4.0% | 11.1% | 11.0% | 13.5% | 13.5% | 17.9% | 17.5% | 0.0% | 0.0% | 9.1 | 28.2 | 43.0 |
| International Share (Hedged) Sector | 3.8% | 4.0% | 13.3% | 13.0% | 16.9% | 16.5% | 22.1% | 21.5% | 21.9% | 21.5% | 0.0 | 0.0 | 0.0 |
| International Smaller Companies Sector | 0.0% | 0.0% | 2.0% | 2.0% | 3.1% | 3.0% | 4.0% | 4.0% | 0.0% | 0.0% | 0.0 | 0.0 | 0.0 |
| Global Emerging Markets Sector | 0.0% | 0.0% | 3.8% | 3.0% | 3.9% | 3.0% | 5.1% | 4.0% | 0.0% | 0.0% | 0.0 | 0.0 | 0.0 |
| **Growth Assets** | **28.3%** | **30.0%** | **69.1%** | **69.0%** | **81.5%** | **80.0%** | **96.6%** | **94.0%** | **59.3%** | **58.0%** | **25.1** | **77.7** | **97.7** |
| Alternative Assets Sector | 0.0% | 0.0% | 1.4% | 3.0% | 2.9% | 5.0% | 2.3% | 5.0% | 17.2% | 20.0% | 0.0 | 0.0 | 0.0 |
| **Alternative Assets** | **0.0%** | **0.0%** | **1.4%** | **3.0%** | **2.9%** | **5.0%** | **2.3%** | **5.0%** | **17.2%** | **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.

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 | % sector | International Shares | % sector |
|---|---|---|---|---|
| 1 | BHP BILLITON LTD | 9.1% | GOOGLE INC | 1.2% |
| 2 | NATL AUSTRALIA BK | 6.3% | JPMORGAN CHASE +CO | 1.0% |
| 3 | AUST +NZ BANK GRP | 5.5% | MICROSOFT CORP | 0.9% |
| 4 | WESTPAC BKG CORP | 5.0% | POTASH CORP SASK INC | 0.9% |
| 5 | RIO TINTO LIMITED | 4.5% | E ON AG | 0.9% |
| 6 | CMNWLTH BK OF AUST | 4.5% | NESTLE SA | 0.9% |
| 7 | TELSTRA CORP | 3.3% | SANOFI AVENTIS | 0.9% |
| 8 | WOOLWORTHS LTD | 3.1% | ING GROEP NV | 0.9% |
| 9 | QBE INS GROUP | 2.5% | ROYAL DUTCH SHELL | 0.8% |
| 10 | BRAMBLES LTD | 2.3% | BANK AMER CORP | 0.8% |

| | Australian Property Securities | % sector | International Property | % sector |
|---|---|---|---|---|
| 1 | WESTFIELD GROUP | 30.9% | UNIBAIL RODAMCO | 4.7% |
| 2 | GPT GROUP | 10.1% | WESTFIELD GROUP | 4.7% |
| 3 | STOCKLAND | 9.9% | SIMON PPTY GROUP INC NEW | 4.3% |
| 4 | MIRVAC GROUP | 6.6% | PROLOGIS | 3.7% |
| 5 | VALAD PROPERTY GP | 4.5% | VORNADO RLTY TR | 3.4% |
| 6 | GOODMAN GROUP | 4.2% | GPT GROUP | 3.0% |
| 7 | DB RREEF TRUST | 3.3% | BOSTON PPTYS INC | 2.7% |
| 8 | MACQUARIE OFFICE | 3.0% | AVALONBAY CMNTYS INC | 2.1% |
| 9 | MACQUARIE COUNTRYWIDE | 2.0% | VENTAS INC | 2.1% |
| 10 | APN/UKA EURO RETL | 1.7% | PUBLIC STORAGE | 2.0% |

# top 10 holdings - Diversified Investment Strategy 5

| | Australian Shares | % sector | International Shares | % sector |
|---|---|---|---|---|
| 1 | BHP BILLITON LTD | 9.8% | CHEVRON CORP | 18% |
| 2 | NATL AUSTRALIA BK | 8.1% | ROYAL DUTCH SHELL | 18% |
| 3 | AUST +NZ BANK GRP | 7.2% | VODAFONE GROUP | 16% |
| 4 | WESTPAC BKG CORP | 5.6% | JPMORGAN CHASE +CO | 16% |
| 5 | TELSTRA CORP | 5.2% | PFIZER INC | 16% |
| 6 | RIO TINTO LIMITED | 4.7% | BASF AG | 15% |
| 7 | CMNWLTH BK OF AUST | 3.8% | CONOCOPHILLIPS | 15% |
| 8 | FOSTERS GROUP | 2.6% | MARATHON OIL CORP | 14% |
| 9 | AMCOR LIMITED | 2.4% | EXXON MOBIL CORP | 14% |
| 10 | TABCORP HLDGS LTD | 2.2% | INTERNATIONAL BUSINESS MA | 13% |

