



Portfolio Watch

an update on the Diversified Investment Strategies

dealing with the debt hangover

edition: 30 June 2010



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dealing with the debt hangover

"Over the past two years companies around the globe have acted aggressively to lower their cost base, and this provides scope for a strong rebound in earnings."

Jeff Rogers, ipac Chief Investment Officer

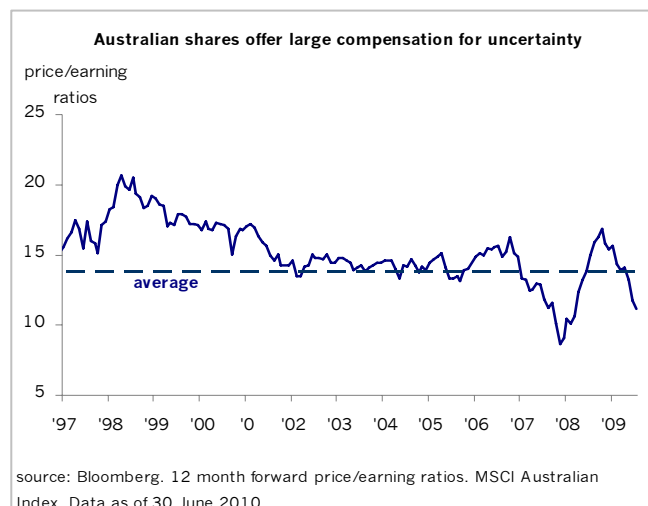


Over the past few months it feels like the past has come back to haunt us. Heightened volatility and weakening share prices in the June quarter have served as an unwelcome reminder of the dark days of the GFC. Concern has emerged on a number of fronts. The sovereign debt crisis in Europe has been the major focus for investors, while a slowdown in activity in the US has compounded investor fears as the impact of government stimulus begins to wane. At the same time, policy measures by Chinese authorities targeted at reducing house price speculation in a number of major cities has led to fear of deceleration in Asian economies and a subsequent weakness in commodity prices. In Australia, sentiment has further soured following the clumsy introduction of a potential new tax on mining companies.

Many of the issues that are of concern to investors derive from a common source - the unsustainable build up of debt in advanced economies. While the GFC marked the end of the debt driven party for households and business, the debt obligations have not disappeared from national economies which continue to operate with a debt hangover. In many cases government balance sheets have taken up the challenge of sustaining economic growth. While some investors are concerned that governments may not have done enough to underwrite short term growth, others caution that the medium term growth outlook is being undermined by the build up of too much government debt. There is no easy or painless resolution of these fiscal problems and each country will need to find its own strategy shaped by prevailing economic circumstances, national attitudes and the strength of the mandate of its political leaders.

Against this backdrop it might be surprising to learn that global economic activity remains remarkably robust and corporate profitability is very healthy. Over the past two years companies around the globe have acted aggressively to lower their cost base, and this provides scope for a strong rebound in earnings - especially for those companies with sales exposure to emerging economies. Given the apparent disconnect between fiscal conditions and underlying corporate prospects it is reasonable to expect periodic swings in market prices. When macro-economic concerns dominate, as was the case in the June quarter, growth assets are likely to come under pressure, and we will need to rely on portfolio holdings in fixed interest and exposure to foreign currency to buttress returns. When investors turn their focus to corporate fundamentals we are likely to see a reversal of these movements and more favourable portfolio outcomes.

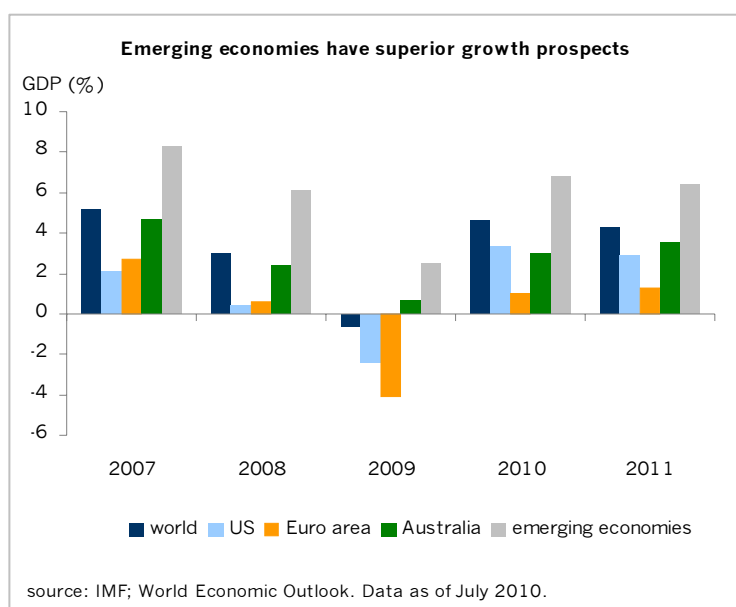
Given the attractive valuations in sharemarkets and our expectations that corporate earnings will continue to rebound, we are confident that ipac's portfolios are well positioned to deliver strong rates of return over the medium term. The following page outlines some of the areas where we are currently seeing particularly interesting opportunities.



where we are seeing opportunities

Interesting investment opportunities have at least one of the following attributes – diversifying return characteristics, compelling valuation, under appreciated cash flow prospects or a particularly skilful manager. The most exciting opportunities arise when several attributes are present at the same time.

Global emerging markets play a diversifying role within a global equity portfolio. At present, valuations of emerging market shares are in line with those of their global counterparts, notwithstanding the superior growth prospects of emerging economies (please see chart below). Late last year ipac increased the allocation to global emerging markets in the diversified portfolios and appointed GMO to complement incumbent manager Esemplia. In July, ipac will mandate Genesis Investment Management to seek out high quality growth opportunities in emerging economies. The appointment of additional managers offers a greater breadth of ideas and sources of return within the portfolio.



ipac continues to see opportunities in debt instruments where valuations are compelling. Last year ipac hired TCW, a mortgage specialist, to invest in the non-agency mortgage backed sector of the US market. These are debt instruments which are based on securitisations of US residential mortgages. Forced selling by leveraged players resulted in some of these securities trading at a deep discount to fair value. ipac continues to look for debt instruments in other sectors with good underlying asset quality which are trading at discounts on account of similar supply/demand dynamics.

portfolio activity

As manager of the Diversified Investment Strategies, ipac is constantly reviewing investments to ensure they remain on track to meet client objectives. This process involves conducting regular strategic asset allocation reviews and in-depth sector and manager reviews. The following table outlines key activity which has taken place in the portfolios over the past 12 months.

| Date | Activity | Benefit |
|----------------|---|---|
| | DIS 1 | |
| May-10 | Appointed managers with an income focus in Australian and international shares (Ankura Capital and Legg Mason in Australian and Epoch in international shares). Included an allocation in fixed interest to inflation linked bonds to be managed by Macquarie Investment Management. Made a small allocation to hybrid securities to be managed by Goldman Sachs JB Were. | Reduce overall portfolio volatility while maintaining long term return prospects. |
| Nov-09 | Global smaller companies Increased manager diversification by appointing Pyramis and Dimensional alongside incumbent manager Arrowstreet. | Increase diversification and lock in Arrowstreet's recent outperformance |
| Nov-09 | Global emerging markets Increased manager diversification by appointing GMO alongside incumbent manager Esemplia. | Increase diversification and add different sources of return |
| Oct-09 | Australian shares Enhanced sector strategy and changed managers to include BGI, Lazard, GMO and Schroders (and Maple Brown Abbott in the DIS 5 portfolio). | Achieve active return more consistently and efficiently |
| Aug-09 | Alternative growth Made an investment with TCW. This manager invests in a diversified portfolio of securities high up in the capital structure of private US mortgage securitisations. | Improve risk/return outcome of sector |
| Aug-09 | Australian fixed interest & Australian cash Evolved sector strategies and appointed Macquarie to manage both sectors in place of AllianceBernstein, Credit Suisse and BGI. | Take advantage of current opportunities and structural changes in fixed interest market |
| Jul-09 | Alternative defensive Made an investment with Oak Hill Advisors through its Credit Alpha Fund (offshore). | Take advantage of market dislocation in credit markets |
| Apr- Oct 09 | Strategic asset allocation Increased exposure to alternative growth and alternative defensive. Introduced global smaller companies and global emerging markets in DIS 1. | Improve portfolio risk/return outcomes |

how the Australian shares restructure will benefit portfolios

The concentration of the Australian sharemarket, where the top 10 stocks represent 50% of the benchmark's capitalisation, creates major challenges in portfolio construction. Firstly, it is difficult for active managers to gain a meaningful information advantage in these leading companies. Secondly, in positioning portfolios, managers reflect both their return outlook as well as their desire to manage risk relative to the benchmark. The restructure of the Australian shares sector encourages ipac's managers to focus on the former rather than the latter, and produces a sector which aims to:

- ~ provide differentiated insights that diversify sources of risk and return
- ~ spread active positions more evenly across the capitalisation spectrum of the benchmark
- ~ emphasise value add in mid and small cap stocks where skilled managers have an information advantage

portfolio themes

Diversified Investment Strategy No 1

For the 12 months to end June, the portfolio has delivered strong returns. This was largely due to good performance from debt markets, in particular corporate bonds. The portfolio's exposure to alternative income has been particularly beneficial to performance, participating in the strong recovery of credit markets. This sector has delivered in excess of 15% over the year.

Despite the expectations of rising cash rates in Australia, it was no surprise given the change in market sentiment that government bonds held their ground over the period. The UBSA Government Bond Index delivered 6.8% for the 12 months to end June 2010, while cash delivered 3.9%.

While the performance of the portfolio over the last two years compares favourably to peers, the pattern of returns has been more volatile than investors expected. ipac therefore added a number of new managers in May with more defensive strategies - the aim being to reduce overall portfolio volatility while maintaining long term return prospects. In Australian and international shares, new managers were added who have demonstrated a skill in building portfolios with an income focus. In fixed interest, the focus is on bond strategies that increase diversification, reduce interest rate risk and therefore decrease expected volatility.

ipac is currently reviewing the debt strategies, and considering restructuring the fixed interest sectors to improve their capacity to meet investment objectives in diversified portfolios. Key learnings from this review will be communicated over the coming quarter.

