



portfolio watch

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



September 2009

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

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strategy performance (gross)

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Diversified Investment Strategy No 1	9.1	16.7	9.1	5.3	-1.2	2.5	5.8
Diversified Investment Strategy No 2	14.1	24.8	14.1	2.9	-8.2	-0.8	6.1
Diversified Investment Strategy No 3	15.8	28.0	15.8	2.8	-10.1	-1.7	6.0
Diversified Investment Strategy No 4	16.4	30.0	16.4	-0.9	-14.0	-4.1	5.2

Notes:

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

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 % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Australian Cash Sector	1.5	3.2	1.5	4.8	4.5	5.1	5.4
<i>UBSA Bank Bill Index</i>	0.8	1.6	0.8	4.3	6.0	6.2	6.0
Alternative Income Sector	8.2	19.4	8.2	8.4	3.2	4.9	n/a
<i>UBSA Bank Bill Index</i>	0.8	1.6	0.8	4.3	6.0	6.2	6.0
Australian Fixed Interest Sector	3.2	3.4	3.2	10.3	8.5	6.8	6.3
<i>UBSA Composite Bond Index</i>	1.8	0.4	1.8	7.1	7.7	6.3	5.9
International Fixed Interest Sector	6.0	10.5	6.0	13.1	8.3	7.0	6.9
<i>Barclays Capital Global Aggregate (Hedged) Index</i>	3.9	6.2	3.9	12.0	9.4	8.0	7.3
Alternative Defensive	4.9	9.1	4.9	6.5	4.7	5.7	n/a
<i>UBSA Bank Bill Index</i>	0.8	1.6	0.8	4.3	6.0	6.2	6.0
Australian Property Sector	31.0	50.8	31.0	-24.5	-37.1	-21.8	-6.9
<i>S&P/ASX 300 A-REIT Index</i>	30.8	51.9	30.8	-23.0	-33.1	-18.7	-4.6
Global Property Sector	28.1	59.2	28.1	-23.1	-24.5	-14.8	n/a
<i>UBS Global Investors Index in AUD Hedged Net Div</i>	30.6	60.6	30.6	-25.3	-24.0	-14.9	n/a
Australian Shares Sector	22.4	36.6	22.4	10.5	-9.8	1.8	10.3
<i>S&P/ASX 300 Accum Index</i>	21.6	35.6	21.6	8.5	-11.0	1.6	9.9
International Shares (Unhedged) Sector	7.3	10.7	7.3	-13.6	-17.0	-10.8	-0.7
<i>MSCI World Ex Australia (\$A Unhedged) Index</i>	7.1	10.9	7.1	-13.4	-15.1	-9.9	-0.8
International Shares (Hedged) Sector	15.2	32.9	15.2	-7.9	-18.0	-7.3	2.8
<i>MSCI World Ex Australia (\$A Hedged) Index</i>	15.1	34.1	15.1	-7.2	-15.6	-5.9	3.3
International Smaller Companies Sector	13.3	43.0	13.3	11.5	-9.8	-5.5	n/a
<i>S&P/Citigroup World <US\$1.5bn Cap (AUD Unhedged Net Div)</i>	9.3	21.5	9.3	-9.9	-15.7	-10.6	n/a
Global Emerging Markets Sector	13.7	38.8	13.7	5.2	-11.8	1.1	11.9
<i>MSCI EM in \$A (div reinvested)</i>	10.8	28.2	10.8	6.4	-10.7	2.1	12.8
Alternative Growth	7.5	n/a	7.5	n/a	n/a	n/a	n/a

Notes:

Sector returns are based on ipac Diversified Investment Strategy No. 2.

Performance figures are calculated using month-end hard close exit prices (except for Alternative Assets that are calculated based on month-end soft close exist prices), are gross of management fees, ongoing fees and expenses, assume distributions are reinvested and tax is not deducted.

investment environment

The rally in share markets and corporate bond markets continued in the September quarter. Relief that the financial system survived the Global Financial Crisis was the catalyst for continued market advances. In addition, positive earnings surprises and Federal Reserve Chairman Ben Bernanke's thoughts that the recession is over all buoyed sentiment.

The latest economic growth forecasts from the International Monetary Fund also suggest the worst is over. Of the major developed nations Australia continues to lead the way, with positive growth in 2009 highlighting the resilience of our economy. The US economy is expected to return to positive growth in 2010 with Europe, the UK and Japan also on the mend.

The US financial system seems to have stabilised for now, and inflation seems to be under control despite record-low interest rates. Corporate credit markets have rallied significantly with robust new issuance across most corporate debt markets and a significant amount of cash on the sidelines.

So does this mean that 'up' is the only way for markets to go? From here, we believe the path up will be more measured. There will need to be more evidence that economies and companies can continue to grow. Share markets will still be prone to bad news, and if it comes unexpectedly then they may respond negatively.

Central banks and governments around the world have a tricky balancing act as they reduce economic stimulus and manage interest rates back to more normal levels. In Australia, cash rates may increase by 2-3% over the next 18 months. Investors with good memories might be concerned that such an increase would be bad news for the value of bonds and shares as it was in 1994. Rising cash rates can put upward pressure on Government bond yields (causing bond prices to fall). In the past six months, bond prices have anticipated that the cash rate would increase. Consequently, we do not expect a major decline in bond prices in the period ahead. Our fixed interest portfolios are currently overweight high quality corporate bonds and underweight government bonds. An upbeat economic outlook is good news for the credit quality of our portfolios.

Share markets are already responding to the same positive signals that the Reserve Bank of Australia is monitoring. Corporate revenues are likely to be improving at the same time as interest rates are rising. Corporate profitability is less sensitive to interest rates than in the past as companies are less leveraged and their borrowing costs are unlikely to rise as fast as the cash rate increases. Investor sentiment is likely to be quite positive in this environment.

evidence that the Global Financial Crisis is almost over

evidence of reduced financial stress	
lower mortgage rates	✓
lower corporate borrowing costs	✓
lower LIBOR spreads	✓
greater credit availability	✓
equity markets stable/up	✓
evidence of less rapid economic deterioration	
rate of increases in unemployment peaks	✗
some healing in housing market	?
trade stabilisation	✓
evidence of healing banks	
'ring fencing' toxic assets	?
regulatory forbearance	✓
adequate capitalisation	?

source: Wellington Management and ipac

market returns

Australian cash

UBSA 90 Day Bank Bill Index: 3 month: 0.8%; 12 month: 4.3%

The Reserve Bank of Australia kept the cash rate steady at 3.0% in the September quarter, however, subsequently increased the rate to 3.25% in October. The International Monetary Fund (IMF) upgraded its economic outlook for Australia with positive growth expected in 2009 and growth of 2.0% forecast by the IMF for 2010.

Australian fixed interest

UBSA Composite Bond Index: 3 month: 1.8%; 12 month: 7.1%

Corporate bonds outperformed government bonds during the quarter, benefiting from more stable economic conditions. Credit spreads continued to contract.

international fixed interest

Barclays Capital Global Aggregate (hedged \$A) Index: 3 month: 3.9%; 12 month: 12.0%

International fixed interest markets performed strongly in the September quarter. Bond markets appear to have taken the view that the inflation risk is manageable. Spreads continued to narrow in corporate credit, and are now at levels 'pre-Lehman'. There has been increased demand for securitised credit indicating that some confidence has returned to credit markets.

Australian listed property

S&P/ASX 300 A-REIT Index: 3 month: 30.8%; 12 month: -23.0%

Australian listed property was the strongest asset class in the September quarter. The rally came from very low levels since this asset class was at the epicentre of the Global Financial Crisis. The best performing trusts were generally those of the lowest quality. The more defensive names did not perform as strongly.

global listed property

UBS Global Investors Index (hedged): 3 month: 30.6%; 12 month: -25.3%

Europe, the UK and the US were the strongest performing markets. These markets were buoyed by signs of stability in the residential and commercial sectors. Asian markets that held up better through the downturn were not as positive in the September quarter although the Singapore and Hong Kong markets remain the best performers over the year.

