



# Suncorp Conservative Fund Quarterly Investment Report September 2011

## Fund Summary Investment Objective

The objective of this Fund is to provide a quarterly income stream while obtaining some capital growth over the medium term.

### Who Should Invest

The Fund is designed for investors who:

- Desire a regular income stream with a higher potential for income and growth than a term deposit.
- Have an investment time frame of 3 years or more.
- Feel comfortable with some volatility in their investment.

### Fees

	Contribution Fee	Nil Contribution Fee
	Option	Option
Contribution Fee	3%	NIL
Ongoing Fee	1.95%	1.95%
Withdrawal Fee	NIL	4% (applicable for the first 3 years of each individual investment)

### Key Features

Minimum Initial Investment	\$2,000
Minimum Additional Investment	\$1,000
Minimum Withdrawal	\$1,000
Monthly Saving Plan	Yes (minimum \$100) per month ^
Investment Time Frame	3 years plus
Income Distribution	Quarterly
Fund Establishment Date	23 February 1996

^ Only available under the Contribution Fee Option

### Market review

The quarter was dominated by uncertainty over European and US sovereign debt issues. The markets proved extremely volatile as global risk aversion took hold and weaker domestic data saw bond yields fall. The market was pricing in significant rate cuts over the next 12 months given the gloomy global backdrop. This saw bond yields slump dramatically during the quarter with 10-year bonds at 4.22% (down from 5.21%) and 3-year yields at 3.62% (down from 4.76%) as investors sought safe havens in the market turmoil.

Domestic data in July was generally weak with retail sales and building approvals lower, although trade balance and labour force showed signs of improvement. The big surprise was the CPI released in the last week of July coming out above expectations at 0.9% for quarter 2. The underlying numbers were also stronger than the expected, pushing headline inflation above the Reserve Bank of Australia's (RBA) upper target band of 3%. In August, a raft of weaker data also weighed on local sentiment with labour force, building approvals, house prices, business conditions and consumer sentiment all falling. Despite weaker employment and softer house prices, September brought some relief with a rise in retail sales and the second-largest trade surplus ever.

As part of the panic evident in the markets, and the subsequent flight to quality, investors bought heavily into US dollars in the second half of September. This led to the Australian dollar slipping below parity with the US dollar for the first time since March.

The Australian equity market index, the S&P/ASX 200 accumulation index, realised a significant negative 11.58% return for the quarter. The RBA outlined how conditions in global financial markets have continued to be very unsettled, with uncertainty increasing about both the prospects for resolution of the sovereign debt and banking problems in Europe, and the outlook for global economic growth.

### Fund performance \*

30 September 2011	1 month		3 month		6 month		1 year		3 year		5 year	
Fund performance	CF	NCF	CF	NCF	CF	NCF	CF	NCF	CF	NCF	CF	NCF
<b>Total return</b>	<b>-0.79</b>	<b>-0.78</b>	<b>-0.58</b>	<b>-0.57</b>	<b>0.01</b>	<b>0.03</b>	<b>2.72</b>	<b>2.73</b>	<b>4.06</b>	<b>4.07</b>	<b>1.91</b>	<b>1.91</b>
Growth return	-6.31	-6.30	-6.11	-6.10	-7.74	-7.73	-7.09	-7.09	-1.50	-1.50	-4.52	-4.52
Distribution return	5.52	5.52	5.53	5.53	7.75	7.76	9.81	9.82	5.56	5.57	6.43	6.43
<b>Benchmark<sup>#</sup></b>	<b>-0.97</b>	<b>-0.97</b>	<b>-1.01</b>	<b>-1.01</b>	<b>-0.32</b>	<b>-0.32</b>	<b>3.91</b>	<b>3.91</b>	<b>5.22</b>	<b>5.22</b>	<b>3.68</b>	<b>3.68</b>

CF = Contribution Fee. NCF = Nil Contribution Fee

<sup>#</sup> The Fund Benchmark is a blended return of the following indices and the neutral asset benchmark weight: 70% of UBSA Composite Bond Index for Australian fixed interest, 15% of S&P/ASX 200 Accumulation Index for Australian shares, 5% of MSCI World Index ex Aust (with net dividends reinvested) expressed in AUD (unhedged) for overseas shares and 10% of S&P/ASX 200 Australian Real Estate Investment Trusts (A-REITs) Accumulation Index for listed property.

\* The performance figures are calculated using soft close end of month exit prices are used. Performance figures do not include any contribution or withdrawal fees or any taxation consequences and are net of nominal transaction and banking costs at the SIM Trust level. The performance figures do allow for the historic ongoing fee. Income and distributions are also assumed to be reinvested back into the Fund. Past performance is not a reliable indicator of future performance. Future performance may vary widely from the returns shown here.

