

### Performance statistics – June Q10

Markets	30 Jun 2010	Qtrly % Change
All Ordinaries	4325	-11.6%
Banks	5695	-17.1%
Materials	11436	-10.7%
Industrials	3180	-19.7%
Real Estate	1958	-3.6%
US S&P 500	1031	-11.9%
UK FTSE 100	4917	-13.4%
Japan Nikkei	9383	-15.4%
German DAX	5966	-3.1%
Shanghai Comp	2398	-22.9%
Hang Seng	20129	-5.2%
RBA Cash Rate	4.50%	+50bp
90 Day bill rate	4.94%	+50bp
10 year bond	5.09%	-67bp
Oil (WTI) \$US	\$75.25	-9.59%
Gold \$US	\$1246	11.8 %



### A Fragile Recovery

Last quarter Lonsec wrote about the battle between deflationary and inflationary forces in the global economy.

We expected inflation to emerge the victor but in the June quarter there were significant signs that deflation is starting to win the battle.

Whilst it is still unclear which force will win the war, Lonsec has decided to take a slightly more defensive stance this quarter.

Over the past 30 years there has been a significant accumulation of debt in the private and public sectors of the leading developed economies. The 2008 global financial crisis marked the end of this process for the private sector while the 2010 Greek debt crisis most probably marks the end of this process for the public sector. Lonsec notes that G20 members recently agreed to cut their budget deficits in half by 2013.

What is likely to follow is a period of deleveraging and reduced spending, by both the private and public sectors, which will lead to reduced demand and could lead to deflation (falling consumer and asset prices). In effect, aggregate demand or GDP falls back to a lower equilibrium – a level with reduced debt-funded expenditure. This is a recipe for recession but not a normal cyclical recession - this would be a 'balance sheet' recession.

There are also some strong opposing inflationary forces which initially sparked a strong recovery in industrial production and a rally in equities and commodities. These are near-zero interest rates across the developed world, the remaining fiscal stimulus initiatives, quantitative easing (intervention in debt markets by central banks) and the strong growth of emerging economies in Asia and Latin America. Despite all these positive influences, economic growth in Europe and the US remains modest and unemployment remains high.

The global recovery remains fragile and uneven with the developed world lagging well behind the developing world. But now Europe is cutting back on fiscal stimulus and China is looking to slow its economy to avoid inflationary pressures. US economic data is starting to soften while the property market remains weak. There is concern that the US is headed for a double-dip recession as government stimulus wanes, an inventory rebuild concludes and retail sales fall. Leading indicators of global growth are in decline and commodity prices are falling. US ten year bond yields have shrunk to less than 3% - a sign the bond market expects recession and benign inflation.

#### How does the developed world get out of this situation?

To date, government intervention has moderated the severity of the downturn but by delaying market adjustments and structural change it could be increasing its duration. Japan chose a similar path when its property bubble burst in 1990 and it has since experienced very low growth or recession with bouts of deflation.

There are various ways to address excess debt accumulation across the private and public sector:

- 1) reduce spending and slowly pay back the debt;
- 2) depreciate the currency and export your way out of trouble;
- 3) increase the money supply (quantitative easing) to generate inflation thus increasing incomes and asset prices to reduce debt in nominal terms;
- 4) default and convert debt into equity; and
- 5) default and write-off a portion of the debt.

Various combinations of 1,2 and 3 are being employed across Europe, the US and Japan but default is being avoided at all costs. The difficulty is that each measure is hard to implement: austerity measures lead to reduced demand and higher unemployment; weak Euro members cannot depreciate their own currencies as they are tied to the Euro; the US currency remains strong because it is still perceived as a safe-haven; and the US, Europe and Japan cannot all export their way out of trouble. Who is going to be the net importer? They all look to China but China is small in comparison to the G7 economies and it will take years for it to re-engineer its economy away from exports and investment towards consumption. The appreciation of the yuan is a positive step in this direction but only a small step.

Money printing or quantitative easing is a relatively painless solution that has been used extensively by the US Federal Reserve since the global financial crisis. The UK and European central banks have also started to go down this path. This is a risky solution as it effectively amounts to manipulation of the money supply and debt markets and can lead to a loss of investor confidence in the central bank and the government and eventually rampant inflation. Like a drug, it needs to be used in moderation otherwise it can become destructive.

Default would be the quickest solution but bank and government bond holders would suffer significant losses and a new financial crisis could emerge. Major bond holders include banks, pension funds, insurers and foreign governments.

Lonsec expects a combination of austerity measures, global rebalancing of trade between surplus and deficit countries and quantitative easing to gradually ease the debt burden but it could take most of this decade.

