dfs advisory services update

Quarterly Newsletter June 2013

Written 25 July 2013

Cash distributions 30 June 2013

Distributions for the June 2013 quarter are progressively being received. As is normal for this time of the year, cash levels in client accounts are higher than usual.

Nil reinvestment Policy in place from 1 July 2013

As you may be aware, the default process to date has been to reinvest distributions where cash is not required for day-to-day funding.

As the majority of our clients' accounts are in pension–paying phase and/or they prefer to invest any cash surplus more strategically, **we have reviewed the default policy and have changed this to NIL reinvestment effective from 1 July 2013**. With the increased minimum pension factors now in place from 1 July 2013 (refer below), our preference to retain sufficient cash in client's accounts to avoid the need to sell investments for pension funding purposes.

Our base case will be to sweep any resulting cash surplus (unless advised otherwise) into the Australian Cash model (Macquarie on DFSMA / UBS on Wrap) – to at least enhance cash yields in the interim. Where clients wish to reinvest and not apply the default, please discuss this with your DFS Adviser.

Super Changes 2013-14

There are a few changes to super thresholds for the new financial year 2013-14 – key changes are as follows:

Contribution limits

The proposed **increase to the Concessional Contribution (CC) cap for those aged 60 and over this financial year, from $25,000 to $35,000 is now law. F**rom the 2014-15 financial year onwards, the $35,000 concessional contributions cap will be extended to all individuals aged 50 years and over

High Income Earners – additional 15% tax

Individuals who earn more than $300,000 will be subject to an extra 15% contribution tax on concessional contributions made from 1 July 2012.

Increase in SG rate

The compulsory Superannuation Guarantee (SG) rate increased to 9.25% from 1 July 2013. The rate has been set at 9% since 2002-03.

Increased minimum pensions

The minimum pension percentages for Account-Based Pensions and Allocated Pensions returned to their normal levels on 1 July 2013. Previous discount factors are now totally removed.

The minimum percentage that must be paid out of your pension account this financial year has increased as follows:

Age	Last Financial Year (Ending 30 June 2013) With 25% discount factor	This Financial Year (Beginning 1 July 2013)
Under 65	3.00%	**4.00%**
65 – 74	3.75%	**5.00%**
75 – 79	4.50%	**6.00%**
80 – 84	5.25%	**7.00%**
85 – 89	6.75%	**9.00%**
90 – 94	8.25%	**11.00%**
95 or over	10.50%	**14.00%**

Compared to last financial year where the discount applied, increased funding of 25% is now required. A revisit of your cashflow funding strategy is recommended.

Model restructures underway

There are a number of model restructures currently underway, driven by our investment team's ongoing review cycle and their focus on optimising yields and risk management. A summary of the current model restructures and their effective dates are as follows :

Alternative Inv Strategies (MA Only)	Sell Gold and increase Defensive by 22%	10 Jul 2013
Global REITs and Global Infrastructure	Hedging to be reduced to 50%	23 Jul 2013
Diversified Credit and Fixed Income (MA only)	New Manager Laminar Credit Opportunities 30%	25 Jul 2013

Refer separate email advice previously provided on the abovementioned model restructures **- No action is required**.

FOFA : Fee Disclosure Statements

On 1 July 2013, the Future of Financial Advice (FOFA) reforms come into effect. The thrust of the reforms is to ***improve transparency*** and the ***adviser's accountability*** to act in their clients' best interests.

An immediate noticeable outworking of FOFA is the introduction of the compulsory Fee Disclosure Statement (FDS). Under the existing DFS practice, we currently disclose our annual advisory fees to you via your Annual Review documents. In this regard, **there is no change**.

To comply with FOFA however, the amounts disclosed will need to be in the prescribed mandatory format (listing amount and scope of services) and be issued within legislated timeframe.

We emphasise that the Fee Disclosure Statement is ***compliance related*** and is merely a re-stating of your existing fees in the prescribed regulatory format (and it does not mean new or additional fees).

In fact the bulk of the FOFA reforms, including the ban on investment commissions and the new best interest duty, have little impact on DFS clients given our fee for service model since our inception. While FOFA introduces additional (in our case, unnecessary) administration workload on advisory firms, we support its overall objective of improving transparency for clients.

If you have any questions about your Fee Disclosure Statement or about FOFA in general, please contact your DFS Advisor.

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. **The table on the following page 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			2.75%	31-Jul-13
Bank Bill		40 days	2.79%	31-Jul-13
Cash				
Adelaide Bank CMA			2.50%	29-Jul-13
HSBC Working Cash			2.30%	31-Jul-13
Macquarie True Index Cash Fund	MAQ0789AU	0.44 days	2.83%	30-Jun-13
UBS Cash Fund	SBC0811AU	36.50 days	2.74%	30-Jun-13
Term Deposits				
Adelaide Bank Term Deposit (30D)		30 days	3.40%	29-Jul-13
Adelaide Bank Term Deposit (90D)		90 days	4.10%	29-Jul-13
Adelaide Bank Term Deposit (180D)		180 days	4.05%	29-Jul-13
Adelaide Bank Term Deposit (365D)		365 days	4.05%	29-Jul-13
Managed Funds				
Sovereign Bond Model		5.41 years	3.88%	30-Jun-13
Diversified Credit & Fixed Income Model		3.45 years	6.90%	30-Jun-13
DWS Diversified Income Fund #	DAM0012AU	9.12 months	3.25%	30-Jun-13

Assumes nil returns from macro (alpha) strategies

Rabo Bank		
· Under $250k - standard	3.75%	22-May-13
· Under $250k - with 4 months bonus rate	4.95%	22-May-13
· Over $250k - standard	3.40%	22-May-13
· Over $250k - with 4 months bonus rate	4.60%	22-May-13

