

REPORT & METHODOLOGY OVERVIEW

The Quarterly Asset Class Forecast Report is a new report that we are pleased to offer clients. The report contains 10 year return forecasts, a historical risk assessment and current yields for the key sectors under our research coverage. We also outline the methodology underpinning these forecasts and highlight each sector's key characteristics.

While asset class returns have become more unstable and more difficult to predict, estimating a price for risk is necessary for determining how to allocate wealth across different asset classes and which assets to invest in with each asset class. The purpose of this report is therefore to assist clients in making better long term asset class allocation decisions. This should provide a strong complement to our existing fund and sector reports which focus on manager selection.

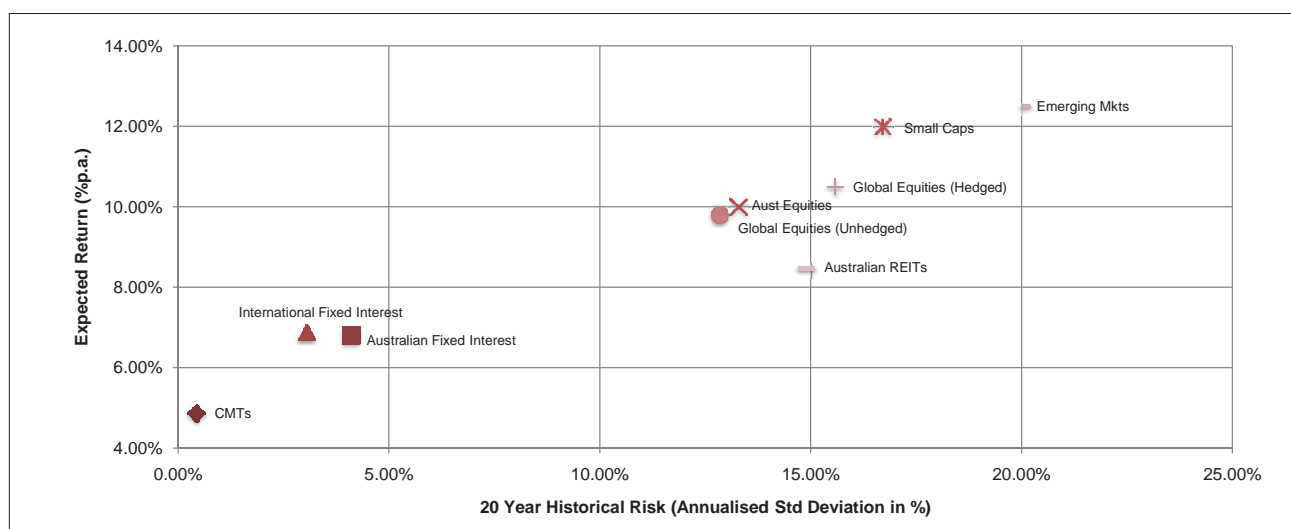
A central tenet of finance theory is that a riskier investment should provide higher returns than safer investments. Therefore an expected return should be calculated as the sum of the risk free rate and a premium to compensate for this risk. For the risk free rate underpinning these forecasts we used the 10 year domestic government bond yield as our forecast time period is 10 years and therefore the longer term bond provides a better prediction than shorter term cash rates. Zenith has chosen to assume past risk premiums as the basis for setting expectations for future returns. For equity asset classes, we have referred to studies that have monitored equity market returns across 17 markets and in excess of 100 years of data. Other sectors such as fixed interest (credit) and listed property securities that data 20-30 years. We have also incorporated an expectation for active manager outperformance. In setting these targets we have reviewed the historical performance of our Recommended List since 2003 to provide further substance to our forecasts.

To complement this report, investors should monitor market valuations and be cognisant of shorter term risks. Going forward the Zenith Quarterly Valuation Report will be enhanced to address these issues.

LONG TERM (10 YEARS) EXPECTED RETURN, HISTORICAL RISK, CURRENT YIELD

SECTOR	10 Yr Forecast Return (%p.a.)	20 Year Std Deviation (%p.a.)	Current Yield (%p.a.)
Cash (CMTs) Funds	4.88%	0.43%	4.80%
Australian Fixed Interest Funds	6.82%	4.10%	5.60%
Global Fixed Interest (Hdgd \$A) Funds	6.89%	3.05%	2.90%
Australian Equities Funds	10.01%	13.29%	4.10%
Australian Small Caps Funds	12.01%	16.71%	2.73%
Global Equities (Unhedged \$A) Funds	9.81%	12.84%	2.61%
Global Equities (Hdgd \$A) Funds	10.51%	15.57%	2.61%
Emerging Markets (Unhedged \$A) Funds	12.51%	19.99%	2.82%
Australian REIT Funds	8.49%	14.88%	5.93%

10 YEARS EXPECTED RETURN VS 20 YEAR HISTORICAL RISK CHART



ZENITH EXPECTED LONG TERM RETURNS

	Expected Return	Risk Free Rate	Adjustment	Current Yield	Historical Risk
10 Yr. Forecast (% pa)	4.88%	5.49%	-0.61%	4.80%	0.43%

*ADJUSTMENT FACTORS IN RISK PREMIUM (OR DISCOUNT), ACTIVE MANAGEMENT FORECAST & EXPECTED IMPACT OF CURRENCY HEDGING.

FORECAST METHODOLOGY

Zenith’s forecast for Cash Management Trusts (CMTs) is based off the historical difference between the UBS Bank Bill Index and 10 year risk free government bonds, which is then overlaid against the current 10 year government bond.

Given the tight investment guidelines and strong risk focus of most CMTs, Zenith’s Recommended CMT managers have performed in line with the UBS Bank Bill Index and therefore we have not assumed any expectation for manager outperformance in this sector.

The current yield is based on the current running yield of the UBS Bank Bill Index. As expected, a high proportion of returns should be delivered as income based on the short duration of most underlying investments.

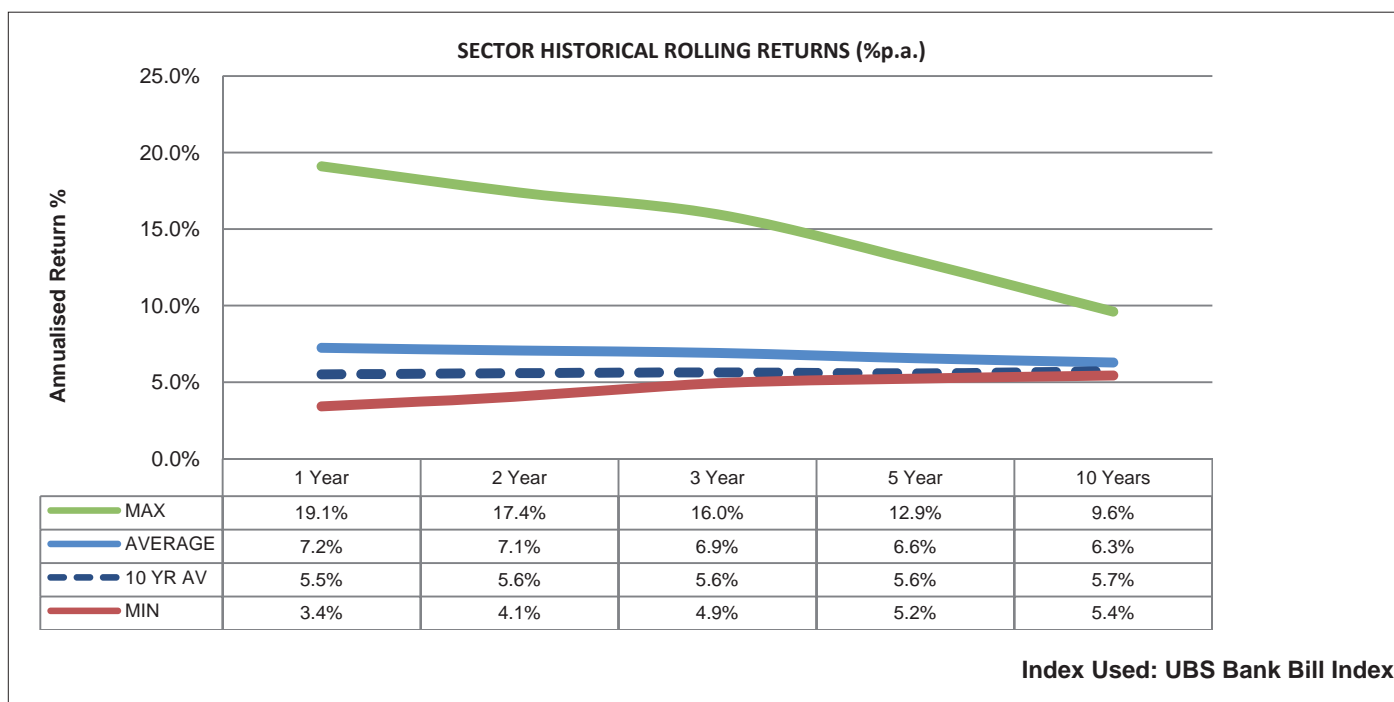
Historical risk is based on the standard deviation of the UBS Bank Bill Index over the past 20 years.

SECTOR CHARACTERISTICS

The Zenith “Cash – CMT” sector consists of all plain vanilla cash management trusts. Given the extreme efficiency of this market, funds in this sector aim to replicate benchmark returns rather than outperform. Zenith benchmarks all funds in this space against UBS Australian Bank Bill Index, which corresponds with the benchmark employed by the all funds in this space. The UBS Australian Bank Bill Index is a measure constructed to gauge the investment performance of a passively managed short-term cash portfolio. The Index has an average term to maturity of approximately 45 days. It is comprised of 13 bank bills of equal face value, each with a maturity seven days apart. The shortest, therefore, has a maturity of 7 days; the longest, a maturity of 91 days.

CASH SECTOR “HOUSE VIEW”

In the management of cash, Zenith has a preference for “pure cash” strategies to provide liquidity in all market environments and true to label returns.



HISTORICAL SECTOR RETURNS

The Return Funnel Chart above provides an illustration of historical average rolling returns, 10 year rolling return averages and minimum and maximum rolling returns for the most appropriate benchmark for each asset class across a range of investment timeframes. We find the chart highly informative as it provides an indication of the range of possible returns and potential downside over certain timeframes.

We however believe that the expected returns in the above table provide a better estimate of future returns as they account for prevailing risk free (default) rates and expected value-add from active management.

ZENITH EXPECTED LONG TERM RETURNS

	Expected Return	Risk Free Rate	Adjustment	Current Yield	Historical Risk
10 Yr. Forecast (% pa)	6.82%	5.49%	1.33%	4.10%	5.60%

ADJUSTMENT FACTORS IN RISK PREMIUM (OR DISCOUNT), ACTIVE MANAGEMENT FORECAST & EXPECTED IMPACT OF CURRENCY HEDGING.

