

Outlook

Investment Review and Outlook

August 2010

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BLACKROCK

The roller coaster ride continues

The roller coaster ride that has characterised financial markets in 2010 continued in July with significant reversals in many markets. Equity markets rebounded sharply after reaching new lows for 2010 in early July. Sovereign spreads in peripheral European markets contracted sharply and other risk assets, including credit, commodities and commodity/carry currencies, recovered strongly.

Against this surge in optimism in risk assets, bond markets held in remarkably well, in part supported by the weaker economic data in the US. The US 10 year government bond had rallied from 4% in April to under 3% by late June and was essentially unchanged over July.

US 10 Years – 31/4/10 to 31/7/10



Source: Bloomberg

Finally, in a reversal of the recent trend toward a stronger US dollar (since November last year), the dollar fell significantly against all currencies including the Euro.

USD v Euro 30/11/09 to 31/7/10



Source: Bloomberg

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The global economy is expanding, liquidity conditions are generally very supportive and equity valuations are fair in absolute terms and very cheap relative to interest rates.



David Hudson
Chairman Asset Allocation Committee

Investment Review and Outlook

Risk assets were supported by a number of factors including:

- Another stellar reporting season in the US, with generally positive guidance providing some reassurance that the recent run of weak US economic data is not necessarily the harbinger of a double dip.
- Valuations continue to be a significant support for equity markets, which have effectively been substantially de-rated this year against a backdrop of strong profit growth and falling bond yields.
- Greater optimism about a soft landing in China helped by a rebound in base metals and spot iron ore prices and a very benign inflation reading for the month of June. The latter makes a policy mistake by the Chinese authorities less likely.
- Oversold conditions in markets following a 17% peak to trough drop in the S&P 500 by early July which created high levels of fear illustrated by elevated equity market volatility for over two months from early May until early July.
- Late in the month, the much anticipated European bank stress test increased the transparency of bank balance sheets (even if the 'stress' scenarios were widely considered to be too benign). While the long term structural issues in Europe remain deeply troubling, it appears that the European sovereign debt/ banking/ currency crisis is over, at least for now.

As we pointed out last month, a reasonable case can be made for a continuation of the recovery in risk assets over the balance of this year. The global economy is expanding, liquidity conditions are generally very supportive and equity valuations are fair in absolute terms and very cheap relative to interest rates.

Persistent fears of a 'double dip' in economic growth (in the US in particular), has been the major impediment to such a recovery. While the recent positive surprises in Europe are obviously welcome, our view is that Europe would not be able to sustain even a modest economic upswing without a US economic recovery, given the fiscal consolidation planned for the coming years and the already low potential growth rate. The emerging economies have a much greater potential to de-couple, but a relapse in the US economy (and developed economies generally) would obviously be a major setback for these economies as well.

As usual, it comes down to the US economic outlook and in the words of the Chairman of the US Federal Reserve, Ben Bernanke, in his semi-annual testimony to Congress in July, it is 'unusually uncertain'. Aside from the growth induced by a massive fiscal stimulus and the usual inventory cycle, the US economic recovery has been tepid at best. These growth supports will be absent in the second half of 2010. Furthermore, fiscal policy will be an outright drag on growth in 2011.

At the same time, the pulse of private final demand (consumption and business investment) appears to be weakening. Consequently, the 'hand-off' of economic growth from the fiscal stimulus/ inventory cycle to private final demand appears to be at some risk of failing. The resolution of these uncertainties will tell the tale of the second half of this year.

If the US (and global) economy does disappoint in the second half, the policy levers available to respond are extremely limited. Policy interest rates in the major developed economies are already zero to 1% and there is considerable and justified angst about the sustainability of government debt in these economies which will limit any fiscal response to renewed weakness in growth. The major policy which can still be employed is a resumption of the quantitative easing program.

