

INTERNATIONAL 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 Return	2.22	0.83	5.50	4.36	2.96
Distribution Return	0.00	7.67	8.03	7.84	6.98
Total Return	2.22	8.50	13.52	12.20	9.95
Benchmark Return ²	1.11	5.07	8.03	8.63	7.96

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.

²Benchmark: Barclays Capital Global Aggregate (Hedged \$A) Index. Past performance is not a reliable indicator of future performance.

INVESTMENT MARKET COMMENTARY

Financial markets and risk assets in general maintained their bullish momentum in the fourth quarter due to the continuing improvement in economic data releases. Although investment grade, high yield and securitised assets continued to provide good returns over the fourth quarter, the core developed government bond sector was sold aggressively in the latter part of the quarter due to concerns over mounting fiscal deficits and the associated risks of increasing supply.

The necessity to pay for both bank bail outs and fiscal stimulus programmes in order to avert a severe economic downturn saw the USA, UK, Euro-zone and Japan issue a record of approximately US\$4trln of Government bonds in 2009, an 86% increase from the previous year. Worryingly, it is forecast that there will be similar levels of government fund raising in 2010. Indeed, according to Morgan Stanley, the US Treasury will sell a record US\$2.55trln of notes and bonds in 2010, an increase of some 38% from 2009's already elevated level.

The Barclays Capital Global Aggregate (Hedged A\$) Index (previously the Lehman Brothers Global Aggregate Index) returned 1.11% over the quarter.

FUND AND MANAGER PERFORMANCE COMMENTARY

The International Fixed interest Multi-Blend fund returned 2.22% after wholesale fees, outperforming the index by 1.11% over the quarter.

At a manager level, Franklin Templeton returned 1.91%, outperforming the Barclays Global Aggregate (Hedged A\$) index over the quarter by 0.80%. The portfolio's overweight exposure to corporate and govt credit and underweight exposure to core developed govt market bonds was the prime driver for the out-performance.

The Standish Mellon portfolio returned 3.15% over the quarter, outperforming the Barclays Capital Global Aggregate (Hedged A\$) Index by 2.04%. The strong performance was driven primarily by asset allocation and security selection. The manager's overweight position to US and European credit was the primary driver of returns as spreads tightened as government bond yields backed up.

MANAGER ALLOCATION

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

	Benchmark Allocation (%)
Franklin Templeton	50
Standish Mellon	50

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