#### **What does it mean for Australia?**

In contrast to Europe, Japan and the US, Australia does not have high debt levels in the public sector and the banking sector is well capitalised. It is only the household sector that has high debt levels with a debt to GDP ratio of around 150%. However, this remains manageable while interest rates remain fairly low, the banking sector remains strong, the housing market remains buoyant and unemployment remains low.

Australia's economic fundamentals are the strongest in the OECD and its commodity exports are tied to Asia. However, a downturn in Europe and the US would still affect Australia in three ways:

- 1) financial markets – commodity prices, the currency and the cost of foreign debt are heavily influenced by US and European markets;
- 2) reduced global demand for Asian exports – could lead to weaker demand from Asia for our commodities; and
- 3) confidence – economic and financial market weakness in Europe and the US would most probably affect business and consumer confidence in Australia.

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

The developed world, representing about 60% of the global economy, looks headed for a considerable period of stagnant growth and low inflation, or possibly deflation. The developing world has far brighter prospects for growth in the medium to long term but inevitably will also experience economic cycles in the short term. China seems to be headed for such a cyclical slowdown but its long term prospects remain robust.

If deflation emerges in the developed world, investors will need to be more defensive in their asset allocations. It is likely we will see a period of short sharp cycles (as governments attempt to reflate) similar to that experienced in the western world during the 70's and in Japan since 1990. That means more pro-active asset allocation than in the past. Put simply a passive buy-and-hold approach won't work if equity markets range trade, i.e. move up and down in the short to medium term but make no progress in the longer term.

Investors will need to sit in cash, fixed term deposits and bonds and move into equities near the cyclical low with the intent of selling near the cyclical high, perhaps some 1-2 years later. This is obviously easier said than done but Lonsec believes an active approach to asset allocation and equities is an investment strategy to seriously consider.

With the outlook for the developed world now less positive, Lonsec is moving back to a more defensive asset allocation, with a bias to Australia. We are overweight cash, neutral on Australian fixed interest, very underweight international fixed interest, neutral on Australian and International equities and slightly overweight Australian property securities.

## Global economic outlook

### **Gradual recovery fragile and patchy**

The IMF forecasts the global economy to grow by 4.5% over 2010 but acknowledges the downside risks have risen sharply in recent months. The IMF expects a weak recovery in developed economies and a moderate recovery in developing economies. Developed economies (which represent about 60% of global GDP) are expected to grow by 2.6% over 2010, while developing economies (40% of global GDP) are expected to grow by 6.8%.

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

The US economy grew at an annualised rate of 3.0% in the first half of 2010 but seems to be slowing in the second half as fiscal stimulus wanes and inventory rebuild concludes. Retail sales, consumer credit, housing starts and manufacturing surveys were all weaker mid-2010 while consumer confidence fell significantly from 62.7 to 52.9. Payrolls also fell 125,000 in June but the unemployment rate improved to 9.5% from 9.7%, mainly because 652,000 people gave up looking for work.

Fiscal and monetary policy is still quite expansionary with the 2010 Federal budget deficit forecast to hit US\$1.6 trillion or 11% of GDP while the US Federal Reserve (the Fed) maintains the cash rate will remain at zero “for an extended period” and has expanded its balance sheet by 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%. Indeed, there is now concern the US is headed for a double-dip recession and the threat of deflation, if government spending is reined in and consumers continue to deleverage.

The big picture remains that the US economy is heavily indebted, with US\$42 trillion in debt across the private sector and US\$10 trillion in debt across the public sector, against an economy worth US\$14 trillion. The US has many years of low growth ahead as consumers reduce spending to pay down debt, and the Government will eventually have to reduce spending and/or increase taxes to do the same. The IMF expects the US economy to grow by 3.3% over 2010.

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

Europe looks decidedly weaker than the US with growth expected to be minimal over 2010. The ECB seems reluctant to offer the scale of monetary stimulus of the Fed while Germany is reducing government spending rather than increasing it. There has been considerable market focus on the high sovereign debt levels of Greece with Greek 10 year bond yields rising to over 10% despite measures to reduce the budget deficit and a €110bn bailout package from the EU and the IMF. During the June quarter, sovereign debt concerns started to spread to other fiscally stretched states, including Portugal, Spain and Italy, forcing the EU to implement a €750bn stabilisation fund, guaranteed by the EU and the IMF. European states, including the UK, are now engaging in fiscal austerity measures to cut their budget deficits in half by 2013 which is expected to keep economic growth low. The IMF expects the European economy to grow by 1.0% and the UK economy to grow 1.2%, over 2010.

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

After a dreadful 2009, the Japanese economy has bounced back strongly in the first half of 2010 mainly on the back of a recovery in net exports. However, the domestic economy remains soft and there are fears the economy will slip back into recession once global stimulus fades. The Nikkei has retreated 15% since the April high.