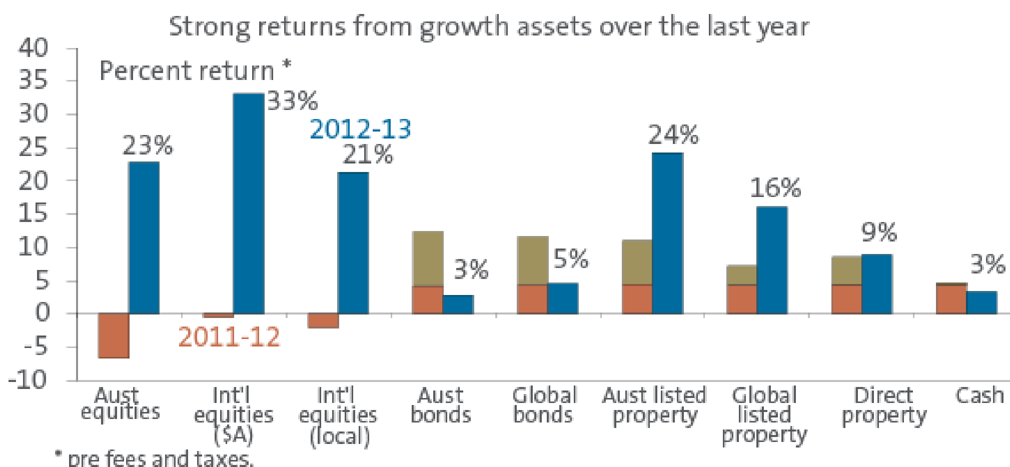
More information on expected yields for your portfolio (defensive and growth assets) will be included in your next formal annual Review Report.

Quarterly Investment Newsletter: June 2013

The following commentary has been provided by Shane Oliver, Head of Investment Strategy and Chief Economist of AMP Capital. The article highlights the returns for various asset classes over the 2013 financial year and his outlook for markets moving forward.

Investment outlook after a strong financial year*

The past financial year saw great returns from growth oriented investments. While returns from bonds and cash slowed to less than 5%, 20% plus returns from global and Australian shares combined with solid returns from property saw balanced growth oriented superannuation funds return on average around 16%.



Source; Thomson Reuters, AMP Capital

To be sure there was plenty to worry about:

- US economic growth was slow and threatened at various points by the "fiscal cliff" and sequester spending cuts;
- The Eurozone crisis continued to see occasional flare ups regarding Greece, Italy, Spain, Cyprus, Portugal, etc and Europe remains in recession;
- China disappointed as did many emerging countries; and
- Worries intensified in Australia as to how the economy will fare as the mining boom fades.

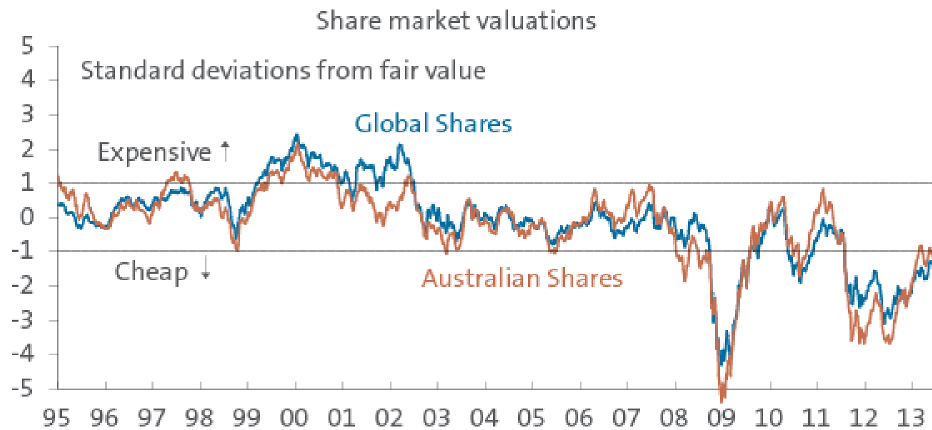
But these concerns were offset by a range of factors:

- The global economy continued to grow despite fears to the contrary, underpinning reasonable profit growth;
- European measures to deal with its crisis seemed to reach a critical mass and culminated with a policy by the ECB to do “whatever it takes” to defend the euro;
- The US Fed announcing another round of monetary stimulus (QE3);
- There was a sea change in Japan with Abenomics ushering in far more aggressive reflationary policies than has been seen over the last twenty years; and
- In Australia the (RBA) continued to cut interest rates.

This has all underpinned strong returns from growth oriented assets. But can it continue? Probably not at the same rate, however our assessment remains that the cyclical bull market in shares has further to go. This along with reasonable returns from property should underpin further gains in diversified investment portfolios over the year ahead despite modest fixed income and cash returns. With bond yields and cash rates extremely low (at less than 4%), equity markets and related growth assets will be the key drivers of returns for diversified portfolios.

Equity valuations – not dirt cheap but ok

A big part of the strong returns over the last year has been the unwinding of the excessive fear of a Eurozone implosion triggering a global double dip recession. This along with worries regarding the US and China, had seen shares pushed to very cheap levels which provided a good lift off for when confidence improved. But after 20% plus gains shares are no longer so cheap. This can be seen in the next chart which shows valuation measures for global and Australian shares (which are based on a range of measures including price to earnings multiples, dividend yields and a comparison of the yields on shares to that on bonds aggregated and expressed as standard deviations with an average of zero).



Source: Bloomberg, AMP Capital

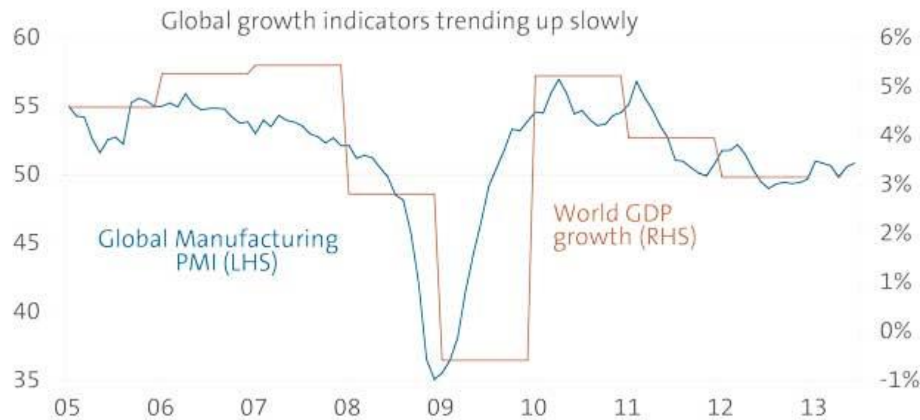
However, while shares are no longer dirt cheap they are not yet expensive either. Cyclical bull markets in shares typically go through three phases with the first phase being driven by the unwinding of cheap valuations and low interest rates, the second phase driven by stronger profits and the third phase being a blow off as investor confidence becomes excessive pushing shares into expensive territory. Our assessment is that we are entering the second phase of the cycle and as such the cyclical/profit backdrop is becoming more important.

