

APRIL 2010 – JUNE 2010

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 fell 4.81% this quarter in Australian Dollar terms. Breaking down the benchmark return in US Dollars, the equity market fell over 12% but the fall was dampened by appreciation of the Greenback against the Australian Dollar by almost 8%. The state of sovereign finances in peripheral Euro area economies drove market returns in the June quarter as concerns mounted over the state of sovereign finances in Greece and other peripheral Euro area economies. Analysts have subsequently moved to lower projections for growth in several countries over the coming year whilst pushing down their expectations for official central bank interest rates in most countries. Key ISM surveys in the US remained consistent with growth of around 4%, well above the economy's long run potential rate. While the latest readings of consumer spending and capital orders were somewhat disappointing, both remain on a positive trend. Globally, the most important aspect of the recovery has been signs of improvement in labour markets. Unemployment in Germany and the UK has declined in the past two months, while employment in the US is now estimated to have increased in each of the last four months.

US

The S&P500 declined by -11.9% in the June quarter. The worst performing sectors were Materials and Financials while Utilities and Telecommunication Services outperformed.

Japan

The TOPIX decreased by -14.0% in the June quarter. The worst performing sectors were Financials & Consumer Discretionary while Utilities & Telecommunication Services outperformed.

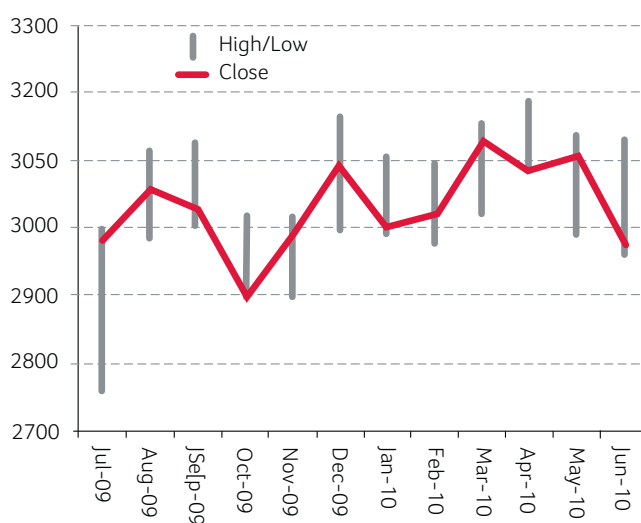
Europe

European markets dropped by -11.2% in the June quarter. The worst performing sectors were Energy & Utilities while Consumer Discretionary & Customer Staples outperformed.

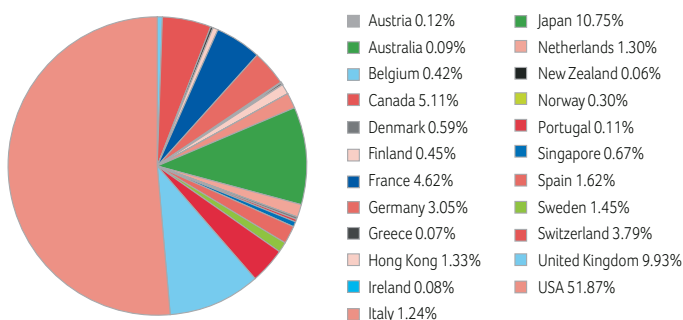
Outlook

The unprecedented global policy response to the financial crisis has stretched Government finances considerably, in some nations to a point considered unsustainable. This has been highlighted by Europe's sovereign debt concerns, and it's likely to remain a concern for financial markets. At the same time concern over certain European banks has increased. The underlying data momentum has, however, remained supportive, and combined with the headwinds from sovereign issues, some fund managers expect volatility to remain in the near term.

MSCI World ex Australia (unhedged in \$A)



Fund Allocation by Country



A note from our legal team

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