

Performance statistics – Sep Q12

Markets	30 Sep 2012	Qtrly % Change
All Ordinaries	4,406	6.6%
Banks	6,470	10.4%
Materials	9,929	5.1%
Industrials	3,297	1.7%
Real Estate	2,144	5.7%
US S&P 500	1,441	5.8%
UK FTSE 100	5,742	3.1%
Japan Nikkei	8,870	-1.5%
German DAX	7,216	7.2%
Shanghai Comp	2,086	-6.3%
Hang Seng	20,840	12.8%
RBA Cash Rate	3.25%	-25bp
90-Day bill rate	3.36	-0.17%
10-year bond	3.00	-0.04%
Oil (WTI) \$US	\$92.01	8.3%
Gold \$US	\$1,774	10.6%



Reflating America

The US Federal Reserve's quantitative easing program is reflating asset prices in the US. First, the bond market, then the equity market and now the housing market is the next target.

Will reflation of asset prices lead to economic growth and new jobs? We are sceptical...

Not satisfied with just a low cash rate, the Fed has taken action to lower the whole yield curve by buying up government bonds and mortgage securities via a number of asset purchase programs otherwise known as "Quantitative Easing I, II and III".

Quantitative Easing (QE) is also called money printing because the central bank buys assets with newly created money. The Fed expands its balance sheet and puts new money into the financial system. This sounds inflationary, and it can be, but to date QE has only inflated asset prices (mostly bonds and shares and to a lesser degree commodities) rather than the prices of goods and services.

The reasons QE has not led to widespread inflation are threefold. First, the new money is being used by fragile banks to build their reserves and is not entering the economy via new loans. Second, households are deleveraging and there is excess capacity in the economy which creates downward pressure on prices or deflation. Third, the inflationary impact of a weaker currency and higher oil prices have proven transitory with the deflationary forces of a global slowdown soon re-establishing themselves.

QE has indeed contributed to low bond yields and mortgage rates, which in turn has lent support to bond and equity markets, and a nascent recovery in the housing market. But so far, higher asset prices have not led to a major increase in demand nor jobs.

US GDP growth remains stuck at 1.3% and the unemployment rate remains elevated at 7.8%. In reality, the labour market is worse than the headline unemployment rate suggests, as the participation rate has fallen to only 63.5%, which is the lowest participation rate since 1981. Put simply, many have given up looking for work and are not even measured in the unemployment rate.

So it is debatable whether QE has made much of an impact on the real economy but of course we don't know what would have occurred without it. And the US Fed is not the only central bank employing QE; all the other major central banks – the Bank of Japan, the Bank of England and the European central bank – have implemented quantitative easing to some degree.

The problem with QE

QE adds liquidity to the financial system, it leads to a weaker currency, rising assets prices and keeps bond yields low. This mainly benefits financial institutions and the government (in terms of lower interest costs). The problem with QE is that it alters the risk and reward signals in the economy. Banks are reluctant to lend to households and businesses (it's too easy to make money in financial markets), and governments no longer want to make the hard decisions to rein in their budget deficits (the cost of government debt is lowered and the central bank is a buyer of last resort). In addition, low interest rates discourage savers and reward borrowers. Investment suffers as the savings pool shrinks and companies hold back investment fearing the eventual consequences of a growing budget deficit (i.e. government spending cuts and increased taxes).

The ultimate outcome is that Europe and the US could be headed for a Japan-style period of low growth because high debt levels and structural problems in the economy are not addressed in favour of easy policies.

Normally, deficit spending and central bank money printing would cause a massive depreciation in the local currency and in-turn cause hyper-inflation (as occurred in Zimbabwe or Argentina) but because all the major central banks of the world are involved in money printing and the USD, Euro, Pound and Yen are only measured against each other, their relative values are maintained (one absolute is gold and this is why the gold price has been rising).

So central bank money printing could go on for years (as it has in Japan) but endless budget deficits and the continual accumulation of government debt will eventually lead to a loss of investor confidence in the administration. What will follow is rising interest rates and/or a currency crash for the country that financial markets lose confidence in first. At some stage, each government will need to cut its spending and the central bank will need to unwind its balance sheet.

Prepare for inflation or deflation?

