


Quarterly Market Commentary as at 30 June 2012*

Market Indices	Returns as at 30 June 2012					
	3 mth (%)	6 mth (%)	1 yr (%)	3 yr (% p.a.)	5 yr (% p.a.)	10 yr (% p.a.)
Australian Shares						
S&P/ASX 200 Accumulation Index	-4.7	3.3	-6.7	5.7	-4.0	7.0
International Shares						
MSCI World ex Aust Net Index (AUD)	-4.1	6.0	-0.5	2.4	-6.7	-1.1
Australian Fixed Interest						
UBS Australian Composite Bond Index 0+ Yr	4.6	5.4	12.4	8.6	8.2	6.8
International Fixed Interest						
Citigroup World Govt Bond 100% Hdq (AUD)	2.6	4.3	11.7	8.7	9.3	8.0
Property						
S&P/ASX 200 A-REIT Accumulation Index	8.8	16.4	11.0	12.3	-12.3	1.8
Cash						
UBS Australian Bank Bill Index	1.0	2.2	4.7	4.5	5.3	5.4
Currency						
Australian Dollar (\$A/\$US)	-1.1	0.0	-4.3	8.2	3.9	6.2

Financial markets commentary:

Europe continued to dominate the news and drive the markets in the 2nd quarter of 2012. The reigniting of sovereign debt concerns in Europe, signs of a weakening US economy and continued question marks over the pace of growth in China led to falls in equity markets over the last 3 months, while government bond markets rallied as investors took a flight to safety.

In Europe, the focus switched to deteriorating economic activity. Interest rates on Spanish bonds remained under pressure with a deteriorating economy and the need to implement austerity and growth initiatives. Investors became increasingly risk-averse in May, resulting in large inflows into safe haven assets. The key driver was the concerns over a breakup of the Eurozone following Greek election results. The gravity of the situation in the Eurozone escalated post the May Greek election, where a government was unable to be formed. Popularity rose sharply for the Syriza party, which campaigned with an anti-austerity mandate. If Greece did not accept austerity measures there was a risk that the supply of funds from the bailout would cease to flow. Greece would then run out of money in July and have no choice but to exit the Eurozone and revert back to its own currency. The outcome of the 17 June Greek election was favourable though for the near-term outlook for Greece and for Europe and removed the possibility of a tail risk event, i.e. a near-term Greek exit from the euro. A coalition government was formed between New Democracy, PASOK and Dimar with New Democracy elected on a pro-Europe, pro-austerity, pro-bailout agenda.

Global equity markets rose in June following the favourable Greek election result and new stimulus by the US Federal Reserve. Economic data continued to deteriorate in Europe, the US and China though but equity markets largely overlooked the deteriorating macroeconomic environment.

Four consecutive months of gains for the Australian share market were halted in May when the local index fell 6.6%. The financial year did finish on a positive note in June, however, when the market was up 0.7%, mainly due to expectations of improved political leadership in Europe and of further stimulus in the US. It was a disappointing year for the market overall – in the 12 months ending 30 June 2012, the S&P/ASX 200 Accumulation index declined by 6.7%, driven largely by Europe and fears of slowing growth in China.

In the 2011/12 financial year as a whole, the MSCI World ex Australia Index fell 4.7% in US dollar terms and 0.5% in Australian dollar terms. The Australian dollar finished the year above parity but had fallen back from where it was as at 30 June in 2011 by 4.2%.

Interest rates on Australian Commonwealth Government Securities fell sharply over the last quarter. Ten-year interest rates finished the financial year at 3.04% having started the quarter at 4.08%. At one point they fell as low as 2.7% driven to 60 year lows by risk aversion with global growth, Spanish sovereign debt and Greek Eurozone exit concerns.

*Source: This commentary has been prepared by The Colonial Mutual Life Assurance Society Limited ABN 12 004 021 809 AFSL 235035 (CMLA) and is general information only.