



## portfolio watch

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



December 2009

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

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## strategy performance (gross)

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	<b>3 mths</b> <b>%</b>	<b>6 mths</b> <b>%</b>	<b>Fin YTD</b> <b>%</b>	<b>1 yr</b> <b>% pa</b>	<b>2 yrs</b> <b>% pa</b>	<b>3 yrs</b> <b>% pa</b>	<b>5 yrs</b> <b>% pa</b>
Diversified Investment Strategy No 1	2.4	11.7	11.7	16.6	0.3	2.1	5.4
Diversified Investment Strategy No 2	3.2	17.8	17.8	22.7	-5.9	-1.8	5.3
Diversified Investment Strategy No 3	3.5	19.9	19.9	25.4	-7.5	-2.8	5.2
Diversified Investment Strategy No 4	3.9	21.0	21.0	25.6	-11.1	-5.3	4.3
Diversified Investment Strategy No 5	3.3	15.9	15.9	19.1	-6.0	-2.7	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.

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
<b>Australian Cash</b>	<b>1.3</b>	<b>2.8</b>	<b>2.8</b>	<b>4.9</b>	<b>4.6</b>	<b>5.0</b>	<b>5.4</b>
<b>Australian Cash - Strategy 5</b>	<b>1.3</b>	<b>2.8</b>	<b>2.8</b>	<b>4.9</b>	<b>4.6</b>	<b>5.0</b>	<b>n/a</b>
<i>UBSA Bank Bill Index</i>	<i>0.9</i>	<i>1.7</i>	<i>1.7</i>	<i>3.5</i>	<i>5.5</i>	<i>5.9</i>	<i>5.9</i>
<b>Alternative Income</b>	<b>2.8</b>	<b>11.2</b>	<b>11.2</b>	<b>25.5</b>	<b>3.9</b>	<b>5.4</b>	<b>n/a</b>
<b>Alternative Income - Strategy 5</b>	<b>2.8</b>	<b>11.2</b>	<b>11.2</b>	<b>25.5</b>	<b>3.9</b>	<b>5.4</b>	<b>n/a</b>
<i>UBSA Bank Bill Index</i>	<i>0.9</i>	<i>1.7</i>	<i>1.7</i>	<i>3.5</i>	<i>5.5</i>	<i>5.9</i>	<i>5.9</i>
<b>Australian Fixed Interest</b>	<b>1.7</b>	<b>4.9</b>	<b>4.9</b>	<b>5.2</b>	<b>9.3</b>	<b>7.3</b>	<b>6.2</b>
<b>Australian Fixed Interest - Strategy 5</b>	<b>1.7</b>	<b>4.4</b>	<b>4.4</b>	<b>3.6</b>	<b>9.1</b>	<b>7.2</b>	<b>n/a</b>
<i>UBSA Composite Bond Index</i>	<i>1.0</i>	<i>2.8</i>	<i>2.8</i>	<i>1.7</i>	<i>8.1</i>	<i>6.6</i>	<i>5.7</i>
<b>Global Fixed Interest</b>	<b>1.3</b>	<b>7.4</b>	<b>7.4</b>	<b>12.3</b>	<b>7.6</b>	<b>7.2</b>	<b>6.6</b>
<b>Global Fixed Interest - Strategy 5</b>	<b>1.6</b>	<b>8.6</b>	<b>8.6</b>	<b>14.5</b>	<b>9.4</b>	<b>8.4</b>	<b>n/a</b>
<i>Barclays Capital Global Aggregate (Hedged) Index</i>	<i>1.1</i>	<i>5.1</i>	<i>5.1</i>	<i>8.0</i>	<i>8.6</i>	<i>8.0</i>	<i>7.0</i>
<b>Alternative Defensive</b>	<b>3.0</b>	<b>8.9</b>	<b>8.9</b>	<b>15.7</b>	<b>6.0</b>	<b>7.0</b>	<b>n/a</b>
<b>Alternative Defensive - Strategy 5</b>	<b>3.0</b>	<b>8.9</b>	<b>8.9</b>	<b>15.7</b>	<b>3.2</b>	<b>5.0</b>	<b>n/a</b>
<i>UBSA Bank Bill Index</i>	<i>0.9</i>	<i>1.7</i>	<i>1.7</i>	<i>3.5</i>	<i>5.5</i>	<i>5.9</i>	<i>5.9</i>
<b>Australian Listed Property</b>	<b>-4.7</b>	<b>24.8</b>	<b>24.8</b>	<b>11.7</b>	<b>-33.9</b>	<b>-26.2</b>	<b>-9.6</b>
<b>Australian Listed Property - Strategy 5</b>	<b>-4.7</b>	<b>24.8</b>	<b>24.8</b>	<b>10.8</b>	<b>-31.4</b>	<b>-24.4</b>	<b>n/a</b>
<i>S&amp;P/ASX 300 A-REIT Index</i>	<i>-5.0</i>	<i>24.3</i>	<i>24.3</i>	<i>9.6</i>	<i>-30.0</i>	<i>-23.4</i>	<i>-7.5</i>
<b>Global Listed Property</b>	<b>5.7</b>	<b>35.5</b>	<b>35.5</b>	<b>30.5</b>	<b>-17.3</b>	<b>-16.5</b>	<b>n/a</b>
<b>Global Listed Property - Strategy 5</b>	<b>5.9</b>	<b>34.2</b>	<b>34.2</b>	<b>29.9</b>	<b>-17.3</b>	<b>-16.6</b>	<b>n/a</b>
<i>UBS Global Investors Index in AUD Hedged Net Div</i>	<i>5.1</i>	<i>37.2</i>	<i>37.2</i>	<i>27.4</i>	<i>-16.8</i>	<i>-16.6</i>	<i>n/a</i>
<b>Australian Shares</b>	<b>3.2</b>	<b>26.4</b>	<b>26.4</b>	<b>36.6</b>	<b>-7.1</b>	<b>-0.4</b>	<b>8.7</b>
<b>Australian Shares - Strategy 5</b>	<b>2.8</b>	<b>24.8</b>	<b>24.8</b>	<b>30.5</b>	<b>-6.2</b>	<b>-0.7</b>	<b>n/a</b>
<i>S&amp;P/ASX 300 Accum Index</i>	<i>3.4</i>	<i>25.7</i>	<i>25.7</i>	<i>37.6</i>	<i>-8.3</i>	<i>-0.8</i>	<i>8.3</i>
<b>International Shares (Unhedged)</b>	<b>3.0</b>	<b>10.6</b>	<b>10.6</b>	<b>1.3</b>	<b>-15.3</b>	<b>-10.8</b>	<b>-0.8</b>
<b>International Shares (Unhedged) - Strategy 5</b>	<b>3.4</b>	<b>9.7</b>	<b>9.7</b>	<b>1.9</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
<i>MSCI World Ex Australia (\$A Unhedged) Index</i>	<i>2.1</i>	<i>9.3</i>	<i>9.3</i>	<i>-0.3</i>	<i>-13.5</i>	<i>-10.0</i>	<i>-1.0</i>
<b>International Shares (Hedged)</b>	<b>6.3</b>	<b>22.4</b>	<b>22.4</b>	<b>28.8</b>	<b>-14.5</b>	<b>-7.8</b>	<b>2.3</b>
<b>International Shares (Hedged) - Strategy 5</b>	<b>6.5</b>	<b>21.7</b>	<b>21.7</b>	<b>32.1</b>	<b>-15.1</b>	<b>-9.8</b>	<b>n/a</b>
<i>MSCI World Ex Australia (\$A Hedged) Index</i>	<i>5.4</i>	<i>21.3</i>	<i>21.3</i>	<i>26.7</i>	<i>-12.2</i>	<i>-6.5</i>	<i>2.7</i>
<b>Global Smaller Companies</b>	<b>-0.4</b>	<b>12.9</b>	<b>12.9</b>	<b>26.6</b>	<b>-5.6</b>	<b>-7.0</b>	<b>n/a</b>
<b>Global Smaller Companies - Strategy 5</b>	<b>-0.4</b>	<b>12.9</b>	<b>12.9</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
<i>Global Smaller Co. Customised Index</i>	<i>0.9</i>	<i>10.3</i>	<i>10.3</i>	<i>8.1</i>	<i>-12.9</i>	<i>-11.5</i>	<i>-0.8</i>

	<b>3 mths</b>	<b>6 mths</b>	<b>Fin YTD</b>	<b>1 yr</b>	<b>2 yrs</b>	<b>3 yrs</b>	<b>5 yrs</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>% pa</b>	<b>% pa</b>	<b>% pa</b>	<b>% pa</b>
<b>Global Emerging Markets</b>	<b>6.7</b>	<b>21.3</b>	<b>21.3</b>	<b>45.9</b>	<b>-11.1</b>	<b>-0.2</b>	<b>11.6</b>
<b>Global Emerging Markets - Strategy 5</b>	<b>6.7</b>	<b>21.3</b>	<b>21.3</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
<i>MSCI EM in \$A (div reinvested)</i>	6.5	18.0	18.0	38.4	-9.8	0.6	12.4
<b>Alternative Growth</b>	<b>6.3</b>	<b>14.2</b>	<b>14.2</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
<b>Alternative Growth - Strategy 5</b>	<b>6.1</b>	<b>14.3</b>	<b>14.3</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

