

JANUARY 2011 – MARCH 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

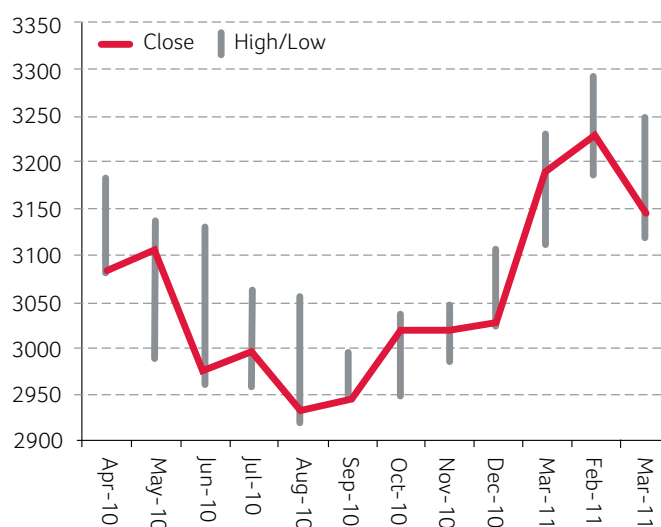
The MSCI World Ex Australia appreciated 3.9% this quarter in Australian Dollar terms, with the Australian Dollar appreciating against the Greenback by around 3%. The global economy continued to strengthen in early 2011 with manufacturing surveys pointing to accelerating production. The major factor influencing the market this quarter was escalating civil unrest across northern Africa and the Middle East, along with an unfortunate series of natural disasters in Australia and Japan.

The US economy continued to improve this quarter, with labour market data in particular showing signs of self sustaining momentum. Jobless claims fell and payrolls improved despite adverse weather across the country. The unemployment rate also fell unexpectedly, an event which received considerable attention from markets. Leading analysts also updated forecasts with improved US growth and employment outlooks for the next twelve months, adding to market confidence in the recovery.

In continental Europe, the recent positive momentum of economic data releases continue to show signs of a recovery, as a relatively high level of business confidence and improving domestic demand are contributing to a better economic outlook for Europe. Key risks to the European outlook remain however, with unrest in the Middle East and North Africa continuing, while sovereign debt problems in Portugal, Ireland, and Greece are yet to be resolved.

The largest impact on global markets was the massive earthquake Japan experienced in March 2011 which triggered a devastating tsunami and caused large scale loss of life. It was the fourth largest earthquake ever recorded and the damage to the Fukushima nuclear power plant still has the potential to develop into the biggest nuclear accident since Chernobyl (as at the end of March 2011). The Japanese market suffered its worst two day fall in history, leading the Bank of Japan to pour a record 15 trillion yen into the world's third biggest economy to restore liquidity and stabilise the Yen.

MSCI World ex Australia (unhedged in \$A)



## International Shares – Quarter Review continued

### US

The S&P500 climbed 5.4% in the March quarter. The worst performing sectors were Utilities and Consumer Staple while Energy and Industrials outperformed.

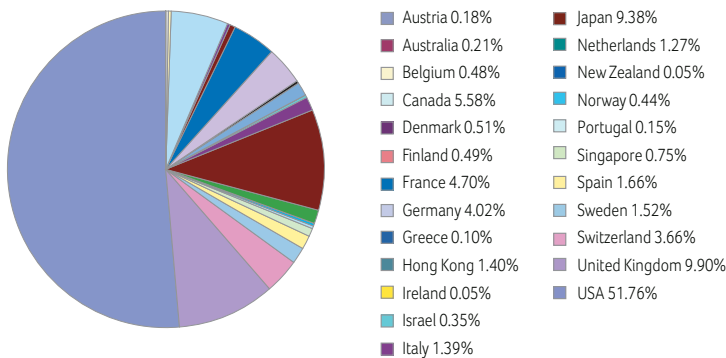
### Japan

The TOPIX decreased by -3.3% in the March quarter. The worst performing sectors were Utilities and Financials while Energy and Telecommunication Services outperformed.

### Europe

European markets rose by 1.8% in the March quarter. The worst performing sectors were Consumer Staple and Consumer Discretionary while Energy and Information Technology outperformed.

### Fund Allocation by Country



## Outlook

With the scheduled end to the second round of quantitative easing by the US Federal Reserve approaching and the European Central Bank expected to start raising their interest rates, many in the markets are considering the macroeconomic outlook on an environment where the extremely supportive monetary policy conditions start to be taken away.

Whilst many business sentiment surveys continue to indicate that the recovery is on-going, the presence of these headwinds are likely to keep conditions volatile in the near term.

## A note from our legal team

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