The economic cycle – slowly on the mend

2010, 2011 and 2012 were each characterised by mid-year growth scares which were initially triggered in Europe but then spread to the US and elsewhere. However this has not happened this year. In fact the recent correction in global shares was triggered by talk of slowing or tapering the pace of monetary stimulus in the US in response to signs of more resilient growth. By region:

- The sense of crisis around whether the Euro will survive has receded. This is not to say that problems do not remain, but ECB President Draghi's backed up commitment to do "whatever it takes" to defend the euro along with other measures has substantially lessened fears of contagion from one country to another. At the same time a gradual improvement in business conditions indicators suggest that growth is likely to return during the current half year.
- There are several reasons to believe that the gradual US recovery will continue: the housing sector is continuing to recover and looks on track to contribute around 1.5 percentage points to growth this year, business investment appears to be picking up, the jobs market is looking stronger and the shale oil/gas boom is providing a long term boost to the US.
- Abenomics has led to renewed optimism in Japan with deflationary pressures gradually receding and Japan possibly on track to see 4% growth through this year.
- While more than usual uncertainty appears to be hanging around the outlook for China, Government comments indicate that the lower limit for acceptable growth is 7% and it looks to be on track for 7.5% growth this year.

Reflecting this, the global manufacturing conditions PMI (based on an average of nearly 40 countries) is trending up, in contrast to a year ago when the trend was down.



Source: Bloomberg, AMP Capital

This suggests that global growth over the year ahead is likely to pick up a notch which should in turn underpin a modest improvement in profit growth.

In Australia, growth has slowed to around 2.5% and may slow further in the short term. While risks are on the downside, our assessment remains that the combination of very low interest rates and a lower $A will drive a modest pick-up in growth into next year, led by housing construction.

Global monetary conditions to remain easy

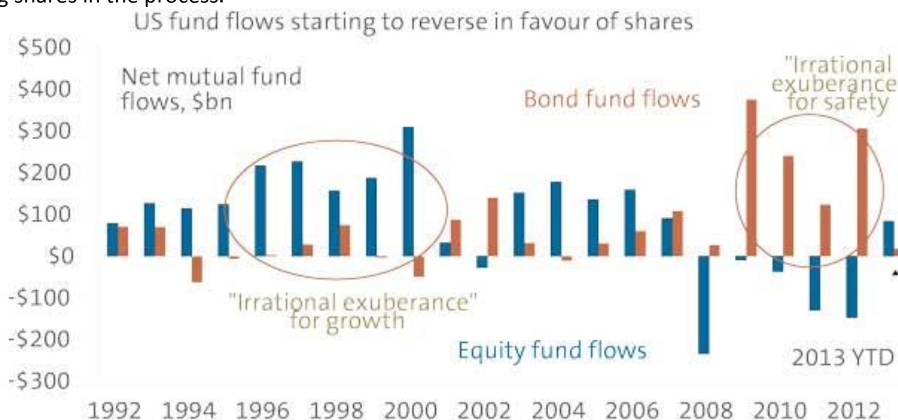
The past couple of months have seen much trepidation that the Fed is about to prematurely end its monetary stimulus program and interest rates will start to rise sooner than expected. However, this appears unlikely:

- The clear message from the Fed is that: first, a tapering of its monetary stimulus is contingent on the economy improving in line with its forecasts; second, there is no pre-set tapering timetable and in fact the pace of asset purchases could even increase if economic data disappointed; and, finally tapering will not bring forward the timing of interest rate hikes. The bottom line is that monetary policy will remain extremely accommodative for a while to come and when it becomes less so it will only be because the US economy is stronger.
- Both the European Central Bank and the Bank of England have signalled that monetary conditions in Europe will remain easy for an extended period and may even be eased further.
- In Japan monetary stimulus is set to continue until inflation rises to around 2%.
- In Australia, the RBA is expected to cut rates further.

The bottom line is that the monetary backdrop is set to remain supportive for investment markets. With plenty of spare capacity and inflation remaining low globally it's hard to see monetary tightening any time soon.

Investor sentiment a long way from excessive

The last six months have seen an improvement in investor confidence towards share markets. But, coming from a low base it is a long way from the sort of excessive optimism that is associated with market tops. As the chart below shows, while US equity mutual funds have seen inflows this year, there is a long way to go to reverse the $US556bn in outflows seen over the previous five years. Similarly bond funds have a long way to go to reverse the $US1.1 trillion in inflows seen over the last five years. In other words as the "irrational exuberance for safety" seen since the GFC reverses there is still a lot of money that can flow from bond funds into equity funds, supporting shares in the process.



Source: ICI, AMP Capital

Similarly, in Australia the amount of cash sitting in the superannuation system is still double average levels seen prior to the GFC. In other words there is still a lot of money that can come into equity markets as confidence improves.

Concluding comments

Inevitably there will be a few bumps along the way with risks remaining regarding Europe, the US with another round of debt ceiling negotiations approaching, China and in Australia. However, while equity returns are likely to slow, the combination of still reasonable valuations, gradually improving economic conditions, easy monetary conditions and a lack of excessive optimism suggest further solid gains ahead. Low bank deposit rates are also likely to be a supportive factor for returns from growth assets, particularly those offering decent yields as investors are likely to continue to seek out alternatives to term deposits. This should also continue to support returns from property related assets although again at a slower pace than seen over the last year. While bond returns are likely to be modest reflecting low yields and the risk of capital loss as investors start to allow for eventual monetary tightening, solid returns from shares and related growth assets should ensure reasonable returns for diversified investment portfolios through the current financial year.

