

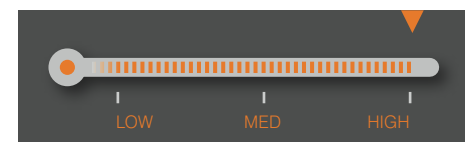
CASH AND DIVERSIFIED INCOME

LOCATION:
YARRA VALLEY, VICTORIA

DEGREE OF FOCUS ON KEY THEMES



INVESTMENT FOCUS OF FORUM CONTENT



Tuesday 22 May – Thursday 24 May 2012
Commences Tuesday evening and concludes Thursday late afternoon



YARRA VALLEY VIC

Cash and Diversified Income investments have always held a sizeable and important part of Institutional Investors' portfolios. On average, fixed interest investments represent around 25% of the default strategy of institutional portfolios, the second largest allocation after equities. With a continued uncertain macroeconomic environment unfolding and the trend of increasing internalisation within the superannuation funds playing out, ample opportunities within the CDI space exist, necessitating an allocation of time to debate the role of these types of investments within funds' portfolios.

In 2012 the forum will focus on the changes that have taken place within this space over the past twelve months, look at strategies for investing in these asset classes and outline new opportunities that emerge.

WHO SHOULD ATTEND?

Trustees, executives, investment committee members and investment staff of Institutional Investor entities involved in the appointment and monitoring of cash and diversified income managers

ATTENDANCE:

Approximately 20 fund representatives and 16 sponsor representatives

12
CPE POINTS

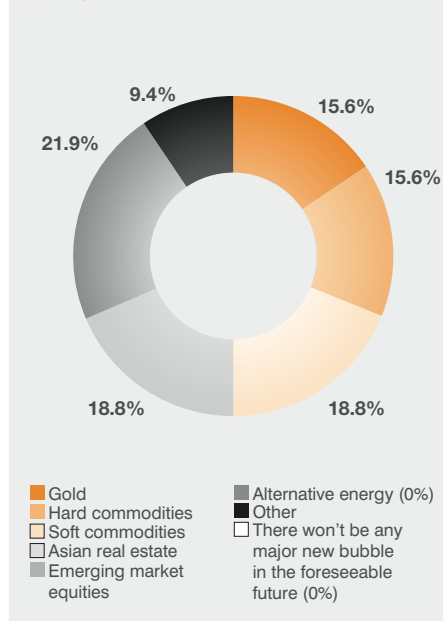
The inaugural CDI forum was held in February 2011 and attracted superannuation funds, fund managers and asset consultants representing a total of \$410 billion in funds under management. The forum addressed the key issues that superannuation funds were facing with respect to investing members' funds in cash and diversified income products.

Some of the focal points of the forum were to shed light on the prospects for the global economy and to assist delegates to address the threats and opportunities on offer for funds in relation to cash and diversified income investments.

2011 CDI forum attendees demonstrated a cautiously optimistic view of global markets. However, the world witnessed worsening economic conditions in the US and Europe in the second and third quarters of 2011. As such, delegates identified Europe as the region most at risk at the forum, with the US also coming under scrutiny. Whilst delegates foresaw the weakening of the US and the European economies, the gravity of the problems could not have been predicted.

In the US, Q2 2011 GDP growth was revised down to a mere 1% and unemployment proved to be a major drag on the economy. The slew of disappointing economic data continued throughout Q2 and Q3 of 2011. Meanwhile, investors spent much of 2011 in fear that a full blown financial crisis would erupt in Europe. Deterioration in economic conditions across most of Europe and the need for imposed austerity in Greece made the threat of contagion very real, as best illustrated through the very high premiums that European banks were paying to borrow in US\$'s via the swaps market during the second half of 2011.

