

## Background

---

Following the failure of the US congress to ratify the planned \$700 billion bailout package for financial institutions, Lonsec feels it is important to provide a brief summary of what has occurred, the implications for markets and the likely options for the US going forward. Lonsec also believes it is necessary to reassure Lonsec's managed funds Model Portfolio clients as to the structure of the model portfolios and what implications these events may have on the performance of the managed funds Lonsec Model Portfolios.

## What has happened?

---

The financial rescue plan intended to restore confidence in the U.S. banking system collapsed in partisan wrangling as the House of Representatives voted down the proposal backed by the Bush administration and congressional leaders of both parties. US equity markets plunged as the House rejected, by a vote of 228 to 205, the \$700 billion measure to authorize the biggest government intervention in the markets since the Great Depression. The Dow Jones Industrial Average fell 778 points, or 6.98 percent to 10,365. The Standard & Poor's 500 Index fell 8.8 percent, the most since Oct. 26, 1987.

## Where to now?

---

It is likely that a revised proposal will be presented later in the week. However, it is also important to realise that it is not the end of the world if the plan does not gain approval. There are other alternatives to the \$700bn bailout fund that many economists believe are better.

## What does it mean for Australia?

---

It is important to realise that Australia's relative position looks quite good versus the G7 industrial countries. Australia's banking system remains quite robust (our top 4 Banks are amongst only ten Banks currently rated AA or higher in the world), economic growth is slowing but is still reasonable, unemployment remains very low, the Federal Government has no net debt and is running a Budget surplus, the RBA has room to cut interest rates, the housing sector remains firm and Australia is well endowed with natural resources and energy that remain in strong demand.

## Implications for Managed Funds Lonsec Model Portfolios

---

The events taking place in the US will have an impact on performance across most asset classes. Naturally the impact of negative market sentiment will flow on to the short-term performance of the model portfolios. Despite the increase in market volatility Lonsec is not recommending any changes to the structure or underlying fund exposures within the managed funds Lonsec Model Portfolios.

The portfolios remain diversified across a number of factors, including:

- Asset class diversification: The model portfolios are diversified across assets classes that have differing growth and defensive characteristics.
- Regional diversification: The model portfolios are exposed to assets across regions around the world with a bias to domestic assets.
- Investment style and processes: The equities exposure within the model portfolios include managers with different investment styles — growth, core, value. By blending investment processes Lonsec believes a better risk adjusted performance outcome can be achieved as different investment styles will perform differently over a full market cycle.
- Fund manager diversification: the model portfolios are not materially exposed to any single fund manager which should mitigate manager specific risk.

The Lonsec Model Portfolios are designed to incorporate an investor's investment time horizon and risk appetite. Lonsec remains confident that the model portfolios will achieve their target investment performance over their stated investment time horizon.

In short, market volatility is likely to continue, clients should stick to their investment strategy unless your client's circumstance have changed. Lonsec continues to monitor the underlying funds within the model portfolios, as a result of Lonsec's dynamic research process.

Date Released: September 2008

**Analyst:** Lukasz de Pourbaix

**Authorised by:** Grant Kennaway

---

**IMPORTANT NOTICE:** The following relate to this document published by Lonsec Limited ABN 56 061 751 102 ("Lonsec") and should be read before making any investment decision about the product(s).

**Disclosure at the date of publication:** Lonsec receives a fee from the fund manager for rating the product(s) using comprehensive and objective criteria. Lonsec's fee is not linked to the rating outcome. Costs incurred during the rating process of international funds, including travel and accommodation expenses are paid for by the fund manager to enable on-site reviews. Lonsec does not hold the product(s) referred to in this document. Lonsec's representatives and/or their associates may hold the product(s) referred to in this document, but detail of these holdings are not known to the Analyst(s).

**Warnings:** Past performance is not a reliable indicator of future performance. Any express or implied rating or advice presented in this document is limited to "General Advice" and based solely on consideration of the investment merits of the financial product(s) alone, without taking into account the investment objectives, financial situation and particular needs ('financial circumstances') of any particular person. Before making an investment decision based on the rating or advice, the reader must consider whether it is personally appropriate in light of his or her financial circumstances or should seek further advice on its appropriateness. If our General Advice relates to the acquisition or possible acquisition of particular financial product(s), the reader should obtain and consider the Product Disclosure Statement for each financial product before making any decision about whether to acquire a product.

Lonsec's rating process relies upon the participation of the fund manager. Should the fund manager no longer be an active participant in the Lonsec rating process, Lonsec reserves the right to withdraw the document at any time and discontinue future coverage of the Fund(s).

**Disclaimer:** This document is for the exclusive use of the person to whom it is provided by Lonsec and must not be used or relied upon by any other person. No representation, warranty or undertaking is given or made in relation to the accuracy or completeness of the information presented in this document, which is drawn from public information not verified by Lonsec. Conclusions, ratings and advice are reasonably held at the time of completion but subject to change without notice. Lonsec assumes no obligation to update this document following publication. Except for any liability which cannot be excluded, Lonsec, its directors, employees and agents disclaim all liability for any error or inaccuracy in, or omission from, this document or any loss or damage suffered by the reader or any other person as a consequence of relying upon it.