

# Bridgeport Core+ Portfolio Performance Commentary



December Quarter 2010

Over the 2010 calendar year and since inception, absolute and relative returns of the portfolios have been pleasing with the balanced portfolio, for example, outperforming the peer group benchmark by 3%.

Markets produced mixed results over the December quarter as shown by the flat return from fixed interest markets (UBS Composite 0+ Years Index returned -0.2% and Barcap Global Aggregate Hedged AUD TR Index returned -0.5%). Fixed interest markets continued to be volatile in the face of the European sovereign debt problems compared with improving signs of economic recovery in the developed world. Alternatively, equity markets produced strong returns over the quarter with the S&P/ASX300 TR Index returning 4.7% in Q4 2010 and MSCI World NR AUD Index returning 2.8%. The December quarter return was a welcome end of the year for Australian equities investors and resulted in positive returns for the calendar year of 1.9%. While global equities returns were stronger than Australian equities over 2010, the negative effect of the rising Australian dollar (A\$) resulted in a return of -1.9% to unhedged investors.

The Australian listed-property sector also posted positive returns in December with the S&P/ASX 300 A-REIT Accumulation Index gaining 1.2%. However, the sector underperformed the broader equity market this month as investors favoured exposure to higher-beta sectors, notably resource stocks. Global real estate investment trusts (REITs) performed strongly in December. The S&P Developed Property Net Return Index in U.S. dollar terms (Australian-dollar hedged proxy) rose by 4.6%, with solid performance continuing in Europe, Asia, and the North America region.

The strong active returns of the Bridgeport Core+ portfolios over the December quarter was a result of solid returns from both the underlying multi manager funds and single manager funds employed in the portfolios. The netwealth Global Specialist series funds diversified portfolio (managed by Russell Investment Management), posted excellent absolute and relative returns with all outperforming their peer benchmarks. The conservative option returned 1.5% outperforming the peer group benchmark by 0.3% while the growth and high growth options posted 3.2% and 5% respectively for the quarter, producing 0.6% and 0.9% excess performance compared to its peer group benchmarks.

The single manager funds employed in the defensive sectors produced strong absolute returns in the face of challenging conditions for both Australian and global fixed interest investors. The Australian Unity Vianova Strategic Fixed Interest Trust returned 0.5% for the quarter outperforming the benchmark (UBS Composite 0+ Years Index) by 0.7%. The main contributor to performance was duration and yield curve strategies while the credit strategy had neutral impact. The other fund employed in the fixed interest sector, the Macquarie Income Opportunities Fund produced strong returns for the quarter outperforming the benchmark by 2.7%. This was largely the result of the fund's defensive positioning and holdings in the core income portfolio. Sector rotation also contributed to performance. The core income portfolio's holdings of banks, RMBS, and diversified financials contributed to performance.

Relative returns were mixed in the property sector in Q4 2010 with the Zurich Investments Australian Property Securities Fund returning 4.6% and outperforming the market benchmark (S&P/ASX 300 AREITs Index) by a large 5.8%. A major contributor to this outperformance was due to a positive outcome from a Multiplex class action settlement. Other stocks which contributed to the fund's performance over the quarter were overweights in Tishman Speyer, Goodman Group, and Charter Hall Office.

Global property further assisted the portfolios' absolute performance over the quarter with the Invesco Global Property Securities Fund returning 5.1% over the period, slightly underperforming the benchmark (S&P Global Property Hedged Net TR Index) by 0.1%. Both stock selection and market allocation detracted from performance and a modest cash holding was also detrimental to overall performance.

The Australian-equities managers employed in the portfolios provided excellent relative and absolute returns over the December quarter. All Australian-equities funds in the Bridgeport Core+ portfolios generated strong returns with all outperforming the benchmark (S&P/ASX 300TR Index). The Bennelong Australian Equities Fund was the best performer returning 7% compared with the market benchmark of 4.7%. Equally impressive was the return of 6.8% for the Aviva High Growth Shares Trust while both Tyndall and Platypus Australian Equities Funds also outperformed the market returning 6% and 5.5%, respectively.