** This article has been published with the kind permission of AMP Capital Investors Pty Ltd. This article was first published by AMP Capital on 24 July 2013 on its website, www.ampcapital.com.au, and AMP Capital reserves the right to amend the original article at any time. Reproduction of this article is not permitted without the prior written consent of AMP Capital.*

DFS Response:

Shane highlights a number of reasons why he believes equities will outperform bonds over the 2014 financial year. Factors such as reasonable valuations, an improving economic outlook, accommodative monetary policy and improving investor sentiment all lead to a supportive environment for risky assets. However, before getting too excited, we remind ourselves of the pitfalls of overconfidence.

Firstly, few would have expected the equity market returns seen over the past 12 months and we query whether the fundamentals have materially changed since June 2012, when markets were pricing in a worst-case scenario. Equities had generated negative returns whilst bonds generated double-digit positive returns. Since then, the worst-case scenario failed to eventuate and markets have since repriced upward while earnings are down! On the face of it, equities have become around 25% more expensive amid a backdrop of a slowing China and struggling Australian economy. In that context, we question whether higher PEs are a sign of a more confident world or lower future returns?

We wish we had the answer but in truth we cannot say with any certainty. What we can and have been doing is monitoring and measuring the various risk factors across markets so that we are better prepared for any changes in the investment landscape.

****

DFS Model Portfolios – Performance Commentary – June 2013 Quarter

Overview – June 2013 Quarter

Volatility returned to capital markets over the June quarter; a spate of news and macroeconomic data influenced Australian investor sentiment as the old stock market adage "sell in May and go away" once again rang true. News of a possible credit crunch in China and another rate reduction by the RBA all points to a softening domestic economy. The end of the financial year also marked the end of an era. Australia's first female Prime Minister, Julia Gillard lost a Labor Party leadership battle to Kevin Rudd. Whilst the relative performance of our model portfolios was mixed over the financial year, we are encouraged by the fact that all of our portfolios produced positive absolute returns over the 12 months. Whilst we have not ignored the relative underperformance of our Australian equity large cap model we can explain the reasons behind the relative underperformance and are comfortable that the yield thematic underpinning it cannot last. Furthermore, our aim is to manage the downside risk and ensure significant diversification benefits exist across the entire portfolio. The fact that all Models produced positive absolute returns is testament to our investment methodology and process.

The Australian sharemarket finished the 2013 financial year with two consecutive negative months; the first time this has happened since November and December 2011. The S&P/ASX 300 Accumulation Index lost 2.83% for the quarter, finishing the financial year with a solid 21.90% return. The Telecommunications sector led the way during the June quarter, generating a return of 6.29% although it was the Healthcare sector that generated the strongest return over FY13, rising by an impressive 41.96% over the 12 month period. Materials stocks continued to underperform the broader market, declining 12.35% over the quarter and was the only sector to produce a negative return over FY13 finishing the year -9.23%

In economic news, March quarter GDP increased by 0.6% and 2.5% year on year (seasonally adjusted) whilst the Terms of Trade (which measure the price of exports relative to imports) rose by 2.7% over the quarter but fell by 6.2%% for the year. The Consumer Price Index rose 0.4% in the June quarter and 2.4% for the year. The most significant price rises were for medical and hospital services and tobacco whilst domestic holiday travel and accommodation and automotive fuel decreased. The cash rate was reduced to 2.75%, after the Reserve Bank of Australia announced a further 25 basis point cut in May. Australia's unemployment rate increased 0.1% to 5.7% (seasonally adjusted) and the Australian Dollar depreciated 11% over the period closing at $0.9275 USD.

Australian Equities Large Caps (AEQ)

Returns: The DFS Large Cap Model generated a return of -4.43% for the June quarter, underperforming the Index by 1.60%. Over the 2013 financial year the DFS AEQ Large Cap Model returned 16.44% compared to the market return of 21.90%

Positive performers within the DFS AEQ Model included positions in Ramsay Healthcare, Oil Search, News Corporation and short positions in mining services firms. Detractors on the Model's performance were predominantly focussed around the mining stocks, particularly BHP, Regis Resources and PanAust all trading lower. An overweight position in SEEK also detracted on the Model's performance.

We reiterate that the reason for the Model's underperformance is due to two of our large cap managers (SGH20 & Macquarie High Conviction) having strongly preferred select mining and mining services companies (which are trading at significant discounts) against the major banks and Telstra. The current market prices of resource related stocks anticipate global recessionary conditions. The DFS AEQ Model would benefit from any improvement in consensus macroeconomic expectations, which we believe is likely over the course of 2013.

Australian Equities Small Caps

Returns: The DFS Small Cap Model generated a return of -11.15% for the June quarter, outperforming the S&P/ASX Small Ordinaries Accumulation Index by 3.70%. The Model returned 7.51% for FY13, outperforming the S&P/ASX Small Ordinaries Accumulation Index by an impressive 12.83%

Major contributors to Model's performance were M2 Telecommunications, G8 Education and Trade Me. The major detractors to performance included positions in Beadell Resources, Regis Resources and

Ausdrill. At the sector level, the Model continues to benefit from overweight positions in Consumer Discretionary stocks and Telecommunications companies.

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 outperformed the domestic share market over the June quarter with the MSCI World ex-Australia Index returning 15.29% in Australian Dollar terms and 1.88% in local currency terms. Starting the quarter strongly, global equity markets were spooked in June following the increased speculation that the US Fed will begin to reduce its bond purchasing program later this year, whilst in Japan the sustainability of "Abenomics" was being increasingly questioned.

Regionally, the standout performer was Japan's Nikkei Index, appreciating 10.32% whilst the S&P 500 Index gained 2.36%and Germany's DAX Index was up 2.10%. Bucking the trend was the FTSE 100 Index falling -3.06% over the quarter.

Returns: The DFS IEQ Model generated a return of 12.13% for the quarter, compared to the market benchmark which returned 15.29%. For the 12 month period the IEQ Model returned a solid 32.09%, compared to the Index which returned 33.10%.

