



Fixed Income

Investment objective

To earn a rate of return above benchmark over rolling 3-year periods. The benchmark is 50% UBS Government Bond (All Maturities) Index, and 50% Barclays Global Aggregate (hedged into \$A) Index.

Multi-manager trust

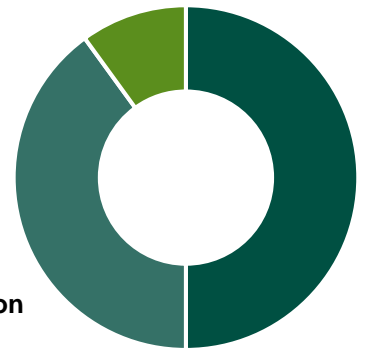
Ibbotson selects specialist managers that utilise sophisticated techniques expected to deliver returns in excess of their performance benchmarks.

Australian and International government bonds

The portfolio is invested in top quality, professionally managed, diversified bond and fixed interest investments.

Key attributes

- Delivery of stable performance returns provided at a low cost
- The ability to identify exceptional managers throughout the world is assisted by Ibbotson's access to global resources



Strategic asset allocation

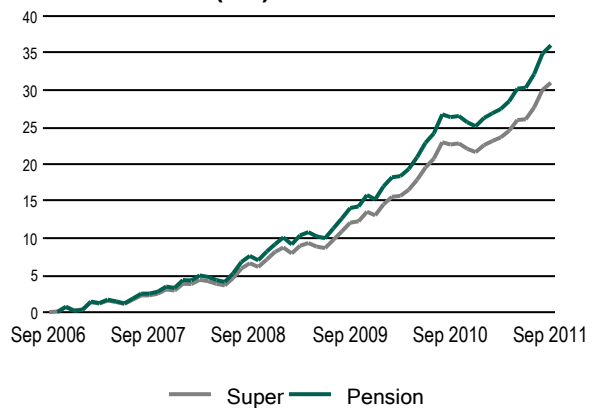
as at 30 September 2011

Ibbotson Australian Bond Trust	50.0%
Ibbotson International Bond Active (H) Trust	40.0%
Ibbotson International Bond Passive (H) Trust	10.0%

Performance¹ to 30 September 2011

	1 year	3 years	5 years
Super	6.8%	7.1% pa	5.5% pa
Pension	7.7%	8.1% pa	

Cumulative return (net)



¹ Performance measures are expressed after fees and taxes are deducted. The above returns reflect BNP's unit prices and are not necessarily representative of the performance of the underlying Ibbotson Trust.

Fixed Income

Product features

Risk profile	Moderate
Investment time horizon	3 years
Fund size	\$1.7 million
Unit pricing	Weekly
Management fee ²	Up to 0.30%
Buy/Sell spread	0.00% / 0.00%

²The Management fee is inclusive of GST.

Manager line up as at 30 September 2011

Australian bonds
Omega
International bonds
Colchester
Omega
PIMCO Global Bond
PIMCO Global Credit
Vanguard

Executive Summary – September 2011

Economic and market environment

The September 2011 quarter was a very difficult time for financial markets, as investors were gripped by concerns about the global economy and Europe's debt problems. Market confidence fell sharply as politicians and central bankers appeared unable to respond effectively, and investors fled to traditional 'safe haven' assets such as cash. Although the worst appears to have passed, investors continue to watch the situation carefully. We remain cautious about the outcome of the current deliberations, but hopeful that the next wave of decisions will decisively tackle the debt issues and economic problems.

Many economic indicators in the developed world continued to deteriorate over the September quarter. This led investment markets to believe that the weaker data in the second quarter may not have just been a result of the shocks to the world economy following the earthquake, tsunami, and nuclear breakdown in Japan.

These fears were confirmed by weaker-than-expected growth in the United States in the second quarter. Similarly, revisions to previous quarters also signalled that the US economy was in worse shape than forecasters had believed. Other developed economies have also been weaker than anticipated, which has prompted leading forecasters to downgrade their outlook for global growth in 2011 to below four percent, down from an expectation of 4.50 percent six months earlier.

There was some positive news. Inflationary pressures which had been building earlier this year began to moderate. This was most obvious in the emerging markets, but inflation also looks set to be lower in the developed markets over the remainder of this year.

International sharemarkets fell substantially and were very volatile over the past quarter, because of the deteriorating economic picture and concerns that governments would be unable to address their debt woes. These falls were despite the fact that many global companies have strong balance sheets and have been producing solid earnings. However, Australian investors were cushioned by the substantial fall in the \$A relative to most other major currencies. The direction of the \$A was driven by sentiment rather than economic fundamentals, as offshore investors looked to reduce their risk exposures.

Sharemarket returns from the different regions varied. Europe was unsurprisingly one of the worst performers, down -17.50 percent over the quarter as European bank share prices suffered because of insolvency fears. The best-performing market was Japan, down -10.70 percent. The Australian sharemarket was not immune from the global jitters, and was down -11.60 percent over the September quarter. However, this was a slightly better result than the US sharemarket, which was down -14.0 percent.

There were also meaningful differences at the sector level. Traditionally defensive sectors such as consumer staples and healthcare stocks significantly outperformed more cyclical sectors such as materials, industrials, and financials stocks, which were sold off heavily. The telecommunications, utilities, and consumer staples sectors delivered the best results in the Australian sharemarket.