Australian shares

S&P/ASX 300 Accumulation Index: 3 month: 21.6%; 12 month: 8.5%

The Australian share market was supported by better-than-expected economic news. In addition, the August reporting season delivered results that were generally ahead of expectations, and strong base metal prices underpinned resource stocks through the period.

international shares

MSCI World ex-Australia Index (\$A hedged): 3 month: 15.1%; 12 month: -7.2%

MSCI World ex-Australia Index (\$A unhedged): 3 month: 7.1%; 12 month: -13.4%

International shares continued the strong run that started the previous quarter. A surging Australian Dollar, which was supported by strong metal prices and higher interest rates, impacted negatively on the unhedged return.

international smaller companies

S&P/Citigroup World < \$US 1.5 billion cap Index (\$A unhedged): 3 month: 9.3% 12 month: -9.9%

A rise in investor risk appetite helped support international smaller companies in the September quarter. Confidence in the global economic recovery drove investors towards stocks that had previously been seen as risky.

global emerging markets

MSCI EM Index in \$A: 3 month: 10.8%; 12 month: 6.4%

Emerging markets outperformed developed markets in the September quarter. All regions performed strongly. Strong exporting nations benefited from more favourable economic news in key trading partners such as the US and nations across Europe.

diversified portfolio performance (gross)

Diversified Investment Strategy No. 1

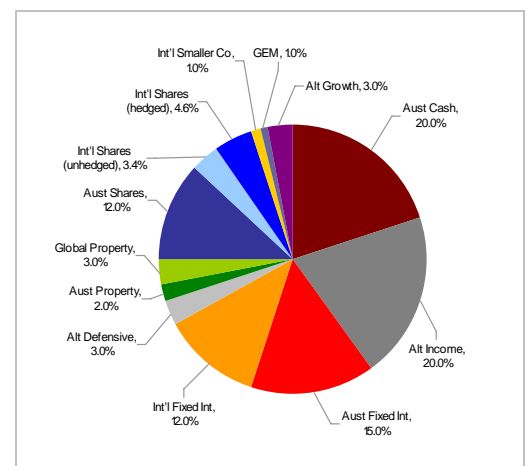
	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Diversified Investment Strategy 1	9.1	16.7	9.1	5.3	-1.2	2.5	5.8
Benchmark	6.3	10.6	6.3	2.5	-0.6	2.8	5.8

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. Current asset allocations are provided later in this document.

return drivers this period

- ~ The portfolio participated fully in the market recovery benefiting from exposure to fixed interest, listed property and shares. Active management added value with positions in corporate bonds being particularly advantageous. Increased diversification through allocations to alternative assets, global smaller companies and emerging markets helped return. The strong three month performance has improved the return over longer periods.



performance this period

- ~ Significant changes were made to the Australian cash, Australian fixed interest and Australian shares sectors over the quarter. Changes were made to improve the risk-return profile of the portfolio.
- ~ During the September quarter, ipac appointed Macquarie to manage the Australian cash sector. The manager aims to replicate the UBS Bank Bill index by buying securities of similar maturity. In the medium-term, the sector is expected to closely resemble the risk and liquidity exposures of the benchmark.
- ~ The positive relative performance in alternative income was largely driven by the sector's exposure to credit. The sector currently favours high quality yield orientated sectors, where spreads continued to contract over the period.
- ~ A relatively large exposure to corporate bonds contributed to the outperformance of the Australian fixed interest and international fixed interest sectors. Yield curve positions and duration factors were also positive for relative performance.
- ~ The Australian shares sector outperformed the index over the quarter, benefiting from exposure to more economic and risk sensitive parts of the market. These included cyclical stocks and higher quality but leveraged businesses, such as banks, that were previously out of favour when financial stress was most intense. The sector was restructured significantly during the quarter, and will benefit from well differentiated insights to diversify the sources of risk and return.
- ~ The international shares sector outperformed the index for the September quarter. Positive relative returns were largely due to stock selection. At an aggregate level, the sector was underweight Utilities and Consumer Staples which also contributed positively to returns.

Diversified Investment Strategy No. 2

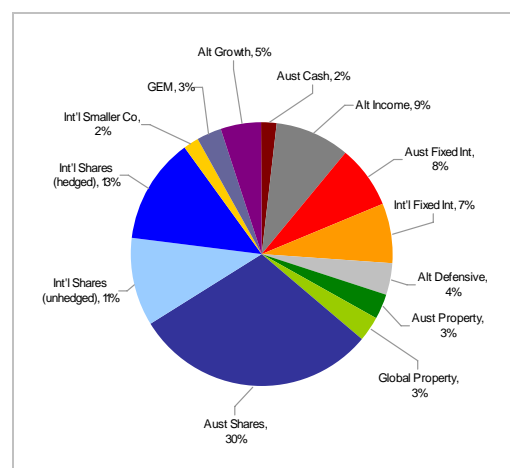
	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Diversified Investment Strategy 2	14.1	24.8	14.1	2.9	-8.2	-0.8	6.1
Benchmark	12.2	21.5	12.2	-0.2	-8.4	-0.9	5.8

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. Current asset allocations are provided later in this document.

return drivers this period

~ Over the September quarter, the portfolio benefited from exposure to a range of asset classes, and generated a strong three month return. The gains made over the quarter also helped longer-term performance for the portfolio. Strong market performance in shares and listed property was particularly helpful, and active management in Australian shares and fixed interest were key value adds. Allocations to alternative investments, global smaller companies and global emerging markets increased diversification and were also positive for return.



performance this period

- ~ Significant changes were made to the Australian cash, Australian fixed interest and Australian shares sectors over the quarter. Changes were made to improve the risk-return profile of the portfolio.
- ~ The Australian shares sector outperformed the index over the quarter, benefiting from exposure to more economic and risk sensitive parts of the market. These included cyclical stocks and higher quality but leveraged businesses, such as banks, that were previously out of favour when financial stress was most intense. The sector was restructured significantly during the quarter, and will benefit from well differentiated insights to diversify the sources of risk and return.
- ~ The international shares sector outperformed the index for the September quarter. Positive relative returns were largely due to stock selection. At an aggregate level, the sector was underweight Utilities and Consumer Staples which also contributed positively to returns.
- ~ The positive relative performance in alternative income was largely driven by the sector's exposure to credit. The sector currently favours high quality yield orientated sectors, where spreads continued to contract over the period.
- ~ A relatively large exposure to corporate bonds contributed to the outperformance of the Australian fixed interest and global fixed interest sectors. Yield curve positions and duration factors were also positive for relative performance.
- ~ The Australian listed property sector outperformed the index for the quarter. Overweight positions in Goodman Group and Dexu Property Group added value over the period. In global listed property, stock selection in Hong Kong and the US contributed to underperformance of the index.

Diversified Investment Strategy No. 3

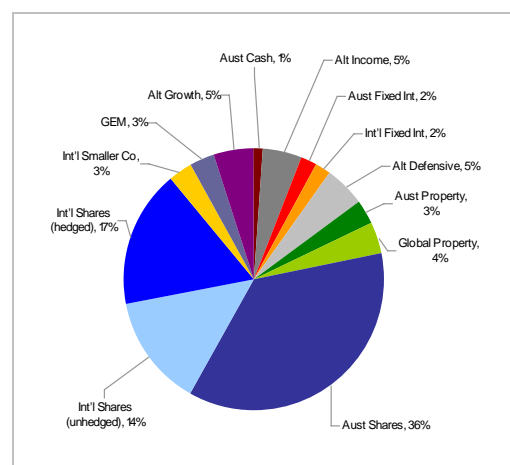
	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Diversified Investment Strategy 3	15.8	28.0	15.8	2.8	-10.1	-1.7	6.0
Benchmark	14.4	25.9	14.4	0.1	-9.9	-1.6	5.8

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. Current asset allocations are provided later in this document.

return drivers this period

- ~ The portfolio delivered an impressive return in the September quarter, which also benefited longer-term performance. Exposure to growth assets, such as shares in developed and emerging markets, was particularly advantageous. Active management helped the return in Australian shares, and exposure to alternative assets also added value.



performance this period

- ~ Significant changes were made to the Australian cash, Australian fixed interest and Australian shares sectors over the quarter. Changes were made to improve the risk-return profile of the portfolio.
- ~ The Australian shares sector outperformed the index over the quarter, benefiting from exposure to more economic and risk sensitive parts of the market. These included cyclical stocks and higher quality but leveraged businesses, such as banks, that were previously out of favour when financial stress was most intense. The sector was restructured significantly during the quarter, and will benefit from well differentiated insights to diversify the sources of risk and return.
- ~ The international shares sector outperformed the index for the September quarter. Positive relative returns were largely due to stock selection. At an aggregate level, the sector was underweight Utilities and Consumer Staples which also contributed positively to returns.
- ~ The positive relative performance in alternative income was largely driven by the sector's exposure to credit. The sector currently favours high quality yield orientated sectors, where spreads continued to contract over the period.
- ~ The Australian listed property sector outperformed the index for the quarter. Overweight positions in Goodman Group and Dexus Property Group added value over the period. In global listed property, stock selection in Hong Kong and the US contributed to underperformance of the index.
- ~ Improved market sentiment continued to impact positively on performance in the alternative defensive sector. The environment was positive for trading opportunities as liquidity improved and managers were willing to take on more risk. The alternative growth sector broadened its exposure with the funding of a mandate to US-based credit manager TCW. The potential return for risk and the diversification benefits the investment offers make it an attractive opportunity for the sector.
- ~ Global smaller companies continued to outperform the index in the September quarter. Overweight positions in Consumer Discretionary, Materials and IT helped add value. Strong relative performance in global emerging markets was primarily driven by stock selection, with a positive contribution also from country allocation.