We advise that in May we reduced the hedging level of the IEQ Large Cap Model to 4.3%. This proved to be a prudent strategy as the AUD has fallen 8.95% since the Reserve Bank of Australia (RBA) decided to reduce the cash rate to 2.75%. We reiterate our thesis that (1) the Fed may reverse its easing policy a year early (2014); and (2) Australian economic fundamentals against the US are deteriorating seems to be driving the dollar lower. Our target of having a completely unhedged IEQLC exposure will be implemented shortly

Positions in Microsoft, China Mengniu Dairy, Wells Fargo and Taiwan Semiconductor were positive contributors whilst Banco Bradesco, Vale and Atlas Copco detracted. The Model's overweight exposure to emerging markets also detracted this quarter. The Model continues to have a material exposure to the theme of emerging market consumption growth.

International Equities Asia Ex-Japan

Asian equity markets followed the trend of developed markets and corrected sharply in June amid uncertainty over the US Fed's QE3 program and fears over a prolonged credit crunch in China. The MSCI AC Asia ex-Japan Index detracted by 3.5% in local currency terms however depreciation of the AUD more than compensated for this; the Index posting a healthy 7.87%% for the quarter and 21.91% over FY13 in Australian Dollar terms. Regionally, Hong Kong's Hang Seng Index returned -6.71%, China's Shenzhen Composite Index retreated -4.33% whilst India's SENSEX Index bucked the trend, posting a 2.97% return for the quarter.

Returns: The DFS Asia Ex-Japan Model generated a return of 12.26% for the June quarter, outperforming the Index by 4.39%. Over the financial year the Model outperformed the Index by 5.02%, returning 26.93% compared to the Index return of 21.91%. DFS believes that the Model is in a strong position to capitalise on a segment of the Asian market (approx. $1 billion capitalisation) that previous managers had difficulty accessing due to size.

Positive contributors to the Model's performance included Jobstreet Corp., Carlsberg Malaysia and Samsung Electronics whilst detracting on performance were Standard Chartered, iProperty Group and Dalian Ports.

Global Infrastructure (GI)

Returns: Over the June quarter the DFS Global Infrastructure Model returned 1.75% marginally underperforming the Index which generated a return of 1.84%. The GI Model outperformed over FY13, returning 22.13% versus the Index return of 21.76%.

Positive contributors to the Model's performance were holdings in airport operators Fraport and Aeroports de Paris and toll-road operators Vinci and Macquarie Atlas Roads. Detracting on the Model's performance was a number of emerging Latin American holdings such as Brazil-based MPX Energia.

Global REITs (GREITS)

Returns: The DFS Global REITs Model was flat over the June quarter, returning 0.03%, outperforming the market benchmark by 2.29%. The Model has extended its outperformance over the financial year, returning 18.69% versus the Index return of 16.10%.

Regionally, Australia and the UK were the best performing markets whilst Hong Kong and Singapore were the weakest. Positive contributors to the Model's performance included an over benchmark weight in US

residential REITs AvalonBay Communities, Home Properties and Equity Lifestyle Properties. An underweight position in US self-storage REIT Public Storage detracted on performance.

Australian REITs (AREITs)

Returns: The DFS Australian REIT Model returned 3.11% for the June quarter, broadly in line with the market benchmark which returned 3.19% for the three month period. The DFS AREIT Model was also in line with the market index over the 12 month period, returning 23.67% versus the index return of 23.98%.

Major factors contributing to the Model's quarterly performance were overweight positions in Asia Pacific Data Centre Group and Goodman Group Detracting on performance was positions in Stockland Australian Investa Office Fund and Charter Hall Retail REIT.

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 -0.21% for the June quarter, compared to cash which generated 0.71% and the HFRI Macro Total Return Index which generated -1.60%. Generating a return of 1.92% over FY13, the AIS Model's relative performance was mixed; whilst it outperformed the HFRI Macro Index by 1.45%, it underperformed cash by 1.23%

In early July, DFS announced that the AIS Model was to be restructured to conform to a risk-targeting approach, similar to the methodology applied to our asset allocation model. To reiterate we believe that constraining the risk of the AIS Model will further enhance its risk/return characteristics which is particularly important in the current environment where investor confidence continues to be fickle.

Gold Bullion continued to spiral down during the quarter; the precious metal depreciating 11.24% in Australian Dollar terms in the month of June alone, finishing the quarter and year down 15.53% and 15.57% respectively. **Global Macro Strategies'** were higher; net short positions in commodities and the Australian Dollar the main drivers behind performance. Our **Managed Futures Strategies** traded lower, primarily due to a net long position in bonds in the month of May whilst long positions in the AUD and NZD also detracted. Our **Currency** strategy detracted on performance; the portfolio's positions in Norwegian krona and Chilean peso, which were both long and short, were the largest detractors. Our **Diversified Hedge Funds** strategy was slightly positive for the quarter as was our **Absolute Return Fixed Income** strategy, although the latter did post its first negative monthly return since its inception in June. The key driver to the strategy's performance was a material underweight to bonds and overweight positions in credit and mortgage-backed securities.

Sovereign Bonds

Words and actions by major Central Banks were the dominant driver of financial markets in the June quarter. The European Central Bank responded to the continuing recession by lowering its official cash rate by 0.25% to 0.50%. Discussion about the tapering of the US Federal Reserve's $85 billion per month asset purchase program, culminating when Ben Bernanke stated that if the economy continued at its current pace "it would be appropriate to moderate the monthly pace of purchases later this year". Also, in June, the People's Bank of China created a mini liquidity crunch in their banking system, failing to respond to a spike in the interbank cash rate. Locally, the Reserve Bank of Australia lowered the official cash rate by 0.25% to 2.75% in May. With talk of tapering, yields in major sovereign bond markets rose over the quarter. The US 10 year government bond yield was up by 0.64%, Germany's up by 0.44% and Japan's by 0.34%. Domestically, the Australian 10 year government bond yield rose by 0.34%. Global investment grade credit spreads widened during the June quarter, leading to a return of -1.95%. Spreads in Emerging market bonds also widened significantly returning -4.47% for the quarter.

