Quarterly Market Commentary as at 31 December 2011*

Market Indices	Returns as at 31 December 2011						
	3 mth (%)	6 mth (%)	Financial YTD (%)	1 yr (%)	3 yr (% p.a.)	5 yr (% p.a.)	10 yr (% p.a.)
Australian Shares							
S&P/ASX 200 Accumulation Index	2.1	-9.7	-9.7	-10.5	7.6	-2.3	6.2
International Shares							
MSCI World ex Aust Net Index (AUD)	2.0	-6.2	-6.2	-5.3	-2.6	-7.5	-3.5
Australian Fixed Interest							
UBS Australian Composite Bond Index 0+ Yr	1.9	6.7	6.7	11.4	6.3	7.4	6.5
International Fixed Interest							
Citigroup World Govt Bond 100% Hdg (AUD)	1.8	7.2	7.2	10.5	7.4	8.5	8.0
Property							
S&P/ASX 200 A-REIT Accumulation Index	3.7	-4.6	-4.6	-1.5	1.9	-14.9	0.8
Cash							
UBS Australian Bank Bill Index	1.2	2.5	2.5	5.0	4.4	5.5	5.4
Currency							
Australian Dollar ($A/$US)	5.5	-4.2	-4.2	0.0	13.7	5.4	7.2

Financial markets commentary:
Financial markets continued to trade with considerable volatility in the 4th quarter of 2011, driven by the escalation of sovereign debt issues in Europe, heightened political uncertainty and confusion over possible policy responses. A new plan for the European sovereign and banking crisis was proposed in late October, with EU leaders agreeing on a raft of decisions. The key decisions centred around an agreement to reduce Greece's debt to GDP ratio to an estimated 120% by 2020 by way of a 50% 'haircut' on Greek debt held by private investors. This deal is estimated to reduce Greek debt by €100bn. There is also a plan to leverage the European Financial Stability Facility (EFSF) from €440 billion to €1 trillion and, lastly, a planned gradual move toward further fiscal union, especially for those countries under a funding program.

The markets viewed these outcomes favourably, however there was still considerable concern on the EU's ability to make these policies happen. Almost as a backdrop to the news coming out of Europe was the good news stories for the US. Inflation for the US looks to have peaked while the unemployment rate fell to 8.6%, its lowest level since July 2008.

Investors in Australia remained focused on events in Europe and the future interest rate policy of the Reserve Bank of Australia (RBA). Following a lower than expected inflation reading for the September quarter plus the ongoing Euro sovereign issues, the RBA lowed the official cash rate by 0.25% in both November and December to 4.25%. The RBA also had one eye on poor retail figures in the lead up to the holiday season. JB Hi-Fi, Billabong and Kathmandu all revised down their earnings expectations. Despite lower interest rates, consumer confidence is still low.

The Australian bond market rallied in the 4th quarter. 10-year Commonwealth Government Security (CGS) yields decreased by 58 bps to 3.93% at November-end, having ended the previous month at 4.51%. This was the largest monthly fall in 10-year yields since December 2008. A new intra-day low of 3.81% was also set during the month, surpassing the previous low in January 2009. Australian sovereign bonds were propelled below 4% as demand from overseas central banks and offshore institutional investors increased, lured by the developed world's highest government bond yields, strong liquidity and the relative safety of the Australian government bond market. Australia has a sound fiscal position when compared to Europe and the US.

REITs outperformed the wider sharemarket for the 3 months to 31 December with the S&P/ASX A-REIT Accumulation index returning 3.7%. For the 2011 year, A-REITs outperformed the broader share market for the first time since 2006. Despite this good result, retail REITS started to come under pressure toward the end of the quarter as retailers downgraded earnings expectations due to weak pre-Christmas sales.

*Source: This commentary has been prepared by Colonial First State Investments Limited ABN 98 002 348 352 AFSL 232468 and is general information only.