

## PROPERTY SECURITIES MULTI-BLEND FUND

as at 31 December 2009

### WHOLESALE FUND RETURN AS AT 31 DECEMBER 2009<sup>1</sup>

	3 months (%)	6 months (%)	1 year (%)	2 years (%)	3 years (%)
Growth Return	0.26	23.51	19.36	-30.71	-27.85
Distribution Return	0.00	2.82	2.72	9.93	9.27
Total Return	0.26	26.33	22.08	-20.78	-18.58
Benchmark Return <sup>2</sup>	0.26	26.88	20.60	-22.80	-18.37

<sup>1</sup> 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.

<sup>2</sup> Benchmark: 50% S&P/ASX 200 Property Trusts Accumulation Index 50% FTSE EPRS/NAREIT 100% \$A Hedged.

### INVESTMENT MARKET COMMENTARY

The global listed real estate sector ended the year on a high, with the FTSE EPRA/NAREIT Index hedged AUD up 5.4% for the quarter, and 33.0% over the year. Domestically listed property as measured by the S&P/ASX 200 LPT Accumulation Index underperformed the global market throughout 2009, returning 3.4% for the quarter and only 7.9% over the year. Despite this the strongest performing regions of the global index were also those least effected by the economic weakness. Asia ex Japan outperformed all other regions while Japan and the U.K. were the poorest performing global markets for listed property in 2009.

Domestic REITs have recovered significantly from the market lows reached in March of 2009. Balance sheet strength and gearing was fiercely scrutinised and while the listed sector was forced to mark-to-market the value of their assets earlier in the cycle, access to liquidity via the equity market has restricted the volume of distressed property sales. The focus on lower risk and higher income resulted in Industrial REITs outperforming for 2009, gaining 10.4%, while the higher leveraged commercial property sector led the underperformers, declining 8.6% as a group.

In stark contrast to the first half of 2009, equity raising activity slowed substantially through the last quarter of 2009. Since October 2008, \$16.9bn of capital has been

raised from the domestic market and 86% of this between October 2008 and June 2009. Only one capital raising occurred in December, Abacus Property Group which completed a \$91.4m institutional placement.

Globally markets followed a similar pattern throughout the year. Equity markets during the first half experienced a rush of capital raisings by the listed property sector, leading the re-capitalization cycle. The second half saw investors turn focus to commercial property and the potential for distressed property sales, as liquidity became less abundant. Key dynamics to focus on for 2010 will be the continuing re-capitalization of the commercial property market where accessing liquidity will likely force an increase in a number of asset sales, potentially to the cashed up listed market. Gains in capital values will likely take a back seat for 2010, as the focus will return to core rental income and vacancy activity.

### FUND AND MANAGER PERFORMANCE COMMENTARY

The Property Securities Multi-Blend Fund returned 26.3% after wholesale fees underperforming the benchmark by 0.6% over the December quarter. Our domestic manager Perennial, was marginally weaker relative to the benchmark, in a quarter that was dictated by very little specific news. At a sector level the portfolio's overweight to industrial REITs detracted while an underweight to retail trusts positively contributed to performance. Key holdings in Dexus Property Group, Mirvac Group and ING Industrial Fund performed strongly on news all three were progressing with planned balance sheet restructuring and asset sales. Major detractors from performance included Macquarie Office Trust, Thakral Holdings Group and Stockland. The managers value bias and defensive stock holdings are likely to find greater support through 2010, as these REITs typically have raised sufficient capital to position themselves for future accretive asset purchases.

On the international front, CBRE GRES outperformed the benchmark, which was largely driven by stock selection. The fund was well positioned in the U.S., Hong Kong and Australia, which provided for positive relative performance. Within Australia, the portfolio benefited from its exposure to ING Office Fund and Dexus Property Group, while it had no exposure to GPT Group, the worst performing stock. Select overweight exposures in Hong Kong to China Resources Land, Hang Lung Properties and Henderson Land while an underweight to Sun Hun

Kai also positively contributed. In the U.S. the portfolio remained underweight to the highly geared hotels sector, which underperformed while key holdings in Alexandria Real Estate, AvalonBay and Simon Property positive contributed to outperformance. Major detractors of the portfolio included Westfield, NTT Urban Development Corp. and St. Modwen Properties PLC. CBRE views REITs strongly for 2010 and expects more of the value that has been destroyed in the past two years to be recovered. The manager's core valuation bias has positioned the portfolio in holdings with strong financial positions, which are able to take advantage of positive acquisitions of assets in the future.

European Investors solidly outperformed their respective benchmark. During the quarter, the Fund's performance was helped by gains in Singapore, Hong Kong, France, the US and UK. Top performers were the Hong Kong shopping centre company, Lifestyles, an Italian mall owner, IGD and a number of strongly performing U.S. REITs including the California-based office REIT, Douglas Emmett. Strong stock picks in Japan, UK and France, also assisted performance. Offsetting this outperformance somewhat was stock selection in Germany, Spain, Thailand and the Netherlands. The current dispersion of value in the benchmark will suit European Investors' benchmark unaware style of investing, and provide further opportunities through 2010.

## MANAGER ALLOCATION

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

	Benchmark Allocation (%)
Perennial	50
CBRE GRES	30
European Investors	20

## TOP 10 PORTFOLIO HOLDINGS

		Portfolio (%)	Benchmark (%)	+/- (%)
1.	WESTFIELD GROUP	21.07	21.99	-0.92
2.	STOCKLAND	6.49	7.06	-0.57
3.	DEXUS PROPERTY GROUP	5.13	3.29	1.84
4.	GOODMAN GROUP	4.56	3.09	1.47
5.	GENERAL PROPERTY TRUST	4.38	3.88	0.50
6.	MIRVAC GROUP	2.88	3.90	-1.03
7.	CFS RETAIL PROPERTY TRUST	2.75	3.17	-0.42
8.	SIMON PROPERTY GROUP INC.	2.62	1.81	0.80
9.	UNIBAIL-RODAMCO	2.46	1.56	0.90
10.	VORNADO REALTY TRUST	1.75	1.00	0.75
<b>TOTAL</b>		<b>54.10</b>	<b>50.77</b>	