Diversified Investment Strategy No. 4

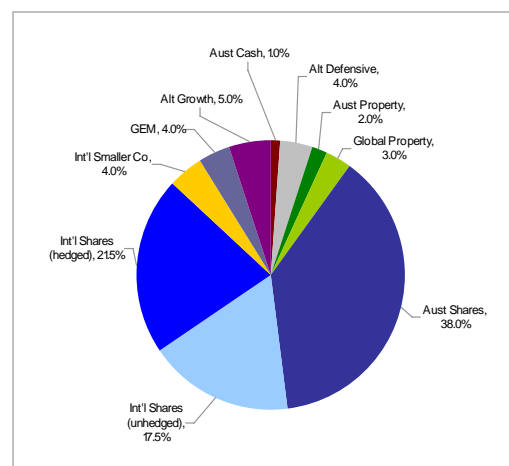
	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Diversified Investment Strategy 4	16.4	30.0	16.4	-0.9	-14.0	-4.1	5.2
Benchmark	15.2	27.8	15.2	-3.2	-13.4	-3.7	5.0

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. Current asset allocations are provided later in this document.

return drivers this period

- ~ A large exposure to the rising Australian and international share markets saw the portfolio deliver a very high three month return. Listed property and alternative investments also added value. The strong rises for the September quarter has benefited longer-term performance, and the portfolio is well positioned to take advantage of any further rises in share markets.



performance this period

- ~ Significant changes were made to the Australian cash, Australian fixed interest and Australian shares sectors over the quarter. Changes were made to improve the risk-return profile of the portfolio.
- ~ The Australian shares sector outperformed the index over the quarter, benefiting from exposure to more economic and risk sensitive parts of the market. These included cyclical stocks and higher quality but leveraged businesses, such as banks, that were previously out of favour when financial stress was most intense. The sector was restructured significantly during the quarter, and will benefit from well differentiated insights to diversify the sources of risk and return.
- ~ The international shares sector outperformed the index for the September quarter. Positive relative returns were largely due to stock selection. At an aggregate level, the sector was underweight Utilities and Consumer Staples which also contributed positively to returns.
- ~ Global smaller companies continued to outperform the index in the September quarter. Overweight positions in Consumer Discretionary, Materials and IT helped add value. Strong relative performance in global emerging markets was primarily driven by stock selection, with a positive contribution also from country allocation.
- ~ Improved market sentiment continued to impact positively on performance in the alternative defensive sector. The environment was positive for trading opportunities as liquidity improved and managers were willing to take on more risk. The alternative growth sector broadened its exposure with the funding of a mandate to US-based credit manager TCW. The potential return for risk and the diversification benefits the investment offers make it an attractive opportunity for the sector.
- ~ The Australian listed property sector outperformed the index for the quarter. Overweight positions in Goodman Group and Dexu Property Group added value over the period. In global listed property, stock selection in Hong Kong and the US contributed to underperformance of the index.

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.

Sector performance returns are based on the ipac Diversified Investment Strategy No. 2.

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. **Past performance is not necessarily indicative of future performance.**

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

Australian Cash

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Australian Cash Sector	1.5	3.2	1.5	4.8	4.5	5.1	5.4
Macquarie	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Benchmark	0.8	1.6	0.8	4.3	6.0	6.2	6.0

Note:

Benchmark = UBSA Bank Bill Index.

In August 2009, ipac transitioned all Australian Cash securities into a portfolio separately managed by Macquarie Investment Management (Macquarie).

market commentary

UBSA 90 Day Bank Bill Index: 3 month: 0.8%; 12 month: 4.3%

The Reserve Bank of Australia (RBA) kept the cash rate steady at 3.0% in the September quarter. The RBA subsequently increased to 3.25% in October.

The International Monetary Fund (IMF) upgraded its economic outlook for Australia with positive growth expected in 2009 and growth of 2.0% forecast by the IMF for 2010. These strong growth expectations for Australia are in strong contrast to other developed markets.

In Australia, stimulus packages have encouraged consumer spending while lower interest rates have helped household budgets. The dominance of variable rate home loans has also benefited Australia as interest rate cuts have an immediate impact. In contrast, fixed rate loans dominate in markets like the US and the UK. Fixed rate loans have not fallen as much as variable loans as the Financial Crisis made lending conditions difficult. Borrowers have also found it more difficult to move from fixed rate loans if they want to take advantage of lower variable rates.

sector commentary

During the September quarter, ipac appointed Macquarie to manage the Australian cash sector, replacing AllianceBernstein. ipac views Macquarie's process as well tuned to meet client needs.

The transition was managed such that the sector retained a tilt towards corporate and securitised debt, which contributed to outperformance of the index for the quarter. Macquarie aims to replicate the UBS Bank Bill Index by buying securities of similar maturity. In the medium-term, the sector is expected to closely resemble the risk and liquidity exposures of the index.

Alternative Income

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Alternative Income Sector	8.2	19.4	8.2	8.4	3.2	4.9	n/a
PIMCO	8.2	19.4	8.2	8.4	3.2	4.9	n/a
Benchmark	0.8	1.6	0.8	4.3	6.0	6.2	6.0

Notes:

Benchmark = UBSA Bank Bill Index.

sector commentary

Towards the end of 2008, the manager took advantage of mispricing opportunities in credit markets, particularly in high quality yield orientated securities. As the Global Financial Crisis took hold, the price of these securities reached all-time lows, and the manager recognised there was the potential for outsized gains in this area of the market over the medium-term.

Although weakness in corporate bond markets had a negative impact on the sector's short-term performance in 2008 and early 2009, we have recently started to see a correction in this area of the market. Although the corporate bond market is likely to remain volatile for a while to come, the contraction in spreads witnessed in the September quarter resulted in the sector's strong outperformance of the index over three and 12 months.

Relative performance in the September quarter was also positively impacted by duration positions in Europe and the US. In addition, an emphasis on short-term maturities in Australia, the US and the UK supported relative returns.

Australian Fixed Interest

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Australian Fixed Interest Sector	3.2	3.4	3.2	10.3	8.5	6.8	6.3
Macquarie	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Benchmark	1.8	0.4	1.8	7.1	7.7	6.3	5.9

Note:

Benchmark = UBSA Composite Bond All Maturities Index.

In August 2009, ipac transitioned all Australian Fixed Interest securities into a portfolio to be separately managed by Macquarie Investment Management (Macquarie). Macquarie replaces AllianceBernstein and BGI.

market commentary

UBSA Composite Bond Index: 3 month: 1.8%; 12 month: 7.1%

Corporate bonds outperformed government bonds during the quarter, benefiting from more stable economic conditions. Credit spreads continued to contract.

In the past six months, government bond prices have anticipated a tightening cycle. This has led to a flattening of the yield curve with short-term yields rising and longer-term rates falling. The yield on the 2 year government bond rose from 4.01% at the end of June to 4.41% at the end of September. The yield on the 10 year government bond fell from 5.52% to 5.36% over the same period.

sector commentary

The sector's outperformance of the index for the quarter was due to an overweight in corporate bonds. The sector's relatively large exposure to this area of the market benefited performance as credit spreads continued to contract. Yield curve positions and duration factors were also positive for relative performance over the quarter.

During the period, Macquarie was appointed to manage the sector. This was to reflect the shifting investment opportunity set within the Australian fixed interest market. ipac views Macquarie's process as well tuned to meet client needs in the context of the changing structure of the Australian fixed interest market (ie, as government bond issuance increases relative to corporate debt).

The sector has retained a tilt towards corporate and securitised debt. In the short-term, these positions are likely to remain the key drivers of relative performance.

International Fixed Interest

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
International Fixed Interest Sector	6.0	10.5	6.0	13.1	8.3	7.0	6.9
BlackRock	4.9	8.4	4.9	9.6	6.5	5.9	6.2
PIMCO	6.9	12.3	6.9	17.3	10.5	8.3	7.8
Benchmark	3.9	6.2	3.9	12.0	9.4	8.0	7.3

Note:

Benchmark = Barclays Capital Global Aggregate (AUD Hedged) Index. 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

Barclays Capital Global Aggregate (hedged \$A) Index: 3 month: 3.9%; 12 month: 12.0%

International fixed interest markets performed strongly in the September quarter. Bond markets appear to have taken the view that the inflation risk is manageable. As a consequence, while interest rates are likely to rise, they may not rise as quickly or as much as anticipated. In this environment bond yields will be relatively stable. In the September quarter, the yield on the US 2 year government bond fell from 1.11% to 0.94%, while the 10 year US government bond was down from 3.53% to 3.31%.