The Bank of Japan has held the cash rate at 0.1% since 2008 and has engaged in some quantitative easing to try and boost the local economy. The new DPJ Government has suffered a setback with the resignation of its unpopular PM Hatoyama. The Japanese economy desperately needs a strong leader to get it out of 20 years of low growth and deflation. Although with a public debt to GDP ratio of 220%, its options are limited. Deflation will probably remain a problem for the Japanese economy during 2011. The IMF expects the Japanese economy to grow 2.4% over 2010 but slow in 2011.

China's strong recovery from the GFC continued in the first half of 2010 with the economy growing at an annualised rate of 12% prompting the Government to tighten credit and property conditions in April. There are concerns that a 2009 lending spree has led to a property bubble in China's major cities. This could be true, but Chinese authorities have greater direct control over the banks and the economy and may be able to manage the situation. China is taking steps to reposition the economy towards consumption with workers' wages starting to rise and the currency recently allowed to appreciate. A slowdown is expected in the second half but the economy will still be growing strongly relative to the G7 economies. The IMF forecasts the Chinese economy to grow by 10.5% over 2010.

Key global issues to watch	Lonsec view
G7 economic growth	The recovery could slow in the second half as fiscal stimulus turns to austerity measures
Asian economic growth	Japan to slow but emerging Asia should continue to grow at 8%+
European debt crisis	Fiscal austerity measures could lead to wide-spread protests which could unsettle confidence again
Inflation/Deflation	Inflation could be an issue in China but elsewhere deflation is more likely to be the issue
US monetary policy	Watch for the Fed to restart quantitative easing if the recovery falters
Chinese Yuan	Gradual appreciation will help rectify global trade imbalances

## Domestic economic outlook

### *Australia well positioned to handle any slowdown in global growth*

The Australian economy is expected to grow by 3.0% over 2010 – its 19<sup>th</sup> consecutive year of growth. This performance ranks Australia 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;
- low debt levels in the public and corporate sector;
- a stable housing market;
- a low unemployment rate of 5.1%;
- moderate inflation of 3.2%;
- a reasonably strong currency; and
- a 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 continues to expand.

The main risks to the Australian economy are:

- **Inflation** – the underlying rate is still relatively high at 3.2% 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 will 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 25% 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 a China economic slowdown. The Chinese Government is trying to slow growth due to concerns about inflation and a property bubble in the major cities. If Europe and the US also slow in the second half, Chinese exports could fall significantly and demand for Australia's key commodities – iron ore and coal – could also weaken.

Overall, the economy should remain robust over 2010 and into 2011. The RBA is likely to remain on hold in the short term to see how the global recovery unfolds. 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	Cash rate to remain on hold in the short term, cuts likely next year if global recovery falters
Inflation	Underlying inflation should remain around 3%
AUD/USD	Should remain firm in the short term but has downside if global recovery falters
Commodity Prices	Watch for weakness in iron ore prices as China slows; coal prices look like they will hold up better
House Prices	Higher rates should cool down the market but prices more likely to plateau than fall
Federal election	The new Labor leader might help Labor stay in the lower house but the Greens could end up holding the balance of power in the Senate

## Recommended Tactical Asset Allocation

The economic outlook has become more uncertain for the US and Europe while China and Australia still look reasonably robust. This quarter Lonsec has adjusted its asset allocation to strike a balance between these conflicting outlooks. We have taken a slightly more defensive stance by reducing our equity weightings back to Neutral whilst increasing our exposure to Australian fixed interest and property securities. Generally, Lonsec prefers Australian exposure over International exposure. International exposures should be tilted towards Asia, either directly via Asian company securities or indirectly via Australian, European or US companies generating significant revenue in Asia.

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

### Cash – Overweight

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 flagged that interest rates are now at 'neutral' levels and that the risks to the domestic outlook are broadly balanced. The domestic economy is strong but the global economic recovery looks fragile and patchy. Lonsec expects the cash rate to remain on hold for the balance of 2010. If the global recovery falters in the second half of 2010, we could hear talk of rate cuts by early next year.

### Australian fixed interest – Neutral

The Australian yield curve has flattened over recent months as the global outlook has become more uncertain. Australian 10 year bond yields have fallen to 5.1% but this is still a reasonable yield in comparison to most major global 10 year bond issues (US 3.0%, UK 3.3%, Germany 2.6%, Japan 1.1%). In addition, Australia's AAA sovereign credit rating is more credible than most major issuers given public debt levels are less than 10% of GDP in comparison to the US, Europe and Japan where average public debt to GDP ratios are in excess of 80%. While the short end of the yield curve looks better value at the moment, bonds could turn out to be a good investment, if the global recovery falters and the Australian cash rate starts to come down in 2011.

