



Portfolio Watch

an update on the Diversified Investment Strategies

pessimism creates opportunity

edition: 31 December 2011

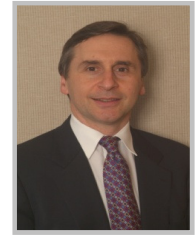


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pessimism creates opportunity

"Normally, asset markets are largely driven by developments in the real economy with the prevailing political backdrop having limited influence. However, in the current environment, political developments and the response in currency and bond markets can influence the trajectory of the real economy."



Jeff Rogers, ipac Chief Investment Officer

Sharemarket performance last year was undoubtedly a source of disappointment and frustration. Investors were disappointed that most sharemarkets, with the exception of the United States market, ended the year at noticeably lower levels. They were frustrated by the fact that markets had largely overlooked the good progress many companies had made in growing their earnings through the year. It is no surprise then that many investors chose to leave new investable capital in cash and term deposits.

Pessimism is in the ascendency today. You can see the pessimism on the cover of investment books that have crossed my desk over the holiday season. There appears to be a competition among authors for the most apocalyptic title. But this general pessimism creates opportunity for those who do not believe that the global economy faces inevitable disaster and that well-run companies will eventually be rewarded. In this letter, I want to address some of the fears and discuss why there is reason for optimism.

the global economy is in transition

The global economy is undergoing a transition with a number of fast-growing emerging economies beginning to challenge the ascendancy of the more mature economies in the US and Europe. At present, the high levels of debt in the advanced economies imposes a policy constraint as there is less fiscal and monetary flexibility to target high unemployment and weak economic growth.

These developments are causing significant strain and leading to questions about how the benefits of globalisation are shared between countries and within countries. We will be watching these political developments closely in the year ahead.

Normally, asset markets are largely driven by developments in the real economy (company activity) with the prevailing political backdrop having limited influence. However, in the current environment, political developments and the response in currency and bond markets can influence the trajectory of the real economy, which in turn feeds back into sharemarket performance.

four areas of focus for investors

the United States

In the third quarter of the year, the political brinkmanship associated with the delay in raising the debt ceiling resulted in a downgrade of US debt and a decline in confidence in the US economy. While the worst of the gridlock may have passed, we are now in an election year and investors will be hoping for an electoral outcome that delivers a strong mandate to a President. This mandate should include implementable policies around taxation and spending commitments.

Notwithstanding the political bickering, there are reasons to be optimistic about the US economy with signs of a sustainable, though modest, expansion emerging in the second half of 2011. Employment is beginning to grow, retail sales have strengthened and business inventories are lean. At the same time, monetary policy is extremely accommodative and is likely to remain so for a considerable period. Indeed the US Federal Reserve still has the capacity to turn on the 'printing press' should signs of slowdown or crisis emerge. These positive economic developments have been partially reflected in US sharemarket performance during 2011, with the US one of the few countries producing a positive return.

European debt concerns

Europe is currently the epicentre of market concern. What started out as a crisis in the periphery of Europe (Greece and Portugal) two years ago has morphed into a crisis for the entire concept of the European Union. Investors lack confidence in the capacity of the political elite in Europe to implement necessary policy reforms. While a number of political leaders have been ousted from their roles, their replacements face no easy task as they need to maintain the confidence of their electorates against a backdrop of ongoing fiscal austerity. The greatest fear in Europe is that strong nationalist sentiment emerges to disrupt the economic repair.

While the issues in Europe are complex, there are signs of progress towards a resolution, even though its pattern is characterised by two steps forward and one step back. First, policymakers are no longer in denial that a major co-ordinated response is required. Second, in the final quarter of the year, the new leadership of the European Central Bank did a policy U-turn, cutting rates twice and introducing an unprecedented long-term lending operation to provide liquidity to the financial system. Policymakers now need to turn to strategies that will enhance export growth in Europe to reduce the pain from the

CIO letter continued - pessimism creates opportunity

Chinese economic growth

Developments in the Chinese economy are of great importance to the Australian economy given China's impact on commodity prices and expectations for demand growth over the medium term. Cyclical developments in China are likely to gain increasing attention from global investors, as emerging economies appear best placed to sustain global activity. News from China has been increasingly negative. Social unrest has increased, property prices have declined, the growth of industrial production has slowed and fear has increased of the economy having a hard landing. The Chinese government, which is undergoing a leadership change this year, is trying to engineer a slowdown to reduce inflation pressures and to control excessive speculation in sectors such as real estate. So far the slowdown in growth has been well managed with Chinese GDP growth for the December 2011 quarter falling to 8.9%.

While the Chinese economy is entering a risky cyclical phase, the Chinese authorities have considerable policy flexibility to address any marked deterioration in activity. China has substantial financial resources as well as the capacity to implement its strategies in a rapid and efficient manner.

oil prices

2011 was a bad year for dictators and oppressive governments. There were civilian uprisings in the Middle East and North Africa. This added to general investor uncertainty and raised specific concerns surrounding the effect of political change on crude oil supplies from a number of important producers. At the turn of the year, there were also escalating tensions in Iran and Nigeria.

While it is hard to predict how geo-political events will affect oil prices, if these concerns were to dissipate through the year, and oil prices were largely determined by growth outcomes in the global economy, then there is reason to expect downward pressure on prices. A lower oil price would boost global economic prospects.

corporate profitability remains strong

We have observed on several occasions that share portfolios invest in companies as opposed to economies. While it is true that companies operate in economies, in many cases corporate managers have considerable flexibility to influence both cost and revenue outcomes. Therefore, it should not be a surprise that the earnings and profitability for many US and European companies are near record highs. This is particularly the case for high quality multinational companies, such as Microsoft and Visa, in which ipac's portfolios are invested.

Our managers believe that these companies – along with a number of others in our portfolios – have dominant global market positions and are attractively priced given their strong earnings and future prospects. Another positive is that many companies have reduced their debt levels and improved their balance sheets. They are well placed to invest for growth when the operating environment becomes less clouded and confidence improves. Some economies might be under stress but much of the corporate sector is doing fine.

pessimism is priced into the sharemarket today

Investors face two starkly different economic scenarios. One scenario, which we have labelled "pessimism persists" is characterised by a major economic dislocation most likely associated with a disorderly default of European sovereign debt. In the other scenario, which we have labelled "stabilisation", emerging markets continue to drive world growth and advanced economies 'muddle-through' experiencing an extended period of sub-par growth and slow repair interrupted by bouts of financial stress. Sharemarket outcomes are vastly different in these two scenarios – disappointing in the former and very strong in the latter. With investors constantly adjusting the probability of these two outcomes, on a daily basis, it is not surprising that we are seeing large swings in markets.

Judging by a number of valuation and sentiment indicators, the market appears to have priced-in a high probability of the pessimistic outcome. This does not mean that the majority of investors are bracing for the worst, rather it suggests investors are demanding a meaningful margin of safety in such uncertain times. However, it does tell us that there is scope for a rebound in share prices if there is a more stable economic environment. The combined outcome of strong emerging market growth and weak advanced economy growth will be global growth that is still around average.

We believe that the probability of an outcome characterised by the stabilisation scenario is much higher than the market reflects in today's prices. However, it is hard to predict when the market will meaningfully shift the odds it attaches to the scenarios. In the near-term, investors will need to ride out the bumps as they emerge. Over the next couple of years, we expect market prices will adjust to reflect the stabilisation scenario. We also believe that investors are being paid to wait for this adjustment as income yields in equity, property and credit markets are now meaningfully higher than the prevailing cash rate.

where we are seeing opportunities

distressed credit

We are looking to make some additional investments to take advantage of unfolding opportunities in the European credit arena. The outworking of the crisis in Europe will see large quantities of quality debt securities changing hands at distressed prices. These securities can deliver double-digit rates of return to organised investors. We are currently researching well-credentialed managers positioned to access these opportunities. Extensive due diligence will be required but there is no need to rush as the opportunity set is likely to deepen in the months ahead.