FORECAST METHODOLOGY

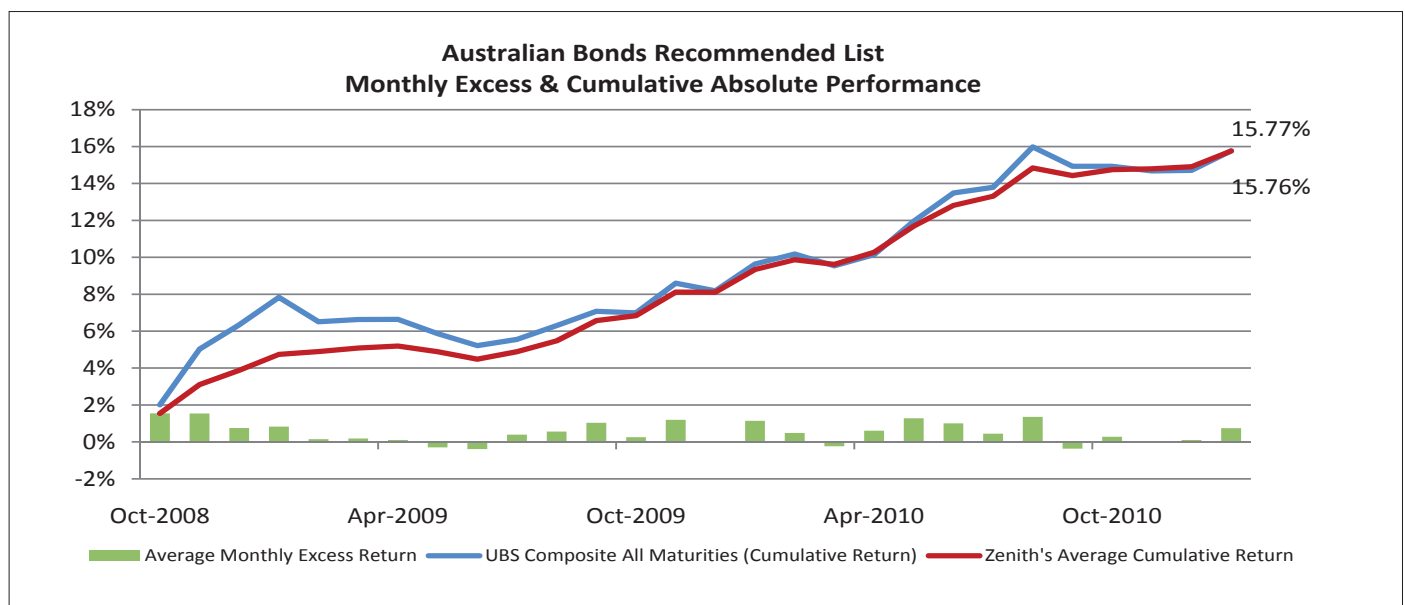
Through a broader mandate including exposure to corporate debt securities, the UBS Composite All Maturities Index (the best representative of domestic bond fund returns) has returned an historical premium of 1.23% above long term government bonds since 1989. We believe this is a reasonable estimate for the expected margin above risk free securities going forward.

over time and we have assumed that outperformance can be maintained going forward.

The current yield is based on the current running yield of the UBS Composite All Maturities Index.

Historical risk is based on the annualised standard deviation of the index over the past 20 years.

Domestic Fixed Interest managers on Zenith's Recommended List have generated slight outperformance



FIXED INTEREST "HOUSE VIEW"

Fixed interest is used to provide the defensive (capital preservation) exposure of Zenith's model portfolios. Zenith aims to achieve diversification across three distinct fixed interest segments, specifically: Australian government bonds; international government bonds; and credit (i.e. corporate fixed interest securities). Government bonds typically provide stability and downside protection, while an exposure to credit can be used to enhance the model portfolio's income profile. Zenith tightly manages the fixed interest component of its portfolios to ensure that there is adequate diversification. It is critical to ensure that the portfolios are not overly exposed to any single factor risk.

(global fixed interest). Like most common equity indices the two bond indices are market capitalisation weighted i.e. the issuer with the most issuance receives the highest weighting. However, the fact that a name is the largest issuer into the market provides little indication of the quality of that issuer. In fact, being a large issuer could be a reflection of heavy indebtedness. While these issuers tend to be governments or high quality corporates it's not necessarily a desirable exposure.

While passive management of this sector has historically been favoured by many investors, we strongly believe that active management and alternative indexing approaches make more sense. This stems from the structural problems associated with the fixed interest indices. The two most common bond indices employed as benchmarks are the UBS All Maturities Australian Bond Index (domestic fixed interest) and the Barclays Global Aggregate Index

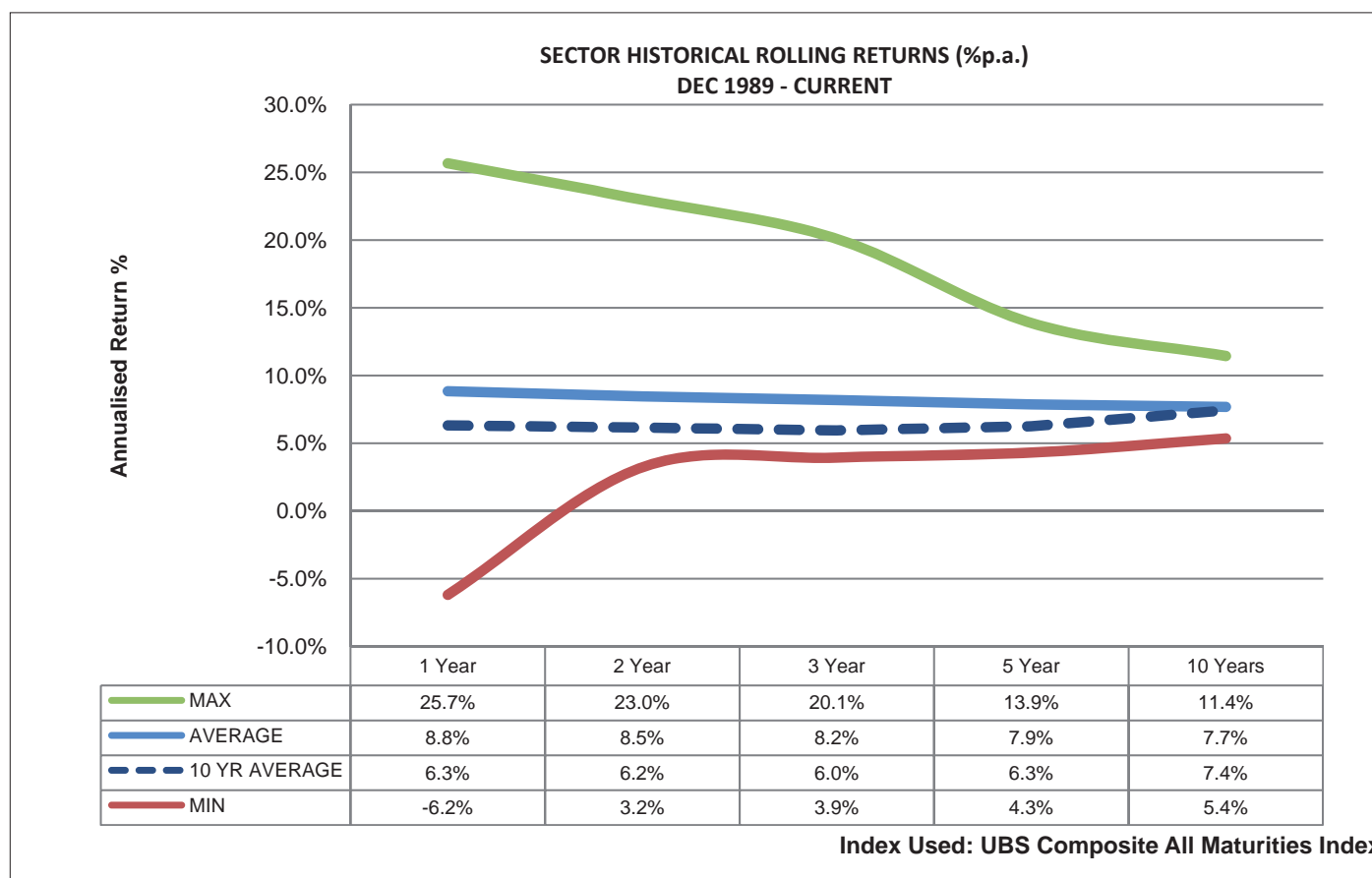
Zenith is of the view that a select few active managers have the ability to correctly allocate between the expanding universe of fixed interest securities and sectors and we have a preference for allocating to these more diversified, flexible investment options within our fixed interest models.

SECTOR CHARACTERISTICS

The Zenith “Australian Fixed Interest - Bonds” sector consists of all long only funds investing in the Australian fixed interest market. The sector incorporates both benchmark aware and benchmark unaware strategies.

Zenith benchmarks all funds in this space against the UBS Australian Composite Bond (All Maturities) Index, which is reflective of the underlying benchmark used by the majority of managers in this category. The index is market-capitalisation weighted, resulting in those entities with the most issuance receiving the heaviest weightings. Owing to the lack of longer dated securities the index has a relatively short duration of approximately 3 years.

The Australian fixed interest market, as represented by the UBS Composite Index, consists of approximately 360 investment grade securities (BBB or higher rated) issued by the Commonwealth Government of Australia, State Government authorities and treasury corporations (Semi-government), Corporations and Asset-Backed Securities. Owing to the increased issuance by government in recent years the market is dominated by government and semi-government securities, which account for approximately 60% of the market. Given the high credit rating afforded to the Commonwealth government the market is also dominated by AAA rated securities (roughly 80%).



HISTORICAL SECTOR RETURNS

The Return Funnel Chart above provides an illustration of historical average rolling returns, 10 year rolling return averages and minimum and maximum rolling returns for the most appropriate benchmark for each asset class across a range of investment timeframes. We find the chart highly informative as it provides an indication of the range of possible returns and potential downside over certain timeframes.

We however believe that the expected returns in the previous table provide a better estimate of future returns as they account for prevailing risk free (default) rates and expected value-add from active management.



ZENITH EXPECTED LONG TERM RETURNS

	Expected Return	Risk Free Rate	Adjustment	Current Yield	Historical Risk
10 Yr. Forecast (% pa)	6.89%	5.49%	1.40%	2.90%	3.05%

ADJUSTMENT FACTORS IN RISK PREMIUM (OR DISCOUNT), ACTIVE MANAGEMENT FORECAST & EXPECTED IMPACT OF CURRENCY HEDGING.

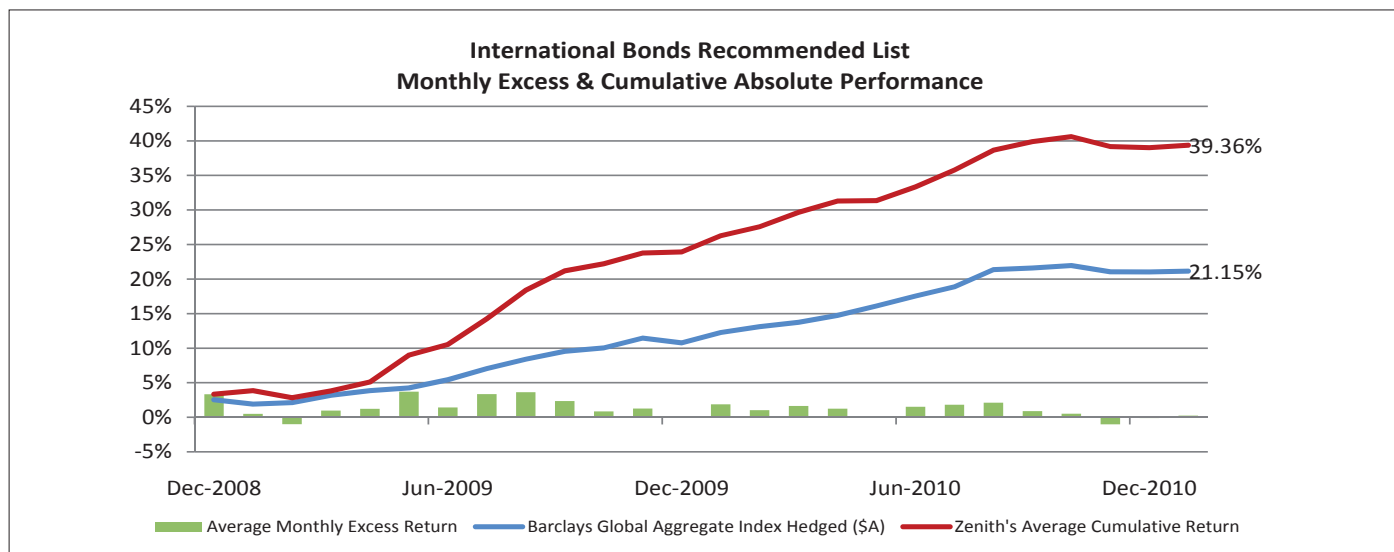
FORECAST METHODOLOGY

Through a broader mandate including exposure to corporate debt securities, the Barclays Global Aggregate Index (Hedged \$A) has delivered approximately 1.20% above long term government bonds over the past 20 years. We believe this is a reasonable estimate for the expected margin above risk free securities going forward.