### International fixed interest – Very Underweight

Lonsec finds the investment case for global bonds to be unattractive as yields range from 1.1% to 3.3% 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 that at some point, in the short to medium term, the bond market starts to question the debt levels of a major country (similar to recent events in Greece) resulting in a major bond sell-off and spike in bond yields in that country or region. Southern and Eastern Europe seem to be the most likely candidates, in the short term, but Lonsec would not be surprised to see concerns spread to broader Europe, the UK, Japan and even the US if public debt levels are not addressed in the medium term.

### 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 5.1% will help support property valuations and hence market discounts to NTA should narrow from here. In addition, running yields above 6.0% will become more attractive to investors, particularly if the Trusts can generate distribution growth over the medium term.

## Australian equities – Neutral

The local market gained 9.5% over the last financial year but is still down around 30% from the 2007 high. The major reason for the retreat in the market, since 2007, has been a significant increase in equity risk premiums post the GFC, which has led to much lower equity valuations and trading multiples. The forward PERs on the major sectors of the market are now quite modest:

Sector	Market weight	FY10 PER*	FY11 PER*
Resources & Energy	32%	16.8x	10.1x
Financials	31%	11.6x	10.0x
Industrials	30%	13.0x	11.4x

\*broker consensus estimates

The Australian market looks fair value on FY10 earnings estimates and cheap on FY11 estimates. However, there are major risks to forecast FY11 earnings in each sector:

**Resources and Energy** – Any slowdown in the global economy could see commodity prices retreat sharply. The key commodities to watch for Australian companies are iron ore, coal, gold, copper, uranium, oil and LNG. Government policy around mineral and petroleum resource rent tax has also increased risk in the sector.

**Financials** – The European debt crisis has led to higher funding costs for Australian banks that are not being passed on because of political pressure. At the same time, credit growth is stalling and there is pressure on the banks' non-interest income in terms of public outcry over bank fees and lower investment income from financial markets. On the positive side, the banks should continue to experience lower asset impairment charges in the short term. Insurers face lower investment income and higher claims experience while wealth managers face lower investment income and a raft of regulatory changes that aim to reduce fees and increase competition.

**Industrials** – Higher interest rates in the Australian economy are beginning to bite with economic data starting to soften by mid 2010. Companies may be under pressure to maintain margins in an environment of weakening demand and increased competition. There are also a number of regulatory reforms in the Healthcare, Telecommunications, Gaming and Media sectors that are causing headaches (without even mentioning the Government talking about resurrecting the Carbon Emission Trading Scheme).

While investors need to be wary of these risks, they are already largely factored into share prices, so there is room for major upside if the global recovery is sustained. Investors should also be aware that company balance sheets are now in good shape which means investors can have greater confidence in buying into market corrections. Overall, Lonsec remains confident in Australia but wary of the weak recoveries in Europe and the US. Lonsec expects a range-trading market between 4,200 and 5,100 in the short to medium term.

## International equities (unhedged) – Neutral

The US market has rallied over 58% since the March 2009 low with the S&P500 trading around the 1,100 level, at the time of writing. The S&P500 is currently trading on a FY10 PER of 12.8x and FY11 PER of 10.8x which is certainly not onerous. However, the risk to the US market is not so much valuation but earnings. The market is looking for 20% earnings growth over the next year which might be a stretch given the slow pace of recovery in the US economy.

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 low, equities are likely to remain relatively attractive.

Overall, Lonsec is positive on the outlook for Australia and Asia and cautious on the outlook for the US and Europe (which dominate the MSCI World Index) so we are Neutral on 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.