**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.

# investment environment

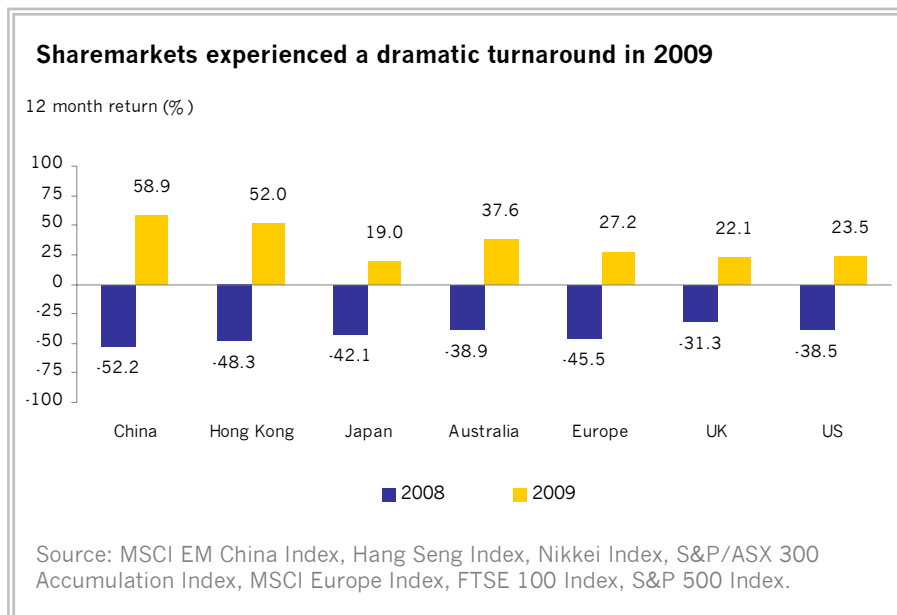
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What a difference a year can make. Twelve months ago the world was in the grip of the Global Financial Crisis. Credit markets were effectively closed, sharemarkets had halved in value, economic activity had come to a sudden halt, and investors saw only darkness ahead. Few were prepared to forecast that, 12 months on, investors would have a far more constructive view of the world.

Sharemarkets were the stand-out performers through 2009 as liquidity returned to capital markets and investors became increasingly optimistic about corporate earning prospects. In fact, 2009 was the fifth best calendar year for international sharemarkets in the last forty years. In Asia, some sharemarkets were up more than 50%. There was also a sharp turn of fortune in the US with its market rising by 23.5% across the year. Despite being at the epicentre of the crisis in 2008, the past year has seen the US market benefit from unprecedented government stimulus, aggressive corporate cost cutting and an increasingly competitive exchange rate.

The Australian sharemarket performed strongly, up 37.6% over the year. It is noteworthy that, given the appreciation of the Australian Dollar over the year, offshore investors in the Australian market were particularly well-rewarded. The domestic economy has not only been underpinned by its economic ties to Asia, but it also benefited from significant policy stimulus and a well regulated financial system.

We believe the Global Financial Crisis – in particular, the risk of collapse in the financial system – has passed and economies are currently in transition to more ‘normal’ conditions. Precisely how this transition unfolds and what the meaning of ‘normal’ is in a post-crisis world is the subject of considerable debate in the market. However, this type of market uncertainty is itself quite normal, and indeed healthy, and is largely the reason that sharemarkets deliver a higher long term return than cash or government bonds. Consequently, as we head into 2010, we believe that clients should be confident that by embracing the long term investment strategies agreed with their advisers, they are well positioned to achieve their investment objectives.



# market returns

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## **Australian cash**

**UBSA 90 Day Bank Bill Index: 3 month: 0.9%; 12 month: 3.5%**

Marking the start of its policy tightening cycle, the RBA raised rates on three occasions in the fourth quarter, ending the year at 3.75%. With the risk of serious economic contraction in Australia having passed, the RBA has moved at recent meetings to gradually lessen the degree of monetary stimulus that was put in place when the outlook appeared much weaker.

## **Australian fixed interest**

**UBSA Composite Bond Index: 3 month: 1.0%; 12 month: 1.7%**

The government bond yield curve steepened over the December quarter. The OIS/Libor spread is now forecasting cash rates to rise to 4.5% in Australia in one year's time. Corporate bond spreads tightened during the period.

## **global fixed interest**

**Barclays Capital Global Aggregate (hedged \$A) Index: 3 month: 1.1%; 12 month: 8.0%**

Over the period, long-dated yields drifted higher in the US reflecting concerns that the Federal Reserve is preparing investors for higher interest rates in 2010. European long-dated yields generally showed modest declines, and corporate bond spreads normalised.

## **Australian listed property**

**S&P/ASX 300 A-REIT Index: 3 month: -5.0%; 12 month: 9.6%**

The Australian listed property market was the weakest performing sector in the final quarter. Weakness in the unlisted market spilled over into the listed market, causing some uncertainty over valuations.

## **global listed property**

**UBS Global Investors Index (hedged): 3 month: 5.1%; 12 month: 27.4%**

Global listed property fared significantly better than the domestic property market. Performance for the calendar year varied widely across regions. Hong Kong was the strongest performing market, posting an annual gain of 80.0%, while returns in the Japanese listed property market fell 9.1% for the year.

## **Australian shares**

**S&P/ASX 300 Accumulation Index: 3 month: 3.4%; 12 month: 37.6%**

The market's performance was subdued in the fourth quarter. The Materials sector was the favoured sector, helped by the Chinese growth story. Stock specific performance varied widely across sectors.

## **international shares**

**MSCI World ex-Australia Index (\$A hedged): 3 month: 5.4%; 12 month: 26.7%**

**MSCI World ex-Australia Index (\$A unhedged): 3 month: 2.1%; 12 month: -0.3%**

Positive economic data saw buyers return to international shares, although volatility remained heightened. The US market was a strong performer, helped by a competitive US Dollar.

## **global smaller companies**

**MSCI World Small Cap Index (\$A unhedged): 3 month: 0.9%; 12 month: 11.7%**

Smaller companies underperformed larger companies for the quarter. However, over the year as a whole, smaller companies have performed far better, reflecting renewed appetite for risk.

## **global emerging markets**

**MSCI EM Index in \$A: 3 month: 6.5%; 12 month: 38.4%**

In the fourth quarter emerging markets performed better than developed markets. Latin America was the strongest performing region during the period. According to the OECD, Brazil (the region's largest economy) is expected to expand 6.1% in 2010.

# diversified portfolio performance (gross)

## Diversified Investment Strategy No. 1

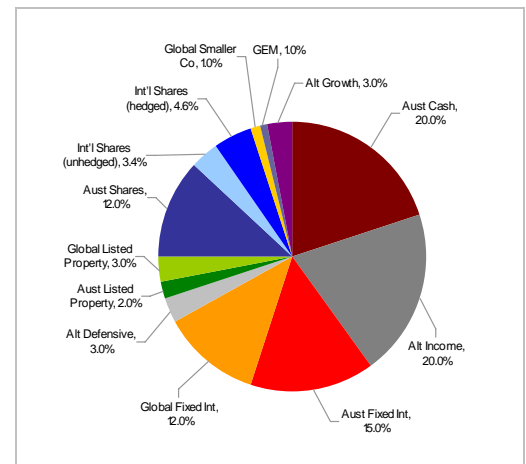
	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Diversified Investment Strategy 1	2.4	11.7	11.7	16.6	0.3	2.1	5.4
Benchmark	1.7	8.1	8.1	9.5	0.4	2.1	5.3

### 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 continued its strong recent absolute performance. Most asset classes held within the portfolio contributed to returns during the quarter. Contributions were made across the defensive spectrum, in particular within alternative income. Exposure to growth assets was also beneficial as these sectors continued to make gains over the period. The portfolio also benefited from strong active management in most sectors.



### performance this period

- ~ The Australian cash sector, managed by Macquarie, outperformed the index for the quarter. The sector has benefited from retaining a tilt towards corporate and securitised debt.
- ~ The alternative income sector outperformed the index in the December quarter. Exposure to bank capital continued to benefit the sector as spreads for subordinated bank debt tightened during the period.
- ~ Australian fixed interest outperformed the index. Security selection in government bonds helped relative returns, and positions along yield curves and between issuers of semi-government debt also added value.
- ~ Global fixed interest outperformed the index. Positioning along the yield curve contributed positively to relative performance, as did currency selection.
- ~ In Australian shares, the sector performed broadly in line with the index. The recent restructure now positions the sector for a better balance of returns through a good blend of investment insights based on different time horizons and investment approaches.
- ~ The international shares sector outperformed the index as evidence of improved economic conditions led investors to focus on the medium term prospects for company earnings. The sector was well positioned to benefit from this development.
- ~ Australian listed property modestly outperformed the index for the December quarter. The sector added value through participation in placement activity and active management.
- ~ Global listed property outperformed the index, with security selection the main driver of relative returns. An underweight position in Westfield was beneficial, as were overweight holdings in ING Office Fund and Hysan Development.

