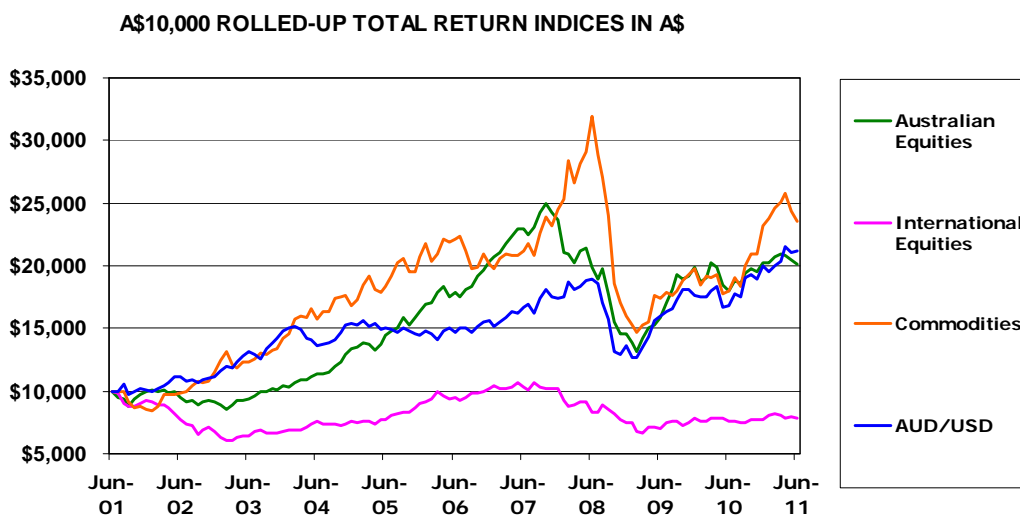


Quarterly Investment Outlook

June 2011

Introduction

The June quarter of 2011 saw **defensive assets outperform growth assets**. Australian Shares (-4.02%), International Shares (-2.94%), Australian Listed Property (-0.51%) and International Property (-0.56%) all tended to be influenced by financial year-end pressures (such as tax related selling) however Australian Cash (+1.23%), Australian Fixed Interest (+2.33%) and International Fixed Interest (+2.48%) all showed solid gains.



Over the quarter, investors had to endure high levels of market volatility as USD weakness, US debt levels, US housing, Greek debt crisis, Middle East conflict and resultant oil price gains together with the spiralling price of commodities, dominated the short-term investment horizon.

Despite the challenging international environment, the central scenario for the world economy envisaged by most forecasters remains one of **growth at, or above, average** over the next couple of years. A number of countries have tightened monetary policy but overall global financial conditions remain accommodative and underlying **rates of inflation have tended to move higher**.

Economic Update

The June quarter saw China implementing policies to prevent their economy from overheating by raising their one-year lending rate by 0.25% to 6.56% in early July 2011. In the US, the Federal Reserve has left interest rates unchanged with the target range for the federal funds rate unchanged at 0.25%. The US economic **recovery is continuing at a moderate pace**, though somewhat more slowly than expected.

The slower pace of the recovery reflects in part factors that are likely to be temporary, including the dampening effect of higher food and energy prices on consumer purchasing power and spending, as well as, supply chain disruptions associated with the tragic events in Japan.

Central banks are concerned with emerging inflation post the quantitative easing and lower interest rates generally. Interest rates have been artificially kept low to buy time for the economy to recover. The next move by central banks is likely to be to push interest rates higher in order to slow the emerging growth and crimp demand for raw materials. This action is likely to temper demand for manufactured goods.



Quarterly Investment Outlook

Australia is not immune to inflation as strong investment flows into the resources sector places more pressure on wages growth and prices generally. The risk here for Australia is that global central banks efforts to rein in inflation via higher interest rates rather than fiscal measures may backfire and result in a downturn in the global economy. Falling demand for raw materials will impact the Australian economy.

Outlook

In Europe and the US in particular, the markets are **running on fear not fundamentals**. Resilience and adaptability are among the characteristics we will all need in order to cope with a global environment that is growing more complex rather than less, and that presents both economic challenges and opportunities greater than those we have seen for many years.

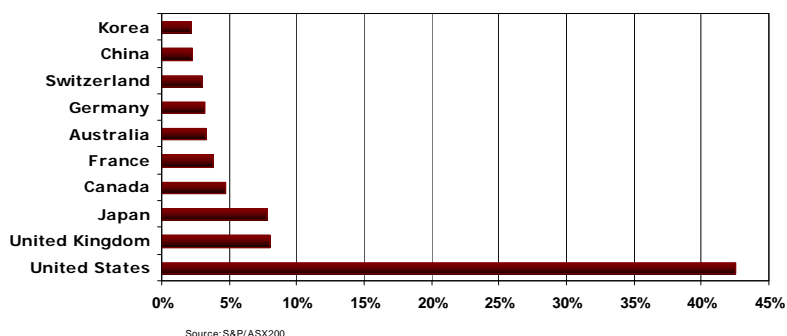
The good news is that **positive signs are now emerging** in relation to the underlying economic conditions, particularly in the US, where there is evidence that the economy is slowly showing signs of improvement with household spending and business investment in equipment and software, continuing to expand. Fed officials are betting that any slowdown will prove short-lived and growth will pick up from July through December 2011 as shocks from Japan's earthquake and the oil-price surge fade.

For Australia, the outlook for commodity prices and inflation are a key concern for economic growth and corporate profits. Although inflationary trends are emerging, the Reserve Bank board decided to leave the cash rate unchanged at 4.75% at the July 2011 meeting commenting that the **economy is continuing its expansion**, but the pace of growth slowed in the June quarter.

Across the broader Australian market, corporate profits are **expected to recover** leading to higher share prices in the second half of 2011. With the Australian share market heavily biased towards Banks and Resource stocks, any global recovery may start to favour other industries that will look to grow their earnings in order to attract investment flows. The mining sector now represents 25 percent of the share market by value and coal, iron ore and gold representing over 60 percent of our export revenues. Any change in global demand will significantly impact the Australian economy and the resource stocks.

As Australia only makes up approximately 3% of the world's companies in terms of market capitalisation, there are opportunities abroad where global companies offer greater diversification to your current equity holdings by providing a **more balanced mix of industry exposures geographically** rather than the concentrated resource and bank exposures that the Australian market offers. The top countries by market capitalisation are broadly the US (42%), Europe (18%), UK (9%), Japan (8%), Canada (4%), Australia (3%) and China (2%). As international exposures involve currency risks, please check with your financial adviser as to how these risks can also be managed.

TOP 10 COUNTRIES IN MSCI WEIGHTED BY MARKET CAPITALISATION



Conclusion

Inflation is likely to play an important role in the short term market direction in the months ahead. Fixed interest investments are ideal for your income needs when the economy is contracting and interest rates are falling however **they may not keep pace with inflation when the economy is expanding** and interest rates are rising. It may be a good time to review the mix of your growth and income assets in your portfolio as we move towards the next phase of the market recovery.

For those clients that have a defensive bias in their portfolio it may be an opportune time to **contact your financial adviser for guidance** on the re-positioning of your wealth strategy towards growth assets.