Zenith has only had recommended ratings on global bond funds since 2008 and have previously favoured diversified fixed interest funds. In this short period, the value add has been significant from our recommended global bond managers PIMCO and Advance as these managers benefited from the recovery of credit markets post the Global Financial Crisis. While we are pleased with this outperformance, we would expect to add modest outperformance from this sector going forward given the efficiency of this sector.

The current yield is based on the current running yield of the Barclays Global Aggregate Index (Hedged \$A). It should be remembered however that currency hedging gains are treated as income by the ATO. As a result of the current large interest rate differential between Australia and its developed market peers, investors may receive additional income as forward currency rates are influenced by interest rates. Nevertheless, currency markets are unpredictable and highly volatile and a depreciation in the Aussie Dollar can negatively impact the income received by investors. This was a phenomenon witnessed this across many sectors during the GFC, when the Australian Dollar depreciated sharply and distributions were halted in many instances.

Historical risk is based on the annualised standard deviation of the index over the past 20 years.



FIXED INTEREST SECTOR "HOUSE VIEW"

Fixed interest is used to provide the defensive (capital preservation) exposure of Zenith's model portfolios. Zenith aims to achieve diversification across three distinct fixed interest segments, specifically: Australian government bonds; international government bonds; and credit (i.e. corporate fixed interest securities). Government bonds typically provide stability and downside protection, while an exposure to credit can be used to enhance the model portfolio's income profile. Zenith tightly manages the fixed interest component of the portfolios to ensure that there is adequate diversification. It is critical to ensure that the portfolios are not overly exposed to any single factor risk.

While passive management of this sector has historically been favoured by many investors, we strongly believe that active management and alternative indexing approaches make more sense. This stems from the structural problems associated

with the fixed interest indices. The two most common bond indices employed as benchmarks are the UBS All Maturities Australian Bond Index (domestic fixed interest) and the Barclays Global Aggregate Index (global fixed interest). Like most common equity indices the two bond indices are market capitalisation weighted i.e. the issuer with the most issuance receives the highest weighting. However, the fact that a name is the largest issuer into the market provides little indication of the quality of that issuer. In fact, being a large issuer could be a reflection of heavy indebtedness. While these issuers tend to be governments or high quality corporates it's not necessarily a desirable exposure.

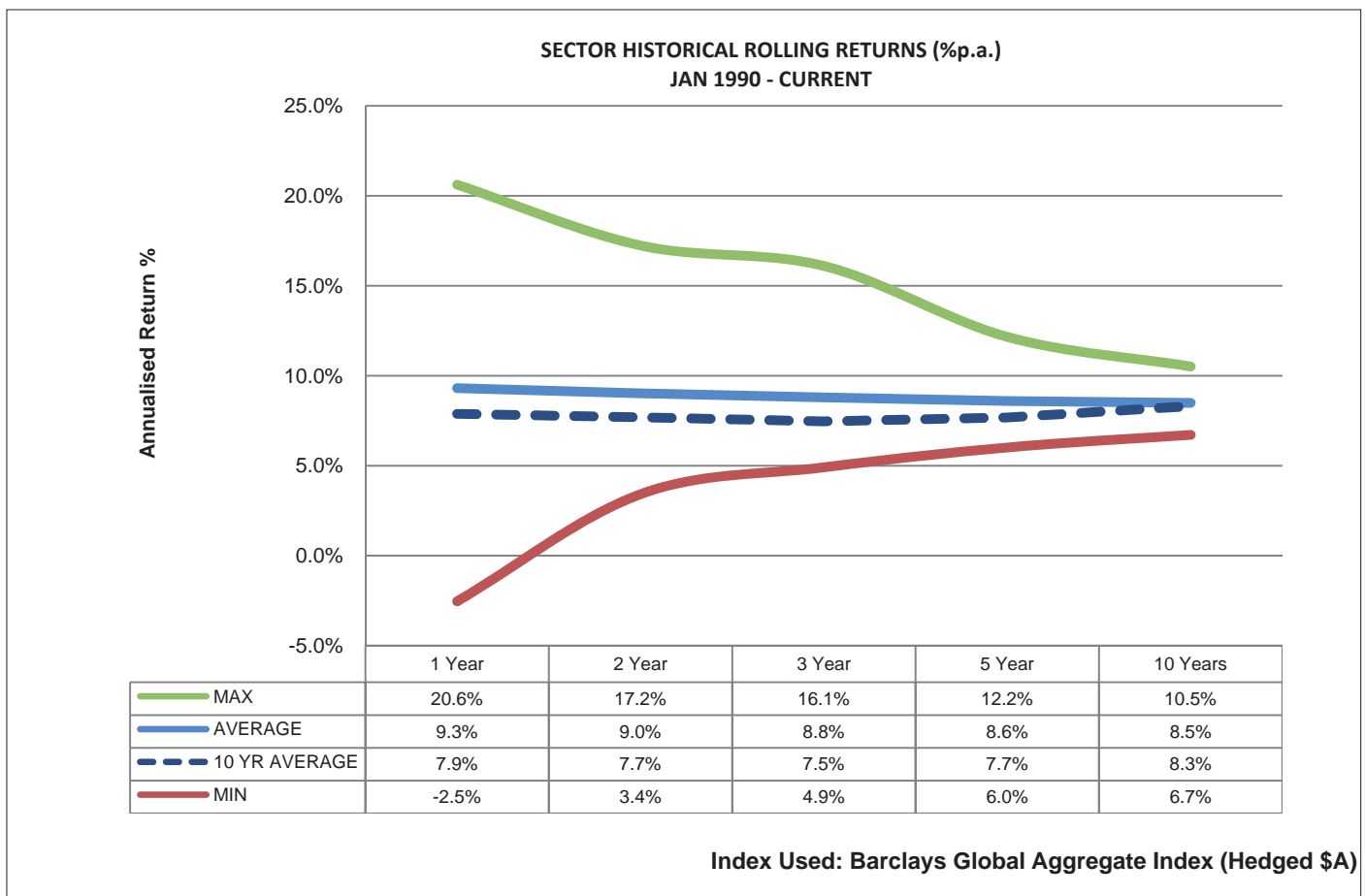
Zenith is of the view that a select few active managers have the ability to correctly allocate between the expanding universe of fixed interest securities and sectors and we have a preference for allocating to these more diversified, flexible investment options within our fixed interest models.

SECTOR CHARACTERISTICS

The Zenith “International Fixed Interest - Bonds” sector consists of all long only funds investing in the global fixed interest markets. The sector incorporates both benchmark aware and benchmark unaware strategies. Managers in this space typically add value through duration, country and sector positioning as well as security selection.

Zenith benchmarks all funds in this space against the Barclays Global Aggregate Index Hedged (\$A), which is reflective of the underlying benchmark used by the majority of managers in this category. The index is market-capitalisation weighted, resulting in those entities with the most issuance receiving the heaviest weightings. The index has a slightly longer duration than the domestic index (UBS Australian Composite Bond (All Maturities)), of over 5 years, reflecting the availability of longer maturity securities in the global investment space.

The global fixed interest market, as represented by the Barclays Global Aggregate Index, consists of over 12,000 investment grade securities (BBB or higher rated). Issuers fall under the categories of Governments/Sovereigns, Agency/Supranational, Corporations, Mortgage Backed Securities and Securitized. Owing to the increased issuance by government in recent years the market is dominated by Government/Sovereigns and Agency/Supranational securities, which account for over 60% of the market. The index provides global diversifications with over 60 countries represented from North America, Europe and Asia. Owing to the size of the investable market the index is dominated by the United States which accounted for almost 50% of the index weight followed by Japan which accounts for roughly 18%.



HISTORICAL SECTOR RETURNS

The Return Funnel Chart above provides an illustration of historical average rolling returns, 10 year rolling return averages and minimum and maximum rolling returns for the most appropriate benchmark for each asset class across a range of investment timeframes. We find the chart highly informative as it provides an indication of the range of possible returns and potential downside over certain timeframes.

We however believe that the expected returns in the previous table provide a better estimate of future returns as they account for prevailing risk free (default) rates and expected value-add from active management.



ZENITH EXPECTED LONG TERM RETURNS

	Expected Return	Risk Free Rate	Adjustment	Current Yield	Historical Risk
10 Yr. Forecast (% pa)	10.01%	5.49%	4.52%	4.10%	13.29%

ADJUSTMENT FACTORS IN RISK PREMIUM (OR DISCOUNT), ACTIVE MANAGEMENT FORECAST & EXPECTED IMPACT OF CURRENCY HEDGING.

FORECAST METHODOLOGY

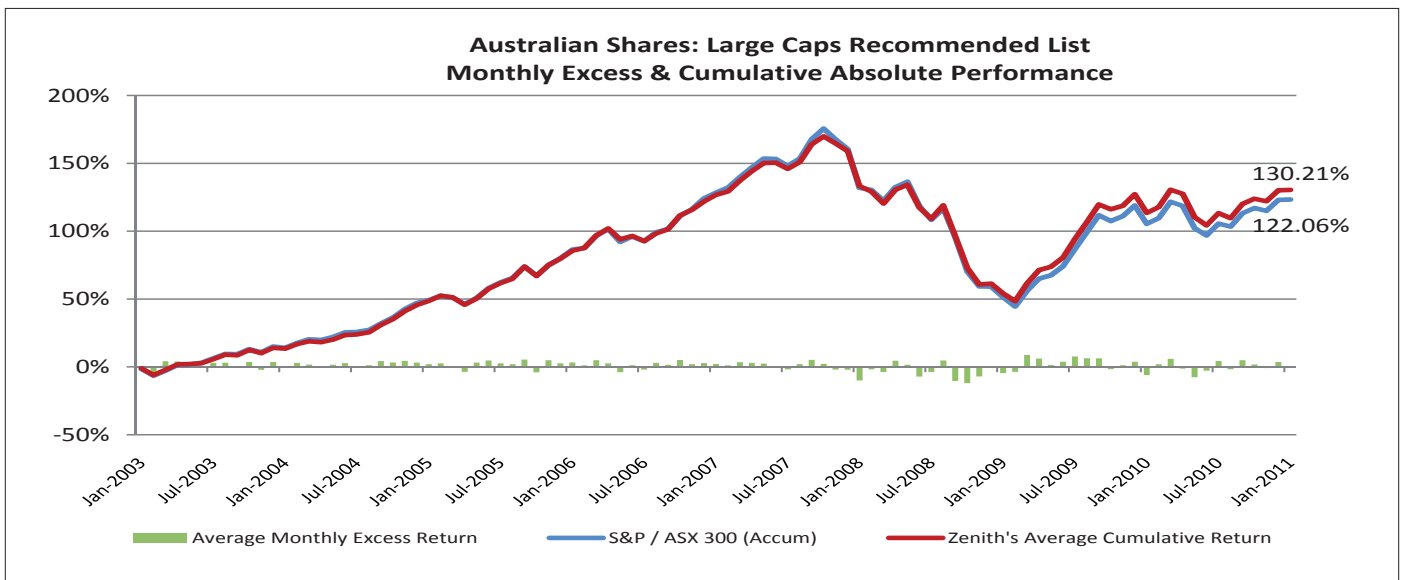
Dimson, Marsh and Staunton (2009) looked at estimated returns over 17 markets over 100 years and noted that risk premiums averaged across developed markets was 4.02% p.a. We believe this is a logical starting point for equity long return expectations above risk free securities.

Zenith’s Recommended List funds in this sector have generated slight outperformance over time. While we outlined the reasons why outperformance has been difficult to achieve in our 2011 Australian Shares Sector Report, we would expect to add value from sector going forward and have incorporated this into our return forecast.

The Australian equity forecast has been calculated excluding franking credits which can enhance after tax returns for eligible investors. According to the ATO, the average franking rebate yield of the All Ordinaries Index was 1.23%p.a. as at the end of February, 2011.

The current yield is based off the current dividend yield of the S&P / ASX 200 Index. The franking rebate yield would also enhance the after tax income yield for eligible investors.