## Diversified Investment Strategy No. 2

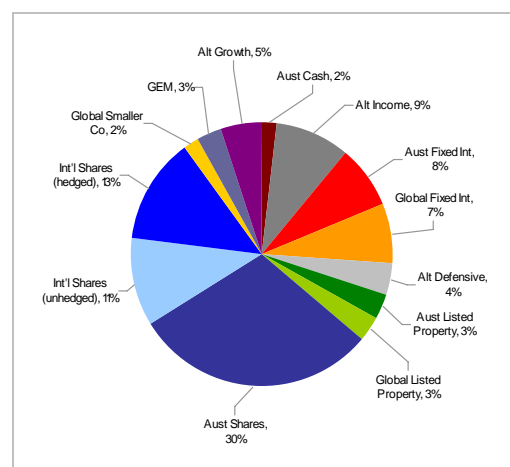
	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Diversified Investment Strategy 2	3.2	17.8	17.8	22.7	-5.9	-1.8	5.3
Benchmark	2.7	15.2	15.2	17.9	-6.2	-2.1	4.9

### 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. Current asset allocations are provided later in this document.

### return drivers this period

- ~ An allocation to international shares and global emerging markets was particularly helpful for performance, and contributed to the portfolio's strong returns for the quarter. The portfolio's investment in global listed property was also beneficial as this market returned more than 5% for the period. All sectors outperformed the index for the quarter, with the exception of Australian shares and global smaller companies where there was modest underperformance.



### performance this period

- ~ In Australian shares, the sector performed broadly in line with the index. The recent restructure now positions the sector for a better balance of returns through a good blend of investment insights based on different time horizons and investment approaches.
- ~ The international shares sector outperformed the index as evidence of improved economic conditions led investors to focus on the medium term prospects for company earnings. The sector was well positioned to benefit from this development.
- ~ The alternative income sector outperformed the index in the December quarter. Exposure to bank capital continued to benefit the sector as spreads for subordinated bank debt tightened during the period.
- ~ Australian fixed interest outperformed the index. Security selection in government bonds helped relative returns, and positions along yield curves and between issuers of semi-government debt also added value.
- ~ Global fixed interest outperformed the index. Positioning along the yield curve contributed positively to relative performance, as did currency selection.
- ~ Australian listed property modestly outperformed the index for the December quarter. The sector added value through participation in placement activity and active management.
- ~ Global listed property outperformed the index, with security selection the main driver of relative returns. An underweight position in Westfield was beneficial, as were overweight holdings in ING Office Fund and Hysan Development.
- ~ Alternative defensive continued to perform strongly as ipac's hedge funds exploited attractive trading opportunities presented by favourable liquidity and risk characteristics. ipac continues to uncover interesting new investment opportunities and is focused primarily on those that help to diversify equity risk and those where the underlying assets are cheap compared to their contribution to overall portfolio risk.

## Diversified Investment Strategy No. 3

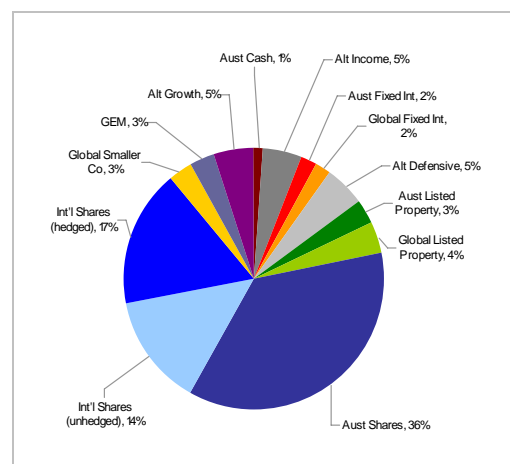
	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Diversified Investment Strategy 3	3.5	19.9	19.9	25.4	-7.5	-2.8	5.2
Benchmark	3.0	17.8	17.8	21.6	-7.5	-2.9	4.9

### 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. Current asset allocations are provided later in this document.

### return drivers this period

- ~ The portfolio's high allocation to growth markets benefited performance during the period. With the exception of Australian listed property, all growth markets were up for the quarter. The strongest of these markets was global emerging markets which benefited from improved investor appetite for risk. The portfolio also benefited from strong active management in most sectors.



### performance this period

- ~ In Australian shares, the sector performed broadly in line with the index. The recent restructure now positions the sector for a better balance of returns through a good blend of investment insights based on different time horizons and investment approaches.
- ~ The international shares sector outperformed the index as evidence of improved economic conditions led investors to focus on the medium term prospects for company earnings. The sector was well positioned to benefit from this development.
- ~ The alternative income sector outperformed the index in the December quarter. Exposure to bank capital continued to benefit the sector as spreads for subordinated bank debt tightened during the period.
- ~ Australian listed property modestly outperformed the index for the December quarter. The sector added value through participation in placement activity and active management.
- ~ Global listed property outperformed the index, with security selection the main driver of relative returns. An underweight position in Westfield was beneficial, as were overweight holdings in ING Office Fund and Hysan Development.
- ~ Alternative defensive continued to perform strongly as ipac's hedge funds exploited attractive trading opportunities presented by favourable liquidity and risk characteristics. ipac continues to uncover interesting new investment opportunities and is focused primarily on those that help to diversify equity risk and those where the underlying assets are cheap compared to their contribution to overall portfolio risk.
- ~ The key development in global smaller companies over the period was the introduction of two new managers, Pyramis and Dimensional, to complement Arrowstreet. Global emerging markets modestly outperformed the index. Stock selection remained the primary driver of performance, with a smaller contribution from country allocation.
- ~ Australian fixed interest outperformed the index. Security selection in government bonds helped relative returns, and positions along yield curves and between issuers of semi-government debt also added value.
- ~ Global fixed interest outperformed the index. Positioning along the yield curve contributed positively to relative performance, as did currency selection.

## Diversified Investment Strategy No. 4

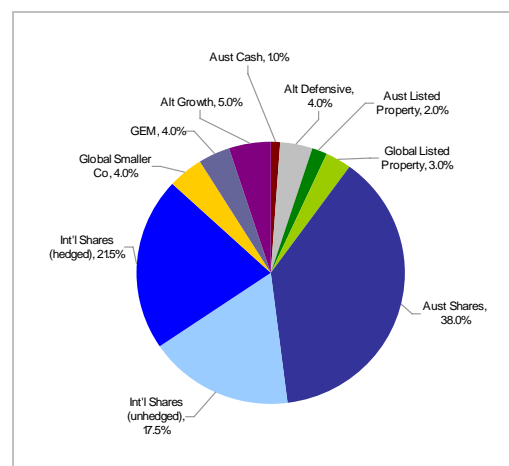
	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Diversified Investment Strategy 4	3.9	21.0	21.0	25.6	-11.1	-5.3	4.3
Benchmark	3.3	19.0	19.0	22.3	-10.7	-5.2	4.1

### 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

- ~ All asset classes posted a positive return with the exception of Australian listed property. Allocations to international shares, global emerging markets and alternative investments were particularly beneficial to performance, and contributed to the portfolio's strong return. All sectors within the portfolio outperformed their respective indices, with the exception of Australian shares and global smaller companies where there was modest underperformance.



### performance this period

- ~ In Australian shares, the sector performed broadly in line with the index. The recent restructure now positions the sector for a better balance of returns through a good blend of investment insights based on different time horizons and investment approaches.
- ~ The international shares sector outperformed the index as evidence of improved economic conditions led investors to focus on the medium term prospects for company earnings. The sector was well positioned to benefit from this development.
- ~ The key development in global smaller companies over the period was the introduction of two new managers, Pyramis and Dimensional, to complement Arrowstreet. Global emerging markets modestly outperformed the index. Stock selection remained the primary driver of performance, with a smaller contribution from country allocation.
- ~ Alternative defensive continued to perform strongly as ipac's hedge funds exploited attractive trading opportunities presented by favourable liquidity and risk characteristics. ipac continues to uncover interesting new investment opportunities and is focused primarily on those that help to diversify equity risk and those where the underlying assets are cheap compared to their contribution to overall portfolio risk.
- ~ Australian listed property modestly outperformed the index for the December quarter. The sector added value through participation in placement activity and active management.
- ~ Global listed property outperformed the index, with security selection the main driver of relative returns. An underweight position in Westfield was beneficial, as were overweight holdings in ING Office Fund and Hysan Development.
- ~ The Alternative growth sector's exposure to mortgage backed bonds provided a strong positive return for the quarter. Investors have benefited from the diversified portfolio of securities high up in the capital structure of private US mortgage securitisations.

## Diversified Investment Strategy No. 5

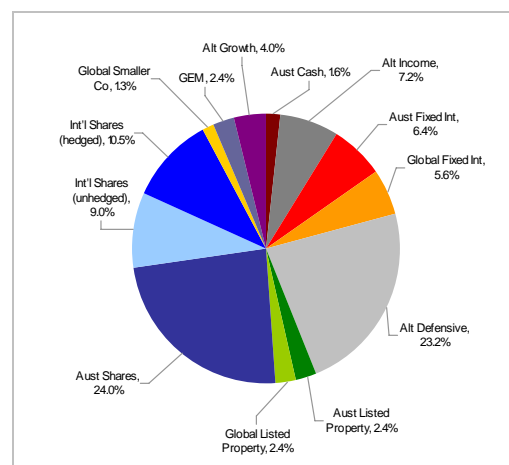
	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Diversified Investment Strategy 5	3.3	15.9	15.9	19.1	-6.0	-2.7	n/a
Benchmark	2.3	12.4	12.4	12.5	-5.8	-2.3	n/a

### 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 a strong return against its benchmark for the quarter. A high allocation to shares and alternative investments was particularly beneficial to performance as these sectors made the strongest gains during the period. Within the defensive parts of the portfolio, alternative income continued to add value. This sector has made significant gains over the past year as credit markets have continued to recover.