The best performing index stock for the quarter was Bow Energy (+64.1%) which rose sharply in August after receiving a non-binding and conditional takeover offer from Arrow Energy, the offer was at a 67% premium to the prior day's close. Among the worst performing index stocks for the quarter was Paladin Energy (-51.8%) who's share price slumped after uranium spot prices fell as demand for nuclear power declined after the Fukushima nuclear crisis in Japan.

Declining stock markets dragged the MSCI World ex-Australia index to its biggest quarterly loss since early 2009. The benchmark slid 8% (AUD) during the quarter while the MSCI Emerging Markets index retreated 14.7% (AUD). The stock markets of the USA, Europe and Japan each had double digit losses during the quarter, while losses on the Chinese stock market were limited to 4%. The gold price fell sharply too, but still managed to gain over the quarter as more investors are questioning the stability of paper currencies.

The S&P/ASX 200 Australian Real Estate Investment Trusts (A-REITs) accumulation index was down 8.01%, for the quarter. The Australian dollar was high in comparison to most foreign currencies for the majority of the third quarter. This made the Australian property sector less attractive with less interest from overseas investors.

### Market outlook

In our view, much of the current market disruption is due to politics and associated declines in confidence. Although data has softened around the globe, it is still not at recessionary levels in the major economies despite what the market is pricing. Australian inflation is still at the top of the RBA's target 2%-3% band even if it has slightly reduced recently. Downside risks include the situation in Europe or the US deteriorating further leading to knock-on effects in Asia (particularly China), or if there is a serious slump in Australian employment and its terms of trade.

The RBA yet again kept rates on hold at its October meeting, although the accompanying statement shows a slight shift in its language, which some market commentators have read as indicating a rate cut in November. In our view, the RBA is saying that it has put rate cuts on the table, but it hasn't picked up the knife and fork just yet. It might do so if there was a structural decline in our terms of trade (volume as well as price) and we see a sharp rise in unemployment—but both would have to occur to make the RBA act.

Australia's terms of trade are very high, which has increased national income considerably. Investment in the resources sector is picking up very strongly and some related service sectors are enjoying better than average conditions. In other sectors, cautious behaviour by households and the earlier rise in the exchange rate have had a noticeable dampening effect. The impetus from earlier Australian Government spending programs is now also abating, as had been intended. While there remain good reasons to expect solid growth over the medium term, the indications are that the pace of near-term growth is unlikely to be as strong as earlier expected, due both to local and global factors, including the financial turmoil and related effects on business confidence.

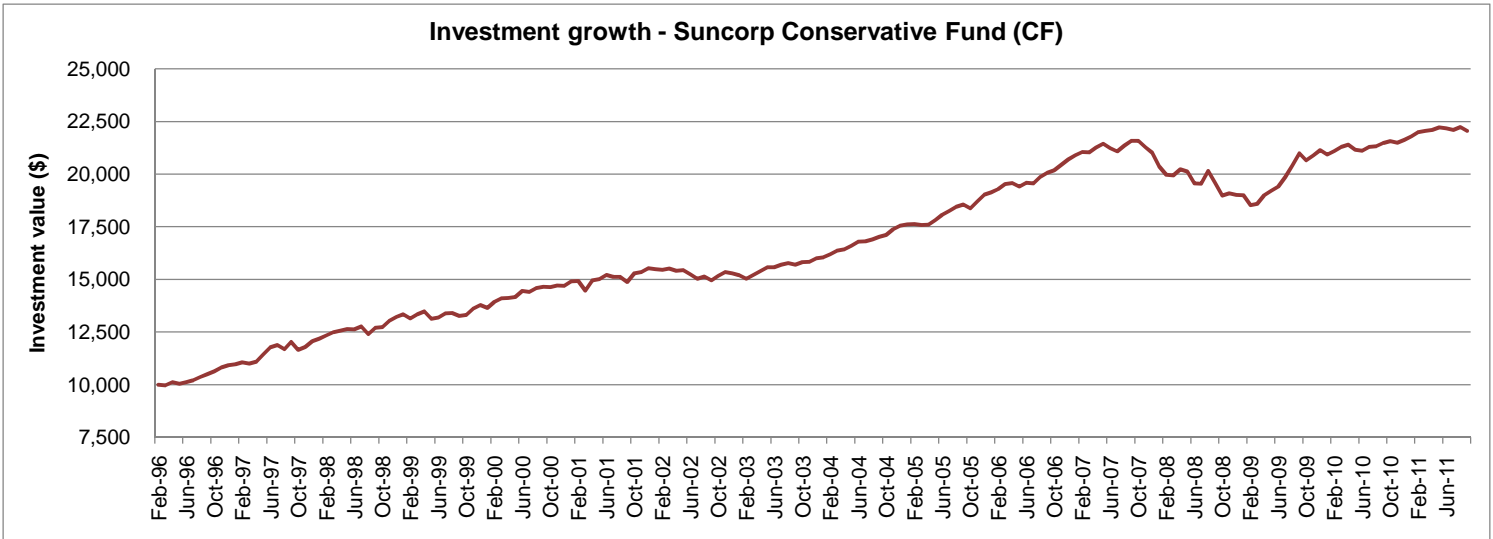
The outlook for global equities remains uncertain. The head of the European finance ministers, Luxembourg's Jean-Claude Juncker, said they may need to renegotiate the terms of Greece's bailout and adjust "technical revisions," which fuelled concern bondholders may have to take bigger losses on Greek debt that they hold. The European finance ministers also pushed backed a decision on the release of Greece's next loan instalment until after 13 October, the second postponement of a vote originally slated for early October. Weakness in European bank stocks is still leading the overall market lower after Dexia SA, Belgium's biggest bank by assets, plunged 30% after its board asked the company to solve its "structural problems". Germany's Deutsche Bank also fell sharply after saying its profit target from its core businesses for 2011 is no longer achievable. Uncertainty among European banks is widespread and has led to limited lending between them.



