

JULY 2010 – SEPTEMBER 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.

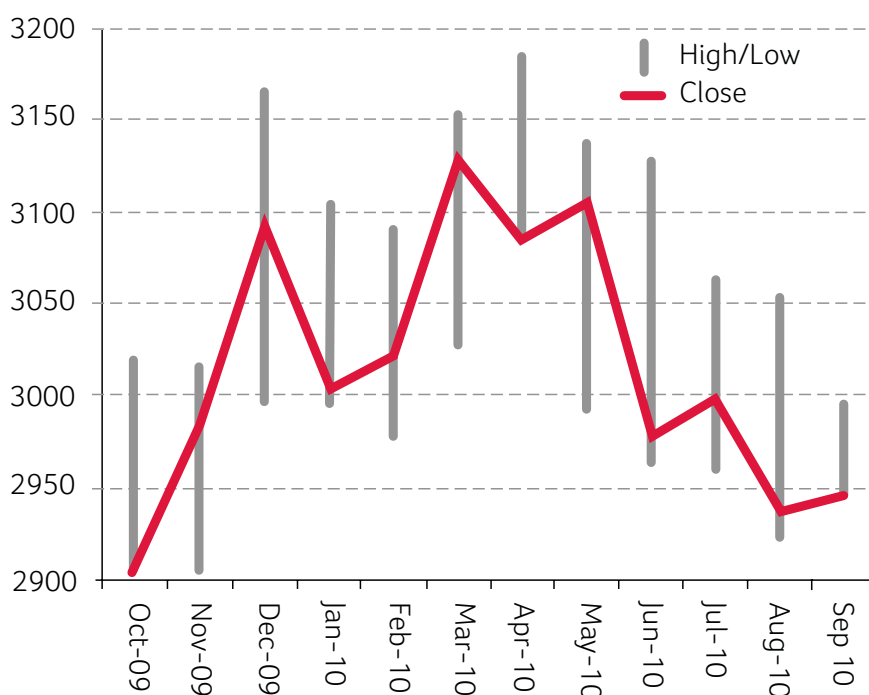
Quarter Review

The MSCI World Ex Australia fell 1.08% this quarter in Australian Dollar terms. The equity market had in fact rallied 13.4% but the climb was dampened by the dramatic appreciation of the Australian Dollar against the Greenback by almost the same amount. The main driver in financial markets in the September quarter was rhetoric from central banks in the US and the UK that was seen as paving the way for additional quantitative easing. The prospect of additional central bank stimulus drove a significant improvement in risk assets particularly at the end of the quarter, with the US equity market rallying by almost 9% in September, its best monthly gain in sixteen months.

Activity in the euro area was surprisingly positive, with early indications pointing to a clear acceleration in growth driven by the industrial sector. The growth in the euro area surpassed expectations, with blockbuster growth in Germany driving most of the upside. Despite the sharp pick up in Germany, conditions in peripheral economies remain challenging with the likes of Greece contracting sharply in the June quarter.

Elsewhere, economic activity in the UK was reported to have risen at a very strong pace in the June quarter, although at least some of the increase in growth reflected factors which are unlikely to be sustained. A recent softening in business surveys alongside a sharp decline in consumer sentiment and a fall in house prices highlight the still fragile state of the recovery. Meanwhile, growth in China was shown to have slowed in the June quarter from the unsustainable pace recorded in 2009. By contrast activity data in the US remained disappointing, culminating in GDP growth in the June quarter slowing to an annualised 2.4%, a rate which is only in line with what is considered to be the long run potential growth rate in the economy.

MSCI World ex Australia (unhedged in \$A)



US

The S&P500 climbed by 10.7% in the September quarter. The worst performing sectors were Financials and Healthcare while Materials and Telecommunication Services outperformed.

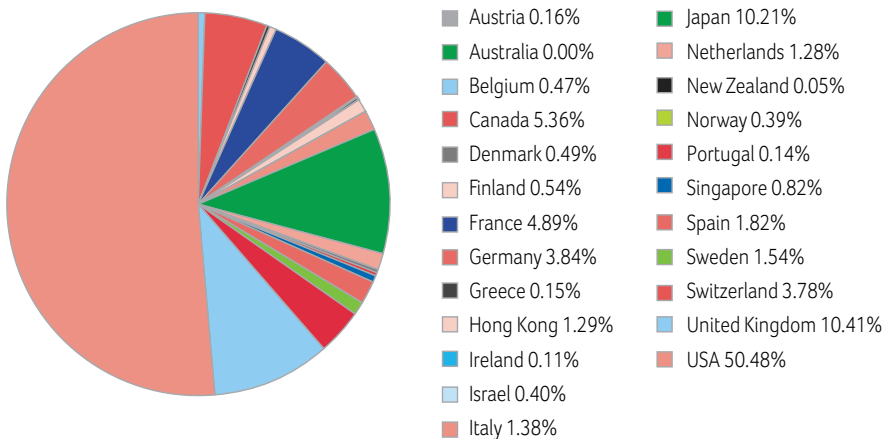
Japan

The TOPIX decreased by -1.4% in the September quarter. The worst performing sectors were Utilities and Financials while Telecommunication Services and Consumer Discretionary outperformed.

Europe

European markets rose by 8.8% in the June quarter. The worst performing sectors were Information Technology and Healthcare while Consumer Discretionary and Energy outperformed.

Fund Allocation by Country



Outlook

While the prospects of another round of quantitative easing has provided support to risk assets of late, some fund managers believe that many of the headwinds that have dominated markets this year are likely to remain in the near term, including concerns over the fiscal position of some peripheral sovereigns and the economic outlook for developed economies.

Consequently, some fund managers have continued to believe that volatility is likely in the period ahead.

A note from our legal team

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