Historical risk is based on the annualised standard deviation of the index over the past 20 years.



AUSTRALIAN SHARES SECTOR “HOUSE VIEW”

The Australian Shares sector is one of the most competitive sectors based on the depth of managers available to investors. Zenith believes through astute fund selection investors can add value and we believe this is being demonstrated by the performance of the Australian Shares components of Zenith’s Model Portfolios.

In the large cap sector, Zenith’s analysis shows that concentrated mandates have delivered better performance outcomes than index constrained mandates. Interestingly, volatility of concentrated managers has also been lower than index constrained mandates as the sector exposures are better balanced as these strategies are not forced to hold the Materials and Financial exposures that represent nearly 70% of the market.

We also believe dedicated small cap mandates can strongly enhance the risk / adjusted returns of Australian Share portfolios. One of the key characteristics of the small

caps sector is that it remains poorly covered by brokers and the market in general. In our view, this provides active small cap managers the opportunity to exploit market inefficiencies. Importantly, historical performance of active managers in this sector validates this argument, proving that manager skill can be translated into more substantial and more consistent outperformance relative large caps.

Ultimately, Zenith targets the highest rated large and small cap Australian Equity managers and attempts to blend complementary investment styles to increase diversification. We are cognisant not to over diversify and focus too heavily on style neutrality, to ensure that the blended portfolio remains active and can deliver attractive net returns on a post fee basis.



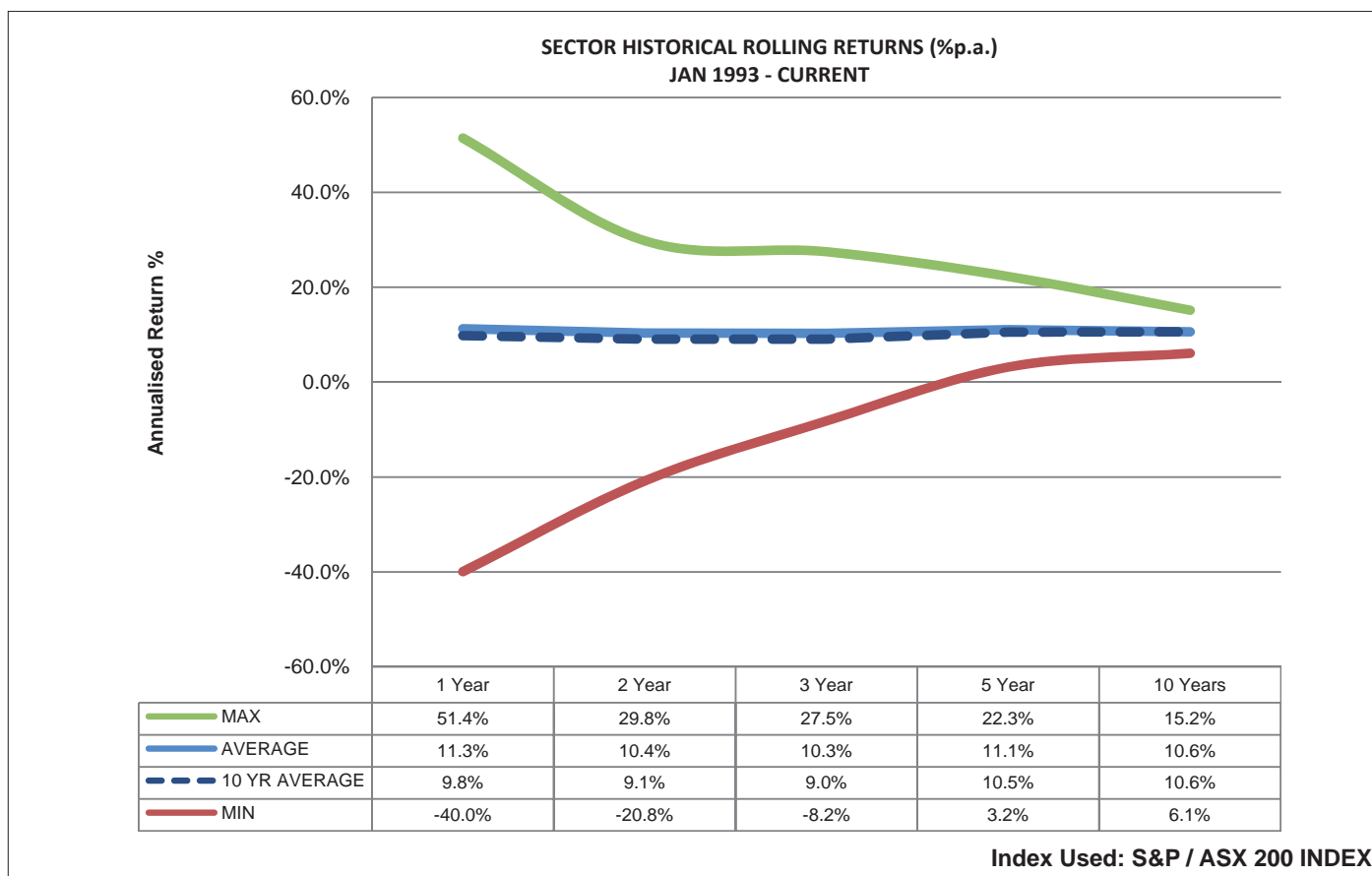
SECTOR CHARACTERISTICS

The Zenith “Australian Shares - Large Companies” sector consists of all long only funds investing in the Australian equity market. The sector incorporates both benchmark aware and benchmark unaware strategies but the funds focus predominantly on large capitalisation stocks. The sector is one of the most competitive fields in the investment landscape, based on the number of managers and strategies available to investors. Despite the competitiveness of the sector, the Australian share market has historically been fertile picking for active management with the median active manager outperforming a passive index over the longer term.

Zenith benchmarks all funds in this space against the S&P/ASX 300 Accumulation Index, believing it’s a fair representation of the investment universe for the underlying managers. However, many managers in this

category benchmark their funds against the S&P/ASX 200 Accumulation Index. Both indices are market-capitalisation weighted, resulting in those companies with the largest market capitalisations receiving the heaviest weightings. Over the longer term we believe there will be minimal difference between the return profiles of these indices.

The Australian share market, as represented by the S&P/ASX 300 Accumulation Index, is highly concentrated and narrow with the Resources and Financials sectors representing approximately a third of the market each. Owing to the market capitalisation weighting methodology the top 10 stocks represent approximately 50% of the weighting of the index with the top 20 representing almost 80% of the index. Technically, a company is assigned the large cap moniker if it falls within the S&P/ASX 50 with those companies falling between the S&P/ASX 50 and S&P/ASX



HISTORICAL SECTOR RETURNS

The Return Funnel Chart above provides an illustration of historical average rolling returns, 10 year rolling return averages and minimum and maximum rolling returns for the most appropriate benchmark for each asset class across a range of investment timeframes. We find the chart highly informative as it provides an indication of the range of possible returns and potential downside over certain timeframes.

We however believe that the expected returns in the previous table provide a better estimate of future returns as they account for prevailing risk free (default) rates and expected value-add from active management.



ZENITH EXPECTED LONG TERM RETURNS

	Expected Return	Risk Free Rate	Adjustment	Current Yield	Historical Risk
10 Yr. Forecast (% pa)	12.01%	5.49%	6.52%	2.73%	16.71%

ADJUSTMENT FACTORS IN RISK PREMIUM (OR DISCOUNT), ACTIVE MANAGEMENT FORECAST & EXPECTED IMPACT OF CURRENCY HEDGING.

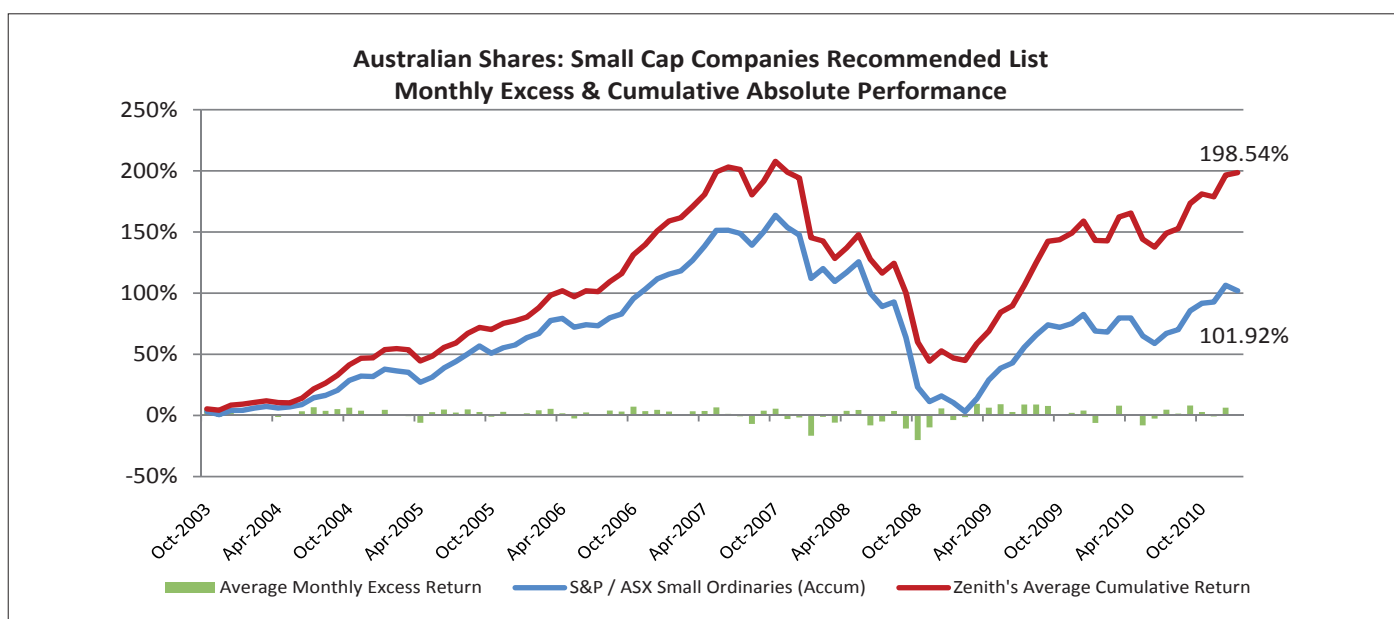
FORECAST METHODOLOGY

Above our equity risk premium of 4.02% we believe active management can add significant value through exploitation of this more inefficient segment of this market.

Historically Zenith’s Recommended List has added 4.5% p.a. above index and while we expect to produce strong outperformance we have slightly tempered our forward expectations as outperformance of this magnitude will be difficult to maintain.

The current yield is based off the current dividend yield of the S&P / ASX Small Ordinaries Index.

Historical risk is based on the annualised standard deviation over the past 20 years.



AUSTRALIAN SHARES SECTOR “HOUSE VIEW”

The Australian Shares sector is one of the most competitive sectors based on the depth of managers available to investors. Despite the sector’s competitiveness, on an after fee basis, our analysis indicates that active strategies outperform. Zenith believes through astute fund selection investors can add further value and we believe this is being demonstrated by the performance of the Australian Shares components of Zenith’s Model Portfolios.

In the large cap sector, Zenith’s analysis shows that concentrated mandates have delivered better performance outcomes than index constrained mandates. Interestingly, volatility of concentrated managers has also been lower than index constrained mandates as the sector exposures are better balanced as these strategies are not forced to hold the Materials and Financial exposures that represent nearly 70% of the market.

We also believe dedicated small cap mandates can strongly enhance the risk / adjusted returns of Australian Share portfolios. One of the key characteristics of the small caps sector is that it remains poorly covered by brokers

and the market in general. In our view, this provides active small cap managers the opportunity to exploit market inefficiencies. Importantly, historical performance of active managers in this sector validates this argument, proving that manager skill can be translated into more substantial and more consistent outperformance relative large caps.

Ultimately, Zenith targets the highest rated large and small cap Australian Equity managers and attempts to blend complementary investment styles to increase diversification. We are cognisant not to over diversify and focus too heavily on style neutrality, to ensure that the blended portfolio remains active and can deliver attractive net returns on a post fee basis.