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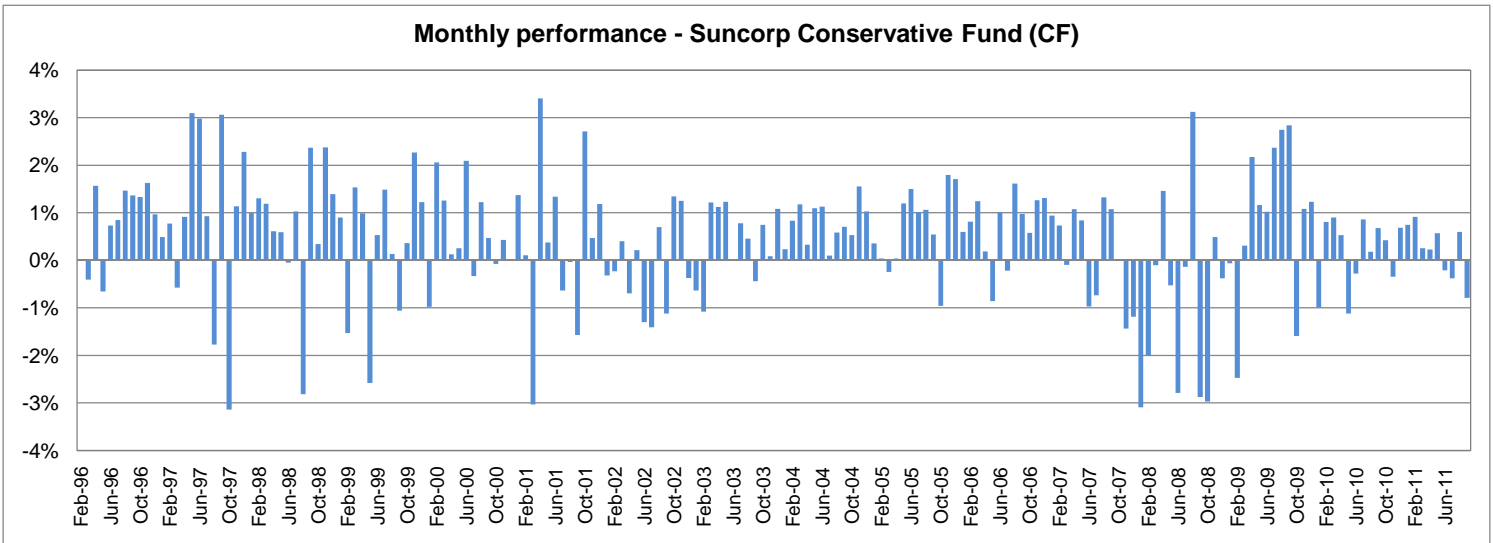
## Performance graph

This graph shows the value of \$10,000 invested in the Suncorp Conservative Fund (Contribution Fee Option) since inception.



## Monthly volatility graph

This graph shows the volatility in the monthly performance of the Suncorp Conservative Fund (Contribution Fee Option) since inception.



Please refer to the Suncorp Investment Funds Product Disclosure Statement and its Supplementary ("SPDS") for full details of each Fund's benchmark.

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Any advice contained in this document has been prepared without taking into account your particular objectives, financial situation or needs. For that reason, before acting on the advice you should consider the appropriateness of the advice having regard to your own objectives, financial situation and needs.

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