

Movement of Market Indices for the December 2008 Quarter

Index	31 Dec 2008	% Change
All Ordinaries	3659	-21.0%
Banks	4226	-21.9%
Materials	8699	-19.0%
Industrials	3348	-23.9%
Real Estate	2063	-34.8%
US S&P 500	903	-22.5%
UK FTSE 100	4434	-9.6%
Japan Nikkei	8860	-21.3%
German DAX	4810	-17.5%
Shanghai Comp	1820	-20.6%
Hang Seng	14387	-20.1%
RBA Cash Rate	4.25%	-175bp
90 Day bill rate	4.30%	-275bp
10 year bond	3.99%	-141bp
Oil (WTI) \$US	\$39.25	-61.02%
Gold \$US	\$884.30	0.40%



Deflation v Inflation

Will the price of assets, commodities and goods & services continue to fall or will inflation make a comeback?

The answer is vital to the outlook for financial markets.

Lonsec investigates...

The IMF's latest estimate of eventual total losses, as a result of the global credit crisis, is US\$1.4 trillion. Other respected commentators estimate that total losses are more likely to exceed US\$2 trillion.

Losses suffered by financial intermediaries deplete capital reserves, which in turn support loans (assets of the Banks) worth between 10-20x the value of the capital base. Accordingly, a \$2 trillion reduction in capital reserves could mean a \$40 trillion reduction in global credit. However, US\$762bn in fresh capital has been raised so far (including public money), so the reduction in credit should not be quite so large, but much will depend on how big the total losses become against how much new capital can be raised.

The blow to global credit is more likely to be between US\$10-20 trillion. That is still a massive figure equivalent to 15-30% of global GDP (US\$65 trillion in 2008).

As this credit is withdrawn from the global financial system, the money supply shrinks and aggregate demand declines. The price of assets (stocks, property, commodities) and goods & services decline as supply exceeds demand. Prices must fall to clear the excess supply.

Deflation is bad for economic growth because falling prices mean consumers delay consumption and businesses delay investment. These delays worsen the situation as increasing numbers of jobs are lost and eventually business failures increase. It's the exact opposite of the growth cycle.

The task ahead for Governments and Central Banks is to reflate the money supply by getting Banks lending, consumers buying and businesses investing. There has been some action in these areas but the results so far have been inadequate against the scale of the problem.

In fact, the task of reflating the money supply is so huge that the US Federal Reserve is starting to talk about quantitative easing (another name for printing money). This has many crying out that hyper-inflation will be the end result.

However, the printing of money may be required to help fix the hole in the money supply and stabilise the financial system. Until Banks resume normal levels of lending and consumers resume spending, the multiplier effect is muted and inflation is unlikely.

The timing of the recovery will depend heavily on the effectiveness of the policy response and the level of co-operation and co-ordination between the major G20 economies. This is because all the major economies are inter-linked via trade and investment. A return to nationalism and protectionism would be self-defeating as history has shown that living standards subsequently decline.

Conclusion

Deflation is most likely in the short term, with inflation returning sometime later. Careful monitoring of Bank lending and consumer spending should mitigate the risks of hyper-inflation occurring when the spectre of inflation emerges again.

Lonsec estimates that it will take at least 1-2 years to get the system re-capitalised and functioning again. This means that economic growth and hence company earnings are likely to trend down over 2009 and 2010.

The implications for financial markets are that investors continue to flock into cash and bonds, despite low interest rates, to protect capital against deflation. Growth securities are likely to test new lows as 2010 earnings forecasts are ratcheted down below 2009 estimates. Gold could also fall as its role as an inflation hedge will be reduced and USD weakness is also unlikely while other major economies continue to deteriorate further.

A recovery in growth assets will come when the financial system is stabilised, excess supply has been absorbed and companies have largely re-capitalised their balance sheets.

The challenges are great but the global economy (and the environment) will emerge on a much firmer footing once the imbalances and excesses of the past 15 years are rectified.

Global Economic Outlook

Global economy to enter recession during 2009, led by the US

The World Bank forecasts global growth to slow to 0.9% over 2009. Lonsec has a similar view with global growth expected to slow to 0.8% over 2009, made up of -1.8% growth from the developed economies (which represent about 65% of global GDP) and 5.5% growth from the developing economies (35% of global GDP).

The US economy (26% of Global GDP at market exchange rates)

The US officially entered recession in 2008. The Dec 08 quarter growth figure is yet to be released but expectations are for an annualised figure of -6.0% - the worst decline since WWII. The US Federal Reserve has cut interest rates to zero while new President, Barack Obama, is preparing a second and much larger stimulus of around US\$800bn. In addition, the US Treasury and Federal Reserve have been busy bailing out the US financial sector which is swaying under the weight of credit losses. A US\$700bn Troubled Asset Relief Program (TARP) has been approved to support the troubled finance sector. According to Treasury forecasts, the US Budget Deficit will likely exceed US\$2 trillion by 2010 while total Government debt will reach \$8.1 trillion (58% of GDP).

The global financial crisis has sparked a de-leveraging cycle and demand shock that has led to asset and consumer prices falling. The US share market fell 39% during 2008 while US house prices fell on average 18%, on the rolling year to November 2008. The large decline in consumers' net wealth coupled with tight credit conditions have led to a sharp pull-back in consumer demand. In turn, the price of goods and services have declined sharply and production has been cut back. Inflation has been vaporised with the CPI falling to 0.1% pa, indeed deflation now looks likely. Industrial production fell 7.8% over 2008 while the unemployment rate increased to 7.2%. Lonsec expects negative growth of 1.9% over 2009 with fiscal stimulus likely to improve the headline figure.