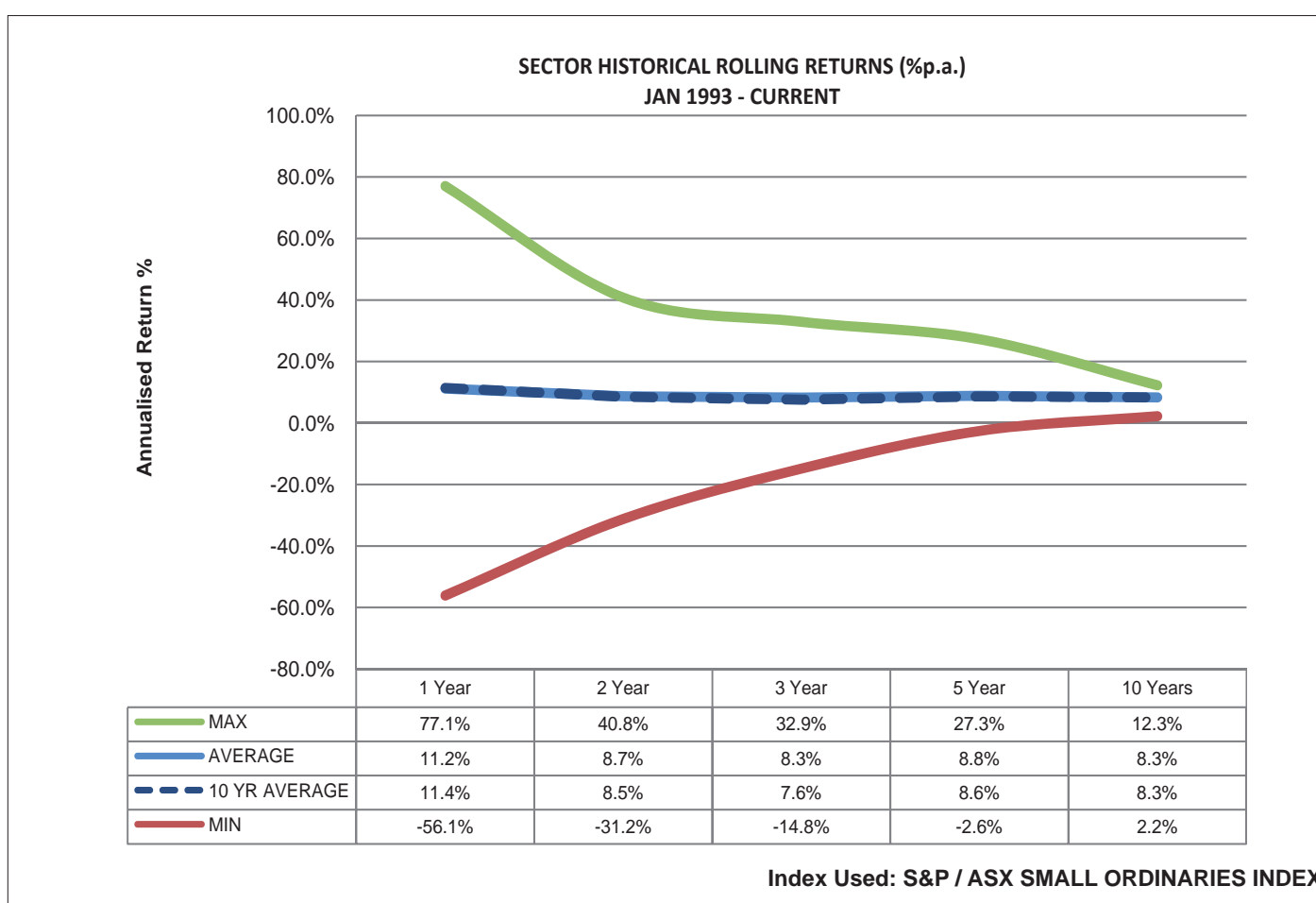


SECTOR CHARACTERISTICS

The Zenith “Australian Shares - Small Companies” sector consists of long only funds investing in the Australian equity market, with a speciality in the small-capitalisation (small-cap) spectrum of the market i.e. companies that fall between the S&P/ASX 100 and S&P/ASX 300. Active management has historically demonstrated a strong ability to outperform a passive index over the longer term

Zenith benchmarks all funds in this space against the S&P/ASX Small Ordinaries Accumulation Index. However, investors should be aware that funds in this sector can have varying allocation to the micro-cap universe i.e. ex-S&P/ASX 300 stocks. The index is market-capitalisation weighted, resulting in those companies with the largest market capitalisations receiving the heaviest weightings.

The Australian share market is highly concentrated and narrow with the Materials and Financials sectors representing approximately a third of the market each. Owing to the predominance of financials in the top 100 stocks the small cap index has a lower weighting to the Financials sector but an approximate 45% weighting to the Resources sector, reflecting the importance of the resources sector to the broader economy.



HISTORICAL SECTOR RETURNS

The Return Funnel Chart above provides an illustration of historical average rolling returns, 10 year rolling return averages and minimum and maximum rolling returns for the most appropriate benchmark for each asset class across a range of investment timeframes. We find the chart highly informative as it provides an indication of the range of possible returns and potential downside over certain timeframes.

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ZENITH EXPECTED LONG TERM RETURNS

	Expected Return	Risk Free Rate	Adjustment	Current Yield	Historical Risk
10 Yr. Forecast (% pa)	9.81%	5.49%	4.32%	2.61%	12.84%

ADJUSTMENT FACTORS IN RISK PREMIUM (OR DISCOUNT), ACTIVE MANAGEMENT FORECAST & EXPECTED IMPACT OF CURRENCY HEDGING.

FORECAST METHODOLOGY

Based on historical fund survey analysis, we believe that active management in this sector can deliver a further value to long term expected returns over our estimated equity market premium of 4.02%.

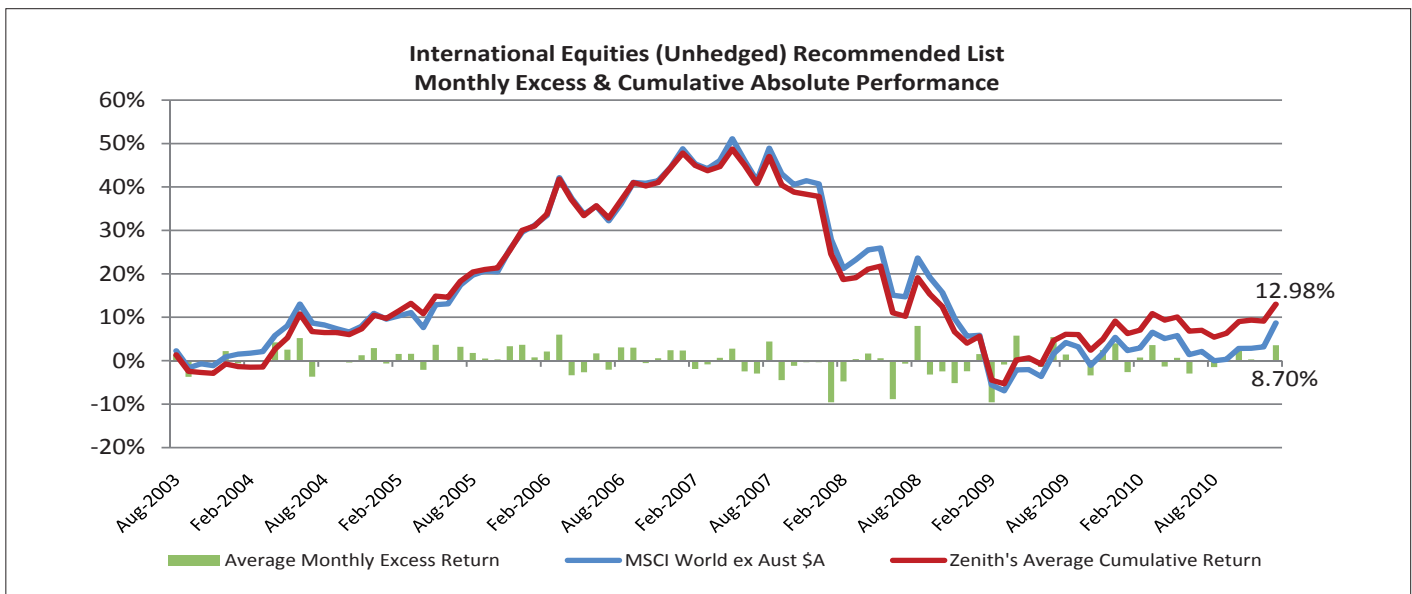
The outperformance of international share funds on Zenith's Recommended List has added value over time. We believe that skilled managers in this sector have the opportunity to exploit the broader universe and have less capacity constraints relative to dedicated Australian Shares managers. Therefore we believe the potential for outperformance in this sector will continue to be greater relative to Australian shares.

Investors' decision to hedge currency exposure depends on a number of factors including the base currency, market, hedging horizon and the investor's goals with respect to hedging. Our research finds that for Australian investors into

international shares, hedging is not a free lunch of less risk and instead finds that less risk of being unhedged usually means lower returns. Therefore risk reduction is not neutral and investors generally have to choose between less risk / lower returns of unhedged and more risk and the higher returns / higher risk of hedged returns. This is backed by economic theory, where the assumed return from hedging is the difference between long term interest rates (driven by longer term growth rates) between the currencies being hedged. Based on this analysis, we have slightly lowered our expectations for unhedged returns based on the positive interest rate differential between Australia and other developed countries.

The current yield is based off the current dividend yield of the MSCI World Index.

Our estimate for expected risk is based on the historical volatility of the index over the past 20 years.



INTERNATIONAL SHARES SECTOR "HOUSE VIEW"

While international shares benchmarks have produced poor performance over an extended period, several highly active international shares managers have produced strong absolute returns for investors despite encountering volatile investment markets and an appreciating Australian Dollar, which has acted to reduce the value of unhedged overseas stock holdings. To Zenith, the strong performance profile of some managers is not surprising as the sector provides exposure to a wide range of managers with very broad mandates. These broad mandates should theoretically provide skilful managers the ability to generate strong returns to investors.

In this sector, Zenith has a preference for high conviction, active managers with demonstrable skill and has sought

to identify these managers through our sector research process. We believe our highly rated global equity managers have the skill to exploit inefficiencies in markets and generate strong returns for investors. The use of these funds in a broad range of client model portfolios has ensured that manager selection has also been a major contributor to portfolio returns.

From a risk minimisation perspective, we believe investors will benefit from adopting a 50-50 approach when hedging their foreign currency exposure of their international shares portfolios based on the quantitative analysis we have undertaken. We contend that properly diversified portfolios should not reflect a short term prediction or market view, but rather be positioned to perform in a range of market environments.

