Quarterly Newsletter September 2012

Written 25 Oct 2012

Current Market Volatility

Positive news-flow out of Europe and the US during the September quarter led a broad-based rally across risky assets such as global equity markets and European periphery bonds. The Australian share market participated in this rally, extending this year's gains as all three months posting positive returns. The ASX300 Accumulation Index is now up 14.46% over 12 months and 12.15% over 2012.

Tax Reports 2011-12 (excluding SuperWrap Accounts)

Unlike SuperWrap, accounts on DFSMA and BT Wrap which are in the names of Self-Managed Super Funds, Family Trust or Personal Names are required to include the taxable income and deductible expenses in their respective annual tax return.

Tax Reports for DFSMA accounts are in the process of being released and will be **available online** shortly. The 2 reports are: 1) the Annual Report showing all transactions (cash and investment) during the year and the Portfolio Valuation at 30 June 2012, and 2) the Tax Report detailing the tax treatment of income earned during the year.

To streamline the process with your accountant, we will email you our **batched year-end reports** which we will compile on your behalf. This will also include any reports which we may have received on your **external investments (only those managed via DFS)**.

Where you have provided us with your authority to liaise with your accountant, we will also send a copy of the email to them directly, as well as reports in Excel format (if requested). If you have not provided us with your authority, you can send **an email with your accountant's contact details to adhenry@dfsadvisory.com.au.**

Reduction in Concessional Contribution Limit 2012-13 to $25,000

We wish to remind clients who are currently making regular concessional contributions into their superannuation accounts, **to ensure that the maximum level of Concessional (deductible) Contribution (CCs) limit of $25,000 pa is not inadvertently exceeded**. Excess contributions are penalised at a tax rate of 46.5% +.

For those who are **age 50+,** the cap for 2012-13 ($25,000) is ***half*** the previous cap of $50,000. As such, the 6 month point to December 2012 is a key date to reassess whether contributions beyond 31 December 2012 will result in a breach of the limit. If required, contributions may need to cease to remain within the limit of $25,000 for 2012-13.

Models Changes

We provide below an update on the status of the various Model restructures currently underway:

Recent Model Restructures

The following restructures were finalised in the September 2012 quarter. Note only part of these restructures applied to BT Wrap/Super Wrap accounts.

International Equities Large Caps	Hedging to be increased to 25% + new manager
International Equities Asia ex Japan	New manager
Alternative Investment Strategies	Introduction of *a range* of new managers
Sovereign Bonds	Activate a 10% allocation to Inflation-Linked Bonds

For DFSMA accounts, the partial redemption of GOLD was slightly deferred until mid October as DFS took the opportunity to sell into strength given the meaningful upward momentum observed in the gold price (rally of some 4% since 28 August 2012).

Risk Profile Models (RPM)

DFSMA only

DFSMA clients who are in the Risk Profile Models had their portfolio automatically rebalanced in line with the revised DFS Asset Allocation (AA) at the close of Sept quarter. The updated AAs have (prima facie) reduced levels of defensive asset classes, with corresponding increases in Growth holdings. This reflects a relatively more optimistic (or perhaps less negative) market sentiment going forward. We highlight that of the reallocation to growth assets, a meaningful proportion comes from the increased allocation to Alternative Investment Strategies (AIS), which carries significantly less risk than conventional growth assets.

For portfolios less than $500,000, the RPMs provide access to asset classes which may otherwise not be readily included due to complexity of managing small customised exposures eg : Small Caps, Asia, Alternative Investment Strategies (AIS), Global Infrastructure and Global REITS. The economies of scale available via the RPM functionality, thereby enhances portfolio diversification for these accounts.

Since launching the RPMs, global financial markets have entered an unprecedented era characterised by deleveraging within developed economies, increased volatility, and sub-par global growth. In what has been defined as the "new normal", DFS believes there is a genuine need for greater flexibility within portfolios to cope with these prevailing imbalances.

Indicative Outlook – Forward Cash and Fixed Interest Rates

The recent volatility in financial markets has also cast greater emphasis on indicative future cash yields as part of our portfolio management. **For your information, we have updated the table below which lists the expected yields from the various defensive asset class models.** The Defensive portion of portfolios is largely comprised of fixed interest investments and provides stable income flows to portfolios.

Investment ($100,000 to $250,000)		Term (Mod. Duration)	Current Yield/ Rate NET OF MERs Indicative Only	Date of Update
Base				
11 am cash rate			3.25%	25-Oct-12
Bank Bill		40 days	3.24%	25-Oct-12
Cash				
Adelaide Bank CMA			2.75%	29-Oct-12
HSBC Working Cash			2.80%	25-Oct-12
Macquarie True Index Cash Fund	MAQ0789AU	45.63 days	3.53%	30-Sep-12
UBS Cash Fund	SBC0811AU	43.80 days	3.31%	30-Sep-12
Term Deposits				
Adelaide Bank Term Deposit (30D)		30 days	3.80%	29-Oct-12
Adelaide Bank Term Deposit (90D)		90 days	4.40%	29-Oct-12
Adelaide Bank Term Deposit (180D)		180 days	4.55%	29-Oct-12
Adelaide Bank Term Deposit (365D)		365 days	4.50%	29-Oct-12
Managed Funds				
Sovereign Bond Model		4.96 years	3.62%	30-Sep-12
Diversified Credit & Fixed Income Model		2.84 months	6.96%	30-Sep-12
DWS Diversified Income Fund #	DAM0012AU	3.48 months	3.63%	30-Sep-12

Assumes nil returns from macro (alpha) strategies

More information on expected yields for your portfolio (defensive and growth assets) will be included in your next formal annual Review Report.