| | Australian Property Securities | % sector | International Property | % sector |
|---|---|---|---|---|
| 1 | WESTFIELD GROUP | 28.0% | WESTFIELD GROUP | 4.8% |
| 2 | GPT GROUP | 9.0% | UNIBAIL RODAMCO | 4.7% |
| 3 | STOCKLAND | 7.8% | SIMON PPTY GROUP INC NEW | 4.3% |
| 4 | DB RREEF TRUST | 4.6% | PROLOGIS | 3.7% |
| 5 | MIRVAC GROUP | 4.1% | VORNADO RLTY TR | 3.4% |
| 6 | GOODMAN GROUP | 3.4% | GPT GROUP | 3.0% |
| 7 | MACQUARIE OFFICE | 3.4% | BOSTON PPTYS INC | 2.7% |
| 8 | VALAD PROPERTY GP | 3.0% | AVALONBAY CMNTYS INC | 2.1% |
| 9 | TRINITY CONSOLIDAT | 2.6% | VENTAS INC | 2.1% |
| 10 | MACQUARIE COUNTRYWIDE | 2.3% | PUBLIC STORAGE | 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 | 7.9% | 5.5% |
| CONSUMER STAPLES | 7.5% | 7.8% |
| ENERGY | 3.9% | 5.9% |
| FINANCIALS EXCLUDING PROPERTY TRUSTS | 31.5% | 31.5% |
| HEALTH CARE | 5.2% | 3.2% |
| INDUSTRIALS | 11.8% | 8.0% |
| INFORMATION TECHNOLOGY | 0.7% | 0.7% |
| LISTED PROPERTY TRUSTS | 3.7% | 8.2% |
| MATERIALS | 22.1% | 23.9% |
| TELECOMMUNICATION SERVICES | 4.6% | 3.7% |
| UTILITIES | 1.2% | 1.6% |

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

| | International Shares | | International Fixed Interest | |
|---|---|---|---|---|
| | % allocation | % MSCI | % allocation | % Lehman Global Aggregate Index |
| NORTH AMERICA | 47.8% | 53.3% | 55.2% | 40.8% |
| EUROPE (EXCLUDING UK) | 26.4% | 24.4% | 27.5% | 33.0% |
| UK | 9.4% | 10.7% | 2.7% | 5.5% |
| ASIA (EXCLUDING JAPAN) | 2.0% | 1.7% | 0.0% | 1.4% |
| JAPAN | 8.6% | 9.7% | 10.4% | 16.8% |
| OTHER | 0.0% | 0.1% | 4.2% | 0.6% |
| EMERGING MARKETS | 5.7% | 0.0% | 0.0% | 1.8% |

## **International Shares** – portfolio vs benchmark (by sector)

| sector | % allocation | % MSCI |
|---|---|---|
| CONSUMER DISCRETIONARY | 10.1% | 10.2% |
| CONSUMER STAPLES | 6.3% | 8.8% |
| ENERGY | 11.2% | 11.0% |
| FINANCIALS INCLUDING PROPERTY TRUSTS | 22.6% | 21.8% |
| HEALTH CARE | 9.5% | 8.9% |
| INDUSTRIALS | 10.4% | 11.6% |
| INFORMATION TECHNOLOGY | 11.9% | 11.5% |
| MATERIALS | 10.2% | 6.3% |
| TELECOMMUNICATION SERVICES | 4.2% | 5.1% |
| UTILITIES | 3.6% | 4.8% |

**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 | -4.9% | 22.0% |
| SEMI GOVERNMENT | 0.2% | 28.8% |
| CORPORATE / OTHER | 104.7% | 49.2% |

## **International Fixed Interest** – portfolio vs benchmark (by sector)

| sector | % allocation | % Lehman Global Aggregate Index |
|---|---|---|
| ASSET BACKED / OTHER | 38.0% | 21.2% |
| CORPORATE | 21.5% | 16.8% |
| GOVERNMENT | 40.6% | 62.0% |

## **Australian Property Securities** - portfolio vs benchmark

| | % allocation | % S&P/ASX 300 Property Trust Index |
|---|---|---|
| COMMERCIAL | 10.7% | 7.8% |
| DIVERSIFIED | 37.7% | 37.5% |
| HOTEL | 0.0% | 0.0% |
| INDUSTRIAL | 5.4% | 11.3% |
| RETAIL | 39.7% | 43.4% |
| OTHER | 6.5% | 0.0% |

