Quarterly commentary

ADVANCE INVESTIGATE

ADVANCE GLOBAL ALPHA FUND

as at 31 December 2009

WHOLESALE FUND RETURN AS AT 31 DECEMBER 2009[1]

	3 months (%)	6 months (%)	1 year (%)	3 years (%p.a.)	4 years (% pa)	Inception[2] (%p.a.)
Growth Return	-2.27	15.59	13.11	-13.87	-8.50	-5.78
Distribution Return	0.00	0.00	0.00	2.95	4.10	3.91
Total Return	-2.27	15.59	13.11	-10.92	-4.40	-1.88
60% MSCI/40% WGBI Hedged $A	1.55	7.24	2.24	-2.69	0.04	1.40

[1] Performance figures are calculated using withdrawal values and assume that income is reinvested. Annual management fees and expenses have been taken into account; however, no allowance has been made for entry fees, tax or any rebates that may be given. Past performance is not a reliable indicator of future performance.

[2] Inception date is 16 September 2005.

FUND COMMENTARY

The Advance Global Alpha Fund, managed by Mellon Capital Management (Mellon), strongly underperformed its benchmark during the December quarter. The stock/bond, currency, and bond allocation component strategies all detracted. The equity allocation component contributed positively to performance.

MARKET PERFORMANCE

Evidence continued to mount that the US and global recessions are over and economic recoveries have begun. The Organization for Economic Cooperation and Development doubled its growth forecast for the leading developed economies, saying the economies of the group's 30 member countries will expand 1.9% next year and 2.5% in 2011. The third-quarter gross domestic product report that showed the US economy expanded at an annualized rate of 3.5%. In a sign that the labour market may finally be healing, initial reports showed that November nonfarm payrolls fell by 11,000 workers, far less than the 111,000 decline in jobs in October. For the eighth consecutive month, the Conference Board's index of leading economic indicators rose. Existing home sales jumped again up 7.4% in November after jumping 10.1% in October as the overall economic picture continues to improve.

China's industrial production grew more than economists had forecast in November, a development that reaffirms the expectations of many economists that China will help lead the rest of the world in recovery. Data was mixed in the Euro area. Service and manufacturing industries grew at the fastest pace in two years in November. At the same time, Greece had its debt rating cut while Spain and the United Kingdom were facing the possibility of downgraded ratings. The UK economy has lagged; third quarter 2009 GDP declined to -0.4%. As economies transition to growth, the next step for governments and central banks will be to remove the stimulative policies without harming the nascent growth. European Central Bank (ECB) President Trichet said policymakers will withdraw emergency cash gradually in an effort to ensure the bank does not fuel inflation. The Federal Open Market Committee kept rates at near zero with the risk to growth remaining, but with the improvements in the economy, the committee indicated that most of the special liquidity facilities would expire on February 1st, and gave more details about the wind down of the various liquidity programs it has put in place over the last 15 months or so. Australia became the first G20 country to raise interest rates in more than a year, rising three times during the quarter. Norges Bank became the first European central bank to reverse its easing cycle as the Norwegian economy accelerated.

FUND PERFORMANCE

The largest source of underperformance was the stock/bond component, where the Fund held an overweight to both stocks and bonds. The relatively larger bond overweight was the main drag on performance, as bonds fell 0.7% during the quarter. The MSCI World Index rose during the quarter, which helped the Fund's equity overweight add alpha.

An overweight to the yen was the main driver of the currency component's loss. The yen was the worst performer this quarter after it fell sharply in December, as the continued deflation spurred expectations that the Bank of Japan (BOJ) will hold interest rates near zero until inflation returns. The Australian dollar was the second-best performing currency this quarter, trailing only the Canadian dollar among G10 currencies. The Australian dollar rose after Australia's Reserve Bank increased its key interest rate in each of the three months during the quarter, citing an improving local and global economic outlook. An underweight to the euro added the most alpha within the currency component after the Euro underperformed the Australian dollar. The bulk of the alpha was generated in October, when optimism the global economic recovery was gathering momentum increased demand for riskier assets such as the Australian dollar.

In the bond allocation strategy, the main driver of the underperformance was an underweight to Japanese bonds. Japanese bonds outperformed late in the quarter when most other bond markets weakened considerably, after the BOJ said it would not tolerate deflation, increasing speculation the BOJ will implement new policy actions such as increasing its purchases of long-term government bonds. An overweight in Euro bonds recovered alpha after Euro bonds outperformed during October and November following cautious comments about growth from ECB and European Union officials.

The equity allocation component strategy added alpha, due mainly to an underweight position in Japanese stocks. Japanese stocks underperformed as the rising yen hurt exporters and producer prices fell for the tenth straight month, raising fears of deflation.

OUTLOOK

Looking ahead, Mellon continues to overweight global equities because they are inexpensive relative to both sovereign bonds and cash. The Fund remains overweight bonds, as sovereign bonds remain expensive relative to equities but offer attractive yields relative to cash. Within the equity market selection strategy, the largest over weights are France and the UK, where stocks are attractively valued relative to bonds and to other country equity markets. The largest equity position is an underweight to Japan, where bonds are inexpensive relative to stocks and Mellon expect the lowest equity returns of any developed country.

Earnings forecast reductions over the last year have been especially large in Japan. In the bond allocation strategy, UK and Euro bonds are the largest overweights; long-term bonds in both areas offer the largest term premiums in the Fund's investment universe. The largest underweight remains in Japan, where the term premium is unattractive versus the global average. In the currency strategy, the Australian Dollar and the Swiss Franc are the largest overweights. The Fund is overweight the Australian Dollar because its short-term real interest rate is relatively high and it is expected to remain above the global average. The Swiss Franc overweight is driven by Switzerland's current account surplus (it is a net lender to other countries) and the Franc's valuation relative to the highly-correlated euro. The largest currency position is an underweight to the Euro; its short-term real interest rate is below the global average and Mellon expect this rate to deteriorate relative to other currencies. The UK Pound is the second-largest underweight, as it has a negative real interest rate and a relatively unattractive forward rate expectation.

COUNTRY EXPOSURE

	Fund (%)	Benchmark (%)
Stock		
Australia	-0.33	2.37
Canada	5.05	2.91
France	17.07	3.12
Germany	4.16	2.28
Hong Kong	-0.65	0.66
Italy	3.31	0.98
Japan	-5.29	5.83
Netherlands	2.10	0.76
Spain	6.81	1.30
Switzerland	2.52	2.17
United Kingdom	14.60	6.10
United States	20.29	28.91
GAA Passive	2.47	2.62
Bond		
Australia	13.86	0.22
Canada	9.91	0.76
Europe ex UK	23.85	15.42
Japan	-35.73	11.64
United Kingdom	27.95	2.16
United States	31.83	9.53
GAA Passive	0.00	0.26
Cash	-43.79	-
TOTAL	**100.00**	**100.00**