

talking points March Quarter 2010

DIS Multi-manager portfolios

a positive start to the year

Investor sentiment continued to improve during the first quarter of 2010 as the economic outlook brightened. Against this backdrop, the market rewarded companies with good medium term prospects. The DIS portfolios were well positioned for these conditions.

Portfolios performed strongly in the year to 31 March 2010

Portfolio returns were strong in the year to 31 March 2010. Performance in the March quarter was solid. The table below shows the performance of the DIS portfolios. Returns were boosted by manager performance. Longer term performance continued to improve. Performance was competitive with multi-manager peers.

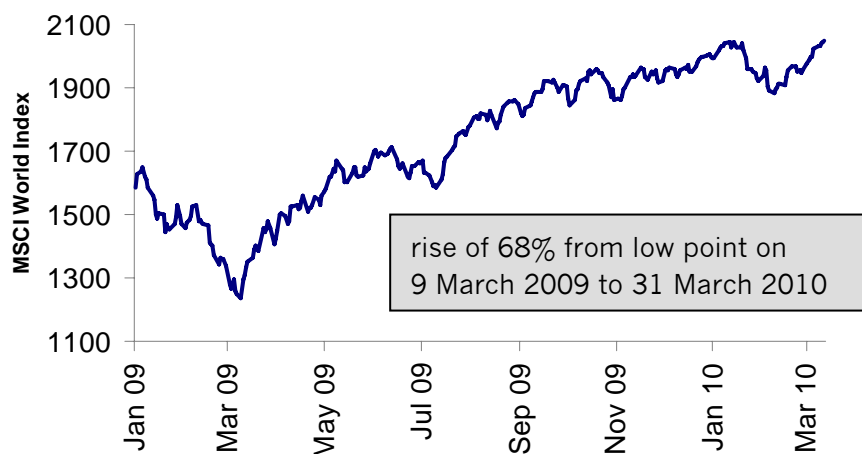
	DIS 1	DIS 2	DIS 3	DIS 4	DIS 5
March quarter 2010	2.6	2.2	2.3	2.1	2.5
Year to 31 March 2010 (% pa)	22.0	30.9	34.7	37.0	28.4
Five years to 31 March 2010 (% pa)	5.2	4.8	4.5	3.6	n/a

source: ipac. Data as at 31 March 2010. Performance is net of all fund fees. Past performance is not indicative of future performance.

spectacular turnaround in share markets

What a difference a year makes. The worst of the Global Financial Crisis (GFC) is over. Global sharemarkets have risen strongly from the low of a year ago. The graph below measures the collective performance of the major sharemarkets from 9 March 2009 to 31 March 2010.

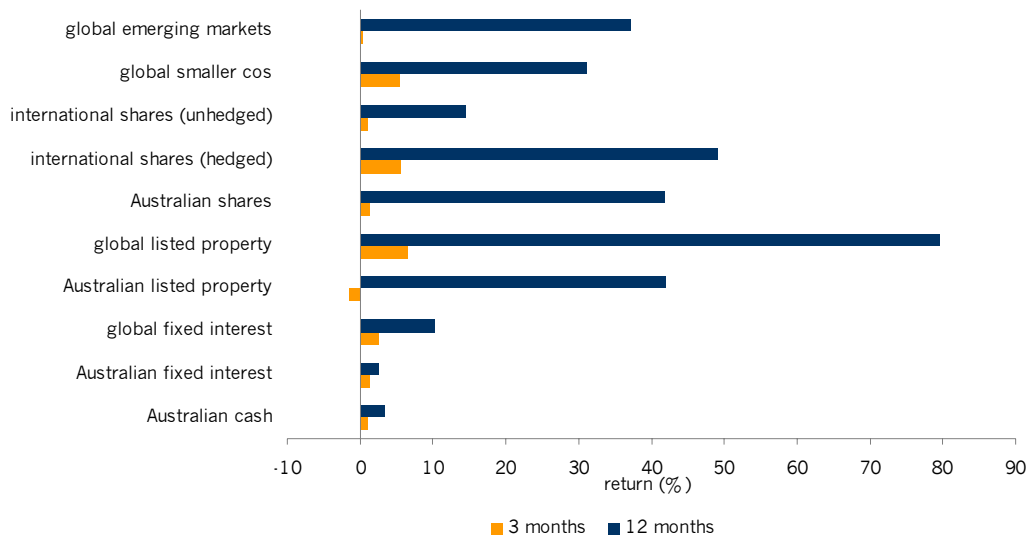
The significant rebound in global sharemarkets was captured