Australian listed property

Property companies have undergone considerable restructuring following the Global Financial Crisis. Most business models are meaningfully simpler and more transparent. In most cases, gearing has been reduced to more sustainable levels and the sector has moved closer to reflecting the characteristics of its underlying property assets and rental streams. We believe that there is a good opportunity for higher than average returns over the medium term as many A-REITs are trading at a discount to book value.

portfolio activity

As investment manager of the Diversified Investment Strategies portfolios, ipac is constantly reviewing portfolios 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	investment belief in action	benefit
Dec-11	Alternative Defensive Appointed Transtrend - a managed futures strategy that aims to capture market inefficiencies by exploiting price trends across equities, bonds, currencies and commodities that are driven by investor behavioural biases.	To be appointed to our portfolios, managers have to prove they have an investment edge which is sustainable.	Increase diversification and add additional sources of return. Provides a source of return that has a low correlation to sharemarkets.
Dec-11	Fixed Interest Consolidation of the PIMCO Bank Capital mandate into the Morgan Stanley Global Credit mandate.	We are experienced at managing the day to day delivery of portfolios. This operational excellence optimises the value of the investment ideas we capture.	Decisions regarding the banking sector credit allocation and security selection can now be more efficiently managed by Morgan Stanley within the framework of the Global Credit mandate.
Jun-11	Alternative Growth Allocation made to life finance.	We seek risk premium diversification. In this example we are accessing both an illiquidity premium and an insurance premium.	Adds a source of return that is uncorrelated to major asset classes which reduces overall portfolio volatility and increases returns.
Jun-11	Currency hedging The exposure to foreign currency was increased moderately.	Quality investment research informs our portfolio decisions. When investor sentiment is at extremes then we are prepared to lean in the opposite direction.	Reduces long-term variability of returns and enhances medium-term diversified portfolio returns.
Jun-11	International Shares Appointed Carnegie Asset Management, Harding Loevner, Pzena Investment Management and AllianceBernstein Global Thematic Research to the sector.	We are organised to identify fund managers with quality investment insights, and a breadth of opportunities to implement these ideas.	Access to more concentrated manager approaches will result in more consistent value add.
May-11	Global Smaller companies The exposure to Global Smaller Companies was reduced.	Quality investment research informs our portfolio decisions. When investor sentiment is at extremes then we are prepared to lean in the opposite direction.	This provides us with a cash buffer that we can use to take advantage of higher return opportunities.
Nov-10	Alternative Growth Appointed Canyon Capital Advisors, a corporate restructuring specialist, to the sector.	We seek risk premium diversification. In this example we are capturing a credit premium which provides diversity relative to the other premiums we seek.	Diversification across asset classes, investment strategies and managers increases the likelihood of achievement of outcomes and makes the journey more comfortable for our clients.

Investment Beliefs

The above portfolio activity information has been improved to incorporate the beliefs that inform all of ipac's investment decisions. The comprehensive investment beliefs can be found on the ipac website at the following link:
<http://www.ipac.com.au/ipac-investment-approach>

portfolio themes

Diversified Investment Strategy No 1

This portfolio posted a positive return, navigating a difficult investment environment. Portfolio performance benefited from the large weighting to fixed interest and cash.

The positioning of ipac's Government Bond managers provided value add because they avoided the high yielding but high risk, peripheral European sovereign debt and instead focused on the debt of stronger countries such as Germany and Australia. Also proving beneficial for the portfolio in 2011 was the allocation to inflation-linked bonds, which outperformed because of their relatively high yields within the Government Bond sector.

ipac's bond strategy has been to be overweight corporate bonds relative to government bonds. Corporate bond spreads widened in the second half of the year reducing capital values but the regular and stable income received from these bonds more than compensated investors. We remain confident that our preference for corporate bonds will benefit the portfolio over the medium term because of the high quality of the companies held in the sector and the strong positions of their balance sheets.

The portfolio is well positioned to deliver good performance over the medium term. When confidence returns, we would expect to see corporate bond spreads narrow which will deliver an increase in capital values helping performance. While growth assets, like shares, have had disappointing returns in the last year, we believe that when confidence returns, the exposure to growth assets will prove advantageous for the portfolio's return.

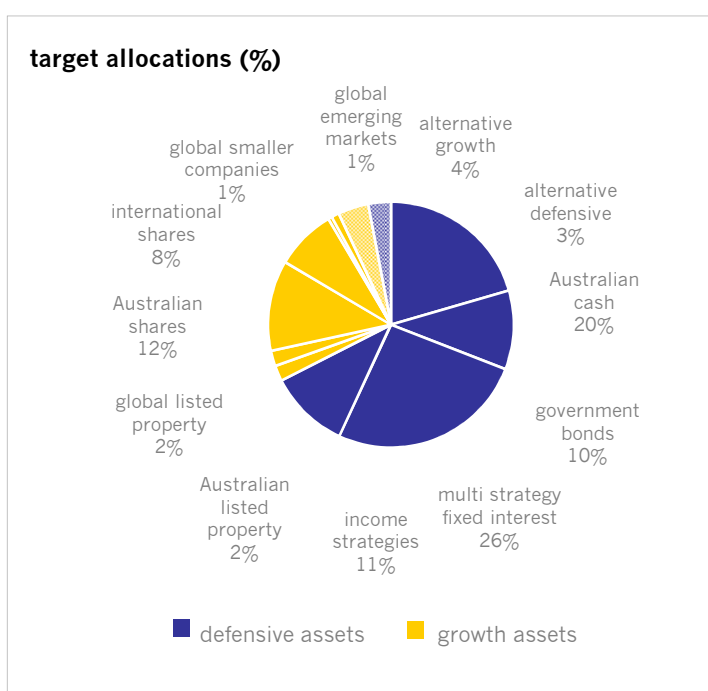
net of fund fees	7 yrs (% pa)	5 yrs (% pa)	3 yrs (% pa)	1 yr (%)	3 ms (%)
cumulative	4.8	2.8	8.4	2.7	2.2

net of fund fees	2007 (%)	2008 (%)	2009 (%)	2010 (%)	2011 (%)
discrete	5.1	-14.3	15.8	7.1	2.7

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

In the year to December 2011, investors have had to contend with a destabilising investment environment. This caused growth assets to decline in value, which resulted in the shares components of the portfolio falling and consequently pulled the portfolio performance downwards.

The safest of 'safe haven' assets have increased sharply in value. Government Bonds performed very strongly as investors sought safety. ipac's Government Bond managers avoided peripheral European debt because they did not think that the high yields on offer were enough to compensate for the risk of default. This cautious approach taken by ipac's managers proved prudent and helped the Government Bond component of the Fixed Interest sector to post excellent returns for the year.

This portfolio has a meaningful allocation to Australian and International shares. Weakness in sharemarkets has hindered performance in 2011. When confidence in growth assets returns, these sectors are well positioned to participate in the rebound. ipac's International Shares managers have focused on companies that have dominant global market positions and are attractively priced given their strong earnings and future prospects. ipac's Australian Shares managers were able to reduce the downside through good stock selection and their avoidance of some of the cyclically sensitive resource companies.

Alternative strategies, in both the Growth and Defensive sectors, posted positive returns for the year. This ability to generate positive returns in very difficult investment conditions highlights the diversification benefits of these assets. ipac has recently added a strategy to the Alternative Defensive sector that aims to capture market inefficiencies by exploiting price trends that are driven by the behavioural biases of investors.

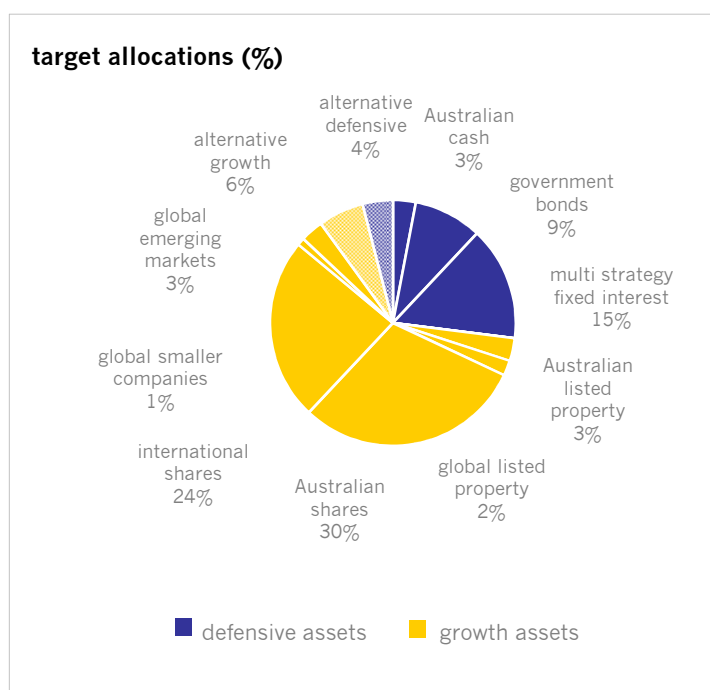
net of fund fees	7 yrs (% pa)	5 yrs (% pa)	3 yrs (% pa)	1 yr (%)	3 ms (%)
cumulative	3.5	-1.2	7.5	-3.2	2.7

net of fund fees	2007 (%)	2008 (%)	2009 (%)	2010 (%)	2011 (%)
discrete	5.9	-28.4	21.7	5.5	-3.2

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

At the outset of 2011 the outlook was relatively positive for growth assets. However, in the second half of the year a sequence of negative events, including the European and US debt issues, dented investor confidence and caused a decline in the value of growth assets. By the close of the year, confidence in Europe remained muted but there were welcome signs of economic improvement in the US.

