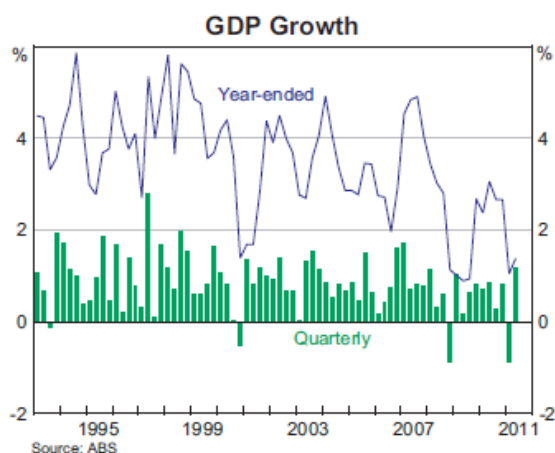


Economic News

Australian economic growth rebounded by 1.2% in the second quarter of 2011, following a contraction of 0.9% in the first quarter due to extreme weather events. However, the annual growth rate has fallen to 1.4% and economic data remains soft. Household spending has been weak and is expected to remain so for most of 2011. Retail trade has been patchy, housing activity has slowed and credit growth is flat.



The unemployment rate has crept up to 5.3%, suggesting the broader economy is weaker than the Reserve Bank of Australia (RBA) expected. At the same time, global growth forecasts have been revised down on European woes and commodity prices have experienced a sharp sell-off. Asset prices have also been weakening, with Australian house prices down around 3% over the past 12 months. On the positive side, business investment is slowly gaining momentum, particularly in the mining and energy sectors.

Despite the expected short-term dip in growth, the fundamentals of the Australian economy remain sound. Australia's economy is now highly leveraged to growth in emerging Asia and hence the Asian economic cycle is now the key risk for our economy.

The US, Europe and Japan are struggling to recover from the financial crisis. The drawn-out process of resolving the European sovereign debt issues,

downgrades to Italy's credit rating and large French banks, the ballooning USA deficit, the unhelpful debt ceiling debate and S&P downgrade all combined to create negative sentiment and high market volatility. Comments from the IMF that the global economy has entered a "dangerous new phase" with warnings that the US and Europe could fall back into recession further exacerbated fears.

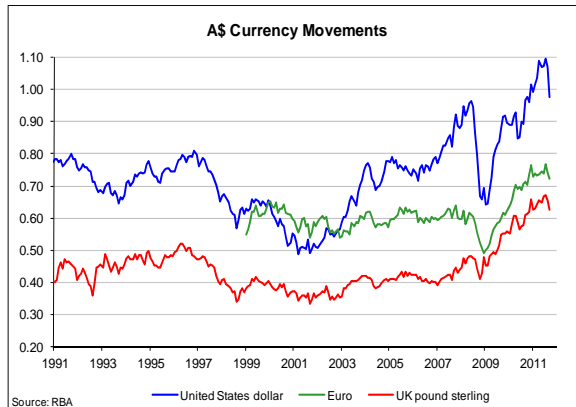
In the **US**, GDP grew by 1.3% (annualised) in the June 2011 quarter. Since then, US data has continued to soften with the unemployment rate stuck at 9.1%. Manufacturing surveys have drifted closer to a level signaling contraction, consumer confidence has dived to 2009 recession levels and monthly retail sales growth is now flat. Building and housing construction remains weak and house prices remain down 30% from the peak. Not surprisingly, the government and the US Federal Reserve are concerned the "recovery is close to faltering". In response, the Fed promised to maintain the cash rate near zero until at least mid-2013.

Within **Europe**, the economy seems near recession with economic growth close to zero, negative retail sales growth, unemployment averaging 10%, contracting manufacturing output, and consumer and business confidence down to levels not seen since the 2008/2009 recession. At the same time, most countries are implementing fiscal austerity measures to control their budget deficits, creating a further drag on growth. Greece, Ireland and Portugal have been locked out of bond markets and are now reliant on the European Central Bank (ECB) and the IMF for help. The IMF expects the European economy to grow by just 1.6% in 2011 and 1.1% in 2012.