dfs portfolio solutions update

Quarterly Investment Newsletter: September 2012

DFS Commentary & Outlook

Over the last few years DFS has developed a rigorous asset allocation framework that adopts a risk targeting approach. Dubbed "Dynamic Risk Management", the risk targeting framework keeps the portfolio's risk profile constant whilst adjusting the asset allocation as market risk changes. However, risk is only part of the equation. Running parallel to our risk targeting process, DFSPS has developed a return enhancement process that seeks to capture excess return opportunities. We do this by measuring multiple market signals, namely: (1) market fundamentals (cheap v expensive assets); (2) momentum (assets prices trending up v down); and (3) macroeconomic analysis (relationship between economic data & capital markets) to increase our level of conviction around return opportunities. We highlight the large degree of autonomy between each signal, which increases our confidence level when all three return drivers align.

The following commentary is provided by Caravel Consulting, a non-institutionally aligned firm specialising in macroeconomic analysis. Caravel Consulting has been appointed to the DFSPS Investment Advisory Committee to support the return enhancement component of the DFSPS Asset Allocation process.

The long and difficult process of recovering from the Global Financial Crisis continues around the world but at a slower and more uneven pace than the financial markets would really like to see. The US, Europe and China remain the focus of attention as market participants try to assess the effectiveness of policies designed to overcome slow growth and implement key structural reforms. Although some progress was made in the September quarter 2012, there is still much to be done and the recent warnings from the IMF about the risks associated with backsliding by the policymakers are well founded.

The US economy continues to eke out a modest pace of economic recovery. On the one hand, activity in the manufacturing sector has slowed further in recent months, while improvement in the labour market seems to have stalled with the unemployment rate stuck around 8%. On the other hand, other parts of the US economy are showing distinct signs of improvement. For example, the housing sector which was the cause of so many problems in the first place, is now showing improvement in the volume of sales, the volume of new construction and the prices at which sales are being completed. The leading indicators suggest that these trends will continue over the next six months. In addition, consumer confidence amongst US households has been improving over the course of the year. This would in part be due to the effect of the very low interest-rate policy being run by the US Federal Reserve which has helped reduce the debt servicing burden for households to levels last seen in the mid-1990's. The improvement in consumer confidence is important because it should support consumer spending which accounts for about 65% of the US economy. Also, consumer confidence is a useful leading indicator of the path of the unemployment rate. Recent improvements in consumer confidence suggest we may see further declines in the US unemployment rate over the next six months. Notwithstanding these developments, the Federal Reserve has announced a further programme of monetary stimulus to support the economy. This will see a further significant injection of liquidity into the US banking system over the next 2 to 3 years. Interest rates in the US will remain at current near-zero levels until 2015.

In Europe economic growth is also slowing down. Countries like Greece and Spain are experiencing severe recessions while even the stronger nations like Germany are seeing their economies weaken. However, the problems in Europe go well beyond normal cyclical economic effects. The structural problems associated with rectifying unsustainable national debts and establishing the foundations of coordinated regional fiscal and bank supervision policies are very substantial and hard to solve quickly. Nevertheless, progress is gradually being made. Measures announced by the authorities in recent months to provide support for countries requesting assistance and for establishing a regional bank supervision policy are important steps in the right direction. However it is ironic that the very act of offering assistance has reduced the bond market pressure on these nations and thus the incentive for them to actually ask for the assistance. Spain has attracted the most attention on these issues since it is widely expected that the government will have

to ask for a bailout program from the European authorities. However the national embarrassment of having to ask for a bailout program, especially at a time of regional elections, has led the Spanish government to resist asking for a bailout at this stage. Financial markets expect it is only a matter of time before Spain does ask for assistance. Although there are still substantial hurdles to overcome before the necessary reforms that are needed in Europe, we believe that this process will eventually be successfully completed. Recent statements by the head of the ECB reiterate the commitment of the Europeans to keep the Eurozone intact and to overcome the current problems. Betting against this commitment and their ability to deliver the solutions is a risky thing to do.

China also remains the focus of a lot of attention from investors around the world. The key question now seems to be less about whether China will experience a recession or not and more about just what the pace of recovery will be into the coming year. The leading indicators suggest that the Chinese economy is currently moving through an extended trough in the pace of growth with an acceleration of growth over the first half of 2013. The economy is currently running at a rate of growth around 7% to 7 1/2% and leading indicators suggest we might see growth around 8% to 8 1/2% by the middle of 2013. The picture at the moment has been clouded by political developments associated with the leadership transition in China but once this process is completed in coming weeks the scene should be clearer for further policy stimulus if necessary. Overall, the financial markets are now preparing themselves for the implications of a Chinese economy that grows around the 8% to 9% mark for several years rather than an economy that runs at a rate of growth above 10%.

This of course has significant implications for the Australian economy via the export of resources to China. As the Reserve Bank has pointed out recently, the early phase of the resource boom where export income is dominated by increases in commodity prices is now giving way to the phase in which export income is driven by the volume of exports. Uncertainty associated with this has led to some volatility in the price of commodities such as coal and iron ore as well as the price of resource stocks associated with these commodities in recent months. In addition, the Australian economy although stronger than many other developed nations, still seems stuck in a lethargic mood. In particular, consumer confidence among households remains subdued. This is partly due to concern about the problems in Europe and the US and partly due to uncertainty generated by the domestic political situation. In the face of this uncertainty households are worried about their employment prospects and continue to save at a higher rate than seen in the lead up to the GFC. In response, the Reserve Bank has cut the cash rate to 3.25% and is likely to reduce the rate further to around 2.75% by early 2013. Given the environment created by the extended period of low interest rates in the US it is likely that the interest-rate structure in other countries, including Australia, will also remain low for an extended period of time.