This growth portfolio has a meaningful allocation to the International and Australian shares sectors. This reduced the overall portfolio return. ipac's Australian shares managers helped to limit the downside through good stock selection. This was mainly owing to their avoidance of some of the very cyclical resources companies. ipac's International Shares managers have focused on companies that have dominant global market positions and are attractively priced given their strong earnings and future prospects.

The allocation to Global Listed Property, while small, proved beneficial, with the sector providing a modest positive return while beating its benchmark. The major factor driving this outcome was our managers' underweight exposure to European REITs.

In addition to the diversifying benefits of Global Listed Property, the allocations to the Alternatives sectors were also beneficial, with both sectors posting positive returns in a very complex investment environment. ipac has recently added a strategy to the Alternative Defensive sector that aims to capture market inefficiencies by exploiting price trends that are driven by the behavioural biases of investors.

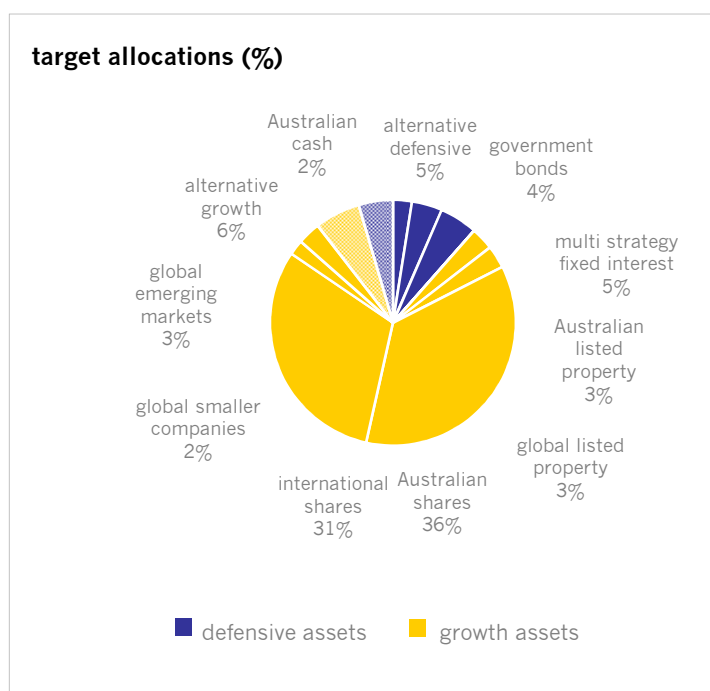
net of fund fees	7 yrs (% pa)	5 yrs (% pa)	3 yrs (% pa)	1 yr (%)	3 ms (%)
cumulative	3.0	-2.3	7.4	-5.1	2.8

net of fund fees	2007 (%)	2008 (%)	2009 (%)	2010 (%)	2011 (%)
discrete	6.1	-32.3	24.3	4.9	-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

In the year to December 2011 growth assets were generally weaker in a difficult environment. This portfolio has a high weighting to growth assets such as Australian and International shares and therefore portfolio performance was negative. In August, concerns over the European debt issues increased and investors reacted by seeking 'safe havens'.

ipac's Australian share managers were able to reduce the downside through good stock selection and their avoidance of some of the cyclically sensitive resource companies. This positioning was rewarded as investors became particularly fearful about the potential for the European debt situation to slow world growth and hence reduce China's and India's demand for Australian mineral resources.

Acting as a buffer against the declines seen in the shares part of the portfolio was the performance of the Alternatives sectors. This portfolio has an allocation of just over 10% to the Alternative Growth and Alternative Defensive sectors. These sectors both posted positive performance, despite the adverse investment environment. The diversifying, non-correlated nature of the Alternatives sectors proved beneficial. ipac has recently added a strategy to the Alternative Defensive sector that aims to capture market inefficiencies by exploiting price trends that are driven by the behavioural biases of investors.

When investor confidence returns, growth assets will benefit and values will rebound. The portfolio is well positioned to participate in such an environment.

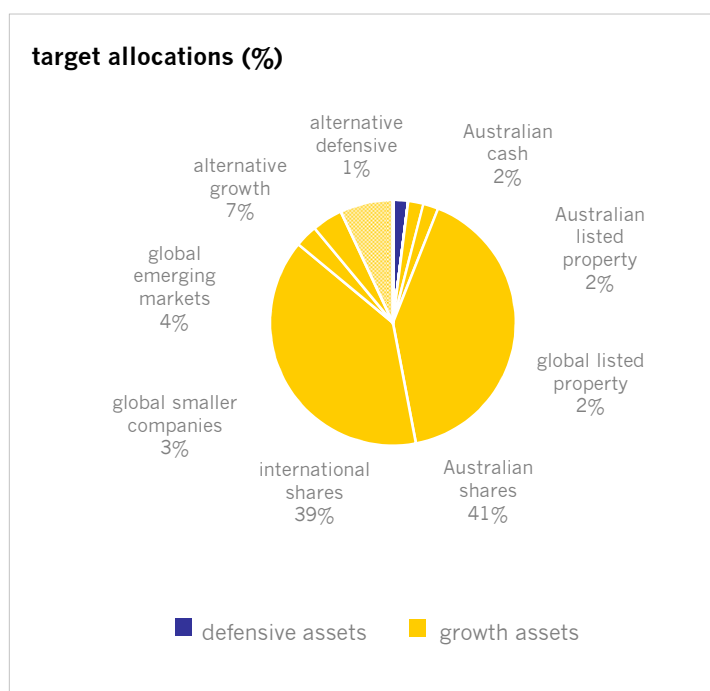
net of fund fees	7 yrs (% pa)	5 yrs (% pa)	3 yrs (% pa)	1 yr (%)	3 ms (%)
cumulative	1.9	-4.4	6.3	-7.4	2.8

net of fund fees	2007 (%)	2008 (%)	2009 (%)	2010 (%)	2011 (%)
discrete	6.2	-37.6	24.4	4.5	-7.4

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 99%, with the balance in alternative defensive and cash.



Diversified Investment Strategy No 5

In a year that saw rapid sentiment swings and very high volatility it was difficult to find any true 'safe-havens'. The sovereign debt of the world's strongest economies, such as Germany and Australia, were amongst the very few assets to post positive gains for 2011.

The unique design of the portfolio has provided a smoother return journey as compared to a typical balanced fund. In contrast to a balanced fund, the portfolio has a smaller allocation to International and Australian shares and a larger allocation to the Alternatives sectors.

The Alternative Defensive sector captures returns from investment approaches that are less correlated to sharemarkets. Hedge funds are an example of such strategies. This means that the sector is less vulnerable to overall sharemarket declines. The allocation to the Alternative Defensive sector has proven very beneficial over the last year.

In the Australian shares sector, ipac's managers' posted performance that was superior to the benchmark. While a negative return is disappointing, the ability of our managers to add value above their benchmark is a positive for the overall portfolio return.

Within the International Shares sector, the specialist investment approach of Epoch added value. Epoch are a manager that analyses companies with a view to determining their ability to grow their cashflow consistently. This process posted good positive performance as these types of companies were highly sought.

