

## Performance Overview

In what was a difficult quarter, the Finovia Defensive Portfolio fell -0.42%, the Finovia Balanced Portfolio fell -0.94% and the Finovia Growth Portfolio fell -1.48%, particularly impacted by the poor performance of their gold related investments. For the 2011 calendar year the Finovia Defensive Portfolio fell -2.27%, the Finovia Balanced Portfolio fell -4.65% and the Finovia Growth Portfolio fell -6.99%.

Highlights for the quarter included the State Street S&P/ASX 200 ETF (+2.0%), Ardea Inflation Linked Bond Fund (+5.4%), Magellan Flagship Fund (+8.5%), Epoch Global Equity Yield Fund (+9.4%), State Street S&P/ASX 200 Listed Property ETF (+4.1%) and Lazard Global Listed Infrastructure Fund (+4.2%). Laggards included the Gold Bullion ETF (-8.0%), Market Vectors Gold Mining ETF (-8.6%), Market Vectors Junior Gold Mining ETF (-8.8%), Baker Steel Gold Fund (-9.7%) and Global Mining Investments (-3.2%).

We were active through the quarter adding to our equity exposures on weakness. Some of the increased equity exposure was implemented through ETFs, although we also added to our Orbis Australian Equity Fund position, introduced the Perpetual Share Plus Australian Equity Fund (long/short) and added an active European equity exposure. Towards quarter end we also added to our Gold Bullion position.

We sold out of our full position in Souls Private Equity late in the quarter. As noted in previous reports this fund was subject to a takeover offer by the parent Soul Pattison Group at 16.3 cents. We were able to offload our position at prices very close to this prior to the close of the offer. We also took a position in the new issues of AFIC Convertible Notes, which offered a 6.25% p.a. yield for 5 years and provided an effective call option on the Australian sharemarket. This security listed on the ASX in late December at a 4-5% premium to the issue price. We also continued to build a modest position in the listed Hastings High Yield Fund (Defensive and Balanced only).

In the alternative asset space, we added slightly to our Hayman Japan Macro Opportunities position, which is looking to benefit from higher Japanese bond yields and/or a lower Japanese Yen, as markets increasingly focus on the country's dire fiscal position. The Alternative Investment Trust, which we added to early in the quarter, announced a further capital return of 15 cents in December.

The Bear Put Spread on the S&P 500 Index expired in December and we do not intend to buy further protection at current prices given the elevated level of volatility and our positive, albeit cautious, view on most equity markets looking forward.

## Key Facts at a glance

### Finovia Defensive Portfolio

Unit price~	A\$1.0682
Quarter return	-0.42%
Dec dist. (CPU)^	0.50c

### Finovia Balanced Portfolio

Unit price~	A\$1.1039
Quarter return	-0.94%
Dec dist. (CPU)^	0.25c

### Finovia Growth Portfolio

Unit price*	A\$1.1241
Quarter return	-1.48%

~Unit price stated is ex 31 December 2011 distributions.

^(CPU) refers to cents per unit.

\* There was no distribution for the Finovia Growth Portfolio.

### Investment Options

There are three investment options namely the Finovia Defensive Portfolio, the Finovia Balanced Portfolio and the Finovia Growth Portfolio (the Finovia Portfolios or the Portfolios), which aim to achieve attractive returns through managing a diversified portfolio of investments across the full range of defensive and growth asset classes and across different risk profiles.

### Description

The Portfolios invest primarily in other managed funds (including conservative hedge funds), listed securities, fixed interest securities and cash. The Portfolios will be diversified across major asset classes including cash and fixed interest, listed and direct property, and Australian and International shares.

### Investment Philosophy

We believe that the key to long term wealth creation is to achieve attractive compounding rates of return above the cash return, in addition to limiting major losses to capital in difficult markets conditions, through true diversification.

### Performance

All performance numbers are calculated net of fees and on an accumulation basis assuming reinvestment of any distributions.



We maintained our currency hedging level with a modest amount of our passive currency exposures left unhedged as diversification, should the Australian dollar have weakened. All return numbers include relevant currency hedges.

## Outlook

We continue to believe that excessive pessimism regarding global macroeconomic challenges, reasonably attractive growth asset valuations and low and falling interest rates suggest upside rather than downside surprises may dominate the coming year. Indeed the overwhelming pessimism that has recently seen some of the few remaining bulls throw in the towel and recommend lower equities exposure is, in our view, characteristic of market bottoms rather than the appropriate times to exit equities.

Markets have begun 2012 with a cautiously positive tone and we would therefore not be surprised to see some solid follow-through develop during the early months of the year. Having said this we expect 2012 to be another volatile year, and believe any bottoming process will be somewhat rocky and we are likely to lighten our growth asset exposures on any strong rallies.

While we continue to hold some diversified fixed interest investments, we maintain our bias to inflation linked bonds, and have identified a few listed fixed interest opportunities, however, we believe the opportunities across the fixed interest spectrum are somewhat limited. In particular, in a world where the credit quality of government bonds is increasingly questioned and the future inflation implications of current loose monetary policies uncertain, we believe investors buying "safe haven" sovereign bonds in the UK, Japan and the US, amongst others, are setting themselves up for some severe disappointments. As a result of this view, and the better value in many growth assets, we are positioned toward the minimum end of the range for cash and fixed interest assets.

