

APRIL 2011 – JUNE 2011

International shares make up 98% of the world's financial markets and offer investors diversification benefits over companies, sectors and countries. However they're also considered quite risky which means returns can rise and fall very quickly. At the end of the day, history shows us that if you're investing over long time periods, a well diversified international share portfolio generally achieves positive returns.

Quarter Review

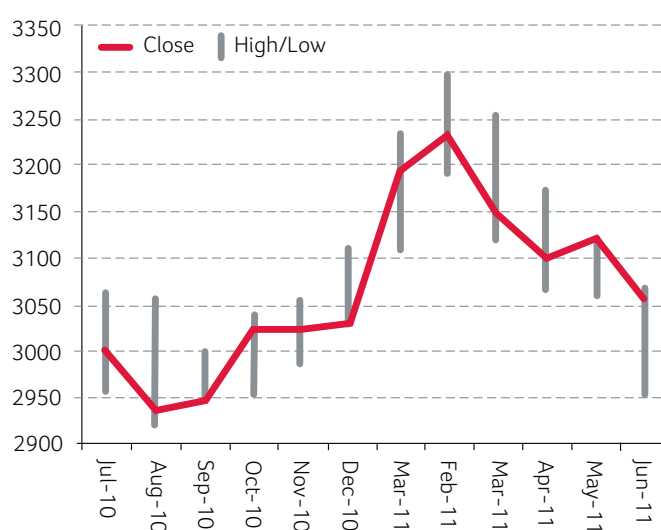
The MSCI World Ex Australia index returned 0.54% in the June Quarter.

The US started the quarter strongly, peaking with a 52-week high in April. However, economic fundamentals remained mixed and the S&P downgraded US debt to negative. The ISM index for May disappointed market participants expecting growth in the manufacturing sector. Political discussions focused on the potential for QE3; increasing the US debt ceiling, and the inflationary implications of the policy.

Europe started the quarter with one foot dragging. While companies reported strong earnings, solvency continues to trouble the region, with Portugal becoming the latest country to seek bailout from the ECB. The EURO surged against the US Dollar in April as the ECB increased interest rates, setting expectations of further increases. Rating agencies demoted Greek debt to Junk Bond status and also downgraded Italian issuances. In the UK, The Bank of England continued to hold interest rates at low levels, citing decreasing inflation. Business surveys indicated a general positive outlook for the year ahead however the optimism was not reflected amidst trepid market conditions.

The Japanese equity market had a subdued quarter following the disaster in March. Rebuilding estimates increased during the month prompting S&P to downgrade their outlook on Japan. Market sentiment suffered a double dose of negative news in May, with GDP figures falling for the second consecutive month and Moody's placing Japan's government debt on review for a possible downgrade. The markets saw a small rebound following positive reports of increased consumer spending & property development sales as well as agreed plans by France and Germany to resolve Greece's debt.

MSCI World ex Australia (unhedged in \$A)



International Shares – Quarter Review continued

US

The S&P500 declined by 0.4% in the June quarter. The worst performing sectors were Financials and Energy, while Healthcare and Utilities outperformed.

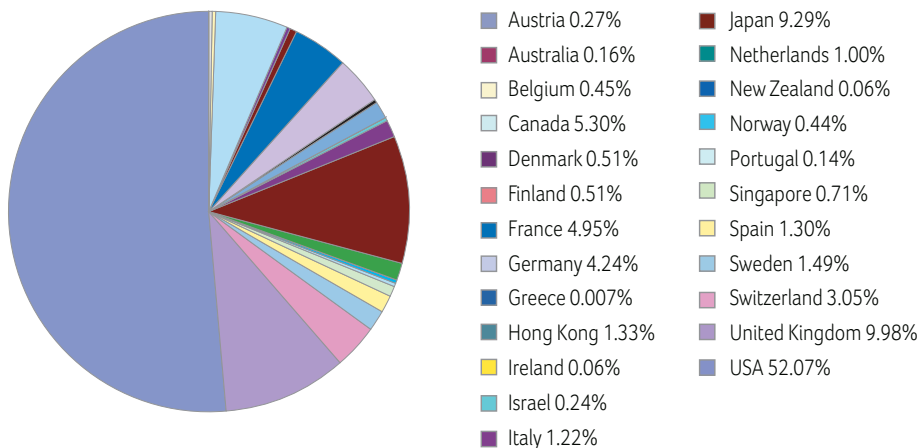
Japan

The TOPIX decreased by 2.3% in the June quarter. The worst performing sectors were Utilities and Energy while Consumer Staple and Consumer Discretionary outperformed.

Europe

European markets dropped by 1.6% in the June quarter. The worst performing sectors were Telecommunication Services and Financials, while Healthcare and Consumer Discretionary outperformed.

Fund Allocation by Country



Outlook

The enduring issue around Greece's sovereign debt and fiscal position has highlighted a dilemma for similar economies around the world. The issues currently being considered by the European authorities has raised concerns amongst market participants, and whilst a near term aid resolution is likely to produce some relief for markets, the underlying need to de-lever is likely to remain.

Against this backdrop, the corporate sector remains well positioned, having maintained conservative balance sheets. Further, there is more evidence that companies are proactively seeking business internationally where growth prospects are better.

A note from our legal team

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