Quarterly Market Commentary as at 30 September 2010*

Market Indices	Returns as at 30 September 2010						
	1 mth (%)	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	4.62	8.04	-4.00	0.61	-7.23	4.15	7.72
International Shares							
MSCI World ex Aust Net Index (AUD)	0.33	-1.08	-5.84	-2.79	-11.15	-3.63	-5.16
Australian Fixed Interest							
UBSA All Maturities Composite Bond Index 0+ Yr	-0.90	1.28	4.92	7.34	7.59	6.19	6.38
International Fixed Interest							
Citigroup World Govt Bond 100% Hdg (AUD)	-0.01	3.30	6.94	9.81	9.75	7.67	8.19
Property							
S&P/ASX 200 A-REIT Accumulation Index	-0.90	3.85	2.45	-4.15	-24.20	-8.07	3.13
Cash							
UBSA Bank Bill Index	0.37	1.20	2.34	4.30	5.41	5.73	5.51
Currency							
Australian Dollar ($A/$US)	8.79	14.63	5.49	9.71	3.04	4.86	5.98

Australian Shares

The Australian share market performed well in the three months ended 30 September 2010, with the S&P/ASX 200 Accumulation Index adding 8.04%.

The performance of individual sub-sectors of the market was fairly diverse. Industrials sectors tended to perform relatively well reflecting investors' overall risk appetite, while more defensive areas of the market, such as Telecoms and Health Care, were among the laggards.

The economic environment continues to be mixed. Domestically, the recovery appeared to remain on track, with the continued improvement in the labour market a particular highlight. Overseas, however, conditions are less encouraging and ongoing sluggish activity in major economies such as the US and Europe continues to weigh on investor sentiment towards global equity markets. Indeed, modest trading volumes on major stock exchanges around the world suggest that investors remain reluctant to deploy funds in equity markets.

Most listed Australian companies reported their earnings from the 2009/10 financial year to the market during the quarter. In aggregate, the announcements were broadly in line with expectations although, as usual, a few companies surprised the market with unexpectedly strong or weak earnings. Few companies were willing to provide specific earnings guidance for the 2010/11 year and beyond given the uncertain operating conditions which persist.

International Shares

The MSCI All Countries World index rose 14.3% in USD and was down 0.3% when measured in AUD. Over 12 months, the index returned 8.4% in USD terms and -2.79% in AUD. Over the quarter, gains in the Australian dollar detracted from returns for local investors with the Australian dollar appreciating 14.6% over the quarter to US 0.9683 cents.

International share markets rallied in the quarter although investor confidence was mixed. Risk appetite remained low with strong demand for US Treasuries and gold while the prospects of further monetary stimulus in the US did boost equity market returns. Weak economic data releases were often followed by rallies on the equity market, the market interpreted any weak economic news as an increased chance of further Quantitative Easing. The gold price rose 5.3% over the quarter and reached a record high of $US1309.88 on strong demand, while base metal prices also rose, particularly lead (+30.2%), tin (+39.2%) and copper (+23.0%).

Also assisting gains in the equity market over the September quarter was the emergence of a very large global mergers and acquisition cycle. Over the quarter in excess of US$500bn worth of deals were announced, the biggest in two years. This is being fuelled by cheap credit, large cash balances and attractive valuations and helped US equity markets rise sharply over the quarter with the Dow Jones (+10.9%), S&P 500 (+10.7%) and the NASDAQ (+12.3%) all recording gains.

Markets in Europe were mixed and largely ignored the different paces of economic growth in the region. Despite Germany's economic strength, its sharemarket underperformed the rest of Europe, rising 4.4% over the quarter. Spain (+13.5%), the UK (+12.5%) and France (+7.9%) all rose. Gains came despite a number of new austerity measures being introduced, with the outcome to be weaker economic growth in the region over coming years.

Asian markets were mixed with Japan significantly underperforming the rest of the region. The strength of the yen and the weakness in the Japanese economy were the main drivers and held back share prices of a number of large exporters. The Nikkei fell 0.1% over the quarter and is down 7.5% over 12 months. In September, the Bank of Japan announced it was intervening in its currency market to weaken the yen, this did provide some relief in the local market. In contrast Thailand (+22.3%), Hong Kong (+11.1%), Taiwan (+12.4%), South Korea (+10.3%) and Singapore (+9.2%) all rose.

On a sector basis, there were a number of outperformers with cyclical sectors performing well. The Materials sector (+18.7%) rose sharply with the strength in commodity prices. Consumer Discretionary (+16.8%) and Energy (+15.0%) also performed well. Utilities (+10.7%) and Health Care (+9.1%) underperformed.

Australian Fixed Interest

In Australia, a key release was updated Budget forecasts provided by the Federal Government through an Economic Statement. There were downgrades to real GDP growth forecasts to 3% in 2010/11 and 3.75% in 2011/12. However there were upward revisions to inflation, commodity prices and the terms of trade, driving a stronger nominal GDP forecast. The Economic Statement has also detailed the impact on the budget from the changes to the taxation of resources. While the switch from the previously proposed Resources Super Profit Tax (RSPT) to the Minerals Resource Rent Tax (MRRT) will cost A$7.5bn in revenue over the four years to 2013/14, parameter changes (i.e.. higher commodity price forecasts) will add back A$6bn in revenue, implying a net cost of just A$1.5bn. The better budget outlook will also help Australia's net debt peak at just 6% of GDP at June 2012, well down on the collective net debt of the advanced economies of 94.2% of GDP in 2015.

