

### Performance statistics – Sep Q10

| Markets          | 30 Sep 2010 | Qtrly % Change |
|------------------|-------------|----------------|
| All Ordinaries   | 4,637       | 7.2%           |
| Banks            | 6,156       | 8.1%           |
| Materials        | 12,430      | 8.7%           |
| Industrials      | 3,710       | 16.7%          |
| Real Estate      | 2,012       | 2.8%           |
| US S&P 500       | 1,141       | 10.7%          |
| UK FTSE 100      | 5,548       | 12.8%          |
| Japan Nikkei     | 9,369       | -0.1%          |
| German DAX       | 6,229       | 4.4%           |
| Shanghai Comp    | 2,655       | 10.7%          |
| Hang Seng        | 22,358      | 11.1%          |
| RBA Cash Rate    | 4.50%       | 0bp            |
| 90 Day bill rate | 4.89%       | -5bp           |
| 10 year bond     | 4.96%       | -13bp          |
| Oil (WTI) \$US   | \$79.75     | 6%             |
| Gold \$US        | \$1,309     | 5.1 %          |



### QE II – US Fed set to boost global economic recovery.

A jobless US recovery and concern about deflation are pushing the US Federal Reserve towards another round of Quantitative Easing or QE II.

Quantitative easing is the term used to describe central banks purchasing assets (usually debt securities), from private sector investors, to lower interest rates along the yield curve rather than just the short term cash rate. By lowering interest rates on government and corporate securities, it lowers mortgage rates and corporate borrowing rates. This becomes a new form of expansionary monetary policy.

Quantitative easing involves a central bank buying significant amounts of debt securities with newly created money thus increasing the money supply (hence the action is also called 'money-printing'). The injection of fresh buying in debt markets increases the price of debt securities and lowers interest rates.

It sounds unusual, and it is to an extent, but there is an exit strategy. In theory, once the economy gains momentum from the cheap cost of credit, the central bank then starts to sell the securities it has accumulated, thus removing money from the system and in turn reducing its own balance sheet.

The US Federal Reserve (the Fed) was the first to employ quantitative easing during the Global Financial Crisis (the GFC) and it has since been followed by the European, UK and Japanese central banks. Now the Fed is signalling that it is preparing for another round of quantitative easing (QE II), rumoured to be as large as US\$1 trillion, as it remains concerned about high unemployment and very low inflation in the US economy.

What is likely to follow is a rally in risk assets - equities and commodities - and a lowering in the USD, as a new wave of USD liquidity hits the market. Given that there are only four major currencies (USD, Euro, Pound and Yen) and each is measured relative to each other, a weaker USD would strengthen other currencies. This scenario is causing increasing concern amongst various G20 countries who are fearful of losing their export competitiveness. Lastly, bond prices are likely to be forced to artificially high levels, in turn lowering bond yields to very low levels.

Lonsec is confident that QE II will be positive for financial markets, in the short term, but it remains unclear what the effect will be on the real economy. However, there are grounds for optimism - lower bond yields will feed into lower mortgage rates and corporate borrowing costs which should boost household disposable income and business investment. In addition, rising financial markets will boost asset prices and investor confidence which could also help spark an economic recovery.

#### **How should investors position their portfolios?**

Lonsec is adopting a more optimistic view on the short to medium term prospects for global growth. This is mostly because of the prospect for QE II to lower interest rates to very low levels but there are other contributing factors, including:

- The developing world (about 45% of the global economy) is still growing strongly;
- The developed world looks to be slowing but seems likely to avoid a double-dip recession;
- The new global banking capital adequacy rules (*Basel III*) are less onerous than expected and will be phased in over 8 years – this will help calm concerns over the European banking system; and
- Corporates are, generally, in good shape.

Lonsec is moving to increase its allocation to Equities funded by reducing its position in Bonds and Cash. Our Property allocation remains slightly overweight. Generally, we are positioning for growth and a recovery in inflation. Lastly, we remain biased to Australian assets over International assets because Australian economic fundamentals seem superior to most developed countries.

## Global economic outlook

### **Gradual recovery but US Fed set to provide another boost**

The IMF forecasts the global economy to grow by 4.8% in 2010 and 4.2% in 2011, with a temporary slowdown expected during the second half of 2010. Developed economies (which represent about 55% of global GDP) are expected to grow by 2.2% over 2011, while developing economies (45% of global GDP) are expected to grow by 6.4%.