Post GFC, banks, companies, households and governments all needed to deleverage. Companies have largely deleveraged but banks and households are still in the process of deleveraging and governments will be the last to deleverage (given their supporting role to the banks and the economy). So the deleveraging cycle will go on for the rest of this decade, at least. Normally, deleveraging leads to falling asset and consumer prices, or deflation, as demand retreats and excess capacity builds. It is often called “debt-deflation”.

But central banks have provided unprecedented stimulus and this has held asset prices firm but consumer prices remain weak. We also note that each QE program seems to have diminishing effect.

With banks, households and governments still in need of deleveraging, we expect deflation to remain as the dominant force. This means QE efforts should only lead to modest inflation. However, if central banks keep upping the stakes with their QE programs and governments fail to act on budget deficits, there is an increasing chance that a country will experience a major currency depreciation and as a result, high inflation. This would be a bad type of inflation as the country would experience rising import prices and higher interest rates. As a result, its bond and equity markets would experience major weakness.

Conclusion

Post GFC, deleveraging and deflation are overwhelming forces. These forces have been met with unprecedented monetary and fiscal stimulus. This has cushioned the impact but the deflationary forces remain and the stimulus “powder” is running low. More needs to be done on debt restructure and economic reforms but these are hard decisions that policymakers are trying to avoid. As a result, we see a period of low growth and very low interest rates.

With that view, we are maintaining a neutral asset allocation. **Australian Equity**, **International Equity** and **Property (A-REIT)** weightings are neutral. **Australian Bonds** are also neutral while **International Bonds** remain at underweight. Lastly, the **Cash** weighting remains at overweight.

Global economic outlook

Weakening global growth met with a new wave of central bank stimulus

The IMF expects global economic growth to slow to 3.5% in 2012 before recovering in 2013 (although the IMF is expected to downgrade its forecasts in October 2012). Developed economies are expected to generate low growth while emerging economies should maintain moderate to high growth. However, the risks are to the downside given Europe is entering recession and its sovereign debt and banking problems remain far from resolved.

The US economy (25% of Global GDP at market exchange rates)

The US has slowed mid-year with new payrolls falling to around 96,000 per month from around 190,000 per month, earlier in the year. At the same time, retail sales and manufacturing activity have also slowed. One bright spot is that US housing activity and prices continue to slowly improve.

The US Federal election is due in November after which the large budget deficit (US\$1.2 trillion or 8% of GDP) will need to be addressed. The US is headed for \$600bn in automatic tax hikes and spending cuts in 2013 which is often called “the fiscal cliff”. While this would arrest the budget deficit quickly, the scale of fiscal contraction would cut 4% from GDP and plunge the economy into recession. It is assumed that the new Congress will address these issues but much depends on which party holds power in each house, post the election. If it remains split, then the budget debate will become a major market issue, once again.

Concerned about sluggish growth and the weak jobs market, the US Fed has launched QEIII, this time targeting mortgage-backed securities with an open ended \$40bn per month asset purchasing program to drive down mortgage rates. It also extended its low interest rate promise out to 2015.

Overall, the US seems likely to maintain low growth with the major risks being the slowdown in Europe and budget deficit issues. Lonsec expects the US to achieve growth of 1.5% in 2013.

The European economy including the UK (22% of Global GDP)

The sovereign debt and banking problems of southern Europe returned with a vengeance mid-year but have since been contained by the ECB pledging to buy shorter term bonds of weaker countries, subject to them signing up for a bailout under EU conditions. At this stage, Italian and Spanish bond yields have retreated but both countries seem reluctant to sign up to more austerity proposals, with riots in the streets increasing, so there is still plenty of uncertainty in the market.

European GDP growth is now negative with northern countries approaching recession while southern countries are in various degrees of recession. The European unemployment rate of 11.4% is now at record levels. Economic progress seems to be constantly thwarted by legal and political issues between the 17 member countries and highlights the structural problems of a monetary union without a political, fiscal and banking union. Europe is expected to remain in recession in 2012 with prospects for recovery in 2013 still dim at this stage. Lonsec expects the Euro-area to contract by 1% in 2013.

The Asian economy (22% of Global GDP)

Asia has continued to slow in 2012 after the tightening measures of 2011 and the subsequent slowdown in Europe. With inflation now easing in China, authorities have gradually eased fiscal and monetary policy but much more selectively than in 2008/2009. This time, Chinese authorities are seeking to drive greater domestic consumption rather than investment. In particular, the government is keen to keep a lid on property activity and prices.