Nevertheless, the Australian dollar has proved surprisingly resilient to the effects of lower interest rates and weakness in commodity prices. It is now increasingly apparent that the Australian dollar is driven more by its correlation with global equity markets as part of the so-called “risk on/risk off” trade than it is by interest rates and commodities. We expect these conditions to persist through 2013 at least and that as the world economy slowly improves next year with further increases in equity prices, so the Australian dollar is likely to appreciate further to around its previous peak at US$1.10.

The significant pivot point for the Australian dollar will come after 2015 when the Federal Reserve starts to reverse its low interest-rate policy. At that point the US dollar should start appreciating significantly. This will lead to not only weakness in the Australian dollar but also should unwind some of the appreciation in the price of commodities including gold that we expect to see over the next couple of years associated with the monetary stimulus in the US mentioned above.

In terms of asset classes, the economic environment we see for the next 2 to 3 years is one which favours equities over bonds but without big gains in equities or big losses in bonds. The worst period for bond markets will be from 2015 onwards because of the factors mentioned above. In the meantime however bond markets are likely to deliver relatively muted returns compared with equity markets, especially where reasonable dividend yields are available.

DFS Model Portfolios – Performance Commentary – September 2012 Quarter

Overview – September 2012 Quarter

The focus was on Europe and the US during the September quarter as capital markets globally waited to react to the announcements by the European Central Bank and US Federal Reserve. The market liked what they heard with risky assets including equities and European periphery bonds rallying. The Australian share market extended this year's gains with all three months posting positive returns. The ASX300 Accumulation Index is now up 14.46% over 12 months and 12.15% over 2012. September also marked the two year point since DFS Portfolio Solutions launched the Alternative Investment Strategies, Global Infrastructure and Global Real Estate Model Portfolios with all three Models posting positive absolute returns since inception.

Australian Equities Large Caps (AEQ)

Australian equities rose 8.75% during the September quarter, the market's best quarterly performance since September 2009. The Australian market has now returned 12.15% in 2012 with 8 out of 9 months generating positive returns for Australian equity investors. All sectors finished the quarter in positive territory with Information Technology the best performing sector, generating 18.03% whilst Industrials was the weakest, returning 2.74%.

June quarter GDP figures were released which showed the Australian economy growing by 0.6% over the quarter and 3.7% year on year (seasonally adjusted). The Consumer Price Index rose 1.4% in the September quarter, the most significant price rise was for electricity whilst automotive fuel prices decreased. The Reserve Bank of Australia left the cash rate unchanged at 3.50% over the September quarter, although a 25 basis point reduction was delivered in October. Australia's unemployment rate increased 0.3% to 5.4% (seasonally adjusted) and the Australian Dollar closed at $1.0464 USD.

Returns: The DFS Large Cap Model generated a return of 7.91% for the September quarter, underperforming the Index by 0.84%. Year to date, the AEQ Model has generated a return of 10.98% for compared to the market benchmark which has returned 12.15%.

Positive performers within the DFS AEQ Model for the September quarter included overweight positions in Regis Resources, Beadell Resources, Carsales.com and Suncorp whilst short positions in UGL Ltd and Gunns, the latter entering administration, also contributed. Detractors on performance included Iluka Resources, Boart Longyear and an underweight position in Newcrest Mining.

The DFS AEQ Model is constructed with the objective of outperforming the market benchmark during a period of anticipated volatility and will remain significantly skewed towards high quality businesses which are less dependent on easy credit and buoyant economic conditions to support profits.

Australian Equities Small Caps

Returns: The DFS Small Cap Model generated a return of 4.37% for the September quarter, matching the S&P/ASX Small Ordinaries Accumulation Index which also returned 4.37%. The DFS Small Cap Model has now returned 9.29% for the calendar year outperforming the market benchmark which has returned 4.45%.

At a sector level, positive contributors to the Model's performance were overweight positions in Energy and Consumer Discretionary whilst an overweight position in Industrials detracted from performance. Major contributors at the underlying stock level included Drillsearch, Silver Lake Resources and G8 Education Ltd, while the major detractors to performance included Ausdrill, Global Construction Services and Saracen Minerals.

Our review of Australian small cap managers reaffirmed our preference to allocate to active managers with true small cap exposure to better capture the inefficiencies that exist in this market segment to generate outperformance over the long term.

International Equities Large Caps (IEQ)

Global equity markets also posted solid gains over the September quarter with the MSCI World ex-Australia Index returning 5.05% in Australian Dollar terms and 5.47% in local currency terms. Overall, global equity markets continued to appreciate despite the range of problems and uncertainties they face. Notwithstanding that growth in most parts of the world continues to slow and earnings growth estimates have been pared back, the promise of significant and sustained liquidity injections from the US Fed and European Central Bank (ECB) continues to be the catalyst for the market's positive sentiment.

Regionally over the quarter, the S&P 500 Index closed 5.76% higher, the FTSE 100 was up 3.07%, and Germany's DAX appreciated 12.47% whilst Japan's Nikkei bucked the trend, closing 1.52% lower.

Returns: The DFS IEQ Model returned 5.08%, on par with the market benchmark which returned 5.05%.