That is why, as noted earlier, bond markets performed well as growth expectations were marked down leading to speculation that the US Federal Reserve might resume the buying program under its quantitative easing policy. The yield curve flattened aggressively, particularly out to five years as markets continue aggressively to reduce expectations of monetary policy tightening in coming years.

Outlook

The outlook appears quite binary. If the US economy keeps growing, risk assets can sustain a recovery in the second half and government bond yields could be expected to move higher. Alternatively, the US economy double dips dragging much of the developed world down with it and limiting the growth in the developing economies. Risk assets would remain under pressure and government bond yields can fall much further.

We favour the former scenario but are wary of the latter particularly as there is, once again, a lack of available diversifying portfolio themes in the market at present. It remains most likely that this fall in risk assets is corrective rather than the start of a new bear market, but after such a long rally with minimal corrections it is possible that this consolidation phase lasts for several months.

David Hudson
20 August 2010

Portfolio structure

as at 31 July 2010

Asset Allocation [%]*		
Australian Share Funds	Industrials	68.24
	Resources	26.58
	Listed Property	4.41
	Cash	0.77
Australian Share Fund Plus	Industrials	68.86
	Resources	26.80
	Listed Property	3.65
	Cash	0.69
Global High Conviction Funds	Asia (ex Japan)	14.32
	Europe (ex UK)	19.24
	Latin America	3.43
	Japan	5.92
	North America	41.05
	UK	13.23
Global High Conviction Funds (Hedged/Unhedged)	Asia (ex Japan)	14.32
	Europe (ex UK)	19.24
	Latin America	3.43
	Japan	5.92
	North America	41.05
	UK	13.23
Global Small Cap Funds (Hedged/Unhedged)	Asia (ex Japan)	4.83
	Emerging Markets	9.09
	Europe (ex UK)	12.04
	Japan	9.17
	North America	54.27
	UK	6.34
Monthly Income Funds	Cash	4.25
	Domestic Issuers	12.57
	Global Corporates swapped in AUD	71.18
	Mortgage & Asset Backed Liquidity	5.51
International Bond Funds	Liquidity	10.73
	Australia	4.28
	Asia (ex Japan)	0.47
	Europe (ex UK)	28.07
	Japan	9.94
	North America	49.09
Balanced Funds	UK	5.56
	Cash	2.59
	Australian Shares	38.00
	Australian Fixed Income	15.00
	International Shares	26.00
	International Fixed Income	6.50
	Listed Property	6.00
Direct Property	0.50	
Managed Income Funds	Cash	8.00
	Australian Equities	18.27
	Australian Bonds	23.40
	Australian FRNs	35.16
	Listed Property	6.78
	Direct Property	5.95
Direct Property Funds	Cash	10.44
	Commercial	55.30
	Retail	8.10
	Industrial	33.40
	Aged Care	2.80
Combined Property Funds	Cash	0.40
	Listed Property	33.20
	Direct Property	63.00
Global Allocation Funds	Cash	3.80
	Australian Shares	0.70
	Australian Fixed Income	0.17
	International Shares	61.03
	International Fixed Income	30.83
International Gold Funds	Cash	7.27
	Australia	8.50
	Asia (ex Japan)	20.87
	Africa	14.21
	Europe (ex UK)	2.21
	Latin America	19.90
	North America	29.88
	UK	1.93
	Cash	2.50

Allocations may not total 100 due to rounding.

* This composition is broadly representative of the composition of the Funds or Unit Classes. Slight variations however may occur between the Funds or Unit Classes.