### performance this period

- ~ In Australian shares, the sector performed broadly in line with the index. The recent restructure now positions the sector for a better balance of return drivers.
- ~ The international shares sector outperformed the index as evidence of improved economic conditions led investors to focus on the medium term prospects for company earnings. The sector was well positioned to benefit from this development.
- ~ Alternative defensive continued to perform strongly as ipac's hedge funds exploited attractive trading opportunities presented by favourable liquidity and risk characteristics. ipac continues to uncover interesting new investment opportunities and is focused primarily on those that help to diversify equity risk and those where the underlying assets are cheap compared to their contribution to overall portfolio risk.
- ~ The Australian fixed interest sector performed in line with the index for the quarter. The manager for this sector aims to replicate the index return.
- ~ Global fixed interest outperformed the index for the quarter. An overweight exposure to bank capital helped performance as spreads on these securities tightened over the period. Positioning along the yield curve contributed positively to relative performance, as did currency selection.
- ~ The alternative income sector outperformed the index in the December quarter. Exposure to bank capital continued to benefit the sector as spreads for subordinated bank debt tightened during the period.
- ~ Australian listed property modestly outperformed the index for the December quarter. The sector added value through participation in placement activity and active management.
- ~ Global listed property outperformed the index, with security selection the main driver of relative returns. An underweight position in Westfield was beneficial, as were overweight holdings in ING Office Fund and Hysan Development.
- ~ The key development in global smaller companies over the period was the introduction of two new managers, Pyramis and Dimensional, to complement Arrowstreet. Global emerging markets modestly outperformed the index. Stock selection remained the primary driver of performance, with a smaller contribution from country allocation.

# 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	1.3	2.8	2.8	4.9	4.6	5.0	5.4
Sector - Strategy 5	1.3	2.8	2.8	4.9	4.6	5.0	n/a
Macquarie	1.3	n/a	n/a	n/a	n/a	n/a	n/a
Benchmark	0.9	1.7	1.7	3.5	5.5	5.9	5.9

**Note:**

Benchmark = UBSA Bank Bill Index.

### market commentary

**UBSA 90 Day Bank Bill Index: 3 month: 0.9%; 12 month: 3.5%**

In the fourth quarter of 2009 the Reserve Bank of Australia (RBA) was the first major central bank to raise interest rates. Marking the start of its policy tightening cycle, the RBA raised rates on three occasions, ending the year at 3.75%.

The RBA believes the risk of serious economic contraction in Australia has passed. Adjustments to the RBA's stance of monetary policy are aimed at increasing the sustainability of growth in economic activity and keeping inflation consistent with the target over the years ahead.

### sector commentary

The sector outperformed the index for the quarter. The sector managed by 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, however, over the short term the sector has retained a tilt towards corporate and securitised debt. This was a position already in place when the mandate moved to Macquarie. The tilt to corporate debt contributed to outperformance of the index for the quarter.

## Alternative Income

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	2.8	11.2	11.2	25.5	3.9	5.4	n/a
Sector - Strategy 5	2.8	11.2	11.2	25.5	3.9	5.4	n/a
PIMCO	2.8	11.2	11.2	25.5	3.9	5.4	n/a
Benchmark	0.9	1.7	1.7	3.5	5.5	5.9	5.9

### Notes:

Benchmark = UBSA Bank Bill Index.

### sector commentary

The sector outperformed the index in the December quarter. Exposure to bank capital continued to benefit the sector as spreads for subordinated bank debt tightened during the period.

Although the corporate bond market is likely to remain volatile for a while to come, the continued contraction in spreads has resulted in the sector's strong outperformance of the index over three and 12 months.

Relative performance in the December quarter was also positively impacted by yield curve positions. Positions in European, UK, and US debt were of particular benefit to performance.

## Australian Fixed Interest

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	1.7	4.9	4.9	5.2	9.3	7.3	6.2
Sector - Strategy 5	1.7	4.4	4.4	3.6	9.1	7.2	n/a
Macquarie	1.7	n/a	n/a	n/a	n/a	n/a	n/a
Benchmark	1.0	2.8	2.8	1.7	8.1	6.6	5.7

### Notes:

Benchmark = UBSA Composite Bond All Maturities Index.

### market commentary

**UBSA Composite Bond Index: 3 month: 1.0%; 12 month: 1.7%**

The government bond yield curve steepened over the December quarter. The yield on two year government debt showed little movement, beginning the period at 4.41% and ending at 4.40%. The yield on 10 year debt, however, rose from 5.36% to 5.64%. The OIS/Libor spread is now forecasting cash rates to rise to 4.5% in Australia by the end of 2010.

Corporate bond spreads tightened during the period. Although spreads are now much lower than they were at the height of the GFC, they are still at cyclical highs, and there is the potential to make further gains through active management.

### sector commentary

The sector outperformed the index for the December quarter. Security selection in government bonds helped relative returns. Positions along yield curves and between issuers of semi-government debt added value in the period. For the quarter, duration positions in the sector also added value to relative return.

## Global Fixed Interest

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	1.3	7.4	7.4	12.3	7.6	7.2	6.6
Sector - Strategy 5	1.6	8.6	8.6	14.5	9.4	8.4	n/a
BlackRock	1.1	6.1	6.1	9.8	6.0	6.0	5.9
PIMCO	1.6	8.6	8.6	14.4	9.6	8.6	7.5
Benchmark	1.1	5.1	5.1	8.0	8.6	8.0	7.0

**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: 1.1%; 12 month: 8.0%**

Over the December quarter long dated yields drifted higher in the US (from 3.31% to 3.84% for 10 year debt), reflecting concerns that the Federal Reserve is preparing investors for higher interest rates in 2010. European long dated yields generally showed modest declines. Within the European market, the Swiss, Dutch, Swedish, French and German markets were favoured, while the UK and Spanish markets were relatively weaker.

Over the period corporate bond spreads narrowed. Although spreads are now much lower than they were at the height of the GFC, there is the potential to make further gains through active management.

### sector commentary

The sector marginally outperformed the index for the final quarter of 2009. The sector's exposure to corporate debt was reduced over the period, as both managers trimmed back risk positions. Positioning along the yield curve contributed positively to relative performance, as did currency selection. Both managers within the sector held an overweight exposure to Australian debt which benefited performance over the period.

### sector commentary (Strategy 5)

The sector outperformed the index for the quarter. An overweight exposure to bank capital helped performance as spreads on these securities tightened over the period. Positioning along the yield curve contributed positively to relative performance, as did currency selection. The sector's overweight exposure to Australian debt benefited performance over the period.

## Alternative Defensive

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	3.0	8.9	8.9	15.7	6.0	7.0	n/a
Sector - Strategy 5	3.0	8.9	8.9	15.7	3.2	5.0	n/a
Alternative Defensive	3.0	8.9	8.9	15.7	n/a	n/a	n/a
Benchmark	0.9	1.7	1.7	3.5	5.5	5.9	5.9

**Note:**

Benchmark = UBSA Bank Bill Index

### sector commentary

During the December quarter markets maintained their favourable liquidity and risk characteristics. As such, the period provided a good environment for hedge funds to exploit attractive trading opportunities. Money continued to flow back into hedge funds but in total there are now much lower levels of capital invested compared with the 2008/2009 period. This means that available investment opportunities are potentially more profitable. Credit

markets continued to improve with more interest from investors to buy riskier credits at attractive spreads in an improving economic environment.

The current sector settings are consistent with the strategy of relatively low exposure to the market (beta). ipac continues to uncover interesting new investment opportunities and is focused primarily on those that help to diversify equity risk and those where the underlying assets are cheap compared to their contribution to overall portfolio risk.

## Australian Listed Property

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	-4.7	24.8	24.8	11.7	-33.9	-26.2	-9.6
Sector - Strategy 5	-4.7	24.8	24.8	10.8	-31.4	-24.4	n/a
A-REIT Multi-Manager	-4.7	24.8	24.8	11.7	n/a	n/a	n/a
Benchmark	-5.0	24.3	24.3	9.6	-30.0	-23.4	-7.5

### Notes:

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: -5.0%; 12 month: 9.6%**

The Australian listed property market was the weakest performing sector in the final quarter. With unlisted trusts under pressure to sell assets to satisfy debt covenants, there has been a glut of property appearing on the market which has depressed prices. This weakness in the unlisted market has subsequently spilled over into the listed market, and caused some uncertainty regarding valuations.

Over the quarter the top performing trusts were Challenger Kenedix Japan Trust (up 45.9%), followed by Australian Education Trust (+27.6%), Geo Property Group (+15.2%) and ING Office Trust (+14.3%). The worst performing trusts were Mirvac Industrial Trust (-41.1%), APN European Retail Trust (-28.6%) and Galileo Japan Trust (-28.4%).

### sector commentary

The sector modestly outperformed the index for the December quarter. The sector added value through participation in placement activity and active management. Overweight positions in Goodman Group and Dexus Property Group benefited performance. During December, Dexus Property Group announced the completion of US property sales totalling \$US 177million that were part of its \$US 600million sale program announced in April. Dexus also sold its 50% interest in Westfield Whitford City Shopping Centre to GIC Real Estate for \$A 256.5million. These stocks had also driven the previous quarterly return, but recent portfolio activity has reduced these positions in favour of Westfield Group. A perceived lack of transparency in Westfield's development pipeline and concerns about the impact of weak consumer confidence in the US resulted in a sharp fall in Westfield's share price during the quarter.