Spreads continued to narrow in corporate credit, and are now at levels 'pre-Lehman collapse'. There has been increased demand for securitised credit indicating that some confidence has returned to credit markets. The credit sector is still expected to outperform government bonds in the near-term.

sector commentary

The sector's outperformance of the index for the quarter was due to an overweight position in corporate bonds. The sector's relatively large exposure to this area of the market benefited performance as credit spreads continued to contract. However, as markets rallied over the quarter the sector's allocation to investment grade credit and mortgage backed securities was reduced. Yield curve positions and duration factors were also positive for relative performance over the period.

Alternative Defensive

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Alternative Defensive	4.9	9.1	4.9	6.5	4.7	5.7	n/a
Alternative Defensive Multi-Manager	4.9	9.1	4.9	6.5	n/a	n/a	n/a
Benchmark	0.8	1.6	0.8	4.3	6.0	6.2	6.0

Note:

Benchmark = UBSA Bank Bill Index

Alternative Defensive Multi-Manager

Supplementing core exposures with increased allocations to alternative assets improves the overall diversification of ipac's diversified portfolios. Critical to success with investment in alternative assets is the ability to invest in

opportunities as they arise and exit as they diminish. Our strategy is to progressively build our exposure to a number of diversifying alternative investments.

Improved market sentiment continued to impact positively on sector performance in the September quarter. The environment was positive for trading opportunities as global economic conditions and liquidity improved and managers were willing to take on more risk.

Despite the more positive backdrop, some managers remain challenged by redemptions and their own liquidity positions, and there continues to be much lower levels of capital invested in hedge fund strategies compared to early 2009. The hedge fund world is going through significant restructure following the Financial Crisis, and many firms are being forced to improve their transparency and fund structures to bring them more into line with institutional standards.

ipac's managers, who already meet institutional quality standards, tend not to be faced with these issues and can focus on sourcing and exploiting attractive investment opportunities. The sector's investments are consistent with the strategy of relatively low exposure to market risk.

Markets continue to offer interesting new investment opportunities and we are focused primarily on those that help to diversify our equity risk and those where the underlying assets are attractively valued.

During the September quarter, an investment was made with Oak Hill Advisors through their Credit Alpha Fund. The Fund seeks to deliver attractive risk-adjusted returns by investing long and short in a well diversified portfolio of credit instruments. The Fund seeks low overall volatility and has a capital preservation bias. Its focus is on larger capitalisation issuers and liquid securities. Investment returns are expected to be relatively uncorrelated to general market movements as each individual security tends to possess unique characteristics and risks. Consequently, the return of the Fund meets a key objective of the overall Alternative Defensive sector which is to diversify return sources away from core asset classes.

Australian Property

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Australian Property Sector	31.0	50.8	31.0	-24.5	-37.1	-21.8	-6.9
A-REIT Multi-Manager	31.0	50.8	31.0	n/a	n/a	n/a	n/a
Benchmark	30.8	51.9	30.8	-23.0	-33.1	-18.7	-4.6

Note:

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

market commentary

S&P/ASX 300 A-REIT Index: 3 month: 30.8%; 12 month: -23.0%

Australian listed property was the strongest asset class in the September quarter, rising more than 30%. The rally came from very low levels since this asset class was at the epicentre of the Global Financial Crisis.

The best performing trusts were generally those of the lowest quality. Centro Properties Group (up 240%) and ING Industrial Trust (up 157%) were two examples of trusts that experienced a dramatic change in their fortunes. The more defensive names did not perform as strongly (for example, Bunnings Warehouse rose 7% for the quarter). The index's largest trust, Westfield Group, rose 22% over the quarter.

While refinancing remains an issue for the market, a number of trusts improved their debt position as the credit environment showed some signs of recovery. Consolidation in the sector is expected as the stronger trusts take advantage of their better balance sheet positions.

sector commentary

The sector performed in line with the index for the September quarter. After transitioning to its new structure in the June quarter, both sector components performed well in the September quarter. The enhanced leaders mandate holding the largest trusts in the benchmark added value through judicious participation in placement activity. The high conviction mandate, covering a wider universe of property trusts, also added value - driven mainly by the overweight positions in Goodman Group and Dexu Property Group. Goodman Group's A\$1.3 billion equity recapitalisation in August was well received by the market and the stock rallied strongly. While the announcement in August of a large annual loss following from the downward revaluation of its property portfolio saw its stock price fall, shares in Dexu then rallied on better sentiment, partly buoyed by the successful September issuance of US\$300 million worth of unsecured notes in the US private placement market.

Global Property

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Global Property Sector	28.1	59.2	28.1	-23.1	-24.5	-14.8	n/a
CBRE	24.5	55.6	24.5	-18.0	-22.2	-12.4	n/a
LaSalle	28.1	60.0	28.1	-30.4	-28.1	-18.1	n/a
Global Property Index	30.2	n/a	30.2	n/a	n/a	n/a	n/a
Benchmark	30.6	60.6	30.6	-25.3	-24.0	-14.9	n/a

Notes:

Benchmark = UBS Global Investors Index (net div reinvested) in AUD hedged.

CBRE & LaSalle were introduced in January 2006. CBRE & LaSalle performance commenced in February 2006.

market commentary

UBS Global Investors Index (hedged): 3 month: 30.6%; 12 month: -25.3%

Global listed property continued its recovery with the index up significantly for the quarter. The improved economic environment was the catalyst for the rise. Europe, the UK and the US were the strongest performing markets. These markets were buoyed by signs of stability in the residential and commercial sectors. Asian markets that held up better through the downturn were not as positive in the September quarter although the Singapore and Hong Kong markets remain the best performers over the year. The Japanese market had a difficult quarter ending in negative territory.

The notable feature of the global real estate securities market in recent quarters has been the extent of capital raising, with more than \$41 billion raised globally by Real Estate Investment Trusts (REITs) in 2009. In the US, many REITs have raised significant capital to repair balance sheets and are well positioned to take advantage of acquisition opportunities. Similarly, in the UK, the biggest property companies have tapped investors for cash this year after a slump in commercial property values threatened to force many into breaches of the terms of their bank loans.

There is potential for public listing of property to grow as some unlisted property companies take advantage of better market and economic conditions to list. Other unlisted entities, under pressure from falling valuations, may be acquired by listed entities.

sector commentary

The sector underperformed its benchmark in the September quarter. Security selection drove the poor relative performance.

Stock selection in Hong Kong contributed to the underperformance, notably overweight exposures to Chinese developers. The spectre of policy tightening by the Chinese government undermined investor confidence. The stricter implementation of the second mortgage policy that requires a minimum down payment of 40% of the total price and an interest rate higher than the base lending rate has made many investors nervous that further measures may be introduced to cool speculation and curtail mortgage lending. The performance of holdings in the sector reflected these concerns with stocks such as Sino Ocean Land Holdings, Hang Lung Properties, Yanlord Land Group and China Resources Land all suffering.

An underweight to the US market and stock selection in US REITs detracted from the sector's relative performance. Profit taking in REITs such as Host Hotels & Resorts left the sector underexposed to the continued strong performance of such stocks during the September quarter. The focus on quality of balance sheets also resulted in the sector not fully participating in the surge in market sentiment which saw highly leveraged REITs run higher valuations. For example, the low risk leverage and interest coverage ratios of Canadian Real Estate Investment Trust (which holds more than 160 retail, office, and industrial properties across Canada) resulted in almost flat-line performance that provided a drag on sector returns in the midst of a booming market.

IMMOEAST, the Austrian property developer which develops and manages properties in Eastern Europe, was one of the top performing stocks. The stock's performance reflected an increase in risk appetite and an improvement in capital markets. After halting most of its projects earlier in 2009, the company announced in August that it may restart some projects that were put on hold because of the credit crunch. The sector's underweight holding in this stock detracted from value.

Australian Shares

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Australian Shares Sector	22.4	36.6	22.4	10.5	-9.8	1.8	10.3
Benchmark	21.6	35.6	21.6	8.5	-11.0	1.6	9.9

Notes:

Benchmark = S&P/ASX 300 Accumulation Index.

In September 2009, ipac implemented a new structure for the Australian Shares sector. GMO and Lazard have been appointed whilst BGI, Schroder and Maple-Brown Abbott (DIS 5 only) have been retained. Integrity, Investor's Mutual, Wallara and MIR have been removed. As such, investment performance is available not for all Australian shares managers for the period.

market commentary

S&P/ASX 300 Accumulation Index: 3 month: 21.6%; 12 month: 8.5%

The Australian economy has held up well through the Global Financial Crisis. Economic news surprised on the upside through the September quarter. Strong base metal prices underpinned resource stocks, and the August reporting season delivered results that were generally ahead of expectations. Together these factors were positive for the Australian share market, as valuations returned to levels that no longer priced in a discount for a possible downturn.