### **The US economy (23% of Global GDP at market exchange rates)**

The US economy grew at an annualised rate of just 1.7% in 2Q10 and is expected to slow to 1.0% growth in Q310 as fiscal stimulus wanes and inventory rebuild concludes. Retail sales, consumer credit, housing starts and manufacturing surveys were all soft mid-2010 while consumer confidence fell significantly from 63 to 53. Job growth recently turned negative again and the unemployment rate remains high at 9.6% — the US seems stuck in a jobless recovery.

Fiscal and monetary policy is still quite expansionary with the 2010 Federal budget deficit forecast to hit US\$1.4 trillion or 10% of GDP while the Fed maintains the cash rate will remain at zero “for an extended period” and has expanded its balance sheet to over US\$2 trillion supporting financial markets. Despite all this stimulus, the economy has only experienced modest growth, without any real increase in jobs, and core inflation remains benign at 1.0%.

Low growth, high unemployment and the threat of deflation are seemingly driving the Fed towards another major quantitative easing program (QE II). At the time of writing, it is widely expected the Fed will spend up to US\$1 trillion in freshly created money buying US government bonds to drive the US yield curve lower. The intent is to increase asset prices and to lower the cost of debt for the government, households and business. Lonsec expects QE II will be effective in boosting growth in the short to medium term but the long term consequences are unclear, at this stage. The IMF expects the US economy to grow by 2.2% in 2011.

### **The European economy including the UK (21% of Global GDP)**

There has been a large disparity in growth across the Euro-zone. France and Germany are enjoying the fruits of a weaker euro while the peripheral states of Greece, Ireland, Portugal and Spain are still trying to recover from the GFC and have been forced to implement stringent fiscal consolidation programs. There are contagion risks for broader Europe from these smaller states as European banks are the major holders of their sovereign debt. In addition, a weak euro is unlikely to last as the US prepares for another round of quantitative easing. The ECB is maintaining the cash rate at 1.0% and has engaged in some quantitative easing itself.

The UK has had a similar recovery in growth to France and Germany with a weaker pound and easy monetary policy providing a boost to growth. The Bank of England has left the cash rate unchanged at 0.5% for a considerable period and has also engaged in quantitative easing.

The IMF expects the European economy to grow by 2.3% and the UK economy to grow 2.0%, in 2011.

### **The Asian economy (21% of Global GDP)**

The Japanese economy desperately needs strong leadership to get it out of 20 years of low growth and minimal inflation. Although with a net public debt to GDP ratio of 120% and a cash rate of 0%, its fiscal and monetary policy options seem limited. The Japanese central bank has decided to go down the quantitative easing route in an effort to drive up asset prices, lower longer term interest rates and force down the currency. The IMF expects the Japanese economy to grow 1.5% in 2011.

China's strong recovery from the GFC continued in 2010 with the economy growing at an annualised rate of 10% prompting the government to tighten credit conditions. There are concerns that a 2009 lending spree has led to a property bubble in China's major cities. This may be true but Chinese authorities have greater direct control over the banks and the economy and should be able to manage the situation. China is taking gradual steps to reposition the economy away from exports & fixed investment and towards consumption. Workers wages are starting to rise and the currency is gradually being allowed to appreciate. China is expected to manage a soft landing for the economy and maintain strong growth relative to the G7 economies. The IMF forecasts the Chinese economy to grow by 9.6% in 2011.

| Key global issues to watch | Lonsec view   |
|----------------------------|---|
| Quantitative easing II     | The US Fed to buy up to US\$1 trillion in government bonds to drive down interest rates and weaken the USD.   |
| Currency 'wars'            | Europe, UK, Japan, China and the US can't all have weak currencies as each are measured relative to each other. An orderly setting of currency levels together with agreements on the scale of QE is a likely outcome given the capital and trade links of each region.                                     |
| European debt crisis       | Peripheral states still fragile but core France, Germany and UK look ok. New capital requirements for Banks (Basel III) are less onerous than first mooted with an 8 year phasing in period. The ECB is likely to follow the US Fed with more QE which should cushion the financial system and the economy. |
| Inflation/Deflation        | With central banks going down the QE route, inflation is now more likely.   |
| Chinese growth             | Growth to remain well above the G7 but China must now reposition the economy towards consumption and away from exports and fixed investment. A gradual appreciation of the Yuan will be in China's interest as it will increase the spending power of its workers and help mitigate inflation.              |

## Domestic economic outlook

### **Australia continues to outperform other developed economies**

The RBA expects the Australian economy to grow by 3.25% over 2010 and 3.75% over 2011. On that assumption, Australia will enter its 20<sup>th</sup> consecutive year of growth, ranking it as the best performing economy in the OECD and the third best performing globally, after China and India.