## Global Listed Property

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	5.7	35.5	35.5	30.5	-17.3	-16.5	n/a
Sector - Strategy 5	5.9	34.2	34.2	29.9	-17.3	-16.6	n/a
CBRE	6.1	32.0	32.0	33.1	-14.7	-14.3	n/a
LaSalle	6.7	36.7	36.7	25.4	-20.7	-19.4	n/a
Global Property Index	5.2	37.0	37.0	n/a	n/a	n/a	n/a
Benchmark	5.1	37.2	37.2	27.4	-16.8	-16.6	n/a

**Note:**

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

### market commentary

**UBS Global Investors Index (hedged): 3 month: 5.1%; 12 month: 27.4%**

Global listed property fared significantly better than the domestic listed property market. The strongest performing regions were Hong Kong (+14.1%) and Singapore (+9.3%) followed by North America (+7.6%), the UK (+3.4%), Australia (-6.5%) and Japan (-9.9%).

Performance for the calendar year varied widely across regions. Hong Kong was the strongest performing market, posting an annual gain of 80.0%, while returns in the Japanese listed property market fell 9.1% for the year. The strength of the Hong Kong market is largely supported by the growth of the Chinese economy, while rising office vacancy rates have added to the weakness in the Japanese market.

### sector commentary

The sector outperformed the index in the December quarter, with security selection the main driver of relative returns. The sector's underweight position in Westfield helped relative returns. A perceived lack of transparency in Westfield's development pipeline and concerns about the impact of weak consumer confidence in the US resulted in a sharp fall in Westfield's share price during the quarter. Overweight positions in ING Office Fund, which gained ground on the back of an improved macro economic environment, and Macquarie Office, also helped returns. An overweight position in Hysan Development, a Hong Kong property developer, also added value to the sector.

Although market sentiment suggests that the decline in capital values has slowed, in many markets there has not yet been the resurgence in transaction activity to suggest that values have reached their lowest levels. Capital raising and the associated improvement in balance sheets has been the bright spot in listed real estate markets. A major risk, particularly in the UK, is the possibility that banks with substantial property portfolios will offload these, with yield falls constrained by future supply pressure.

## Australian Shares

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	3.2	26.4	26.4	36.6	-7.1	-0.4	8.7
Sector - Strategy 5	2.8	24.8	24.8	30.5	-6.2	-0.7	n/a
BGI	3.4	25.7	25.7	37.1	-10.3	-1.5	8.3
Lazard	3.2	n/a	n/a	n/a	n/a	n/a	n/a
GMO	3.0	n/a	n/a	n/a	n/a	n/a	n/a
Schroders	2.7	29.3	29.3	41.8	-2.9	2.4	10.9
Maple-Brown Abbott	1.5	n/a	n/a	n/a	n/a	n/a	n/a
Lazard*	2.2	n/a	n/a	n/a	n/a	n/a	n/a
Benchmark	3.4	25.7	25.7	37.6	-8.3	-0.8	8.3

### Notes:

Benchmark = S&P/ASX 300 Accumulation Index.

\* additional Lazard investment for Strategy 5.

### market commentary

**S&P/ASX 300 Accumulation Index: 3 month: 3.4%; 12 month: 37.6%**

The Australian share market's performance was subdued in the fourth quarter, after ending the third quarter more than 21% up. The Materials sector was the favoured area of the market for investors, up 13.7%, helped by the Chinese growth story. Elsewhere in the market there was some consolidation of previous sector leaders. Consumer Staples stocks (+4.6%) performed relatively well but Financial stocks were weaker (down 2.6%), following a period of relative strength.

Stock specific performance varied widely across sectors during the quarter, reflecting a more selective environment. Much of the stock market's gain was due to continued strong performance from BHP Billiton and Rio Tinto (up 14.3% and 26.4% respectively). These stocks were helped by continued positive economic news in China and firmer commodity prices. Smaller iron ore players (Fortescue +16.2% and Mount Gibson +50.0%) also surged, as did gold stocks.

Towards the end of the quarter the market was buoyed by merger and acquisition activity, and some respite for US Dollar earners as the US Dollar strengthened. Several bank annual general meetings indicated impairment charges were at or near peak and helped to underpin the general recovery tone in the market.

### sector commentary

The sector performed broadly in line with the index for the quarter. The sector's positioning meant that it participated in the strong performance of the Materials sector and broadly kept pace with the market.

Overweight positions in Rio Tinto, News Corp and JB HiFi were positive for returns, as was an underweight holding in Stockland. Detractors included overweight positions in Suncorp and Brambles, which were driven by longer term, fundamental insights, and an overweight in David Jones, which was driven by shorter term, quantitative market based signals. An underweight position in Fortescue was also detrimental.

Following the strong rebound of more cyclical areas of the market, the valuation differential between cyclical, higher beta stocks relative to those of a more defensive orientation, has narrowed significantly. Opportunities still remain for stock picking, particularly in identifying mispriced companies that can put their improved capital positions to work in a profitable way over the long term. The sector remains well positioned through a good blend of insights based on different time horizons, and different investment approaches based on fundamental, quantitative and market derived signals.

### sector commentary (Strategy 5)

The sector performed broadly in line with the index for the quarter. The sector's positioning meant that it participated in the strong performance of the Materials sector and broadly kept pace with the market.

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Following the strong rebound of more cyclical areas of the market, the valuation differential between cyclical, higher beta stocks relative to those of a more defensive orientation, has narrowed significantly. Opportunities still remain for stock picking, particularly in identifying mispriced companies that can put their improved capital positions to work in a profitable way over the long term. The sector remains well positioned through a good blend of insights based on different time horizons, and different investment approaches based on fundamental, quantitative and market derived signals.

## International Shares

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector - Unhedged	3.0	10.6	10.6	1.3	-15.3	-10.8	-0.8
Sector - Strategy 5 Unhedged	3.4	9.7	9.7	1.9	n/a	n/a	n/a
Enhanced Investment Technologies	2.7	7.6	7.6	-4.4	n/a	n/a	n/a
Alliance Growth	4.5	10.8	10.8	1.7	-22.0	-14.8	-3.4
Arrowstreet	3.5	11.9	11.9	7.4	n/a	n/a	n/a
GMO	3.5	9.9	9.9	-0.7	-11.4	-7.4	0.6
Bernstein	2.5	12.3	12.3	3.4	-19.5	-15.6	-2.3
LSV	1.3	12.5	12.5	5.0	-11.8	-9.9	0.4
Epoch	5.0	7.5	7.5	n/a	n/a	n/a	n/a
International Shares Index	2.2	9.4	9.4	0.1	n/a	n/a	n/a
Benchmark	2.1	9.3	9.3	-0.3	-13.5	-10.0	-1.0
Sector - Hedged	6.3	22.4	22.4	28.8	-14.5	-7.8	2.3
Sector - Strategy 5 Hedged	6.5	21.7	21.7	32.1	-15.1	-9.8	n/a
Enhanced Investment Technologies	6.1	19.3	19.3	21.7	n/a	n/a	n/a
Alliance Growth	8.0	22.9	22.9	29.4	-21.2	-11.9	-0.2
Arrowstreet	6.9	24.0	24.0	36.7	n/a	n/a	n/a
GMO	7.0	21.9	21.9	26.5	-10.5	-4.3	3.9
Bernstein	5.9	24.5	24.5	31.6	-18.7	-12.8	0.9
LSV	4.7	24.8	24.8	33.6	-10.9	-6.9	3.7
Epoch	7.3	19.3	19.3	n/a	n/a	n/a	n/a
International Shares Index	5.5	21.1	21.1	26.9	n/a	n/a	n/a
Benchmark	5.4	21.3	21.3	26.7	-12.2	-6.5	2.7

### 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.

### market commentary

**MSCI World ex-Australia Index (\$A hedged): 3 month: 5.4%; 12 month: 26.7%**

**MSCI World ex-Australia Index (\$A unhedged): 3 month: 2.1%; 12 month: -0.3%**

International shares ended the quarter slightly stronger than domestic shares. Positive economic data saw buyers return to the international share markets, although volatility remained heightened, indicating that investors are still sensitive to economic surprises. In the US, better than expected construction, jobless claims, home sales and manufacturing data set the positive tone, while the G20's commitment to maintain current stimulus programs gave equity investors further confidence.

The US market has been among the strongest performers, helped by a competitive US Dollar. The US Dollar appeared to be stabilising through the quarter, with the market moving forward on improved economic news and profits that generally exceeded expectations. In fact, more than 50% of companies beat earnings expectations by more than 5%, and more than 70% met or exceeded expectations.

The strongest performing sector for the quarter was Materials, gaining 11.2%. For the calendar year this sector gained 46.8%, marginally behind Information Technology which rose 50.1%. The previously strong Financials sector had a reverse in its fortunes in the December quarter, falling 3.8%. The sector was hurt by credit rating concerns in Spain and Greece.

Good earnings news from Cisco, Ford and McDonald's helped sustain momentum, as did more global merger and acquisition activity (Kraft/Cadbury, Comcast/NBC). However, investors received a reminder of the GFC when the Dubai Government requested a delay on its interest repayments on billions of dollars of debt.

#### sector commentary

The sector outperformed the index for the December quarter as evidence of improved economic conditions led investors to focus on the medium term prospects for company earnings of good quality assets. The sector was well positioned to benefit from this development.