Chinese growth has slowed to 7.5% and manufacturing surveys are below 50 which signals contraction. Financial markets expect more stimulus from the government but a leadership transition, pencilled in for November 8, seems to be keeping a lid on major policy changes. Lonsec expects China’s growth to slow to 6.5-7.0% in 2013.

Japan is expected to slow, in-line with global trade. A strengthening Yen has become worrisome for the export-dependent country with the BOJ becoming more aggressive about driving down the currency and re-igniting inflation (currently zero) by implementing “powerful monetary easing”, otherwise known as quantitative easing. This has led to some weakness in the Yen which will help boost the export-led economy. Still, Japan still has a lot of work to do to get back onto a growth trajectory and sustainable fiscal path. Lonsec expects Japan to experience low growth of around 0.5% in 2013.

2013 Outlook (Lonsec)	Recession	Low growth	High growth
United States		▼	
Europe	▼		
China			▼
Japan		▼	

Domestic economic outlook

Headwinds increasing, monetary policy easing

The annual rate of growth (GDP), to 30 June 2012, was strong at 3.7% but a sharp slowdown is evident given the June quarter growth rate fell to 0.6% from 1.4% in March. And the September quarter growth rate is likely to come in very low after the trade deficit blew out in the September quarter.

In Lonsec’s view, Australia is facing increased headwinds from falling iron ore & coal prices, tightening fiscal policy (at the State and Federal level) and a high AUD. The economy is likely to slow rapidly as exports, investment and government spending contract. This needs to be met with lower interest rates to boost other parts of demand including consumption and construction. Lower interest rates should also lead to a weaker AUD, but at this stage, the currency continues to remain buoyant which seems to be related to foreign capital flowing into the safety of our bond market together with increased foreign investment in Australian LNG projects.

The good news is that inflation is well within the RBA’s 2-3% target range and the RBA has indeed been easing monetary policy. The RBA has cut the cash rate by 150bps, since November 2011, with the cash rate coming down from 4.75% to 3.25%. However, the banks have only cut loan rates by around 100bps in response to generally higher funding costs. The higher funding costs relate to increased competition for deposits and the higher cost of wholesale funding, in a post-GFC world. What this means is that the monetary policy mechanism is not working as efficiently as in the past because Australian banks are generally holding more deposits as a percentage of total funding which has led to higher loan rates, so banks can maintain their interest margins.

There is another area where the economic textbooks are breaking down and that is the currency. Normally, falling iron ore and coal prices and a major reduction in the cash rate would lead to weakness in the AUD but instead the currency remains surprisingly resilient above US\$1.00. This has occurred because Europe, Japan and the US are all running large budget deficits and very loose monetary policy which devalues their own currencies, leaving the AUD the best ‘of a motley crew’. The strong AUD is starting to become a concern in that it makes imports more attractive and our exports less competitive on the global stage. Our own manufacturing base will become increasingly eroded without a major lift in productivity to offset the strong AUD.

The Australian Economy

Key Positives	Key Negatives
Banking system stable	Asia slowing and bulk commodity prices falling
Relatively low public net debt (about 20% of GDP)	Banking sector holding interest rates higher than expected
Plenty of room to ease monetary policy	Government (Federal and State) tightening fiscal policy
Strong investment pipeline	High AUD
Australian companies are strongly capitalised	Minority government has led to disruptive policy
Agriculture outlook positive	Poor productivity in recent years has led to rising costs
Population growth 1.4% p.a	Household debt levels high, still in need of deleveraging
\$1.3 trillion superannuation pool	

Conclusion

The Australian economy faces increasing headwinds in the short term from falling bulk commodity prices, tightening fiscal policy and a high AUD. This needs to be met with easing monetary policy which has been delivered, but not as effectively as in the past. Lonsec believes more needs to be done to support the economy against a slowing global economy and a relatively high AUD. We expect the RBA to cut rates further in the short term. This should prevent a recession and help maintain a reasonable growth rate of around 2.0% in 2013.

2013 Outlook (Lonsec)	Recession	Low growth	High growth
Australia		▼	

Recommended Tactical Asset Allocation

Despite the recent rally in equity markets, based mainly on a fresh wave of central bank intervention, we remain uncomfortable with the global growth outlook, particularly in Europe and Asia. The US outlook is more favourable but its budget deficit problem keeps our enthusiasm tempered.