Source: Datastream, MSCI World Index (net dividends reinvested) in local currency. Data from 31 December 2008 to 31 March 2010.

every asset class added value for the year

Investors had exposure to asset classes that surged post the Global Financial Crisis



source: UBSA Composite Bond (All Maturities) Index, Barclays Capital Global Aggregate (hedged) Index, S&P/ASX 300 A-REIT Index, UBS Global Investors Index in A\$ Hedged Net Div, S&P/ASX 300 Accumulation Index, MSCI World ex-Australia Indices (hedged and unhedged – ipac’s international share exposure is 50% hedged), MSCI World Small Cap Unhedged (A\$) Index, MSCI EM in A\$ (with div reinvested). Data as of 31 March 2010. Past performance is not indicative of future performance.

Portfolio performance over the 12 months to 31 March 2010 was driven by:

- ~ Portfolios captured the strong return from domestic and global share markets.
- ~ Increased diversification was beneficial – global property, global emerging markets, global smaller companies and alternative investments have added value. For example, global property was up 80% for the year to 31 March.
- ~ Active management came to the fore. Manager performance was particularly strong in the smaller asset classes where managers used their information advantage to enhance the significant index return.
- ~ Positions in corporate credit helped performance as credit markets improved.

We have seen a short term bounce in many economies, and the potential exists for some regions, such as emerging Asia, to grow robustly for a period. However, the combination of a cautious banking system and a stressed household sector in some developed economies will limit overall global activity for a number of years.

Investment markets have solid return prospects from current price levels

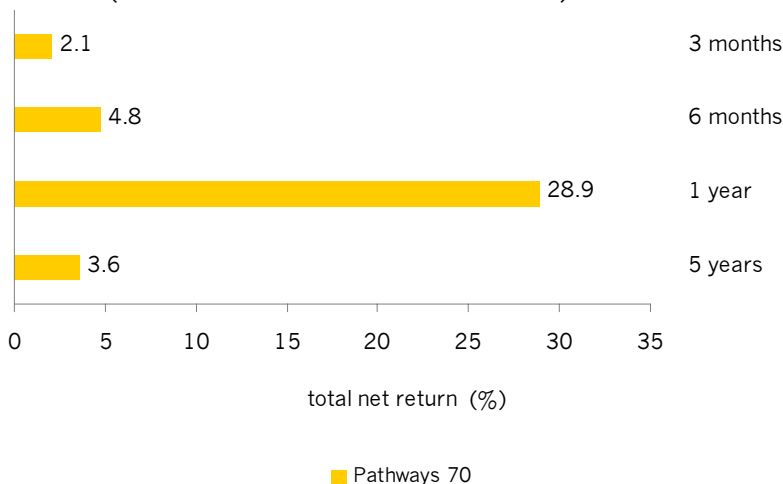
The fiscal stimulus introduced in response to the GFC has, in effect, borrowed from future growth and contributed to a rapid deterioration in public sector deficits. Bond market investors, who fund these deficits, are now demanding that governments in advanced economies commit to credible policies to stabilise public sector debt over the medium term. The current debt problems in Greece illustrate how this tension can unsettle investment markets.

ipac believes that investment markets offer solid return prospects from current price levels. However, the sources of the best opportunities are changing. ipac is responding by adding alternative investments that provide similar returns to traditional growth assets but also enhance overall portfolio diversification by being exposed to different economic drivers. Within the equity portfolios our managers are pursuing three key themes:

- ~ quality companies that dominate their sector and can take market share from their weaker competitors
- ~ companies with high sales penetration in emerging economies
- ~ companies that can deliver high dividend levels to their shareholders on a sustainable basis.

portfolio performance boosted by share exposure

Fund performance to 31 March 2010 benefited from the change in fortunes in share markets (as shown in the chart below for DIS 70). The 12 months return is high.



source: ipac. Data as at 31 March 2010. Performance is net of all fund fees. Past performance is not indicative of future performance.