The RBA left the official cash rate on hold at 4.50% during the quarter. The weakness in the global economy and financial markets were the key reasons for leaving rates on hold. The RBA slightly upgraded its economic growth and inflation forecasts. The RBA expects growth of 3.75% in 2011 before accelerating to 4% at the end of 2012. Inflation is expected to breach the target band early in 2011 before moving back to 3% in 2012. Given this optimistic outlook for the Australian economy, the RBA has acknowledged that interest rates will have to move higher in the future if this scenario occurs, stating "if economic conditions evolve as the Board currently expects, it is likely that higher interest rates will be required, at some point, to ensure that inflation remains consistent with the medium-term target". Further rate rises are expected in late 2010 or into 2011.

Commonwealth government bond yields started the quarter at 5.09%. Yields rose in last July to a high of 5.27% before falling to a low of 4.76% at the end of August. Finally in the last month of the quarter yields retraced to finish at 4.96%, 13 bps lower by quarter end.

International Fixed Interest

There was a marked difference of performance among the major global bond markets during the September quarter. The global macro backdrop remains uncertain and concerns about deteriorating growth prospects and deflationary pressures drove bond yields lower over the quarter. The main action was in US and Europe with prospects of another round of Quantitative Easing in the US and further sovereign debt issues in Europe. The need to pro-actively reduce deficits in deeply indebted nations has also remained at the forefront of fixed interest investors' mind.

In the US, 10 year Treasury yields moved higher in early July to reach 3.12% before falling to a low for the quarter at just below 2.50% in late August. This was driven by the increasing sovereign risk of peripheral countries of the Euro zone, and the flight to safety of the US currency combined with a softer housing and labour market. Yields moved higher in September but rallied back to be virtually unchanged by the end of the quarter as the Quantitative Easing expectations of the market drove 10 year yields lower. US yield curves flattened during the quarter as longer yields outperformed shorter securities, as there was less room to move with an anchored Federal funds rate.

Australian Property (including Listed and Direct)

A-REITs performed relatively well in the September quarter, with the S&P/ASX 200 Property Accumulation Index adding 3.85%. Returns were below those from the broader Australian share market but it was nevertheless pleasing to see positive returns given the weakness of the listed property sector in the past few years.

Most listed property companies announced their earnings from the 2009/10 financial year to the market in August. Aggregate results were broadly in line with expectations, mainly due to the fact that several trusts had pre-released earnings guidance to the market ahead of their official announcements.

The performances of sub-sectors of the A-REIT sector were indicative of the general increase in investor risk appetite. The Industrials sub-sector was the best performer, adding 7.5%. This area of the market is perceived to be most leveraged to economic activity. The Retail (+2.8%) and Office (+0.9%) sub-sectors performed less well but returns were nevertheless positive.

Most global share markets performed very well in the three months ending 30 September 2010 and this trend benefited offshore listed property securities. As a whole, the UBS Global Investors Index rose 13.3%, thanks to very strong performances from France, the UK, Singapore, Hong Kong, the US and Canada.

Cash

The UBS All Maturities Composite Bond Index returned 1.28% in the quarter and 7.34% over 12 months. In the shorter end of the market, the UBS Australia Bank Bill index returned 1.20% in the quarter and 4.30% over 12 months. The returns from this index reflect interest earnings on short term money market securities and reflect the recent low level of the official cash rate. Ninety day bank bills trended lower over the beginning of the quarter as the RBA left interest rates on hold. In late September, ninety day bank bills quarter rose sharply as the RBA moved to an explicit bias tightening. Bills began the quarter at 4.92% and ended it at 5.01%. The average ninety day bank bill yield during the quarter was 4.80%, compared with 3.27% a year earlier.

Inflation data released for the June quarter indicated headline inflation rose by a less-than expected 0.6% for the quarter (1.0% expected), with the annual pace rising to 3.1%. The pace of underlying inflation also moderated, 0.5% for the quarter and 2.7% for the year, lower than expectations, but in line with RBA forecasts. This allowed the RBA to leave rates on hold over the quarter with recent commentary suggesting the RBA is comfortable that inflation will continue to run at around 2.75% in the near term. September quarter inflation data will be released late October and could be a critical data point for the RBA when making its decision on interest rates.

As we look into the remainder of 2010, yields will be affected by the pace of further RBA tightening of interest rates, inflation data and by global financial market developments, particularly the pace of the US economy and decisions on further monetary easing by the Federal Reserve.

Currency

The AUD rose sharply in the September quarter against the major currencies, particularly the US dollar. The Australian dollar is being supported by a strong domestic economy, the prospects of further interest rate hikes by the RBA and rising commodity prices. On the other side of the equation, the US dollar is weak, driven by its soft economy and prospects of another round of Quantitative Easing by the Federal Reserve. The AUD finished the quarter at US0.9683 cents, a gain of 14.6%.

The AUD rose 8.5% against the sterling, 7.5% against the yen, rose 7.1% against the US dollar and a more modest 2.7% against the euro. By September 2010 the AUD was buying 1.3075 New Zealand dollars, 80.59 yen, 0.62015 UK pence and 0.7072 Euros.

Globally, currency moves were volatile, and led to a number of interventions by various central banks. Japan, Brazil and South Korea have intervened to lower the value of the currency to lift the competitiveness of export industries. Currency moves and intervention will likely be an issue for global financial markets in the remainder of 2010 and could spark further intervention in a number of countries and implications for trade relationships.