Financials was the best performing sector (up 32.4%) as the big four banks continued to take advantage of their dominant market positions. Other strong performing sectors closely linked to the improved economic environment were Industrials, Consumer Discretionary and Information Technology, all delivering in excess of 20%. The laggard was Telecommunications with Telstra a major underperformer as the Federal Government put pressure on the business to break itself up.

The high profile Myer float was announced in the period highlighting the more positive sentiment. Expectations have been raised for more IPOs before year end.

sector commentary

The sector outperformed the index over the quarter, benefiting from its exposure to more economic and risk sensitive parts of the market. These included cyclical stocks and higher quality but leveraged businesses, such as banks, that were previously out of favour when financial stress was most intense. With the strong rebound in such areas of the market the valuation differential between cyclical, higher beta stocks relative to those of more of a defensive orientation, has narrowed significantly. However opportunities still remain for stock picking, particularly in identifying those mispriced companies that are able to put their improved capital positions to work in a profitable way over the long-term.

The sector was restructured significantly during the quarter. Lazard, BGI, GMO and Schrodgers have been mandated to run strategies for the sector. The changes to the sector were undertaken in a way that kept the costs of transition low. The sector will benefit from well differentiated investment insights to diversify the sources of risk and return. In addition, active positions are spread more evenly across the capitalisation spectrum of the benchmark, and there is a greater emphasis on value add in mid and small cap stocks where skilled managers have an information advantage. Given the changes that have been implemented, we believe the sector is now better positioned to deliver more consistent added value and in a more efficient manner.

International Shares

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
International Shares (Unhedged) Sector	7.3	10.7	7.3	-13.6	-17.0	-10.8	-0.7
Enhanced Investment Technologies	4.7	4.6	4.7	-16.3	n/a	n/a	n/a
Alliance	6.0	6.6	6.0	-19.7	-23.4	-15.2	-3.7
Arrowstreet	8.1	15.9	8.1	-3.9	n/a	n/a	n/a
GMO	6.2	6.7	6.2	-12.4	-13.0	-7.7	0.4
Bernstein	9.6	16.0	9.6	-16.3	-22.3	-15.0	-2.1
LSV	11.0	19.6	11.0	-8.5	-14.3	-9.1	n/a
International Shares Index	7.1	11.0	7.1	-13.0	n/a	n/a	n/a
Benchmark	7.1	10.9	7.1	-13.4	-15.1	-9.9	-0.8
International Shares (Hedged) Sector	15.2	32.9	15.2	-7.9	-18.0	-7.3	2.8
Enhanced Investment Technologies	12.4	25.6	12.4	-10.7	n/a	n/a	n/a
Alliance	13.8	28.0	13.8	-14.3	-24.3	-11.9	-0.2
Arrowstreet	16.0	39.2	16.0	2.6	n/a	n/a	n/a
GMO	14.0	28.1	14.0	-6.5	-14.2	-4.1	4.1
Bernstein	17.6	39.3	17.6	-10.7	-23.3	-11.7	1.5
LSV	19.2	43.7	19.2	-2.3	-15.4	-5.6	n/a
International Shares Index	14.8	32.8	14.8	-7.1	n/a	n/a	n/a
Benchmark	15.1	34.1	15.1	-7.2	-15.6	-5.9	3.3

Notes:

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

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

market commentary

MSCI World ex-Australia Index (\$A hedged): 3 month: 15.1%; 12 month: -7.2%

MSCI World ex-Australia Index (\$A unhedged): 3 month: 7.1%; 12 month: -13.4%

International shares continued the strong run that started the previous quarter. A surging Australian Dollar, which was supported by strong metal prices and higher interest rates, impacted negatively on the unhedged return.

Europe led the way with the UK and French share markets both up 20% for the quarter. The German market was ahead 18%. Improved economic news was the catalyst for European markets to rise. The US S&P 500 added 15% in the quarter maintaining its improvement since March. Japan was marginally ahead for the quarter as investors worried about the change in government.

Financials (up 22.5%) continued their recovery with this sector the best performer in the quarter. Cyclical sectors that benefit from an upswing in the economic environment were also favoured with Industrials (+16.8%), Materials (+15.4%) and Consumer Discretionary (+14.0%) all rising significantly. Value stocks outperformed their growth counterparts as lower priced stocks generally railed.

sector commentary

The sector outperformed the index for the September quarter. Positive relative returns were largely due to stock selection.

The strongest performing managers over the quarter were LSV and Bernstein Value, who both adopt a value-orientated style. During the period, value stocks generally outperformed growth - the MSCI ex-Australia Value Index gained 17.0%, while the MSCI ex-Australia Growth Index returned 12.7%.

At an aggregate level, the sector was underweight Utilities and Consumer Staples which also contributed positively to returns. Overweight positions in Telecommunications and Healthcare detracted from sector performance.

International Smaller Companies

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
International Smaller Companies Sector	13.3	43.0	13.3	11.5	-9.8	-5.5	n/a
Arrowstreet	13.3	42.7	13.3	11.3	-9.9	-5.6	n/a
Benchmark	9.3	21.5	9.3	-9.9	-15.7	-10.6	n/a

Notes:

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

market commentary

S&P/Citigroup World < \$US 1.5 billion cap Index (\$A unhedged): 3 month: 9.3% 12 month: -9.9%

A rise in investor risk appetite helped support international smaller companies in the September quarter. Confidence in the global economic recovery drove investors towards stocks that had previously been seen as risky. In this environment, smaller capitalisation stocks benefited from this positive sentiment.

The US is home to approximately half of the smaller capitalisation stocks in the global index. In the US market, smaller companies gained 22.2%. Material stocks were the strongest performers in the region (up 24.9%), followed closely by Autos (+23.9%) and Consumer Discretionary stocks (+23.0%).

sector commentary

The sector continued to outperform the index in the September quarter, with continued strong value-add from the manager. Overweight positions in Consumer Discretionary, Materials and Information Technology helped add value, as these parts of the market were among the strongest.

ipac is currently reviewing the structure of the sector with a view to diversifying manager risk. Further details will be made available as these changes occur.

Global Emerging Markets

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Global Emerging Markets Sector	13.7	38.8	13.7	5.2	-11.8	1.1	11.9
Eemplia Emerging Markets	13.6	38.6	13.6	5.0	-11.9	0.9	n/a
Benchmark	10.8	28.2	10.8	6.4	-10.7	2.1	12.8

Note:

Benchmark = MSCI Emerging Markets Index (A\$ unhedged, Net Dividends).

market commentary

MSCI EM Index in \$A: 3 month: 10.8%; 12 month: 6.4%

Emerging markets outperformed developed in the September quarter. All regions performed strongly, with strong exporting nations benefiting from more favourable economic news in key trading partners such as the US and nations across Europe. Peru (+42.2%), Pakistan (+35.4%), Indonesia (+29.2%) and Turkey (+27.9%) were the best performing markets.

The Chinese share market lagged all markets except Morocco, which posted the only negative return. China had been a leader for most of 2009 and some profit taking ensued in tandem with concerns about policy tightening.

Cyclical sectors were among the best performers. Information Technology rose 25.7%, Consumer Discretionary was up 22.9% and Materials gained 20.5%.

sector commentary

The sector outperformed its benchmark in the September quarter. Performance was primarily driven by stock selection, with a positive contribution from country allocation.

Overweight exposure to Turkey and Mexico provided a boost to performance as both markets outperformed the broader index.

Many of the stocks that had driven outperformance in the previous quarter continued to add value. Notable stock holdings which added value were again in Mexico and Brazil. The exposure to financials in Mexico (for example, Grupo Financiero Banorte) was among the top contributors to relative return. The sector also benefited from its overweight to Cemex, the Mexican cement producer that is now one of the top building materials companies in the world. As the positive conclusion to its debt restructuring was reflected in the share price, the position was trimmed. Among the Brazilian holdings, exposure to homebuilders was increased and tilted to Cyrela to capture its strong prospects for earnings revisions, a move that has already benefited the sector.

Profit-taking in Turkish financials on the back of strong performance led to a reduction in the overweight to Garanti Bankasi. The holding in China Yurun, a Chinese meat processing company which was initiated mid-quarter, added to return. The share price rose following the release of interim results that showed strong margin growth and a confident growth outlook.

Alternative Growth

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Alternative Growth	7.5	n/a	7.5	n/a	n/a	n/a	n/a

Global Listed Infrastructure

Supplementing core exposures with increased allocations to alternative assets improves the overall diversification of ipac's diversified portfolios. Critical to success with investment in alternative assets is the ability to invest in opportunities as they arise and exit as they diminish. Our strategy is to progressively build our exposure to a number of diversifying alternative investments.