Australia's strong fundamentals include:

- a major exporter of natural resources to Asia;
- a robust domestic economy;
- steady population growth;
- a financial system in good health;
- a superannuation pool worth over \$1.2 trillion;
- relatively low debt levels in the public and corporate sector;
- a stable housing market;
- a low unemployment rate of 5.1%;
- moderate inflation of 2.7%;
- a strong currency; and
- strong terms of trade.

Australia's relative economic strength has led to one of the highest cash rates in the developed world at 4.5% which, combined with a rising terms of trade, has kept the currency reasonably strong. While a strong currency can hurt our export competitiveness, it isn't all bad news as imports become cheaper and the interest on our foreign debt becomes easier to service, in AUD terms. It is probably a net positive in the short term but will tend to lead to long-term problems if the current account deficit starts to expand.

The main risks to the Australian economy are:

**Inflation** – the underlying rate is still relatively high at 2.7% and the labour market is nearing full employment;

**Cost of foreign capital** – Australia has \$650bn in foreign debt (mainly borrowed by our banks). If the cost of this debt rises in international debt markets it could lead to higher loan rates in Australia;

**Asian economic growth** – over 70% of Australia's commodity-based exports go to Asia. Any hiccup in Asian growth will directly affect our export income;

**Government policy** – Labor policy has been creating great uncertainty for business and investors. This has led to a perception that Australia's sovereign risk has increased with a Government that has been moving policy to the left.

While Australia's economic fundamentals are quite robust, the economy does have a few weaknesses. One is that our banks fund about 30% of their loan assets from international debt markets. If the cost of this debt rises because of financial problems in Europe, Japan or the US then domestic loan rates will need to rise. The European debt crisis has led to a moderate increase in the cost of bank debt and hence the major banks are under margin pressure and would like to increase their loan rates. Obviously, any increase in loan rates will have a dampening effect on economic growth.

The other major risk to keep an eye on is any slowdown in China. The Chinese government is trying to slow growth due to concerns about inflation and a property bubble in the major cities. Any major slowdown could reduce demand and the prices of Australia's key commodities – iron ore and coal.

Overall, the economy should remain robust over 2010 and into 2011. The RBA is likely to remain a tightening bias but will also need to be wary of the rising AUD and the banks hinting that they will soon independently increase loan rates. The IMF expects the Australian economy to grow by 3.0% in 2010 and 3.5% in 2011.

| Key local issues  | Lonsec view   |
|-------------------|---|
| Cash rate         | RBA to maintain a tightening bias but we are probably near the top of the tightening cycle given the banks are likely to independently increase loan rates even further.                                |
| Inflation         | Underlying inflation should remain around 3%.   |
| AUD/USD           | Should remain firm in the short term but has downside risk in 2011 if the US starts to tighten monetary policy.   |
| Commodity prices  | Likely to remain firm, in the short term, because of loose US monetary policy and demand from developing economies.   |
| House Prices      | Higher interest rates should cool down the market but prices more likely to plateau than fall.  |
| Government policy | The Labor minority government has a tenuous hold on power. It is likely the Government will achieve very little in the next few years which will probably be viewed as a positive for the share market. |

## Recommended Tactical Asset Allocation

Lonsec is adopting a more optimistic view on the short to medium term prospects for global growth. This is mostly because of the prospect for another round of quantitative easing from the Fed which is already lowering global interest rates to very low levels, but there are other contributing factors including:

- The developing world (about 45% of the global economy) is still growing strongly;
- The developed world looks to be slowing but seems likely to avoid a double-dip recession;
- The new global banking capital adequacy rules (Basel III) are less onerous than expected and will be phased in over 8 years – this will help calm concerns over the European banking system; and
- Corporates are, generally, in good shape.