Returns: The DFS Sovereign Bond Model generated a return of -0.52% for the quarter, underperforming the Australian based UBS Composite Bond benchmark by 0.93%. The Model's performance fared better for the financial year, returning 2.90% versus an Index return of 2.78%. 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

Returns: Over the June quarter, the Diversified Credit and Fixed Income Model returned -0.16% outperforming the Barclay's Capital Global Corporate Credit Total Return Index which returned -1.73%. The Model also outperformed the Index over the financial year, returning 8.75% versus a market return of 7.77%

Positive contributors to the Diversified Credit & Fixed Income Model's performance included an allocation to non-Agency mortgage-backed securities and leveraged loans to selective retailers whilst exposures to

covered bonds and emerging market duration detracted. At the end of June the Model's yield to maturity was 7.63% p.a. with interest rate duration of 3.45 years and credit spread duration of 3.03 years.

Enhanced Cash

Returns: ***The DFS Enhanced Cash Model*** returned 1.02% for the June quarter and 6.12% for FY13, outperforming the Australian 90-Day Bank Bill Index by 0.31%.and 2.97% over the respective periods. Over the quarter the Model added value from a short position in Japanese Government Bonds and a bearish perspective on credit also paid off as spreads widened in June on the threat of less QE stimulus. At quarter end the Model's interest rate duration has increased slightly to 0.76 years with a running yield of 4.02%.

Direct Property Syndicate Overlay

Returns: The Charter Hall Direct Property Fund (CHDPF) generated a return of 1.22% for the June quarter. As previously advised, the Colonial First State Private Investor Fund (PIF1) realised all investments with the residual capital balance returned to unit holders.

Colonial - PIF

As per our email to clients on 4th July 2013, we can now confirm all funds have been received in cash and the holding has been reduced to nil. During the quarter the fund paid a special distribution of $0.5007, resulting in the unit price decreasing from $0.519728 to $0.016816. This residual unit price was subsequently paid to unit holders by way of unit redemption in June. **Since inception, The total return from the Colonial First State Private Investor Fund 1 was 2.95%p.a.**

Charter Hall – CHDPF

Portfolio occupancy is 95% with a weighted average lease expiry of 4.3 years. The Fund's June distribution increased to 1.4351 cpu. Gearing was 47.3% with a loan-to-value ratio of 50.4%. The debt facility expires in September 2015. Six properties were independently valued during the quarter with the portfolio seeing a small net increase of $0.9 million. The sale of 71 Queens Road, Melbourne progressed during the quarter, with an unconditional sale contract being executed and settlement scheduled to occur in late July 2013. Proceeds from the sale will be used to reduce the debt balance and bring gearing in line with the Fund's target level of 45%.

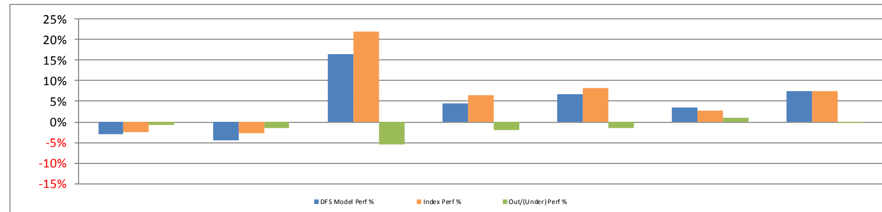
	3 Months	6 Months	1 Year	2 Years	3 Years	4 Years	5 Years
Charter Hall Direct Property Fund	**1.22%**	**3.68%**	**6.63%**	**9.11%**	**10.48%**	**8.03%**	**-5.37%**
Mstar Unlisted & Direct Property Index	**1.45%**	**3.11%**	**7.09%**	**5.29%**	**4.26%**	**1.69%**	**-2.70%**
Out(Under)performance	***-0.23%***	***0.57%***	***-0.46%***	***3.82%***	***6.22%***	***6.34%***	***-2.67%***

PORTFOLIO RETURNS

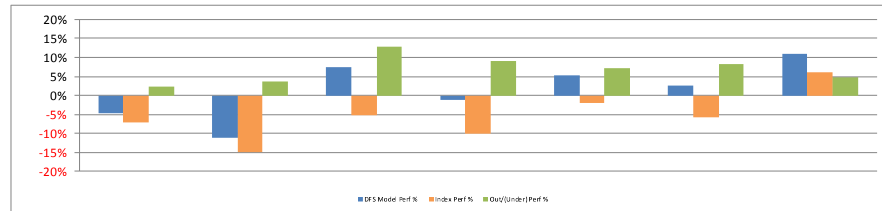
ending 30 June 2013

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.

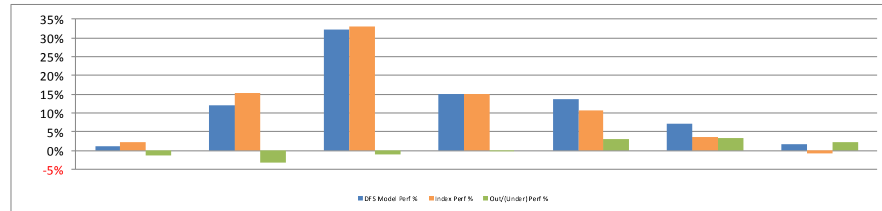
GROWTH PORTFOLIOS	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception Jan '00 (p.a.)
AUSTRALIAN EQUITIES LARGE CAP PORTFOLIO	**(3.11%)**	**(4.43%)**	**16.44%**	**4.41%**	**6.66%**	**3.62%**	**7.46%**
INDEX -S&P/ASX 300 Accumulation Index	*(2.40%)*	*(2.83%)*	*21.90%*	*6.47%*	*8.25%*	*2.70%*	*7.46%*
Outperformance/ (Underperformance)	***(0.71%)***	***(1.60%)***	***(5.45%)***	***(2.05%)***	***(1.59%)***	***0.93%***	***(0.01%)***