The Australian shares sector outperformed for the year to 31 March 2010

Australian shares

The Australian sharemarket has powered ahead in the year to the end of March, up 41.9%. The bulk of the 12 month return came in the period from April to the end of September. The index return for the March quarter was 1.3%. The sector return for the March quarter was 1.3%, matching the index return. Over the full year, the sector return was ahead of the benchmark.

The Australian shares sector takes advantage of insights with different time horizons. Some active positions seek to benefit from a short term change in investor sentiment. More fundamental research looks for opportunities where the company is attractively priced relative to the longer term outlook for the business. Stocks in the portfolio are spread across a range of sectors and in companies both large and small.

In the March quarter, **Macarthur Coal** was an example of an active position that rode the wave of market momentum.

Macarthur Coal is the world's largest producer of coal used for making steel. The company operates two mines in Queensland, with others in development, and is a large exporter. Merger and Acquisition action fuelled the share price. Macarthur Coal was initially the predator looking to acquire smaller miners before becoming a takeover target. Peabody Energy, a US based company, has made a takeover bid for the company. Strong performance over preceding quarters led the sector to be overweight in the March quarter on the expectation that this momentum often leads to further outperformance. The sector benefited from the continued price surge, in the March quarter, with the share price up 25%.

Shorter term insights, like the holding in Macarthur Coal, are combined with longer term positions in companies like Corporate Express and Iluka Resources

The ability of ipac's managers to identify longer term opportunities was also evident in the March quarter.

Corporate Express is a leading provider of office supplies. Products range from office paper and stationery through to business machines, office furniture and computer supplies. The share price had not recovered to any great extent in the market rally but manager insights suggested it was under valued on a long term view. The share price rose 41% in the March quarter. The rise was helped by a bid from majority owner, Staples, to buy out the listed equity they do not own.

Iluka Resources is a mining company based in Western Australia. The core business is the production and processing of mineral sands. Products produced using mineral sands have a wide range of consumer, lifestyle and industrial applications such as the pigment used in paints, use in chemicals and metal applications. Iluka Resources had not seen the price rises of other commodities based companies over the last 6-12 months. Management efforts to improve the asset base, better pricing dynamics and an earning uplift from royalties from their iron ore exposure were recognised by the market in the March quarter. The share price rose 22% in the March quarter.

international shares

ipac's international shares sector outperformed for the year to 31 March 2010

ipac's international shares sector outperformed for the year to 31 March 2010. The sector underperformed for the quarter. The hedged benchmark returned 49.1% for the year to 31 March 2010 (MSCI World ex Australia index with net dividends reinvested). The unhedged return was 14.5%. For the quarter, the returns were 1.1% for the unhedged index and 5.5% for the hedged benchmark.

ipac's international shares sector is well diversified across industries, countries and currencies. An overweight position in Financials benefited the sector in the March quarter. The sector seeks companies that have the potential to add value over the medium to long term.

The sector was overweight telecommunication giant, **Nokia**. Based in Finland, Nokia makes a range of mobile phone devices and associated software. During the quarter, the Nokia share price appreciated 29% on the back of positive earnings in the fourth quarter of 2009 that included increased sales, significant market share gains and a return to profitability of its network business.

Another standout performer was the overweight position in the Japanese company, **Orix Corporation**. Orix provides leasing, instalment loans, real estate loans, life insurance and consumer finance throughout the world. The share price of Orix rose 32% in the March quarter. The sector had a significant overweight position in this company believing, rightly, that Orix would gain from an improvement in the Japanese wholesale funding market and easing liquidity conditions.

Apple is another overweight holding. The stock rose 12% in the quarter. Apple designs, manufactures and markets personal computers and related personal computing and mobile communication devices. The company also produces a variety of related software, services, and networking solutions.

liquidity of portfolios an advantage

We continue to scrutinise our managers and identify new opportunities including further investments in alternative assets

The portfolios have a high level of liquidity. This high level of liquidity was very beneficial through the Global Financial Crisis. While others were forced to sell at discount prices, we moved quickly to invest in opportunities that had good return potential as well as diversification benefits.

Among the opportunities, were investments in alternative strategies that were well placed to benefit as economic conditions stabilised. We have also added exposure to new asset classes entering these markets at attractive prices.

We continue to diversify portfolios and access new opportunities, including further investments in alternative assets. While ipac has an eye for new opportunities, we maintain close scrutiny of the current managers to ensure they retain their investment edge and business strength.