Lonsec is moving to increase its allocation to Equities funded by reducing its position in Bonds and Cash. Our Property allocation remains slightly overweight. Generally, we are positioning for growth and a recovery in inflation. Lastly, we remain biased to Australian assets over International assets because Australian economic fundamentals seem superior to most developed countries.

| Investment Category | Asset Class                       | Sept Qtr 2010       | Dec Qtr 2010        |
|---------------------|-----------------------------------|---------------------|---------------------|
| Income              | Cash                              | Overweight          | Neutral             |
| Income              | Australian Fixed Interest         | Neutral             | Underweight         |
| Income              | International Fixed Interest      | Very Underweight    | Underweight         |
| Growth              | Australian Property (A-REITS)     | Slightly Overweight | Slightly Overweight |
| Growth              | Australian Equities               | Neutral             | Overweight          |
| Growth              | International Equities (Unhedged) | Neutral             | Slightly Overweight |

### Cash – Neutral

Australia has one of the highest cash rates in the developed world at 4.5%. Fixed term deposit rates are also relatively attractive as financial intermediaries battle to increase their retail deposits post the GFC. The RBA has left rates on hold since May but is maintaining a tightening bias. Despite the relatively high cash rate, Lonsec is reducing its cash position this quarter to help fund an increase in its equity allocation which we believe will deliver higher returns in the short to medium term.

### Australian fixed interest – Underweight

Australian 10 year bond yields have fallen to 5.0% after global bond markets rallied on the prospect of more quantitative easing in the US. The Australian yield curve is now quite flat but there is an expectation that inflation will re-emerge as an issue over the medium term. Under that scenario the yield curve is likely to move higher from here which suggests bonds are fully valued and investors will be better off keeping their money short in cash and/or moving into equities.

### International fixed interest – Underweight

Lonsec finds the investment case for global bonds to be unattractive as yields range from 0.9% to 2.9% on most 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. Lonsec notes that G20 countries have pledged to cut their budget deficits in half by 2013 but this is still a long way from generating a surplus and actually reducing public debt burdens.

Investors would only find global bonds attractive if they believe the global economy is in for a lengthy period (5 years+) of deflation, which is not Lonsec's base-case scenario. There is a real risk, in the short to medium term, that inflation makes a come-back with all the major central banks growing increasingly enthusiastic about employing quantitative easing or money - printing.

### Australian property (LPT or A-REIT) – Slightly Overweight

The A-REIT sector is dominated by the top ten stocks, which have all recapitalised and are now financially stable. From here, the focus will be on where capitalisation rates settle for each sector 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 recent retreat in the 10 year bond yield to 5.0% will help support property valuations and hence market discounts to NTA should narrow from here. In addition, running yields around 6.0% will become more attractive to investors, particularly if the Trusts can generate distribution growth over the medium term.

### Australian equities – Overweight

The Australian market has been stuck in a trading range between 4,200 – 5,000 for the past year and remains about 30% below its 2007 high. Despite an improving domestic economy, the local share market seems to be held down by concerns regarding the US and Europe. With Australian companies in good shape, balance sheet wise, and offering good dividend yields and reasonable pricing, Lonsec believes the local market is waiting for the ‘green light’ from the US to rally. In this regard, Lonsec believes the ‘green light’ is near and will come in the form of another round of quantitative easing from the US Federal Reserve. This should be the catalyst for the US market to rally and in turn carry global markets with it.

Lonsec notes the forward price to earnings ratios (PERs) of the major sectors of the local market are now quite modest:

| Sector             | Market weight | FY11 PER* | FY12 PER* |
|--------------------|---------------|-----------|-----------|
| Resources & Energy | 32%           | 12.2x     | 11.3x     |
| Financials         | 31%           | 11.5x     | 10.5x     |
| Industrials        | 30%           | 13.6x     | 12.3x     |

\*broker average estimate

The Australian market looks good value on FY11 earnings estimates and cheap on FY12 estimates. Lonsec’s comments on each sector follow:

**Resources and Energy** – Australian resource and energy stocks should benefit from rising commodity prices and firm demand from offshore. The rising AUD will negate some of the upside but the net benefit will still be substantial. The sector looks fairly cheap at the moment. The major risks to be aware of are: government policy regarding the Mineral Resource Rent Tax and Carbon tax; any slowdown in Asia; infrastructure bottlenecks; rising AUD and cost inflation.

**Financials** – the Australian banking sector is now dominated by the four major banks who rank in the top 10 of global banks in terms of capital strength. They are currently experiencing a rising cost of capital but in reality margins are still healthy and ROE is still high at around 15%. Moving forward, any rally in the share market will improve wealth management earnings and credit growth is expected to recover over the medium term. Lonsec prefers the banks over the insurers as insurers are suffering from ‘abnormal’ claim experiences which seems to be becoming normal due to regular climate-change-related events. The major risks to be aware of are: the rising cost of capital, financial market volatility, regulatory change and the general level of credit growth.