Table of performance

as at 31 July 2010

	Product Size \$M	Total Fund Size \$M	Unit Prices	Last Distribution		Period End	Next Distrib.	3 Months %	1 Year Total %	1 Year Growth %	1 Year Income %	3 Years % pa	5 Years % pa	Since Inception % pa
				Cents Per Unit	% Franked									
Retail														
Investment Funds														
Managed Income Fund	14.7	14.7	0.8591	0.40	16.70%	Jul 10	Aug 10	-1.29	9.22	4.15	5.07	-6.23	-0.50	7.25
Balanced Fund	43.7	43.7	1.4368	0.97	180.05%	Jun 10	Dec 10	-4.04	5.08	4.36	0.72	-3.86	3.04	6.20
Australian Share Fund	328.4	328.4	2.1174	1.20	63.75%	Jun 10	Sep 10	-8.12	6.39	4.28	2.11	-5.02	5.23	11.33
Australian Share Fund Plus	86.8	86.8	2.1072	0.87	78.65%	Jun 10	Sep 10	-8.21	6.78	4.67	2.11	-5.84	6.06	11.56
Global High Conviction Fund	10.1	10.1	1.1855	0.00	-	Jun 10	Dec 10	-2.43	-2.19	-2.19	0.00	-8.61	-1.84	4.79
CLASS A UNITS														
Direct Real Estate Fund	5.1	368.3	0.7578	0.68	-	Jun 10	Sep 10	1.78	0.59	-3.35	3.94	-6.50	-	-4.56
Global High Conv Fund – Hedg	2.9	33.0	0.6382	0.00	-	Jun 10	Dec 10	-5.76	9.85	9.85	0.00	-8.60	0.17	1.42
Hedg Global Small Cap Fund	7.4	182.6	0.8864	0.00	-	Jun 10	Dec 10	-4.71	19.75	19.75	0.00	-4.09	3.32	5.45
Global High Conv Fund – Unhed	0.7	66.0	0.4633	0.00	-	Jun 10	Dec 10	-2.20	-2.07	-2.07	0.00	-8.65	-2.13	-4.36
Global Small Cap Fund	1.4	260.7	0.7260	0.00	-	Jun 10	Dec 10	-1.76	7.65	7.65	0.00	-4.67	0.63	-1.23
Closed Funds														
Income Fund	4.8	1132.2	1.3767	5.12	11.81%	Jun 10	Sep 10	-3.97	5.45	1.43	4.02	-3.55	3.39	9.15
Equity Fund	24.8	86.8	2.0496	0.79	199.61%	Jun-10	Dec-10	-8.32	6.45	4.67	1.78	-6.10	5.77	-
Professional Investor Funds														
Managed Income Fund	1.3	1.3	0.7141	0.38	20.67%	Jul 10	Aug 10	-1.02	10.07	4.33	5.74	-5.70	0.02	2.96
Balanced Fund	6.4	6.4	1.0217	1.01	43.17%	Jun 10	Dec 10	-3.87	5.71	4.37	1.34	-3.28	3.65	4.22
Australian Share Fund	15.6	15.6	1.0987	2.39	32.85%	Jun 10	Sep 10	-7.99	7.01	2.88	4.13	-4.45	5.84	7.61
Global High Conviction Fund	1.0	1.0	0.5657	0.00	-	Jun 10	Dec 10	-2.14	-1.43	-1.43	0.00	-8.09	-1.31	-2.08
CLASS C UNITS														
Monthly Income Fund	25.9	829.0	0.7094	0.29	-	Jul 10	Aug 10	-1.45	21.25	15.59	5.66	-4.91	-0.29	0.64
Comb Property Income Fund	23.8	432.8	0.8562	1.13	-	Jun 10	Sep 10	-0.27	5.77	0.54	5.23	-13.17	-2.41	3.60
Direct Property Fund	13.9	368.3	0.7906	2.27	-	Jun 10	Sep 10	2.02	1.52	-4.99	6.51	-5.66	-	-0.19
Global High Conv Fund – Hedg	2.2	33.0	0.6760	0.00	-	Jun 10	Dec 10	-5.53	10.58	10.58	0.00	-8.09	0.66	2.31
Hedg Global Small Cap Fund	7.0	182.6	0.9540	0.00	-	Jun 10	Dec 10	-4.67	20.06	20.06	0.00	-3.72	3.74	6.44
Global High Conv Fund – Unhed	0.3	66.0	0.4932	0.00	-	Jun 10	Dec 10	-2.10	-1.66	-1.66	0.00	-8.19	-1.61	-3.98
Global Small Cap Fund	0.8	260.7	0.8140	0.00	-	Jun 10	Dec 10	-1.63	8.12	8.12	0.00	-4.04	1.22	-0.02
International Gold Fund	4.1	53.0	1.1834	0.00	-	Jun 10	Dec 10	-1.36	17.06	17.06	0.00	-0.97	-	8.24
Asset Allocation Alpha Fund	2.5	436.2	0.9177	0.37	-	Jun 10	Dec 10	-1.86	-3.67	-4.06	0.39	-	-	12.33
Global Allocation Fund (Aust)	22.2	737.3	1.0162	2.41	0.47%	Jun 10	Dec 10	-3.00	12.51	9.84	2.67	0.99	6.18	6.54