SECTOR CHARACTERISTICS

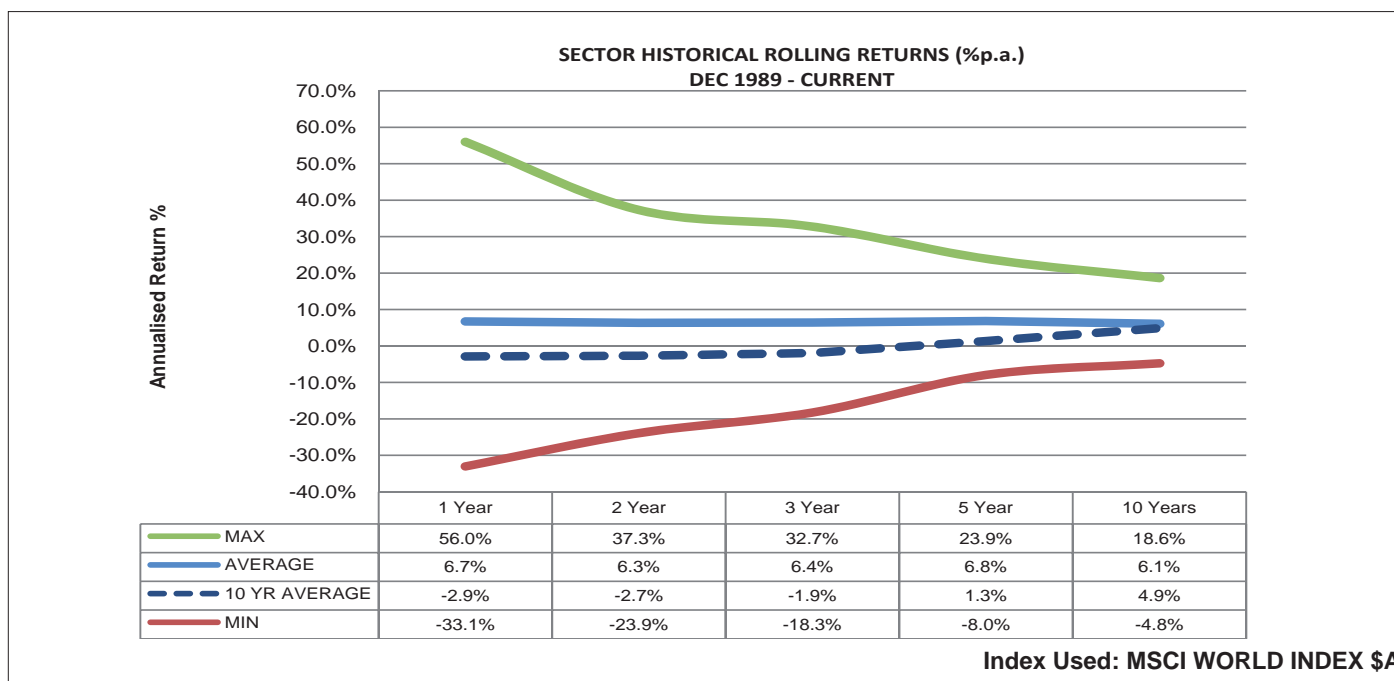
The Zenith “International Shares – Global (Unhedged)” sector consists of all long only funds that invest into global equity markets. The sector incorporates both benchmark aware and benchmark unaware strategies but the funds focus predominantly on larger capitalisation stocks. The sector is one of the most competitive fields in the investment landscape, based on the number of managers and strategies available to investors. Although global equities have disappointed over the past decade in terms of absolute performance, Zenith believes active management, particularly those less benchmark unaware managers, have the ability to add significant alpha above a passive index over the longer term.

Zenith benchmarks all funds in this space against the MSCI World Index ex-Australia (Unhedged), which corresponds with the benchmark employed by the majority of funds in this space. The index is market-capitalisation weighted, resulting in those companies with the largest market capitalisations receiving the heaviest weightings. The index consists of 1500 securities listed in 23 developed markets (Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States) with the United States

representing approximately 50% of the index; the United Kingdom and Japan the next largest constituents with approximately 10% each. The index excludes emerging and frontier markets but many managers retain the ability to invest in emerging markets, which can aid performance.

The global share market, as represented by the MSCI World Index ex-Australia (Unhedged), is far more diverse, in terms of sector exposures, than the Australian market. Although the Financials sector represents the largest weight (~20%), many sectors not well represented in the Australian market, such as Information Technology and Healthcare, are well represented with approximately 10% weightings. Despite the market capitalisation weighting methodology the top 10 stocks represent only approximately 10% of the weighting of the index, reflecting the larger universe and less top heavy nature of the universe.

The Unhedged nomenclature indicates that Funds in this universe are currency unhedged, resulting in their returns being broadly affected by fluctuations in the Australian Dollar (AUD) versus other global currencies. In a falling market a depreciating AUD cushions returns, which aids investors in a unhedged fund. However, given the relative strength of the AUD over the past decade, despite being punctuated by some periods of extreme downside volatility, unhedged investors have substantially underperformed their currency hedged peers.



HISTORICAL SECTOR RETURNS

The Return Funnel Chart above provides an illustration of historical average rolling returns, 10 year rolling return averages and minimum and maximum rolling returns for the most appropriate benchmark for each asset class across a range of investment timeframes. We find the chart highly informative as it provides an indication of the range of possible returns and potential downside over certain timeframes.

We however believe that the expected returns in the previous table provide a better estimate of future returns as they account for prevailing risk free (default) rates and expected value-add from active management.

ZENITH EXPECTED LONG TERM RETURNS

	Expected Return	Risk Free Rate	Adjustment	Current Yield	Historical Risk
10 Yr. Forecast (% pa)	10.51%	5.49%	5.02%	2.61%	15.57%

ADJUSTMENT FACTORS IN RISK PREMIUM (OR DISCOUNT), ACTIVE MANAGEMENT FORECAST & EXPECTED IMPACT OF CURRENCY HEDGING.

FORECAST METHODOLOGY

Based on historical fund survey analysis, we believe that active management in this sector can deliver a further value to long term expected returns over our estimated equity market premium of 4.02%.

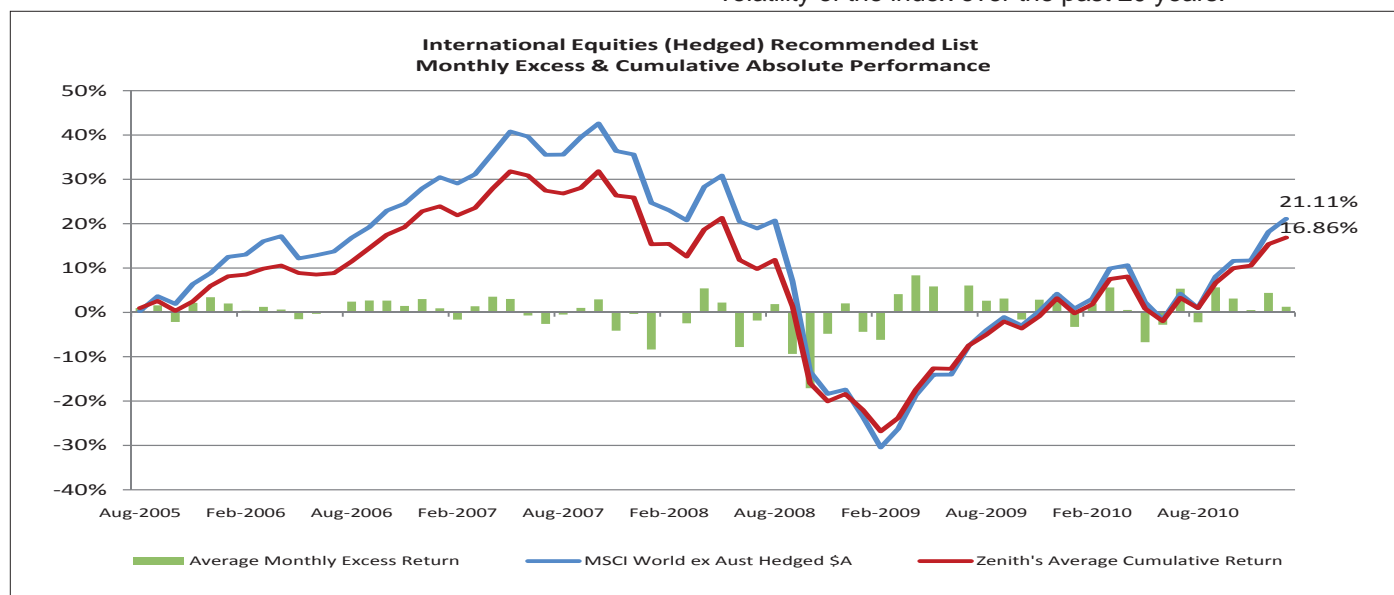
The outperformance of hedged international share funds on Zenith's Recommended List has been lower than unhedged funds. We believe that the reason for this is the reduced level of choice of hedged vehicles and the shorter period of time these vehicles has been available. Given the increasing number of hedged investment options, we have assumed the same outperformance potential from hedged international share as unhedged international share investments going forward.

The current running yield is based off the current dividend yield of the MSCI World Index. It should be remembered however that currency hedging gains are treated as income by the ATO. As a result of the current large interest rate differential between Australia and its developed market peers, investors may receive additional income as forward currency rates are influenced by interest rates. Nevertheless, currency markets are unpredictable and highly volatile and a depreciation in the Aussie Dollar can negatively impact

the income received by investors. This was a phenomenon witnessed this across many sectors during the GFC, when the Australian Dollar depreciated sharply and distributions were halted in many instances.

Investors' decision to hedge currency exposure depends on a number of factors including the base currency, market, hedging horizon and the investor's goals with respect to hedging. Our research finds that for Australian investors into international shares, hedging is not a free lunch of less risk and instead finds that less of being unhedged risk usually means lower returns. Therefore risk reduction is not neutral and investors generally have to choose between less risk / lower returns of unhedged and more risk and the higher returns / higher risk of hedged returns. This is backed by economic theory, where the assumed return from hedging is the difference between long term interest rates (driven by longer term growth rates) between the currencies being hedged. Based on this analysis, we have slightly lowered our expectations for unhedged returns based on the positive interest rate differential between Australia and other developed countries.

Our estimate for expected risk is based on the historical volatility of the index over the past 20 years.



INTERNATIONAL SHARES SECTOR "HOUSE VIEW"

While international shares benchmarks have produced poor performance over an extended period, several highly active international shares managers have produced strong absolute returns for investors despite encountering volatile investment markets and an appreciating Australian Dollar, which has acted to reduce the value of unhedged overseas stock holdings. To Zenith, the strong performance profile of some managers is not surprising as the sector provides exposure to

a wide range of managers with very broad mandates. These broad mandates should theoretically provide skilful managers the ability to generate strong returns to investors.

In this sector, Zenith has a preference for high conviction, active managers with demonstrable skill and has sought to identify these managers through our sector research process. We believe our highly rated global equity managers

INTERNATIONAL SHARES SECTOR “HOUSE VIEW” (cont)

have the skill to exploit inefficiencies in markets and generate strong returns for investors. The use of these funds in a broad range of client model portfolios has ensured that manager selection has also been a major contributor to portfolio returns.

From a risk minimisation perspective, we believe investors will benefit from adopting a 50-50 approach when hedging their foreign currency exposure of their international shares portfolios based on the quantitative analysis we have undertaken. We contend that properly diversified portfolios should not reflect a short term prediction or market view, but rather be positioned to perform in a range of market environments.

SECTOR CHARACTERISTICS

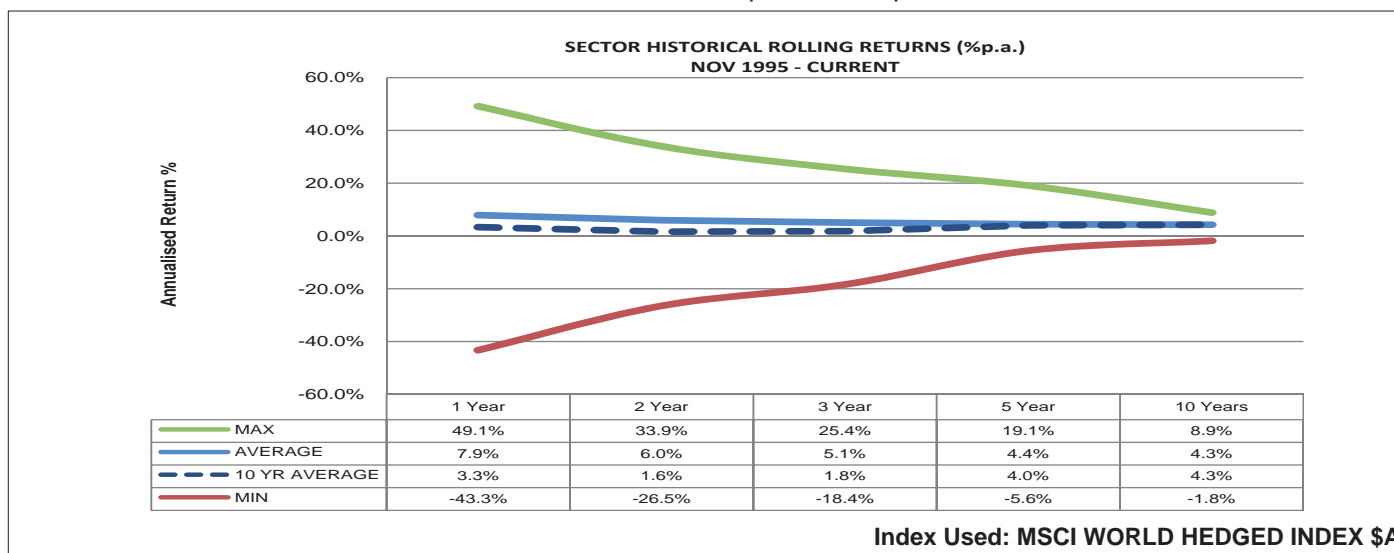
The Zenith “International Shares – Global (Hedged)” sector consists of all long only funds that invest into global equity markets. The sector incorporates both benchmark aware and benchmark unaware strategies but the funds focus predominantly on larger capitalisation stocks. The sector is one of the most competitive fields in the investment landscape, based on the number of managers and strategies available to investors. Although global equities have disappointed over the past decade, in terms of absolute performance, Zenith believes active management, particularly those less benchmark unaware managers, have the ability to add significant alpha above a passive index over the longer term.