The IEQ 6 monthly intra-cycle review was conducted in September which resulted in a restructure of the Model. The restructure also resulted in DFS increasing the level of AUD hedging to 25% in September. Notwithstanding the recent decrease in interest rates by the Reserve Bank of Australia (RBA) which has seen official borrowing costs reduced to 3.50% in September, interest rate differentials between Australia and most developed economies remain elevated at an average level of around 3.5% p.a. This is the incremental return that investors earn on the *fully hedged* component of their international equities. We have further confidence (perhaps against consensus) that the AUD will hold up during risk-off periods as recently observed leading up to Greece's June elections. DFS continues to monitor the hedging position closely and will reassess the hedging level further as the bias on interest rate differentials begins to ease.

The hedging portion of the DFS IEQ Model contributed positively to performance as the Australian Dollar depreciated 2.68% against the USD over the September quarter. In terms of security selection, positions in Google, eBay, Grendene and United Spirits were positive contributors whilst Danone, Canon and American Express detracted. From a sector perspective, positions in HealthCare and Consumer Discretionary stocks contributed to the Model's performance.

International Equities Asia Ex-Japan

Asian equity markets put in a solid performance in September. The MSCI AC Asia ex-Japan Index appreciating 6.37% for the month which translates to a quarterly return of 7.70%. Regionally, Hong Kong's Hang Seng Index returned 7.20% and India posted solid gains of 12%. South Korea also gained after Standard & Poor's and Fitch separately upgraded their sovereign debt ratings for the country, following an upgrade by Moody's in August.

Returns: Over the September quarter, the DFS Asia Ex-Japan Model generated a return of 4.16% underperforming the Index by 3.54%. The DFS Asia Ex-Japan Model was also restructured in September following the completion of our intra-cycle review on the sector. Notwithstanding the Model's recent underperformance, DFS believes that the Model is in a strong position to capitalise on a segment of the Asian market (approx. $1 billion capitalisation) that current managers cannot provide due to size.

Positive contributors to the Model's performance included ST Engineering, Sun Hung Kai Properties, Taiwan Mobile Company plus the Model's broad-based exposure to India. Detracting on performance were Wumart Stores, Li & Fung and the ASX-listed I-Property Group.

Global Infrastructure (GI)

Returns: Over the September quarter the DFS Global Infrastructure Model returned 6.51% outperforming the Index by 2.38%. The GI Model now has two years of actual performance, over which time it has generated a return of 11.76% p.a. compared to the market benchmark return of 10.46% p.a.

Positive contributors to the Model's performance were European Toll road holdings SIAS, TOMI and Atlantia. ASX-listed DUET also contributed positively following an announcement to internalize the management of the company. Detracting on performance were US railway stocks, in particular Norfolk Southern after management lowered the company's quarterly earnings guidance due to poor one-off fuel surcharge revenues and coal volumes.

Global REITs (GREITS)

Returns: **The DFS Global REITs Model returned 5.44% for the September quarter, outperforming the market benchmark by 1.67% which generated a return of 3.77%.** The GREITs Model now has two years of actual performance, over which time it has generated a return of 12.81% p.a.

Positive contributors to the Model's performance were overweight positions in Industrial property companies Global Logistic Properties, Goodman Group and Prologis. Exposure to the residential and hotel sectors were the main sources of underperformance.

Australian REITs (AREITs)

Australian listed property trusts closed stronger in September, up 6.68% for the quarter. The AREIT market has generated a return of 24.16% for the year to date.

Returns: The DFS Australian REIT Model has performed in line with the market benchmark, returning 6.70% for the quarter and 24.42% year to date.

The Model benefitted from an overweight position in Carindale Property Trust and underweight CFS Retail Property Trust whilst an overweight position in Charter Hall Retail REIT and an underweight position in Mirvac Group detracted on performance.

Alternative Investment Strategies (AIS)

DFSMA clients only

DFS launched an expanded AIS Model to include Gold Bullion, Diversified Hedge Funds, Commodities, Managed Futures and Global Macro Strategies. The objective of our Alternative Investment Strategy (AIS) Portfolio is to generate positive (absolute) returns in both rising and falling equity market conditions, enhancing the diversification dynamics within client portfolios.

Returns: The DFS Alternative Investment Strategies Model returned 1.70% for the September quarter, compared to cash which generated 0.89% and the HFRI Macro Total Return Index which generated 1.55%. The AIS Model was also restructured in September to reflect our assessment of the prevailing economic conditions. Consequently, the restructure resulted in the appointment of a specialist currency manager, managed futures manager and an absolute return focussed, tactical fixed income manager. The appointments are expected to further enhance the risk management dynamics of the AIS Model.

Gold Bullion was a star performer generating a return of 10.74% over the September quarter in Australian Dollar terms following the US Fed's announcement of "QE Infinity" in the face of sub-par growth. **Commodities** endured a volatile quarter across several markets such as iron ore, oil and gas. Notwithstanding this broad commodities markets overall reversed the downward trend and post healthy returns in all 3 months. **Global Macro Strategies'** were slightly down over the quarter as was our **Managed Futures Strategies** that suffered due to short positions in metals and in particular nickel and aluminum. The newly-appointed **Currency** strategy positively contributed to performance, specifically long positions in the Taiwan Dollar and Chilean Peso. Our **Diversified Hedge Funds** strategy was stronger over the September quarter with the efficient beta, alternative beta and alpha portfolios all posting positive returns over the 3 month period. Our **Absolute Return Fixed Income** strategy also performed strongly in September with positions in corporate debt benefiting as credit spreads tightened on the back of a recovery in risk appetite and ongoing demand for higher yielding investments.

