

ipac restructures international shares sector of Diversified Investment Strategy No. 5

ipac has made a number of changes to the managers appointed within Diversified Investment Strategy No. 5, as well as changes to asset allocation, over the past 12 months. The changes aim to position the portfolio to achieve its objectives which are:

- ~ be more resilient in periods of market weakness than the corresponding balanced portfolio, Diversified Investment Strategy No. 2
- ~ to deliver a similar long-term return as the corresponding balanced portfolio, Diversified Investment Strategy No. 2

This newsnote explains recent changes within the international shares sector of Diversified Investment Strategy No. 5 that aim to improve the portfolio's resilience. This is occurring through:

1. the appointment of a new manager that is focussed on delivering resilience
2. increased diversification of manager processes

1. appointment of Epoch Investment Partners Global Equity Shareholder Yield

Approximately 20 per cent of the international shares sector of Diversified Investment Strategy No. 5 has been allocated to Grant Samuel Epoch Investment Partners' (Epoch) Global Equity Shareholder Yield Strategy. Epoch is an active manager that will play a defensive role within international shares, and is expected to be more resilient in falling markets. The manager seeks to generate active returns with less volatility than the global equity market by targeting companies that offer:

- ~ higher earnings certainty
- ~ high 'shareholder yield' *
- ~ positive underlying growth of free cash-flow

Epoch invests in quality companies and management teams that have the capacity to consistently generate and grow free cash-flow. Companies that use that cash-flow to increase shareholder yield are deliberately targeted. A key element of the manager's process is to strictly control the risk of failure by management to deliver growth in operating cash-flow and shareholder yield. Epoch continually monitors each company's operating performance and use of their free cash-flow.

In addition to the defensive characteristic of Epoch's portfolio, the manager's focus on free cash-flow and shareholder yield makes the strategy an ideal complement to the new active manager line-up detailed below.

Further information about Epoch and its investment process is provided in the attached manager profile.

* Epoch defines shareholder yield as cash dividends, share buybacks and debt reduction

2. appointment of additional managers to diversify international shares

Enhancements have been made to the overall portfolio construction of the international shares sector to support the achievement of the portfolio's objectives. In addition to incumbent managers Bernstein Value, LSV and index managers Vanguard and BGI, ipac has appointed GMO, Enhanced Investment Technologies, Arrowstreet and Alliance Growth to the international shares sector. Each bring their own source of return and value-add, serving to diversify the portfolio. Manager allocations can be found on the following page.

Diversified Investment Strategy No. 5 International Shares Sector – manager allocations		
incumbent managers	description	allocation (%)
Bernstein Value	Fundamental bottom-up research driven value process	12.3
LSV	Quantitative manager with a deep value orientation and mid- to small-cap bias	5.9
Vanguard/BGI	Index managers	20.0
new managers	description	allocation (%)
Epoch	Defensive shareholder yield strategy, targeting companies that generate and grow free cash-flow	21.3
GMO	Quality oriented growth companies	12.3
Enhanced Investment Technologies	Mathematical process offering increased diversification of sector	10.3
Arrowstreet	Quantitative multi-factor exposure to value and quality stocks	7.3
Alliance Growth	Fundamental bottom-up research driven growth process	10.6
Total		100.0

previous changes made to sector

These latest enhancements continue the evolution of Diversified Investment Strategy No. 5, improving the ability of the portfolio to meet its stated goals. Earlier changes to the sector include:

- ~ allocation to ipac Diversified Alpha Fund, including the appointment of Prisma Capital Partners
- ~ introduction of currency exposure
- ~ introduction of Global Emerging Market equities for DIS No. 1
- ~ introduction of International Smaller Companies for DIS No. 1
- ~ increased exposure to alternative investments
- ~ reduction in allocation to Australian Listed Property and Global Listed Property

Further details of these changes can be found in the following newsnotes:

change	Newsnote	date
Allocation to ipac Diversified Alpha Fund	ipac launches Diversified Alpha Fund and appoints Prisma as a new manager	April 2008
Introduction of currency exposure	Currency exposure introduced to Diversified Investment Strategy No. 5	May 2008
Introduction of Global Emerging Markets for DIS No. 1	Enhancements to Strategic Asset Allocation: Part 1	May 2009
Introduction of International Smaller Companies for DIS No. 1	Enhancements to Strategic Asset Allocation: Part 1	May 2009
Increased exposure to alternative investments	Enhancements to Strategic Asset Allocation: Part 1	May 2009
Reduction in allocation to Listed Property	Enhancements to Strategic Asset Allocation: Part 1	May 2009

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