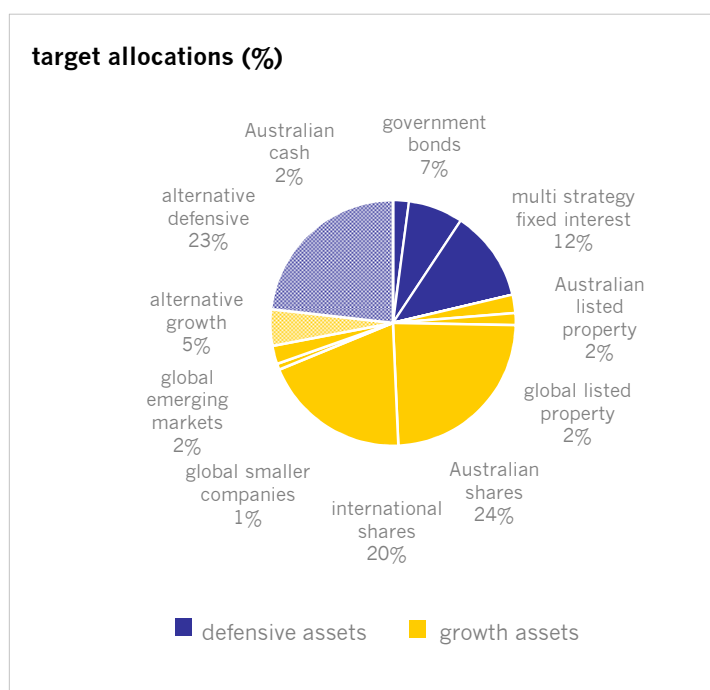
net of fund fees	7 yrs (% pa)	5 yrs (% pa)	3 yrs (% pa)	1 yr (%)	3 ms (%)
cumulative	n/a	-0.9	7.9	-0.4	2.4

net of fund fees	2007 (%)	2008 (%)	2009 (%)	2010 (%)	2011 (%)
discrete	3.4	-26.4	18.1	6.7	-0.4

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. Broad diversification including exposure to alternative investments is used to help reduce fluctuations. Over 25% of the portfolio is invested in alternatives.



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	4.8	2.8	8.4	2.7	2.2
Diversified Investment Strategy No 2	3.5	-1.2	7.5	-3.2	2.7
Diversified Investment Strategy No 3	3.0	-2.3	7.4	-5.1	2.8
Diversified Investment Strategy No 4	1.9	-4.4	6.3	-7.4	2.8
Diversified Investment Strategy No 5	n/a	-0.9	7.9	-0.4	2.4

net of fund fees	2007 (%)	2008 (%)	2009 (%)	2010 (%)	2011 (%)
Diversified Investment Strategy No 1	5.1	-14.3	15.8	7.1	2.7
Diversified Investment Strategy No 2	5.9	-28.4	21.7	5.5	-3.2
Diversified Investment Strategy No 3	6.1	-32.3	24.3	4.9	-5.1
Diversified Investment Strategy No 4	6.2	-37.6	24.4	4.5	-7.4
Diversified Investment Strategy No 5	3.4	-26.4	18.1	6.7	-0.4

Notes applying to pages 6 - 11:

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 International Shares (breakdown as per table in the supplementary data, page 8), global smaller companies and global emerging markets.

analysis of sector performance

debt markets

what happened in the market

Government bonds performed strongly in 2011. In a volatile and uncertain world investors favoured the certainty of 'safe-haven' government bonds issued by the US, Germany and Australia. Yields in certain peripheral European countries surged as investors became very concerned about the ability of those countries to repay their debts. In perceived 'safe-haven' countries, bond yields declined across the board driven by strong demand.

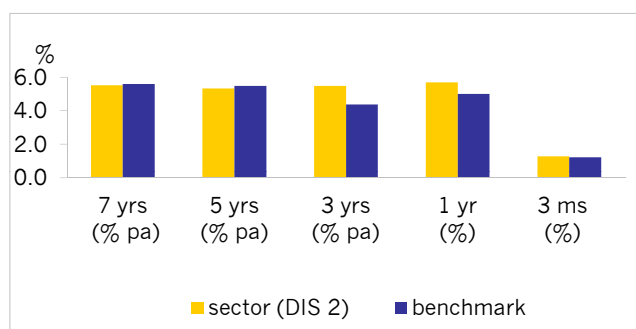
Australian bond yields fell further than yields in the US and core Europe, as Australia's relatively strong economic outlook attracted global investors searching for higher returns than those on offer in the US and Europe.

In contrast to government bonds, corporate credit spreads widened and capital values fell in the last year. The receipt of stable income from the highly rated corporate securities helped compensate for the reduction in capital values caused by the spread widening. The majority of the spread widening took place in the September quarter as investors became increasingly concerned about the European sovereign debt crisis and its implications for the European banking sector and global growth prospects.

what drove sector performance in the portfolios

Australian cash

The Australian Cash sector outperformed its benchmark in the calendar year to December 2011. The outperformance resulted from an exposure to credit securities representing about 15% to 20% of the sector. This credit exposure contributed positively to performance despite the widening of Australian credit spreads in the September quarter. The steady receipt of income from these securities helped boost performance. These credit securities are being wound down. Over time, the sector will hold only bank bills and will therefore track the benchmark increasingly closely.



gross of fees	7 yrs (% pa)	5 yrs (% pa)	3 yrs (% pa)	1 yr (%)	3 ms (%)
sector	5.5	5.3	5.5	5.7	1.3
benchmark	5.6	5.5	4.4	5.0	1.2

Reflects performance of sectors underlying DIS 2.

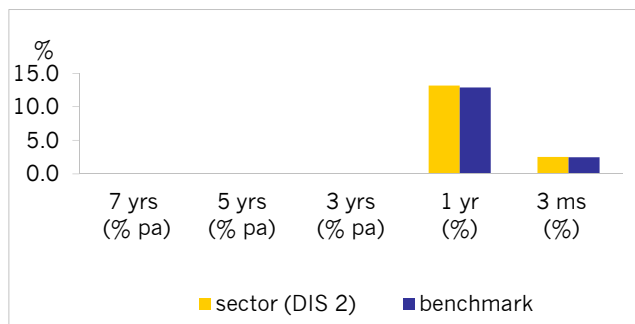
Figures are calculated by aggregating daily performance of underlying strategies using actual weights.

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

debt markets

government bonds

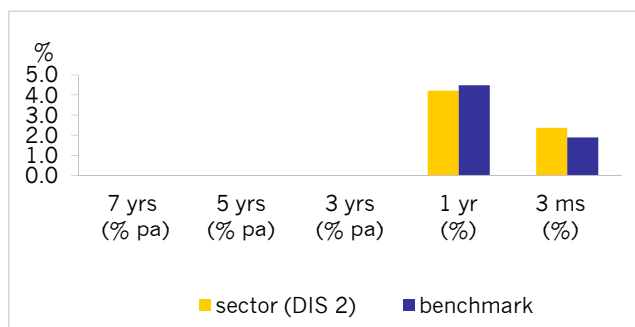
The Government Bond sector performed very strongly in the calendar year to December 2011. Our global government bond managers moved from an underweight duration to an overweight duration position late in the June quarter and thus benefited from the strong government bond rally in the September quarter as investors globally retreated to 'safe-haven' US, German and Australian bonds. Australian government bonds performed particularly strongly. ipac's managers did not have exposure to peripheral European government bonds, such as Greece, Portugal, Spain and Italy, that came under severe pressure in the second half of 2011.



gross of fees	7 yrs (% pa)	5 yrs (% pa)	3 yrs (% pa)	1 yr (%)	3 ms (%)
sector	n/a	n/a	n/a	13.2	2.5
benchmark	n/a	n/a	n/a	12.9	2.5

multi strategy fixed interest

The Multi Strategy sector performed positively in the year to December 2011 but marginally underperformed its benchmark as global corporate credit spreads widened, particularly financial services and bank credit spreads. Credit spreads narrowed slightly at the end of the year but the resultant positive performance impact could not offset the underperformance experienced earlier in the 12-month period. Absolute return strategies outperformed cash.



gross of fees	7 yrs (% pa)	5 yrs (% pa)	3 yrs (% pa)	1 yr (%)	3 ms (%)
sector	n/a	n/a	n/a	4.2	2.4
benchmark	n/a	n/a	n/a	4.5	1.9

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.

listed property

what happened in the market

At the beginning of the year, Global Listed Property performed strongly but this performance deteriorated in the second half of the year to December 2011. The poor performance was mainly related to macro-economic concerns over debt in the US and Europe and the knock-on effects for global growth prospects. A slowing world economy will reduce demand for property and reduce the availability of capital.

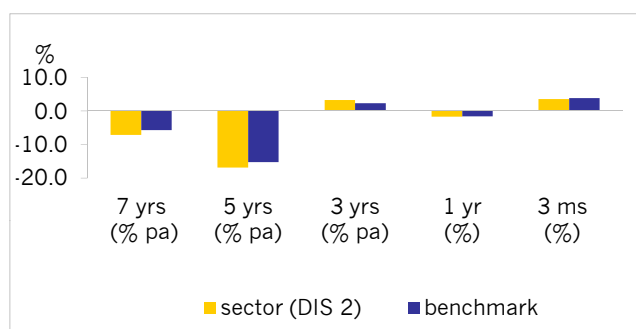
Despite the market volatility, real estate fundamentals held up well, but previously strong future projections have moderated. Borrowing rates remain low in absolute terms in most markets, although credit cost and availability are starting to have an impact, particularly in Europe. Commercial real estate values have levelled off recently, with the volume of investment property sales lower in the third quarter in most markets. A decline in volume is most apparent in the Asia Pacific region.