We retain a generally neutral asset allocation. We have a bias to Australian cash and bonds, where the yields are more attractive than offshore. Our international bond weighting remains underweight on concern the risks outweigh the returns. Our A-REIT and equity weightings remain at neutral levels as reasonable bottom-up valuations, in absolute terms and relative to the yield curve, are offset by our global growth concerns.

Asset Class	Underweight	Neutral	Overweight
Cash			▽▼
Australian Fixed Interest		▽▼	
International Fixed Interest	▽▼		
A-REITs		▽▼	
Australian Equities		▽▼	
International Equities (unhedged)		▽▼	

▼ = Dec quarter 2012 asset allocation, ▽ = Sept quarter 2012 asset allocation

Cash – Overweight

Despite the RBA cutting the cash rate by 150bp to 3.25% in the past year, Australian cash and term deposit rates still remain relatively attractive in comparison to bond yields. We are likely to remain **overweight** cash until the RBA drops the cash rate further and we can get a clearer picture on global growth prospects.

Australian fixed interest – Neutral

The Australian yield curve still offers better value than most global debt markets (particularly given the AAA sovereign credit rating is probably one of the more creditable AAA ratings available) with the cash rate at 3.25% and the 10-year bond yield at 3.05%. Australian state government and corporate debt also offers attractive yields relative to the global peer group. For these reasons, we continue to find Australian bonds more attractive than global bonds. Maintaining a **neutral** weighting.

International fixed interest – Underweight

Lonsec finds the investment case for global bonds to be unattractive as yields range from 0.8% to 2.2% on most 'safe' major global 10-year bond issues. The return seems inadequate given the size of the budget deficits and public debt levels of the major issuers. We have seen in southern Europe that bond yields can suddenly rise (bond prices fall) when the bond market begins to lose confidence in the fiscal position of the sovereign issuer. To date, the US, Japan, the UK, Germany and France have been able to maintain the confidence of bond markets but their fiscal positions continue to remain concerning. In our view, it is simply not worth investing in major international sovereign and bank debt issues at current low yields. We remain **underweight**.

Australian listed property (A-REITs) – Neutral

The A-REIT sector is dominated by the top ten trusts, which have all recapitalised and are now financially stable. From here, the focus will be closing discounts to NTA and future distribution growth. Lonsec believes the A-REIT sector will be more 'plain-vanilla' from now on, meaning trusts will revert back to offering relatively high yield (compared to bonds) with modest capital growth over the long term. The fall in the 10-year bond yield to 3.05% has led to a 23% rally in the A-REIT sector this calendar year, as investors chase the relatively high yield on offer from the major property trusts. We held an overweight position for most of this year but have recently reduced our weighting back to **neutral** as the sector now looks fully-valued.

Australian equities – Neutral

The Australian share market seems to be stuck in a trading range of 4,000-4,500, over the past year. Small and medium sized companies have generally been outperforming the larger companies, due to stronger earnings growth. The larger companies have been more hampered by patchy growth across the economy, a high AUD, government taxes and rising costs.

The recent slowdown in Asia has seen bulk commodity prices fall sharply which is putting pressure on resource-related stocks. Banks, Industrials and Trusts (Property and Infrastructure) are generally faring better because their high dividend yields are being sought out, as the Australian yield curve comes down. That said, we don't expect a major turnaround in earnings growth in FY13, as the economy will continue to slow until bank loan rates are cut more aggressively. To date, the banks have only passed on about 100bp of the 150bp in rate cuts that the RBA has delivered. That is not enough to spark a major rebound in consumption and construction while households are still in the frame of mind of paying down debt. If the RBA continues to cut rates, then domestic growth should rebound and we are likely to see improved earnings (for financials and industrials) in FY14. This should lead to the market breaking out of its trading range to the upside. However, the severity of the current global slowdown will also be a telling factor in local economic conditions and company earnings.

The recent rally in the share market to the 4,500 level has seen price-to-earnings ratios expand. Resources look expensive in the short term because spot prices have fallen so sharply and the market seems to be expecting a rebound in FY14. Industrials and Financials still seem reasonably priced (see table A below).

