Outlook

Investment Review and Outlook

JANUARY 2010 FOR ADVISER USE ONLY

BLACKROCK

The cyclical case for global growth is intact

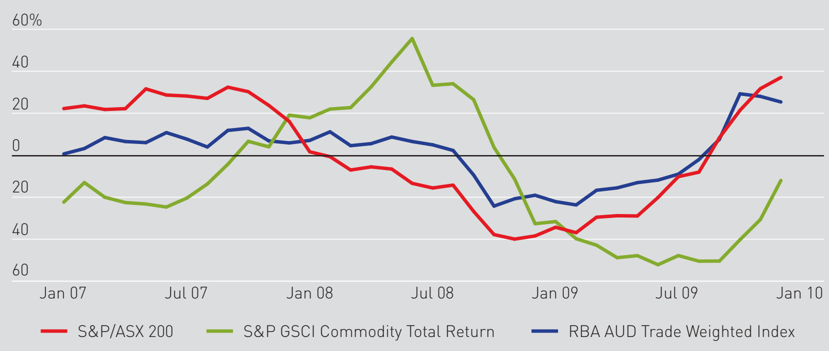
The past two years have been characterised by extreme market trends with the worst bear market in equities since the Great Depression, followed by the biggest recovery. Over much of this period, correlations have been very high across equities, credit, government bonds, currencies and commodities.

By the end of 2009, the market had transitioned to a somewhat different state. The trajectory of the recovery in equity and credit markets had flattened considerably, and the US dollar was showing some signs of recovery without causing a retracement in risk assets. The bond markets were also under pressure again, particularly at the long end, as concerns about stronger growth and supply were steepening the yield curves (to record highs in the US). These moves more than likely reflect position squaring at the end of a tumultuous year, as well as early positioning for 2010 thematics.

Some previously strong correlations may be breaking down as part of this process which is a positive development for diversification opportunities in 2010. Nonetheless, we expect trading conditions to be typically fickle in January, as the competing themes for 2010 play out in relatively thin markets.

The strong correlation between Australian equity returns, commodity returns and the Australian dollar, since late 2007 to the end of 2009, is shown in the graph below.

Correlations between equity, returns, and the Australian Dollar



Source: Mercer

We continue to expect the cyclical case for global economic growth to prevail in the first half of 2010 including:

- extreme policy settings;
- accommodative financial conditions; and
- ongoing strength in emerging economies and the inventory cycle.

At the same time we acknowledge that structural negatives will remain extremely powerful and may leave the global economy vulnerable if anything goes wrong.

IN THIS ISSUE

Some previously strong correlations may be breaking down... which is a positive development for diversification opportunities in 2010

David Hudson
Chairman Asset Allocation Committee

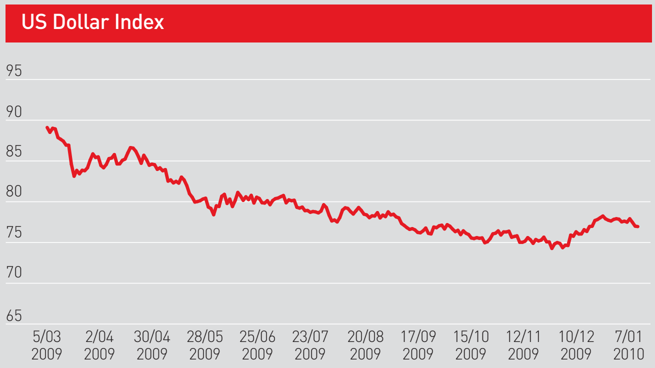
Investment Review and Outlook

The inflation data is very 'noisy' at present. The headline inflation rate is ramping higher as extremely low commodity prices from a year ago are cycling out of the annual rate. At the same time, core inflation is quiescent at around 1% in the developed economies. In particular, inflation fears have been eased by a very low core inflation result in the US for November, underpinned by an extremely weak shelter component (which comprises about one-third of the core measure). Beyond the next couple of months, the inflation outlook appears to be benign in the major core economies for the next couple of years with deflation a bigger risk than resurgent inflation over that period. Disinflation will be underpinned by the extremely large output gaps in the key developed economies. Unusually strong commodity prices for this stage of the economic cycle will partially militate against this fall, reflecting ongoing strength in the commodity-intensive emerging economies.

