

JULY 2011 – SEPTEMBER 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 -14.3% in the September Quarter in Australian Dollar terms. In USD terms, the index returned -16.47%.

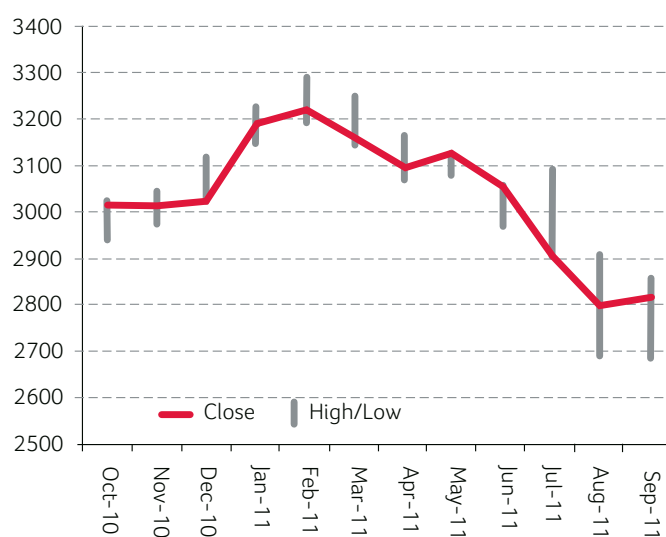
Europe started the quarter regrouping after Moody’s downgrades to Portugal & Ireland. The EUR fell after news that the European Central Bank (ECB) wanted to expand its rescue fund to support Italy, the next country on default-radar. Banks underwent stress tests devised by the European Banking Regulators, with major banks in the UK, Barclay’s & Lloyds suspected of having insufficient loss absorbing capital in the event of European debt contagion. Ongoing discussions by European leaders to find a permanent solution to looming contagion risks resulted in an additional 159 billion Euro aid allocated to Greece and the Euro Rescue fund reaching 440 billion. Additional efforts were made by Italy’s finance minister who introduced new austerity plans to crack down on tax evasion and boost competitiveness to eliminate chance of deficit in 2013. France, Spain, Italy and Belgium, all imposed short selling bans alongside Greece to stabilize markets. A notable slowdown of German PMI manufacturing and service numbers, as well as a fall in euro Consumer Confidence reiterated widespread market fears that the Euro is headed for choppy waters.

US markets were beaten by euro contagion fears, lacklustre growth and their first ever S&P credit downgrade, to AA+ level. Some positive sentiment ensued the upwards revision of the 2Q11 GDP from 1% to 1.3% based on strong consumer spending. Talks of a double dip and GFC2 were revived following the US Federal Reserve’s sobering comments regarding “significant downside risk to the economic outlook”. US President Obama faced political hurdles on his proposed job scheme, aimed at injecting hope into a 14 million jobless population and jolting his staggering economy.

Indicators of economic activity in China continue to soften at a gradual pace, with the manufacturing PMI falling from 50.9 in June, to 50.7 in July. At the same time, business conditions fell for the fifth consecutive month according to the MNI.

The APEC conference held in September highlighted the conflicting demand and supply issues facing the global economy. Talks of Asia wanting to shift from its heavily manufacture based economic model towards a more entrepreneurial and self sustainable one, hints to a changing global economic flowchart where China becomes a new US and the US becomes the new Greece.

**MSCI World ex Australia (unhedged in \$A)**



## International Shares – Quarter Review continued

### US

The S&P500 declined by -14.3% in the September quarter. The worst performing sectors were Materials and Financials, while Utilities and Consumer Staple outperformed.

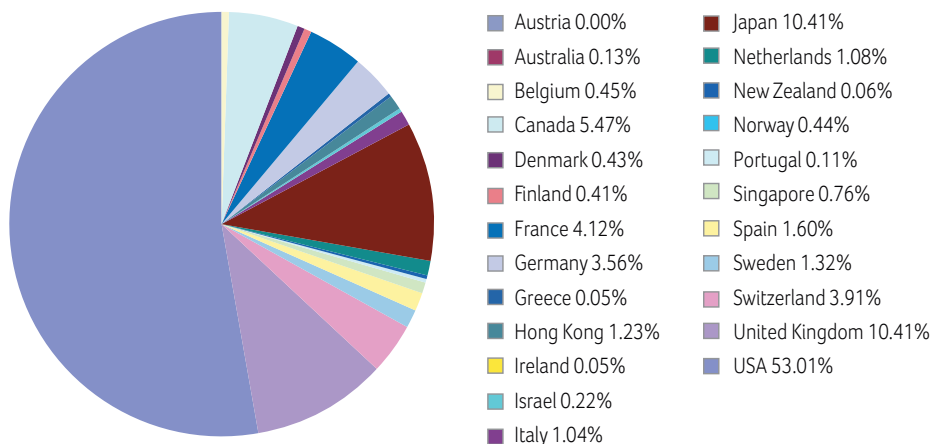
### Japan

The TOPIX decreased by -10.4% in the September quarter. The worst performing sectors were Energy and Consumer Discretionary while Consumer Staple and Healthcare outperformed.

### Europe

European markets dropped by -18.1% in the September quarter. The worst performing sectors were Materials and Financials while Healthcare and Consumer Staple outperformed.

## Fund Allocation by Country



## Outlook

Risk aversion has been the focus in financial markets on numerous macroeconomic concerns. Weaker global economic growth and the ongoing, deepening European sovereign debt crisis, is affecting European banks and interbank funding markets and has implications across asset markets. In many regions this will have a flow-on impact for business sentiment and intentions, consumer confidence and consumption, while currency volatility may exacerbate an already slowing global trade cycle.

With the experience of the 2008/09 financial crisis fresh in mind, global central banks are likely to remain vigilant and be proactive and respond with strong action to ease financial fears, increase liquidity and support growth.

## A note from our legal team

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