## Lonsec Direct Model Portfolios

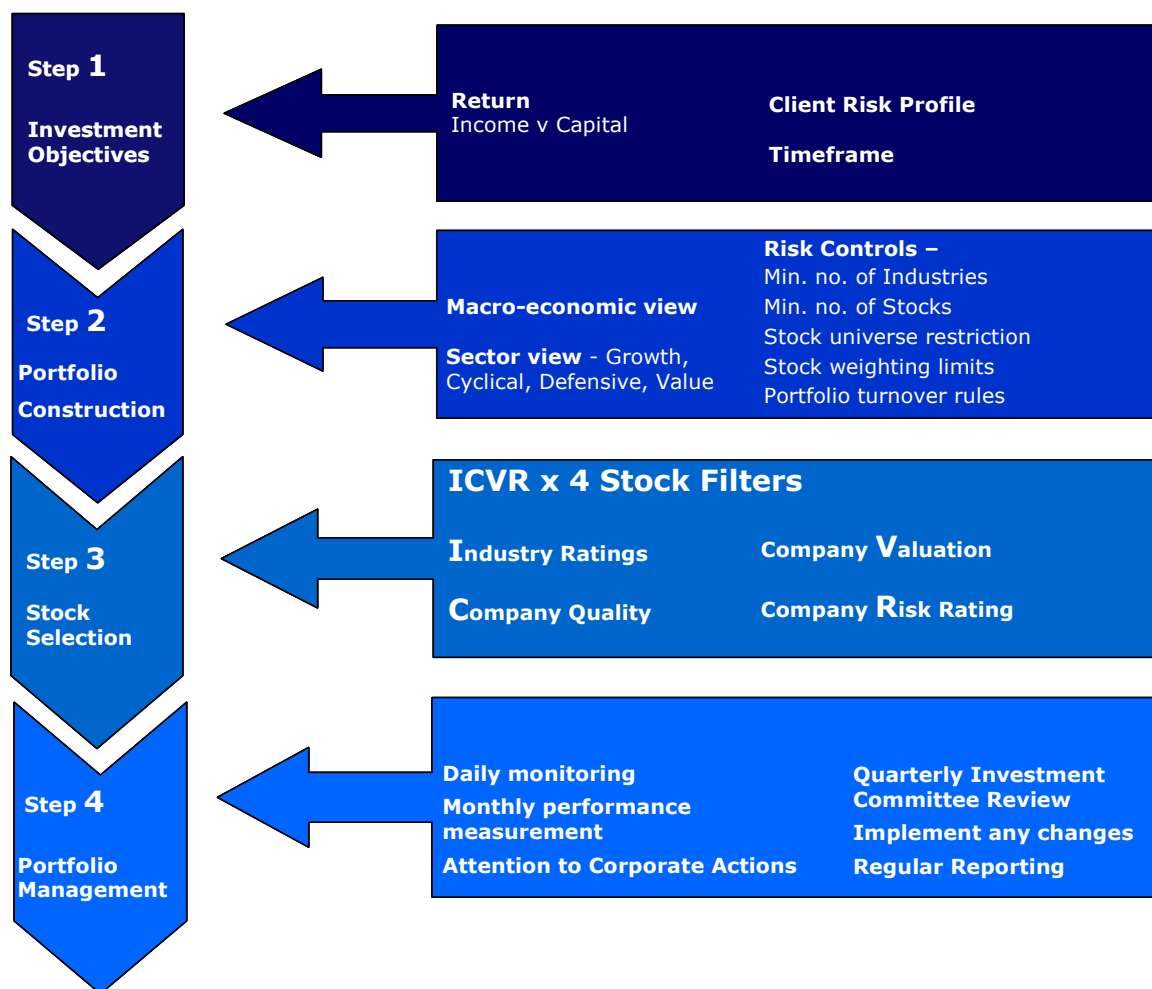
### Lonsec Investment Philosophy

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 individual stock level.

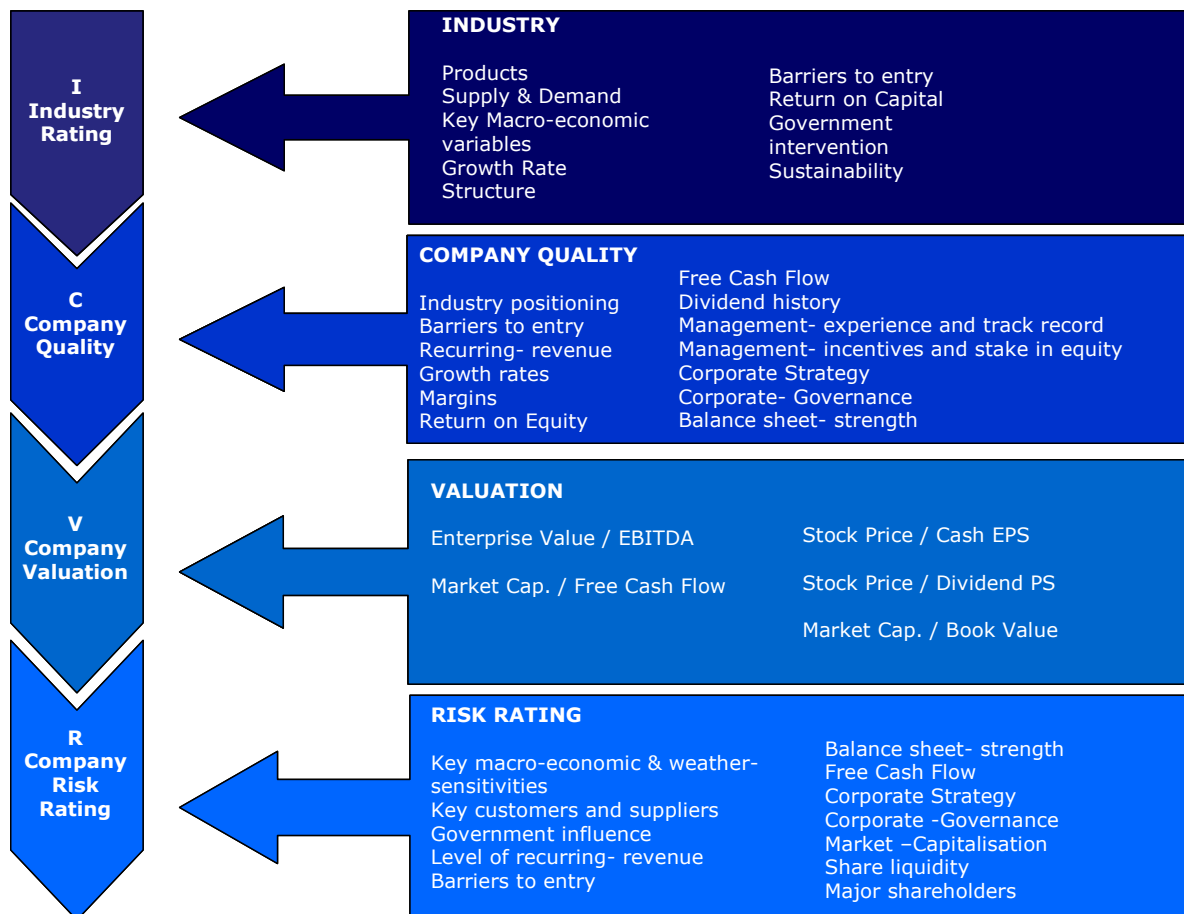
### Lonsec’s Top-Down Investment Process

