



## Profile Preservation Portfolio

**Cash & fixed interest: 52.9%** 

**Review:** After some early weakness in October, Commonwealth Government securities in Australia continued their upward trend as markets priced in a higher chance of a global slowdown impacting demand. The ten-year government bond rate hit a record low in late December, touching 3.65%. With year-on-year Australian inflation – the cost of living – running at 3.50% (as at 30 September 2011), this implies investors are willing to lock in a “real” rate of return of only 0.15% per annum, assuming inflation holds at these levels. Third quarter inflation was more subdued however, and this allowed the Reserve Bank of Australia to justify back to back interest rate cuts, taking the official rate from 4.75% to 4.25% by year end. Forward interest rate markets continue to paint a bearish (negative) outlook, pricing in an additional 1.10% in rate cuts by the end of 2012. Global developed interest markets behaved in a similar fashion, with US (1.88), Japanese (0.99) and German (1.83) ten-year bonds all ending the year at subnormal levels. As fear continued to grip markets, investors continued to be willing to accept negative ‘real’ returns across these markets in exchange for having their assets in government securities – even those with extremely large financial woes (e.g. the US, Japan and the UK). Southern Europe – including Italy, Portugal and Spain – faced opposite pressures, as investors demanded increasingly higher rates of return to hold their government bonds. Italy ended the year having to pay 7.11% in the ten-year bond market – an extremely high and likely unsustainable level that will draw increasing attention from European policy makers.

**Portfolio positions:** At quarter end, the Portfolio held 52.9% in cash and fixed interest. Of this amount, 17.8% was held in Australian overnight cash accounts, generating competitive bank rate yields. An additional 16.0% was invested in term deposits across a range of top tier Australian financial institutions. Of that, we invested 5.5% very opportunistically in mid-December, when one of the big four banks came knocking willing to pay a high rate for large amounts at an institutional investor level (we accepted the offer gracefully). The remainder is invested in primarily Australian domiciled strategies – Schroders Fixed Income Fund (6.7%), Macquarie Debt Market Opportunities Fund (4.6%) and the Ardea Inflation Linked Bond Fund (2.2%). Ardea was also the largest benefactor of falling real rates over the quarter, generating a return of +5.4%, while the other fixed interest strategies also generated modest positive returns. The Bentham Global Income Fund (4.1%) remains the primary offshore fixed interest investment strategy, with a minimum of 50% in investment grade corporate bonds. During the quarter we maintained our fixed interest position (despite some temptation to reduce our allocation given attractive valuations in equities), which as fear escalated into year-end, proved to be a good decision.

**Outlook:** With global short and long-term interest rate markets at very depressed levels, the rationale behind continuing to invest in fixed interest strategies – relative to cash and risky assets – continues to deteriorate. We continue to hold a modest relative weighting to the sub-asset class in anticipation of further volatility, but will look to reduce it, and re-allocate capital into other opportunities if economic conditions begin to stabilise. With risky assets continuing to display high levels of unpredictability, the primary liquid alternative remains cash, but other opportunities are also being further explored, including the alternatives sector.

**Property: 8.4%** 

**Review:** The Australian listed property market performed strongly over the quarter (+3.7%) outperforming the broader Australian sharemarket for a third consecutive quarter, in what has been a very volatile environment. A significant driver of this outperformance came in November, when Australian property stocks finished the month up 2.6% against the broader Australian market, which was down 3.5%. Property stocks have displayed increasingly defensive characteristics over the latter half of the year, bucking the trend on down days/weeks, while running relatively well with the broader market on stronger days. The major news item for the period was the Centro aggregation. Re-named the Centro Retail Fund, the AREIT is expected to comprise a far larger proportion of the AREIT Index, with \$3.3 billion of net equity and \$7 billion in assets under management. Buy-backs also remain a key theme within the sector, as a number of AREITs (Stockland, Charter Hall Retail, Commonwealth Office, Investa Office, and GPT Group) continue to actively purchase their units – at relatively significant discounts to asset backing. Global listed infrastructure and utilities also generated strong returns over the quarter (+5.0%), primarily supported by investments in the US market which delivered a strong quarter across the board.

**Portfolio positions:** At quarter end, the Portfolio held 8.4% in listed property and infrastructure, with some profits being banked during the quarter. Of this amount, 6.0% was invested in Australian listed property through two locally based managers – SG Hiscock Property Income Fund (4.0%) and Cromwell Phoenix Property Securities Fund (2.0%). Both strategies delivered excellent returns over the quarter, outperforming the Australian listed property market by more than 2.0%. The remaining 2.4% allocation remained invested in the Lazard Global Listed Infrastructure Fund, which also delivered strong returns (+4.2%) for the quarter.