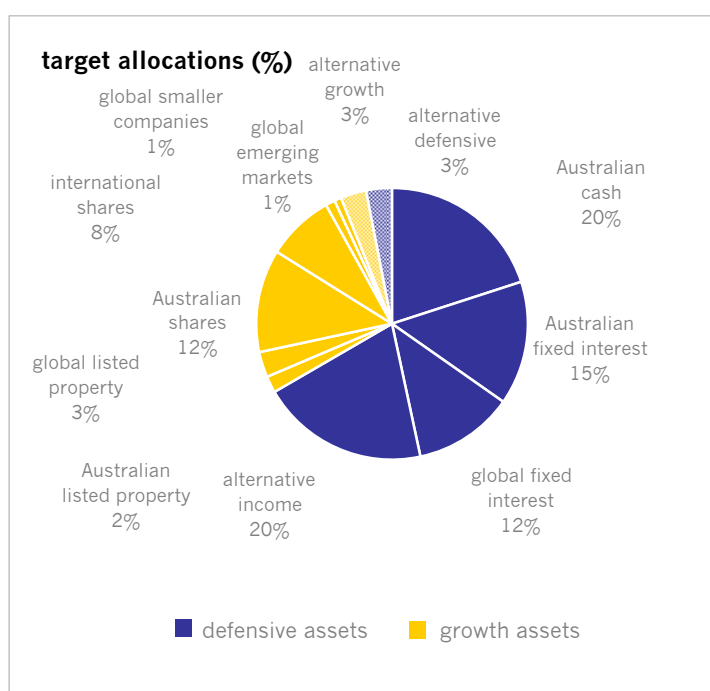
| net of fund fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|------------------|--------------|--------------|--------------|----------|----------|
| cumulative | 5.8 | 4.2 | 0.6 | 12.7 | -1.4 |

| net of fund fees | 2006 (%) | 2007 (%) | 2008 (%) | 2009 (%) | CYTD (%) |
|------------------|----------|----------|----------|----------|----------|
| discrete | 10.1 | 5.1 | -14.3 | 15.8 | 1.2 |

investment strategy

The portfolio aims to provide some growth over the short to medium term with smaller fluctuations in value than the other portfolios.

It does this by investing in a diversified mix of predominantly defensive assets such as cash and fixed interest using a range of specialist investment managers. A benchmark allocation of 30% will be invested in growth assets such as shares and listed property.



Diversified Investment Strategy No 2

The portfolio has delivered strong returns over the past 12 months and performed well against peers, recovering absolute and relative performance. Despite weakness in the June quarter, returns for the year have been positive in all the sectors the portfolio invests in, and most sectors have outperformed their respective benchmarks. Five year numbers are still below average, so we see opportunities in the period ahead for further reward in performance.

Diversification has been a positive influencer of performance over the period. In the June quarter, an exposure to foreign currency in international shares acted as a buffer when shares hedged to the Australian Dollar showed weakness. Over the year, exposure to global smaller companies and emerging markets has also benefited performance and provided an extra boost to returns.

Improving the diversification characteristics of the portfolio continues to be a key focus for ipac. Over the past year changes have been made to the Australian shares sector portfolio, including new managers and mandates and the termination of several managers, to achieve return more consistently and efficiently. In addition, manager diversification has been increased in global smaller companies and global emerging markets sector portfolios.

ipac is currently reviewing the debt strategies, and considering restructuring the fixed interest sectors to improve their capacity to meet investment objectives in diversified portfolios. Key learnings from this review will be communicated over the coming quarter.

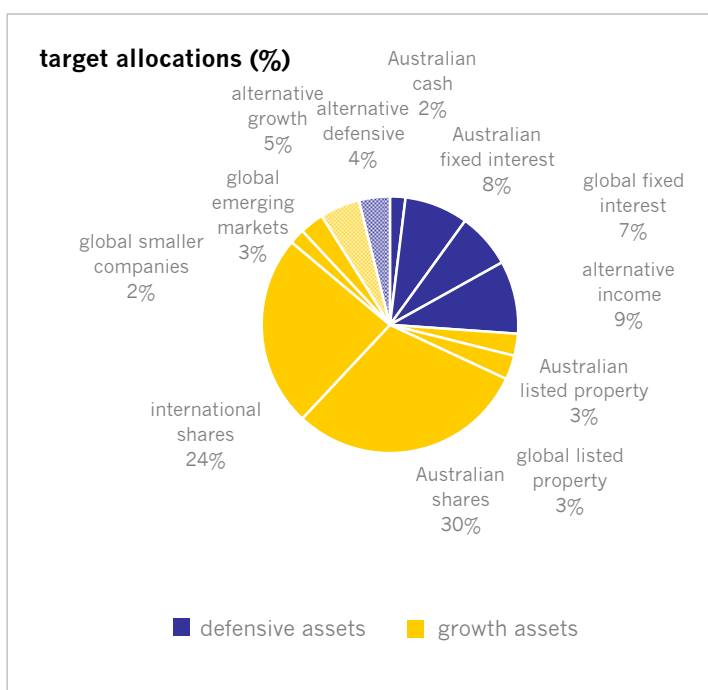
| net of fund fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|------------------|--------------|--------------|--------------|----------|----------|
| cumulative | 6.1 | 2.8 | -5.6 | 13.3 | -5.5 |

| net of fund fees | 2006 (%) | 2007 (%) | 2008 (%) | 2009 (%) | CYTD (%) |
|------------------|----------|----------|----------|----------|----------|
| discrete | 16.1 | 5.9 | -28.4 | 21.7 | -3.4 |

investment strategy

The portfolio aims to provide moderate growth over the medium to long term with moderate fluctuations in value likely.

It does this by investing in a diversified mix of growth and defensive assets using a range of specialist investment managers. Growth assets will have a benchmark allocation of 70%, with the balance in defensive assets such as cash and fixed interest.



Diversified Investment Strategy No 3

Despite weakness in the June quarter, returns for the year have been positive in all the sectors the portfolio invests in, and most sectors have outperformed their respective benchmarks. For the 12 months to June, the portfolio has delivered strong returns, although the dramatic losses experienced at the height of the GFC (and which are reflected in 2008 numbers) still show up in longer term performance.

The portfolio's 85% strategic exposure to growth assets, such as shares and listed property, has been particularly beneficial for performance over the past 12 months. Listed property has shown a particularly dramatic rebound, although the double digit returns over the past year have come from extremely depressed levels.

Diversification has been a positive influencer of performance for the portfolio. In the June quarter, an exposure to foreign currency in international shares acted as a buffer when shares hedged to the Australian Dollar showed weakness. Over the year, exposure to global smaller companies and emerging markets has also benefited performance and provided an extra boost to returns.

Improving the diversification characteristics of the portfolio continues to be a key focus for ipac. Over the past year the Australian shares sector portfolio has been enhanced to achieve active return more consistently and efficiently. In addition, manager diversification has been increased in global smaller companies and global emerging markets sector portfolios. ipac is currently reviewing the debt strategies, and considering restructuring the fixed interest sectors to improve their capacity to meet investment objectives in diversified portfolios. Key learnings from this review will be communicated over the coming quarter.

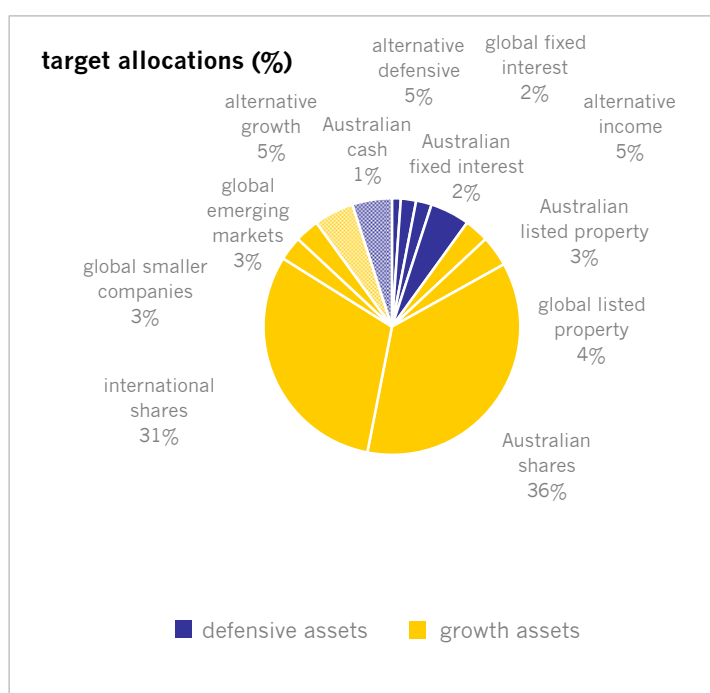
| net of fund fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|------------------|--------------|--------------|--------------|----------|----------|
| cumulative | 6.0 | 2.1 | -7.5 | 13.2 | -7.2 |

| net of fund fees | 2006 (%) | 2007 (%) | 2008 (%) | 2009 (%) | CYTD (%) |
|------------------|----------|----------|----------|----------|----------|
| discrete | 17.2 | 6.1 | -32.3 | 24.3 | -5.1 |

investment strategy

The portfolio aims to provide moderate to high growth over the long term with larger fluctuations in value likely when compared to other portfolios (excluding DIS 4).

It does this by investing in a diversified mix of primarily growth assets using a specialist range of investment managers. Growth assets will have a benchmark allocation of 85%, with the balance in defensive assets such as cash and fixed interest.



Diversified Investment Strategy No 4

Despite weakness in the June quarter, returns for the year have been positive in all the sectors the portfolio invests in, and most sectors have outperformed their respective benchmarks. For the 12 months to June, the portfolio has delivered strong returns, although the dramatic losses experienced at the height of the GFC (and which are reflected in 2008 numbers) still show up in longer term performance.

The portfolio's 95% strategic exposure to growth assets, such as shares and listed property, has been particularly beneficial for performance over the past 12 months. Listed property has shown a particularly dramatic rebound, although the double digit returns over the past year have come from extremely depressed levels.

Diversification has been a positive influencer of performance for the portfolio. In the June quarter, an exposure to foreign currency in international shares acted as a buffer when shares hedged to the Australian Dollar showed weakness. Over the year, exposure to global smaller companies and emerging markets has also benefited performance and provided an extra boost to returns.

Improving the diversification characteristics of the portfolio continues to be a key focus for ipac. Over the past year the Australian shares sector portfolio has been enhanced to achieve active return more consistently and efficiently. In addition, manager diversification has been increased in global smaller companies and global emerging markets sector portfolios.