The European economy including the UK (23% of Global GDP)

Europe has also slid into recession surprisingly quick resulting in the ECB (finally) slashing the cash rate by 125bp to 2.0% over December 08 and January 09. European growth is widely expected to come in at an annualised rate of -2.0% in the Dec 08 quarter. Inflation fell to 2.1% in November 2008 and the ECB expects it to fall to 1.1-1.7% over 2009. The European Commission recommends a €200bn stimulus package (1.5% of GDP) but individual countries continue to debate the details. It seems the member states outside France and Germany have deeper economic troubles particularly Ireland, Spain and Greece. Lonsec expects European growth to decline by -1.3% over 2009.

The UK seems to be in a deeper recession than Europe because debt levels are higher and the decline in the housing and financial sector has been greater. The BOE has slashed the cash rate to 1.5% while the Government has been busy providing support for the Banking sector and recently announced a £20bn stimulus package. The Government's Budget deficit is set to rise to £118bn (8% of GDP) over the year. Lonsec expects the UK economy to shrink by 1.6% over 2009.

The Asian economy (21% of Global GDP)

As Warren Buffet says, "when the tide goes out, you can see who has been swimming naked", well the tide is going out and unfortunately it is exposing Asia as still heavily reliant on US and European demand and capital.

Japan entered recession during 2008 meaning the G7 are now in a synchronised recession making it very hard for any one country to export their way out of the slowdown. Japanese machinery orders fell a record 16.2% in November 08 while factory output dropped 8.1% and exports fell 26.7%. Japan looks to be headed for a deep recession with some analysts predicting the economy will shrink by 3% (12% on an annualised basis) over the Dec 08 quarter. The Nikkei sank 59% over 2008. The Bank

of Japan has cut interest rates to 0.1% from 0.3% and the Government is mulling a stimulus plan, although with a public debt to GDP ratio of 158%, its options are limited. Deflation will probably re-emerge as a problem for the Japanese economy during 2009. Lonsec expects the Japanese economy to shrink by 1.5% over 2009.

China's economy was also exposed during 2008 with exports slumping and its property boom ending abruptly. Foreign capital is retreating as US and European Banks withdraw funding. GDP is expected to grow by an annualised rate of 6.8% over the Dec 08 quarter down from 9% in September. The Chinese Government has announced a 4 trillion yuan (\$585bn) stimulus package that is focused on developing new infrastructure over the next three years. However, the immediate impact on growth is likely to be minimal so GDP is likely to fall further over 2009. Lonsec expects China's growth rate to fall to 6% over 2009.

Key global issues to watch over 2009	Lonsec view
Global credit conditions	Credit conditions likely to remain tight until the Banking system is re-capitalised
G7 economic growth	US to drag the G7 into recession; depth and length dependant upon global policy response and co-ordination
Inflation/Deflation	Deflation likely in the short to medium term due to a massive reduction in credit and reduced spending
Asian economic growth	Japan recession to worsen; China to slow to 6% growth rate
Commodity prices	Likely to remain weak until demand stabilises and surplus production is absorbed

Domestic Economic Outlook

“The Australian economy is expected to slow sharply with the major risks being global recession, gradual withdrawal of foreign capital and falling commodity prices.”

Australia is holding up well to the first wave of the global financial crisis tsunami but the second wave, a global recession, threatens to breach the sandbanks. The Australian economy grew by 0.4% in the June 08 quarter and a tiny 0.1% in the September 08 quarter. The economy is clearly slowing sharply with the last two results equivalent to an annualised growth rate of just 1.0% pa.

The Reserve Bank of Australia (RBA) has moved swiftly to cut the cash rate from 7.0% to 4.25% since September 08 while the Government implemented an \$8.4bn stimulus package over the Christmas period. Earlier in the year, the Government continued to lower income tax rates and moved to effectively guarantee the Australian Banking system. The RBA has also been active in providing increased liquidity for the Banking system.

Will Australia enter recession?

Australia seems to be well positioned relative to most developed economies. Consider these positives points:

- The Banking system is stable and functioning
- Monetary policy has been more effective in Australia – mortgage rates have come down with cash rate
- The Government is in a relatively strong financial position to provide stimulus given a Budget surplus and no net debt
- The unemployment rate remains low at 4.5%
- House prices have proven fairly resilient to date
- The oil price decline has led to cheaper petrol prices and inflation is now declining
- The lower AUD helps exporters remain competitive

During 2009 it is likely the RBA will continue to cut the cash rate given the deteriorating global outlook (including Asia) and the rapid retreat in inflation. Lonsec expects the cash rate to fall to 3.25% by June 30 and to 2.75% by year end. The Government is also likely to materially increase spending to help buffer the fall in consumption and business investment that is expected. Lonsec expects the Budget will move into deficit as tax revenues decline from slower growth and spending increases. Note the Government will be going into deficit from a position of relative strength (relative to most developed countries) in that current public debt levels are negligible.

What then are the negatives that could tip the Australian economy into recession during 2009? The global credit crisis has led to tight credit market conditions, falling asset and commodity prices and a sharp fall in consumer and business confidence. Consumer spending has slowed sharply while business investment also shows sign of falling sharply. The Banks have reduced mortgage rates but business lending rates still remain relatively high as the Banks seek to increase margins. This could be self-defeating if business investment slumps.

The Australian share market fell 43% during 2008 wiping \$700bn in value (hence investor wealth) from market capitalisation. And with house prices falling in the UK and US, Australians would be worried that the Australian housing market could be next. Concern about falling wealth is obviously having a major negative impact on consumer spending. But if consumers don't spend, business suffers and jobs are eventually shed which worsens the situation further. Rising unemployment could be the straw that breaks the back of the Australian housing market.

So the key is for Government to try and keep spending at high enough levels to contain job losses. The trouble is commodity weakness has already seen job losses in the mining sector while the finance sector is also shedding jobs rapidly. If business investment falls rapidly more jobs will be lost because one company's capital expenditure is another company's revenue. The decline in consumption and business expenditure could swamp any increase in Government expenditure and the economy would shrink.

