

# Model Portfolio Update



SEPTEMBER QUARTER 2011

discoveryinvestments.com.au

## Discovery Financials (DI0001)

### Market Overview

The Australian equity market fell over the quarter, with the S&P ASX 200 Accumulation Index down 11.6%. This was the worst quarterly performance since December 2008, and was largely a reflection of the increased uncertainty over the global economic outlook. Macro concerns dominated, with ongoing European sovereign debt and banking problems, the S&P downgrading of US debt, bearish comments from the Federal Reserve, and fears of slower growth in China weighing heavily on sentiment. Intervention by authorities, including various measures in Europe and the launch of "Operation Twist" by the Federal Reserve, did little to restore confidence. In the US, the S&P 500 total return fell heavily, down 13.9%, on fears over public debt levels and the deteriorating global outlook. Other offshore markets also fell, with the MSCI World Index total return down 16.5% (in USD terms).

Volatile market conditions over the quarter led domestic investors to de-risk and seek shelter in the defensive sectors, particularly Telcos and Utilities. Fears for global growth and fresh concerns about Chinese demand hurt commodity sectors, with resources underperforming the broader market for the third straight quarter. Reporting season revealed mixed performances and uncertainty over the outlook, but a large number of companies announced buybacks to take advantage of depressed prices. Takeover activity was subdued over the quarter, with the major announcements including BHP Billiton's offer for US shale gas company Petrohawk Energy, and SABMiller's offer for Foster's Group.

The S&P ASX 200 Financials Accumulation Index outperformed the S&P ASX 200 Accumulation Index over the quarter, down 10.8%. The Banking sector performed relatively well, despite upward pressure on credit spreads as the Eurozone crisis continued. Amongst the big four banks, Westpac (-8.6%) and CBA (-9.5%) were the best performers, while NAB underperformed (-12.7%). Macquarie fell 26.8%, with its 1H12 earnings guidance downgraded due largely to the difficult trading conditions in August 2011 and weaker earnings expectations for its capital markets facing businesses. The insurers performed poorly, particularly QBE (-21.9%), which fell after releasing weak 1H11 results due to a high level of claims in June, and downgrading insurance profit margin guidance to 11-14%.

### About the Model Portfolio

#### Investment Objective

The Discovery Financials Model Portfolio (the "Model") aims to track the performance of the top 25 stocks by market capitalisation in the Financials sector of the ASX before taking into account Model fees and expenses.

#### Investment Strategy

The investment objective of the Model is pursued by investing in a basket of securities that reflect the Financials sector of the Australian equity market. These securities are listed on the ASX and are involved in activities such as banking, mortgage finance, consumer finance, specialised finance, investment banking and brokerage, asset management and custody, corporate lending, insurance, financial investment and real estate.

#### Designed for Investors who...

- Seek income
- Are happy to receive market returns
- Accept the risk of significant price fluctuations

**Past performance is no indicator of future performance.** Long term performance returns show the potential volatility of returns over time. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Fluctuation may be particularly marked in the case of a higher volatility Model and the value of an investment may fall suddenly and substantially. Model portfolio composition and performance have been based on theoretical tracking of the model portfolio and are gross of fees and do not take tax positions into account. Please note, actual portfolios may not perform in the same manner as the model depicted in this document, depending on the nature of your personal Portfolio and any customisations. Rounding used in the presentation of data may result in minor variations.

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#### Top 10 Holdings as at 30/9/2011

AMP Ltd
ANZ Banking Group Ltd
Commonwealth Bank of Australia
Macquarie Group Limited
National Australia Bank Ltd
QBE Insurance Group Ltd
Suncorp Group Ltd
Westfield Retail Trust
Westfield Group
Westpac Banking Corporation

#### Summary

Model Portfolio name	Discovery Financials Model
Model Code	DI0001
Model inception date	18/10/2006
Principal investment objective	To track the performance of the top 25 stocks in the Financials sector of the ASX
Can derivatives be used?	No
Indicative number of stocks	20 – 30
Minimum Model investment	No fixed minimum*
Model Provider's Fees* Investment Fee	0.40% p.a.

\* Please refer to the Product Disclosure Statement for further details.

#### Performance as at 30/9/2011

	Gross	Benchmark <sup>#</sup>	Out-performance*
1 Month	-4.42%	-4.72%	0.30%
3 Months	-10.24%	-10.78%	0.54%
6 Months	-12.71%	-13.38%	0.67%
1 Year	-8.40%	-8.72%	0.32%
2 Years (pa)	-7.06%	-7.20%	0.14%
3 Years (pa)	0.31%	-0.27%	0.58%
Since Inception (pa) <sup>^</sup>	-3.99%	-4.85%	0.86%

<sup>#</sup> S&P/ASX 200 Financials (Sector) Index.

\* Shows the difference between Portfolio Gross Return and Benchmark Return.

<sup>^</sup> Performance Inception date 31/10/2006.

This model has no benchmark, the returns of the S&P/ASX 200 Financials (Sector) Index are shown for comparative purposes only. This index contains stocks which can be classified as either "value" or "growth". On occasions the "growth" stocks will outperform the "value" stocks and vice-versa, so the returns of this model can be expected to fluctuate around those of the S&P/ASX 200 Financials (Sector) Index.