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 stocks at the Stock Selection level (Step 3). Risk is managed at both the Portfolio Construction and Stock Selection levels. 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 stock 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%
LPT weighting	0% (Refer to Property asset allocation)
Targeted portfolio turnover	30% pa

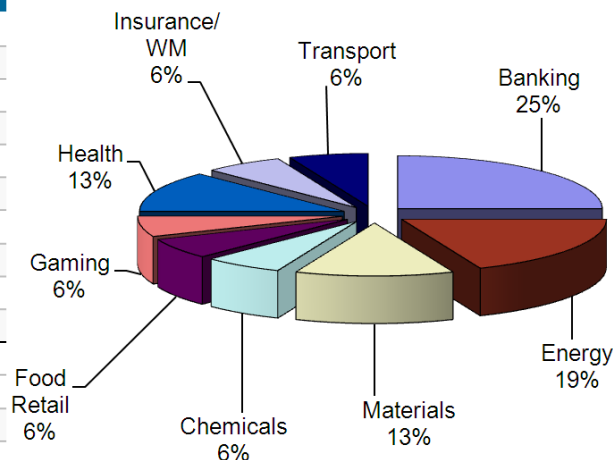
\*Note: industry is a subset of the broader GICS sector.

### Portfolio Profile

#### PORTFOLIO EXPOSURE BY INDUSTRY

		Weight
Banking	Banking	25.00%
Energy		18.75%
Materials	Materials	12.50%
Chemicals		6.25%
Food Retail	Food Retail	6.25%
Gaming		6.25%
Healthcare	Health	12.50%
Insurance/WM		6.25%
Transport	Transport	6.25%
<b>Total</b>		<b>100.00%</b>
TOP 50		87.50%
Ex-TOP 50		12.50%