Recently, signs of recovery in the US have increased investor confidence in the sector. The yield advantage of quality real estate assets in a low growth, low yield environment should bolster the relative attractiveness of the sector.

what drove sector performance in the portfolios

Australian listed property

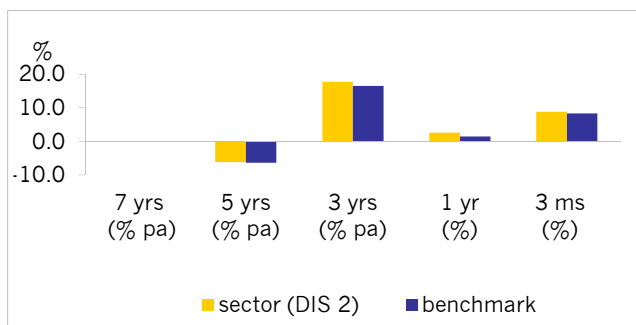
The sector fell short of its benchmark by a narrow margin over the year to December 2011. While the mandate targeted on the largest trusts matched its benchmark, the higher conviction mandate, operating across a broader universe, underperformed modestly. In the higher conviction mandate, the strategy is focused on REITs with sound balance sheets and quality management. It was not rewarded in the December quarter when expectations of bidding activity for the weaker trusts became an important market theme. In addition, an overweight to retail trusts was a drag on performance as investors continued to focus on the weak retail sales environment.



gross of fees	7 yrs (% pa)	5 yrs (% pa)	3 yrs (% pa)	1 yr (%)	3 ms (%)
sector	-7.2	-16.9	3.3	-1.7	3.5
benchmark	-5.7	-15.2	2.3	-1.6	3.8

global listed property

The sector beat its benchmark over the year, largely as a result of the outperformance in the December quarter. Performance was driven by superior country allocation and security selection within markets. The key country positioning was an underweight exposure to European REITs, which fell in the quarter in response to both deteriorating economic conditions and the growing fear that the banking crisis will lead to reduced capital availability in the sector. The sector also benefited from its exposure to regional shopping malls within the US market, through property companies such as Macerich and Taubman Centres.



gross of fees	7 yrs (% pa)	5 yrs (% pa)	3 yrs (% pa)	1 yr (%)	3 ms (%)
sector	n/a	-6.1	17.8	2.6	8.8
benchmark	n/a	-6.4	16.6	1.4	8.3

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

Australian shares fell 11.0% in the calendar year to December 2011. Global investor sentiment remained negative throughout most of the second half of this period. Investors were concerned about the ramifications for global growth flowing from the debt issues in Europe and the US.

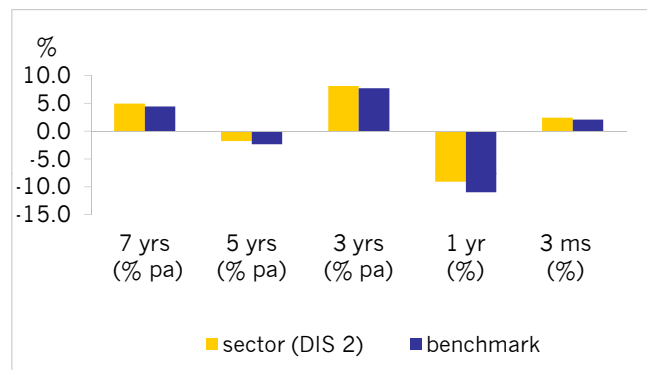
Economic conditions in China were also a major focus for Australian investors. The share prices of many resources companies fell because of concern that China may suffer a 'hard landing' as their government attempts to prevent the economy from overheating. The consensus view at present is that the Chinese government has performed well in this regard and the 'hard landing' scenario appears less likely than previously.

The consumer discretionary sector performed poorly as consumers became reluctant to spend in an environment that was not conducive to instilling confidence in the economic outlook. Consumers have therefore become cautious and have focused on reducing debt and increasing savings. The increase in the popularity of internet shopping also weighed on the sector's performance. Defensive sectors, such as Utilities, performed well because investors were attracted to their relatively predictable earnings stream.

what drove sector performance in the portfolios

Australian shares

The sector outperformed its benchmark over the calendar year to December 2011. The portfolio benefited from its underweight positions in resource stocks which declined in the face of a weaker outlook for commodity prices. The portfolio is positioned with an overweight in companies with pricing power in a weak economic environment, as well as companies whose management is focused on productivity improvement. James Hardie is an example of a company with both characteristics, producing strong operating results against the backdrop of a difficult business environment. In addition, the portfolio benefited from takeover activity driven by trade buyers and private equity. Spotless is an example of a company that is attractive to private equity.



gross of fees	7 yrs (% pa)	5 yrs (% pa)	3 yrs (% pa)	1 yr (%)	3 ms (%)
sector	4.9	-1.8	8.1	-9.1	2.4
benchmark	4.4	-2.4	7.7	-11.0	2.1

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.

global shares

what happened in the market

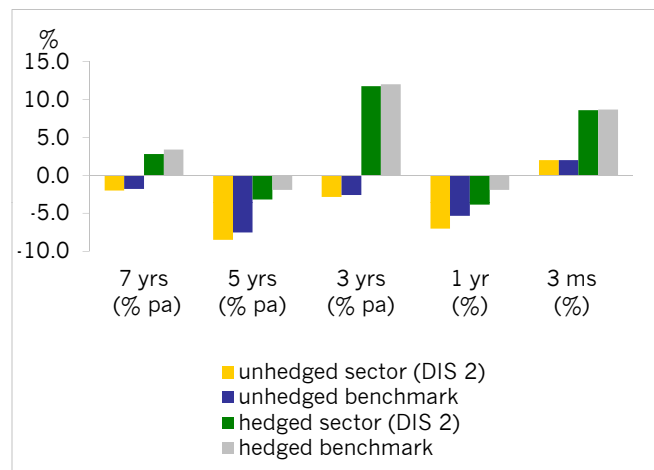
2011 was a volatile and eventful year. Natural disasters and political change were major themes. Sharemarkets managed to perform quite strongly at the outset of the period but as debt issues in the US and Europe emerged that strength was quickly eroded. This led to sharp declines in most sharemarkets. With the exception of some developing sharemarkets, most regions ended the year with sharemarket losses. More recently, we have seen some signs of recovery and a moderate recovery in investor confidence.

Defensive sectors such as Consumer Staples and Healthcare managed to post increases for the year, as investors sought out sectors that are less exposed to a slowdown in global growth. Poorer performing sectors included Resources, Industrials and Financials. Investors were concerned about slowing global growth leading to a slowdown in demand for mineral resources. The Financial sector lost ground because of investor fears relating to the exposure of the European banking system to sovereign debt.

what drove sector performance in the portfolios

international shares

The sector performed in line with its benchmark over the December quarter and underperformed over the calendar year. While market conditions stabilised in the December quarter and there was a partial rebound in overall returns, global investors remained attracted to safety and stability so the change in market direction was not accompanied by a change in market leadership. Our managers are steering the portfolio away from defensive stocks and are continuing to emphasise exposure to high quality companies with strong operating businesses which are likely to outperform when the cyclical outlook improves. During the last quarter, exposure to Visa and Microsoft was increased while some profit was taken in Apple and Nestle.



gross of fees	7 yrs (% pa)	5 yrs (% pa)	3 yrs (% pa)	1 yr (%)	3 ms (%)
unhedged sector	-2.0	-8.5	-2.8	-7.0	2.0
unhedged b'mark	-1.8	-7.5	-2.6	-5.3	2.0
hedged sector	2.8	-3.2	11.8	-3.9	8.6
hedged b'mark	3.4	-1.9	12.0	-1.9	8.7

Reflects performance of sectors underlying DIS 2.