Another area where the Australian economy is vulnerable lies in the current account deficit; most of the current account deficit relates to interest payments on net foreign debt totalling \$657bn. Australian Banks and Companies have borrowed most of this debt and it will need to be refinanced or repaid in coming years. The global financial crisis has made this task much harder and the Government has already had to lend its AAA rating to the Banks to help them roll their debt while Australian companies will increasingly need support from Australian debt and equity markets to replace their foreign debt.

All in all, it seems that Australia's exposure to the global economy, via commodity exports and foreign debt, means the economy won't be able to avoid recession over 2009. The two key sectors of the economy – mining and finance – will be under great stress. The Government can lessen the pain but the scale of the global recession is too overwhelming to resist. The best that one can hope for is a recession that is not too deep and not too long. Lonsec expects the Australian economy to decline by -1.0% over 2009.

Key local issues to watch over 2009	Lonsec view
Cash rate	Cash rate to decline to 2.75% by year end
Unemployment	Unemployment rate to climb to 7% during the year
House Prices	House prices to decline by 10% over 2009

Recommended Tactical Asset Allocation

Lonsec remains defensive with no change this quarter. Lonsec recognises the sharp reduction in the yield curve but believes it is still too early to overweight growth securities. Lonsec would like to see at least the February reporting season and most of the capital raising out the way before contemplating a move back into equities.

Lonsec sees little value in International bonds but there is still some value left in Australian bonds, in particular corporate bonds and hybrids provide opportunity for those prepared to take on some risk. While cash rates are moving down, investors need to be mindful that inflation is also retreating quickly so the real rate may still be reasonable. Cash will remain important to protect capital in the short-term but eventually Lonsec believes the quest for yield will see investors move back into the share-market once earnings and dividend visibility improves.

Investment Category	Asset Class	Dec 08 Quarter	Mar 09 Quarter
Income	Cash	Very Overweight	Very Overweight
Income	Australian Fixed Interest	Neutral	Neutral
Income	International Fixed Interest	Underweight	Underweight
Growth	Australian Property (LPT)	Neutral	Neutral
Growth	Australian Equities	Slightly Underweight	Slightly Underweight
Growth	International Equities (Unhedged)	Slightly Underweight	Slightly Underweight

Cash – Very Overweight

Cash rates are falling rapidly but with deflation a real threat, capital protection has become a priority as asset prices continue to fall. Lonsec expects the cash rate to fall to 3.25% by June 30 and to 2.75% by year end. However, inflation is also likely to fall significantly over the year as the economy slows and commodity prices tumble. Investors should remain in cash until the global financial system is stabilised.

Australian Fixed Interest – Neutral

Government bond yields have fallen rapidly meaning bond prices have firmed but corporate bond yields have blown out negating some of this upside for those following benchmark based portfolios. Lonsec believes that investors will continue to flock into the safety of cash and bonds until the global financial system is stabilised and economic growth returns. Lonsec also expects that investors seeking higher yield will first gravitate towards corporate bonds and hybrids and eventually high yield shares, as risk appetite increases again.

International Fixed Interest – Remain Underweight

Lonsec finds the investment case for global bonds to be unattractive given yields range from 1.5% on 5 year notes to 3% on 30 year issues. The return seems inadequate given the supply of most issues will increase dramatically as Governments issue debt to finance ballooning Budget deficits. You would only find Global bonds attractive if you think that the global economy is in for a lengthy period (5 years+) of deflation, which is not Lonsec's base case scenario.

Australian Property (LPT or A-REIT) – Neutral

The ASX Top 200 Property accumulation index fell 54% during 2008. The sector is down nearly 70% from its 2007 highs on a variety of negative themes set in motion by the global financial crisis. These themes include: very tight debt market conditions; falling property asset values; volatile currency & equity markets; and rapidly slowing global economic growth. These related events combined to create a 'perfect storm' which forced most of the trusts to raise equity capital to reduce gearing levels, cut distributions back to operating income, write-down asset values and retreat back to a traditional rental income model, based on an Australian property portfolio.

Lonsec believes the future for LPTs will look a lot like the past (from the 70's to 90's) where the investment case is the return of relatively high income and modest capital growth over the long-term. The trusts are likely to trade at a set premium to bond yields and around NTA, once again.

Lonsec recently conducted a review of the LPT sector and made some changes to the LPT model portfolio (see *Direct Equities* on the website). Some observations include: from a universe of 12 stocks only 9 could now be considered investment grade; Westfield dominates the index with a weight of 50%; the better stocks are the trusts that retain a 'plain-vanilla' property investment trust structure, are focused on Australia and have managed to get gearing down to <30%; the immediate issue for the sector is managing debt levels as asset values fall; the future issue for the sector will be managing lease expiries and retaining rental income; and the investment case for the sector is likely to return to yield as cash rates and bonds yields fall.

Lonsec retains a Neutral allocation from these levels but stresses a bias to 'plain-vanilla' trusts with low gearing and largely domestic portfolios. The investment case will return to income.

Australian Equities – Slightly Underweight

The ASX Top 100 Accumulation Index fell 37.2% over 2008. Many investors expect a rebound over 2009 given the market has historically rallied after such a major fall. Lonsec is more cautious as the global financial crisis is not a typical end of cycle event - it is more an end of era event.

Since 1993 there has been a gradually leveraging of the global banking system which in turn has leveraged global economic growth and company earnings. The global financial crisis represents the spectacular collapse of this cycle and a new period of de-leveraging and deflation. This means that company earnings are very unlikely to return to the heights of 2007 for some time. Where they go from here is very uncertain hence the increased volatility in equity markets as investors try and assess the present value of future earnings for each company.