#### Core Portfolio by Industry



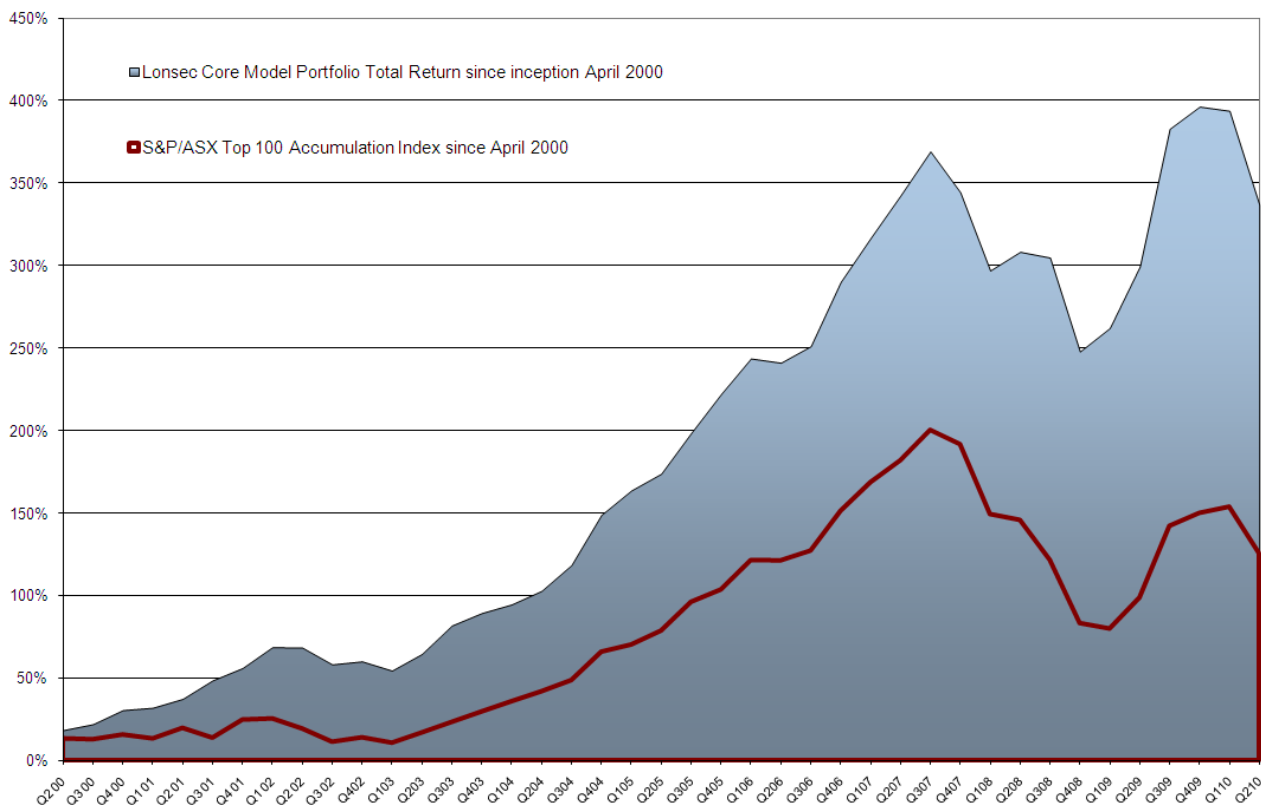
### Portfolio Performance

INVESTMENT PERFORMANCE											Since	Since
Period ending	30 June 2010	Month	Qtr	Year	2 Yrs <sup>1</sup>	3 Yrs <sup>1</sup>	5 Yrs <sup>1</sup>	7 Yrs <sup>1</sup>	9 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>		-3.8	-11.6	9.2	3.4	-0.5	9.8	15.0	13.7	14.0	15.5	336.5
S&P/ASX TOP 100 Accumulation Index (%)		-2.5	-11.2	13.5	-4.2	-7.2	4.8	9.9	7.3	7.1	8.3	125.7
Out/Under Performance (%)		-1.2	-0.4	-4.3	7.6	6.7	5.0	5.1	6.4	6.8	7.2	210.8

<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, 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 w eightings. This prevents portfolio w eightings from skew ing over time and ensures performance figures remain relevant. The Lonsec Core Model portfolio is a fully-invested notional portfolio w ith no cash w eighting. Physical portfolio results w ill differ depending on cash levels, start date, fees, brokerage, taxes and compliance w ith model w eights. 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

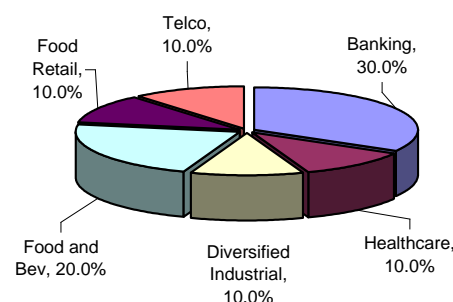
Investment universe	ASX TOP 150
Benchmark	ASX TOP 100 Industrial Accumulation Index
Min. no. of stocks	8
Min. no. of industries	4
Individual stock limit	12.5%
Minimum franking	100%
Cash weighting	0%
LPT weighting	0% (refer to Property asset allocation)
Targeted portfolio turnover	30% pa

### Portfolio Profile

#### PORTFOLIO EXPOSURE BY INDUSTRY

	Weight
Banking	30.0%
Healthcare	10.0%
Diversified Industrial	10.0%
Food and Beverages	20.0%
Food Retail	10.0%
Telco	10.0%
Utilities	10.0%
<b>Total</b>	<b>100.0%</b>
TOP 50	80.0%
Ex-TOP 50	20.0%