## **International Property Securities** - portfolio vs benchmark

| | % allocation | % UBS Global Property Investors Index |
|---|---|---|
| NORTH AMERICA | 46.5% | 49.0% |
| EUROPE EXCLUDING UK | 16.5% | 14.7% |
| UK | 8.4% | 10.0% |
| JAPAN | 6.9% | 5.7% |
| ASIA EX JAPAN | 10.4% | 4.9% |
| OTHER | 11.3% | 15.7% |

## **Global Emerging Markets** - portfolio vs benchmark

| | % allocation | % MSCI EM Index |
|---|---|---|
| LATIN AMERICA | 23.3% | 20.4% |
| ASIA EX JAPAN | 48.2% | 54.6% |
| EUROPE / MIDDLE EAST / AFRICA/OTHER | 28.5% | 25.0% |

**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 | 10.6% | 5.5% |
| CONSUMER STAPLES | 6.6% | 7.8% |
| ENERGY | 4.6% | 5.9% |
| FINANCIALS EXCLUDING PROPERTY TRUSTS | 31.3% | 31.5% |
| HEALTH CARE | 2.1% | 3.2% |
| INDUSTRIALS | 8.6% | 8.0% |
| INFORMATION TECHNOLOGY | 0.0% | 0.7% |
| LISTED PROPERTY TRUSTS | 4.5% | 8.2% |
| MATERIALS | 23.5% | 23.9% |
| TELECOMMUNICATION SERVICES | 7.2% | 3.7% |
| UTILITIES | 1.0% | 1.6% |

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

| | International Shares | | International Fixed Interest | |
|---|---|---|---|---|
| | % allocation | % MSCI | % allocation | % Lehman Global Aggregate Index |
| NORTH AMERICA | 47.3% | 53.3% | 54.3% | 40.8% |
| EUROPE (EXCLUDING UK) | 24.9% | 24.2% | 22.5% | 33.0% |
| UK | 11.2% | 10.7% | 1.9% | 5.5% |
| ASIA (EXCLUDING JAPAN) | 1.3% | 1.7% | 0.0% | 1.4% |
| JAPAN | 11.1% | 9.7% | 14.9% | 16.8% |
| OTHER | 0.1% | 0.1% | 6.4% | 0.6% |
| EMERGING MARKETS | 4.1% | 0.2% | 0.0% | 1.8% |

### **International Shares** – portfolio vs benchmark (by sector)

| sector | % allocation | % MSCI |
|---|---|---|
| CONSUMER DISCRETIONARY | 12.3% | 10.2% |
| CONSUMER STAPLES | 3.2% | 8.8% |
| ENERGY | 14.9% | 11.0% |
| FINANCIALS INCLUDING PROPERTY TRUSTS | 28.8% | 21.8% |
| HEALTH CARE | 6.3% | 8.9% |
| INDUSTRIALS | 8.4% | 11.6% |
| INFORMATION TECHNOLOGY | 8.0% | 11.5% |
| MATERIALS | 11.2% | 6.3% |
| TELECOMMUNICATION SERVICES | 3.9% | 5.1% |
| UTILITIES | 2.9% | 4.8% |

**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 | -4.9% | 22.0% |
| SEMI GOVERNMENT | 0.2% | 28.8% |
| CORPORATE / OTHER | 104.7% | 49.2% |

## **International Fixed Interest** – portfolio vs benchmark (by sector)

| sector | % allocation | % Lehman Global Aggregate Index |
|---|---|---|
| ASSET BACKED / OTHER | 34.9% | 21.2% |
| CORPORATE | 20.2% | 16.8% |
| GOVERNMENT | 44.9% | 62.0% |

## **Australian Property Securities** - portfolio vs benchmark

| | % allocation | % S&P/ASX 300 Property Trust Index |
|---|---|---|
| COMMERCIAL | 14.0% | 7.8% |
| DIVERSIFIED | 34.2% | 37.5% |
| HOTEL | 0.0% | 0.0% |
| INDUSTRIAL | 4.1% | 11.3% |
| RETAIL | 38.2% | 43.4% |
| OTHER | 9.5% | 0.0% |

## **International Property Securities** - portfolio vs benchmark

| | % allocation | % UBS Global Property Investors Index |
|---|---|---|
| NORTH AMERICA | 46.4% | 49.0% |
| EUROPE (EXCLUDING UK) | 16.5% | 14.7% |
| UK | 8.3% | 10.0% |
| JAPAN | 6.8% | 5.7% |
| ASIA (EXCLUDING JAPAN) | 10.5% | 4.9% |
| OTHER | 11.4% | 15.7% |

**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. 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. 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. 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. 5 | 30-Jun-07 | 18.48% | 5.55% | 12.93% |