Complicating valuation at the moment is the de-leveraging process whereby companies are raising equity capital to reduce gearing to more comfortable levels. However, a strong balance sheet today may not be so strong tomorrow due to falling asset prices, reduced earnings and volatile currency movements. Many companies are finding they need to raise more and more equity capital.

This is where assessing the market as cheap based on P/E ratios and dividend yields is fraught with danger. The future level of sustainable earnings is unclear and the number of shares on issue is also uncertain. It then follows that dividend per share is also very ambiguous. With that in mind, Lonsec takes a look at some rough valuation numbers on the market at present levels.

Based on broker consensus numbers, the All Ordinaries is trading on a forward FY09 PER of 10.5x while the forecast dividend yield is 6.4%. Keep in mind that the resource and energy sector makes up over 30% of the market and pays a low dividend, so the dividend yield ex-resources would probably be closer to 8.0% at the moment. Certainly the Bank sector is yielding around 10% at present and could sustain an 8% yield even if dividends were cut by 20%.

Now, the long-term average PER is 14.1x while the dividend yield is 4.2%, so the market does look quite cheap. However, broker consensus numbers factor in an average decline in market EPS of only 2%. Worse still, market EPS is expected to rebound by 2% in 2010. Clearly, this is where the risk lies. If market EPS declines by a much greater amount (10-20% pa) over 2009 and 2010, then the market PER could easily revert back to 14-15x. Keep in mind that a PER of 15 indicates a year 1 return of 6.66% while a PER of 10 is a 10% return from year 1. The PER level depends greatly on the perceived risk to earnings and the future growth rate. In the current environment, Lonsec would expect that the required rate of return on equity would be at least 10-12%.

All in all, the market could have further downside if earnings decline by more than expected over 2009 and 2010 and more equity capital is raised thereby diluting EPS even further. Much depends on how far earnings have to fall to find a stable base.

Lonsec believes that investors will need to see at least the February 09 reporting season, the near completion of capital raising and new lows in the S&P 500 before the Australian market will find a bottom. That being said, Lonsec does expect the All Ords to hold the 3,000 level and expects that its next move will be to increase the Australian Equity weighting back up to Neutral.

International Equities – Slightly Underweight

The international outlook is obviously heavily weighted to the outlook for the US market. The S&P 500 currently trades on forecast (broker consensus) PER of 11.6x compared to a long term average of 17x. However, broker estimates of EPS also seem to be optimistic with a decline of 11.3% over 2009 but then an 11.9% rebound over 2010. Clearly, if the fall in EPS is greater than expected and continues well into 2010, the market could have further downside as the PER would continue to ratchet up, as EPS falls.

Given the deterioration in the US economy over the last quarter, it would seem that broker expectations for earnings are still too high thus upcoming reporting seasons are likely to disappoint. Lonsec would like to see at least 2-3 more quarterly results before considering a move back to Neutral on International Equities.

Lonsec Direct Model Portfolios

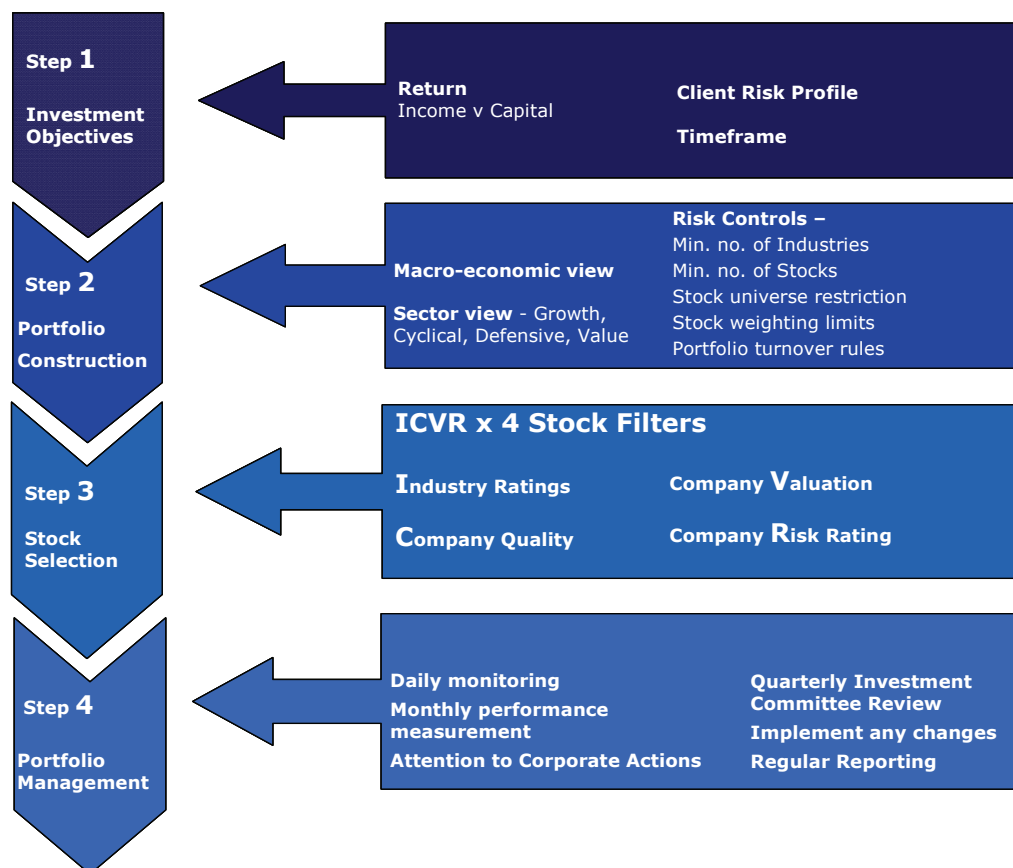
Lonsec Investment Philosophy

Lonsec takes an active approach to investing and focuses on generating absolute returns, over the medium to long term, through high conviction portfolios.