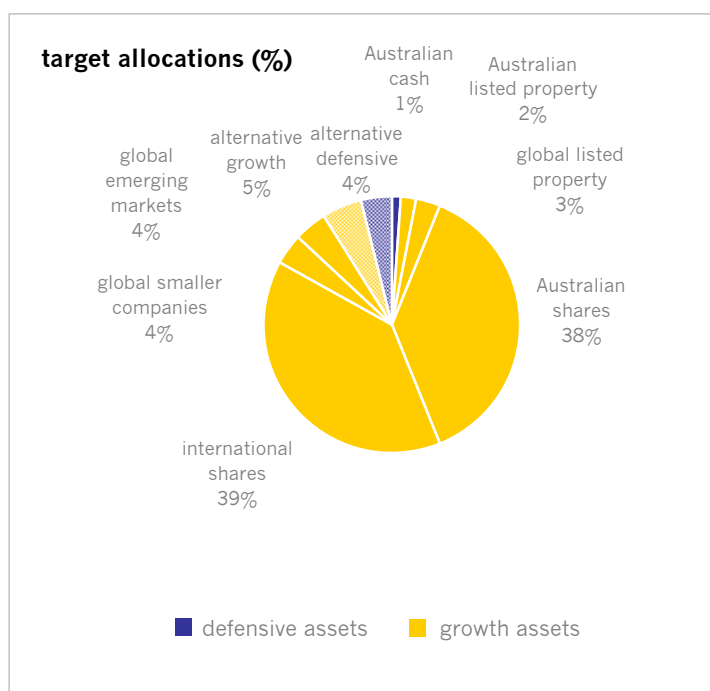
| net of fund fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|------------------|--------------|--------------|--------------|----------|----------|
| cumulative | 5.5 | 1.0 | -10.4 | 13.0 | -8.1 |

| net of fund fees | 2006 (%) | 2007 (%) | 2008 (%) | 2009 (%) | CYTD (%) |
|------------------|----------|----------|----------|----------|----------|
| discrete | 19.1 | 6.2 | -37.6 | 24.4 | -6.2 |

investment strategy

The portfolio aims to provide high growth over the long term with larger fluctuations in value likely when compared to other portfolios.

It does this by investing in a diversified mix of growth assets using a specialist range of investment managers. Growth assets will have a benchmark allocation of 95%, with the balance in alternative defensive and cash.



Diversified Investment Strategy No 5

This portfolio has rebounded strongly post the GFC. In the 12 months to 30 June, the portfolio captured the recovery of share markets with active management also contributing to a high return for the period. Exposure to domestic and global shares and listed property was positive for performance.

ipac increased the diversification of the portfolio during the year. Allocations were made to alternative growth, global smaller companies and global emerging markets, adding to the return and diversification of the portfolio. In addition, manager diversification was increased within shares, debt, alternative defensive and alternative growth sectors during the year.

ipac is currently reviewing the debt strategies within the portfolio, and considering restructuring the fixed interest sectors to improve their capacity to meet investment objectives in diversified portfolios. Key learnings from this review will be communicated over the coming quarter.

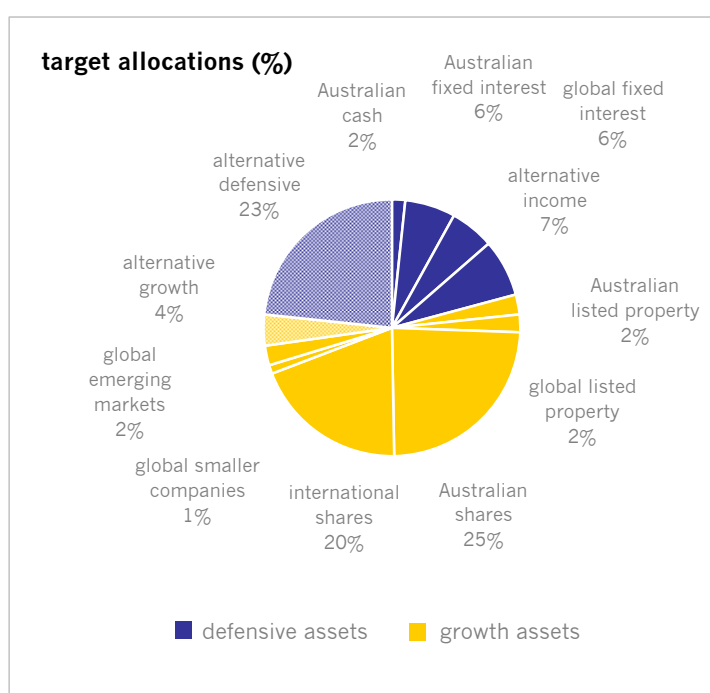
| net of fund fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|------------------|--------------|--------------|--------------|----------|----------|
| cumulative | n/a | n/a | -5.9 | 13.4 | -4.1 |

| net of fund fees | 2006 (%) | 2007 (%) | 2008 (%) | 2009 (%) | CYTD (%) |
|------------------|----------|----------|----------|----------|----------|
| discrete | 17.3 | 3.4 | -26.4 | 18.1 | -1.8 |

investment strategy

The portfolio aims to provide moderate growth over the medium to long term with moderate fluctuations in value likely.

It does this by investing in a diversified mix of growth and defensive assets using a range of specialist investment managers. Broad diversification including exposure to alternative investments is used to help reduce fluctuations. A benchmark allocation of 56% will be invested in growth assets and 44% will be invested in defensive.



portfolio performance summary

| net of fund fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|--------------------------------------|--------------|--------------|--------------|----------|----------|
| Diversified Investment Strategy No 1 | 5.8 | 4.2 | 0.6 | 12.7 | -1.4 |
| Diversified Investment Strategy No 2 | 6.1 | 2.8 | -5.6 | 13.3 | -5.5 |
| Diversified Investment Strategy No 3 | 6.0 | 2.1 | -7.5 | 13.2 | -7.2 |
| Diversified Investment Strategy No 4 | 5.5 | 1.0 | -10.4 | 13.0 | -8.1 |
| Diversified Investment Strategy No 5 | n/a | n/a | -5.9 | 13.4 | -4.1 |

| net of fund fees | 2006 (%) | 2007 (%) | 2008 (%) | 2009 (%) | CYTD (%) |
|--------------------------------------|----------|----------|----------|----------|----------|
| Diversified Investment Strategy No 1 | 10.1 | 5.1 | -14.3 | 15.8 | 1.2 |
| Diversified Investment Strategy No 2 | 16.1 | 5.9 | -28.4 | 21.7 | -3.4 |
| Diversified Investment Strategy No 3 | 17.2 | 6.1 | -32.3 | 24.3 | -5.1 |
| Diversified Investment Strategy No 4 | 19.1 | 6.2 | -37.6 | 24.4 | -6.2 |
| Diversified Investment Strategy No 5 | 17.3 | 3.4 | -26.4 | 18.1 | -1.8 |

Notes applying to pages 5 - 10:

Performance is net of all fund fees and calculated using month-end hard close exit prices.

Assumes distributions are reinvested and tax is not deducted.

Asset allocations may not add up to 100% due to rounding.

International exposures for diversified portfolios are generally fully hedged to the Australian Dollar, with the exception of global shares which has an approximate 50% currency hedge to the Australian Dollar.

analysis of sector performance

debt markets

what happened in the market

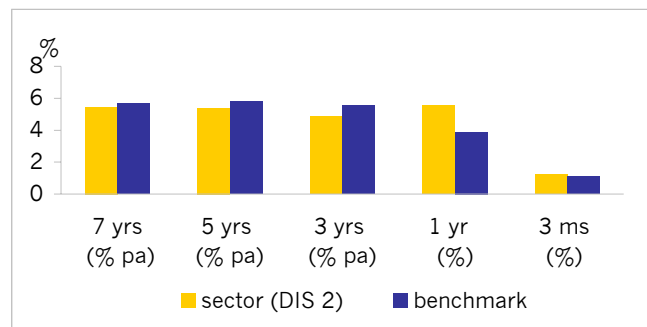
Australian cash made steady gains over the year as the Reserve Bank of Australia (RBA) started its policy tightening cycle. As the risk of serious economic contraction in Australia passed, the RBA moved to gradually lessen the degree of monetary stimulus put in place at the height of the GFC. The RBA raised rates on six occasions, ending the financial year at 4.5%.

Yields on government bonds generally contracted over the year (prices rose). Yields on the two year US Treasury fell 50 basis points, and 60 basis points for the 10 year bond. 10 year Australian bonds fell 43 basis points, while the two year bond fell 13 basis points. Continued unease over sovereign default in Europe and a possible double dip in global growth have driven investors to the safety of government bonds. Credit markets finished the year with healthy returns as liquidity concerns moderated. Realised and expected default rates also declined over the period.

what drove sector performance in the portfolios

Australian cash

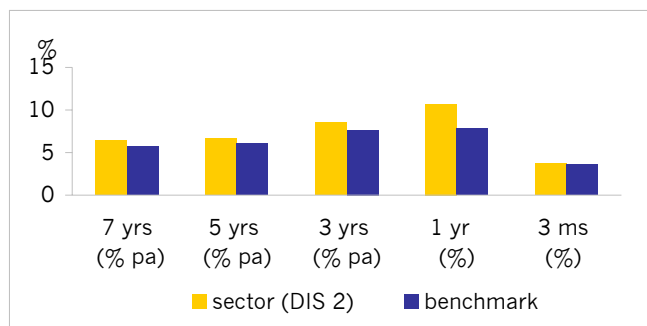
The sector portfolio outperformed the benchmark for the year. In August, Macquarie was appointed to the sector to replace AllianceBernstein. The sector portfolio aims to replicate the UBS Bank Bill Index. In the medium term, it is expected to closely resemble the risk and liquidity exposures of the index, however, over the short term the sector portfolio has retained a tilt towards corporate and securitised debt. This was a position already in place when the mandate moved to Macquarie.



| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|---------------|--------------|--------------|--------------|----------|----------|
| sector | 5.5 | 5.4 | 4.8 | 5.6 | 1.2 |
| benchmark | 5.7 | 5.8 | 5.6 | 3.9 | 1.1 |

Australian fixed interest

The sector portfolio significantly outperformed the benchmark for the year. Sector rotation and security selection within corporate bond markets was the biggest value add to performance. In August, Macquarie was appointed to manage the sector portfolio. 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).



| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|---------------|--------------|--------------|--------------|----------|----------|
| sector | 6.4 | 6.7 | 8.6 | 10.7 | 3.7 |
| benchmark | 5.8 | 6.1 | 7.7 | 7.9 | 3.6 |

Reflects performance of sectors underlying DIS 2.