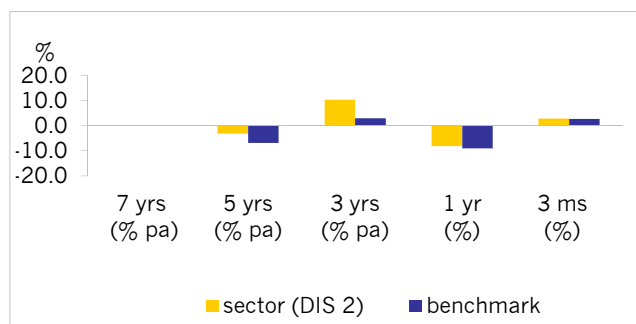
Figures are calculated by aggregating daily performance of underlying strategies using actual weights.

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

global shares

global smaller companies

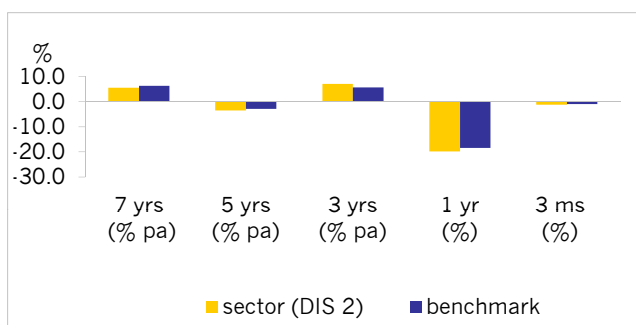
The sector produced a negative return but outperformed its benchmark in the year to December 2011. Smaller companies underperformed larger capitalisation companies over the year. Over the course of the year, the slight relative outperformance was mainly driven by stock selection, with a smaller contribution from country and sector exposures. One of the managers in this sector provided some of their value add by being overweight certain energy and airline shares.



gross of fees	7 yrs (% pa)	5 yrs (% pa)	3 yrs (% pa)	1 yr (%)	3 ms (%)
sector	n/a	-3.2	10.2	-8.2	2.8
benchmark	n/a	-6.9	2.9	-9.1	2.6

global emerging markets

Emerging markets, as measured by the MSCI Emerging Markets Index in AUD, declined 18.4% in the year to December 2011, as Europe's debt issues crimped world trade growth. Another factor in the poor performance of many emerging markets was that many countries during the year decided to slow their economies to head off the risk of inflation and economic overheating. This process of deliberate economic slowing has recently halted as weak world growth, as opposed to inflation, is now seen as the more serious threat.



gross of fees	7 yrs (% pa)	5 yrs (% pa)	3 yrs (% pa)	1 yr (%)	3 ms (%)
sector	5.5	-3.6	7.0	-19.8	-1.3
benchmark	6.2	-2.8	5.6	-18.4	-1.0

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

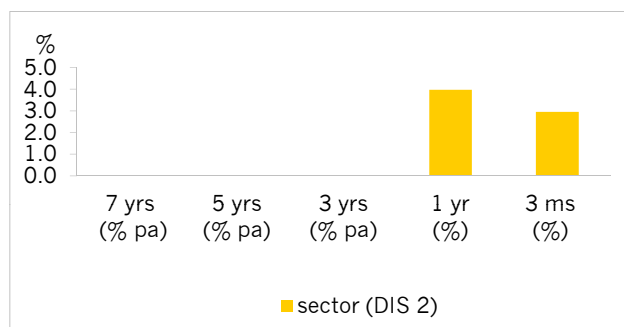
Alternative investments encompass a wide variety of investment opportunities that fall outside the mainstream areas of shares, fixed interest and property. While investments in traditional asset classes are the appropriate foundation for client portfolios, the addition of alternatives will improve the 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

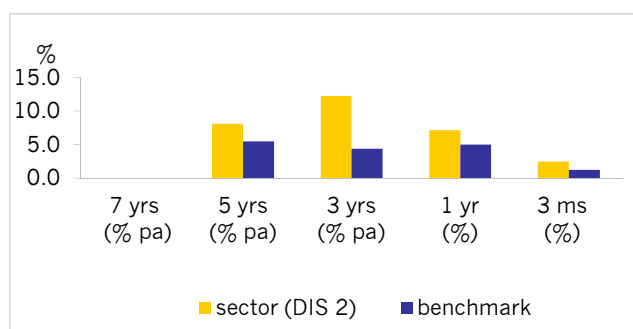
The Alternative Growth sector posted a positive return in the year to December 2011. Investments have been made into a diverse range of strategies including insurance, infrastructure, mortgage backed securities and high yield debt. The infrastructure segment of the portfolio performed very well but was partially offset by the exposures to credit risk which suffered as a result of the European debt crisis. The sector has performed relatively strongly given the severe dislocations seen in world markets.



gross of fees	7 yrs (% pa)	5 yrs (% pa)	3 yrs (% pa)	1 yr (%)	3 ms (%)
sector	n/a	n/a	n/a	4.0	2.9

alternative defensive

The Alternative Defensive sector posted a positive return in the year to December 2011. The year was characterised by abrupt changes in attitudes towards risk and leverage, European debt problems, proposed regulatory change and natural disasters. We are confident that all the current investments are appropriate and will deliver on expectations over the longer term. The sector managed to demonstrate its low correlation to sharemarket returns, one of its key objectives. A new investment in a strategy that tries to profit from pricing inefficiencies caused by investors' behavioural biases was made in December.



gross of fees	7 yrs (% pa)	5 yrs (% pa)	3 yrs (% pa)	1 yr (%)	3 ms (%)
sector	n/a	8.1	12.2	7.1	2.5
benchmark	n/a	5.5	4.4	5.0	1.2

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.

benchmarks

Australian cash	UBSA Bank Bill Index
government bonds	Customised benchmark
multi strategy fixed interest	Customised benchmark
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: 31 December 2011













































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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>government bonds</p>    <p>PIMCO</p>
<p>multi strategy fixed interest</p>  <p>Morgan Stanley</p>	<p>income strategies</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>   

Shows a selection of managers currently appointed to the Diversified Investment Strategies.

portfolios provide access to specialist managers

target allocations (%)	DIS 1	DIS 2	DIS 3	DIS 4	DIS 5
Australian cash					
Macquarie	20.5	3.0	2.5	2.0	2.1
government bonds					
Antares	1.2	1.0	0.4		0.8
Macquarie	5.8	5.0	2.2		4.0
Old Mutual	1.4	1.2	0.5		1.0
PIMCO	2.1	1.8	0.8		1.4
multi strategy fixed interest					
Kapstream	4.3	2.5	0.8		2.0
Morgan Stanley	17.3	10.0	3.3		8.0
PIMCO	4.3	2.5	0.8		2.0
income strategies					
Goldman Sachs	0.4				
Macquarie	10.2				
Australian listed property					
Ankura	0.5				
Legg Mason	0.5				
Perennial	0.4	1.3	1.3	0.8	1.0
Vanguard	0.6	1.7	1.7	1.2	1.4
global listed property					
CBRE	0.5	0.5	0.8	0.5	0.4
LaSalle	0.5	0.5	0.8	0.5	0.4
Vanguard	1.0	1.0	1.5	1.0	0.8
Australian shares					
Ankura	3.2				
BlackRock Australia	2.2	12.0	14.4	16.4	7.7
GMO	1.3	7.2	8.6	9.8	4.6
Lazard	1.0	5.4	6.5	7.4	4.7
Legg Mason	3.2				
Maple-Brown Abbott					3.6
Schroders	1.0	5.4	6.5	7.4	3.5
international shares					
AllianceBernstein Thematic	0.4	1.4	1.9	2.3	0.9
Arrowstreet	0.8	2.6	3.3	4.2	1.7
Carnegie	0.6	2.0	2.6	3.3	1.3
Enhanced Investment Technologies	1.4	4.8	6.2	7.8	3.1
Epoch	1.0				3.9
Harding Loevner	0.9	3.2	4.1	5.1	2.1
International shares - index	1.4	4.8	6.2	7.8	3.1
LSV	0.6	2.0	2.6	3.3	1.3
Pzena	0.9	3.2	4.1	5.1	2.1
global smaller companies					
Arrowstreet	0.2	0.4	0.8	1.2	0.3
Dimensional	0.1	0.2	0.4	0.6	0.2
Pyramis	0.2	0.4	0.8	1.2	0.3
global emerging markets					
Esemplia	0.4	1.2	1.2	1.6	1.0
Genesis	0.2	0.6	0.6	0.8	0.5
GMO	0.4	1.2	1.2	1.6	1.0
alternative growth					
Canyon	0.3	0.4	0.5	0.6	0.3
Life Finance	0.4	0.6	0.8	1.0	0.5
Gresham	0.2	0.3	0.4	0.5	0.2
Macquarie	0.1	0.1	0.1	0.2	0.1
Nephila	0.4	0.6	0.8	1.0	0.5
TCW	0.7	1.0	1.3	1.7	0.8
Vanguard	2.0	3.0	2.0	2.0	2.4
alternative defensive					
BlackRock Australia	1.0	1.3	1.4		7.4
Macquarie	0.0	0.0	0.0		0.2
Oak Hill	0.2	0.3	0.3		1.6
Prisma	1.6	2.1	2.3		12.1
Transtrend	0.2	0.3	0.4		1.9
total	100.0	100.0	100.0	100.0	100.0