Since March 2009, markets have largely normalised as extreme risk premia were priced out of many assets. One major remaining opportunity in markets appears to be the extreme steepness of yield curves (characterised by the US where the 2–10 year yield curve fleetingly reached record wides in December). The steepness of the yield curve in the US reflects the twin influences of the Federal Reserve remaining on hold for 'an extended period' and enormous supply putting pressure on the long end of yield curves. The fact that the first move to tighter monetary policy by key central banks (the Federal Reserve and the Bank of England) will more than likely be the cessation of quantitative easing is one reason why curves may be staying very steep for now. Ultimately, we still expect a significant flattening once the core central banks (the Federal Reserve, European Central Bank and Bank of England) start to lift cash rates.

As an aside, we also consider the steepness of the curve to be a confirming indicator of a relatively robust economic recovery – just as the inverse yield curve in 2007 was an early warning sign of recession.

The US dollar is finally showing some signs of life with a recovery which has put it back at levels that were first traded (on an index basis) in early June as shown in the following graph.



Source: Bloomberg

The problems in peripheral Europe together with some relatively robust data out of the US (compared with both Europe and Japan) appear to have sparked a re-assessment of the US dollar outlook. There is a reasonably strong valuation case for a stronger US dollar against the Euro and Japanese Yen. As to whether this is the start of a major up-trend in the US dollar will depend on whether the recent run of better economic data continues, and ultimately leads to a major re-appraisal of the outlook for US monetary policy. Absent from such a change in Federal Reserve policy, we suspect that the US dollar will re-emerge as the favoured funding currency for carry trades.

Outlook

We remain constructive on emerging markets versus the major developed markets reflecting far superior economic fundamentals and better growth prospects. For this reason, we also favour commodity currencies where the terms of trade are likely to continue to be an important support to the economy. Finally, we generally favour equities versus bonds as the relative yields remain attractive for equities.

David Hudson
20 January 2010

Portfolio structure

as at 31 December 2009

Asset Allocation (%)*		
Australian Share Funds	Industrials	64.60
	Resources	32.92
	Listed Property	2.40
	Cash	0.08
Australian Share Fund Plus	Industrials	63.75
	Resources	33.13
	Listed Property	1.53
	Cash	1.59
Global High Conviction Funds	Asia (ex Japan)	11.50
	Africa	1.42
	Europe (ex UK)	15.31
	Latin America	4.65
	Japan	5.58
	North America	42.36
	UK	18.01
	Cash	1.17
Global High Conviction Funds (Hedged/Unhedged)	Asia (ex Japan)	11.50
	Africa	1.42
	Europe (ex UK)	15.31
	Latin America	4.65
	Japan	5.58
	North America	42.36
	UK	18.01
	Cash	1.17
Global Small Cap Funds (Hedged/Unhedged)	Asia (ex Japan)	5.46
	Emerging Markets	9.47
	Europe (ex UK)	12.41
	Japan	10.70
	North America	54.32
	UK	5.71
	Cash	1.93
Monthly Income Funds	Domestic Issuers	10.90
	Global Corporates swapped in AUD	74.91
	Mortgage & Asset Backed	6.43
	Liquidity	7.76
International Bond Funds	Australia	3.95
	Asia (ex Japan)	0.00
	Europe (ex UK)	33.23
	Japan	8.01
	North America	42.23
	UK	3.60
	Cash	8.98
Balanced Funds	Australian Shares	38.00
	Australian Fixed Income	15.00
	International Shares	26.00
	International Fixed Income	6.00
	Listed Property	6.00
	Direct Property	0.50
	Cash	8.50
Managed Income Funds	Australian Equities	18.74
	Australian Bonds	23.67
	Australian FRNs	43.60
	Listed Property	6.46
	Direct Property	5.71
	Cash	1.82
Property Securities Funds	Retail	65.17
	Office	20.45
	Industrial	10.30
	Hotel	0.55
	Residential	0.99
	Other	0.34
	Cash	2.20
Direct Property Funds	Commercial	52.26
	Retail	9.32
	Industrial	33.85
	Aged Care	2.60
	Cash	1.99
Combined Property Funds	Listed Property	33.00
	Direct Property	64.80
	Cash	2.20
Global Allocation Funds	Australian Shares	0.63
	Australian Fixed Income	0.17
	International Shares	57.14
	International Fixed Income	28.71
	Cash	13.35
International Gold Funds	Australia	9.70
	Asia (ex Japan)	18.57
	Africa	13.34
	Europe (ex UK)	1.71
	Latin America	29.65
	North America	22.99
	UK	1.32
	Cash	2.72

Allocations may not total 100 due to rounding.