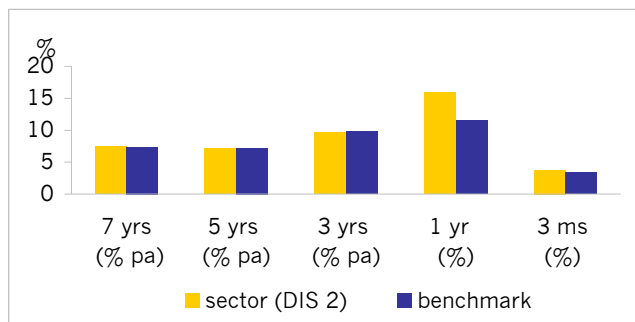
Figures are calculated by aggregating daily performance of underlying strategies using actual weights.

Benchmark details are provided on the final page of this document.

debt markets

global fixed interest

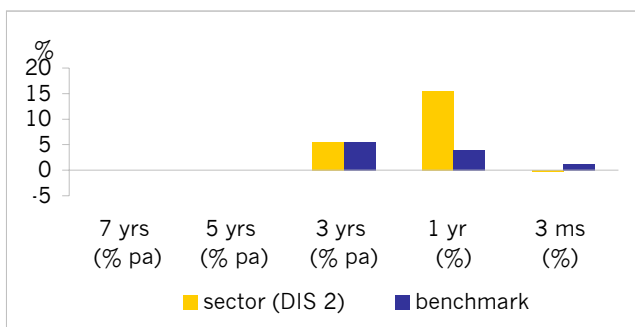
The sector portfolio outperformed the benchmark for the year. Exposure to corporate bond markets was the main driver of this strong performance. Each manager's active views on the global economy were positive for performance over the period, and provided a strong boost to relative returns as corporate bond spreads contracted. Duration and country selection were also positive contributors to performance.



| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|---------------|--------------|--------------|--------------|----------|----------|
| sector | 7.5 | 7.2 | 9.6 | 15.9 | 3.8 |
| benchmark | 7.4 | 7.2 | 9.8 | 11.5 | 3.4 |

alternative income

The sector portfolio significantly outperformed the benchmark for the year. Exposure to corporate bonds was the greatest value add as spreads contracted over the period, recovering absolute and relative performance. Bank spreads that had been trading at a large premium to industrials and utilities reversed course over the year, providing a large boost to the sector portfolio's performance. The sector portfolio also benefited from curve positions and relative value trades that take advantage of irregular yield curve shapes or the richness or cheapness of individual bonds.



| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|---------------|--------------|--------------|--------------|----------|----------|
| sector | n/a | n/a | 5.5 | 15.5 | -0.2 |
| benchmark | n/a | n/a | 5.6 | 3.9 | 1.1 |

Reflects performance of sectors underlying DIS 2.

Figures are calculated by aggregating daily performance of underlying strategies using actual weights.

Benchmark details are provided on the final page of this document.

listed property

what happened in the market

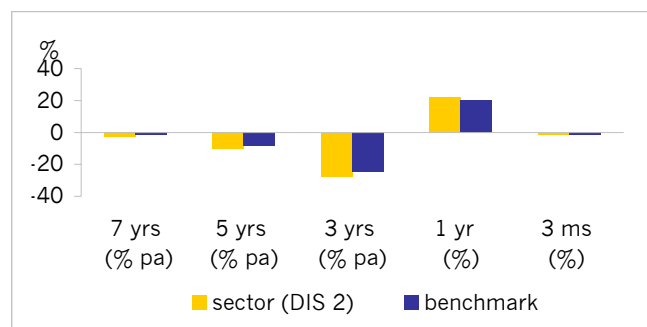
Australian listed property has emerged from the GFC restructured and recapitalised. Many trusts have offloaded non-core assets, raised capital and reduced gearing. The sector has made strong gains over the past 12 months, (+20.3%), but the pain of a 42.1% drop the previous financial year still remains. There have been a number of mergers and acquisitions during the year. For example, Charter Hall Group took on the bulk of Macquarie Group's listed real estate operation early this year.

Global listed property performed well for the year, up 39.1%. Most of these gains occurred at the start of the financial year, with the market giving back some of these gains in the June quarter. Performance across regions varied for the year. Most regions posted positive returns, however Japan was down 0.8%. The US led the way (up 25.2%) benefiting from signs of an improvement in economic activity.

what drove sector performance in the portfolios

Australian listed property

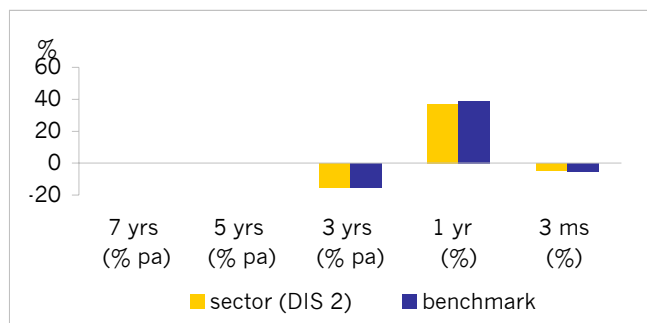
The sector portfolio outperformed its benchmark for the twelve months to 30 June, with its innovative structure delivering to its objective. The enhanced leaders mandate for the largest trusts in the index performed in line with its benchmark. The higher conviction mandate covering a wider universe of property trusts added value consistently over the year. Strong gains were made during the booming market of 2009 while value was found in more defensive holdings during the turbulence of 2010.



| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|---------------|--------------|--------------|--------------|----------|----------|
| sector | -3.0 | -10.4 | -27.4 | 22.2 | -1.0 |
| benchmark | -1.5 | -8.3 | -24.3 | 20.3 | -1.5 |

global listed property

The sector portfolio underperformed its benchmark for the twelve months to 30 June. Security selection drove the poor relative performance which was accrued early in the financial year when the sector portfolio lagged the booming market. Stock selection in Hong Kong, notably overweight exposures to Chinese developers, detracted value. The spectre of tightening by the Chinese government and other measures to cool speculation and curtail mortgage lending spooked investors. An underweight to the US and stock selection in US REITs also detracted from relative performance.



| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|---------------|--------------|--------------|--------------|----------|----------|
| sector | n/a | n/a | -15.1 | 37.2 | -4.6 |
| benchmark | n/a | n/a | -15.2 | 39.1 | -4.8 |

Reflects performance of sectors underlying DIS 2.

Figures are calculated by aggregating daily performance of underlying strategies using actual weights.

Benchmark details are provided on the final page of this document.

Australian shares

what happened in the market

The past 12 months have seen the Australian sharemarket post its first positive financial year since 2006-07. Most of the positive performance occurred between July and November. Since then, shares have generally been range bound, although the June quarter saw shares fall 11.2% amid concerns of a double dip in growth, a slowdown in China and uncertainty surrounding the proposed introduction of a mining tax.

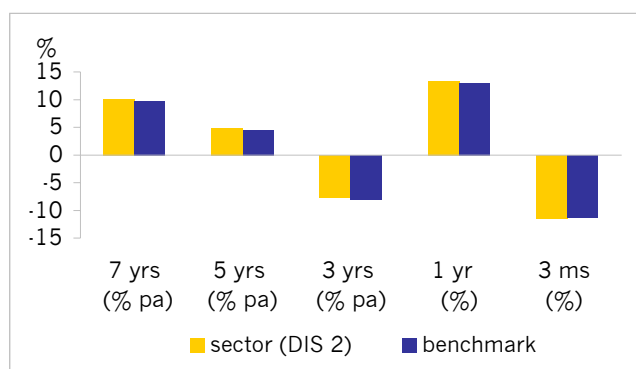
Over the year, Materials and Banks posted the strongest gains as the global economy bounced back from the GFC. Top performers included CBA (up 31%), ANZ (up 37%) and BHP Billiton (up 11%). In recent months, however, renewed concerns about the outlook for global growth have tempered their run. The worst performing sectors over the year have been Energy and Telecommunications.

The Australian sharemarket's recent correction has it trading below its average price earnings ratio, although significant uncertainty surrounds the 'earnings' part of this measure.

what drove sector performance in the portfolios

Australian shares

The sector portfolio outperformed its benchmark for the 12 months to June. At the start of the financial year the sector portfolio benefited from the continuing rally in shares. Positions in areas of the market that had been hit hard by the financial crisis, such as banks, helped performance over the period. The market shifted its attention several times during the period from rewarding shorter term momentum plays to long term fundamentals. The restructuring of the Australian share sector in September helped to provide the portfolio with a better balance and wider spread of active positions.



| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|---------------|--------------|--------------|--------------|----------|----------|
| sector | 10.0 | 4.8 | -7.6 | 13.4 | -11.4 |
| benchmark | 9.7 | 4.5 | -8.0 | 13.1 | -11.2 |

Reflects performance of sectors underlying DIS 2.

Figures are calculated by aggregating daily performance of underlying strategies using actual weights.

Benchmark details are provided on the final page of this document.

global shares

what happened in the market

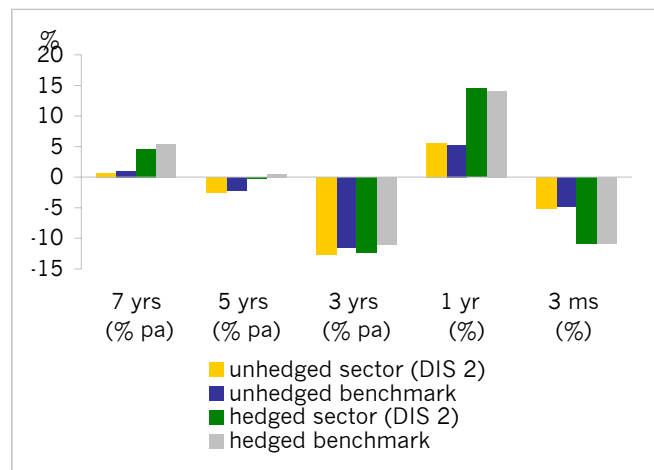
Unhedged international shares finished the year up 5.2%. Most of these gains came earlier in the year in response to signs of a recovery in the US. As the year progressed, however, news from the US became more mixed, and shares were largely range bound. The sovereign debt issue in Europe became the main focus of markets in the second half of the year, and by the June quarter shares declined sharply (down 4.8%) as sentiment turned more negative. While China's announcement of its exchange rate reform provided temporary market support, policy measures targeted at reducing house price speculation in a number of major cities led to fear of deceleration in Asian economies and a subsequent weakness in commodity prices.