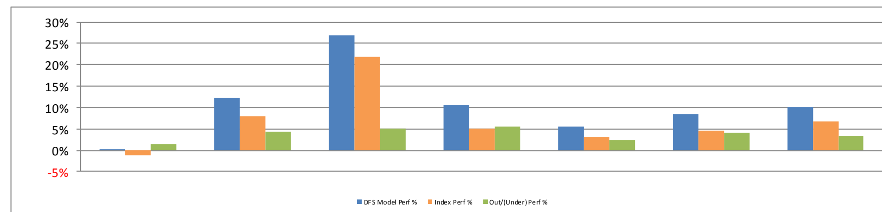
	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception Nov '02 (p.a.)
AUSTRALIAN SMALL CAP EQUITIES PORTFOLIO	**(4.75%)**	**(11.15%)**	**7.51%**	**(1.16%)**	**5.15%**	**2.66%**	**10.99%**
INDEX - S&P/ASX Small Ordinaries Accum Index	*(7.15%)*	*(14.85%)*	*(5.32%)*	*(10.09%)*	*(2.00%)*	*(5.66%)*	*6.16%*
Outperformance/ (Underperformance)	***2.40%***	***3.70%***	***12.83%***	***8.92%***	***7.15%***	***8.32%***	***4.83%***



	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	**1.08%**	**12.13%**	**32.09%**	**14.99%**	**13.78%**	**7.11%**	**1.61%**
INDEX - MSCI World Ex Aus Acc. Index (AUD)	*2.31%*	*15.29%*	*33.10%*	*15.08%*	*10.78%*	*3.68%*	*(0.73%)*
Outperformance/ (Underperformance)	***(1.23%)***	***(3.17%)***	***(1.01%)***	***(0.10%)***	***3.00%***	***3.43%***	***2.34%***



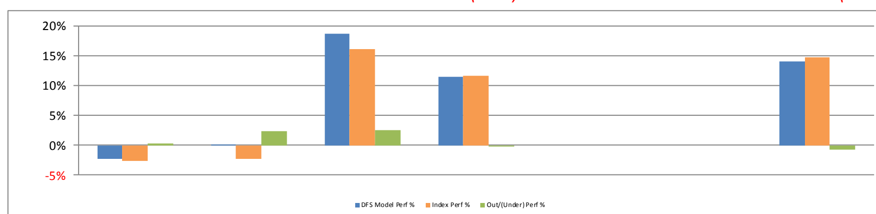
	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception July '05 (p.a.)
INTERNATIONAL EQUITIES PORTFOLIO - ASIA	**0.25%**	**12.26%**	**26.93%**	**10.56%**	**5.45%**	**8.48%**	**10.05%**
INDEX - MSCI AC Asia Ex Japan NR AUD	(1.25%)	7.87%	21.91%	5.01%	3.02%	4.46%	6.76%
Outperformance/ (Underperformance)	***1.50%***	***4.39%***	***5.02%***	***5.55%***	***2.43%***	***4.02%***	***3.29%***



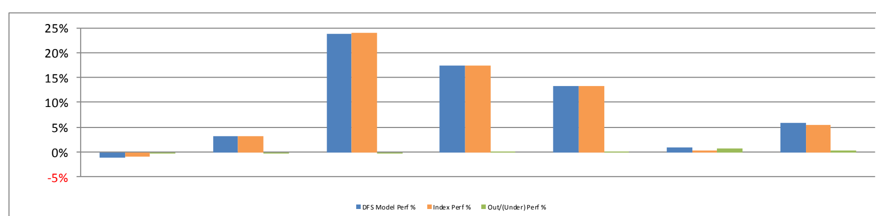
PORTFOLIO RETURNS

ending 30 June 2013

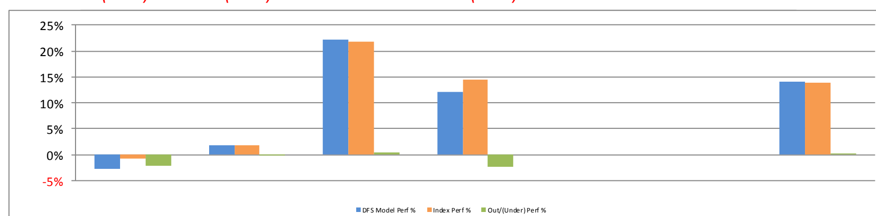
GROWTH PORTFOLIOS continued	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception Oct '10 (p.a.)
GLOBAL REITS PORTFOLIO	(2.25%)	0.03%	18.69%	11.43%	NA	NA	13.96%
INDEX - UBS Global Investors GREITs Index (Hedged AUD)	*(2.62%)*	*(2.26%)*	*16.10%*	*11.57%*	NA	NA	*14.65%*
Outperformance/ (Underperformance)	*0.36%*	*2.29%*	*2.58%*	*(0.14%)*	NA	NA	*(0.69%)*



	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	(1.17%)	3.11%	23.67%	17.34%	13.38%	1.03%	5.91%
INDEX-S&P/ASX 300 Property Accumulation Index	(0.97%)	3.19%	23.98%	17.30%	13.36%	0.29%	5.51%
Outperformance/ (Underperformance)	*(0.21%)*	*(0.07%)*	*(0.31%)*	*0.04%*	*0.03%*	*0.74%*	*0.40%*



	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	(2.78%)	1.75%	22.13%	12.15%	NA	NA	14.04%
INDEX - UBS Global Infrastructure & Utilities 50/50 TR Index AUD	(0.71%)	1.84%	21.76%	14.51%	NA	NA	13.98%
Outperformance/ (Underperformance)	*(2.07%)*	*(0.09%)*	*0.36%*	*(2.36%)*	NA	NA	*0.07%*

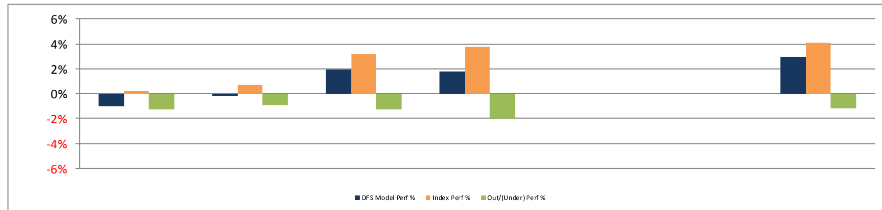


PORTFOLIO RETURNS

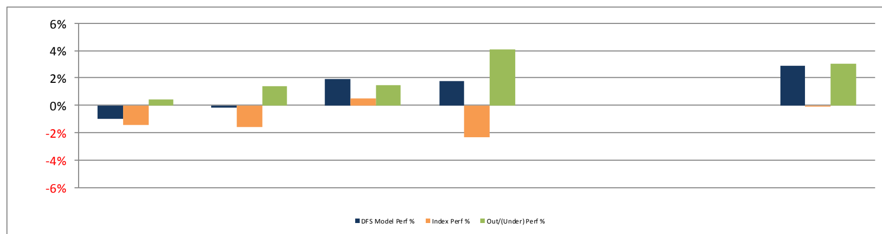
ending 30 June 2013

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	(1.02%)	(0.21%)	1.92%	1.77%	NA	NA	2.92%
INDEX - 90 Day Australian Bank Bill Index	*0.23%*	*0.71%*	*3.15%*	*3.79%*	NA	NA	*4.10%*
Outperformance/ (Underperformance)	*(1.25%)*	*(0.92%)*	*(1.23%)*	*(2.02%)*	NA	NA	*(1.18%)*