Bennelong's outperformance over the December quarter was largely attributable to the portfolio's overweight positions in the miscellaneous services, construction, and gaming and leisure sectors, together with the underweight position in the consumer staples sector. Meanwhile the Aviva High Growth Shares Trust returns were attributable to Alumina Ltd. (overweight) that rallied approximately 40% in the quarter driven by a better outlook from its parent Alcoa. In addition, valuations by the market were enhanced by the potential breaking of historic linkages between alumina and aluminium pricing. AXA Asia Pacific Holdings (overweight) also contributed off the back of the AMP takeover being finalised.

The Platypus Australian Equity Trust wholesale portfolio major sectors contributing to relative performance over the quarter were materials (+0.76%), health care (+0.6%), and consumer staples (+0.3%). The major detractor from relative performance was consumer discretionary (-1.04)%. The Tyndall Australian Share Portfolio's performance was attributable to overweight positions in Iluka, BHP, AXA,

and James Hardie that all added to relative performance. Underweight positions in Westfield also aided relative performance.

In the international equities blend, returns from the three funds employed were mixed over the quarter. The Zurich Investments Global Thematic Share Fund returned 1.8% for the quarter compared with 2.8% for the broad benchmark, the MSCI World NR Index. Over the 2010 calendar year, the fund has underperformed the benchmark. Overall this outcome relative to the index reflects the portfolio's strategic view, which was to forego, if necessary, some upside, in return for defensive qualities should markets decline significantly. Rising equity markets (in U.S. dollar terms) have meant that these defensive qualities have not so far been necessary.

The emerging-market equities exposure managed by Aberdeen produced flat returns (0%) for the December quarter. Global equity investors risk appetite has improved steadily during 2010 resulting in increased comfort that the worst of the global economic crisis has passed and as result, the manager has seen a reallocation to developed-world equities markets as a result. Relative underperformance was largely due to the longstanding underweight to cyclical sectors such as materials, which rallied towards the year-end on renewed confidence over the global economy. At the regional level, Europe, Middle East, and Africa (EMEA) was the main laggard.

The global infrastructure sector continued the strong recent performance returning 5% for the December quarter. The main contributors to performance were Vinci SA, Central Japan Railway Company, and Unique Zurich Airport; while the main detractors were Crown Castle International Corp., Nextera Energy Inc., and Abertis Infraestructuras.

## Portfolio Performance (%)

Period returns to 31 December 2010.

Risk Profile	1 Mth	3 Mths	6 Mths	1 Yr	2 Yrs	Since Portfolio Inception
Conservative Portfolio	1.0	1.8	5.1	6.6	10.4	9.4
Conservative Median Manager Benchmark	0.8	1.2	4.0	4.2	7.2	6.1
Balanced Portfolio	1.5	2.5	6.6	6.0	12.5	10.5
Balanced Median Manager Benchmark	1.4	2.2	6.0	3.9	9.3	7.5
Growth Portfolio	2.1	3.1	8.2	5.5	14.2	11.4
Growth Median Manager Benchmark	1.7	2.6	6.8	2.4	9.7	6.9
High Growth Portfolio	2.7	4.4	10.4	4.0	15.7	11.7
High Growth Median Manager Benchmark	2.5	4.1	9.8	3.6	12.7	9.1

Portfolio returns are calculated based on month-end returns and rebalanced monthly. They include all funds and asset allocation changes over the period. Since portfolio inception, performance is annualised. Portfolio inception was Nov. 1, 2008.

Data sources: Fund Manager, Lipper, Morningstar, and Bloomberg.

## Portfolio Review

### Recommendations

At this time, Bridgeport Financial Services, in conjunction with our asset consultants, Standards & Poor's, advises that there have not been changes to the model portfolio.

## Quarterly Manager Commentaries

The following section has a short performance commentary on each managed fund in the Bridgeport Core+ portfolios. Please note that these comments are sourced from the fund managers.