Table A – Sector PERs

Sector	ASX 200 Index weight	FY13 PER*	FY14 PER*
Industrials	33%	13.2x	11.7x
Financials	31%	11.4x	10.9x
Resources & Energy	29%	14.7x	10.9x

* Average of major broker estimates, 4 October 2012

Dividend yields are still attractive, particularly in the Financial and Industrial sectors (see table B below). As interest rates come down in Australia, investors will increasingly look for sustainable yield on the ASX, which should provide firm support for Industrials, Financials and Trusts.

Table B – Sector Dividend Yields

Sector	ASX 200 Index weight	FY13 Div Yield*	FY14 Div Yield*
Industrials	33%	4.9%	5.3%
Financials	31%	6.5%	6.8%
Resources & Energy	29%	3.0%	3.4%

* Average of major broker estimates, 4 October 2012, before franking credits

While falling interest rates should support the Australian economy and the share market, we are still concerned about the slowing global growth outlook. We maintain our **neutral** Australian equity weighting and expect investors to continue to gravitate towards stocks with attractive dividend yields and secure earnings.

International equities (unhedged) – Neutral

The US market continues to outperform most global markets with the S&P500 up 16% in 2012. US companies have managed to maintain strong earnings growth, despite a soft economy, due to strong productivity gains, very low interest rates and US government spending. Moving forward, it will get tougher to beat previous earnings as Europe and Asia are slowing and government spending will need to be reined in, post the election.

The consensus estimate for S&P500 earnings per share is currently around \$102 for 2012. That implies the S&P500 trades on a 2012 PER of 14.4x, which seems fairly full given the mounting risks. While most global markets have not performed as well as the US market, they are unlikely to outperform if the US market starts to retreat.

Lonsec acknowledges the very low yield curve in the US is supportive of the stock market but share prices are still likely to fall if earnings start to disappoint. We maintain our international equity weighting at **neutral**.

Lonsec Direct Model Portfolios

Investment Philosophy

Lonsec focuses on generating strong returns above benchmark, over the medium to long term, through concentrated, low-turnover portfolios.

Investment Process



Australian Equity Core Model Portfolio

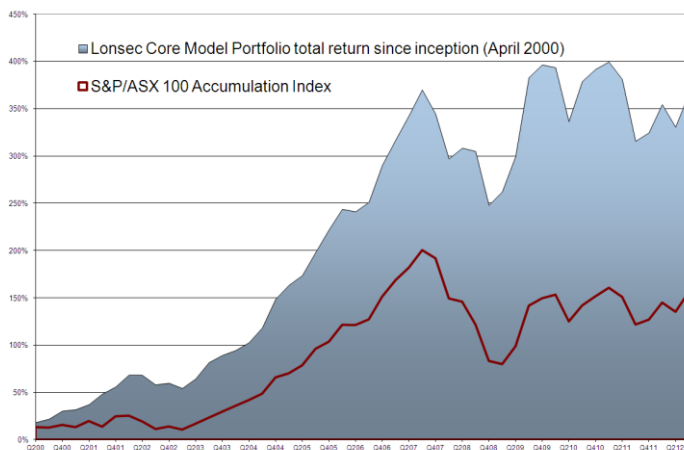
Objective

To deliver strong returns above benchmark, over the medium to long term, by investing in a concentrated portfolio of large cap Australian listed companies.

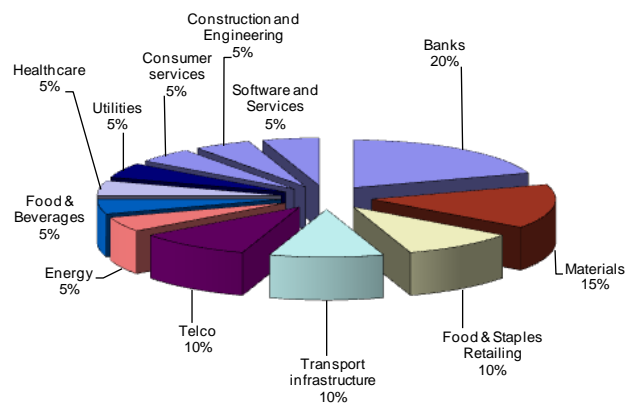
Portfolio Rules

Investment universe	ASX 150 excluding A-REITs
Benchmark	S&P/ASX 100 Accumulation Index
Inception date	17 April 2000
Min/Max no. of stocks	12 – 20
Typical number of stocks	15
Min. no. of GICS industries	8
Maximum stock target weight	15%
Stock rules	Stocks weighted at 10% or more must be selected from ASX 50 At least 80% of the portfolio must be invested in the ASX 100
Average turnover	20-30% pa