Bond markets were relatively stable during the September quarter. The US Federal Reserve announced that the next wave of QE measures will focus on mortgage-backed securities and Mario Draghi, President of the European Central Bank, stated that the ECB is ready to do whatever it takes to preserve the Euro. Domestically, the RBA kept the cash rate unchanged at 3.50% however the RBA's relatively upbeat assessment of the Australian economy in June and July seems to be changing as Governor Glenn Stevens delivered a 25 basis point reduction in October…but more on that next quarter. Credit markets continued with another quarter of strong performance, the average spread over Government bonds for the Barclays Global Corporate Index contracting 46 basis points to 1.69%. European credit spreads rallied following President Draghi's comments as did Asian credit spreads as investors become more confident in the increasingly self-sustaining Asian economies. This sentiment was also witnessed domestically; the Australian iTraxx Index finished 25 points tighter at 159.

Sovereign Bonds

Returns: The DFS Sovereign Bond Model generated a return of 2.18% for the September quarter, marginally outperforming the Australian based UBS Composite Bond benchmark by 0.20%. The Sovereign Bond Model is currently weighted 55%/35% in favour of domestic bonds with the remaining 10% allocated to inflation-linked securities.

Diversified Credit and Fixed Income

<u>Returns:</u> Over the September 2012 quarter, the Diversified Credit and Fixed Income Model returned 3.65% compared to the Barclay's Capital Global Corporate Credit Total Return Index which returned 5.02%.

Positive contributors to the Diversified Credit & Fixed Income Model's performance included tactical allocations to residential mortgage-backed securities following the US Federal Reserve's announcement and an overweight to Australian duration continued to perform well. The top performing leveraged loan industries were utilities and media/telecom whilst the worst performing loan industry was gaming and leisure. At the end of September the Model's yield to maturity was 7.65% p.a. with interest rate duration of 2.84 years and credit spread duration of 3 years.

Enhanced Cash

<u>Returns:</u> ***The DFS Enhanced Cash Model*** returned 2.04% for the September quarter, outperforming the Australian 90-Day Bank Bill Index by 1.15%. Overall macro strategies added value over the quarter with the country spreads, in particular Australia vs. US, yield curve positions and a long Australian duration position the main contributors to performance whilst a small position in European swap spreads detracted. At the end of September the Model's interest rate duration was 0.29 years with a running yield of 4.88%. The Model's maturity profile continues to shorten and have actively reduced the exposure to Europe, preferring the growth profile of Asia –Pacific.

Overlays to the IEQ Model

We note that the overlays were limited to a small part of our clients' portfolios due to our ongoing focus on risk management. With the benefit of hindsight, we acknowledge that all and any leveraged investments (even those with a high risk management imperative such as the HFA/Lighthouse stable of funds) should have been avoided as the forced selling of the financial crisis has severely amplified losses across all capital markets.

HFA Octane Asia – Geared investors only remaining. The fund returned 2.81% over the September quarter compared to 4.64% for the market benchmark. The fund's since-inception return is -0.26% p.a. versus 0.91%p.a. for the benchmark.

Clients with **geared** HFA Octane Asia holdings have remained invested due to the excessive cost of exiting. ***An equity option overlay has been implemented for those clients that requested re-exposure to Asian and/or Australian equity markets.***

Direct Property Syndicate Overlay

<u>Returns:</u> The Charter Hall Direct Property Fund (CHDPF) and Colonial First State Private Investor Fund (PIF1) generated returns of 0.65% and 0.57% respectively over the September quarter. With the exception of Melbourne, rents remained steady over the quarter. At 4%, Perth is now the only CBD to record a vacancy level below 8%. Prime equivalent yield ranges were also fairly stable, ranging between 6.50% and 7.75%.

Colonial - PIF

PIF1 underperformed the market benchmark during the September quarter and announced a quarterly distribution of 0.3824 cents per unit. As per our previous newsletters, the fund is currently in the process of divesting the assets with a targeted completion date of December 2014.

	3 Months	6 Months	1 Year	2 Years	3 Years	4 Years	5 Years
CFS Private Investor Fund	**0.57%**	**-1.06%**	**1.87%**	**-0.30%**	**-0.25%**	**-9.70%**	**-6.19%**
Mstar Unlisted & Direct Property Index	**1.50%**	**3.28%**	**5.58%**	**3.08%**	**1.11%**	**-4.38%**	**-3.54%**
Out(Under)performance	***-0.93%***	***-4.34%***	***-3.71%***	***-3.38%***	***-1.36%***	***-5.32%***	***-2.65%***

Charter Hall – CHDPF

Over the quarter, CHDPF's asset management team finalised leasing or signed Heads of Agreement (HOA) on 2% of the portfolio. Occupancy rates remains at 96% with a weighted average lease expiry of 4.2 years. The fund's gearing level remains at 43% and the weighted average capitalisation rate of the direct property portfolio was 8.35% at 30th September 2012.

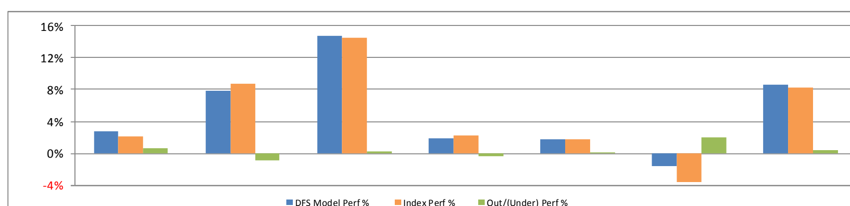
	3 Months	6 Months	1 Year	2 Years	3 Years	4 Years	5 Years
Charter Hall Direct Property Fund	**0.65%**	6.09%	11.60%	11.61%	8.01%	-6.97%	-5.63%
Mstar Unlisted & Direct Property Index	**1.50%**	**3.28%**	**5.58%**	**3.08%**	**1.11%**	**-4.38%**	**-3.54%**
Out(Under)performance	***-0.85%***	***2.81%***	***6.02%***	***8.53%***	***6.90%***	***-2.59%***	***-2.09%***