In contrast, the **emerging economies** in Asia and to a lesser extent Latin America are growing relatively strongly. However, Chinese growth has been slowing due to tightening monetary policy and weaker global growth. There are concerns that China's investment boom in property and infrastructure will lead to a bad debt problem in the medium term. However, the Chinese banking system is well capitalised and is majority-owned by the central government. China has room to ease monetary and fiscal policy if required but in the short term it needs to reduce inflation from an elevated 6.2%.

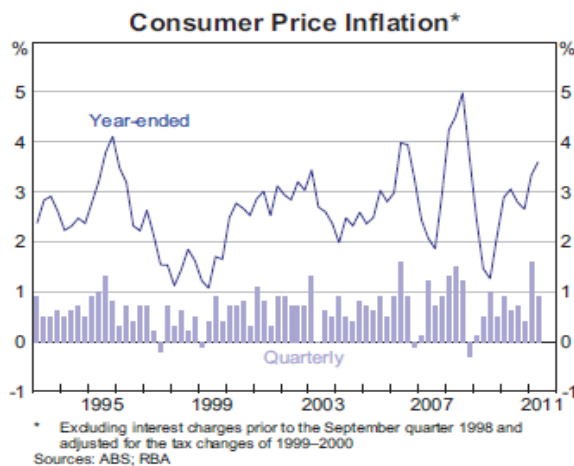
The Dollar

The AUD reached a peak of US\$1.11 in early July but has since fallen back to US\$0.98, as the outlook for global growth and commodity prices weakened and the RBA softened its stance on interest rates. The AUD weakened against all major currencies, with falls against the JPY (-13.3%), the USD (-8.9%), the Pound Sterling (-6.0%) and the Euro (-2.6%). In contrast, the USD rose against all other G10 currencies as a flight to liquidity showed USD's continued role as a safe-haven currency.



Inflation

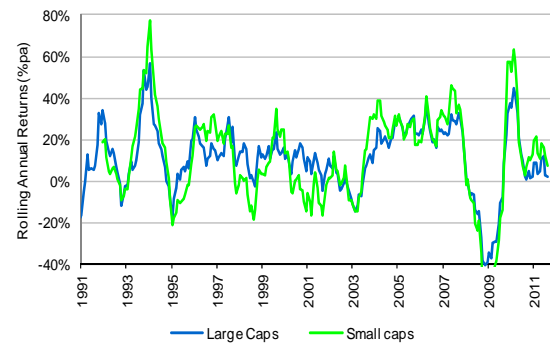
Our inflation rate is currently 3.6%; somewhat above the RBA's target inflation range of 2% to 3%.



Australian Shares

The Australian equity market returned -11.6% over the quarter and -8.7% over the 12-month period to 30 September 2011. The index was trading at 4,006 points at quarter's end.

Australian Shares - Returns



The local market continues to take the lead from overseas and local investors were unable to avoid the fallout from the global sovereign debt issues. With investors subject to a succession of negative news, the impact was severe as global equity markets and commodity prices came off, particularly in late August and early September.

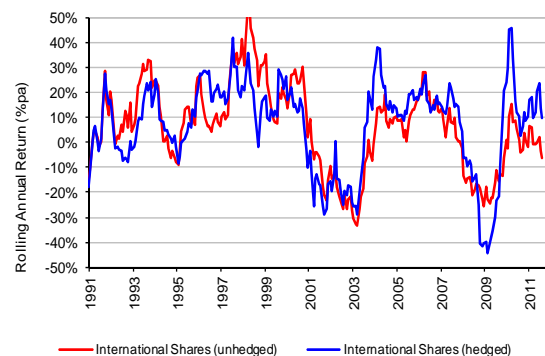
While economic fundamentals remain strong, a relatively weak reporting season, offshore macro issues and a lack of political cohesion domestically continues to hurt markets.