**Outlook:** After recording three quarters of relatively strong growth, the Australian listed property market has closed part of its valuation dispersion relative to the broader market. Our contrarian investment strategy over the past few quarters has paid off nicely, but going forward we are looking more to hold rather than further build this strategy overall. That being said, the sector is still trading on a double-digit discount to asset backing with a dividend yield at a 2.5% premium to ten-year bonds, and therefore remains a valuable holding. Global listed infrastructure also remains at a steep discount to fair valuations and, should prices remain favourable, our strategy will be to build this sub-sector as political risk – particularly in Europe – remains subdued, and underlying fundamentals hold ground.



**Equities: 32.1%**

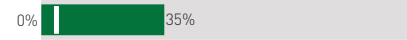


**Review:** Investor sentiment remained very cautious during the quarter, with risk aversion still high in response to uncertainty surrounding the European financial system and the ability of governments to orchestrate a sustainable resolution. Most notable however was the disparity between global stock market returns, as a range of drivers and indicators supported diverse sentiment in different regions. The US market was one of the best global performers, reflecting better than expected (consensus) economic developments, finishing the quarter up 11.2% (S&P500). The German DAX (+7.2%) and UK FTSE (+8.7%) were close behind, but regional Asian markets including the Australian ASX (+2.1), Japanese Nikkei (-2.8%) and Chinese Shenzhen (-9.1%) finished the quarters relatively weaker, in most cases even negative.

**Portfolio positions:** At quarter end, the Portfolio held 32.1% in listed equities, with modest profits being banked during the quarter. Of this amount, 10.0% was invested in Australian listed equities – Perpetual Share Plus Fund (3.3%), Denning Pryce Equity Income Fund (2.3%), K2 Australian Absolute Return Fund (1.9%) and the State Street ETF (2.4%). Global developed market strategies remained the largest weighting, given the relatively defensive nature of the underlying companies – Magellan Global Fund (4.6%), IFP Global Franchise Fund (4.9%), Wingate Global Equity Income Fund (3.1%), Epoch Global Yield Fund (2.7%) and Platinum International Fund (4.9%) – with the balance of the equity allocation invested in the Aberdeen Emerging Market Opportunities Fund (2.4%). The two global unhedged strategies (Magellan, Wingate) slightly underperformed the index, given the strength in the Australian dollar (+5.5% against the USD), but strong absolute and relative returns were generated by the hedged managers (IFP and Epoch) over the quarter.

**Outlook:** US earnings seasons kicked-off on the 9th of January, with Alcoa the first to report, and this should give investors a better insight into underlying company earnings outlooks, and strategies for the calendar year ahead. We have seen market expectations get significantly pared back over the course of 2011, with the outlook for financials, information technology, mining and energy the hardest-hit. While some of these opportunities appear very attractively priced at present, we believe we are being adequately rewarded to be able to remain primarily invested in more defensive sectors such as consumer staples, which are trading in line with our view of 'fair value'. While the outlook for global growth remains weak and uncertain, markets can be expected to remain volatile, and additional risk aversion may present more attractive buying opportunities in the future which we are well placed to capitalise on given our high cash levels.

**Alternatives: 6.6%**



**Review:** Gold bullion (USD) finished the quarter down 3.2%, which masked the bumpy sell-off witnessed in the final months of the year. After opening the quarter just above \$1,600, the precious metal touched over \$1,800 before commencing its volatile decent to close the year out at \$1,576. A mix of economic indicators, US dollar strength and trading in the futures market have all been put forward as explanations, but simply put, there were more sellers than buyers over the period. Broad commodities finished the quarter only modestly higher (+0.4%), but were well supported by energy markets with Brent Crude Oil finishing the quarter up 2.3% at \$108.7.

**Portfolio positions:** At quarter end, the Portfolio held 6.6% across a range of alternative strategies. Of this amount, 3.0% was invested in a US based hedge fund beta strategy (AQR Delta Fund) and 2.0% in an active commodities trading program (H3 Global Commodities Fund). The balance of the allocation was invested in AUD gold, with a modest position built in USD gold through December – both accessed via Australian listed ETFs.

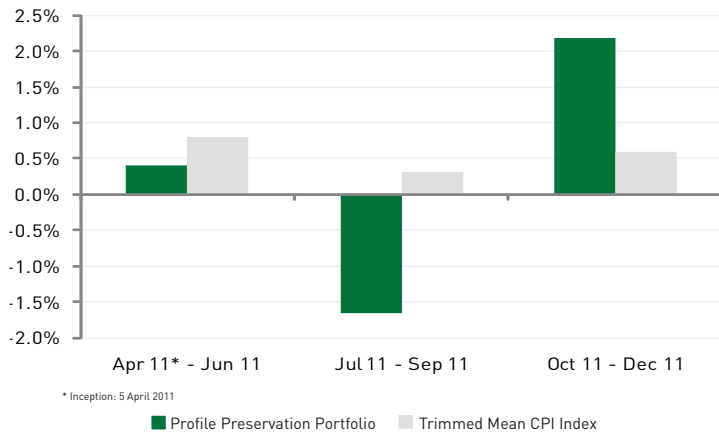
**Outlook:** Our primary focus in the alternatives sector is the outlook and strategy for gold. While we have no specific price target, we remain confident in the metal's defensive characteristics, should events in Europe, the US or China deteriorate significantly. Gold remains a macro-economic hedge in the Portfolio, which we continue to build cautiously on pull-backs and via gold equities in the equity allocation.



