

Fund Manager



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Head of Multi-asset

Net performance

Periods	Fund %	Benchmark %	Value added %
1 month	0.29		0.29
3 months	-0.69		-0.69
6 months	0.19		0.19
1 year	3.16		3.16
2 years p.a.	3.00		3.00
3 years p.a.	3.59		3.59
5 years p.a.	3.61		3.61
10 years p.a.	4.70		4.70
Calendar year to date	2.03		2.03
Financial year to date	-0.69		-0.69
Since inception p.a.	6.23		6.23

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	3.30	-3.99	-0.69
6 months	3.33	-3.14	0.19
1 year	4.96	-1.80	3.16
2 years p.a.	3.79	-0.79	3.00
3 years p.a.	3.58	0.01	3.59
5 years p.a.	4.30	-0.69	3.61
10 years p.a.	4.17	0.53	4.70

Fund analysis (as at 30 September 2011)

Asset Allocation	Fund %
Australian Shares	0.00
Global Shares	1.39
Australian Listed Property	0.00
Global Listed Property	0.00
Australian Fixed Interest	62.83
Global Fixed Interest	0.00
Commodities	0.00
Cash	35.78

Fund facts at a glance

Asset class	Diversified
Management style	Invests in a range of asset classes to provide medium term growth and to avoid a negative return over a 12 month period from 1 July to 30 June
Risk profile	
Time horizon	3 years
Distribution frequency	Half-yearly
Inception date	31/12/90
Minimum investment	\$20,000
MER/ICU	1.09%
APIR code	CNA0805AU

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 aims to provide capital growth over the medium to long term, and to protect the capital value of an investment to avoid a negative return over a defined 12-month period (after management fees and taxes). Performance was driven by the dynamic hedging protection mechanism maintaining its exposure to growth assets given the current stage in the protection period.

The Fund began a new protection program at 30 June 2011, and is currently aiming to protect capital value at 30 June 2012. Despite being invested conservatively, the Fund lost some value over the quarter as credit and equity markets declined significantly. We reduced exposure to risky assets at a fairly early stage, so we now have the capacity to invest prudently for the remainder of the protection program. In addition, the specific goal of the Fund helped to reduce the decline in value, especially when compared with typical balanced fund strategies.

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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