Lonsec employs a four-step investment process that has a strong focus on “top-down” macro-economic and sector themes. Risk is managed at both the portfolio and the individual stock level.

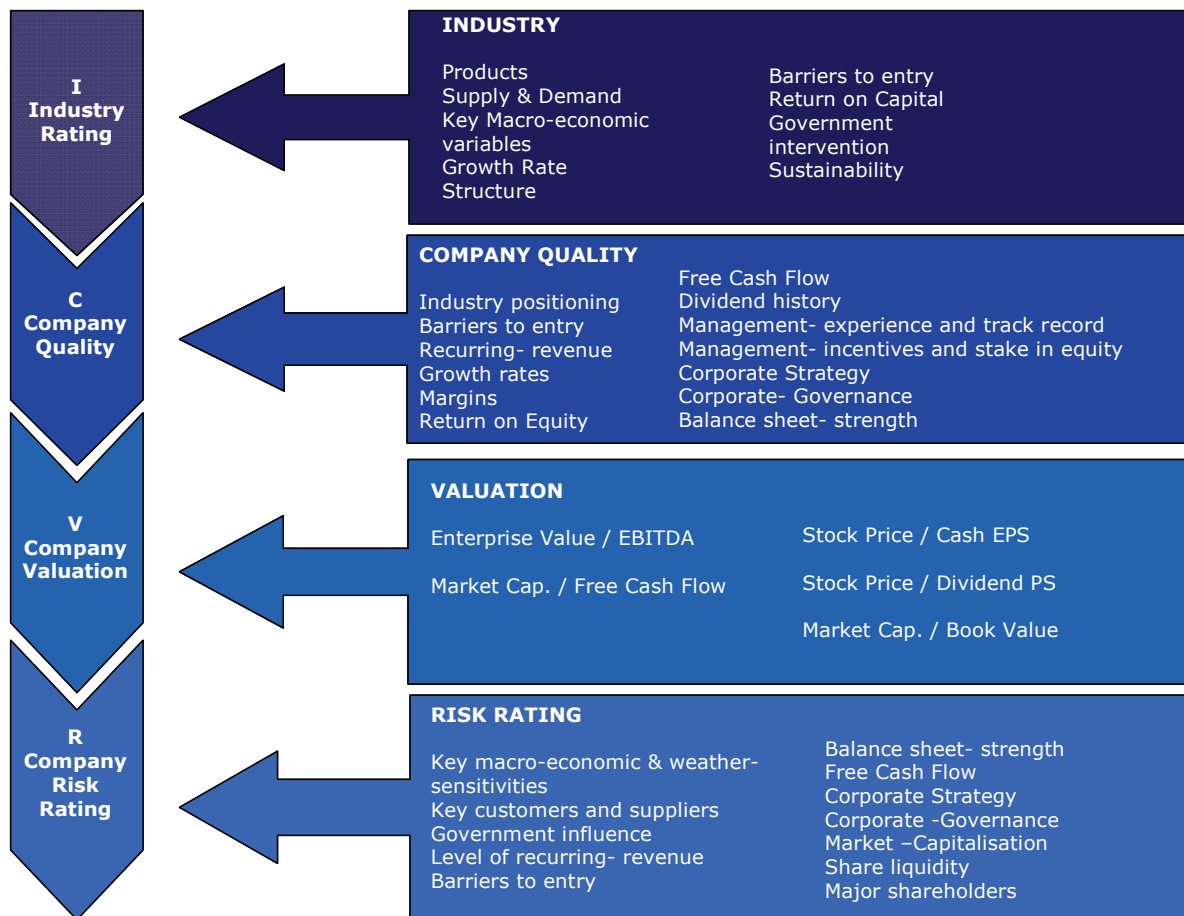
Lonsec’s Top-Down Investment Process

Lonsec employs a four-step investment process. The portfolio is heavily influenced by top-down themes at the Portfolio Construction level (Step 2). We employ four stock filters (Industry, Company quality, Valuation and Risk) to select our stocks at the Stock Selection level (Step 3). Risk is managed at both the Portfolio Construction level and the Stock Selection level. The final step is to manage the portfolio and regularly review our top-down themes and stock selections.



Lonsec’s Stock Selection Filters (ICVR)

Each of our stocks is selected after a rigorous qualitative and quantitative analysis involving four stock filters. A Lonsec stock will have high ratings in each category based on our analysis and judgement.



Lonsec Core Model Portfolio

Objective

To deliver strong absolute returns, over the medium to long term, through a diversified “blue-chip” portfolio invested across a number of industries.

Portfolio Rules

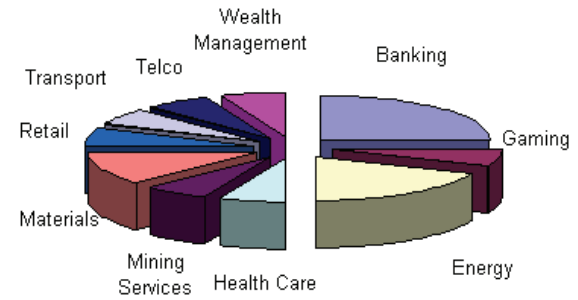
Investment universe	ASX TOP 150
Benchmark	ASX TOP 100 Accumulation Index
Min. no. of stocks	10
Min. no. of industries*	8
Individual stock limit	12.5%
Cash weighting	0%
Targeted portfolio turnover	30% pa
No LPT stocks	(Refer Lonsec LPT Model)

*Note: industry is a subset of the broader GICS sector.