Past performance is not a reliable indication of future performance.

	Product Size \$M	Total Fund Size \$M	Unit Prices	Last Distribution		Period End	Next Distrib.	3 Months %	1 Year Total %	1 Year Growth %	1 Year Income %	3 Years % pa	5 Years % pa	Since Inception % pa
				Cents Per Unit	% Franked									
Wholesale														
Wholesale Funds														
Managed Income Fund	100.8	100.8	0.8614	0.23	41.00%	Jul 10	Aug 10	-0.89	10.73	5.04	5.69	-5.15	0.58	5.61
Balanced Fund	1132.2	1132.2	1.5630	1.91	34.87%	Jun 10	Dec 10	-3.79	6.16	4.35	1.81	-2.88	4.12	7.59
Australian Share Fund	796.5	796.5	1.7387	1.58	42.41%	Jun 10	Sep 10	-7.86	7.50	4.48	3.02	-4.04	6.33	9.51
Global High Conviction Fund	33.2	33.2	0.8009	1.15	-	Jun 10	Dec 10	-2.00	-0.88	-2.31	1.43	-7.56	-0.75	4.77
International Bond Fund	68.2	68.2	1.0256	5.40	-	Jun 10	Sep 10	3.39	11.00	4.82	6.18	8.05	5.85	6.25
CLASS D UNITS														
Aust Share Fund Plus	3.6	3.6	0.8998	0.76	91.43%	Jun 10	Sep 10	-8.16	7.26	3.89	3.37	-5.28	-	5.68
Aust Quant Strategies Fund	17.9	18.0	0.6013	2.34	87.78%	Jun 10	Sep 10	-5.65	6.41	-0.74	7.15	-8.34	2.88	4.30
Monthly Income Fund	747.2	829.0	0.7157	0.30	-	Jul 10	Aug 10	-1.42	21.50	15.60	5.90	-4.69	-0.06	1.26
Comb. Prop Income Fund	408.7	432.8	0.8218	1.15	-	Jun 10	Sep 10	-0.05	6.66	0.70	5.96	-12.36	-1.54	4.22
Global High Conv Fund – Hedg	27.7	33.0	0.6587	0.00	-	Jun 10	Dec 10	-5.59	10.85	10.85	0.00	-7.70	1.08	2.39
Hedg Global Small Cap Fund	167.7	182.6	0.9169	0.00	-	Jun 10	Dec 10	-4.57	20.79	20.79	0.00	-3.18	4.32	6.22
Global High Conv Fund – Unhed	32.0	66.0	0.4987	0.47	-	Jun 10	Dec 10	-2.01	-1.26	-2.20	0.94	-7.82	-1.21	-3.38
Global Small Cap Fund	258.3	260.7	0.8122	0.00	-	Jun 10	Dec 10	-1.54	8.51	8.51	0.00	-3.81	1.53	0.01
Global Equity Enh Index Fund	78.8	115.5	0.5813	0.71	-	Jun 10	Dec 10	-2.45	1.75	0.52	1.23	-9.88	-2.59	-4.27
International Gold Fund	48.8	53.0	1.4397	0.00	-	Jun 10	Dec 10	-1.02	18.22	18.22	0.00	0.01	13.74	11.75
Global Allocation Fund (Aust)	476.2	737.3	1.0250	2.11	0.38%	Jun 10	Dec 10	-2.88	12.90	10.03	2.87	1.54	6.67	6.90
Asset Allocation Alpha Fund	355.3	436.2	1.0982	1.00	-	Jun 10	Dec 10	-1.75	-3.23	-4.09	0.86	15.85	-	14.91
Monthly Income Fund – R	1.8	829.0	0.6998	0.29	-	Jul 10	Aug 10	-1.39	21.51	15.61	5.90	-4.70	-0.09	0.86
Direct Property Fund – W	13.9	368.3	0.8914	2.69	-	Jun 10	Sep 10	2.16	2.08	-5.00	7.08	-5.16	2.73	4.91
Global Allocation Fund (Aust) – S	36.5	737.3	0.8566	2.09	0.43%	Jun 10	Dec 10	-2.95	12.72	9.96	2.76	1.22	-	4.07
Direct Real Estate – K	0.3	368.3	0.7146	1.13	-	Jun 10	Sep 10	2.46	3.30	-3.37	6.67	-	-	-8.11
Direct Real Estate – W	10.4	368.3	0.7199	0.85	-	Jun 10	Sep 10	2.07	1.72	-3.36	5.08	-	-	-6.95
Pooled Super Funds/Trusts														
Balanced PST ¹	109.7	109.7	6.6979	-	-	-	-	-3.14	5.32	-	-	-2.22	4.09	9.17
Corporate PST ²	2.9	2.9	4.2297	-	-	-	-	-3.27	4.78	-	-	-2.75	3.52	6.77
Australian Equities PST ³	33.4	33.4	2.1199	-	-	-	-	-6.93	7.34	-	-	-2.33	7.53	9.97
Non-Tax Paying Balanced Fund ⁴	10.0	10.0	2.1694	-	-	-	-	-3.58	6.64	-	-	-2.32	4.77	6.14