PORTFOLIO RETURNS

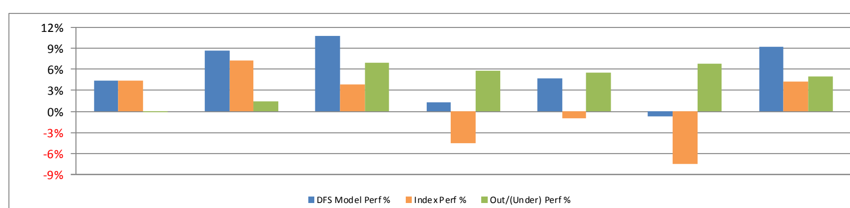
ending 30 September 2012

DFSPS employs an evidenced based approach to its manager selection process and believes that high barriers to successful entry exist that preclude more than 85% of active managers from generating sustainable risk-adjusted returns. DFSPS further believes that high quality active will generate meaningful levels of alpha (particularly during volatile market periods) and places a high degree of emphasise on downside risk management. Forward looking considerations are integral to the manager selection as part of the portfolio construction process.

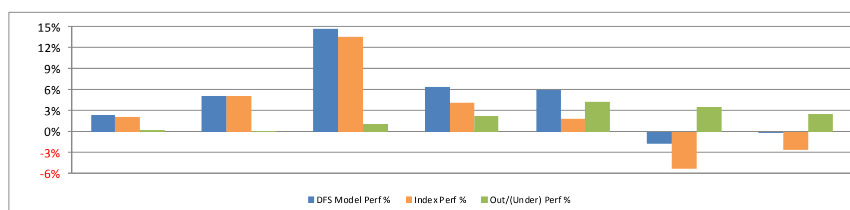
GROWTH PORTFOLIOS	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception Jan '00 (p.a.)
AUSTRALIAN EQUITIES LARGE CAP PORTFOLIO	**2.79%**	**7.91%**	**14.71%**	**1.84%**	**1.80%**	**(1.64%)**	**8.68%**
INDEX -S&P/ASX 300 Accumulation Index	*2.18%*	*8.75%*	*14.46%*	*2.22%*	*1.69%*	*(3.61%)*	*8.30%*
Outperformance/ (Underperformance)	***0.61%***	***(0.84%)***	***0.25%***	***(0.38%)***	***0.11%***	***1.96%***	***0.38%***



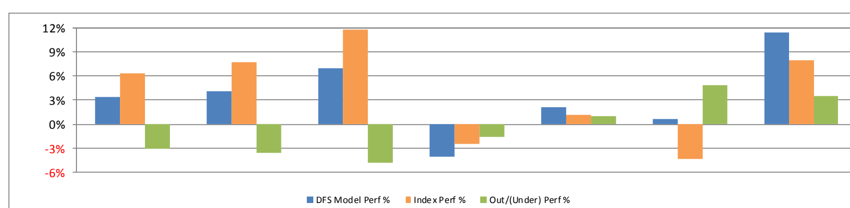
	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception Nov '02 (p.a.)
AUSTRALIAN SMALL CAP EQUITIES PORTFOLIO	**4.37%**	**8.68%**	**10.76%**	**1.33%**	**4.69%**	**(0.67%)**	**9.21%**
INDEX - S&P/ASX Small Ordinaries Accum Index	*4.37%*	*7.25%*	*3.83%*	*(4.47%)*	*(0.91%)*	*(7.53%)*	*4.23%*
Outperformance/ (Underperformance)	***(0.00%)***	***1.42%***	***6.94%***	***5.81%***	***5.60%***	***6.85%***	***4.97%***



	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception Jan '00 (p.a.)
INTERNATIONAL EQUITIES PORTFOLIO	**2.32%**	**5.08%**	**14.65%**	**6.32%**	**5.97%**	**(1.84%)**	**(0.11%)**
INDEX - MSCI World Ex Aus Acc. Index (AUD)	*2.11%*	*5.05%*	*13.59%*	*4.15%*	*1.78%*	*(5.32%)*	*(2.60%)*
Outperformance/ (Underperformance)	***0.21%***	***0.04%***	***1.06%***	***2.18%***	***4.18%***	***3.49%***	***2.50%***



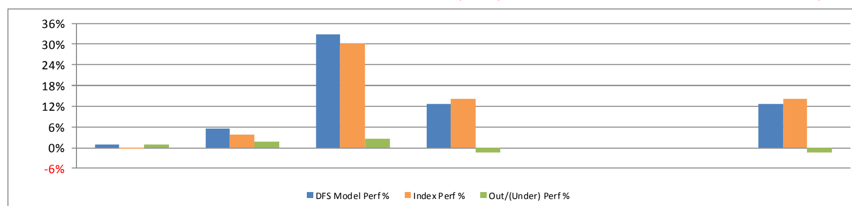
	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception July '05 (p.a.)
INTERNATIONAL EQUITIES PORTFOLIO - ASIA	**3.31%**	**4.16%**	**6.99%**	**(4.01%)**	**2.17%**	**0.63%**	**11.44%**
INDEX - MSCI AC Asia Ex Japan NR AUD	**6.37%**	**7.70%**	**11.76%**	**(2.47%)**	**1.18%**	**(4.24%)**	**7.90%**
Outperformance/ (Underperformance)	***(3.07%)***	***(3.54%)***	***(4.77%)***	***(1.54%)***	***0.99%***	***4.87%***	***3.53%***