The best performing sectors for the year were Materials, Industrials and Consumer Discretionary. The performance of these sectors was linked to the potential for global economic recovery which showed signs of emerging earlier in the year. Overall, smaller cap stocks performed better than large caps, and emerging markets outperformed developed. This reflected the improved sentiment witnessed early in the year where investors were willing to take on more risk.

what drove sector performance in the portfolios

international shares

The sector portfolio outperformed its benchmark for the year. There were no particularly strong drivers at the sector portfolio level as the environment over the last year has been quite mixed. The sector portfolio performed well in the first half of the financial year, participating in some of the continued rebound in more cyclical and levered companies that had become attractively priced as a result of the financial crisis and as fundamentals began to re-establish themselves. As the market became more volatile over the remainder of the period this created a more difficult backdrop to deliver consistent added value. Some of the key positive contributions to outperformance came from an exposure to undervalued stocks with good price momentum which enjoyed a strong rebound. These were particularly prevalent in LSV's and Arrowstreet's portfolios.



| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|-----------------|--------------|--------------|--------------|----------|----------|
| unhedged sector | 0.7 | -2.5 | -12.5 | 5.5 | -5.0 |
| unhedged b'mark | 1.0 | -2.2 | -11.5 | 5.2 | -4.8 |
| hedged sector | 4.6 | -0.2 | -12.3 | 14.5 | -10.9 |
| hedged b'mark | 5.4 | 0.5 | -11.0 | 14.1 | -10.9 |

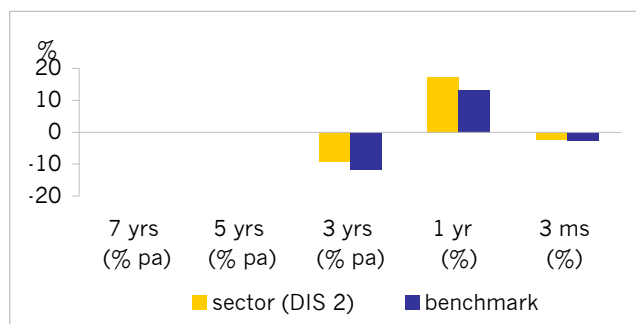
Reflects performance of sectors underlying DIS 2.
 Figures are calculated by aggregating daily performance of underlying strategies using actual weights.
 Benchmark details are provided on the final page of this document.

global shares

global smaller companies

The sector portfolio strongly outperformed the benchmark for the year. Performance was largely driven by Arrowstreet's stock selection from valuation and price momentum signals. Some of these stocks enjoyed a strong rebound after having been sold down heavily during the financial crisis as markets shunned riskier assets.

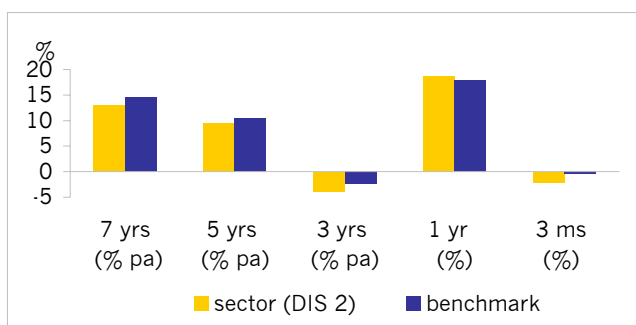
During the year, Pyramis and Dimensional were appointed as additional managers in order to diversify further the manager insights in the sector portfolio.



| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|---------------|--------------|--------------|--------------|----------|----------|
| sector | n/a | n/a | -9.1 | 17.1 | -2.2 |
| benchmark | n/a | n/a | -11.6 | 13.1 | -2.7 |

global emerging markets

The sector portfolio outperformed its benchmark for the year. Security selection was the primary driver of relative performance, and the net impact of country allocation was also positive. Notable holdings which added value were in Mexico and Brazil where cyclical sector stocks drove performance. Mexican contributors include Cemex, the Mexican cement producer that is now one of the top building materials companies in the world. During the year the sector portfolio diversified its exposure with the funding of a mandate to GMO. This strategy is predominantly a quantitative process with judgemental input, and is expected to complement Esemplia's investment approach.



| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|---------------|--------------|--------------|--------------|----------|----------|
| sector | 13.0 | 9.4 | -3.8 | 18.6 | -2.1 |
| benchmark | 14.5 | 10.4 | -2.4 | 17.9 | -0.4 |

Reflects performance of sectors underlying DIS 2.

Figures are calculated by aggregating daily performance of underlying strategies using actual weights.

Benchmark details are provided on the final page of this document.

alternative investments

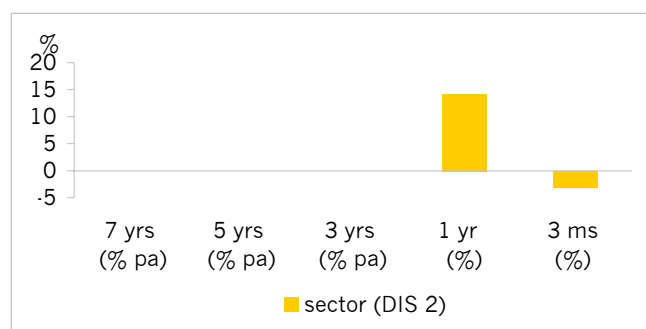
Alternative investments encompass a wide variety of investment opportunities that fall outside the mainstream areas of shares, fixed interest and property. While investments in traditional asset classes are the appropriate foundation for client portfolios, the addition of alternatives will improve the expected risk-return profile of portfolios by providing increased diversification through low correlation to mainstream asset classes. ipac has categorised alternative investments into two sectors: alternative growth and alternative defensive.

| | alternative growth | alternative defensive |
|------------------------------|----------------------|--------------------------|
| role in portfolio | return seeking | risk reducing |
| expected return | similar to shares | between bonds and shares |
| expected volatility | two thirds of shares | one third of shares |
| correlation to shares | moderate | low |
| main driver of return | market exposure | manager skill |

what drove sector performance in the portfolios

alternative growth

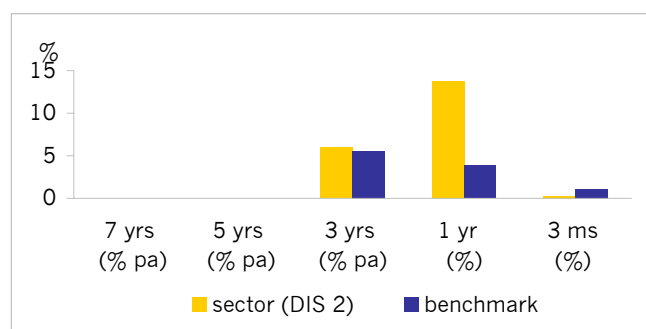
The sector portfolio delivered strong returns for the year. Non-agency mortgage backed securities benefited from an improvement in the US housing market and government initiatives such as the Public-Private Investment Program. Going forward, the sector portfolio should continue to benefit from attractive yields and positive technicals in this area of the market. ipac continues to research attractive investment opportunities for this sector portfolio, and hopes to communicate details of new investments over the next few months.



| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|---------------|--------------|--------------|--------------|----------|----------|
| sector | n/a | n/a | n/a | 14.2 | -3.0 |

alternative defensive

The sector portfolio performed well for the year. All managers performed strongly, delivering returns in the double digits. Prisma's allocation to event, credit-distressed and fixed interest strategies was well rewarded. For BlackRock, its fixed interest global long-short strategy was the greatest contributor to performance. Oak Hill's portfolio with its net long credit exposure benefited from a strong performance in corporate bond markets.



| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|---------------|--------------|--------------|--------------|----------|----------|
| sector | n/a | n/a | 6.0 | 13.7 | 0.3 |
| benchmark | n/a | n/a | 5.6 | 3.9 | 1.1 |

Reflects performance of sectors underlying DIS 2.

Figures are calculated by aggregating daily performance of underlying strategies using actual weights.

Benchmark details are provided on the final page of this document.

additional sector commentary

Diversified Investment Strategy No 1

In May, a number of changes were made to the Australian shares, international shares and fixed interest sectors within this particular portfolio. Changes were made in order to maintain return prospects while reducing overall portfolio volatility. In Australian shares, Ankura Capital and Legg Mason were appointed, and in international shares Epoch was appointed to the sector. These managers have demonstrated skills in building portfolios with an income focus. In fixed interest, the focus is on bond strategies that reduce interest rate risk and therefore volatility. Existing Australian fixed interest manager, Macquarie Investment Management, will add a lower duration portfolio to the existing exposure. Macquarie will also manage an allocation to inflation linked bonds as part of the new mandate. An allocation to inflation linked bonds together with a small allocation to hybrid securities, managed by Goldman Sachs J B Were, provide diversifying sources of return.

Diversified Investment Strategy No 5

Three managers play a more defensive role within the Australian and international share sectors in this portfolio, complementing the core manager line-ups.

Maple Brown-Abbott (MBA) and Lazard play a defensive role within the Australian shares sector by focusing on value style stocks. These managers added 0.6% and 1.3% respectively above the benchmark for the quarter.

Similarly, Epoch Global Equity Shareholder Yield Strategy plays a defensive role within international shares. By targeting companies that offer higher earnings certainty, high “shareholder yield” and positive underlying growth of free cash-flow, the manager is expected to be more resilient in falling markets. The manager has achieved this, outperforming the benchmark by 4.2% for the June quarter – a period when shares declined sharply. The manager also added value above the benchmark for the 12 month period.

benchmarks

| | |
|---------------------------------------|--|
| Australian cash | UBSA Bank Bill Index |
| Australian fixed interest | UBSA Composite Bond Index |
| global fixed interest | Barclays Capital Global Aggregate (Hedged) Index in AUD |
| alternative income | UBSA Bank Bill Index |
| Australian listed property | S&P/ASX 300 A-REIT Index |
| ¹ global listed property | UBS Global Investors (Hedged) Index in AUD |
| Australian shares | S&P/ASX 300 Accumulation Index |
| international shares | MSCI World ex Australia (Unhedged and Hedged in AUD) Indices |
| ² global smaller companies | MSCI World Small Cap Index in AUD |
| global emerging markets | MSCI Emerging Markets Index in AUD |
| alternative growth | n/a |
| alternative defensive | UBSA Bank Bill Index |

¹ The global listed property index commenced in January 2006. Sector benchmark prior to January 2006 is the customised UBS Global Investors Index (net div reinvested) in \$A hedged/Salomon Property & Utilities Index.

