

Model Portfolio Update



SEPTEMBER QUARTER 2011

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Discovery Resources (DI0003)

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 Resources Accumulation Index underperformed the S&P ASX 200 Accumulation Index over the quarter, down 18.8%. Oil prices fell sharply with equity markets early in August, with WTI Crude trading as low as US\$77/bbl, and continued to oscillate with risk aversion over the remainder of the quarter. Base metals had a poor quarter, with the LME Index down 23% for the quarter. Copper was particularly weak, down 24.4%. Spot iron ore prices, however, were relatively resilient, with Tianjin 62% fines down 4.8% for the quarter as the physical market remained firm. Gold (+8.2%) performed strongly over the quarter due to its safehaven status, reaching record highs of over US\$1900/oz at the beginning of September before falling somewhat as the USD strengthened. Soft commodities also rallied, reflecting failed harvests in some agricultural markets, with wheat up 4.2%.

In company news, BHP Billiton (-19.0%) and Rio Tinto (-25.0%) led the underperformance of diversified resources as commodity prices fell over the quarter. Rio Tinto reported record 1H11 underlying earnings of US\$7.8bn, increased its share buyback by \$2bn to \$7bn, and declared a US54c dividend in line with guidance. Paladin Energy (-51.8%) fell with other uranium stocks as the European crisis unfolded, and fell further after reporting an FY11 loss after tax of US\$82m. Macarthur Coal (+46.9%), however, performed well after receiving a \$15.50 indicative non-binding and conditional offer from Peabody Energy and ArcelorMittal. Bow Energy (+64.1%) also performed strongly after receiving a takeover offer of \$1.48 cash per share from Arrow Energy Holdings.

About the Model Portfolio

Investment Objective

The Discovery Resources Model Portfolio (the "Model") aims to track the performance of the top 25 stocks, ranked by their weight in their respective sector, when the Energy and Materials sectors of the S&P/ASX 200 Accumulation Index are combined.

Investment Strategy

The investment objective of the Model is pursued by investing in a basket of securities listed on the ASX whose businesses are predominantly involved with the following activities: the construction or provision of oil rigs, drilling equipment and/or transportation of oil and gas products, coal and other consumable fuels and other energy related service and equipment, including seismic data collection; or, companies engaged in exploration, production, marketing and refining.

The Model will also invest in companies that manufacture chemicals, construction materials, glass, paper, forest products and related packaging products and metals, minerals and mining companies, including producers of steel.

Designed for Investors who...

- Seek exposure to energy and material sectors of the ASX
- Are happy to receive market returns
- Accept the risk of significant price fluctuations

Top 10 Holdings as at 30/9/2011

Amcor Ltd
BHP Billiton Ltd
Newcrest Mining Ltd
Oil Search Ltd
Orica Ltd
Origin Energy Ltd
Rio Tinto Ltd
Santos Ltd
Woodside Petroleum Ltd
Worleyparsons Group Ltd

Summary

Model Portfolio name	Discovery Resources Model
Model Code	DI0003
Model inception date	18/10/2006
Principal investment objective	To track the performance of the top 25 listed stocks, ranked by their weight in their respective sector, when the Energy and Materials sectors of the S&P/ASX 200 Accumulation Index are combined
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 [#]	Out-performance*
1 Month	-9.65%	-12.78%	3.13%
3 Months	-17.45%	-18.80%	1.35%
6 Months	-23.98%	-24.51%	0.53%
1 Year	-12.65%	-12.64%	-0.01%
2 Years (pa)	-5.51%	-2.79%	-2.72%
3 Years (pa)	-1.99%	-0.70%	-1.29%
Since Inception (pa) [^]	3.93%	3.66%	0.27%

S&P/ASX Resources Accumulation Index.

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

[^] Performance Inception date 31/10/2006.

This model has no benchmark, the returns of the S&P/ASX Resources Accumulation 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 Resources Accumulation Index.

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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