Global Shares

Global share markets failed to shake off the deepening pessimism building through the first half of 2011, with investors enduring a turbulent September quarter characterised by periods of severe selling across global markets. All regional markets (US, Europe, Japan and Asia) fell heavily over the quarter (in local currency terms).

World equity markets as measured by the MSCI World Index (unhedged) and MSCI World Index (AUD Hedged) fell -8.1% and -14.7% respectively in one of the worst quarterly returns since 2008. Over the year, hedged international shares have now lost -3.7% while unhedged shares have lost -5.8%.

International Shares - Returns



The major concerns weighing on investors included the prospect of return to recession in US and Europe and the growing threat of sovereign default

in peripheral European nations triggering a European banking crisis.

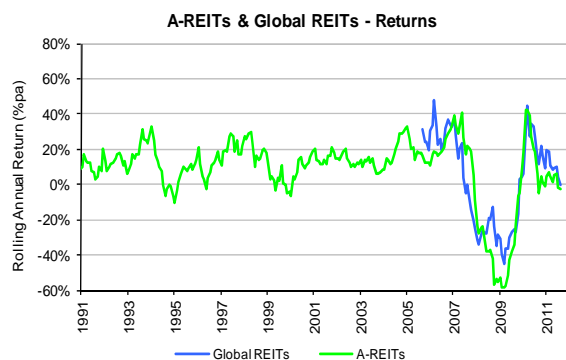
Broadly, Asian economic growth held up well compared to Western economies, although expectations have moderated reflecting recessionary fears. While inflation remained at the forefront of concerns preoccupying Asian monetary regulatory authorities, generally the incidence of monetary tightening eased. However, China equities, as measured by the Hang Seng Index, recorded a 22% decline over the quarter, the biggest quarterly loss in a decade, as investors continued to question whether the miracle economy was lurching towards a hard landing.

The MSCI Emerging Markets Free W/Gross Div (A\$) was down 14.7% and has is down by -16.5% over the past 12 months.

REITS (Property Securities)

Over the September 2011 quarter, the S&P/ASX 300 A-REIT Accumulation Index fell by 8.2% and the UBS Global Real Estate Investors ex Australia Index (Hedged) declined by 15.1%.

The outperformance of A-REITs over Australian equities reflects the defensive positioning of the asset class. Strong balance sheets (and relatively low sector gearing of 30-35%), high quality underlying holdings and conservative distribution policies are again becoming a distinctive feature of the sector.



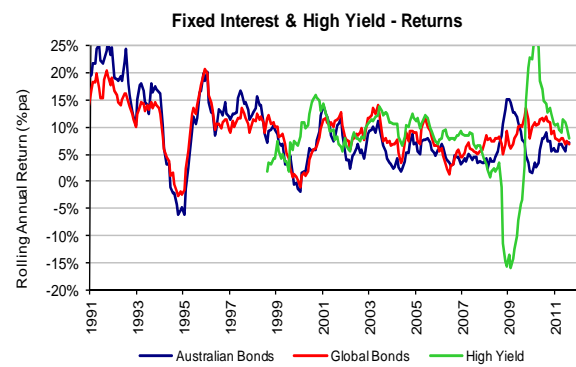
Like all risk assets, property securities were sold off on concerns over the macroeconomic outlook. A-REITs currently appear to be a better value proposition than either direct property or global property securities. The A-REIT sector is now trading at a 17% discount to net asset values (NAV) and an implied market cap rate of 7.8% p.a. By comparison, most global property securities markets currently appear to be less attractive from a valuation point of view, and are trading at an average discount to NAV of 11% and an implied market cap rate of 6.3% p.a.

Fixed Interest

Australian and US Government bonds continued to rally during the September quarter, as the European crisis deepened and economic data in the US continued to soften.