The Alternative Growth sector broadened its exposure during the September quarter with the funding of a mandate to US-based credit manager TCW. TCW invests in a diversified portfolio of securities high up in the capital structure of private US mortgage securitisations. The potential return for risk and the diversification benefits the investment offers make it an attractive opportunity for the sector.

The other exposure in the Alternative Growth sector is global listed infrastructure. This component returned 8.10% for the quarter, in line with its benchmark. Standout performers were two Spanish holdings Cintra and Elecnor. Elecnor provides electricity and gas-related engineering services in Spain and South America. The proposed takeover of Cintra, which operates toll highways in Europe and North America, by Grupo Ferrovial SA underpinned its rally. Public Thoroughfares, Electricity-Distribution and Building-Heavy Construction were the better performing sub-industries within the strategy.

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 the alpha edge identified for each manager and where ipac's research is focused to ensure this edge is maintained.

fund manager	notes
Australian Cash	
Macquarie	In the medium-term, the strategy objective is to deliver returns in line with the UBS Bank Bill index on a rolling monthly basis. However, the strategy has a tilt towards credit which means that manager's and the strategy's performance in the near term will be dependent on the movement in credit spreads.
Alternative Income	
PIMCO	PIMCO's Short-Term Strategy captures excess returns by exploiting four primary structural inefficiencies found in the bond yield curve (term premium, liquidity premium, credit premium and volatility premium). The strategy is applied without reference to constituents of the Barclays Global Aggregate Index and is benchmarked to UBS Bank Bill Index.
Australian Fixed Interest	
Macquarie	The multi-factor investment process generates value add through a combination of systematic, technical and judgemental processes. In the medium-term, the portfolio is expected to closely resemble the risk and liquidity exposures of the benchmark. Macquarie has developed a proprietary model for security selection of government and semi government securities. The process to select non-government securities is bottom-up and fundamentally oriented.
International Fixed Interest	
BlackRock	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	PIMCO's portfolios are built to generate alpha from country allocation, portfolio duration, curve and sector positioning. The manager's focus is on identifying term (secular) and medium term (cyclical) drivers of fixed interest markets.
Alternative Defensive	
Prisma Global Multi-Strategy Fund	The Prisma Global Multi-Strategy Fund is a global fund of hedge funds. Prisma aims to construct a "low beta" portfolio where the main driver of return is manager skill rather than the direction of markets. Most of the strategies in the Fund invest in standard liquid markets but minimise general market exposure utilising a variety of hedging techniques. In doing so, Prisma aims to derive a return that has a low correlation to the returns from traditional asset classes such as shares and bonds. In implementing their process, Prisma emphasises diversification, risk management and downside protection.
BGI Total Return Multi Opportunity Fund	The BGI Total Return Multi-Opportunity Fund is a single manager, multi-strategy fund. The fund utilises quantitative techniques to invest in 30 underlying strategies that can be broadly categorised as Global Macro, Long Short Equity, Fixed Income (Long Short) and Alpha Transport. BGI has significant resources focused on investment research, process development and risk management. The quantitative investment process seeks to deliver consistent, risk-controlled absolute returns over time that are uncorrelated with traditional asset classes.
Oak Hill Advisors	Oak Hill Advisors (Oak Hill) is a US-based credit manager that pursues a number of different strategies in the credit markets. ipac's investment with Oak Hill is through their Credit Alpha Fund, a long/short credit fund that invests primarily in senior secured bank loans, high yield bonds, capital structure

arbitrage opportunities and bespoke corporate financing transactions. The fund aims to deliver attractive risk adjusted returns with relatively low volatility. Modest levels of leverage can be used but net exposures are typically held between 40% and 80%. Returns are generated predominantly through extensive bottom-up research as opposed to big macro bets. Oak Hill is a high quality manager with deep experience in investing in this market. The firm's alpha edge is driven by the network of contacts in private equity markets (a significant driver of the loan market), the wider Oak Hill affiliations and the high quality and well-motivated professional staff.

Australian Property

Perennial Perennial is an active, fundamental manager that seeks to identify opportunities where market pricing differs significantly from intrinsic value. Internal stock research is focused on assessing total return expectations and funds from operations (FFO) growth.

Enhanced Leaders Index Vanguard uses an optimised replication process to build an enhanced leaders portfolio providing predictability of relative outcome and a high degree of cost efficiency.

Global Property

CBRE 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 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.

Global Property Index Vanguard is the manager of this sector. The sector aims to deliver index returns.

Australian Shares

BGI BGI uses a quantitative, multi-factor approach with a medium term investment horizon. BGI employs a strong research base and implement their portfolios in a disciplined way.

Lazard Lazard has a Fundamental, relative value driven approach. Long term investment horizon. The focus for adding value is outside of the largest stocks.

GMO GMO uses a quantitative, market-based signals oriented approach with a shorter term investment horizon. The focus for adding value is outside of the largest stocks.

Schroders Schroders' Fundamental, quality growth and relative valuation driven approach provides a broad spread of potential alpha sources.

International Shares

Enhanced Investment Technologies Enhanced Investment Technologies is an active global equities manager that employs a mathematical algorithm that seeks to invest in stocks with high relative volatility and low correlation to build a portfolio that will generate an excess return over the benchmark. The manager also actively rebalances the portfolio to ensure target weights are maintained.

Alliance Growth Alliance Global Research Growth is an active, fundamental, bottom-up manager that employs a growth-oriented approach to construct a portfolio that is managed by global research industry analysts.

Arrowstreet Arrowstreet employs a quantitative approach to stock selection, evaluating securities across country, sector, basket and stock dimensions. Arrowstreet aims to exploit behavioural and informational inefficiencies in the market. Portfolios can take style tilts from time to time.

GMO GMO is a quantitative manager that combines price and earnings momentum models with an intrinsic value model to select stocks. The strong growth bias of

	the portfolio may mean in periods when value themes dominate the manager will under perform.
Bernstein Value	Bernstein Global Value identifies undervalued companies through intensive bottom-up fundamental research. The manager's use of quantitative investment techniques combined with extensive qualitative industry-orientated research enables the manager to identify cheap stocks that outperform over the long-term.
LSV	LSV is a quantitative manager with a deep value-orientation and a mid to small cap bias. LSV focuses on fundamental value in combination with momentum measures. This should enable the manager to outperform over the long-term.
International Shares Index	This is comprised of Vanguard and BGI Fission. This fund aims to deliver index returns.
International Smaller Companies	
Arrowstreet	Arrowstreet employs a quantitative approach to stock selection, evaluating securities across country, sector, basket and stock dimensions. Arrowstreet aims to exploit behavioural and informational inefficiencies in the market. Portfolios can take style tilts from time to time.
Global Emerging Markets	
Eemplia Emerging Markets	Eemplia (formerly 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 Growth	
Global Listed Infrastructure	Vanguard is the manager of this sector. The sector aims to deliver index returns.
TCW Asset Management	TCW are a US based credit manager. They were one of the nine managers selected by the US government for their public/private investment program. TCW have well established security selection skills that will enable ipac to capture this differentiated source of return. TCW invests in a diversified portfolio of securities high up in the capital structure of private US mortgage securitisations. The potential return for the risk makes the investment attractive.

portfolio management report

summary of investment activities since 1 July 2005

Date	sector	change	rationale
Sept 08	International Shares	Enhancements to the international shares sector	<p>~ ipac has replaced Capital International and Wellington Asset Management to further diversify manager approaches, with market-oriented managers Arrowstreet Capital (Arrowstreet) and Enhanced Investment Technologies.</p> <p>~ The appointment of Arrowstreet and Enhanced Investment Technologies is expected to generate a higher active return in the long-term for a similar level of risk.</p> <p>~ Within the index component, Vanguard Investments has been added to the sector.</p> <p>~ The addition of the new managers resulted in changes in allocation to other managers in the active component to manage overall portfolio risk. As a consequence, there has been an increased allocation to the style specific managers.</p> <p>~ The sector review has also resulted in the inclusion of a 15% index exposure. The combination of risk-controlled approaches with the active structure described above is expected to deliver an attractive information ratio while using a more balanced proportion of the fee budget.</p>
April 09	All sectors	Strategic asset allocation (SAA) changes	<p>ipac is enhancing the SAA of the DIS portfolios. The new asset mix will improve the expected risk-return profile of the Strategies to achieve their respective investment objectives. Following ipac's investment strategy review, the portfolios will incorporate increased diversification through additional sources of return and reflect medium-term capital market forecasts.</p> <p>Key changes initially being implemented include:</p> <p>~ increased exposure to alternative investments</p> <p>~ introduction of International Smaller Companies and Global Emerging Market Equities into DIS 1</p> <p>The enhancements will be phased in gradually, taking advantage of market opportunities and keeping market conditions in mind.</p>
April 09	Australian listed property (A-REITs)	Restructure of the Australian property sector	<p>ipac research identified an innovative approach that combined active and passive investment styles to address the skewness by market capitalisation of the sector.</p> <p>This strategy seeks to capture active return more efficiently. The key improvements can be summarised as follows:</p>