The strongest performance over the quarter was delivered by GMO and AllianceBernstein Growth. Both of these managers adopt a growth orientated approach. Over the period growth stocks outperformed their value stock counterparts by over 3.5%.

At an aggregate level the sector held overweight positions in Information Technology and Consumer Discretionary industry sectors, and benefited from their relatively strong performance.

#### sector commentary (Strategy 5)

The sector outperformed the index for the December quarter as evidence of improved economic conditions led investors to focus on the medium term prospects for company earnings of good quality assets. The sector was well positioned to benefit from this development.

The strongest performance over the quarter was delivered by Epoch, GMO and AllianceBernstein Growth. Interestingly, these managers focus on different market characteristics. Epoch focuses on companies that deliver a sustainably high shareholder yield while the latter two managers adopt a growth orientated approach. The common feature is the heightened focus on medium term corporate fundamentals. Over the period, growth stocks outperformed their value stock counterparts by over 3.5%.

At an aggregate level the sector held overweight positions in Information Technology and Consumer Discretionary industry sectors, and benefited from their relatively strong performance.

## Global Smaller Companies

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	-0.4	12.9	12.9	26.6	-5.6	-7.0	n/a
Sector - Strategy 5	-0.4	12.9	12.9	n/a	n/a	n/a	n/a
Benchmark	0.9	10.3	10.3	8.1	-12.9	-11.5	-0.8

#### Notes:

Benchmark = MSCI World Small Cap Index in AUD unhedged (net dividends reinvested) . S&P/Citigroup World <US\$1.5bn Cap Range Index (net dividends reinvested) in AUD unhedged prior to 01 Oct 2009.

#### market commentary

**MSCI World Small Cap Index (\$A unhedged): 3 month: 0.9%; 12 month: 11.7%**

Smaller companies underperformed larger companies for the quarter. However, over the year as a whole, smaller companies have performed far better, reflecting renewed appetite for risk among investors.

For the December quarter the small cap market was driven largely by the same themes influencing large cap markets. The Materials sector was in the lead, up 11.2%, while Financials performed the worst, down 3.8%. Over the quarter, the Nordic region performed the strongest, gaining 10.9%. This was followed by North America, up

5.2%. The Far East market was the weakest performing region, falling 3.0%, while Europe moved sideways over the period.

### sector commentary

The key development over the period was the introduction of two new managers, Pyramis and Dimensional Fund Advisors, to complement Arrowstreet.

Pyramis adopts a fundamental bottom-up research-driven investment approach with tight portfolio construction disciplines. The manager has access to the global research resources of the Fidelity group, and complements this with its own specific analysis so as to construct a diversified portfolio with a modest growth orientation.

Dimensional adopts a systematic approach to accessing the premium delivered in the smaller capitalisation segment of the sharemarket. A number of specifically designed trading techniques allows the manager to build portfolios that have smaller capitalisation than that of the benchmark without suffering from the high transaction costs often faced in accessing the market.

ipac was locked in some of the recent outperformance of Arrowstreet prior to appointing the two additional managers.

## Global Emerging Markets

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	6.7	21.3	21.3	45.9	-11.1	-0.2	11.6
Sector - Strategy 5	6.7	21.3	21.3	n/a	n/a	n/a	n/a
Benchmark	6.5	18.0	18.0	38.4	-9.8	0.6	12.4

### Note:

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

### market commentary

**MSCI EM Index in \$A: 3 month: 6.5%; 12 month: 38.4%**

In the fourth quarter of 2009 emerging markets performed better than developed markets. Latin America was the strongest performing region (up 8.9%). According to the OECD, Brazil (the region's largest economy) is expected to expand 6.1% in 2010. Growth in China, Brazil's biggest trading partner, is expected to climb to 10.2% in 2010, further bolstering the economy's strength. The weakest performing region was Asia which gained 5.6%. However, China, Asia's strongest economy performed well gaining 9.6%.

Emerging markets raised \$US39 billion in initial public offerings (IPOs) in the three months to 30 November. This outstrips IPOs from 23 industrialised nations by \$21.3 billion, reflecting investor appetite for emerging markets.

### sector commentary

The sector modestly outperformed the index in the December quarter. Stock selection remained the primary driver of performance, with a smaller contribution from country allocation.

During 2009 the sector benefited from an overweight exposure to Russia, Brazil, Mexico and South Africa. These markets enjoyed high double digit returns as a result of cyclical sector stock performance.

The sector's exposure to interest rate sensitive names was reduced over the December quarter, with most portfolio activity concentrated in Asia and Latin America. The 12 month forward expected earnings base continues to steadily expand from a low starting point, favouring the long term investor in emerging markets equities.

The sector diversified its manager exposure during the December quarter with the funding of a mandate to GMO. The manager employs predominantly a quantitative process with judgemental input at both the country allocation and stock selection levels. Country and stock selection are expected to add value.

## Alternative Growth

	3 mths %	6 mths %	Fin YTD %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Sector	6.3	14.2	14.2	n/a	n/a	n/a	n/a
Sector - Strategy 5	6.1	14.3	14.3	n/a	n/a	n/a	n/a

### Alternative Growth

The sector's exposure to mortgage backed bonds provided a strong positive return for the quarter. Investors have benefited from the 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 makes it an attractive opportunity for the sector.

Global listed infrastructure contributed positively to the sector's return. Standout performers were holdings in two Australian toll road operators - Transurban and ConnectEast. The proposed takeover of Transurban by two Canadian pension funds underpinned its rise. ConnectEast was buoyed by solid November traffic but sentiment was further charged by the possibility of a bid. Public Thoroughfares, Pipelines and Electric-Transmission 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 each manager.

fund manager	Notes
<b>Australian cash</b>	
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.
<b>Alternative Income</b>	
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.
<b>Australian Fixed Interest</b>	
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.
<b>Global Fixed Interest</b>	
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.
<b>Alternative Defensive</b>	
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 by 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 that over time 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 Listed 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 Listed 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. They employ a strong research base and implement their portfolios in a disciplined way.
Lazard	Lazard has a fundamental, relative value driven approach and a 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.
Maple-Brown Abbott	MBA is a fundamental, valuation oriented manager, with a long term investment horizon. The valuation driven approach generally gives the portfolio a defensive and lower beta over time.

### 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	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.
Epoch	Epoch is an active, fundamental bottom-up manager. They seek to invest in high quality companies generating free cash flows to pay high and stable dividends and repay debt and buy back stocks to enhance shareholder yields. Portfolios tend to have an inherent defensive tilt.
International Shares Index	This is comprised of Vanguard and BGI Fission. This fund aims to deliver index returns.

### Global 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.
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Dimensional Fund Advisors (DFA)	DFA uses a unique process which brings broad small cap exposure to the sector. The manager systematically constructs portfolios that are designed to capture size premia from stocks that are smaller than those in the benchmark. Smaller sized stocks tend to be less liquid, and this premium is captured systematically through patient trade execution.
Pyramis Global Advisors (Pyramis)	Pyramis is the wholly owned US institutional asset management subsidiary of Fidelity Management & Research Company. Pyramis aims to generate active returns by using its vast resources of analysts to evaluate ideas in a fundamental, bottom-up way. The manager brings a modest growth tilt which offsets the value style tilt of Arrowstreet.
<b>Global Emerging Markets</b>	
Esemplia Emerging Markets	Esemplia (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.
GMO	GMO adopts systematic research and portfolio construction approaches, combining valuation and momentum disciplines to identify countries and stocks that are mis-priced. Rigorous risk controls are employed, with the aim of minimising unintended, exposures. The strategy combines a top-down systematic approach to country selection, drawing on quantitative and qualitative value, momentum and fundamental signals, and a bottom up systematic approach to security selection using valuation, momentum and quality factors. The majority of value added is expected to derive from superior country allocation decisions.
<b>Alternative Growth</b>	
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

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## summary of investment activity since 1 July 2005

Date	sector	change	rationale
May 08	International shares	Currency exposure introduced – DIS 5	<ul style="list-style-type: none"> <li>~ ipac has reduced the level of currency hedging of the international shares component in DIS 5 from 100% hedged to 50% hedged.</li> <li>~ ipac believes that the introduction of currency exposure is appropriate at this point to reduce potential portfolio volatility and diversification.</li> </ul>
Sept 08	International Shares	Enhancements to the international shares sector	<ul style="list-style-type: none"> <li>~ 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.</li> <li>~ 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.</li> <li>~ 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.</li> <li>~ 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.</li> </ul>
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> <ul style="list-style-type: none"> <li>~ increased exposure to alternative investments</li> <li>~ introduction of International Smaller Companies and Global Emerging Market Equities into DIS 1</li> <li>~ continued evolution of DIS 5.</li> </ul> <p>The enhancements will be phased in gradually, taking advantage of market opportunities and keeping market conditions in mind.</p>