**Industrials** – the industrial sector looks to offer less value at the moment relative to the resource and financial sectors but there are still some roses amongst the thorns. Lonsec prefers the chemical, healthcare, consumer staple retailing, food and beverage and transport industries within the sector. Many of the companies have high operating leverage to the domestic economy meaning a small pick up in growth translates into a major increase in revenue and earnings. The major risks to be aware of are: inflation, rising interest rates, rising AUD, regulatory change and increased competition from offshore.

### International equities (unhedged) – Slightly Overweight

The S&P500 has been stuck in a trading range between 1,000 – 1,200 for the past year and remains about 25% below its 2007 high. The S&P500 is currently trading on a CY10 PER of 13.7x and CY11 PER of 11.9x which is certainly not onerous.

Lonsec believes the conditions for an equity market rally are in place, including:

- Very low interest rates;
- High levels of liquidity;
- No threat from inflation;
- Corporate sector in good shape;
- Relatively attractive equity valuations; and
- Global growth prospects improving.

Lonsec still has concerns about the high debt levels across the private and public sectors of the US, Europe and Japan, but believes these issues will be addressed over the medium to long term. While the yield curve in the US remains very low, equities are likely to remain relatively attractive.

Overall, Lonsec is positive on the outlook for Australia and Asia and cautiously optimistic on the outlook for the US and Europe (which dominate the MSCI World Index) so we are slightly overweight International Equities. International exposures should be tilted towards Asia, either directly via Asian company securities or indirectly via European or US companies generating significant revenue in Asia. Investors will need to be conscious that the AUD is expected to strengthen in the short term but could unwind over the medium term as the US starts to tighten monetary policy.

## Lonsec Direct Model Portfolios

### Investment Philosophy

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

### Investment Process



## Australian Equity Core Model Portfolio

### Objective

To deliver absolute returns and to produce tax-effective income from an Australian equity portfolio, over the medium to long term.

### Portfolio Rules

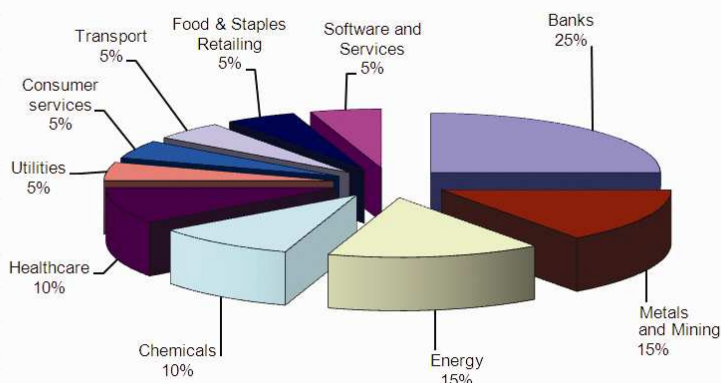
|   |  |
|---|--|
| Investment universe   | ASX 150 excluding A-REITs              |
| Benchmark   | S&P/ASX 100 Accumulation Index         |
| Min/Max no. of stocks   | 12 - 20                                |
| Min. no. of GICS industries                                   | 8                                      |
| Individual stock limit  | 15%                                    |
| 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 |  |
| Cash weighting  | 0%                                     |
| A-REIT weighting  | 0% (allocated to Property asset class) |
| Typical number of stocks                                      | 15                                     |
| Typical portfolio weights                                     | 5 x 10%; 10 x 5%                       |
| Average turnover  | 20-30% pa                              |

### Portfolio Profile

| PORTFOLIO BY GICS INDUSTRY | Weight      |
|----------------------------|-------------|
| Banks                      | 25%         |
| Metals and Mining          | 15%         |
| Energy                     | 15%         |
| Chemicals                  | 10%         |
| Healthcare                 | 10%         |
| Utilities                  | 5%          |
| Consumer services          | 5%          |
| Transport                  | 5%          |
| Food & Staples Retailing   | 5%          |
| Software and Services      | 5%          |
| <b>Total</b>               | <b>100%</b> |

| PORTFOLIO BY ASX SECTOR | Weight      |
|-------------------------|-------------|
| ASX 50                  | 90%         |
| ASX 50-100              | 10%         |
| ASX 100-150             | 0%          |
| <b>Total</b>            | <b>100%</b> |