Past performance is not a reliable indication of future performance.

1. RSE Registration No: R1000061
2. RSE Registration No: R1000085
3. RSE Registration No: R1000092
4. RSE Registration No: R1000078

Total Return is growth (unit price movement on exit to exit basis) & income (reinvested) for one year. Income is expressed as Total Return less growth component.

*The unit price is the exit price struck at the close of business on the last day of the month.

Performance figures are net and are calculated on an exit-to-exit basis (ie. taking fees into account) with all income reinvested and no allowance for tax on income.

Market statistics

as at 31 July 2010

	31/7/10	31/7/09	1 Month (%)	3 Month (%)	1 Year (%)	3 Years (% pa)	5 Years (% pa)																																																																																																																		
STOCK MARKET INDICES																																																																																																																									
Australian																																																																																																																									
S&P/ASX 200 Accumulation	31977.26	29032.28	4.47	-5.87	10.14	-5.84	4.90																																																																																																																		
All Industrials Accumulation	53046.45	47413.02	4.43	-7.03	11.88	-7.87	2.39																																																																																																																		
All Resources Accumulation	24439.26	23014.28	4.56	-3.01	6.19	0.15	13.46																																																																																																																		
S&P/ASX 200 Price	4493.50	4244.00	4.46	-6.53	5.88	-9.90	0.47																																																																																																																		
All Industrials Price	6082.49	5703.06	4.42	-7.93	6.65	-12.66	-2.66																																																																																																																		
All Resources Price	5057.20	4853.49	4.55	-3.01	4.20	-2.01	10.89																																																																																																																		
20 Leaders Accumulation	38262.90	34241.50	4.73	-5.65	11.74	-1.21	7.70																																																																																																																		
50 Leaders Accumulation	32173.90	29042.50	4.36	-5.79	10.78	-4.41	5.43																																																																																																																		
100 Leaders Accumulation	7954.20	7212.00	4.41	-5.86	10.29	-5.20	5.11																																																																																																																		
International (local currency return)																																																																																																																									
Dow Jones	10465.94	9171.61	7.08	-4.93	14.11	-7.47	-0.33																																																																																																																		
S&P 500	1101.60	987.48	6.88	-7.17	11.56	-8.86	-2.25																																																																																																																		
Toronto Comp	11713.43	10787.15	3.71	-4.07	8.59	-5.47	2.36																																																																																																																		
Nikkei	9537.30	10356.83	1.65	-13.75	-7.91	-17.92	-4.33																																																																																																																		
Dax	6147.97	5332.14	3.06	0.20	15.30	-6.76	4.70																																																																																																																		
FTSE 100	5258.02	4608.36	6.94	-5.32	14.10	-6.15	-0.09																																																																																																																		