### Diversified

#### netwealth Global Specialist Conservative Fund

The netwealth Global Specialist Conservative Fund outperformed the benchmark by 0.1% on a gross-of-fees-and-tax basis for the quarter due to strong stock selection. Importantly the fund was able to achieve stable performance despite a volatile 'risk on/risk off' environment, emphasising the benefits of the multimanager structure and the fund's inherent diversity. Outperformance in Australian bonds was primarily due to a modestly underweight duration position which was successful as yields began to rise, as well as stock selection within high quality credit. Australian

enhanced cash benefited from strong running income and the contraction of credit spreads across all sectors, particularly in offshore banks, commercial mortgage-backed securities, and residential mortgage-backed securities. Outperformance within global listed infrastructure was driven by stock selection in French and Brazilian industrial companies, as well as within the European electric utilities. Unrewarded stock selection in Australian shares, particularly the underweight allocation to small- and mid-cap miners and overweight to the lagging transportation sector, suppressed gains. The active currency hedging tilt, via an underweight to hedged international shares, detracted value as the AUD appreciated.

#### netwealth Global Specialist Balanced Fund

The netwealth Global Specialist Balanced Fund performed in line with the benchmark on a gross-of-fees-and-tax basis for the quarter due to positive stock selection. Importantly the fund was able to achieve stable performance despite a volatile 'risk on/risk off' environment, emphasising the benefits of the multimanager structure and the fund's inherent diversity. Australian enhanced cash benefited from strong running income and the contraction of credit spreads across all sectors, particularly in offshore banks, commercial mortgage-backed securities, and residential mortgage-backed securities. Outperformance within global listed infrastructure was driven by stock selection in French and Brazilian industrial companies, as well as within the European electric utilities. Unrewarded stock selection in Australian shares, particularly the underweight allocation to small- and

mid-cap miners and overweight to the lagging transportation sector, suppressed gains. The active currency hedging tilt, via an underweight to hedged international shares, detracted value as the AUD appreciated.

#### **netwealth Global Specialist Growth Fund**

The netwealth Global Specialist Growth Fund underperformed the benchmark by 0.2% on a gross-of-fees-and-tax basis for the quarter, as positive stock selection was more than offset by the effect of unrewarded asset allocation. The fund was able to achieve stable performance despite a volatile 'risk on/risk off' environment, emphasising the benefits of the multi-manager structure and the fund's inherent diversity. Outperformance within global listed infrastructure was driven by stock selection in French and Brazilian industrial companies, as well as within the European electric utilities. Nil exposure to passive Australian property securities was beneficial as traditionally defensive REITs underperformed in a growth-driven environment. An overweight allocation to Australian cash detracted in a growthdriven environment. Unrewarded stock selection in Australian shares, particularly the underweight allocation to small- and mid-cap miners and overweight to the lagging transportation sector, suppressed gains. The active currency hedging tilt, via an underweight to hedged international shares, detracted value as the AUD appreciated.

#### **netwealth Global Specialist High Growth Fund**

The netwealth Global Specialist High Growth Fund outperformed the benchmark return by 0.1% on a gross-of-fees-and tax basis for the quarter. Value added from stock selection overcame the negative effect of unsuccessful asset allocation. Importantly, the fund was able to achieve stable performance despite a volatile 'risk on/risk off' environment, emphasising the benefits of the multi-manager structure and the fund's inherent diversity.

Outperformance within global listed infrastructure was driven by stock selection in French and Brazilian industrial companies, as well as within the European electric utilities. An underweight allocation to international property detracted as REITs outperformed global equities. Nil exposure to passive Australian property securities was beneficial as traditionally defensive REITs underperformed in a growth-driven environment. The active currency hedging tilt, via an underweight to hedged international shares, detracted value as the AUD appreciated.

## **Fixed Interest**

### **AUI Vianova Strategic Fixed Interest Trust**

The AUI Vianova Strategic Fixed Interest Trust – Wholesale units outperformed by -0.68% against its benchmark (UBSA Composite Bond Index) over the December 2010 quarter. The AUI Vianova Strategic Fixed Interest Trust – Retail units outperformed by 0.55% against its benchmark (UBSA Composite Bond Index) over the December 2010 quarter. The main contributor to performance was duration strategy and yield curve strategy, credit strategy had a neutral impact. At quarter end, the average credit rating of the portfolio sits at 'AA+f', with 78% of the portfolio having an 'AAA' credit rating.