Portfolio Profile



Core Portfolio by GICS Industry



Portfolio Performance

INVESTMENT PERFORMANCE											Since	Since
Period ending	30 September 2012										Inception ¹	Inception ²
	Month	Qtr	Year	2 Yrs ¹	3 Yrs ¹	4 Yrs ¹	5 Yrs ¹	7 Yrs ¹	10 Yrs ¹			
Lonsec Core Model Total Return³ (%)	1.2	8.1	12.0	-1.4	-1.2	3.5	-0.2	6.6	11.4	13.1	365.5	
S&P/ASX 100 Accumulation Index (%)	2.0	8.9	15.5	2.9	2.0	3.7	-3.1	3.9	8.7	7.8	156.4	
Excess return (%)	-0.8	-0.8	-3.5	-4.3	-3.2	-0.2	2.9	2.7	2.7	5.3	209.1	
Portfolio excess return (alpha) since inception (% p.a.)	5.3 Stock changes per annum (on average)					3-4	Portfolio volatility since inception (%)				13.8	
Portfolio tracking error since inception	6.7 Number of stocks in portfolio					15	Benchmark volatility since inception (%)				14.5	

¹ % per annum ² Total return since inception date 17 April 2000

³ Gross performance including dividends (but not franking credits). Lonsec's equity model portfolios hold no cash and are re-balanced every six months (31 March and 30 Sept) to maintain model portfolio w eights. Physical portfolio results will differ depending on cash levels, inception date, fees and adherence to the model portfolio w eights. Past performance is not a reliable indicator of future performance.

Australian Equity Emerging Leaders Model Portfolio

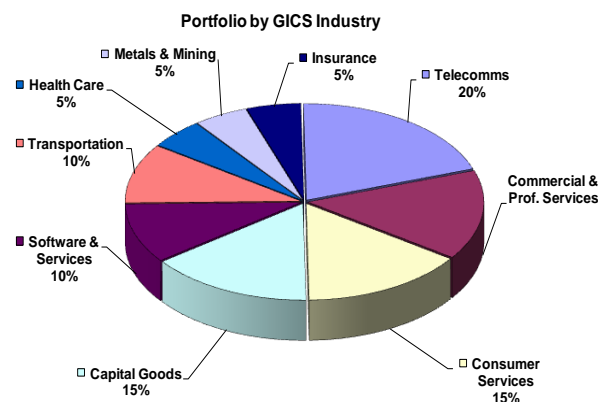
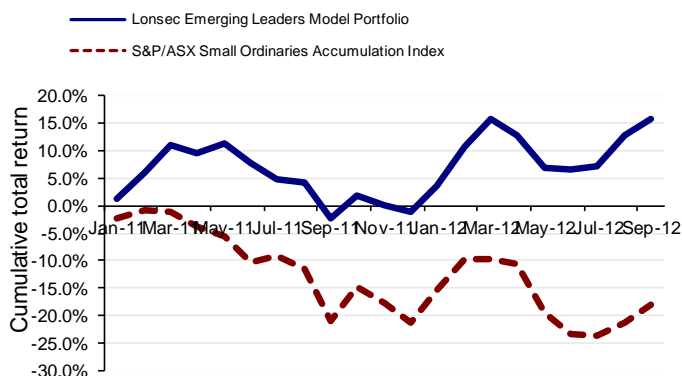
Objective

To deliver strong returns above benchmark over the medium to long term by investing in a diversified portfolio of emerging Australian listed companies. Suitable for investors seeking capital growth over a holding period of at least 3 years.

Portfolio Rules

Investment universe	Stocks outside of the ASX 100 with a minimum market capitalisation of \$150m
Benchmark	S&P/ASX Small Ordinaries Accumulation Index (XSOAI)
Inception date	31 December 2010
Min/max no. of stocks	12 – 20
Typical no. of stocks	15 (5 x 10% + 10 x 5%)
Minimum no. of GICS industries	8
Stock rules	Maximum stock target weight 15% Minimum market cap of \$150m
Current market cap weightings	ASX 101-200 45%, ASX 201-300 35%, ASX 300+ 20%
Current portfolio dividend yield	4.3% (90% franked)
Average turnover	Approximately 30% p.a.