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	(1.02%)	(0.21%)	1.92%	1.77%	NA	NA	2.92%
INDEX - HFRI Macro Total Return Index	(1.45%)	(1.60%)	0.48%	(2.34%)	NA	NA	-0.09%
Outperformance/ (Underperformance)	*0.43%*	*1.39%*	*1.45%*	*4.11%*	NA	NA	*3.01%*

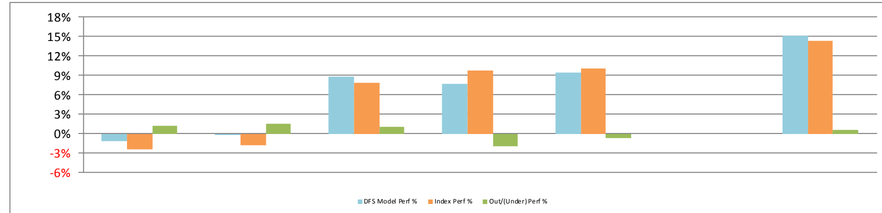


PORTFOLIO RETURNS

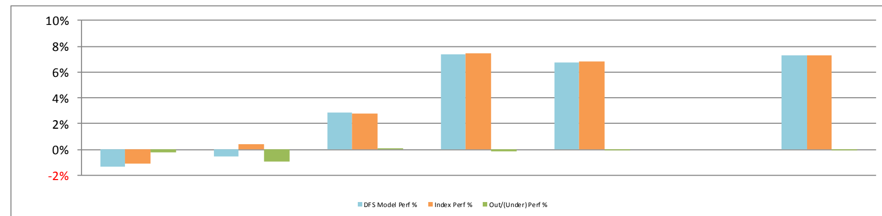
ending 30 June 2013

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.

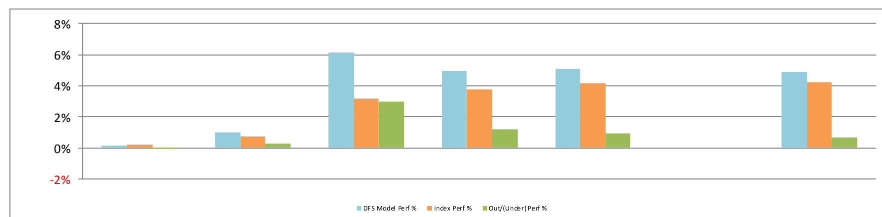
DEFENSIVE PORTFOLIOS	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception April '09 (p.a.)
DIVERSIFIED CREDIT & FIXED INCOME PORTFOLIO	(1.14%)	(0.16%)	8.75%	7.73%	9.45%	N/A	15.05%
INDEX - BarCap Global Corporate Credit Total Return (AUD)	(2.40%)	(1.73%)	7.77%	9.69%	10.14%	N/A	14.40%
Outperformance/ (Underperformance)	*1.27%*	*1.57%*	*0.98%*	*(1.96%)*	*(0.69%)*	N/A	*0.65%*



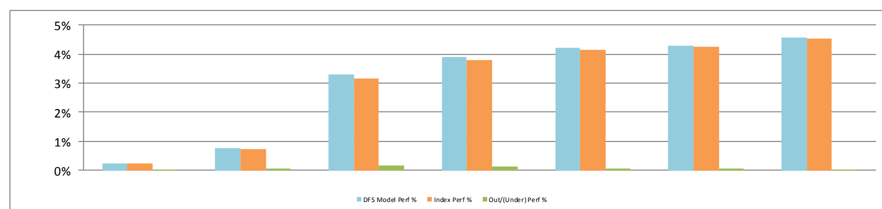
	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception Jan '10 (p.a.)
SOVEREIGN BONDS PORTFOLIO	(1.29)%	(0.52)%	2.90%	7.35%	6.75%	N/A	7.29%
INDEX - UBS Composite 0 + Years	(1.05)%	0.40%	2.78%	7.49%	6.84%	N/A	7.29%
Outperformance/ (Underperformance)	*(0.24%)*	*(0.93%)*	*0.13%*	*(0.14%)*	*(0.08%)*	*N/A*	*(0.00%)*



	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	0.16%	1.02%	6.12%	4.96%	5.10%	NA	4.89%
INDEX - 90 Day Australian Bank Bill Index	0.23%	0.71%	3.15%	3.79%	4.16%	NA	4.20%
Outperformance/ (Underperformance)	*(0.07%)*	*0.31%*	*2.97%*	*1.17%*	*0.94%*	NA	*0.69%*



	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	0.23%	0.75%	3.31%	3.92%	4.20%	4.30%	4.56%
INDEX - 30 Day Australian Bank Bill Index	0.23%	0.71%	3.15%	3.79%	4.16%	4.26%	4.52%
Outperformance/ (Underperformance)	*0.01%*	*0.04%*	*0.16%*	*0.12%*	*0.04%*	*0.05%*	*0.04%*



Disclaimer:
This DFSPS document is a general guide publication and does not constitute and is not intended to be a substitute for professional financial advice. In preparing this document, we did not take into account the investment objectives, financial situation and particular needs ("financial circumstances") of any particular person. You should not rely nor act on any information contained in this article without seeking professional financial advice. Past performance should not be taken as a guarantee for future performance.