### **Macquarie Income Opportunities Fund**

The fund outperformed the benchmark in the December quarter with the primary contributor being the holdings in the fund's core income portfolio. Sector rotation also contributed to performance. The core income portfolio's holdings of banks, RMBS, and diversified financials contributed to performance. The manager also undertook hedging strategies as it encountered bouts of volatility throughout the quarter. These prudent hedging activities conserved value to counterbalance the effects of widening credit spreads on the core income portfolio's credit holdings. Global sector rotation performance was driven by allocations to high-yield and emerging-market debt. Speculation of another round of quantitative easing by the U.S. Federal Reserve early in the quarter helped spreads contract, and while there was some retracement on speculation of interest rates hikes in China and focus on Ireland's fiscal situation, Obama's announcement of a compromised deal with Republicans to extend Bush-era tax cuts in the U.S. gave a further boost to risk appetite, pushing spreads lower. Allocations were increased earlier in the quarter as positive economic data momentum gained and as speculation of more quantitative easing grew, enhancing returns. The credit opportunities sector also contributed to performance, with the residential mortgage-backed, U.S. commercial mortgage-backed, and bank loans sectors contributing. The manager continues to seek opportunistic allocations to the sector on a risk-return basis and the allocation to U.S. commercial mortgage-backed securities was increased with a number of securities purchased made during the quarter.

## Property

### **Invesco Global Property Securities Fund**

The fund underperformed relative to the benchmark, with both stock selection and market allocation detracting from performance. A modest cash holding was also detrimental to overall performance. The main positive contributor to performance was stock selection in Canada. This was primarily due to holdings in Brookfield Properties in the office sector and Morguard REIT in the diversified sector. Key detractors from performance were stock selection in the U.S. and U.K. and market allocation in France and the Netherlands. In the U.S., Digital Realty Trust underperformed given increasing investor concerns on the potential for increased construction in the data centre market. Underweights in Senior Housing Properties and Developers Diversified Realty also detracted from relative performance. In the U.K., holdings in Unite Group and Land Securities Group, along with no exposure to outperforming Capital Shopping Centres Group, led the underperformance in that country. Overweight exposures to underperforming France and Netherlands also detracted, driven particularly by further weakening of the euro.

### **Zurich Investments Aust Property Securities Fund**

The Australian Property Securities Fund outperformed the S&P/ASX 300 Property Index over the December quarter. A major contributor to this outperformance was due to a positive outcome from a Multiplex class action settlement. Other stocks which contributed to the fund's performance over the quarter were overweights in: Tishman Speyer due to an improving New York market and local selling easing. Goodman Group outperformed due to the recommendation by the ING board to accept its takeover offer. Charter Hall Office announced further divestments in the U.S. Ardent Leisure bounced from oversold levels. Underweights in the following stocks also contributed to the fund's performance. Commonwealth Office bounced from oversold levels and was involved in NTA dilutive capital raising and acquisition. CFS Retail's result due to selling ahead of Westfield Retail capital raising funding. Westfield Group due to selling ahead of the split. Stocks which detracted from performance over the quarter were overweights in: Valad, which had to write off a mezzanine finance debt asset and MBO of European funds-management business; and Mirvac which suffered due to concerns over residential markets, volumes, and being overvalued.

Stocks which detracted from performance over the quarter were underweights in the following stocks. Westfield Retail fell as equity investors showed a preference for owning Westfield Group rather than Westfield Trust. Abacus, however, the manager regards this stock as not expensive and is continuing to be an active acquirer. GPT which is continuing to clean up the portfolio and its debt structure, and Stockland sold down its holding to the market.

## Australian Equities

### **AUI-Platypus Australian Equities Trust**

The Platypus Australian Equity Trust wholesale portfolio returned 5.48% in the December quarter, outperforming the benchmark ASX/S&P300 accumulation index by 0.83%. The major sectors contributing to relative performance over the quarter were materials (+0.76%), health care (+0.6%) and consumer staples (+0.3%). The major detractor from relative performance was consumer discretionary (-1.04%). The main contributors to the portfolio were Regis Resources (+0.72%), Campbell Brothers (+0.45%), and BHP Billiton (+0.38%). The main detractors from performance over the quarter included JB Hi-Fi (-0.59%) and Seek (-0.47%). Stocks exited during the quarter included CSL, Santos, and Medusa Mining while positions initiated included Newcrest Mining, Incitec Pivot, and WorleyParsons.