### Core Portfolio by GICS Industry



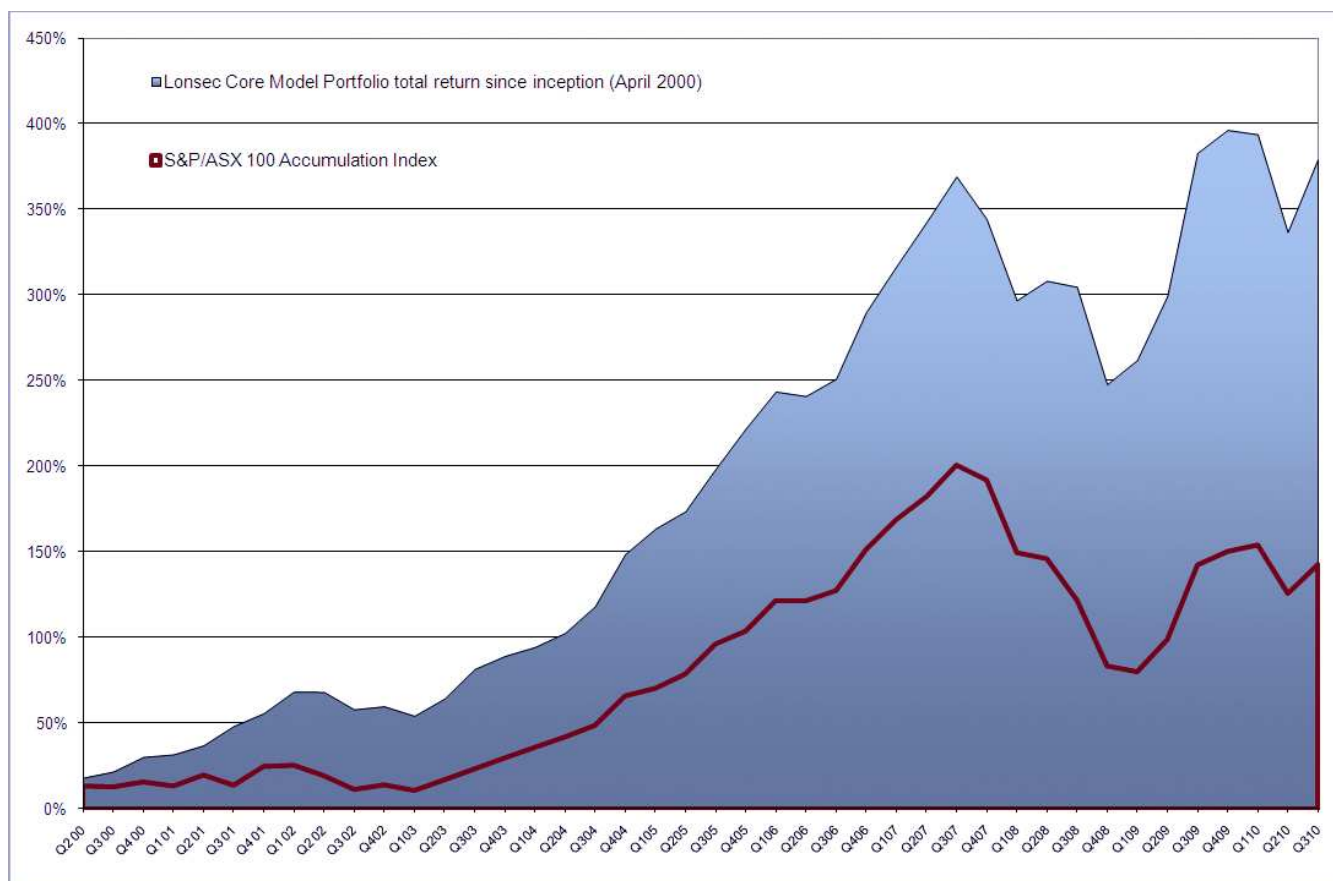
### Portfolio Performance

| INVESTMENT PERFORMANCE                                |                   |            |             |             |            |                    |                    |                    |                    |                     | Since                  | Since                  |
|---|-------------------|------------|-------------|-------------|------------|--------------------|--------------------|--------------------|--------------------|---------------------|------------------------|------------------------|
| Period ending   | 30 September 2010 | Month      | Qtr         | Six Mths    | Year       | 2 Yrs <sup>1</sup> | 3 Yrs <sup>1</sup> | 4 Yrs <sup>1</sup> | 5 Yrs <sup>1</sup> | 10 Yrs <sup>1</sup> | Inception <sup>1</sup> | Inception <sup>2</sup> |
| <b>Lonsec Core Model Total Return<sup>3</sup> (%)</b> | <b>5.3</b>        | <b>9.7</b> | <b>-3.0</b> | <b>-0.9</b> | <b>8.7</b> | <b>0.6</b>         | <b>8.1</b>         | <b>9.9</b>         | <b>14.7</b>        | <b>16.2</b>         | <b>16.2</b>            | <b>378.9</b>           |
| S&P/ASX 100 Accumulation Index (%)                    | 4.4               | 7.5        | -4.5        | 0.1         | 4.6        | -6.9               | 1.6                | 4.3                | 8.0                | 8.8                 | 8.8                    | 142.7                  |
| Out/Under Performance (%)                             | 0.9               | 2.2        | 1.5         | -1.0        | 4.1        | 7.5                | 6.4                | 5.6                | 6.7                | 7.3                 | 7.3                    | 236.2                  |