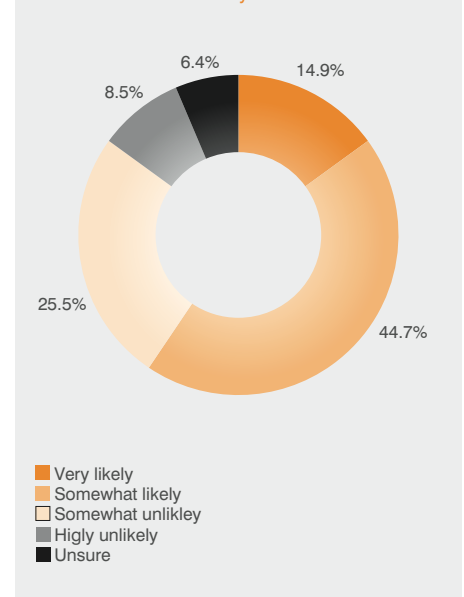
(Fig 1) The next major pricing bubble will be in:



During the 2011 forum concerns were expressed that major pricing bubbles were forming, predominantly in emerging market equities, soft commodities and Asian real estate (Fig 1). Later in the year, at CIE's Major Market Players investment forum held in September, 60% of respondents noted that the probability of a bubble in emerging markets was somewhat or very likely (Fig 2). As such, it became evident that sentiment towards the likelihood of bubbles existing in emerging markets had worsened over the course of 2011.

The unstable economic environment prompted regulatory changes and a rethink of how the finance industry operates, to create a more controlled and better functioning system for the future. Basel III introduced new liquidity standards and capital buffer requirements in the beginning of 2011 in a bid to raise the

(Fig 2) In your view, how likely is the probability of a bubble in emerging markets in the next 3-5 years?



quality, consistency and transparency of the capital base of banks globally. While, for the most part, this is considered a positive development, some participants at the CDI forum expressed views that increased regulation stood to stifle innovation within the industry. This development is furthermore believed to partially drive a tendency for Australian investors to have a home country bias when setting portfolio allocations due to a lack of clarity and in-depth understanding of how foreign markets are regulated (Fig 3).

Particular attention was paid to the use and suitability of current fixed income benchmarks, a theme CIE looks to continue in 2012. The 10-year government bond rate has traditionally been used as a proxy for the risk free rate in modelling. However, with the public debt to GDP ratio ballooning in many developed nations, concerns are emerging around whether this is in fact a suitable benchmark.

“CIE have always produced a range of highly effective, interesting and well attended forums. They are to be commended for moving into the more exciting asset classes of cash and FI.”

Scott Cornfoot,
Director, Investment Specialist
QIC, Global Fixed Interest

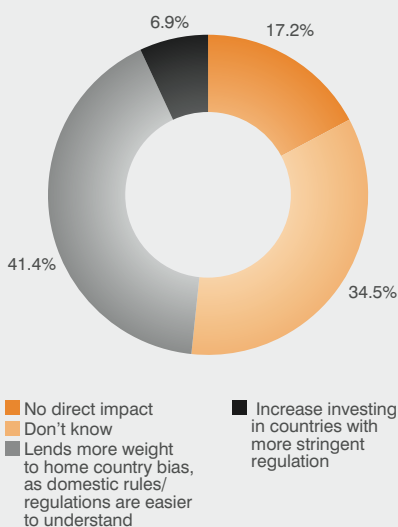
“First rate forum. Well run and organised.”

John Hopper,
Head of Income Assets
AustralianSuper

“Australia’s preeminent networking forum with a broad and investigated exchange of ideas and views. We are delighted to be associated with CIE.”

Phil Levinson,
Managing Director
The Blackstone Group

(Fig 3) What does increased and differing country regulations, accounting and valuation rules mean for Australian investors?



Since the global economy is dominated by US and European sovereigns, which are highly indebted, using local benchmarks is gaining increased attention as a possibly more appropriate alternative to using global benchmarks. This will remain a contentious issue within the industry and will form part of the discussions at CDI in 2012.

In 2012, the forum will unravel the dynamics behind the themes addressed in 2011 and present delegates with innovative ideas for the future of long-term investing in the new investment reality. CIE will address the implications, opportunities and threats, within cash and income producing assets arising as a result of the global economic shift from West to East, the US seeking to grow its way out of debt and the ongoing attempts by Europe to manage its ballooning debt.

Advisory committee

Paul Murray
Head of Debt and Absolute Returns,
Victorian Funds Management Corporation

Chris Artis
Head of Fixed Interest,
Telstra Super Pty Ltd

John Hopper
Head of Income Assets,
Australian Super

Dennis Sams
Head of Fixed Interest and Cash
UniSuper

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