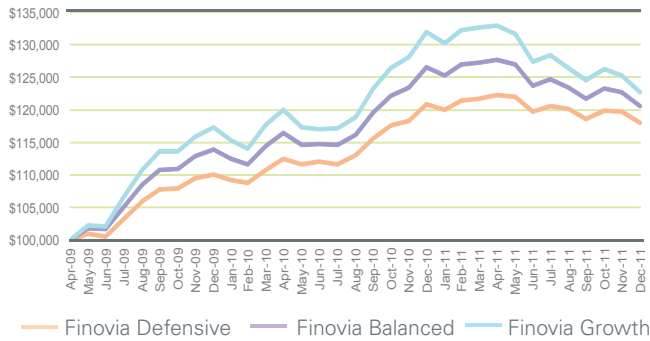
It has been pleasing to see gold stocks claw back part of last year's losses in the early weeks of 2012. Despite gold mining stocks significantly lagging the positive performance of gold in 2011, we would not be surprised if they were one of the best performing investment areas in 2012 given their undervaluation versus gold, increased corporate activity and continued strong underpinnings of the bull market in gold bullion.

We expect more local interest rate cuts in coming months, and this should cap the upside of the Australian dollar. However, in a world with few currencies with strong fundamentals, we do not see a case for a dramatic fall unless China were to slow dramatically

and we may then look to increase hedges if the currency weakens towards the low \$US0.90s.

Note: Performance numbers take into account relevant currency hedges.

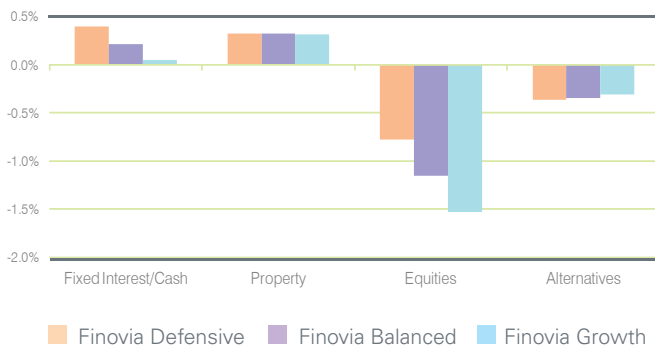
## Total Return of a A\$100,000 Investment



## Performance Summary

	Defensive	Balanced	Growth
1 month	-1.39%	-1.70%	-2.02%
3 months	-0.42%	-0.94%	-1.48%
6 months	-1.37%	-2.55%	-3.73%
1 year	-2.3%	-4.7%	-7.0%

## Attribution by Sector (1 Oct 11 to 31 Dec 11)



## Key Sector Holdings

Fixed Interest	Property & Infrastructure	Equities	Alternatives
Ardea	Infrastructure Capital	Baker Steel	36 South
DFA*	Lazard	Bennelong	AQR
Kapstream	Phoenix	Denning Pryce	Aspect
Macquarie*	PrimeAg	Ellerston	Gold Bullion
Vianova*	SG Hiscock	Wingate	H3 Global Advisors

\*Finovia Defensive & Balanced only

## Exposure by Investment Type <sup>1,2</sup>

	Cash & Fixed Interest				Property & Infrastructure				Equities (incl. hedged styles)								Alternatives								Current	
	Aus. Fixed Interest	Intl. Fixed Interest	Aus. High Yield	Intl. High Yield	Aus. Property	Intl. Property	Aus. Infrastructure	Intl. Infrastructure	Agriculture	Aus. Equities Large Cap	Aus. Equities Mid/Small/Micro Cap	Intl. Equities Large Cap	Intl. Equities Mid/Small/Micro Cap	Global Resources	Global Gold Equities	Global Private Equity	Hedge Funds	Fund of Hedge Funds	Managed Futures	Commodities	Precious Metals/Gold	Diversified Alternatives				
Finovia Defensive	3%	19%	3%	0%	0%	5%	0%	7%	2%	4%	6%	3%	8%	6%	4%	8%	4%	2%	6%	4%	2%	3%	0%	Total	17%	10-35%
Finovia Balanced	3%	11%	1%	0%	0%	5%	0%	7%	2%	4%	7%	4%	11%	7%	5%	11%	5%	3%	5%	4%	2%	2%	0%	Total	17%	10-35%
Finovia Growth	3%	2%	0%	0%	0%	4%	0%	6%	2%	5%	8%	5%	14%	8%	7%	13%	6%	3%	5%	5%	2%	1%	0%	Total	16%	10-35%

<sup>1</sup> Exposures are estimates.

<sup>2</sup> Includes the look-through exposures of each underlying investment (including cash holdings for unlisted long-only managers). The total exposure may not sum to 100% due to any direct derivative investments (such as options and futures).



## Important Information

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