Date	sector	change	rationale
			<ul style="list-style-type: none"> ~ ipac's Australian listed property sector has been divided into two mandates - Enhanced Leaders (approximately 70%) and High Conviction (30%). ~ The Enhanced Leaders mandate, managed by Vanguard Investments Australia, uses an index approach to cost effectively manage a large portion of the seven largest trusts in the index. ~ The High Conviction mandate trades in the remaining exposure of the largest stocks and the other trusts in the index. The mandate allows opportunistic investment in offshore trusts. This mandate is managed by Perennial Real Estate Investments.
July 09	Alternative Defensive	Investment with Oak Hill Advisors	<ul style="list-style-type: none"> ~ ipac has taken advantage of the market dislocation in credit markets to make an opportunistic investment in credit strategies. ~ The investment is with Oak Hill Advisors through their Credit Alpha Fund (Offshore). Intense research and experience enables Oak Hill to identify credit opportunities likely to recover their value and that will also benefit from the contraction in credit spreads as financial markets stabilise.
Aug 09	Australian Fixed Interest and Australian Cash	Appointed Macquarie and removed AllianceBernstein and BGI	<ul style="list-style-type: none"> ~ ipac has reviewed the Australian Fixed Interest and Australian Cash sectors and has implemented changes to the manager line-up to reflect the shifting investment opportunity set. ~ Macquarie Funds Group (Macquarie) has been appointed to manage both the Australian Fixed Interest and Australian Cash sectors. Macquarie replaces AllianceBernstein and BGI. ~ ipac views Macquarie's process as well tuned to meet client needs in the context of the changing structure of the Australian fixed interest market.
Aug 09	Alternative Growth	Investment with TCW	<ul style="list-style-type: none"> ~ Allocations to Alternative Defensive and Alternative Growth increase diversification of our portfolios and enable us to capture new sources of return. ~ We are building out our alternatives exposure by making small, opportunistic investments. ~ The latest investment is with US-based credit manager TCW in the Alternative Growth sector. TCW invests in a diversified portfolio of securities high up in the capital structure of private US mortgage securitisations. The potential return for the risk makes the investment attractive.
Sept 09	Australian Shares	Completion of Australian Shares Review	<ul style="list-style-type: none"> ~ ipac has reviewed the Australian shares sector and implemented enhancements that seek to continue to outperform the

Date	sector	change	rationale
			<p>benchmark and deliver more consistent and efficient performance over time.</p> <p>~ GMO and Lazard have been appointed whilst BGI, Schroder and Maple-Brown Abbott (DIS 5 only) have been retained. Integrity, Investor's Mutual, Wallara, MIR and Bernstein Value have been removed.</p> <p>~ The mandates given to GMO and Lazard are unique. Both managers will focus their risk taking in the mid and small cap segments of the market where their stock selection skills are well suited. Their mandates will lead them to maintain exposure to the largest 12-15 stocks at close to benchmark weight.</p> <p>~ BGI and Schroder can take positions across the entire market, including the largest stocks. By limiting the number of managers that take active positions in the largest stocks, ipac will increase portfolio efficiency by reducing turnover and tax events in the large capitalisation stocks.</p> <p>~ ipac has maintained the defensive bias of the Australian shares sector of DIS 5 and increased the manager diversity in the sector. An investment has been retained with incumbent manager, Maple-Brown Abbott, and a new investment made with Lazard. Both managers typically offer investment processes with the more resilient characteristics we are seeking for DIS 5. The Maple-Brown Abbott and Lazard strategies are complemented by an allocation to ipac's core active Australian shares structure.</p>

current manager allocations

asset class	manager	DIV 1 %	DIV 2 %	DIV 3 %	DIV 4 %
Australian Cash Sector	Macquarie	100.0	100.0	100.0	100.0
Alternative Income Sector	PIMCO	100.0	100.0	100.0	0.0
Australian Fixed Interest Sector	Macquarie	100.0	100.0	100.0	0.0
International Fixed Interest Sector	BlackRock	50.4	46.5	49.2	0.0
	PIMCO	49.6	53.5	50.8	0.0
Alternative Defensive	Prisma Global Multi-Strategy Fund	54.2	54.2	54.2	54.2
	BGI Multi Opportunity Fund	29.6	29.6	29.6	29.6
	Oak Hill Fund	8.7	8.7	8.7	8.7
	Macquarie	7.6	7.6	7.6	7.6
Australian Property Sector	Enhanced Leaders Index	67.3	67.3	67.3	67.3
	Perennial	32.7	32.7	32.7	32.7
Global Property Sector	CBRE	16.2	25.5	23.9	21.9
	LaSalle	34.0	17.4	12.4	26.4
	Global Property Index	49.8	57.2	63.7	51.7
Australian Share Sector	BGI	39.9	39.9	39.9	39.9
	Lazard	17.6	17.6	17.6	17.6
	GMO	23.5	23.5	23.5	23.5
	Schroders	19.0	19.0	19.0	19.0
International Share (Unhedged) Sector	Enhanced Investment Technologies	14.6	14.7	14.6	14.7
	Alliance	15.3	15.4	15.3	15.4
	Arrowstreet	10.2	10.3	10.2	10.3
	GMO	17.7	17.8	17.7	17.8
	Bernstein	18.2	18.3	18.2	18.4
	LSV	9.3	9.3	9.3	9.3
	International Shares Index	14.8	14.3	14.8	14.2
International Share (Hedged) Sector	Enhanced Investment Technologies	14.7	14.6	14.4	14.7
	Alliance	15.4	15.3	15.1	15.4
	Arrowstreet	10.3	10.3	10.1	10.3
	GMO	17.8	17.7	17.5	17.8
	Bernstein	18.4	18.3	18.1	18.4
	LSV	9.4	9.3	9.2	9.4
	International Shares Index	14.0	14.4	15.6	14.0
International Smaller Companies Sector	Arrowstreet	100.0	100.0	100.0	100.0
Global Emerging Markets Sector	Esemplia Emerging Markets	100.0	100.0	100.0	100.0
Alternative Growth	Global Listed Infrastructure	73.5	75.5	68.3	70.8
	TCW Asset Management	26.5	24.5	31.7	29.2

Notes: Target % based on target allocation within each asset class. Totals may not add up to 100% due to the rounding of individual components.

current asset allocations

asset class	Div No 1 %	Div No 2 %	Div No 3 %	Div No 4 %	InTech Cons Growth	InTech Growth	InTech High Growth
Australian Cash Sector	19.2%	3.5%	1.9%	0.9%	25.1	2.0	0.4
Alternative Income Sector	20.4%	9.4%	4.5%	0.0%	0.0	0.0	0.0
Australian Fixed Interest Sector	14.5%	7.6%	2.2%	0.0%	29.2	10.7	1.0
International Fixed Interest Sector	11.7%	6.1%	1.7%	0.0%	19.0	8.8	1.4
Alternative Defensive	3.0%	3.3%	5.9%	5.5%	0.0	0.0	0.0
Defensive Assets	68.8%	29.8%	16.2%	6.4%	73.2	21.5	2.8
Australian Property Sector	1.9%	3.6%	3.6%	1.9%	1.2	5.4	2.1
Global Property Sector	4.0%	3.4%	4.5%	3.0%	1.1	7.4	1.6
Australian Share Sector	14.8%	31.9%	37.6%	40.8%	15.2	39.1	53.5
International Share (Unhedged) Sector	3.3%	10.8%	13.1%	16.9%	9.2	26.6	40.0
International Share (Hedged) Sector	4.9%	13.1%	16.8%	21.6%	0.0	0.0	0.0
International Smaller Companies Sector	0.5%	2.4%	2.9%	3.2%	0.0	0.0	0.0
Global Emerging Markets Sector	0.5%	2.3%	2.4%	3.0%	0.0	0.0	0.0
Alternative Growth	1.3%	2.6%	3.0%	3.3%	0.0	0.0	0.0
Growth Assets	31.2%	70.2%	83.8%	93.6%	26.8	78.5	97.2

Notes:

Actual asset allocation as at the end of the period.