Portfolio Profile

PORTFOLIO EXPOSURE BY INDUSTRY	
	Weight
Banking	25.00%
Gaming	6.25%
Energy	18.75%
Health Care	6.25%
Mining Services	6.25%
Materials	12.50%
Retail	6.25%
Transport	6.25%
Telecommunications	6.25%
Wealth Management	6.25%
Total	100.00%
TOP 50	87.50%
Ex-TOP 50	12.50%

Portfolio by Industry



Portfolio Performance

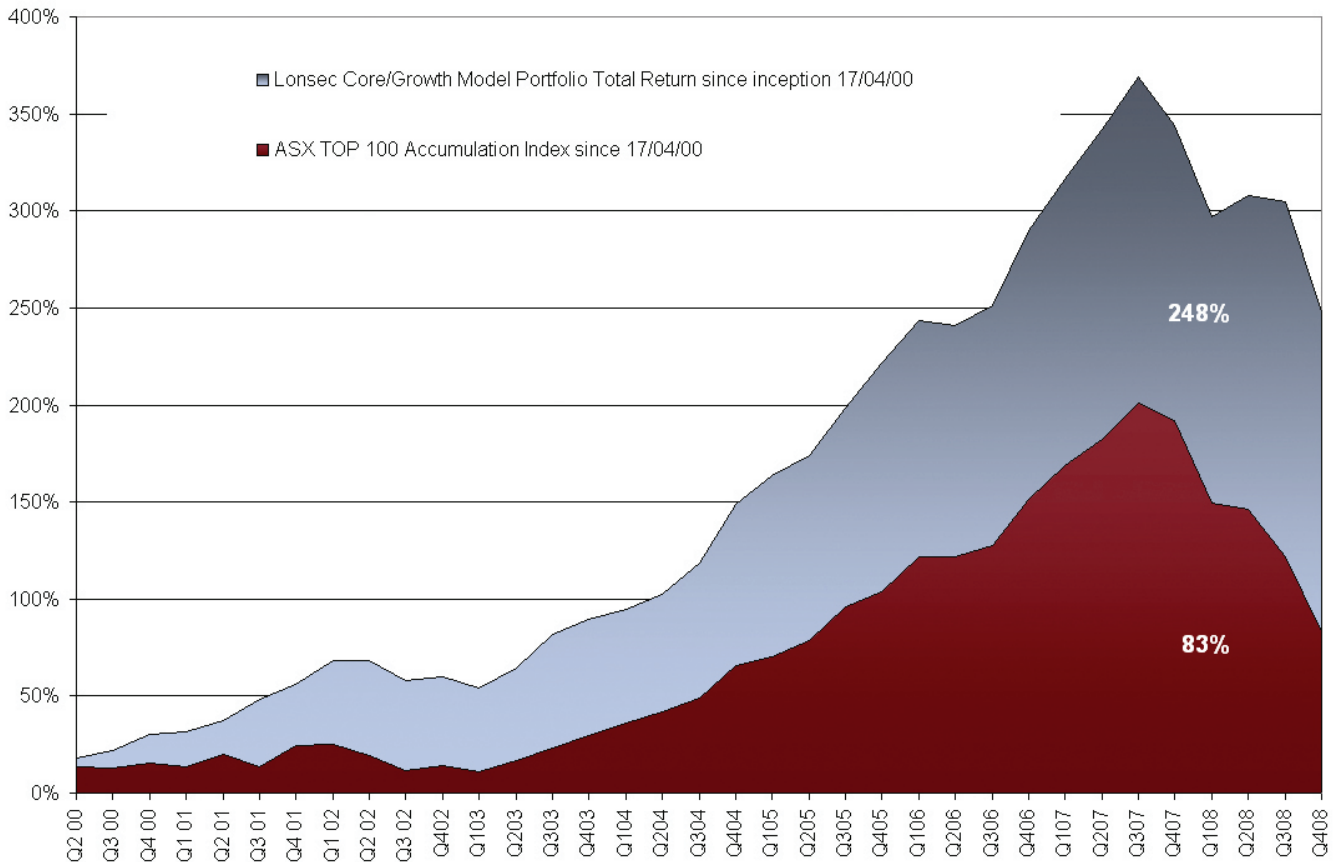
INVESTMENT PERFORMANCE		Month	Qtr	Year	2 Years (pa)	3 Years (pa)	5 Years (pa)	7 Years (pa)	8 Years (pa)	Since Inception ¹
Period ending	31 December 2008									
Lonsec Core Model Total Return²		-0.9%	-14.1%	-21.7%	-5.6%	2.6%	12.9%	12.1%	13.0%	247.7%
ASX TOP 100 Accumulation Index		-0.5%	-17.3%	-37.2%	-14.6%	-3.5%	7.2%	5.7%	5.9%	83.4%
Out/Under Performance		-0.4%	3.2%	15.5%	9.0%	6.1%	5.7%	6.4%	7.1%	164.3%

¹ Inception date 17 April 2000

² Investment Performance is calculated before fees, charges, brokerage and taxes. Dividends are reinvested at the end of each month.

The portfolio is reset at the end of each month back to the model portfolio weightings. This prevents portfolio weightings from skewing over time and ensures performance figures remain relevant. The Lonsec Core Model portfolio is a fully-invested notional portfolio with no cash weighting.

Lonsec does not manage a physical portfolio. Physical portfolio results will differ depending on cash levels, start date, fees, taxes and compliance with model weights. Past performance is not a reliable indicator of future performance.



Lonsec Income Model Portfolio

Objective

To deliver an attractive fully-franked income yield together with some capital growth, over the medium to long term, through a focused income portfolio.