² The global smaller companies index commenced in October 2009. Sector benchmark prior to this date is the S&P/Citigroup World <US\$1.5bn Cap Range Index (net div reinvested) in AUD unhedged, which commenced in May 2006. Sector benchmark prior to May 2006 was the customised S&P/Citigroup World <US\$1.5bn Cap Range Index (net div reinvested) in AUD unhedged/Citigroup Fixed Market Cap <\$1.5bn (World ex EM) in AUD.

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

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Supplementary Data

to accompany Portfolio Watch

Diversified Investment Strategies

edition: 30 June 2010






































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portfolios provide access to specialist managers

The Diversified Investment Strategies draw upon the specialist skills of some of the best fund managers in the world. The portfolios provide access to a number of different investment styles and approaches, which means certain managers will perform more strongly at different points in the investment cycle. By carefully blending a combination of managers with different approaches, the aggregate portfolio has minimal unintended style bias, and benefits from a potentially smoother investment journey over a full market cycle.

| | |
|---|---|
| <p>Australian cash</p>  | <p>Australian fixed interest</p>  |
| <p>global fixed interest</p>   | <p>alternative income</p>   |
| <p>Australian listed property</p>   | <p>global listed property</p>    |
| <p>Australian shares</p>        | <p>international shares</p>        |
| <p>global smaller companies</p>    | <p>global emerging markets</p>   |
| <p>alternative growth</p>   | <p>alternative defensive</p>    |

portfolios provide access to specialist managers

| target allocations (%) | DIS 1 | DIS 2 | DIS 3 | DIS 4 | DIS 5 |
|--|--------------|--------------|--------------|--------------|--------------|
| Australian cash | | | | | |
| Macquarie | 20.0 | 2.0 | 1.0 | 1.0 | 1.6 |
| Australian fixed interest | | | | | |
| Macquarie | 4.4 | 8.0 | 2.0 | | 6.4 |
| Macquarie (incl. inflation linked bonds) | 10.2 | | | | |
| global fixed interest | | | | | |
| BlackRock | 6.0 | 3.5 | 1.0 | | |
| PIMCO | 6.0 | 3.5 | 1.0 | | 5.6 |
| alternative income | | | | | |
| PIMCO | 19.6 | 9.0 | 5.0 | | 7.2 |
| Goldman Sachs (hybrids) | 0.4 | | | | |
| Australian listed property | | | | | |
| Ankura | 0.5 | | | | |
| Legg Mason | 0.5 | | | | |
| Perennial | 0.4 | 1.2 | 1.2 | 0.8 | 1.0 |
| Vanguard | 0.6 | 1.8 | 1.8 | 1.2 | 1.4 |
| global listed property | | | | | |
| CBRE | 0.8 | 0.8 | 1.0 | 0.8 | 0.6 |
| LaSalle | 0.8 | 0.8 | 1.0 | 0.8 | 0.6 |
| Vanguard | 1.5 | 1.5 | 2.0 | 1.5 | 1.2 |
| Australian shares | | | | | |
| Ankura | 3.2 | | | | |
| BlackRock Australia | 2.4 | 12.0 | 14.4 | 15.2 | 7.7 |
| GMO | 1.4 | 7.2 | 8.6 | 9.1 | 4.6 |
| Lazard | 1.1 | 5.4 | 6.5 | 6.8 | 4.7 |
| Legg Mason | 3.2 | | | | |
| MBA | | | | | 3.6 |
| Schroder | 1.1 | 5.4 | 6.5 | 6.8 | 3.5 |
| international shares | | | | | |
| AB Growth | 1.1 | 3.7 | 4.7 | 5.9 | 2.1 |
| AB Value | 1.2 | 4.2 | 5.5 | 6.9 | 2.4 |
| Arrowstreet | 0.8 | 2.6 | 3.3 | 4.2 | 1.5 |
| Enhanced Investment Technologies | 1.0 | 3.6 | 4.6 | 5.8 | 2.0 |
| Epoch | 1.0 | | | | 4.2 |
| GMO | 1.2 | 4.3 | 5.5 | 6.9 | 2.4 |
| International shares - index | 1.1 | 3.6 | 4.7 | 5.9 | 3.9 |
| LSV | 0.6 | 2.1 | 2.7 | 3.4 | 1.2 |
| global smaller companies | | | | | |
| Arrowstreet | 0.4 | 0.8 | 1.2 | 1.6 | 0.5 |
| Dimensional | 0.2 | 0.4 | 0.6 | 0.8 | 0.3 |
| Pyramis | 0.4 | 0.8 | 1.2 | 1.6 | 0.5 |
| global emerging markets | | | | | |
| Esemplia | 0.5 | 1.5 | 1.5 | 2.0 | 1.2 |
| GMO | 0.5 | 1.5 | 1.5 | 2.0 | 1.2 |
| alternative growth | | | | | |
| TCW | 1.0 | 2.0 | 3.0 | 3.0 | 1.6 |
| Vanguard | 2.0 | 3.0 | 2.0 | 2.0 | 2.4 |
| alternative defensive | | | | | |
| BlackRock Australia | 0.9 | 1.2 | 1.5 | 1.2 | 6.9 |
| Macquarie | 0.2 | 0.3 | 0.4 | 0.3 | 1.6 |
| Oak Hill | 0.3 | 0.4 | 0.5 | 0.4 | 2.2 |
| Prisma | 1.6 | 2.2 | 2.7 | 2.2 | 12.5 |
| total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

International exposures are generally fully hedged to the Australian Dollar, except for global shares which has approximately 50% currency hedge to the Australian Dollar.

International shares - index has an allocation to BlackRock and Vanguard.

manager performance for the Diversified Investment Strategies

DIS 2 sectors

Australian cash

| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|-------------------------------------|--------------|--------------|--------------|----------|----------|
| sector (DIS 2) | 5.5 | 5.4 | 4.8 | 5.6 | 1.2 |
| benchmark | 5.7 | 5.8 | 5.6 | 3.9 | 1.1 |
| managers within this sector: | | | | | |
| Macquarie | n/a | n/a | n/a | n/a | 1.2 |

Australian fixed interest

| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|--|--------------|--------------|--------------|----------|----------|
| sector (DIS 2) | 6.4 | 6.7 | 8.6 | 10.7 | 3.7 |
| benchmark | 5.8 | 6.1 | 7.7 | 7.9 | 3.6 |
| managers within this sector: | | | | | |
| Macquarie | n/a | n/a | n/a | n/a | 3.7 |
| the following manager(s) also appear in other portfolios: | | | | | |
| Macquarie* | n/a | n/a | n/a | n/a | n/a |

* additional investment for DIS 1.

global fixed interest

| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|-------------------------------------|--------------|--------------|--------------|----------|----------|
| sector (DIS 2) | 7.5 | 7.2 | 9.6 | 15.9 | 3.8 |
| benchmark | 7.4 | 7.2 | 9.8 | 11.5 | 3.4 |
| managers within this sector: | | | | | |
| BlackRock | 6.7 | 6.2 | 8.0 | 13.2 | 3.6 |
| PIMCO | 8.3 | 8.1 | 11.3 | 17.5 | 3.9 |

alternative income

| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|--|--------------|--------------|--------------|----------|----------|
| sector (DIS 2) | n/a | n/a | 5.5 | 15.5 | -0.2 |
| benchmark | n/a | n/a | 5.6 | 3.9 | 1.1 |
| managers within this sector: | | | | | |
| PIMCO | n/a | n/a | 6.3 | 13.6 | 0.2 |
| the following manager(s) also appear in other portfolios: | | | | | |
| Goldman Sachs (hybrids) | n/a | n/a | n/a | n/a | n/a |

Reflects performance of sectors underlying DIS 2.

Figures are calculated by aggregating daily performance of underlying strategies using actual weights.

Benchmark details are provided on the final page of this document.

manager performance for the Diversified Investment Strategies

Australian listed property

| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|----------------|--------------|--------------|--------------|----------|----------|
| sector (DIS 2) | -3.0 | -10.4 | -27.4 | 22.2 | -1.0 |
| benchmark | -1.5 | -8.3 | -24.3 | 20.3 | -1.5 |

managers within this sector:

Due to the nature of this sector's construction manager performance is not reported on an individual basis.

global listed property

| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|----------------|--------------|--------------|--------------|----------|----------|
| sector (DIS 2) | n/a | n/a | -15.1 | 37.2 | -4.6 |
| benchmark | n/a | n/a | -15.2 | 39.1 | -4.8 |

managers within this sector:

| | | | | | |
|----------|-----|-----|-------|------|------|
| CBRE | n/a | n/a | -13.3 | 32.0 | -4.7 |
| LaSalle | n/a | n/a | -17.9 | 38.0 | -4.8 |
| Vanguard | n/a | n/a | n/a | 39.3 | -4.7 |

Australian shares

| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|----------------|--------------|--------------|--------------|----------|----------|
| sector (DIS 2) | 10.0 | 4.8 | -7.6 | 13.4 | -11.4 |
| benchmark | 9.7 | 4.5 | -8.0 | 13.1 | -11.2 |

managers within this sector:

| | | | | | |
|---------------------|------|-----|------|------|-------|
| BlackRock Australia | 9.7 | 4.4 | -9.1 | 12.9 | -11.1 |
| GMO | n/a | n/a | n/a | n/a | -12.6 |
| Lazard | n/a | n/a | n/a | n/a | -10.6 |
| Schroder | 12.3 | 7.0 | -5.0 | 17.3 | -11.0 |

the following manager(s) also appear in other portfolios:

| | | | | | |
|------------|-----|-----|-----|-----|-------|
| Ankura | n/a | n/a | n/a | n/a | n/a |
| Lazard* | n/a | n/a | n/a | n/a | -9.9 |
| Legg Mason | n/a | n/a | n/a | n/a | n/a |
| MBA | n/a | n/a | n/a | n/a | -10.6 |

* additional Lazard investment for DIS 5.