Portfolio Profile



Portfolio Performance

INVESTMENT PERFORMANCE					Since	Since	
Period ending	30 September 2012	Month	Quarter	Six Mths	One Year	Inception ¹	Inception ²
Lonssec Emerging Leaders Model Portfolio Total Return³ (%)		2.6	8.6	0.0	18.5	8.7	15.6
S&P/ASX Small Ordinaries Accumulation Index (%)		4.4	7.3	-9.2	3.8	-10.7	-17.9
Excess return (%)		-1.8	1.3	9.2	14.7	19.4	33.5

¹ % per annum ² Total return since inception date 31 December 2010

³ Gross performance including dividends (but not franking credits). Lonssec's equity model portfolios hold no cash and are re-balanced every six months (31 March and 30 Sept) to maintain model portfolio weights. Physical portfolio results will differ depending on cash levels, inception date, fees and adherence to the model portfolio weights. Past performance is not a reliable indicator of future performance.

Australian Equity Income Model Portfolio

Objective

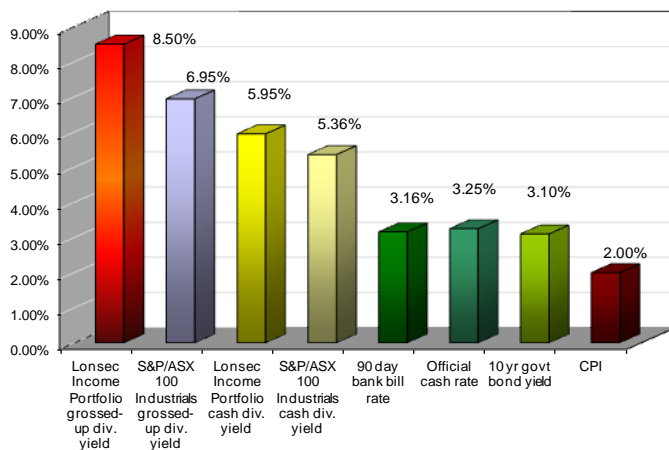
To deliver an attractive fully franked income yield and reasonable capital growth, over the medium to long term.

Portfolio Rules

Investment universe	ASX 150 excluding A-REITs
Benchmark	S&P/ASX 100 Industrial Accumulation Index
Inception date	20 August 2002
Min/Max no. of stocks	10 – 20
Min. no. of GICS industries	6
Individual stock target weights	10%
Stock rules	Companies must pay, or intend to pay, fully franked dividends At least 80% of the portfolio must be invested in the ASX 100
Typical number of stocks	10
Typical portfolio weights	10 x 10%
Average turnover	20-30% pa

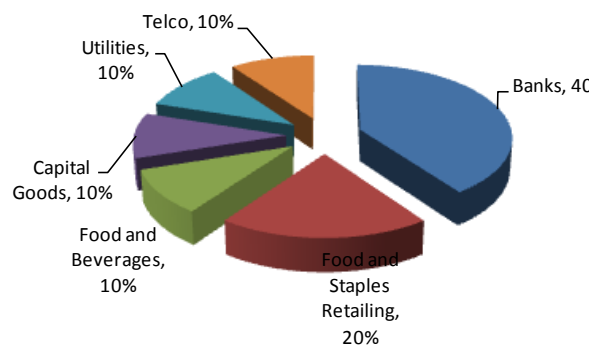
Portfolio Profile

Current Income Portfolio Yield v Various Benchmarks



Note: grossed-up dividend yield includes the value of franking credits

Income portfolio by GICS industry



Portfolio Performance

INVESTMENT PERFORMANCE												
Period ending	30 September 2012	Month	Qtr	Year	2 Yrs ¹	3 Yrs ¹	4 Yrs ¹	5 Yrs ¹	7 Yrs ¹	9 Yrs ¹	Since Inception ¹	Since Inception ²
Lonsec Income Total Return³ (%)		0.0	8.2	12.4	5.4	7.5	2.1	-3.7	0.9	6.0	6.2	83.3
S&P/ASX 100 Industrial Accumulation Index (%)		0.9	10.1	24.6	7.9	4.3	5.6	-2.2	3.8	7.6	7.2	101.2
Excess return (%)		-0.9	-1.9	-12.2	-2.5	3.2	-3.5	-1.5	-2.9	-1.6	-1.0	-17.9

¹ % pa ² % total return (excluding franking credits) since inception 20 August 2002

³ Gross performance including dividends (but not franking credits). Lonsec's equity model portfolios hold no cash and are re-balanced every six months (31 March and 30 Sept) to maintain model portfolio weights. Physical portfolio results will differ depending on cash levels, inception date, fees and adherence to the model portfolio weights. Past performance is not a reliable indicator of future performance.