### **Aviva Investors High Growth Shares Trust**

The High Growth Shares Fund delivered a gross return of 7.1% for the quarter, outperforming the benchmark S&P/ASX 200 Accumulation Index return of 4.4% by 2.7%. Positive contributors: Alumina Ltd. (overweight), which rallied approximately 40% in the quarter. This was driven by better outlooks from its parent Alcoa and valuations in the market being enhanced by the potential breaking of historic linkages between alumina and aluminium pricing. AXA Asia Pacific Holdings (overweight), once the market gained surety about AMP's bid for the stock, the share price rallied almost 12%. The manager exited its position soon after this deal was announced to the market. Negative contributors: BHP Billiton (underweight), which rallied almost 20% after the company announced it had pulled out of the takeover bid for Potash. This coupled with the strong commodity complex dynamics and the possibility of future capital management assisted the stock to rally. The manager closed the fund's underweight position during the quarter. OneSteel (overweight) disappointed after guidance at the AGM and a negative reaction to the A\$900 million acquisition of Scaw Metals International, and subsequent equities issuance, led the stock to fall by approximately 12%.

### **Bennelong Australian Equity Fund**

The Bennelong Australian Equities Fund achieved a 7.2% return for the quarter ended Dec. 31, 2010, compared to the S&P/ASX 300 Accumulation Index return of 4.65%. This translated into a 12-month return of 7.92% compared with the S&P/ASX 300 Accumulation Index return of 1.9%. The December quarter outperformance was attributable to the portfolio's overweight positions in the miscellaneous services, construction, and gaming and leisure sectors, together with the underweight position in the consumer staples sector. This was partially offset by the negative contribution from overweight position in the health care sector.

### **Tyndall Australian Share Portfolio**

The fund outperformed the S&P/ASX 200 Accumulation Index in the December quarter. Overweight positions in Iluka, BHP, AXA, and James Hardie added to relative performance. Underweight positions in Westfield also aided relative performance. Overweight positions in Fairfax, Spotless, Downer, and Goodman Fielder detracted from relative performance. Performance was also held back by underweight positions in Alumina, Commonwealth Bank, and Fortescue. Iluka was in high demand due to heightened expectations of ongoing strength in zircon and titanium oxide. James Hardie lifted in concert with the brightening U.S. economic outlook. Fairfax underperformed after chief executive Brian McCarthy underwhelmed investors at the November strategy day. The board of Fairfax acted swiftly and accepted Mr. McCarthy's resignation. Downer performed poorly with the fading likelihood of meeting the self-imposed first deadline for delivery of the NSW passenger trains. Goodman Fielder fell victim to a decision by the ACCC to oppose the expected sale of the edible oils business.

## **International Equities**

### **Aberdeen Emerging Opportunities Fund**

The portfolio returned 0.17% in Australian dollar terms, lagging the benchmark, which rose 1.45%. Relative underperformance was largely due to our longstanding underweight to cyclical sectors such as materials, which rallied towards the year-end on renewed confidence over the global economy. At the regional level, EMEA was the main laggard. Underweights to Russia and South Africa, which are dominated by mining and energy stocks, hurt performance as both markets outpaced their regional peers. South African retailer Massmart came under pressure after Wal-Mart changed its bid to a partial offer to retain the Johannesburg listing. In Turkey, Akbank also lagged the broader market. The bank's earnings were lower than expected, owing

to smaller bond gains. In emerging Asia, the portfolio benefited from its significant underweight to China, which was dragged down by inflationary concerns. But the large underweight to the region's two best-performing markets, Taiwan and Korea, outweighed the gains. The improved global economic outlook underpinned both markets; and a holding in leading Taiwanese foundry TSMC rallied for the same reason. On a more positive note, Latin America contributed to relative performance, aided by an overweight to Mexico and exposure to nonbenchmark Argentina. Mexico rebounded strongly following weakness earlier in the year, while Argentina was driven by robust economic expansion. Cyclical holdings such as Brazilian miner Vale as well as Argentine oil and gas pipeline producer Tenaris performed particularly well, helped by a more optimistic demand and pricing outlook.