Hang Seng	21029.81	20573.33	4.48	-0.37	2.22	-3.20	7.16																																																																																																																		
NZSE 50	3034.62	3016.20	2.10	-7.65	0.61	-10.36	-2.01																																																																																																																		
Cac 40 Index	3643.14	3426.27	5.82	-4.55	6.33	-14.12	-3.93																																																																																																																		
ASSET CLASSES[^]																																																																																																																									
Australian Shares			4.47	-5.87	10.14	-5.84	4.90																																																																																																																		
International Shares																																																																																																																									
- Hedged in \$A			5.97	-6.18	12.38	-8.36	0.85																																																																																																																		
- Unhedged			0.73	-2.80	0.53	-10.28	-2.75																																																																																																																		
Australian Listed Property			1.02	-3.91	18.76	-22.28	-8.27																																																																																																																		
Australian Direct Property			0.56	2.32	4.33	1.59	7.92																																																																																																																		
Australian Bonds			0.27	3.31	7.81	7.53	6.02																																																																																																																		
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- Hedged in \$A			1.14	3.63	10.89	9.87	7.56																																																																																																																		
- Unhedged			-3.29	7.27	-3.65	6.10	2.46																																																																																																																		
Cash			0.42	1.20	4.05	5.52	5.76																																																																																																																		
<table border="1"> <thead> <tr> <th></th> <th>Australia</th> <th>U.S.</th> <th>Japan</th> <th>Germany</th> <th>U.K.</th> </tr> </thead> <tbody> <tr> <td colspan="6">INTEREST RATES</td> </tr> <tr> <td>Cash</td> <td>4.50</td> <td>0.25</td> <td>0.10</td> <td>1.00</td> <td>0.50</td> </tr> <tr> <td>90 Day Bills</td> <td>4.78</td> <td>0.45</td> <td>0.24</td> <td>0.83</td> <td>0.75</td> </tr> <tr> <td>Long Bonds</td> <td>5.20</td> <td>2.91</td> <td>1.07</td> <td>2.67</td> <td>3.33</td> </tr> </tbody> </table>									Australia	U.S.	Japan	Germany	U.K.	INTEREST RATES						Cash	4.50	0.25	0.10	1.00	0.50	90 Day Bills	4.78	0.45	0.24	0.83	0.75	Long Bonds	5.20	2.91	1.07	2.67	3.33																																																																																				
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Source: BlackRock/Goldman Sachs JBWere

[^]Australian Shares: S&P/ASX 200 Accumulation Index. International Shares - Hedged in \$A: MSCI World ex-Australia (Hedged in \$A) Index. International Shares - Unhedged: MSCI World ex-Australia Index. Australian Listed Property: S&P/ASX 200 A-REIT Accumulation Index. Australian Direct Property: Mercer/IPD Australian Pooled Property Fund Index (before fees) from 1 September 2009, prior to this Mercer Direct Property Index. Australian Bonds: UBS Composite Bond Index (All Maturities). International Bonds - Hedged in \$A: Barclays Capital Global Aggregate (Hedged in \$A) Index. International Bonds - Unhedged: Citigroup World Government Bond Index. Cash: UBS Australia Bank Bill Index.

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