<sup>1</sup> % per annum <sup>2</sup> Total return since inception date 17 April 2000

<sup>3</sup> Investment Performance is calculated before fees, brokerage and taxes. Dividends are reinvested at the end of each month. The Lonsec Australian Equity Core Model Portfolio is a fully invested model portfolio that is rebalanced monthly. Physical portfolio results will differ depending on cash levels, start date, brokerage, fees, taxes and rebalancing policy.

**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 from an Australian equity portfolio, over the medium to long term.

### Portfolio Rules

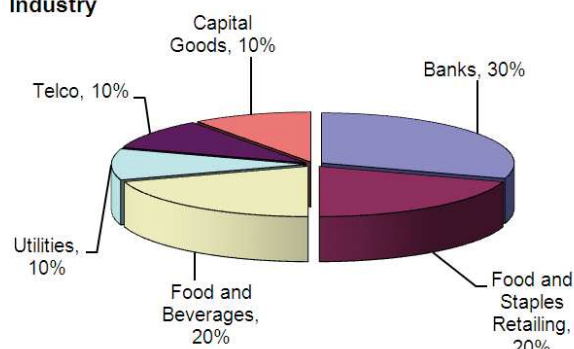
|   |   |
|---|---|
| Investment universe   | ASX 150 excluding A-REITs                 |
| Benchmark   | S&P/ASX 100 Industrial Accumulation Index |
| Min/Max no. of stocks   | 10 – 20                                   |
| Min. no. of GICS industries                                   | 6   |
| Individual stock limit  | 10%                                       |
| Companies must pay, or intend to pay, fully franked dividends |   |
| At least 80% of the portfolio must be invested in the ASX 100 |   |
| Cash weighting  | 0%  |
| A-REIT weighting  | 0% (allocated to Property asset class)    |
| Typical number of stocks                                      | 10  |
| Typical portfolio weights                                     | 10 x 10%                                  |
| Average turnover  | 20-30% pa                                 |

### Portfolio Profile

| PORTFOLIO EXPOSURE BY INDUSTRY | Weight      |
|--------------------------------|-------------|
| Banks                          | 30%         |
| Food and Staples Retailing     | 20%         |
| Food and Beverages             | 20%         |
| Utilities                      | 10%         |
| Telecommunications             | 10%         |
| Capital Goods                  | 10%         |
| <b>Total</b>                   | <b>100%</b> |

| PORTFOLIO EXPOSURE BY ASX SECTOR | Weight      |
|----------------------------------|-------------|
| ASX 50                           | 90%         |
| ASX 50-100                       | 10%         |
| ASX 100-150                      | 0%          |
| <b>Total</b>                     | <b>100%</b> |