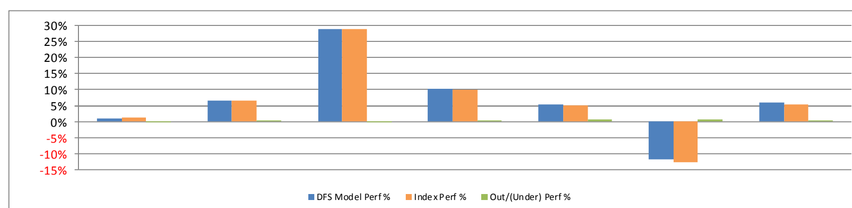
PORTFOLIO RETURNS

ending 30 September 2012

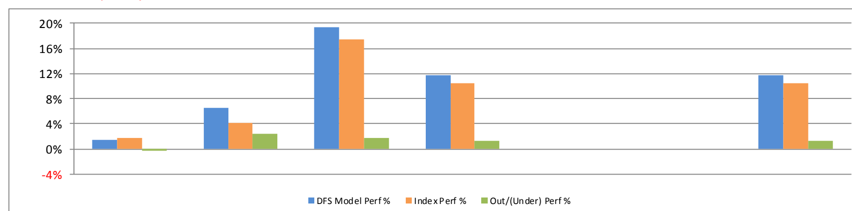
GROWTH PORTFOLIOS continued	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception Oct '10 (p.a.)
GLOBAL REITS PORTFOLIO	**0.88%**	**5.44%**	**32.79%**	**12.81%**	NA	NA	**12.81%**
INDEX - UBS Global Investors GREITs Index (Hedged AUD)	*(0.06%)*	*3.77%*	*30.17%*	*14.09%*	NA	NA	*14.09%*
Outperformance/ (Underperformance)	***0.95%***	***1.67%***	***2.62%***	***(1.29%)***	NA	NA	***(1.29%)***



	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception Jan '00 (p.a.)
AUSTRALIAN REITS PORTFOLIO	**0.95%**	**6.70%**	**28.69%**	**10.20%**	**5.42%**	**(11.73%)**	**6.01%**
INDEX-S&P/ASX 300 Property Accumulation Index	**1.20%**	**6.68%**	**28.90%**	**9.91%**	**4.87%**	**(12.48%)**	**5.48%**
Outperformance/ (Underperformance)	***(0.25%)***	***0.01%***	***(0.21%)***	***0.30%***	***0.55%***	***0.75%***	***0.53%***



	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception Oct '10 (p.a.)
GLOBAL INFRASTRUCTURE PORTFOLIO	**1.44%**	**6.51%**	**19.26%**	**11.76%**	NA	NA	**11.76%**
INDEX - UBS Global Infrastructure & Utilities 50/50 TR Index AUD	**1.77%**	**4.12%**	**17.43%**	**10.46%**	NA	NA	**10.46%**
Outperformance/ (Underperformance)	***(0.33%)***	***2.38%***	***1.83%***	***1.30%***	NA	NA	***1.30%***



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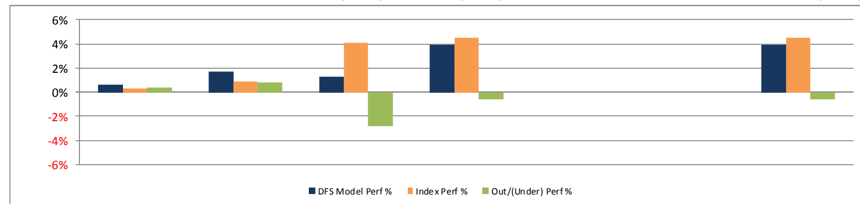
PORTFOLIO RETURNS

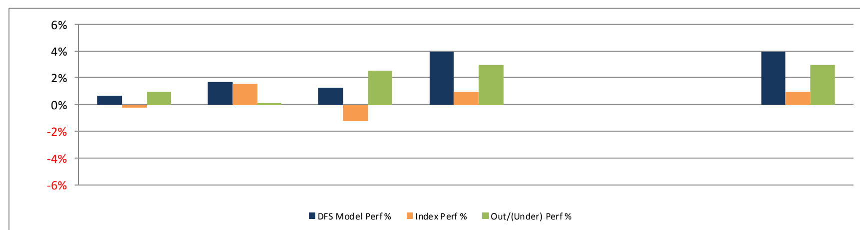
ending 30 September 2012

The objective of the AIS Model is to provide diversifying return drivers against traditional asset classes and to generate positive (absolute) returns during rising and falling equity market conditions over the medium term. The AIS Model has been designed with specific considerations that were highlighted during the Global Financial Crisis. Consequently, liquidity (daily NAV), leverage and transparency are focal points. The AIS Model dynamically allocates to (1) Gold bullion; (2) Commodities; (3) Diversified hedge funds; (4) Managed Futures (5) Global Macro; & (6) Cash.