Reflects performance of sectors underlying DIS 2.

Figures are calculated by aggregating daily performance of underlying strategies using actual weights.

Benchmark details are provided on the final page of this document.

manager performance for the Diversified Investment Strategies

international shares - unhedged

| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|--|--------------|--------------|--------------|----------|----------|
| unhedged sector (DIS 2) | 0.7 | -2.5 | -12.5 | 5.5 | -5.0 |
| unhedged benchmark | 1.0 | -2.2 | -11.5 | 5.2 | -4.8 |
| managers within this sector: | | | | | |
| AB Growth | n/a | -5.4 | -16.8 | 3.5 | -6.3 |
| AB Value | -0.2 | -4.7 | -18.4 | 3.3 | -8.1 |
| Arrowstreet | n/a | n/a | n/a | 10.1 | -1.9 |
| Enhanced Investment Techn | n/a | n/a | n/a | 4.8 | -3.5 |
| GMO | n/a | -1.0 | -9.1 | 5.5 | -4.5 |
| International shares - index* | n/a | n/a | n/a | 5.5 | -4.7 |
| LSV | n/a | -0.9 | -11.6 | 10.3 | -4.3 |
| the following manager(s) also appear in other portfolios: | | | | | |
| Epoch | n/a | n/a | n/a | 5.7 | -0.6 |

* includes an allocation to BlackRock and Vanguard.

global smaller companies

| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|-------------------------------------|--------------|--------------|--------------|----------|----------|
| sector (DIS 2) | n/a | n/a | -9.1 | 17.1 | -2.2 |
| benchmark | n/a | n/a | -11.6 | 13.1 | -2.7 |
| managers within this sector: | | | | | |
| Arrowstreet | n/a | n/a | -8.5 | 19.8 | -1.0 |
| Dimensional | n/a | n/a | n/a | n/a | -2.1 |
| Pyramis | n/a | n/a | n/a | n/a | -3.8 |

global emerging markets

| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|-------------------------------------|--------------|--------------|--------------|----------|----------|
| sector (DIS 2) | 13.0 | 9.4 | -3.8 | 18.6 | -2.1 |
| benchmark | 14.5 | 10.4 | -2.4 | 17.9 | -0.4 |
| managers within this sector: | | | | | |
| Esemplia | n/a | 9.2 | -4.1 | 18.0 | -1.8 |
| GMO | n/a | n/a | n/a | n/a | -2.7 |

Reflects performance of sectors underlying DIS 2.

Figures are calculated by aggregating daily performance of underlying strategies using actual weights.

Benchmark details are provided on the final page of this document.

manager performance for the Diversified Investment Strategies

alternative growth

| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|----------------|--------------|--------------|--------------|----------|----------|
| sector (DIS 2) | n/a | n/a | n/a | 14.2 | -3.0 |

managers within this sector:

Due to the nature of this sector's construction manager performance is not reported on an individual basis.

alternative defensive

| gross of fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|----------------|--------------|--------------|--------------|----------|----------|
| sector (DIS 2) | n/a | n/a | 6.0 | 13.7 | 0.3 |
| benchmark | n/a | n/a | 5.6 | 3.9 | 1.1 |

managers within this sector:

Due to the nature of this sector's construction manager performance is not reported on an individual basis.

Reflects performance of sectors underlying DIS 2.

Figures are calculated by aggregating daily performance of underlying strategies using actual weights.

Benchmark details are provided on the final page of this document.

asset allocations

| actual allocations (%) | DIS 1 | DIS 2 | DIS 3 | DIS 4 | DIS 5 |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Australian cash | 21.1 | 2.1 | 1.4 | 1.6 | 1.7 |
| Australian fixed interest | 15.4 | 8.4 | 2.1 | 0.0 | 6.4 |
| global fixed interest | 11.6 | 7.9 | 2.9 | 0.0 | 6.0 |
| alternative income | 19.5 | 8.8 | 4.5 | 0.0 | 7.1 |
| Australian listed property | 2.1 | 3.4 | 3.2 | 2.4 | 3.3 |
| global listed property | 3.5 | 3.1 | 4.7 | 3.0 | 2.2 |
| Australian shares | 13.0 | 28.6 | 36.0 | 37.5 | 23.6 |
| international shares | 7.5 | 24.6 | 30.4 | 40.0 | 20.0 |
| global smaller companies | 0.9 | 2.2 | 2.9 | 3.9 | 1.0 |
| global emerging markets | 1.0 | 3.3 | 2.5 | 2.9 | 1.7 |
| alternative growth | 2.8 | 3.8 | 3.6 | 3.9 | 3.6 |
| alternative defensive | 1.7 | 3.5 | 5.9 | 4.8 | 23.5 |
| total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

International exposures are generally fully hedged to the Australian Dollar, with the exception of global shares which has an approximate 50% currency hedge. Allocations as at quarter end, and may not add up to 100% due to rounding.

geographic exposure

| international shares | sector (%) | benchmark (%) |
|----------------------|--------------|---------------|
| North America | 53.2 | 55.9 |
| Europe (excl UK) | 22.4 | 20.1 |
| UK | 11.4 | 11.5 |
| Asia (excl Japan) | 2.1 | 2.0 |
| Japan | 7.9 | 10.6 |
| Emerging markets | 0.0 | 0.0 |
| Other | 3.0 | 0.0 |
| total | 100.0 | 100.0 |

| global listed property | sector (%) | benchmark (%) |
|------------------------|--------------|---------------|
| North America | 61.1 | 56.8 |
| Europe (excl UK) | 12.3 | 12.8 |
| UK | 7.8 | 6.5 |
| Japan | 5.1 | 5.4 |
| Asia ex-Japan | 12.9 | 18.5 |
| Other | 0.7 | 0.0 |
| total | 100.0 | 100.0 |

| global emerging markets | sector (%) | benchmark (%) |
|-------------------------|--------------|---------------|
| Latin America | 20.7 | 22.8 |
| Asia ex-Japan | 47.3 | 59.3 |
| EMEA & other | 32.0 | 17.9 |
| total | 100.0 | 100.0 |

| global fixed interest | sector (%) | benchmark (%) |
|-----------------------|--------------|---------------|
| North America | 57.8 | 45.4 |
| Europe (excl UK) | 23.7 | 27.0 |
| UK | 5.2 | 5.2 |
| Asia | 4.6 | 2.0 |
| Japan | 8.3 | 18.7 |
| Emerging markets | 0.4 | 1.7 |
| Other | 0.0 | 0.0 |
| total | 100.0 | 100.0 |

industry exposure

| Australian shares | sector (%) | benchmark (%) |
|------------------------|--------------|---------------|
| Consumer Discretionary | 6.2 | 4.3 |
| Consumer Staples | 8.0 | 8.9 |
| Energy | 5.5 | 7.3 |
| Financials excl LPTs | 30.9 | 32.0 |
| Healthcare | 3.3 | 3.6 |
| Industrials | 8.2 | 6.2 |
| IT | 1.2 | 0.8 |
| LPTs | 4.4 | 6.3 |
| Materials | 27.0 | 25.4 |
| Telecoms | 4.1 | 4.0 |
| Utilities | 1.2 | 1.4 |
| total | 100.0 | 100.0 |

| International shares | sector (%) | benchmark (%) |
|------------------------|--------------|---------------|
| Consumer Discretionary | 14.0 | 10.4 |
| Consumer Staples | 9.4 | 10.1 |
| Energy | 9.0 | 10.3 |
| Financials excl LPTs | 16.3 | 20.3 |
| Healthcare | 13.4 | 10.1 |
| Industrials | 11.4 | 11.3 |
| IT | 16.0 | 12.5 |
| Materials | 5.5 | 6.6 |
| Telecoms | 3.1 | 4.1 |
| Utilities | 1.8 | 4.3 |
| total | 100.0 | 100.0 |

| Australian listed property | sector (%) | benchmark (%) |
|----------------------------|--------------|---------------|
| Commercial | 7.1 | 7.0 |
| Diversified | 36.2 | 36.9 |
| Hotel | 0.0 | 0.0 |
| Industrials | 7.6 | 7.7 |
| Retail | 46.8 | 48.4 |
| Other | 2.3 | 0.0 |
| total | 100.0 | 100.0 |

| Australian fixed interest | sector (%) | benchmark (%) |
|---------------------------|--------------|---------------|
| Corporate | 46.5 | 16.6 |
| Government | 16.3 | 28.6 |
| Semi-government | 30.4 | 31.9 |
| Other | 6.8 | 22.9 |
| total | 100.0 | 100.0 |

top holdings

| Australian shares | allocation (%) |
|--------------------|----------------|
| BHP BILLITON LTD | 10.6 |
| CMNWLTH BK OF AUST | 6.7 |
| WESTPAC BKG CORP | 6.0 |
| AUST + NZ BANK GRP | 5.4 |
| NATL AUSTRALIA BK | 5.3 |
| WOOLWORTHS LTD | 3.5 |
| TELSTRA CORP | 3.4 |
| WESFARMERS | 2.6 |
| RIO TINTO LIMITED | 2.5 |
| WESTFIELD GROUP | 2.2 |
| WOODSIDE PETROLEUM | 1.9 |
| SUNCORP METWAY | 1.9 |
| AMCOR LIMITED | 1.7 |
| ORIGIN ENERGY | 1.5 |
| QBE INS GROUP | 1.4 |
| BHP BILLITON PLC | 1.4 |
| CSL LIMITED | 1.3 |
| NEWCREST MINING | 1.2 |
| BRAMBLES LTD | 1.2 |
| ORICA LTD | 1.1 |

| international shares | allocation (%) |
|---------------------------|----------------|
| APPLE INC | 1.5 |
| JOHNSON + JOHNSON | 1.3 |
| ROYAL DUTCH SHELL | 1.0 |
| VODAFONE GROUP | 0.9 |
| ASTRAZENECA | 0.9 |
| MICROSOFT CORP | 0.9 |
| SANOFI AVENTIS | 0.8 |
| PEPSICO INC | 0.8 |
| INTL BUSINESS MACHINES CO | 0.8 |
| HEWLETT PACKARD CO | 0.8 |
| GOOGLE INC | 0.8 |
| KONINKLIJKE PHILIPS ELECT | 0.8 |
| PROCTER AND GAMBLE CO | 0.7 |
| EXXON MOBIL CORP | 0.7 |
| JPMORGAN CHASE + CO | 0.7 |
| WELLS FARGO + CO | 0.7 |
| HSBC HLDGS | 0.7 |
| MERCK + CO INC NEW | 0.7 |
| GLAXOSMITHKLINE PLC | 0.7 |
| BP PLC | 0.6 |

