

Dalton Nicol Reid

Investment Review – April 2009

Market Wrap

EQUITY MARKETS

- Rally continues – All portfolios maintaining outperformance

FIXED INTEREST

- Fixed Interest portfolio meaningfully outperformed the index with the hybrid market showing signs of a sustainable rally across most issues
- Retail sales down 2%; Unemployment 5.7% - Highest since December 2003

PROPERTY

- Portfolio slightly underperformed after a strong performance the previous month

AS AT 30 APRIL 2009	1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS	5 YEARS
INTERNATIONAL EQUITIES						
Dow Jones Industrial	7.35%	2.09%	-12.41%	-36.29%	-10.43%	-4.39%
MSCI World Index	10.91%	6.46%	-6.20%	-40.82%	-13.37%	-2.92%
AUSTRALIAN EQUITIES						
S&P/ASX 200	5.54%	6.77%	-5.91%	-32.44%	-10.42%	2.14%
FIXED INTEREST						
UBS Comp Bnd (0+yr)	0.00%	-1.11%	4.54%	12.76%	7.06%	6.61%
UBS Corp Bd (0+yr)	0.72%	-1.06%	3.70%	9.80%	5.83%	5.96%
PROPERTY						
S&P/ASX 200 A-REIT	6.07%	-13.33%	-31.20%	-60.38%	-28.57%	-14.59%

Feature – Virtus (Ethical) Portfolio

- Virtus - Latin derivative for ‘Goodness’
- Virtus is suitable for investors seeking a financial return but also wanting to sleep easy at night knowing their money is being invested in responsible companies
- Portfolio avoids investments in companies that are judge to have ‘direct or core’ involvement in:
 - Gaming, Tobacco, Armaments and Pornography
 - Direct or core involvement means a company is involved in the:
 - Manufacture, Supply or Distribution of the product or the provision of the service
- Stocks are screened for Environmental, Social and Governance (ESG) factors
- Virtus is a Responsible Investment Association Australasia (RIAA) Certified Responsible Investment.



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Feature – Virtus (Ethical) Portfolio (Cont'd)

- Strong relative performance
 - Outperformed the market by 10.3% for the last year
 - 6.9% outperformance since inception (June 2006)
- Key stocks contributing to performance
 - Healthcare stocks due to their defensive characteristics (CSL & Sonic)
 - Renewable energy focused companies – Origin Energy and Infigen (formerly Babcock and Brown Wind)

AUSTRALIAN EQUITIES - VIRTUS	1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	2 YEARS	SINCE INC
DIRECT AUSTRALIAN EQUITY PORTFOLIO	7.67%	11.20%	0.06%	-18.50%	-11.28%	1.9%
ASX S&P 200 ACCUMULATION INDEX	5.57%	8.78%	-3.21%	-28.82%	-18.01%	-5.0%
Active Return	2.10%	2.42%	3.27%	10.32%	6.73%	6.85%



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Feature – Virtus (Ethical) Portfolio (Cont'd)

- Examples applying ESG and Negative Screen criteria for the Virtus portfolio
 - **Cardno Limited** - Operates in the consulting engineering services industry with a primary focus on planning, design and delivery of physical and social infrastructure
 - **Ethical Consideration**
 - **Social Impact:** Focuses on international development assistance to help build new communities and to improve living standards in developing and developed countries around the world
 - **Environmental Impact:** Cardno delivers environmental management solutions such as waste management, environmental impact assessment and water treatment



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Feature – Virtus (Ethical) Portfolio (Cont'd)

- Examples applying ESG and Negative Screen criteria for the Virtus portfolio
 - **Origin Energy** - Origin is a vertically integrated energy company and its operations include: exploration and production; power generation; energy retailing and trading
 - **Ethical Consideration**
 - **Environmental Impact:**
 - Origin is one of Australasia's largest gas and electricity retailer. Gas-fired power stations emit less carbon emissions than coal-fired power stations
 - Origin has a heavy investment in alternative energy sources and offers clean electricity from hydro, wind, biomass and solar sources. These generation methods produce electricity with zero greenhouse gas emissions
 - Origin has a 30% interest in a joint venture with Geodynamics. Geodynamics is aiming to harvest the searing heat from about 4.5 km below the earth's surface to generate clean electricity



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Feature – Virtus (Ethical) Portfolio (Cont'd)

- ***Some companies have the appearance of being ethical but detailed research can uncover the unexpected...***
 - **ResMed** - ResMed is a developer, manufacturer and distributor of medical equipment for diagnosing and managing Sleep Disordered Breathing (SDB) and other respiratory disorders.
 - **Negative Breach - Armaments**
 - ResMed, through its subsidiary Servo Magnetics (acquired in 2002), supplies miniature electric motors used to control the fins of various missiles to US missile programmes, including Tomahawk and Sidewinder.
 - ResMed acquired Servo Magnetics to vertically integrate its capabilities into developing a nearly silent motor called Easy-Breathe.
 - ResMed is excluded from the Virtus portfolio on the basis that it breaches the direct definition of the armaments screen – *“Supply and distribution of weapons components to Defence Forces or any other business/individual”*.



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Macquarie Bank Conference - Highlights

- We attended the Macquarie Bank conference in the recent week
- Australian corporate balance sheets in strong shape (excluding REITS and Infrastructure)
- Green shoots emerging especially in China – Toll, Rio, BHP
- Retailers enjoying the stimulus – JBH, SUL
- Government stimulus to underpin strong expansion of alternative energy – AGL, ORG
- Credit markets improving

Portfolio Themes

- Last month we reviewed whether the market bounce was sustainable
 - One of the critical factors we believed was necessary for the market to maintain momentum was the on-going improvement in credit markets
- We note the following signs of improvement:
 - Companies enjoying access to credit markets (albeit at a cost). Rio Tinto raised significant funds in US markets as have other companies
 - Hybrid market re-opening. The success of AMP and Tabcorp placements has reinvigorated the hybrid market
 - The cost of funding for the banks is improving (albeit still expensive)

Portfolio Themes (Cont'd)

- Maintain exposure to companies with strong balance sheets
- We are participating in capital raisings where the capital has a positive use such as an acquisition
- Trends emerging – stay at home, trade down, gamble/ drink, infrastructure spending
- A balance between cyclical and defensive is warranted given general economic uncertainties
- Use the bounce to improve the quality of the portfolio
- Chinese GDP forecasts upgraded
- Reduced exposure to major banks

Overall, the portfolios remain conservatively positioned, in strong companies with good balance sheets

Portfolio Moves

- **Incrementus**
 - Sold FXJ and increased SEK
 - Reduced NAB
 - Reduced CWN and Increased CSL
- **Virtus**
 - Similar moves were made for Virtus other than the reduction in CWN
- **ProV**
 - Sold PCAPA and bought PXUPA
 - Purchased CSL
- **Fixed Interest**
 - Purchased Tabcorp bonds

SOURCES

ABN AMRO

Austock

Citigroup

GSJBWere

Macquarie Equities

Morningstar

UBS

Van Eyk

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