Income Portfolio by GICS Industry



### Portfolio Performance

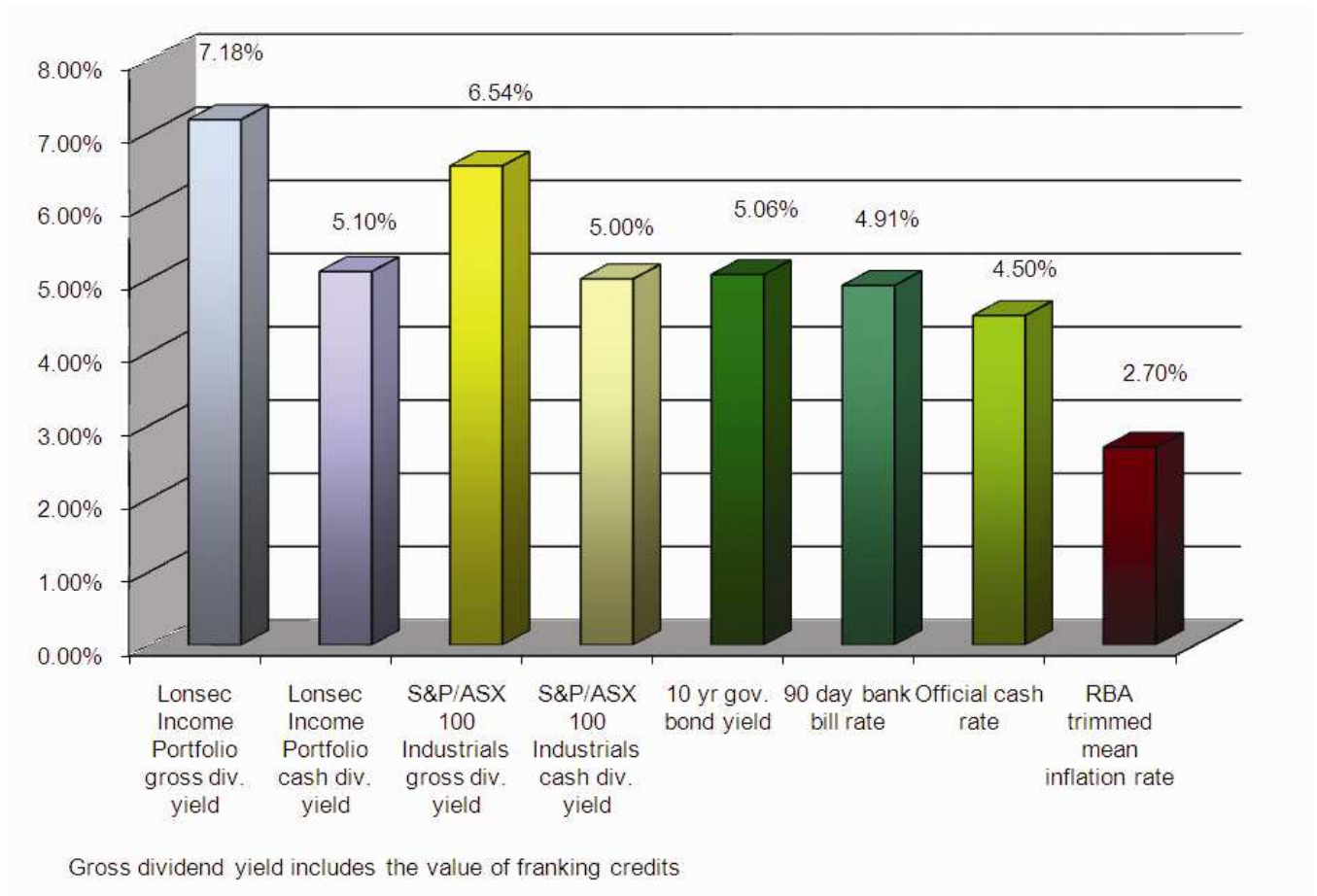
| INVESTMENT PERFORMANCE                        |                   |             |             |             |              |                    |                    |                    |                    |                              |
|---|-------------------|-------------|-------------|-------------|--------------|--------------------|--------------------|--------------------|--------------------|------------------------------|
| Period ending                                 | 30 September 2010 | Month       | Qtr         | Six Mths    | Year         | 3 Yrs <sup>1</sup> | 5 Yrs <sup>1</sup> | 7 Yrs <sup>1</sup> | 8 Yrs <sup>1</sup> | Since Inception <sup>2</sup> |
| <b>Lonsec Income Total Return<sup>3</sup></b> |                   | <b>4.3%</b> | <b>8.8%</b> | <b>7.2%</b> | <b>11.9%</b> | <b>-9.3%</b>       | <b>-0.8%</b>       | <b>6.2%</b>        | <b>7.1%</b>        | <b>65.2%</b>                 |
| S&P/ASX 100 Industrial Accumulation Index     |                   | 3.7%        | 7.1%        | -4.9%       | -2.6%        | -8.3%              | 2.2%               | 7.5%               | 7.7%               | 72.9%                        |
| Out/Under Performance                         |                   | 0.6%        | 1.7%        | 12.1%       | 14.5%        | -1.0%              | -3.0%              | -1.3%              | -0.6%              | -7.7%                        |

<sup>1</sup> % pa <sup>2</sup> Total return (excluding franking credits) since inception 20 August 2002

<sup>3</sup> Investment Performance is calculated before fees, charges, brokerage and taxes. Dividends are reinvested at the end of each month. The Lonsec Income model portfolio is a fully invested model portfolio that is rebalanced monthly. Physical portfolio results will differ depending on cash levels, start date, brokerage, fees, taxes and rebalancing policy.

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**Portfolio Yield (against various benchmarks)**



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