Date	sector	change	rationale
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 addresses the skewness by market capitalisation of the sector, while still delivering active risk.</p> <p>This strategy seeks to capture active return more efficiently. The key improvements can be summarised as follows:</p> <ul style="list-style-type: none"> <li>~ ipac's Australian listed property sector has been divided into two mandates - Enhanced Leaders (approximately 70%) and High Conviction (30%).</li> <li>~ 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.</li> <li>~ 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.</li> </ul>
May 09	International Shares	Enhancements to the international shares sector of DIS 5	<p>Approximately 20 per cent of the international shares sector of DIS 5 has been allocated to Grant Samuel Epoch Investment Partners' (Epoch) Global Equity Shareholder Yield Strategy. Epoch is an active manager that will play a defensive role within international shares, and is expected to be more resilient in falling markets. In addition to incumbent managers Bernstein Value, LSV and index managers Vanguard and BGI, ipac appointed GMO, Enhanced Investment Technologies, Arrowstreet and Alliance Growth to the international shares sector. Each bring their own source of return and value-add, serving to further diversify the sector.</p>
July 09	Alternative Defensive	Investment with Oak Hill Advisors	<ul style="list-style-type: none"> <li>~ ipac has taken advantage of the market dislocation in credit markets to make an opportunistic investment in credit strategies.</li> <li>~ 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.</li> </ul>
Aug 09	Australian Fixed Interest and Australian Cash	Appointed Macquarie and removed AllianceBernstein and BGI	<ul style="list-style-type: none"> <li>~ 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.</li> <li>~ Macquarie Funds Group (Macquarie) has been appointed to manage both the Australian Fixed Interest and Australian Cash</li> </ul>

Date	sector	change	rationale
Aug 09	Alternative Growth	Investment with TCW	<p>sectors. Macquarie replaces AllianceBernstein and BGI.</p> <p>~ 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.</p>
Aug 09	Alternative Growth	Investment with TCW	<p>~ Allocations to Alternative Defensive and Alternative Growth increase diversification of our portfolios and enable us to capture new sources of return.</p> <p>~ We are building out our alternatives exposure by making small, opportunistic investments.</p> <p>~ 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.</p>
Sept 09	Australian Shares	Completion of Australian Shares Review	<p>~ ipac has reviewed the Australian shares sector and implemented enhancements that seek to continue to outperform the 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>

Date	sector	change	rationale
Nov 10	Global Smaller Companies	Introduction of manager diversification in Global Smaller Companies	<ul style="list-style-type: none"> <li>~ Earlier in 2009, ipac allocated a greater proportion of the International Shares weighting in the diversified portfolios to Global Smaller Companies.</li> <li>~ ipac appointed appoint Pyramis Global Advisors and Dimensional Fund Advisors to provide the sector with: <ul style="list-style-type: none"> <li>~ more diversification of risk and volatility</li> <li>~ greater breadth of ideas and sources of return</li> </ul> </li> </ul>
Nov 10	Global Emerging Markets	Addition of a new manager in Global Emerging Markets	<ul style="list-style-type: none"> <li>~ ipac increased the allocation to Global Emerging Markets in the diversified portfolios, with the aim of improving diversification and capturing a greater breadth of investment opportunities.</li> <li>~ The increased scale now available has enabled ipac to appoint GMO.</li> <li>~ The global emerging markets strategy managed by GMO is predominantly a quantitative process with supplementary judgemental input at both the country allocation and stock selection levels. The strategy has a value orientation but also incorporates momentum for diversification purposes.</li> </ul>

# current manager allocations

asset class	manager	Div 1-4	Div 5
		allocation	allocation
		%	%
Australian Cash	Macquarie	100.0	100.0
Alternative Income	PIMCO	100.0	100.0
Australian Fixed Interest	Macquarie	100.0	100.0
Global Fixed Interest	BlackRock	49.0	0.0
	PIMCO	51.0	100.0
Alternative Defensive	Prisma Global Multi-Strategy Fund	54.0	54.0
	BGI Multi-Opp Fund	28.9	28.9
	Oak Hill Fund	8.5	8.5
	Macquarie	8.6	8.6
Australian Listed Property	Enhanced Leaders Index	65.9	65.9
	Perennial	34.1	34.1
Global Listed Property	CBRE	18.7	38.5
	LaSalle	19.2	20.2
	Global Property Index	62.2	41.3
Australian Shares	BGI	38.7	30.0
	Lazard	18.2	19.2
	GMO	24.2	18.8
	Schroders	19.0	14.7
	Maple-Brown Abbott	0.0	17.3
International Shares (Unhedged)	Enhanced Investment Technologies	14.6	10.0
	Alliance Growth	15.5	10.6
	Arrowstreet	10.7	7.3
	GMO	17.8	12.2
	Bernstein	18.2	12.5
	LSV	9.1	6.3
	Epoch	0.0	24.7
International Shares (Hedged)	International Shares Index	14.2	16.4
	Enhanced Investment Technologies	14.4	9.8
	Alliance Growth	15.3	10.5
	Arrowstreet	10.5	7.2
	GMO	17.6	12.0
	Bernstein	17.9	12.3
	LSV	9.0	6.2
Global Smaller Companies	Epoch	0.0	22.9
	International Shares Index	15.2	19.2
	Arrowstreet	38.9	38.9
Global Emerging Markets	Dimensional	20.9	20.9
	Pyramis Global Advisors	40.3	40.3
	Esemplia Emerging Markets	53.8	53.8
Alternative Growth	GMO	46.2	46.2
	Global Listed Infrastructure	79.9	81.2
	TCW Asset Management	20.1	18.8

## 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.

# current asset allocations

asset class	Div No 1 %	Div No 2 %	Div No 3 %	Div No 4 %	Div No 5 %
Australian Cash	20.4%	2.7%	1.8%	1.7%	1.6%
Alternative Income	19.8%	8.6%	4.5%	0.0%	6.8%
Australian Fixed Interest	14.6%	7.7%	2.2%	0.0%	6.2%
Global Fixed Interest	12.1%	6.9%	1.8%	0.0%	5.7%
Alternative Defensive	2.8%	3.4%	5.9%	5.3%	22.9%
<b>Defensive Assets</b>	<b>69.6%</b>	<b>29.3%</b>	<b>16.1%</b>	<b>7.0%</b>	<b>43.2%</b>
Australian Listed Property	1.8%	3.5%	3.3%	2.4%	3.2%
Global Listed Property	2.6%	3.3%	4.5%	2.9%	2.9%
Australian Shares	12.4%	31.7%	36.9%	38.1%	25.1%
International Shares (Unhedged)	3.8%	11.1%	13.7%	17.9%	8.9%
International Shares (Hedged)	5.0%	13.0%	16.8%	21.8%	10.8%
Global Smaller Companies	1.0%	1.8%	2.8%	3.6%	1.3%
Global Emerging Markets	0.8%	2.8%	2.7%	2.9%	1.6%
Alternative Growth	3.0%	3.4%	3.1%	3.3%	3.1%
<b>Growth Assets</b>	<b>30.4%</b>	<b>70.7%</b>	<b>83.9%</b>	<b>93.0%</b>	<b>56.8%</b>

## 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.

## top 10 holdings - Diversified Investment Strategies 1 - 4

Australian Shares		% sector	International Shares		% sector
1	BHP BILLITON LTD	11.0%	ROYAL DUTCH SHELL		12%
2	CMNWLTH BK OF AUST	7.1%	BP PLC		12%
3	WESTPAC BKG CORP	6.2%	APPLE INC		11%
4	NATL AUSTRALIA BK	5.3%	JOHNSON + JOHNSON		11%
5	AUST +NZ BANK GRP	5.1%	SANOFI AVENTIS		11%
6	TELSTRA CORP	3.4%	EXXON MOBIL CORP		10%
7	WOOLWORTHS LTD	3.0%	GLAXOSMITHKLINE		10%
8	WESFARMERS	2.8%	GOLDMAN SACHS GROUP INC		10%
9	RIOTINTO LIMITED	2.5%	MICROSOFT CORP		0.9%
10	WESTFIELD GROUP	2.1%	BANCO SANTANDER SA		0.9%

Australian Listed Property		% sector	Global Listed Property		% sector
1	WESTFIELD GROUP	41.7%	SIMON PPTY GROUP INC NEW		6.0%
2	STOCKLAND	14.8%	UNIBAIL RODAMCO		5.3%
3	GPT GROUP	7.6%	VORNADORLTY TR		3.2%
4	DEXUS PROPERTY GP	6.5%	PUBLIC STORAGE		3.0%
5	MIRVAC GROUP	6.1%	AVALONBAY CMNTYS INC		2.2%
6	CFS RETAIL PROP	5.9%	BOSTON PPTYS INC		2.2%
7	GOODMAN GROUP	5.5%	BRITISH LAND CO		2.0%
8	COMMONWEALTH PROPE	2.8%	HCP INC		1.9%
9	ING OFFICE FUND	2.7%	EQUITY RESIDENTIAL		1.9%
10	MACQUARIE OFFICE	1.5%	WESTFIELD GROUP		1.8%

## top 10 holdings - Diversified Investment Strategy 5

Australian Shares		% sector	International Shares		% sector
1	BHP BILLITON LTD	10.0%	BP PLC		12%
2	WESTPAC BKG CORP	6.3%	JOHNSON +JOHNSON		11%
3	NATL AUSTRALIA BK	5.9%	EXXON MOBIL CORP		10%
4	CMNWLTH BK OF AUST	5.5%	MICROSOFT CORP		10%
5	AUST +NZ BANK GRP	5.5%	ROYAL DUTCH SHELL		10%
6	TELSTRA CORP	4.2%	APPLE INC		10%
7	WESFARMERS	2.8%	VODAFONE GROUP		0.9%
8	RIO TINTO LIMITED	2.7%	SANOFI AVENTIS		0.9%
9	WOOLWORTHS LTD	2.3%	BANCO SANTANDER SA		0.8%
10	SUNCORP METWAY	2.1%	GLAXOSMITHKLINE		0.8%