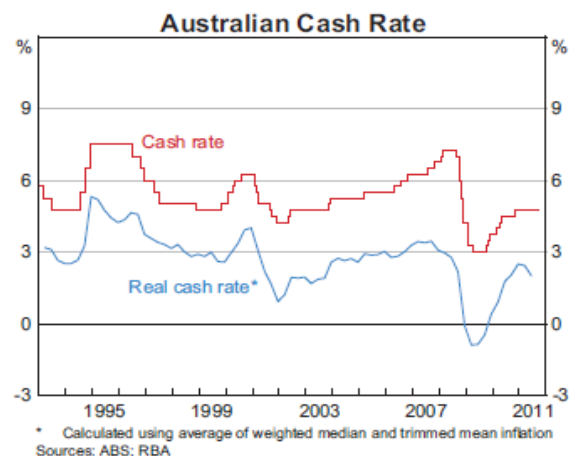
The Australian bond market returned 4.6% over the quarter and 9.0% over the year ending 30 September 2011. Long dated (7-10 year) bonds was the best performing sector over the quarter, with non-government bonds underperforming as credit spreads widened dramatically.

Global Fixed Interest returned 4.3% over the quarter and 7.8% over the year, as measured by the Barclays Capital Global Aggregate Bond Index (AUD Hedged).



Cash

The official RBA cash rate remains at 4.75%, unchanged since November 2010. The market continues to price in a rate cut, in the wake of continued global economic weakness, which appears to have spread from the developed to the developing world.



Sources

- Lonsec
- Reserve Bank of Australia
- Australian Bureau of Statistics
- Morningstar

Market Returns to end September 2011	1 month %	3 month %	6 month %	1 year %	3 year %pa	5 year %pa	10 year %pa	15 year %pa	20 year %pa
Cash	0.4%	1.2%	2.5%	5.0%	4.5%	5.6%	5.4%	5.5%	5.8%
Term Deposits (1 Year \$10,000)	0.5%	1.4%	3.0%	6.1%	5.3%	5.8%	5.1%	5.1%	5.5%
Australian Fixed Interest	0.9%	4.6%	7.1%	9.0%	7.8%	7.0%	6.2%	6.9%	7.9%
Global Fixed Interest (Hedged)	1.1%	4.3%	7.3%	7.8%	10.2%	8.5%	8.0%	8.1%	8.7%
High Yield Credit	-1.1%	-1.1%	1.2%	5.1%	6.9%	5.2%	7.3%	N/A	N/A
Australian REITs	-4.6%	-8.2%	-8.6%	-6.3%	-11.7%	-13.6%	0.8%	4.8%	6.6%
Global REITs (Hedged)	-10.3%	-15.1%	-10.9%	2.0%	-1.1%	-3.7%	N/A	N/A	N/A
Australian Shares	-6.3%	-11.6%	-15.4%	-8.7%	-0.1%	-0.7%	7.2%	8.1%	9.1%
Australian Small Caps	-10.6%	-11.8%	-20.0%	-12.1%	-0.1%	-2.3%	8.2%	5.5%	7.8%
Global Shares (Unhedged)	0.7%	-8.1%	-10.8%	-5.8%	-7.2%	-7.5%	-3.2%	2.5%	4.6%
Global Shares (Hedged)	-6.3%	-14.7%	-15.1%	-3.7%	-2.3%	-4.2%	2.0%	3.2%	4.6%
Global Small Caps (Unhedged)	-2.2%	-12.4%	-15.8%	-4.3%	-4.2%	-6.6%	1.1%	N/A	N/A
Emerging Markets (Unhedged)	-5.9%	-14.7%	-18.5%	-16.5%	-0.9%	-0.5%	8.5%	5.1%	7.7%
Asia excl. Japan (Unhedged)	-5.1%	-13.0%	-15.6%	-13.5%	1.8%	-0.4%	6.0%	1.2%	6.0%
Commodities	0.1%	0.6%	-7.8%	16.0%	-16.1%	-6.3%	2.7%	1.4%	2.4%
Hedge Funds (All strategies)	-4.5%	-7.2%	-9.4%	-5.0%	1.4%	2.0%	5.3%	7.7%	N/A

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