### **CFS Global Listed Infrastructure Securities Fund**

The CFS Wholesale Global Listed Infrastructure Securities Fund outperformed against its benchmark UBS Global 50-50 Infrastructure & Utilities TR Index (AUD hedged) over the December quarter. The main contributors to performance were Vinci SA, Central Japan Railway Company, and Unique Zurich Airport; while the main detractors were Crown Castle International Corp, Nextera Energy Inc., and Abertis Infraestructuras. During the quarter, positions were established in Tokyo Electric Power Company, Asciano, and Beijing Enterprises Hldgs; with positions in El Paso Corporation, Flughafen Wien AG, and Iberdrola SA being sold down.

### **Zurich Investments Global Thematic Share Fund**

The Global Thematic Share Fund slightly underperformed the benchmark index in the fourth quarter rising in value, and has underperformed the benchmark, declining in value, for the calendar year. Overall this outcome relative to the index reflects the portfolio's strategic view, which was to forego, if necessary, some upside, in return for defensive qualities should markets decline significantly. Rising equity markets (in U.S. dollar terms) have meant that these defensive qualities have not so far been necessary. But, as discussed above, it is believed that they still are. Themes helping returns in the quarter were antimatter, oil, gold and precious metals and intergenerational assets. Themes hurting returns were the two emerging-markets themes: emerging-markets real estate and national platforms.

## Quarterly Performance

### Individual Fund Performance (%)

Below are the individual fund performance returns over various time periods ending 31 December 2010, and the return of their relative market benchmark.

Manager/Fund	Individual Fund Return (%)					
	1 Mth	3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs
<b>Diversified</b>						
netwealth Global Specialist Conservative Fund	1.0	1.5	5.3	7.2	3.3	1.8
netwealth Global Specialist Balanced Fund	1.6	2.4	6.9	6.0	1.0	0.3
netwealth Global Specialist Growth Fund	2.2	3.2	8.7	5.1	-2.1	-1.7
netwealth Global Specialist High Growth Fund	3.1	5.0	11.6	3.6	-5.7	-4.0
<b>Fixed Interest</b>						
AUI-Vianova Strategic Fixed Int Trust-WS	0.1	0.5	1.2	5.2	7.2	
Macquarie Income Opportunities Fund	1.2	2.2	4.4	7.5	5.7	5.7
<i>Market Benchmark – UBS Composite 0+ Years</i>	0.0	-0.2	1.1	6.0	7.4	5.8
<i>Market Benchmark – BarCap Global Agg TR Hdg AUD</i>	0.0	-0.5	3.0	9.3	8.8	7.5
<b>Property</b>						
Invesco W Global Property Sec	4.7	5.1	20.3	16.8	-7.2	-0.9
Zurich Investments Aust Ppty Sec Fund	0.9	4.6	9.1	3.4	-19.4	-8.4
<i>Market Benchmark – S&amp;P/ASX 300 AREIT TR</i>	1.2	-1.2	2.6	-0.7	-21.4	-9.8
<i>Market Benchmark – S&amp;P Global Property Hedged Net TR</i>	4.6	5.2	19.7	15.9	-6.5	0.5
<b>Australian Equities</b>						
AUI-Platypus Aust Equities Trust-WS	4.6	5.5	14.3	0.5	-6.4	
Tyndall Australian Share Ws Portfolio	4.1	6.0	11.9	-2.4	-3.9	4.3
Bennelong Aust Equity Fund	5.1	7.0	16.7	7.1		
Aviva Investors High Growth Shares Fd	5.0	6.8	14.7	2.3	-0.5	7.1
<i>Market Benchmark – S&amp;P/ASX 300 TR</i>	3.8	4.7	13.3	1.9	-5.0	4.4
<b>International Equities</b>						
Zurich Invests Glob Thematic Sh Fd	-0.3	1.8	-0.2	-3.9	-7.4	-0.6
Aberdeen Emerging Opportunities Fund	-0.8	0.0	4.8	13.0	5.1	10.3
CFS Global Listed Infrastructure Securities	4.0	5.0	14.4	12.6	-2.0	
<i>Market Benchmark – MSCI World NR AUD</i>	0.8	2.8	2.6	-1.9	-9.6	-4.2

Data sources: Fund Manager, Lipper, and Bloomberg.

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