ALTERNATIVE INVESTMENTS PORTFOLIOS	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception Oct '10 (p.a.)
ALTERNATIVE INVESTMENT STRATEGIES PORTFOLIO	0.66%	1.70%	1.28%	3.92%	NA	NA	3.92%
INDEX - 90 Day Australian Bank Bill Index	*0.29%*	*0.89%*	*4.11%*	*4.52%*	NA	NA	*4.52%*
Outperformance/ (Underperformance)	*0.37%*	*0.82%*	*(2.83%)*	*(0.59%)*	NA	NA	*(0.59%)*



ALTERNATIVE INVESTMENTS PORTFOLIOS	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception Oct '10 (p.a.)
ALTERNATIVE INVESTMENT STRATEGIES PORTFOLIO	0.66%	1.70%	1.28%	3.92%	NA	NA	3.92%
INDEX - HFRI Macro Total Return Index	(0.26%)	1.55%	(1.21%)	0.94%	NA	NA	0.94%
Outperformance/ (Underperformance)	*0.92%*	*0.15%*	*2.49%*	*2.98%*	NA	NA	*2.98%*



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PORTFOLIO RETURNS

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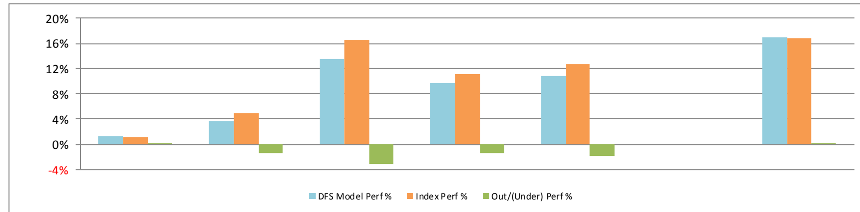
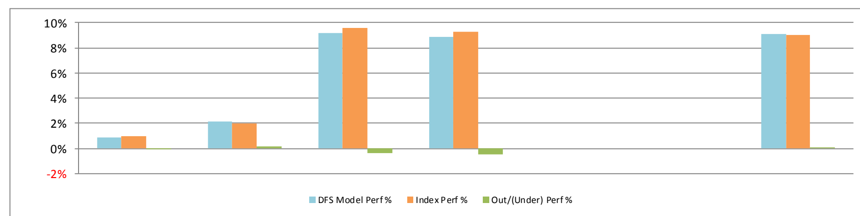
DFSPS employs an evidenced based approach to its manager selection process and believes that high barriers to successful entry exist that preclude the vast majority of active managers from generating sustainable risk-adjusted returns. In the event that active management fails to consistently produce risk-adjusted returns in excess of the market benchmark, DFSPS will adopt a passive approach to obtain exposures in those sectors. DFSPS research continues to indicate that a high degree of efficiency exists within sovereign debt markets and that active management should be limited to high-yield & credit market exposures.

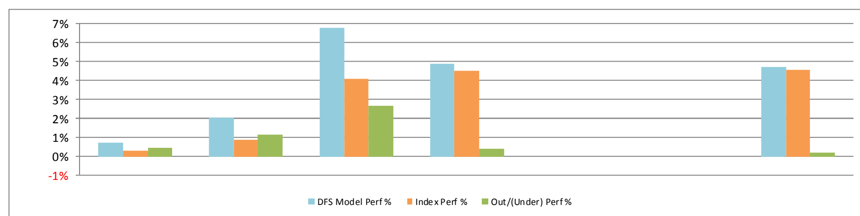
DEFENSIVE PORTFOLIOS	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception April '09 (p.a.)
DIVERSIFIED CREDIT & FIXED INCOME PORTFOLIO	**1.31%**	**3.65%**	**13.43%**	**9.74%**	**10.83%**	**N/A**	**16.95%**
INDEX - BarCap Global Corporate Credit Total Return (AUD)	**1.20%**	**5.02%**	**16.56%**	**11.06%**	**12.62%**	*N/A*	*16.88%*
Outperformance/ (Underperformance)	***0.10%***	*(1.37%)*	*(3.13%)*	*(1.32%)*	*(1.80%)*	N/A	***0.07%***



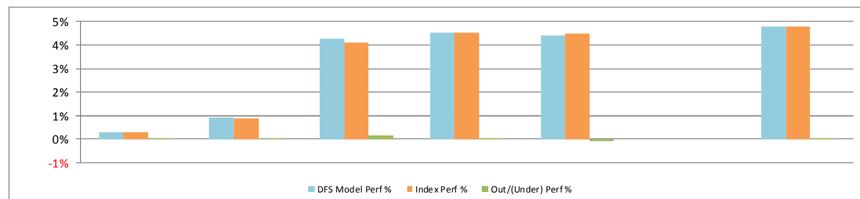
	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception Jan '10 (p.a.)
SOVEREIGN BONDS PORTFOLIO	**0.92%**	**2.18%**	**9.22%**	**8.87%**	**N/A**	**N/A**	**9.09%**
INDEX-U B S Composite 0 + Years	**0.97%**	**1.98%**	**9.57%**	**9.30%**	N/A	N/A	**9.06%**
Outperformance/ (Underperformance)	*(0.05%)*	***0.20%***	*(0.35%)*	*(0.43%)*	*N/A*	*N/A*	***0.03%***



	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception May '10 (p.a.)
ENHANCED CASH PORTFOLIO	**0.73%**	**2.04%**	**6.76%**	**4.91%**	NA	NA	**4.75%**
INDEX - 90 Day Australian Bank Bill Index	**0.29%**	**0.89%**	**4.11%**	**4.52%**	NA	NA	**4.57%**
Outperformance/ (Underperformance)	***0.44%***	***1.15%***	***2.65%***	***0.39%***	NA	NA	***0.17%***



	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception Feb '08 (p.a.)
CASH PORTFOLIO	**0.31%**	**0.94%**	**4.26%**	**4.54%**	**4.38%**	NA	**4.79%**
INDEX - 30 Day Australian Bank Bill Index	**0.29%**	**0.89%**	**4.11%**	**4.52%**	**4.49%**	NA	**4.77%**
Outperformance/ (Underperformance)	***0.03%***	***0.05%***	***0.15%***	***0.02%***	*(0.10%)*	NA	***0.02%***



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