Zenith benchmarks all funds in this space against the MSCI World Index ex-Australia (Hedged), which corresponds with the benchmark employed by the majority of funds in this space. The index is market-capitalisation weighted, resulting in those companies with the largest market capitalisations

receiving the heaviest weightings. The index consists of 1500 securities listed in 23 developed markets (Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States) with the United States representing approximately 50% of the index; the United Kingdom and Japan the next largest constituents with approximately 10% each. The index excludes emerging and frontier markets but many managers retain the ability to invest in emerging markets, which can aid performance.

The global share market, as represented by the MSCI World Index ex-Australia (Hedged), is far more diverse, in terms of sector exposures, than the Australian market. Although the Financials sector represents the largest weight (~20%), many sectors not well represented in the Australian market, such as Information Technology and Healthcare, are well represented with approximately 10% weightings. Despite the market capitalisation weighting methodology the top 10 stocks represent only approximately 10% of the weighting of the index, reflecting the larger universe and less top heavy nature of the universe.

The Hedged nomenclature indicates that Funds in this universe are currency hedged, resulting in their returns being largely unaffected by fluctuations in the Australian Dollar (AUD) versus other global currencies. However, hedging entails a hidden cost, i.e. in a falling market a depreciating AUD cushions returns, which investors in a hedged fund don't experience. Given the relative strength of the AUD over the past decade, despite being punctuated by some periods of extreme downside volatility, hedged investors have broadly experienced superior returns.



HISTORICAL SECTOR RETURNS

The Return Funnel Chart above provides an illustration of historical average rolling returns, 10 year rolling return averages and minimum and maximum rolling returns for the most appropriate benchmark for each asset class across a range of investment timeframes. We find the chart highly informative as it provides an indication of the range of possible returns and potential downside over certain timeframes.

We however believe that the expected returns in the previous table provide a better estimate of future returns as they account for prevailing risk free (default) rates and expected value-add from active management.

ZENITH EXPECTED LONG TERM RETURNS

	Expected Return	Risk Free Rate	Adjustment	Current Yield	Historical Risk
10 Yr. Forecast (% pa)	12.51%	5.49%	7.02%	2.82%	19.99%

ADJUSTMENT FACTORS IN RISK PREMIUM (OR DISCOUNT), ACTIVE MANAGEMENT FORECAST & EXPECTED IMPACT OF CURRENCY HEDGING.

FORECAST METHODOLOGY

Above our developed market equity risk premium of 4.02%, we have overlayed a further premium account for the risks of emerging market investments (e.g. addition sovereign risk).

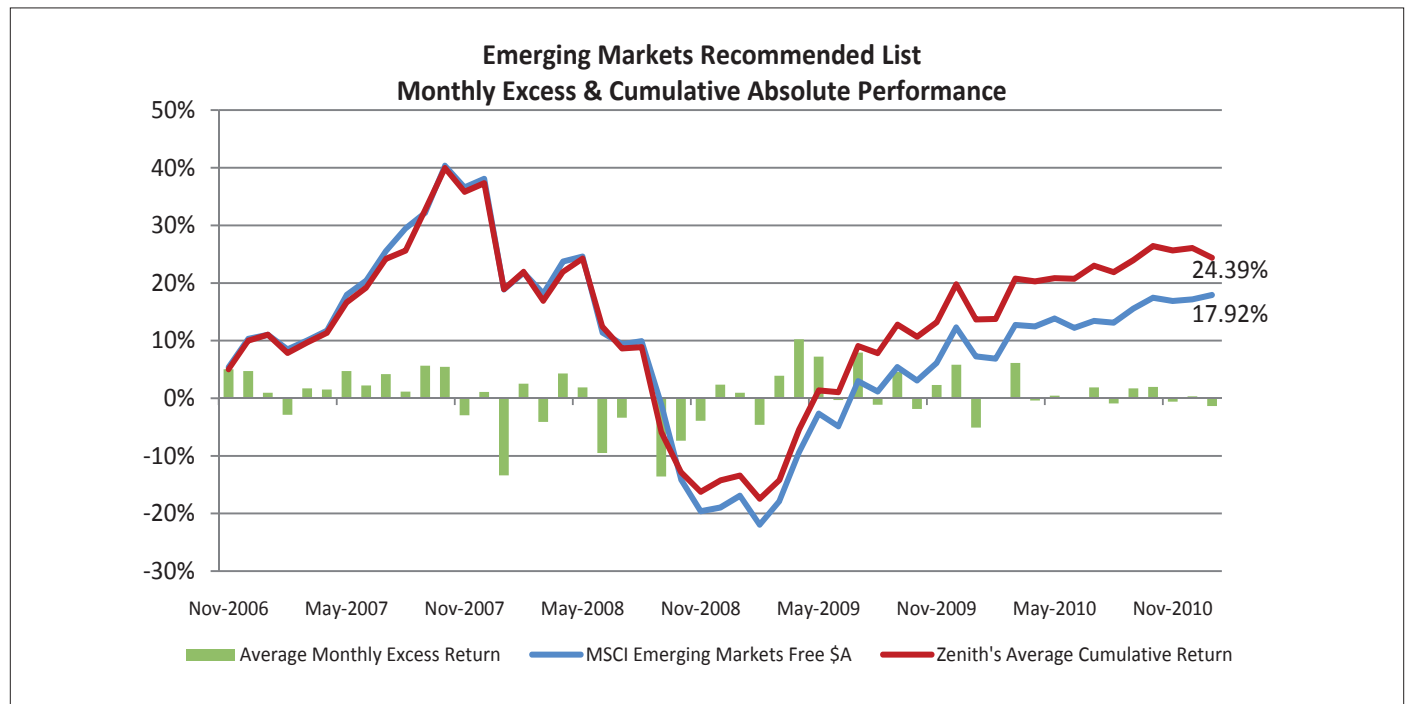
Active management in this sector can deliver further added value to long term expected returns and this is backed by the returns achieved by Zenith's Recommended Emerging Markets funds, as shown below.

While higher growth rates and cash rates in emerging markets would typically result in currency appreciation of emerging markets currencies relative to the Australian Dollar

(and therefore higher returns would normally be expected from unhedged investments) this has not occurred as emerging markets governments and traditionally controlled their interest rates by controlling lending and capital movements within their economy instead of relying on exchange rate movements. As a result, we have not arrived at different forecasts for unhedged and hedged emerging market returns.

The current running yield is based off the current dividend yield of the MSCI Emerging Markets Index.

Our estimate for expected risk is based on the historical volatility of the index over the past 20 years.



INTERNATIONAL SHARES SECTOR "HOUSE VIEW"

An exposure to emerging markets has become a critical component of a well diversified model portfolio. Given the increased direct and indirect exposure to emerging markets through global funds, we believe these vehicles provide optimal exposure to these markets. As emerging markets carry a range of risks (social unrest, political division, economic instability, currency volatility and a lack of governance in monitoring and

maintaining an efficient market), we believe that investors can leverage off the experience of the global managers to enter and exit from these markets at the appropriate times.



SECTOR CHARACTERISTICS

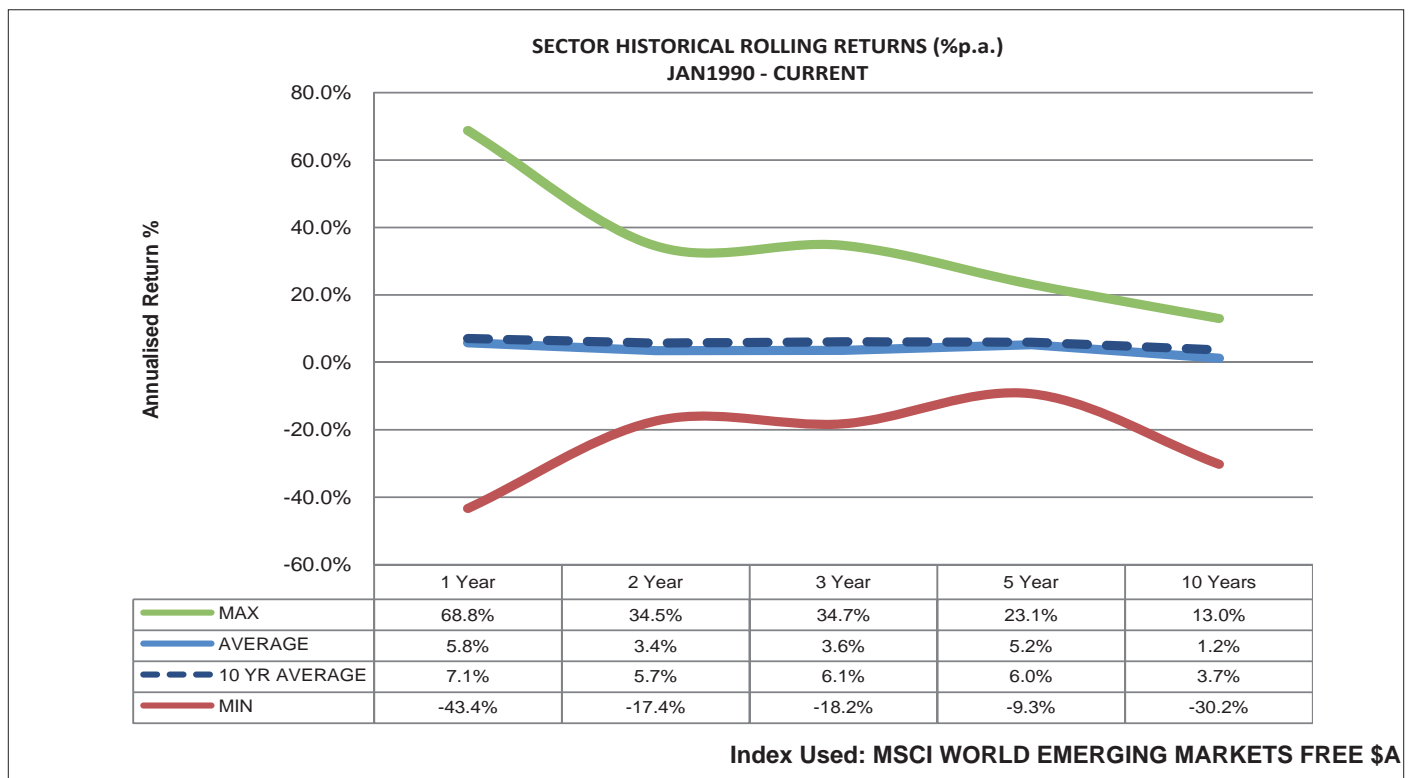
The Zenith “International Shares – Emerging Markets (Unhedged)” sector consists of all long only funds that invest specifically into emerging equity markets. The sector incorporates both benchmark aware and benchmark unaware strategies but the funds focus predominantly on larger capitalisation stocks. The sector is a niche category, based on the number of managers and strategies available to investors. Zenith believes active management, particularly those less benchmark unaware managers, have the ability to add significant alpha above a passive index over the longer term.