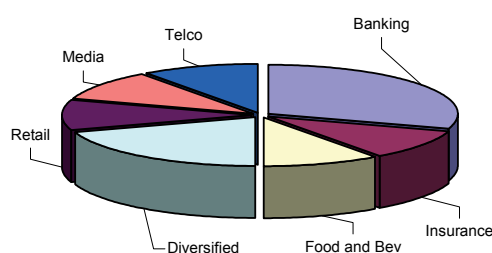
Portfolio Rules

Investment universe	ASX TOP 150
Benchmark	ASX TOP 100 Industrial Accumulation Index
Min. no. of stocks	8
Min. no. of industries	4
Individual stock limit	12.5%
Minimum franking	100%
Targeted portfolio turnover	30% pa
No LPT stocks	(Refer Lonsec LPT Model)

Portfolio Profile

PORTFOLIO EXPOSURE BY INDUSTRY	Weight
Banking	30.0%
Insurance	10.0%
Food and Bev	10.0%
Diversified	20.0%
Retail	10.0%
Media	10.0%
Telco	10.0%
Total	100.0%
TOP 50	80.0%
Ex-TOP 50	20.0%

Portfolio by Industry



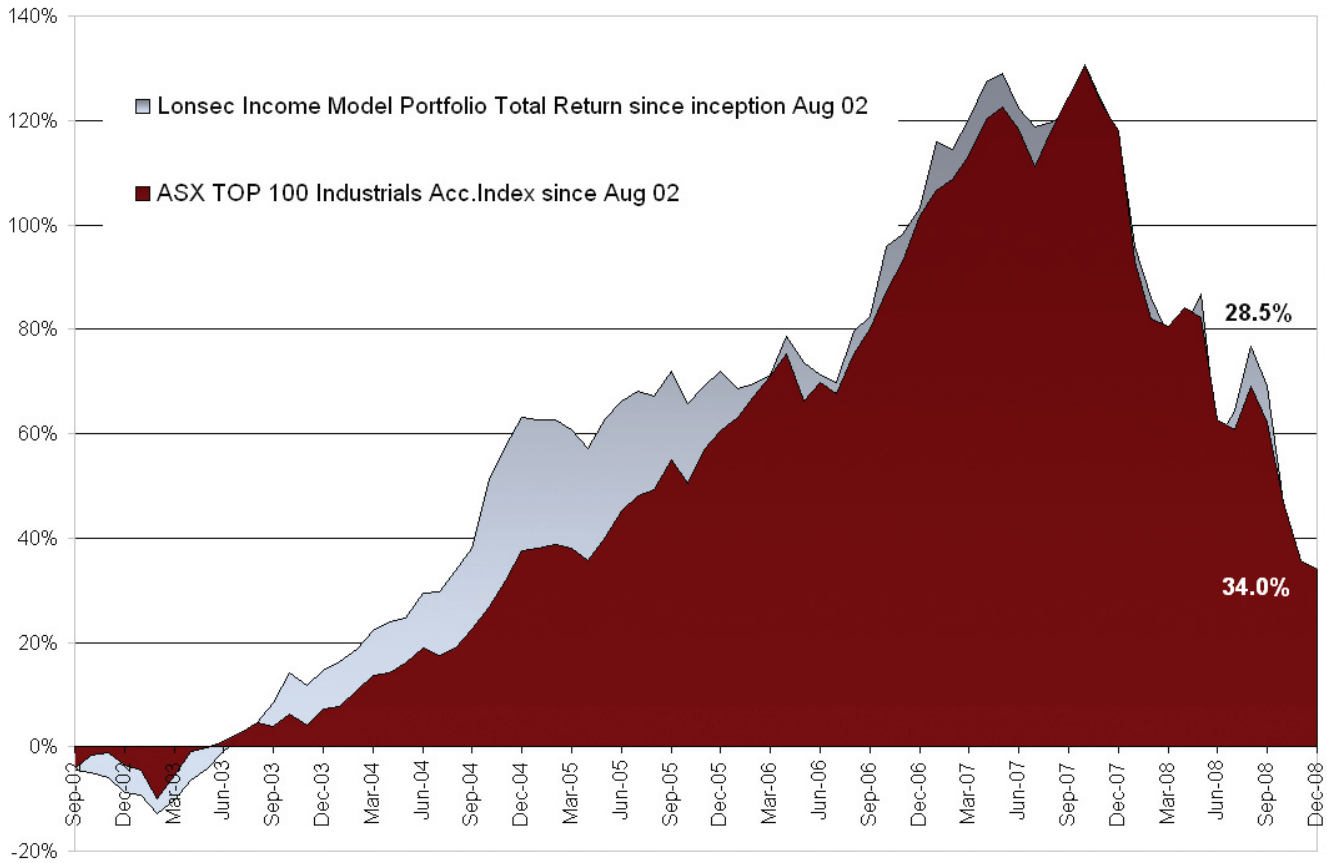
Portfolio Performance

INVESTMENT PERFORMANCE					2 Years	3 Years	5 Years	6 Years	Since
Period ending	31 December 2008	Month	Qtr	Year	% (pa)	% (pa)	% (pa)	% (pa)	Inception ¹
Lonsec Income Total Return²		2.1%	-24.0%	-40.9%	-20.5%	-9.2%	2.3%	5.9%	28.5%
ASX TOP 100 Industrial Accumulation Index		-1.1%	-17.3%	-38.5%	-18.5%	-5.8%	4.5%	5.6%	34.0%
Out/Under Performance		3.2%	-6.7%	-2.4%	-2.0%	-3.4%	-2.2%	0.3%	-5.5%

¹ Inception date 20 August 2002

² Investment Performance is calculated before fees, charges, brokerage and taxes. Dividends are reinvested at the end of each month.

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Lonsec LPT Model Portfolio

Objective

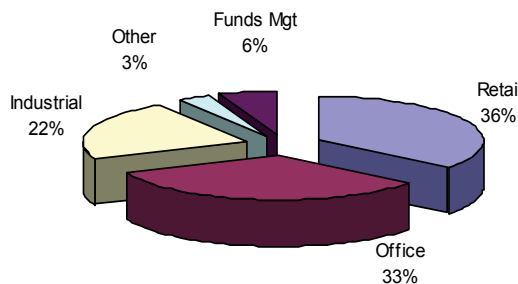
To deliver a combination of income and capital growth, over the medium to long term, through a focused listed property portfolio.