| global smaller companies | allocation (%) |
|--------------------------|----------------|
| PDL BIOPHARMA INC | 0.7 |
| S.A. D IETEREN N.V. | 0.6 |
| TENNECO INC | 0.6 |
| AALBERTS INDS | 0.6 |
| ASTORIA FINL CORP | 0.6 |
| AMERICREDIT CORP | 0.6 |
| TOGNUM AG | 0.5 |
| KING PHARMACEUTICALS INC | 0.5 |
| ARIBA INC | 0.5 |
| RHEINMETALL AG | 0.5 |

| global emerging markets | allocation (%) |
|---------------------------|----------------|
| SAMSUNG ELECTRONICS CO LT | 4.3 |
| VALE SA SP PREF ADR | 4.0 |
| CHINA MOBILE LTD | 3.3 |
| CHINA CONST BK | 2.8 |
| AMERICA MOVIL SAB DE CV | 2.5 |
| GAZPROM | 2.5 |
| SHINHAN FINANCIAL GROUP L | 2.3 |
| ITAU UNIBANCO BA MULTIPLO | 2.2 |
| PETROLEO BRASILEIRO SPON | 2.0 |
| INDUSTRIAL + COM B | 2.0 |

top holdings

| Australian listed property | allocation (%) |
|----------------------------|----------------|
| WESTFIELD GROUP | 38.9 |
| STOCKLAND | 13.8 |
| GPT GROUP | 8.3 |
| MIRVAC GROUP | 7.4 |
| GOODMAN GROUP | 6.5 |
| CFS RETAIL PROP | 6.0 |
| DEXUS PROPERTY GP | 5.7 |
| COMMONWEALTH PROPE | 3.1 |
| ING OFFICE FUND | 2.7 |
| MACQUARIE OFFICE | 1.3 |

| global listed property | allocation (%) |
|---------------------------|----------------|
| SIMON PPTY GROUP INC NEW | 6.4 |
| UNIBAIL RODAMCO | 4.1 |
| VORNADO RLTY TR | 3.5 |
| PUBLIC STORAGE | 3.4 |
| AVALONBAY COMMUNITIES INC | 2.8 |
| BOSTON PPTYS INC | 2.2 |
| EQUITY RESIDENTIAL | 2.1 |
| WESTFIELD GROUP | 2.1 |
| HOST HOTELS + RESORTS INC | 2.0 |
| HCP INC | 2.0 |
| BRITISH LAND CO | 2.0 |
| FEDERAL RLTY INVT TR | 1.7 |
| VENTAS INC | 1.7 |
| DIGITAL RLTY TR INC | 1.6 |
| HEALTH CARE REIT INC | 1.3 |
| CORIO NV | 1.2 |
| HONG KONG LAND HLD | 1.2 |
| LINK REAL ESTATE I | 1.1 |
| AMB PPTY CORP | 1.1 |
| DOUGLAS EMMETT INC | 1.0 |

total, income and growth financial year returns

| net of fund fees | FY '03 | FY '04 | FY '05 | FY '06 | FY '07 | FY '08 | FY '09 | FY '10 |
|---|-------------|-------------|-------------|-------------|-------------|--------------|--------------|-------------|
| Diversified Investment Strategy No 1 | | | | | | | | |
| 1 yr rolling return | 5.2 | 8.6 | 11.0 | 9.4 | 10.2 | -2.9 | -6.9 | 12.7 |
| 1 yr growth | -1.2 | 6.6 | 1.8 | 1.7 | -1.6 | -10.9 | -9.8 | 8.1 |
| 1 yr distribution | 6.4 | 2.0 | 9.2 | 7.8 | 11.9 | 8.0 | 2.9 | 4.6 |
| Diversified Investment Strategy No 2 | | | | | | | | |
| 1 yr rolling return | -1.3 | 15.5 | 14.6 | 16.5 | 17.0 | -12.0 | -15.7 | 13.3 |
| 1 yr growth | -6.1 | 11.9 | 7.5 | 10.9 | 4.7 | -20.5 | -18.1 | 8.8 |
| 1 yr distribution | 4.8 | 3.5 | 7.2 | 5.6 | 12.3 | 8.5 | 2.4 | 4.5 |
| Diversified Investment Strategy No 3 | | | | | | | | |
| 1 yr rolling return | -4.2 | 17.6 | 14.9 | 18.0 | 18.9 | -14.7 | -18.0 | 13.2 |
| 1 yr growth | -8.3 | 13.0 | 8.6 | 12.9 | 7.4 | -24.2 | -20.1 | 9.6 |
| 1 yr distribution | 4.0 | 4.6 | 6.3 | 5.1 | 11.6 | 9.5 | 2.2 | 3.7 |
| Diversified Investment Strategy No 4 | | | | | | | | |
| 1 yr rolling return | -6.3 | 20.3 | 15.0 | 20.8 | 21.0 | -18.0 | -22.5 | 13.0 |
| 1 yr growth | -9.8 | 17.0 | 9.1 | 15.8 | 10.0 | -26.4 | -24.3 | 9.7 |
| 1 yr distribution | 3.4 | 3.2 | 5.9 | 5.0 | 11.0 | 8.4 | 1.8 | 3.3 |
| Diversified Investment Strategy No 5 | | | | | | | | |
| 1 yr rolling return | n/a | n/a | n/a | n/a | 18.5 | -11.2 | -17.4 | 13.4 |
| 1 yr growth | n/a | n/a | n/a | n/a | 5.5 | -18.6 | -19.6 | 8.1 |
| 1 yr distribution | n/a | n/a | n/a | n/a | 12.9 | 7.4 | 2.2 | 5.3 |

Performance is net of fund fees (and before any fee rebate if applicable) and calculated using month-end hard close exit prices. Assumes distributions are reinvested and tax is not deducted.

portfolio returns vs strategic asset allocation returns

| gross of fund fees | 7 yrs (% pa) | 5 yrs (% pa) | 3 yrs (% pa) | 1 yr (%) | 3 ms (%) |
|---|--------------|--------------|--------------|-------------|-------------|
| Diversified Investment Strategy No 1 | 6.4 | 4.9 | 1.4 | 13.5 | -1.2 |
| SAA return | 6.0 | 4.6 | 1.1 | 8.8 | -1.1 |
| Diversified Investment Strategy No 2 | 7.0 | 3.6 | -4.8 | 14.3 | -5.3 |
| SAA return | 6.6 | 3.2 | -5.0 | 11.5 | -5.1 |
| Diversified Investment Strategy No 3 | 6.9 | 3.0 | -6.6 | 14.3 | -7.0 |
| SAA return | 6.7 | 2.9 | -6.6 | 12.2 | -6.8 |
| Diversified Investment Strategy No 4 | 6.4 | 1.9 | -9.6 | 14.1 | -7.9 |
| SAA return | 6.3 | 1.9 | -9.2 | 12.3 | -7.8 |
| Diversified Investment Strategy No 5 | n/a | n/a | -5.1 | 14.3 | -3.9 |
| SAA return | n/a | n/a | -4.7 | 10.0 | -3.9 |

| gross of fund fees | 2006 (%) | 2007 (%) | 2008 (%) | 2009 (%) | CYTD (%) |
|---|-------------|------------|--------------|-------------|-------------|
| Diversified Investment Strategy No 1 | 10.7 | 5.8 | -13.7 | 16.6 | 1.6 |
| SAA return | 10.7 | 5.6 | -7.9 | 9.5 | 0.6 |
| Diversified Investment Strategy No 2 | 16.9 | 6.8 | -27.8 | 22.7 | -3.0 |
| SAA return | 16.6 | 6.6 | -25.4 | 17.9 | -3.2 |
| Diversified Investment Strategy No 3 | 18.1 | 7.1 | -31.7 | 25.4 | -4.7 |
| SAA return | 18.0 | 7.0 | -29.6 | 21.6 | -4.7 |
| Diversified Investment Strategy No 4 | 20.1 | 7.2 | -37.0 | 25.6 | -5.7 |
| SAA return | 19.7 | 7.0 | -34.9 | 22.3 | -5.6 |
| Diversified Investment Strategy No 5 | 18.3 | 4.3 | -25.8 | 19.1 | -1.4 |
| SAA return | 16.4 | 5.5 | -21.2 | 12.5 | -2.1 |

Returns are provided gross of fees. SAA returns reflect portfolio target weight in each sector multiplied by the return of the respective benchmark. Benchmark details are provided on the final page of this document.

benchmarks

| | |
|---------------------------------------|--|
| Australian cash | UBSA Bank Bill Index |
| Australian fixed interest | UBSA Composite Bond Index |
| global fixed interest | Barclays Capital Global Aggregate (Hedged) Index in AUD |
| alternative income | UBSA Bank Bill Index |
| Australian listed property | S&P/ASX 300 A-REIT Index |
| ¹ global listed property | UBS Global Investors (Hedged) Index in AUD |
| Australian shares | S&P/ASX 300 Accumulation Index |
| international shares | MSCI World ex Australia (Unhedged and Hedged in AUD) Indices |
| ² global smaller companies | MSCI World Small Cap Index in AUD |
| global emerging markets | MSCI Emerging Markets Index in AUD |
| alternative growth | n/a |
| alternative defensive | UBSA Bank Bill Index |

¹ The global listed property index commenced in January 2006. Sector benchmark prior to January 2006 is the customised UBS Global Investors Index (net div reinvested) in \$A hedged/Salomon Property & Utilities Index.

² The global smaller companies index commenced in October 2009. Sector benchmark prior to this date is the S&P/Citigroup World <US\$1.5bn Cap Range Index (net div reinvested) in AUD unhedged, which commenced in May 2006. Sector benchmark prior to May 2006 was the customised S&P/Citigroup World <US\$1.5bn Cap Range Index (net div reinvested) in AUD unhedged/Citigroup Fixed Market Cap <\$1.5bn (World ex EM) in AUD.

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