

OCTOBER 2010 – DECEMBER 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

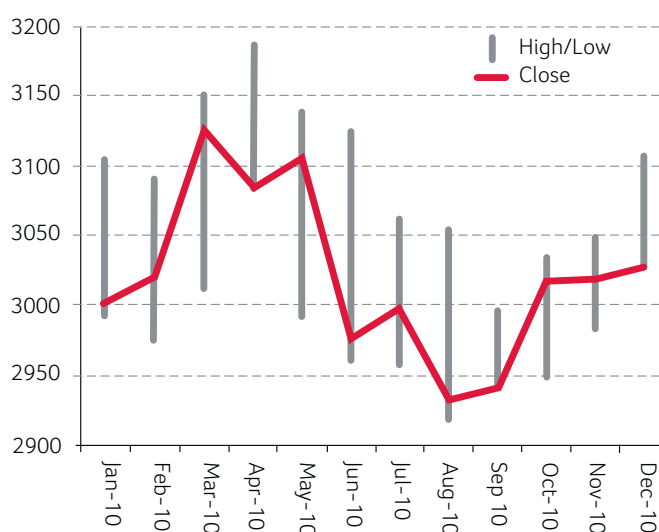
The MSCI World Ex Australia appreciated 2.88% this quarter in Australian Dollar terms, with the Australian Dollar appreciating against the Greenback by around 8%. Optimism in the global recovery improved in the December quarter, driving equity markets and other growth assets higher. The primary driver was better than expected economic data across the major industrialised economies.

In the US, the data points to an acceleration in the pace of growth at the end of 2010 from what has thus been quite a weak recovery by historical standards. With core inflation continuing to slow, the US Federal Reserve delivered on expectations for additional stimulus by announcing a plan to purchase a further US\$600 billion in Treasury securities.

Activity throughout Europe was generally better than expected, indicating robust growth momentum has continued at a solid pace in the latest quarter, led again by strength in Germany. Policy decisions taken by the European Central Bank to increase their purchases of peripheral sovereign bonds and the agreement reached by European Governments to create a permanent mechanism for resolving future crises also assisted the rally in risk assets as they increased confidence in the sustainability of the single currency Euro area.

Meanwhile, the Chinese economy continued to grow strongly, with signs of acceleration in credit growth prompting authorities to raise interest rates modestly and temporarily raise capital requirements for several of the largest banks. Rising headline inflation drove concerns over a potential significant tightening in policy which would negatively impact on growth. However, the rise in inflation primarily reflects food prices which have little to do with demand. Chinese authorities acknowledged this, implementing a series of measures to increase food production and reduce price gouging.

MSCI World ex Australia (unhedged in \$A)



International Shares – Quarter Review continued

US

The S&P500 climbed by 10.2% in the December quarter. The worst performing sectors were Utilities and Healthcare while Energy and Materials outperformed.

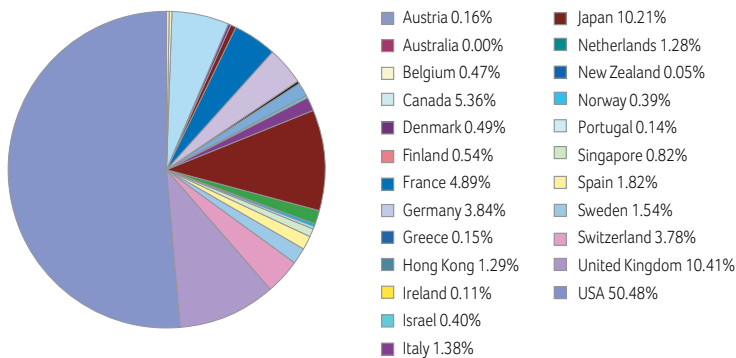
Japan

The TOPIX increased by 8.4% in the December quarter. The worst performing sectors were Utilities and Telecommunication Services while Financials and Energy outperformed.

Europe

European markets rose by 4.9% in the December quarter. The worst performing sectors were Financial and Telecommunication Services while Materials and Energy outperformed.

Fund Allocation by Country



Outlook

Markets were buoyed in December by the extension of Bush-era tax cuts in the US, despite on-going speculation of interest rate hikes in China and negative actions and comments by Moodys' on some European peripheral sovereigns. Some fund managers believe that the different conditions facing authorities in Europe, US and Asia, and the differing approaches will provide opportunities to allocate between regions over the medium to long term. In the near term, undemanding valuations, supportive monetary policy settings and positive data flow is likely to provide some support to growth assets, but wary of the stresses that remain brewing in Europe.

A note from our legal team

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