

AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

as at 31 December 2009

WHOLESALE FUND RETURN AS AT 31 DECEMBER 2009¹

	3 months (%)	6 months (%)	1 year (%)	2 years (%)	3 years (%)
Growth	0.42	1.45	-2.12	1.49	0.06
Distribution	1.13	3.29	6.58	5.81	5.54
Total	1.55	4.74	4.46	7.31	5.60
Benchmark ²	1.03	2.82	1.73	8.14	6.56

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. ² Benchmark is UBS Warburg Composite (All Maturities) Index. Past performance is not a reliable indicator of future performance.

INVESTMENT MARKET COMMENTARY

Ten-year government bonds began the fourth quarter yielding 5.28%, experienced quite a volatile three months, trading in a 5.74% to 5.10% range to eventually yield 5.64% at the end of the quarter. Activity tended to mirror developments in off shore bond markets, primarily the USA, with the ultimate increase in yield over the quarter resulting from both increased optimism by markets as to the strength of the global recovery and also worries over the supply overhang of international bond issuance necessary to fund fiscal deficits by developed country governments.

The monetary policy tightening which began in October, when the RBA became the first of the G20 central banks to begin withdrawing monetary stimulus originally instigated by the global financial crisis, was maintained in each of the two subsequent months until calendar year end, with the RBA cash rate reaching 3.75% by December.

Over the fourth quarter, credit markets continued to recover from the extremes reached at the peak of the financial crisis, although the pace of improvement remained more muted than during the first half of 2009. Towards the end of the quarter, concerns over the solvency of Dubai World weighed on investors' minds but by quarter's end the main worry was perceived to be the uncertainty regarding proposed new bank liquidity arrangements.

The UBS Australia Composite (All Maturities) Index benchmark returned 1.03% over the quarter.

FUND AND MANAGER PERFORMANCE COMMENTARY

The Australian Fixed Interest Multi-blend Fund returned 1.55% after wholesale fees over the quarter.

At a manager level, Colonial First State outperformed the benchmark index by 0.54% for the quarter. The manager's overweight positions to both the semi government and corporate sectors and underweight the government and supra sectors once again contributed significantly to this out performance. Additionally, the manager's short duration position versus the index was also a significant driver of performance.

Alliance Bernstein outperformed the benchmark index by 0.77% over the quarter, the main contributors to performance being both security and sector allocations.

MANAGER ALLOCATION

The current manager line-up and the benchmark allocation to each manager is as follows:

	Style	Benchmark Allocation (%)
Alliance Bernstein	Corporate/ Sovereign	50
Colonial First State	Corporate/ Sovereign	50

SUB SECTOR ALLOCATION

	Portfolio (%)	Benchmark (%)	+/- (%)
Supra	7.5	21	-13.5
Government	7.7	26.6	-18.9
Semi Government	43.25	32	+11.25
Corporate	36.15	20.4	+15.75
Asset backed	5.2	0	+5.2
Cash liquidity	0.2	0	+0.2
TOTAL	100	100	

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