Zenith benchmarks all funds in this space against the MSCI Emerging Markets Index (Unhedged), which corresponds with the benchmark employed by the majority of funds in this space. The index is market-capitalisation weighted, resulting in those companies with the largest market capitalisations receiving the heaviest weightings. The index consists of over 800 securities listed in 21 emerging markets (Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey) with China representing the

largest component of the index with approximately 17% and Brazil, Korea and Taiwan representing the next largest constituents with approximately 16%, 14% and 11%, respectively.

The emerging market, as represented by the MSCI Emerging Index (Unhedged), is somewhat similar to than the Australian market, in terms of sector exposures, in that the Financials and Resources sectors represents the largest weights with approximately 24% and 30%, respectively. However, Information Technology features more prominently in the index with approximate 13% weightings. The top 10 stocks represent approximately 16% of the weighting of the index.

The returns of the index are reported in United States Dollars (USD). The Unhedged nomenclature indicates that Funds in this universe are currency unhedged, resulting in their returns being broadly affected by fluctuations in the Australian Dollar (AUD) versus the USD as well as the underlying domestic currencies. In a falling market a depreciating AUD cushions returns, which aids investors in an unhedged fund.



HISTORICAL SECTOR RETURNS

The Return Funnel Chart above provides an illustration of historical average rolling returns, 10 year rolling return averages and minimum and maximum rolling returns for the most appropriate benchmark for each asset class across a range of investment timeframes. We find the chart highly informative as it provides an indication of the range of possible returns and potential downside over certain timeframes.

We however believe that the expected returns in the previous table provide a better estimate of future returns as they account for prevailing risk free (default) rates and expected value-add from active management.

ZENITH EXPECTED LONG TERM RETURNS

	Expected Return	Risk Free Rate	Adjustment	Current Yield	Historical Risk
10 Yr. Forecast (% pa)	8.49%	5.49%	3.00%	5.93%	14.88%

ADJUSTMENT FACTORS IN RISK PREMIUM (OR DISCOUNT), ACTIVE MANAGEMENT FORECAST & EXPECTED IMPACT OF CURRENCY HEDGING.

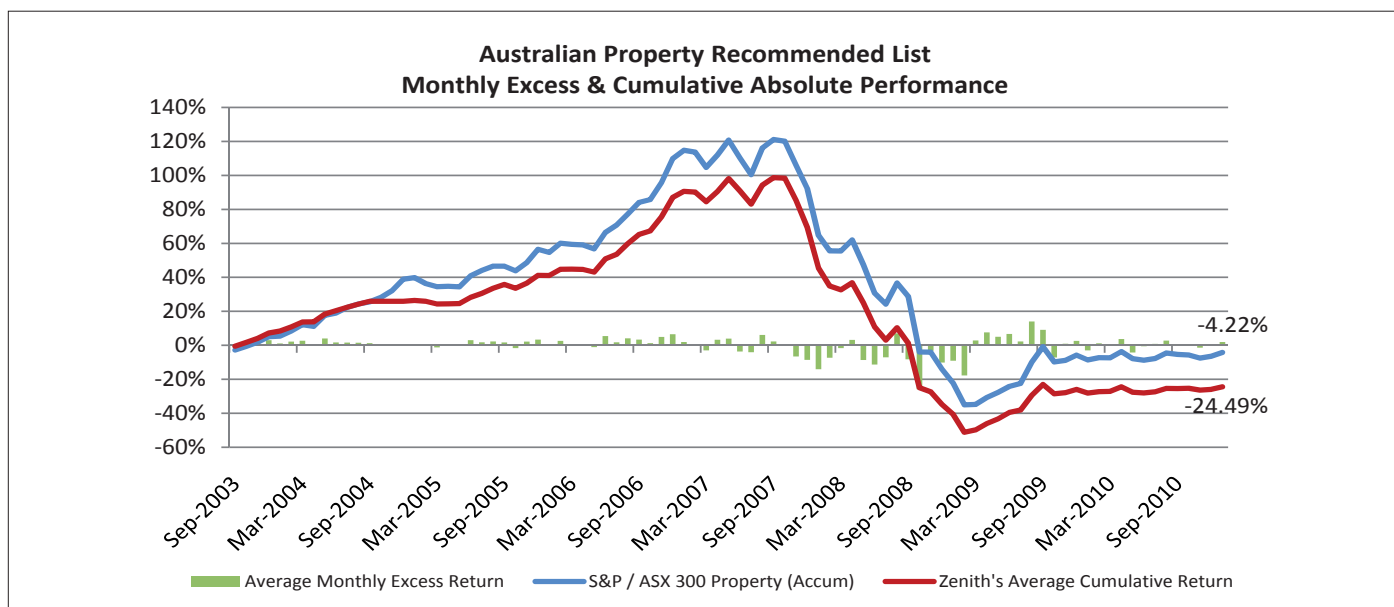
FORECAST METHODOLOGY

Analysis of listed property returns relative to risk free investments results in a risk premium of approximately 2.9% being applied to the sector.

Attribution based on Zenith’s Recommended List managers illustrates that we have detracted value in this sector. While we believe there are a select few managers in this sector that can add value, we have scaled back our expected value add from this sector based on the historical difficulty in achieving outperformance.

The current running yield is based off the current dividend yield of the S&P / ASX 200 AREITs Index.

Our estimate for expected risk is based on the historical volatility of the index over the past 20 years. This risk profile achieved over this period shows that AREITs have been a relatively poor risk / return investment. Nevertheless, we expect that through a reduction in gearing post the GFC that AREIT investment risk profile should be more commensurate with the return profile.



LISTED REAL ASSETS “HOUSE VIEW”

The Listed REITs component of Zenith’s model portfolios provides diversification benefits and can also enhance the model portfolio’s income profile. The domestic REITs exposure is pivotal to enhancing the income profile and while the investment universe remains small we believe there are a range of quality domestic REIT offerings that will deliver strong performance and yield to investors.

The continued emergence of global REITs in the Australian market has provided further opportunity for diversification. Given the greater influence of local economic and market conditions on property performance, there is lower correlation between regions as there would be in equity and bond markets. In total there are now 37 countries around the world which offer listed REIT type structures for investment. In addition, it is widely expected that there will continue to be an increase in market capitalisation particularly in Europe and Asia. This will increase the overall liquidity of the market as well as the number of securities in which managers can potentially invest in. The global property universe is also more diversified in terms of sectors than the Australian market,

with no significant exposure to one form of property type. As such the outlook for returns from global property is not largely determined by a small number of sectors or key stocks. This sector diversification combined with the regional diversification provided by global property continues to represent the key attractions of investing in this asset class.

Listed global infrastructure also forms a key part of Zenith’s portfolio exposures. The consistency of the sector’s return profile is an attraction of the sector and this is attributed to the asset class’s significant degree of regulation, monopolistic operations, inflation-linked cash flows and low long-term correlation with the broader equity and fixed income markets. The attributes listed enable infrastructure companies’ to pass on higher costs, as they eventuate, to maintain real revenue growth and enhance their likelihood of long-term outperformance. While infrastructure securities are not immune to short-term share price volatility, their relatively predictable cash flows and high dividend yield do provide relatively more stability.

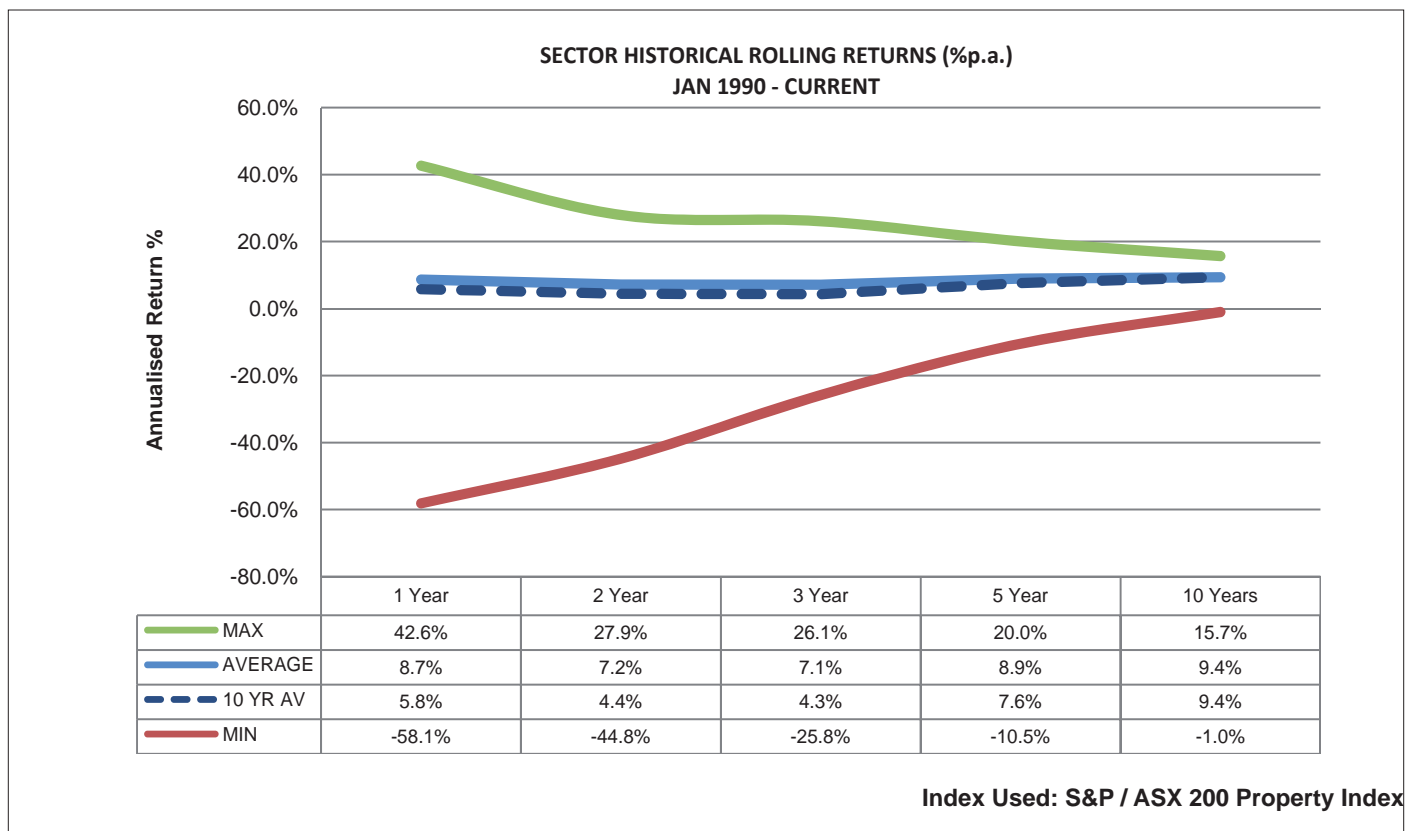
SECTOR CHARACTERISTICS

The Zenith “Property – Australian Securities” sector consists of all long only funds investing in the listed Australian property market. The sector incorporates both benchmark aware and benchmark unaware strategies but the funds focus predominantly on large capitalisation stocks. The sector has shrunk considerably following the global financial crisis, based on the number of managers and strategies available to investors. The listed Australian property market has historically been a difficult sector for active management with the median active manager underperforming a passive index over the longer term.

Zenith benchmarks all funds in this space against the S&P/ASX 300 A-REIT Index, which corresponds with the

benchmark employed by the majority of funds in this space. The index is market-capitalisation weighted, resulting in those companies with the largest market capitalisations receiving the heaviest weightings.

The listed Australian property market, as represented by the S&P/ASX 300 A-REIT Index, consists of 25 stocks and is highly concentrated. Owing to the market capitalisation weighting methodology the top 10 stocks represent almost the entire weighting of the index. The largest constituents, Westfield Group and Westfield Retail Trust, represent almost 45% of the index.



HISTORICAL SECTOR RETURNS

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