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	5.3	5.5	5.7	1.3
benchmark	5.6	5.5	4.4	5.0	1.2
managers within this sector:					
Macquarie	n/a	n/a	n/a	5.7	1.3

government bonds

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	13.2	2.5
benchmark	n/a	n/a	n/a	12.9	2.5
managers within this sector:					
Antares	n/a	n/a	n/a	19.4	4.6
benchmark	n/a	n/a	n/a	19.3	4.6
Macquarie	n/a	n/a	n/a	12.5	2.3
benchmark	n/a	n/a	n/a	13.0	2.5
Old Mutual	n/a	n/a	n/a	11.4	1.7
PIMCO	n/a	n/a	n/a	12.9	2.5
benchmark	n/a	n/a	n/a	10.6	1.7

multi strategy fixed interest

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	4.2	2.4
benchmark	n/a	n/a	n/a	4.5	1.9
managers within this sector:					
Morgan Stanley	n/a	n/a	n/a	-0.3	2.0
benchmark	n/a	n/a	n/a	1.6	1.6
Kapstream	n/a	n/a	n/a	5.5	1.2
PIMCO absolute return strategies	n/a	n/a	n/a	5.7	1.4
benchmark	n/a	n/a	n/a	5.0	1.2

income strategies

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

gross of fees	7 yrs (% pa)	5 yrs (% pa)	3 yrs (% pa)	1 yr (%)	3 ms (%)
Goldman Sachs	n/a	n/a	n/a	3.3	2.8
Macquarie	n/a	n/a	n/a	10.6	2.0

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)	-7.2	-16.9	3.3	-1.7	3.5
benchmark	-5.7	-15.2	2.3	-1.6	3.8

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	-6.1	17.8	2.6	8.8
benchmark	n/a	-6.4	16.6	1.4	8.3

managers within this sector:

CBRE	n/a	-5.1	17.7	2.6	9.6
LaSalle	n/a	-7.8	16.9	3.9	9.1
Vanguard	n/a	n/a	n/a	2.2	8.3

Australian shares

gross of fees	7 yrs (% pa)	5 yrs (% pa)	3 yrs (% pa)	1 yr (%)	3 ms (%)
sector (DIS 2)	4.9	-1.8	8.1	-9.1	2.4
benchmark	4.4	-2.4	7.7	-11.0	2.1

managers within this sector:

BlackRock Australia	4.7	-2.3	8.5	-9.0	2.5
GMO	n/a	n/a	n/a	-10.3	2.2
Lazard	n/a	n/a	n/a	-9.1	1.1
Schroders	7.0	0.5	10.7	-7.7	3.6

manager(s) also appear in other portfolios:

Ankura	n/a	n/a	n/a	-8.0	2.8
Lazard*	n/a	n/a	n/a	-6.0	2.0
Legg Mason	n/a	n/a	n/a	-9.5	0.8
Maple-Brown Abbott	n/a	n/a	n/a	-11.5	1.2

* 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)	-2.0	-8.5	-2.8	-7.0	2.0
unhedged benchmark	-1.8	-7.5	-2.6	-5.3	2.0
managers within this sector:					
AllianceBernstein Thematic	n/a	n/a	n/a	n/a	-0.4
Arrowstreet	n/a	n/a	-0.5	-5.9	0.7
Carnegie	n/a	n/a	n/a	n/a	2.9
Enhanced Investment Techn	n/a	n/a	-2.1	-1.7	3.4
Harding Loevner	n/a	n/a	n/a	n/a	0.4
International shares - index*	n/a	n/a	-2.2	-4.7	2.0
LSV	-0.5	-7.1	-0.2	-4.3	3.7
Pzena	n/a	n/a	n/a	n/a	2.2
the following manager(s) also appear in other portfolios:					
Epoch	n/a	n/a	n/a	5.8	2.3

* 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	-3.2	10.2	-8.2	2.8
benchmark	n/a	-6.9	2.9	-9.1	2.6
managers within this sector:					
Arrowstreet	n/a	-2.2	12.3	-5.3	2.8
Dimensional	n/a	n/a	n/a	-9.5	1.9
Pyramis	n/a	n/a	n/a	-11.7	2.9

global emerging markets

gross of fees	7 yrs (% pa)	5 yrs (% pa)	3 yrs (% pa)	1 yr (%)	3 ms (%)
sector (DIS 2)	5.5	-3.6	7.0	-19.8	-1.3
benchmark	6.2	-2.8	5.6	-18.4	-1.0
managers within this sector:					
Eemplia	4.2	-5.2	4.1	-25.3	-1.7
Genesis	n/a	n/a	n/a	-14.8	-0.5
GMO	n/a	n/a	n/a	-17.4	-1.6

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.

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	4.0	2.9

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	8.1	12.2	7.1	2.5
benchmark	n/a	5.5	4.4	5.0	1.2

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	20.3	2.0	2.7	1.7	1.2
government bonds	10.9	9.0	4.4	0.0	7.6
multi strategy fixed interest	27.1	15.0	5.0	0.0	12.3
income strategies	10.3	0.0	0.0	0.0	0.0
Australian listed property	2.2	3.3	3.2	2.0	2.7
global listed property	2.0	2.3	3.0	2.2	1.6
Australian shares	12.3	29.9	35.8	40.6	24.5
international shares (1)	8.5	24.4	31.6	39.3	18.1
global smaller companies	0.6	1.6	2.0	3.3	0.8
global emerging markets	0.9	2.9	2.8	3.8	2.1
alternative growth	2.5	5.3	5.1	7.1	3.7
alternative defensive	2.3	4.4	4.2	0.2	25.4
total	100.0	100.0	100.0	100.0	100.0

(1) international shares breakdown

actual allocations (%)	DIS 1	DIS 2	DIS 3	DIS 4	DIS 5
	actual	actual	actual	actual	actual
international shares (unhedged)	4.8	15.7	20.0	24.6	11.8
international shares (hedged)	3.7	8.7	11.6	14.7	6.3
total	8.5	24.4	31.6	39.3	18.1

International exposures for diversified portfolios are generally fully hedged to the Australian Dollar, with the exception of International Shares (breakdown as per table above), global smaller companies and global emerging markets.

geographic exposure

international shares	sector (%)	benchmark (%)
North America	53.1	60.1
Europe (excl UK)	19.9	18.0
UK	11.4	10.2
Asia (excl Japan)	2.4	2.0
Japan	8.7	9.5
Emerging markets	0.0	0.0
Other	4.6	0.3
total	100.0	100.0

global emerging markets	sector (%)	benchmark (%)
Latin America	19.0	22.9
Asia ex-Japan	48.0	59.0
EMEA & other	33.0	18.1
total	100.0	100.0

global listed property	sector (%)	benchmark (%)
North America	55.8	51.0
Europe (excl UK)	8.4	8.8
UK	5.5	4.7
Japan	7.2	9.9
Asia ex-Japan	22.9	25.7
Other	0.3	0.0
total	100.0	100.0

government bonds	sector (%)
Australia	76.4
North America	10.9
Europe (excl UK)	8.6
UK	2.2
Asia	0.0
Japan	0.0
Emerging markets	0.4
Other	1.5
total	100.0

multi strategy fixed interest	sector (%)
Australia	10.8
North America	58.4
Europe (excl UK)	18.0
UK	10.6
Asia	0.0
Japan	0.3
Emerging markets	1.9
Other	0.1
total	100.0

industry exposure

Australian shares	sector (%)	benchmark (%)
Consumer Discretionary	4.1	3.9
Consumer Staples	7.8	8.0
Energy	6.0	7.1
Financials excl A-REITs	32.2	32.2
Healthcare	4.7	3.6
Industrials	7.2	7.2
IT	0.7	0.7
A-REITs	4.0	6.2
Materials	25.4	25.1
Telecoms	5.5	4.5
Utilities	2.4	1.6
total	100.0	100.0

international shares	sector (%)	benchmark (%)
Consumer Discretionary	11.2	10.6
Consumer Staples	11.4	11.1
Energy	12.0	12.0
Financials	16.1	16.6
Healthcare	10.5	10.8
Industrials	10.2	11.3
IT	15.7	12.5
Materials	6.2	6.5
Telecoms	4.5	4.5
Utilities	2.3	4.1
total	100.0	100.0