Portfolio Rules

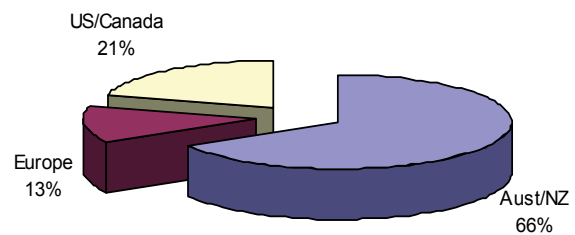
Investment universe	ASX TOP 200 Listed Property Trusts
Benchmark	ASX TOP 200 LPT Accumulation Index
Min. no. of stocks	5
Min. no. of sectors	3
Individual stock limit	20%
Cash weighting	0%
Targeted portfolio turnover	20% pa
No pure property developers	
No 100% international trusts	
Inception date	01/07/06

Portfolio Profile

Lonsec LPT Portfolio by Sector



Lonsec LPT Portfolio by Country



Portfolio Performance

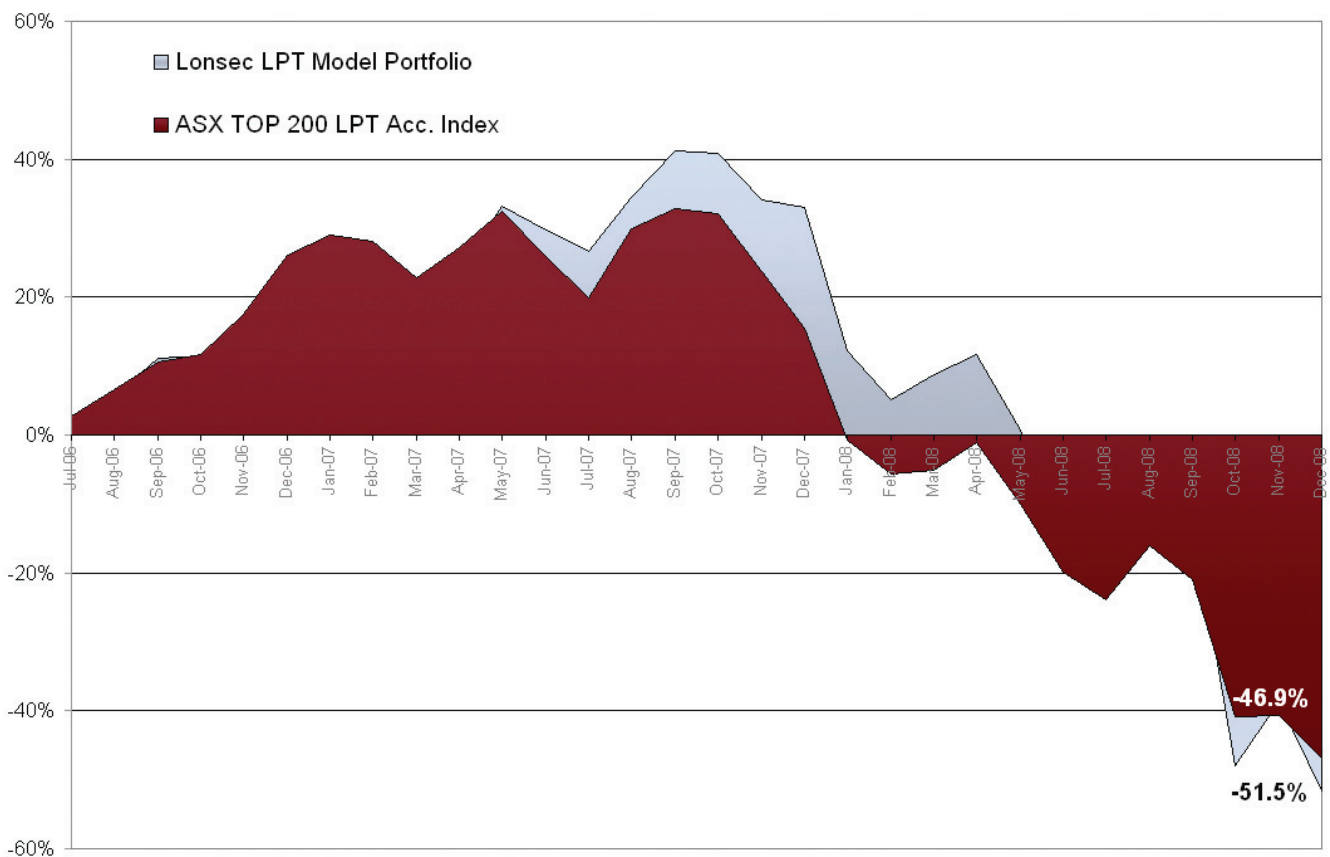
INVESTMENT PERFORMANCE							
Period ending	31 December 2008	Month	Qtr	Six Mths	Year	2 Years (pa)	Since Inception ¹
Lonsec LPT Model Total Return²		-21.0%	-44.9%	-44.6%	-63.6%	-36.3%	-51.5%
ASX TOP 200 Property Accumulation Index		-10.5%	-32.9%	-33.7%	-54.0%	-35.1%	-46.9%
Out/Under Performance		-10.5%	-12.0%	-10.9%	-9.6%	-1.2%	-4.6%

¹ Inception date 1 July 2006

² Investment Performance is calculated before fees, charges, brokerage and taxes. Dividends are reinvested at the end of each month.

The portfolio is reset at the end of each month back to the model portfolio weightings. This prevents portfolio weightings from skewing over time and ensures performance figures remain relevant. The Lonsec LPT Model portfolio is a fully-invested notional portfolio with no cash weighting.

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Lonsec Limited ABN 56 061 751 102
Published by Participant of ASX Group
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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