Australian Listed Property		% sector	Global Listed Property		% sector
1	WESTFIELD GROUP	41.7%	SIMON PPTY GROUP INC NEW		6.3%
2	STOCKLAND	14.8%	UNIBAIL RODAM CO		5.5%
3	GPT GROUP	7.6%	VORNADO RLTY TR		3.5%
4	DEXUS PROPERTY GP	6.5%	WESTFIELD GROUP		3.2%
5	MIRVAC GROUP	6.1%	PUBLIC STORAGE		3.1%
6	CFS RETAIL PROP	5.9%	AVALONBAY CMNTYS INC		2.3%
7	GOODMAN GROUP	5.4%	BRITISH LAND CO		2.3%
8	COMMONWEALTH PROPE	2.8%	BOSTON PPTYS INC		2.0%
9	ING OFFICE FUND	2.7%	HCP INC		1.9%
10	MACQUARIE OFFICE	1.5%	STOCKLAND		1.9%

# sector allocations vs benchmark - Diversified Investment Strategies 1 - 4

## Australian Shares – portfolio vs benchmark (by sector)

sector	% allocation	% S&P/ASX 300
CONSUMER DISCRETIONARY	6.0%	3.9%
CONSUMER STAPLES	7.5%	8.4%
ENERGY	5.7%	7.5%
FINANCIALS EXCLUDING PROPERTY TRUSTS	33.0%	33.0%
HEALTH CARE	3.2%	3.4%
INDUSTRIALS	8.1%	6.8%
INFORMATION TECHNOLOGY	0.8%	0.8%
LISTED PROPERTY TRUSTS	3.8%	5.9%
MATERIALS	26.8%	25.2%
TELECOMMUNICATION SERVICES	4.1%	3.7%
UTILITIES	0.9%	1.3%

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

	International Shares		Global Fixed Interest	
	% allocation	% MSCI	% allocation	% Barclays Capital Global Aggregate Index
NORTH AMERICA	50.3%	54.9%	48.6%	42.4%
EUROPE (EXCLUDING UK)	23.7%	22.1%	33.2%	31.5%
UK	12.5%	10.9%	5.0%	5.3%
ASIA (EXCLUDING JAPAN)	2.8%	1.9%	5.2%	2.1%
JAPAN	7.3%	10.2%	7.7%	17.2%
OTHER	3.4%	0.0%	0.0%	0.0%
EMERGING MARKETS	0.0%	0.0%	0.3%	1.5%

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

sector	% allocation	% MSCI
CONSUMER DISCRETIONARY	13.6%	9.5%
CONSUMER STAPLES	7.6%	10.0%
ENERGY	10.4%	11.0%
FINANCIALS INCLUDING PROPERTY TRUSTS	18.4%	20.6%
HEALTH CARE	12.5%	10.2%
INDUSTRIALS	10.5%	10.7%
INFORMATION TECHNOLOGY	15.0%	12.2%
MATERIALS	6.3%	6.6%
TELECOMMUNICATION SERVICES	3.9%	4.6%
UTILITIES	1.7%	4.7%

**Note:**

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

### Australian Fixed Interest – portfolio vs benchmark (by sector)

type of security	% allocation	% UBSA Composite Bond Index
GOVERNMENT	18.8%	26.3%
SEMI GOVERNMENT	24.3%	32.2%
CORPORATE / OTHER	56.9%	41.6%

### Global Fixed Interest – portfolio vs benchmark (by sector)

sector	% allocation	% Barclays Capital Global Aggregate Index
ASSET BACKED / OTHER	24.3%	19.2%
CORPORATE	37.0%	16.4%
GOVERNMENT	38.7%	64.4%

### Australian Listed Property - portfolio vs benchmark (by sector)

	% allocation	% S&P/ASX 300 A-REIT Index
COMMERCIAL	7.0%	7.4%
DIVERSIFIED	36.3%	37.7%
HOTEL	0.0%	0.0%
INDUSTRIAL	6.8%	7.3%
RETAIL	49.2%	47.6%
OTHER	0.7%	0.0%

### Global Listed Property - portfolio vs benchmark (by country)

	% allocation	% UBS Global Property Investors Index
NORTH AMERICA	57.5%	52.4%
EUROPE EXCLUDING UK	14.9%	15.2%
UK	9.5%	8.1%
JAPAN	5.2%	5.0%
ASIA EX JAPAN	12.3%	19.4%
OTHER	0.6%	0.0%

### Global Emerging Markets - portfolio vs benchmark (by country)

	% allocation	% MSCI EM Index
LATIN AMERICA	21.1%	23.9%
ASIA EX JAPAN	32.8%	55.7%
EUROPE / MIDDLE EAST / AFRICA/OTHER	46.2%	20.4%

**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	8.1%	3.9%
CONSUMER STAPLES	8.2%	8.4%
ENERGY	5.3%	7.5%
FINANCIALS EXCLUDING PROPERTY TRUSTS	31.3%	33.0%
HEALTH CARE	3.8%	3.4%
INDUSTRIALS	8.4%	6.8%
INFORMATION TECHNOLOGY	0.8%	0.8%
LISTED PROPERTY TRUSTS	3.7%	5.9%
MATERIALS	24.2%	25.2%
TELECOMMUNICATION SERVICES	5.3%	3.7%
UTILITIES	0.8%	1.3%

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

	International Shares		Global Fixed Interest	
	% allocation	% MSCI	% allocation	% Barclays Capital Global Aggregate Index
NORTH AMERICA	51.1%	54.9%	44.3%	42.4%
EUROPE (EXCLUDING UK)	23.4%	22.1%	34.6%	31.5%
UK	13.5%	10.9%	6.6%	5.3%
ASIA (EXCLUDING JAPAN)	2.4%	1.9%	6.6%	2.1%
JAPAN	6.6%	10.2%	7.3%	17.2%
OTHER	3.1%	0.0%	0.0%	0.0%
EMERGING MARKETS	0.0%	0.0%	0.6%	1.5%

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

sector	% allocation	% MSCI
CONSUMER DISCRETIONARY	10.9%	9.5%
CONSUMER STAPLES	8.1%	10.0%
ENERGY	9.0%	11.0%
FINANCIALS	27.7%	20.6%
HEALTH CARE	10.0%	10.2%
INDUSTRIALS	9.4%	10.7%
INFORMATION TECHNOLOGY	11.8%	12.2%
MATERIALS	5.3%	6.6%
TELECOMMUNICATION SERVICES	4.5%	4.6%
UTILITIES	3.4%	4.7%

**Note:**

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

### Australian Fixed Interest – portfolio vs benchmark (by sector)

type of security	% allocation	% UBSA Composite Bond Index
GOVERNMENT	18.8%	26.3%
SEMI GOVERNMENT	24.3%	32.2%
CORPORATE / OTHER	56.9%	41.6%

### Global Fixed Interest – portfolio vs benchmark (by sector)

sector	% allocation	% Barclays Capital Global Aggregate Index
ASSET BACKED / OTHER	18.6%	19.2%
CORPORATE	44.4%	16.4%
GOVERNMENT	36.9%	64.4%

### Australian Listed Property - portfolio vs benchmark (by sector)

	% allocation	% S&P/ASX 300 A-REIT Index
COMMERCIAL	7.0%	7.4%
DIVERSIFIED	36.3%	37.7%
HOTEL	0.0%	0.0%
INDUSTRIAL	6.8%	7.3%
RETAIL	49.2%	47.6%
OTHER	0.7%	0.0%

### Global Listed Property - portfolio vs benchmark (by country)

	% allocation	% UBS Global Property Investors Index
NORTH AMERICA	55.5%	52.4%
EUROPE (EXCLUDING UK)	14.0%	15.2%
UK	9.5%	8.1%
JAPAN	4.5%	5.0%
ASIA (EXCLUDING JAPAN)	15.8%	19.4%
OTHER	0.7%	0.0%

### Global Emerging Markets - portfolio vs benchmark (by country)

	% allocation	% MSCI EM Index
LATIN AMERICA	21.1%	23.9%
ASIA EX JAPAN	32.8%	55.7%
EUROPE / MIDDLE EAST / AFRICA/OTHER	46.2%	20.4%

**Note:**

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

# historical financial year returns – income & growth

Fund Name	Date	1 Yr rolling rtn % pa (net)	1 Yr Growth %	1 Yr Distribution %
Diversified Investment Strategy No. 1	30-Jun-02	1.32%	-4.33%	5.65%
Diversified Investment Strategy No. 1	30-Jun-03	5.20%	-1.18%	6.38%
Diversified Investment Strategy No. 1	30-Jun-04	8.56%	6.60%	1.96%
Diversified Investment Strategy No. 1	30-Jun-05	11.00%	1.76%	9.23%
Diversified Investment Strategy No. 1	30-Jun-06	9.44%	1.68%	7.75%
Diversified Investment Strategy No. 1	30-Jun-07	10.25%	-1.62%	11.87%
Diversified Investment Strategy No. 1	30-Jun-08	-2.87%	-10.91%	8.04%
Diversified Investment Strategy No. 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%
Diversified Investment Strategy No. 5	30-Jun-07	18.48%	5.55%	12.93%
Diversified Investment Strategy No. 5	30-Jun-08	-11.17%	-18.60%	7.43%
Diversified Investment Strategy No. 5	30-Jun-09	-17.35%	-19.57%	2.22%