## Performance comparisons

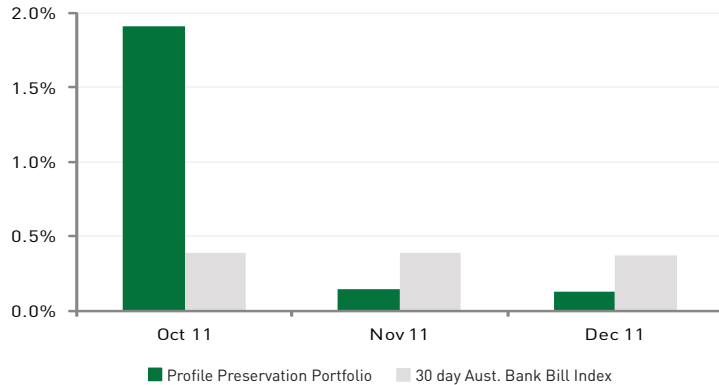
### Investment objective

The Portfolio aims to achieve a return of CPI# plus 4% per annum (after fees and expenses) over rolling 3 year periods (with volatility of 4% p.a.) As the Portfolio is less than 3 years old, the chart below shows progress to date.



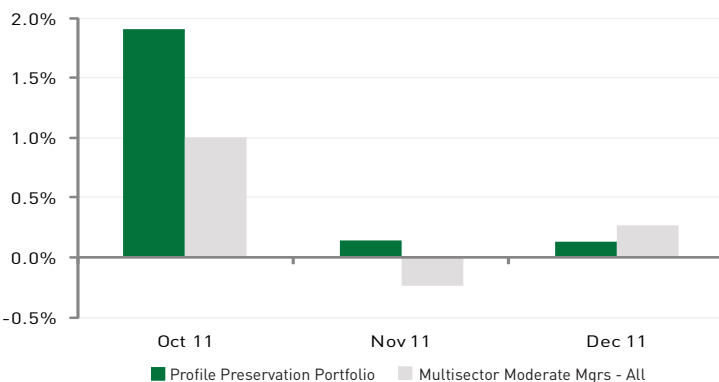
### Cash

To earn a performance fee in any month, the Portfolio must exceed the cash return for that month (as well as the High Water Mark). A performance fee was paid in October.



### Similar managers

The Portfolio fits into Morningstar's "Multisector Moderate" category. This category measures the performance of Australian funds with similar asset allocations to the Profile Preservation Portfolio.



## Portfolio update

### Portfolio summary<sup>1</sup>

|                                |         |
|--------------------------------|---------|
| Month return                   | 0.13%   |
| 3 months                       | 2.19%   |
| 1 year                         | n/a     |
| Since inception (5 Apr 11)     | 0.91%   |
| Risk p.a. (standard deviation) | n/a     |
| % Profitable months            | 56%     |
| FUM                            | \$45.2m |

### Key sector holdings

| Cash & fixed interest | Property        |
|-----------------------|-----------------|
| 1. Schroders          | 1. SG Hiscock   |
| 2. Macquarie          | 2. Lazard       |
| 3. Bentham            | 3. Phoenix      |
| 4. Kapstream          |                 |
| 5. Ardea              |                 |
| Equities              | Alternatives    |
| 1. Platinum           | 1. AQR          |
| 2. IFP                | 2. H3           |
| 3. Magellan           | 3. Gold Bullion |
| 4. Perpetual          |                 |
| 5. Wingate            |                 |

| Regional holdings <sup>2</sup> | Exposure % |
|--------------------------------|------------|
| Australia & New Zealand        | 58%        |
| Global                         | 14%        |
| North America                  | 11%        |
| Europe                         | 9%         |
| Asia                           | 3%         |
| Other <sup>3</sup>             | 5%         |

| Currency holdings <sup>2</sup> | Exposure % |
|--------------------------------|------------|
| AUD                            | 90%        |
| USD                            | 2%         |
| CHF                            | 1%         |
| Other <sup>3</sup>             | 7%         |

<sup>1</sup>Inception is 5 April 2011. Past performance is calculated pre-tax and after fees and expenses, assumes distribution reinvestment but does not take into account inflation. Neither past performance nor volatility is a reliable indicator of what may happen in the future. Neither capital nor returns are guaranteed. <sup>2</sup>Estimates only. <sup>3</sup>Includes active currency managers and marginal exposures.