Australian listed property	sector (%)	benchmark (%)
Commercial	7.2	8.7
Diversified	35.9	37.5
Hotel	0.0	0.0
Industrials	8.0	6.1
Retail	47.6	47.8
Other	1.3	0.0
total	100.0	100.0

top holdings

Australian shares	allocation (%)
BHP BILLITON LTD	10.1
COMMONWEALTH BANK OF AUSTR	7.5
WESTPAC BANKING CORP	6.5
NATIONAL AUSTRALIA BANK LTD	5.9
AUST AND NZ BANKING GROUP	5.8
TELSTRA CORP LTD	4.5
WOOLWORTHS LTD	3.5
WESFARMERS LTD	3.0
RIO TINTO LTD	2.3
WOODSIDE PETROLEUM LTD	2.2
NEWCREST MINING LTD	2.0
CSL LTD	2.0
BHP BILLITON PLC	1.6
WESTFIELD GROUP	1.5
AMCOR LIMITED	1.5
SUNCORP GROUP LTD	1.5
QBE INSURANCE GROUP LTD	1.4
BRAMBLES LTD	1.4
ORIGIN ENERGY LTD	1.2
TRANSURBAN GROUP	1.2

global smaller companies	allocation (%)
ALASKA AIR GROUP INC	0.8
TEMPUR PEDIC INTERNATIONAL	0.8
SALLY BEAUTY HOLDINGS INC	0.7
ARIBA INC	0.6
COGENT COMMUNICATIONS GROU	0.6
WESCO INTERNATIONAL INC	0.6
ASHLAND INC	0.5
COLFAX CORP	0.5
RACKSPACEHOSTING INC	0.5
AMERICAN EQUITY INVT LIFE HL	0.5

international shares	allocation (%)
EXXON MOBIL CORP	1.5
APPLE INC	1.4
VODAFONE GROUP PLC	1.3
MICROSOFT CORP	1.1
GOOGLE INCCL A	1.1
BRITISH AMER TOBACCO	1.1
HEWLETT PACKARD CO	0.9
STANDARD CHARTERED PLC	0.9
NESTLE SAREG	0.8
PHILIP MORRIS INTERNATIONAL	0.8
BP PLC	0.7
FANUC CORP	0.7
HDFC BANK LTD	0.7
WELLS FARGO + CO	0.7
ROCHE HOLDING AG GENUSSCHEIF	0.7
NOVARTIS AG	0.6
CHEVRON CORP	0.6
ABBOTT LABORATORIES	0.6
GLAXOSMITHKLINE PLC	0.6
GAZPROM O A O	0.6

global emerging markets	allocation (%)
SAMSUNG ELECTRONICS CO LTD	4.9
ITAU UNIBANCO BA MULTIPLO SA	2.7
IND + COMMBK OF CHINA H	2.2
VALE SA SP ADR	2.1
SHINHAN FINANCIAL	2.0
GAZPROM O A O	1.9
CHINA CONSTRUCTION BANK H	1.8
TAIWAN SEMICONDUCTOR MANUF/	1.8
HON HAI PRECISION INDUSTRY	1.7
ANGLO AMERICAN	1.7

top holdings

Australian listed property	allocation (%)
WESTFIELD GROUP	26.8
STOCKLAND	12.2
WESTFIELD RETAIL TRUST	11.9
GPT GROUP	7.7
MIRVAC GROUP	7.6
CFS RETAIL PROPERTY TRUST	7.2
DEXUS PROPERTY GROUP	6.8
GOODMAN GROUP	6.7
COMMONWEALTH PROPERTY OFFICE	3.7
ING OFFICE FUND	3.0

global listed property	allocation (%)
SIMON PROPERTY GROUP INC	6.3
EQUITY RESIDENTIAL	2.9
WESTFIELD GROUP	2.8
BOSTON PROPERTIES INC	2.7
VORNADO REALTY TRUST	2.7
PUBLIC STORAGE	2.7
AVALONBAYCOMMUNITIES INC	2.6
VENTAS INC	2.6
UNIBAIL RODAMCO SE	2.5
PROLOGIS INC	2.3
HCP INC	2.2
HOST HOTELS + RESORTS INC	1.9
MITSUBISHI ESTATE CO LTD	1.6
GENERAL GROWTH PROPERTIES	1.5
STOCKLAND	1.5
SUN HUNG KAI PROPERTIES	1.4
HEALTH CARE REIT INC	1.3
LINK REIT	1.3
WESTFIELD RETAIL TRUST	1.2
MACERICH CO/THE	1.2

total, income and growth financial year returns

net of fund fees	FY '04	FY '05	FY '06	FY '07	FY '08	FY '09	FY '10	FY '11
Diversified Investment Strategy No 1								
1 yr rolling return	8.6	11.0	9.4	10.2	-2.9	-6.9	12.7	9.1
1 yr growth	6.6	1.8	1.7	-1.6	-10.9	-9.8	8.1	0.2
1 yr distribution	2.0	9.2	7.8	11.9	8.0	2.9	4.6	8.9
Diversified Investment Strategy No 2								
1 yr rolling return	15.5	14.6	16.5	17.0	-12.0	-15.7	13.3	11.6
1 yr growth	11.9	7.5	10.9	4.7	-20.5	-18.1	8.8	1.6
1 yr distribution	3.5	7.2	5.6	12.3	8.5	2.4	4.5	10.1
Diversified Investment Strategy No 3								
1 yr rolling return	17.6	14.9	18.0	18.9	-14.7	-18.0	13.2	12.6
1 yr growth	13.0	8.6	12.9	7.4	-24.2	-20.1	9.6	2.9
1 yr distribution	4.6	6.3	5.1	11.6	9.5	2.2	3.7	9.7
Diversified Investment Strategy No 4								
1 yr rolling return	20.3	15.0	20.8	21.0	-18.0	-22.5	13.0	12.7
1 yr growth	17.0	9.1	15.8	10.0	-26.4	-24.3	9.7	2.5
1 yr distribution	3.2	5.9	5.0	11.0	8.4	1.8	3.3	10.2
Diversified Investment Strategy No 5								
1 yr rolling return	n/a	n/a	n/a	18.5	-11.2	-17.4	13.4	11.9
1 yr growth	n/a	n/a	n/a	5.5	-18.6	-19.6	8.1	1.1
1 yr distribution	n/a	n/a	n/a	12.9	7.4	2.2	5.3	10.8

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	5.5	3.5	9.2	3.4	2.4
SAA return	5.0	3.0	6.1	2.8	2.2
Diversified Investment Strategy No 2	4.4	-0.3	8.4	-2.3	2.9
SAA return	3.8	-0.7	6.6	-2.5	2.7
Diversified Investment Strategy No 3	3.9	-1.4	8.4	-4.2	3.0
SAA return	3.5	-1.7	6.8	-4.6	2.9
Diversified Investment Strategy No 4	2.8	-3.5	7.4	-6.5	3.0
SAA return	2.6	-3.6	6.2	-6.6	3.0
Diversified Investment Strategy No 5	n/a	-0.1	8.8	0.4	2.6
SAA return	n/a	-0.5	5.5	-1.0	2.5

gross of fund fees	2007 (%)	2008 (%)	2009 (%)	2010 (%)	2011 (%)
Diversified Investment Strategy No 1	5.8	-13.7	16.6	7.9	3.4
SAA return	5.6	-7.9	9.5	5.9	2.8
Diversified Investment Strategy No 2	6.8	-27.8	22.7	6.4	-2.3
SAA return	6.6	-25.4	17.9	5.3	-2.5
Diversified Investment Strategy No 3	7.1	-31.7	25.4	5.9	-4.2
SAA return	7.0	-29.6	21.6	4.9	-4.6
Diversified Investment Strategy No 4	7.2	-37.0	25.6	5.5	-6.5
SAA return	7.0	-34.9	22.3	4.8	-6.6
Diversified Investment Strategy No 5	4.3	-25.8	19.1	7.6	0.4
SAA return	5.5	-21.2	12.5	5.3	-1.0

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
government bonds	Customised benchmark
multi strategy fixed interest	Customised benchmark
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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