Listed Income Securities Model Portfolio

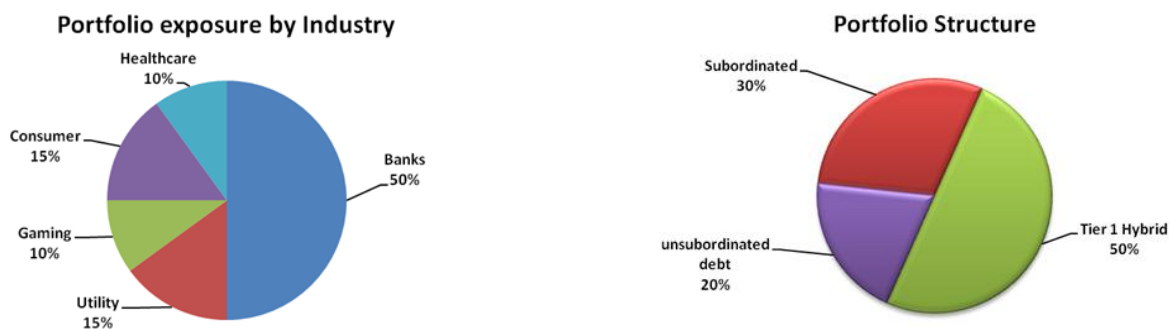
Objective

The objective of the portfolio is to deliver a sustainable income stream, greater than cash and inflation, which exceeds the benchmark (UBS Bank Bill Index) by +1.5% p.a., while maintaining capital stability over the medium to long term. The portfolio is suitable for investors seeking a relatively high level of capital security from a diversified portfolio of listed debt securities with returns that should exceed those available from cash and other forms of short-term income investments.

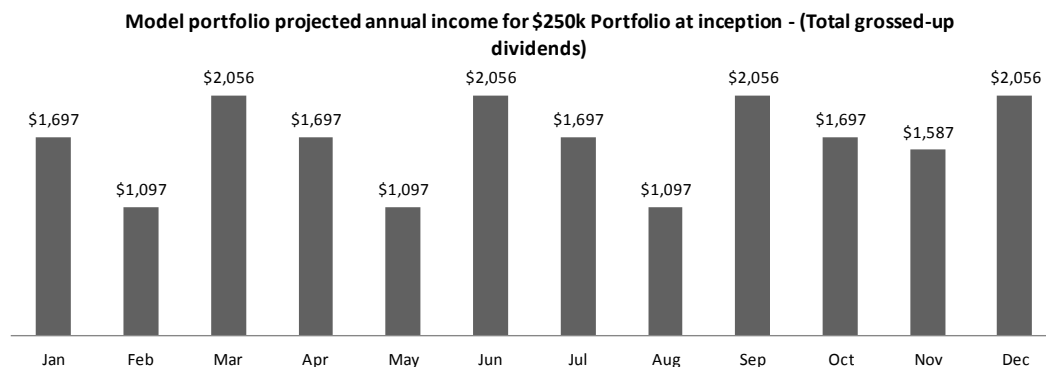
Portfolio Rules

Investment universe	ASX listed income securities, with a minimum issue size of \$150m
Benchmark	UBS Bank Bill Index +1.5% p.a
Inception date	30 June 2012
Min/Max no. of stocks	5 -10
Individual security limit	20%
Typical number of stocks	7
Typical portfolio weights	4 x 15%; 4 x 10%
Average turnover	1-2 changes p.a.

Portfolio Profile



Portfolio Performance



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Date prepared: Friday, 5 October 2012

Analyst: William Keenan

Release authorised by: Kevin Prosser

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Level 22, 500 Collins Street, Melbourne, 3000

P.O. Box 46 Collins Street West, Victoria, 8007

General Enquiries: (03) 9623 6345

Dealing Room: 1800 649 518

Fax: (03) 9629 6990

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