Portfolio by Industry



### Portfolio Performance

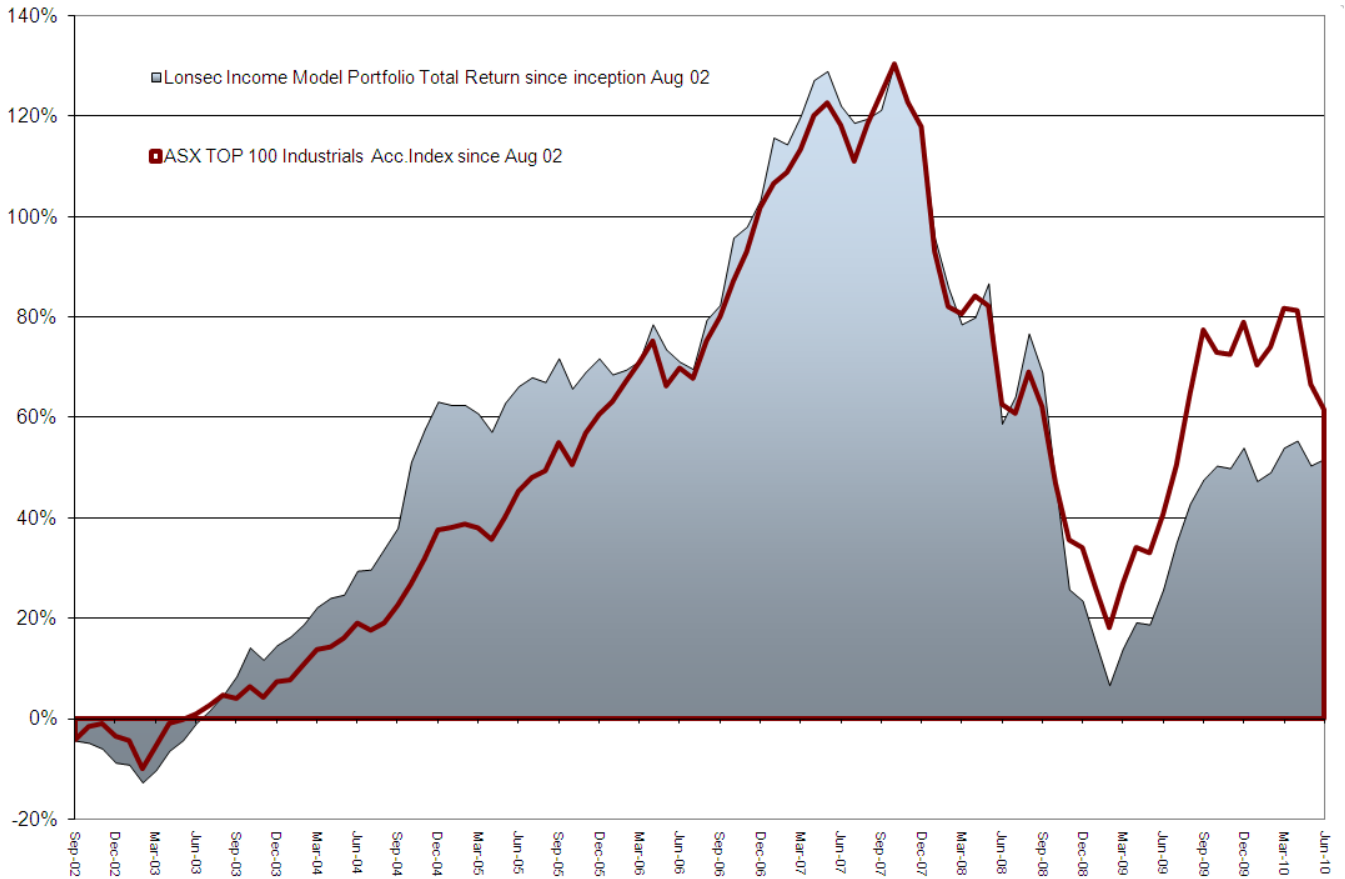
INVESTMENT PERFORMANCE										Since
Period ending	30 June 2010	Month	Qtr	Six Mths	Year	2 Yrs <sup>1</sup>	3 Yrs <sup>1</sup>	5 Yrs <sup>1</sup>	7 Yrs <sup>1</sup>	Inception <sup>2</sup>
<b>Lonsec Income Total Return<sup>3</sup></b>		<b>0.9%</b>	<b>-1.5%</b>	<b>-1.5%</b>	<b>20.7%</b>	<b>-2.2%</b>	<b>-11.9%</b>	<b>-1.8%</b>	<b>6.3%</b>	<b>51.8%</b>
ASX TOP 100 Industrial Accumulation Index		-3.1%	-11.1%	-9.8%	14.8%	-0.3%	-9.6%	2.1%	6.9%	61.5%
Out/Under Performance		4.0%	9.6%	8.3%	5.9%	-1.9%	-2.3%	-3.9%	-0.6%	-9.7%

<sup>1</sup> % pa <sup>2</sup> Total return 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 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 Income Model portfolio is a fully-invested notional portfolio with no cash weighting. Physical portfolio results will differ depending on cash levels, start date, fees, taxes and compliance with model portfolio weightings. Past performance is not a reliable indicator of future performance.

### Portfolio Performance since inception



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