Bond markets had a particularly strong quarter while investors were worried about the global economy and heightened concerns about 'contagion' potentially spreading from the European debt problems. The yield on US 10-year Treasury debt fell over 1.20 percent over the quarter, closing at 1.92 percent and having reached as low as 1.72 percent, which produced strong returns. This was despite the US also losing its coveted AAA rating from Standard & Poor's. Not all developed markets were so healthy. Italian and Spanish government debt, for instance, was caught up in the frenzy of concern about other peripheral European countries like Greece.

Australian government bonds had a strong September quarter. The 10-year government bond yield fell one percent to 4.21 percent. This was despite the comparatively healthy state of the Australian economy, and the likelihood that both growth and inflation should continue to grow at around trend level for the next few years. However, some economic indicators were softer over the quarter, with unemployment beginning to increase, and consumer and business confidence falling. This had led some commentators to call for an interest rate cut.

The Reserve Bank of Australia cut the cash rate by 0.25 percent to 4.50 percent on 1 November, citing inflation likely to be close to target, but only moderate overall growth, and subdued confidence outside the resources sector. We agree with the view that economic indicators have weakened. However, in the absence of a global financial crisis in the remainder of 2011, we believe that it's unlikely that the Reserve Bank will cut interest rates by 100 basis points over the next 12 – 18 months, which the market is currently pricing in.

In summary, the September quarter was a poor one for most markets. More positively, valuations for many growth assets have improved while the fundamentals for many remain in comparatively good shape. Current market conditions therefore present some good opportunities to buy selected assets which are likely to generate above-average returns over the medium to long term.

Investment outlook

As we enter the fourth quarter of the year, sharemarkets have staged a recovery from the third quarter's lows. There is renewed optimism that European leaders will be able to come up with a workable solution to their debt problems. However, markets will be taking their cue from evidence of successful implementation, rather than just announcements.

The extension of the US' debt ceiling showed that Europe is not alone in having to grapple with issues. Again, although there seems to be increasing realisation about the need for the problems to be addressed conclusively, politics could get in the way of addressing the mounting debt burden in the US, as well as stimulating the stuttering economy. This wrangling has already cost the US its AAA debt rating.

If the political bickering continues in the run-up to next year's presidential elections, financial markets are likely to remain volatile. Perhaps perversely, though, if political squabbles prevent arrival at a solution, the US Federal Reserve could be forced to provide further stimulus to try and drag the US away from recession. Such actions have over the past two years provided a strong impetus for growth assets like shares. Although we don't expect the same rally as occurred after the last two attempts to kick-start economic activity, any further stimulus could be a good support for markets.

In light of this near-term outlook and the substantial sharemarket falls over the last quarter, we believe that the medium- to long-term outlook for risk assets such as shares is moderately attractive. This does not mean that we are looking to move aggressively away from our existing relatively defensive positioning. However, it means that we are now more comfortable adding risk in selected areas of the portfolio. For instance, global share valuations are now more attractive than they have been recently, so we would look to add selectively to this asset class. Australian shares are likely to perform well in the short term if there is a worldwide sharemarket rally, even though they are not as attractive on a longer-term basis.

Currency hedging is another important issue to consider for global shares. We continue to favour being unhedged against movements in the \$A relative to other currencies. The \$A continues to trade above parity with the \$US, and very strongly relative to the euro and the pound sterling. In the event of another financial crisis or sharemarket plunge, our predominantly unhedged exposure should provide good protection against the fall in the value of the underlying shares, as was the case in the September quarter.

Our investment in Australian listed property securities should continue to help maintain the defensive qualities of the growth portion of the portfolio. Listed property performed well during the third quarter's market turmoil. Given this, in the near term we could look to 'bank' some of the recent outperformance as a result of our relatively large exposure, but we still expect to keep a significant allocation to listed property. As we have said in past quarters, we believe that Australian listed property is now much healthier than before the financial crisis in 2008. This is because

the property trusts now have more robust earnings, less debt, and lower payout ratios. Maintaining a meaningful investment in listed property is consistent with our total portfolio objective, which is to deliver more consistent and less volatile returns.

The most defensive part of our portfolio is the investment in bonds. The outlook for global bonds remains challenging. This is particularly because their strong performance in the September quarter had made their valuations look even more stretched. There is real potential for capital to be eroded if yields were to rise as little as half a percent. Australian government bonds are a slight exception to this, given their higher running yields, but with 10-year yields having fallen below the cash rate, managing the portfolio duration is a key challenge.

This does not mean that there is no value in bonds at the present time. Credit spreads – the differences in yield between different fixed interest securities – have widened significantly following the recent financial turmoil. Although most of this has been down to the financial sector, high-quality corporate bonds have also been caught up in the contagion. As we've mentioned already, many large global companies are pretty healthy. Because of this, we continue to strongly favour holding corporate bonds rather than developed market government debt at the present time.

In summary, we are becoming more positive about the outlook for growth assets, because of their improved valuations after the recent falls, and because of the more concrete steps being taken to resolve Europe's debt problems. Additional investment in these growth assets is likely to be financed by reducing exposure to bonds, in particular global government debt, as well as drawing on some of the cash reserves accumulated over recent quarters.

The outcome is that the portfolios are slightly less defensive, although it's worth noting that the unhedged global shares exposure and the Australian listed property allocation still make the portfolios comparatively defensive. We believe that this approach leaves the portfolios well-positioned to benefit from improved sentiment about growth assets in the short to medium term, while also helping deliver the longer-term objective of producing returns which are more consistent while also being less volatile.

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