

Fund Manager



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Head of Multi-asset

Net performance

| Periods | Fund % | Benchmark % | Value added % |
|------------------------|--------|-------------|---------------|
| 1 month | -5.06 | -4.38 | -0.68 |
| 3 months | -8.71 | -7.91 | -0.80 |
| 6 months | -7.91 | -9.09 | 1.18 |
| 1 year | -1.02 | -1.55 | 0.53 |
| 2 years p.a. | -0.12 | 1.33 | -1.45 |
| 3 years p.a. | -0.88 | 1.34 | -2.22 |
| 5 years p.a. | -2.51 | 0.32 | -2.83 |
| 10 years p.a. | 3.55 | 4.92 | -1.37 |
| Calendar year to date | -4.51 | -5.72 | 1.21 |
| Financial year to date | -8.71 | -7.91 | -0.80 |
| Since inception p.a. | 7.02 | 8.52 | -1.50 |

The Fund returns are shown after ongoing fees and assumes reinvestment of income. Past returns are not a reliable indicator of future returns. Future returns may be affected by a range of factors including economic and market influences.


Net distribution growth splits

| Periods | Distribution % | Growth % | Total % |
|---------------|----------------|----------|---------|
| 3 months | 5.28 | -13.99 | -8.71 |
| 6 months | 5.33 | -13.24 | -7.91 |
| 1 year | 5.73 | -6.75 | -1.02 |
| 2 years p.a. | 3.56 | -3.68 | -0.12 |
| 3 years p.a. | 3.67 | -4.55 | -0.88 |
| 5 years p.a. | 6.99 | -9.50 | -2.51 |
| 10 years p.a. | 7.10 | -3.55 | 3.55 |

Fund analysis (as at 30 September 2011)

| Periods | Fund % | B'mark % |
|----------------------------|--------|----------|
| Australian Shares | 38.12 | 38.00 |
| Global Shares | 27.69 | 26.00 |
| Australian Listed Property | 0.00 | 0.00 |
| Global Listed Property | 7.43 | 8.00 |
| Australian Fixed Interest | 19.33 | 19.00 |
| Global Fixed Interest | 0.00 | 0.00 |
| Commodities | 4.41 | 4.00 |
| Cash | 3.02 | 5.00 |

Fund facts at a glance

| | |
|-------------------------------|---|
| Asset class | Diversified |
| Management style | Invests in a range of asset classes to provide long term capital growth, with some income |
| Benchmark | 38% Australian Shares, 26% global shares, 8% global property securities, 19% Australian fixed interest, 4% commodities, 5% cash |
| Risk profile |  |
| Time horizon | 5 years |
| Distribution frequency | Half-yearly |
| Inception date | 31/12/90 |
| Minimum investment | \$20,000 |
| MER/ICU | 1.09% |
| APIR code | CNA0806AU |

Monthly commentary

Market review

For growth assets, the third quarter in 2011 was the worst since the depths of the 2008 financial crisis. Where before the concern was a leveraged global banking system (especially in the US), the worry now relates to the solvency of Eurozone nations, and the knock-on effect a default would have on the local and global banking systems. Having been processing poor news from Europe for close to two years, the market's main concerns are now:

- The effect of a Greek (or Irish/Portuguese) default on European banks (particularly French banks)
- The possibility of contagion to the Spanish and Italian bond markets – these are much larger in size and present a large problem for the entire banking system
- The form and feasibility of solutions to the problems – potential solutions include an expanded and/or leveraged European Financial Stability Facility (EFSF), the issue of Eurobonds, increased fiscal union, or even a break-up of the common currency union
- The unpredictable nature of politics many of the incremental bailouts or key decisions need to be voted on by each Eurozone nation, where there is surely only a finite amount of will to help out ailing neighbours
- The reliance on the ECB and the IMF for continued support
- On top of these Euro-specific issues, investors are worried about stagnating US and European economies, and the potential that has to derail Asian growth.

Stock markets fell sharply throughout the world; US stocks fell over 14%, Australian stocks were down 13%. European stocks, particularly financials, performed worst of all despite the introduction of short-selling bans, with the German DAX index falling over 25%. Conversely, government bonds had one of the best quarters in history. Investors in long-duration US bonds would have experienced returns in excess of 15% over the quarter, as 30 year US bond yields fell 1.46% to 2.91%. In comparison, yields rose in the troubled Italian market, with 10-year yields rising 0.66% to 5.54%. These large falls in longer-term US yields were driven partly by the flight to safety and general sense of risk aversion, but also partly by the announcement of 'Operation Twist' by the US Federal Reserve in September. The Fed, aiming to reduce long-term interest rates to spur demand in the economy, will switch around US\$400bn of its short-term treasury holdings into long-term treasuries.

Australian bonds rallied along with US treasuries, with the 10-year yield falling almost 1% to 4.22%. The Reserve Bank of Australia kept interest rates steady at 4.75% throughout the quarter, though short term interest rate curves suggested the market was hedging for a worst-case scenario that would require an emergency cut. In its communications to the market, the RBA noted the deteriorated global outlook but saw no signs of funding strains for Australian banks, and was careful to remain hawkish in light of higher than expected second quarter inflation and a large pipeline of capital expenditure. Australian three year bonds outperformed longer bonds as the yield curve bull steepened along with the pricing in of lower cash rates. Credit spreads widened dramatically in response to the global uncertainties, with the Aussie ITraxx rising 90 bps from 108 bps to 198 bps. Hedged Global REITs fell 10.55%. Hedged global equities fell 6.10%, though hedged global equities actually rose 0.67% due to the falling Australian dollar.

Contributors to performance

The Fund underperformed its benchmark for the quarter. Stock selection in Australian and global equities and Australian fixed income, and asset allocation, all contributed to the underperformance, while commodities stock selection was slightly positive.

Market outlook and portfolio strategy

The RBA has consistently surprised markets with its fairly hawkish or balanced tone. Throughout the last quarter, it stressed the high terms of trade and health of Australia's major trading partner, China, as well as the large list of capital projects expected to contribute to inflation pressures. Noting the situation in Europe, it has adopted a wait-and-see approach. The October meeting statement showed a small but significant shift in language, declaring that "an improved inflation outlook would increase the scope for monetary policy to provide some support to demand, should that prove necessary. The possibility of future rate cuts has risen, but will still depend on data that indicates slowing inflation.

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