**About the portfolio**

The Profile Preservation Portfolio (the Portfolio) aims to preserve and grow investors' wealth relative to the cost of living, with low to medium volatility. The Portfolio can invest in all the major asset classes including local and international fixed interest, property, equities, alternative investments and cash. The skills of specialised investment managers are used, together with selected listed investment vehicles and direct investments. It is diversified, being exposed to a broad range of individual investments, managers, strategies, themes, geographic areas and asset classes.

**Investment objective**

The Portfolio aims to achieve the following objectives over rolling three year periods:

- returns of CPI# plus 4% per annum (after fees and expenses), and
- volatility of 4% per annum (as measured by the annualised standard deviation\*).

**About Profile**

Profile Financial Services (Profile) is a boutique firm of financial and investment strategists, with a 25-year history of delivering quality advice and measurable value to the lifestyles of its clients and their families. Profile actively manages assets of over \$300m on behalf of clients (as at 1 March 2011). Profile is the Investment Manager for the Portfolio.

**Investment philosophy**

Profile's objectives based investing philosophy is at the core of the way the Portfolio is managed. Profile is focused on constructing the Portfolio in a way that, when used appropriately, has a high probability of meeting investors' goals in the appropriate timeframes. The asset allocation approach is flexible enough to cope with rapidly moving markets, and is designed to reduce the impact of short-term market volatility on investors.

**Investment process**

The investment process has the following key features:

- emphasis on short-term downside protection while still providing the capacity to achieve superior absolute returns over the long-term,
- proprietary analysis to facilitate investment decisions that meet portfolio objectives while remaining aligned with broader risk parameters,
- forward looking dynamic asset allocation underpinning transparent, simple, and effective portfolio and risk management,
- a search for fundamental (as opposed to relative) value across all asset and sub-asset classes, geographies and investment strategies,
- diversification across investment opportunities and 'best value for money' ideas,
- a rigorous and comprehensive manager and security due diligence process, and
- use of investment managers which have a degree of flexibility across their investment mandate, which look for opportunities within their field of expertise, and are often not constrained by benchmarks.

**FACTS - AT A GLANCE<sup>^</sup>**

**TYPE**  
Actively managed diversified portfolio using specialised investment managers and selected listed investment vehicles and direct investments

**INVESTMENT MANAGER**  
Profile Financial Services

**ASSET CONSULTANT & RESPONSIBLE ENTITY**  
Select Asset Management

**STRUCTURE**  
Open ended Australian registered unit trust

**OBJECTIVE**  
Returns of 4% above the rate of inflation over rolling 3 year periods

**SUGGESTED INVESTMENT TIMEFRAME**  
Minimum 3 years

**LEVEL OF RISK (VOLATILITY)**  
Low to medium

**MINIMUM INVESTMENT**  
\$25,000

**FUND START DATE**  
April 2011

**APPLICATIONS & WITHDRAWALS**  
Weekly and monthly

**DISTRIBUTIONS**  
Quarterly

**MANAGEMENT COST**  
0.99% p.a. (including GST)

**PERFORMANCE FEE**  
10.25% (including GST)

**PERFORMANCE BENCHMARK**  
30 day Australian Bank Bill Index

**ENTRY/EXIT FEE**  
None

**BUY/SELL SPREAD**  
0.25% both sides (to the Portfolio)

**UNIT PRICES**  
Weekly and monthly

**APIR CODE**  
SLT0019AU

**ARSN**  
149 249 052

<sup>^</sup> Please refer to the Portfolio PDS for a detailed description of fees and fund facts.

# The CPI is the trimmed mean Consumer Price Index published by the Reserve Bank of Australia.

\* A measure of the degree of variation of returns around the mean (average) return. Increasing levels of dispersion around the mean leads to higher standard deviations, indicating a higher degree of volatility and risk.

This quarterly report does not take into account any particular person's objectives, financial situation or needs. Investors should seek professional advice before making investment decisions. Select Asset Management Limited is the issuer of interests in the Profile Preservation Portfolio ARSN 149 249 052 (the Portfolio). A product disclosure statement (PDS) for the offer is available free of charge from Profile's website at [www.profileservices.com.au](http://www.profileservices.com.au) or by contacting Profile. The PDS should be considered before deciding to acquire, or continue to hold an investment in the Portfolio. Applications can only be made on the basis of an application form attached to the current PDS. Figures include GST unless stated otherwise. Select Asset Management Limited ABN 94 101 103 011 and AFSL No. 223271.