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

Australian Shares			International Shares	
		% sector		% sector
1	BHP BILLITON LTD	10.0%	EXXON MOBIL CORP	12%
2	CMNWLTH BK OF AUST	6.9%	BP PLC	1%
3	WESTPAC BKG CORP	6.6%	JOHNSON +JOHNSON	10%
4	NATL AUSTRALIA BK	6.3%	GOLDMAN SACHS GROUP INC	0.9%
5	AUST +NZ BANK GRP	6.1%	SANOFI AVENTIS	0.9%
6	WOOLWORTHS LTD	3.7%	APPLE INC	0.9%
7	TELSTRA CORP	3.0%	ROYAL DUTCH SHELL	0.9%
8	WESFARMERS	2.5%	GLAXOSMITHKLINE	0.8%
9	WESTFIELD GROUP	2.4%	TELEFONICA SA	0.8%
10	RIOTINTO LIMITED	2.1%	VODAFONE GROUP	0.8%

Australian Property Securities			Global Property	
		% sector		% sector
1	WESTFIELD GROUP	42.6%	SIMON PPTY GROUP INC NEW	5.7%
2	STOCKLAND	14.2%	UNIBAIL RODAMCO	5.3%
3	GPT GROUP	8.1%	VORNADO RLTY TR	3.2%
4	DEXUS PROPERTY GP	6.6%	PUBLIC STORAGE	3.0%
5	GOODMAN GROUP	6.6%	WESTFIELD GROUP	2.7%
6	CFS RETAIL PROP	5.7%	BOSTON PPTYS INC	2.5%
7	MIRVAC GROUP	5.6%	HCP INC	2.2%
8	COMMONWEALTH PROPE	2.9%	BRITISH LAND CO	2.1%
9	ING OFFICE FUND	2.4%	AVALONBAY CMNTYS INC	2.1%
10	MACQUARIE OFFICE	14%	DIGITAL RLTY TR INC	15%

sector allocations vs benchmarks

Australian Shares – portfolio vs benchmark (by sector)

sector	% allocation	% S&P/ASX 300
CONSUMER DISCRETIONARY	6.4%	3.9%
CONSUMER STAPLES	8.0%	8.5%
ENERGY	5.8%	7.7%
FINANCIALS EXCLUDING PROPERTY TRUSTS	34.8%	34.7%
HEALTH CARE	3.4%	3.5%
INDUSTRIALS	7.3%	6.7%
INFORMATION TECHNOLOGY	1.1%	0.7%
LISTED PROPERTY TRUSTS	4.2%	6.4%
MATERIALS	24.3%	22.9%
TELECOMMUNICATION SERVICES	3.9%	3.8%
UTILITIES	0.8%	1.3%

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

	International Shares		International Fixed Interest	
	% allocation	% MSCI	% allocation	% Barclays Capital Global Aggregate Index
NORTH AMERICA	50.9%	54.8%	48.1%	41.9%
EUROPE (EXCLUDING UK)	23.6%	21.8%	35.9%	31.5%
UK	11.6%	10.4%	4.7%	5.3%
ASIA (EXCLUDING JAPAN)	2.3%	1.9%	0.0%	1.2%
JAPAN	8.9%	11.0%	7.5%	17.9%
OTHER	2.7%	0.0%	3.5%	0.8%
EMERGING MARKETS	0.0%	0.0%	0.4%	1.5%

International Shares – portfolio vs benchmark (by sector)

sector	% allocation	% MSCI
CONSUMER DISCRETIONARY	12.3%	9.5%
CONSUMER STAPLES	8.2%	10.0%
ENERGY	11.0%	11.0%
FINANCIALS INCLUDING PROPERTY TRUSTS	19.4%	20.6%
HEALTH CARE	12.2%	10.4%
INDUSTRIALS	10.7%	10.7%
INFORMATION TECHNOLOGY	13.0%	12.0%
MATERIALS	5.8%	6.3%
TELECOMMUNICATION SERVICES	4.6%	4.6%
UTILITIES	2.8%	4.9%

Notes:

Based on ipac Diversified Investment Strategy No. 2.

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

International Fixed Interest – portfolio vs benchmark (by sector)

sector	% allocation	% Barclays Capital Global Aggregate Index
ASSET BACKED / OTHER	24.3%	19.3%
CORPORATE	38.0%	16.4%
GOVERNMENT	37.7%	64.3%

Australian Fixed Interest – portfolio vs benchmark (by sector)

type of security	% allocation	% UBSA Composite Bond Index
GOVERNMENT	10.0%	25.2%
SEMI GOVERNMENT	29.0%	33.5%
CORPORATE / OTHER	61.0%	41.3%

Global Property – portfolio vs benchmark (by country)

	% allocation	% UBS Global Property Investors Index
NORTH AMERICA	56.5%	50.6%
EUROPE EXCLUDING UK	14.9%	15.5%
UK	9.1%	7.9%
JAPAN	6.2%	5.8%
ASIA EX JAPAN	12.6%	20.2%
OTHER	0.6%	0.0%

Australian Property – portfolio vs benchmark (by sector)

	% allocation	% S&P/ASX 300 A-REIT Index
COMMERCIAL	6.7%	6.5%
DIVERSIFIED	35.6%	37.1%
HOTEL	0.0%	0.0%
INDUSTRIAL	7.0%	6.4%
RETAIL	50.3%	50.0%
OTHER	0.4%	0.0%

Global Emerging Markets – portfolio vs benchmark (by country)

	% allocation	% MSCI EM Index
LATIN AMERICA	23.8%	22.7%
ASIA EX JAPAN	53.8%	56.7%
EUROPE / MIDDLE EAST / AFRICA/OTHER	22.4%	20.6%

Notes:

Based on ipac Diversified Investment Strategy No. 2.

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

historical financial year returns – income & growth

Fund Name	Date	1 Yr rolling rtn % pa (net)	1 Yr Growth %	1 Yr Distribution %
Diversified Investment Strategy No. 1	30-Jun-02	1.32%	-4.33%	5.65%
Diversified Investment Strategy No. 1	30-Jun-03	5.20%	-1.18%	6.38%
Diversified Investment Strategy No. 1	30-Jun-04	8.56%	6.60%	1.96%
Diversified Investment Strategy No. 1	30-Jun-05	11.00%	1.76%	9.23%
Diversified Investment Strategy No. 1	30-Jun-06	9.44%	1.68%	7.75%
Diversified Investment Strategy No. 1	30-Jun-07	10.25%	-1.62%	11.87%
Diversified Investment Strategy No. 1	30-Jun-08	-2.87%	-10.91%	8.04%
Diversified Investment Strategy No. 1	30-Jun-09	-6.89%	-9.84%	2.95%
Diversified Investment Strategy No. 2	30-Jun-02	-6.88%	-10.12%	3.24%
Diversified Investment Strategy No. 2	30-Jun-03	-1.30%	-6.06%	4.76%
Diversified Investment Strategy No. 2	30-Jun-04	15.45%	11.93%	3.52%
Diversified Investment Strategy No. 2	30-Jun-05	14.65%	7.48%	7.16%
Diversified Investment Strategy No. 2	30-Jun-06	16.54%	10.95%	5.60%
Diversified Investment Strategy No. 2	30-Jun-07	17.00%	4.65%	12.34%
Diversified Investment Strategy No. 2	30-Jun-08	-11.96%	-20.48%	8.52%
Diversified Investment Strategy No. 2	30-Jun-09	-15.69%	-18.11%	2.43%
Diversified Investment Strategy No. 3	30-Jun-02	-10.68%	-13.16%	2.48%
Diversified Investment Strategy No. 3	30-Jun-03	-4.22%	-8.25%	4.04%
Diversified Investment Strategy No. 3	30-Jun-04	17.59%	12.99%	4.60%
Diversified Investment Strategy No. 3	30-Jun-05	14.89%	8.58%	6.30%
Diversified Investment Strategy No. 3	30-Jun-06	18.03%	12.89%	5.14%
Diversified Investment Strategy No. 3	30-Jun-07	18.93%	7.36%	11.57%
Diversified Investment Strategy No. 3	30-Jun-08	-14.70%	-24.22%	9.52%
Diversified Investment Strategy No. 3	30-Jun-09	-17.98%	-20.15%	2.17%
Diversified Investment Strategy No. 4	30-Jun-02	-13.70%	-15.21%	1.52%
Diversified Investment Strategy No. 4	30-Jun-03	-6.34%	-9.79%	3.45%
Diversified Investment Strategy No. 4	30-Jun-04	20.28%	17.05%	3.23%
Diversified Investment Strategy No. 4	30-Jun-05	15.02%	9.12%	5.90%
Diversified Investment Strategy No. 4	30-Jun-06	20.78%	15.76%	5.02%
Diversified Investment Strategy No. 4	30-Jun-07	21.01%	10.04%	10.98%
Diversified Investment Strategy No. 4	30-Jun-08	-17.95%	-26.36%	8.41%
Diversified Investment Strategy No. 4	30-Jun-09	-22.49%	-24.29%	1.80%