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

Table of performance

as at 31 December 2009

	Product Size $M	Total Fund Size $M	Unit Prices	Last Distribution Cents Per Unit	% Franked	Period End	Next Distrib.	3 Months %	1 Year Total %	1 Year Growth %	1 Year Income %	3 Years % pa	5 Years % pa	Since Inception % pa
Retail														
Investment Funds														
Managed Income Fund	15.8	15.8	0.8751	0.29	28.63%	Dec 09	Jan 10	2.23	6.04	1.16	4.88	-4.77	0.22	7.38
Balanced Fund	48.7	48.7	1.5003	0.00	–	Dec 09	Jun 10	1.30	13.79	13.56	0.23	-0.53	5.25	6.63
Australian Share Fund	385.2	385.2	2.3434	1.68	133.12%	Dec 09	Mar 10	2.58	32.01	28.59	3.42	1.53	9.64	12.11
Australian Share Fund Plus	98.8	98.8	2.3283	1.79	116.85%	Dec 09	Mar 10	2.66	32.55	28.93	3.62	1.85	10.90	12.21
Global High Conviction Fund	11.1	11.1	1.2441	0.00	–	Dec 09	Jun 10	2.05	3.08	1.93	1.15	-7.01	0.01	5.12
CLASS A UNITS														
Direct Real Estate Fund	5.2	394.8	0.7506	1.02	–	Dec 09	Mar 10	0.84	-17.89	-21.23	3.34	–	–	-7.12
Global High Conv Fund – Hedg	3.4	35.6	0.6511	0.00	–	Dec 09	Jun 10	5.68	31.67	31.67	0.00	-6.20	2.20	1.75
Hedg Global Small Cap Fund	7.8	180.5	0.8480	0.00	–	Dec 09	Jun 10	5.55	38.02	38.02	0.00	-1.83	5.26	5.29
Global High Conv Fund – Unhed	0.7	74.4	0.4861	0.00	–	Dec 09	Jun 10	2.21	3.30	-3.34	6.64	-7.82	-0.15	-4.12
Global Small Cap Fund	1.4	258.9	0.7136	0.00	–	Dec 09	Jun 10	2.29	10.24	10.24	0.00	-3.99	2.51	-1.50
Closed Funds														
Income Fund	5.2	1193.6	1.4814	0.24	445.57%	Dec 09	Mar 10	1.38	14.27	12.69	1.58	-0.19	5.55	9.51
Equity Fund	28.2	98.8	2.2776	2.93	126.38%	Dec-09	Jun-10	2.59	32.59	29.01	3.58	1.63	10.59	–
Professional Investor Funds														
Managed Income Fund	1.4	1.4	0.7261	0.26	26.07%	Dec 09	Jan 10	2.37	6.54	0.88	5.66	-4.32	0.64	2.96
Balanced Fund	7.2	7.2	1.0691	0.29	263.89%	Dec 09	Jun 10	1.42	14.44	13.56	0.88	0.06	5.84	4.80
Australian Share Fund	17.7	17.7	1.2342	1.01	111.24%	Dec 09	Mar 10	2.77	32.80	28.65	4.15	2.09	10.27	8.94
Global High Conviction Fund	1.1	1.1	0.5901	0.00	–	Dec 09	Jun 10	2.16	3.59	-1.85	5.44	-6.57	0.44	-1.80
CLASS C UNITS														
Monthly Income Fund	27.0	915.2	0.6893	0.28	–	Dec 09	Jan 10	5.26	32.85	24.64	8.21	-5.35	-0.72	-0.37
Comb Property Income Fund	24.3	456.5	0.8740	1.23	–	Dec 09	Mar 10	-1.13	-9.65	-14.33	4.68	-12.96	-1.41	3.61
Direct Property Fund	14.2	394.8	0.7979	1.26	–	Dec 09	Mar 10	1.07	-17.12	-20.89	3.77	-3.65	–	-1.62
Global High Conv Fund – Hedg	2.7	35.6	0.6866	0.00	–	Dec 09	Jun 10	5.83	32.32	32.32	0.00	-5.74	2.64	2.64
Hedg Global Small Cap Fund	7.0	180.5	0.9112	0.00	–	Dec 09	Jun 10	5.57	38.63	38.63	0.00	-1.41	5.73	6.32
Global High Conv Fund – Unhed	0.4	74.4	0.5162	0.00	–	Dec 09	Jun 10	2.32	3.77	-3.39	7.16	-7.34	0.35	-3.74
Global Small Cap Fund	0.7	258.9	0.7980	0.00	–	Dec 09	Jun 10	2.40	10.97	10.97	0.00	-3.35	3.07	-0.24
International Gold Fund	4.8	51.9	1.1401	0.00	–	Dec 09	Jun 10	7.76	20.54	20.54	0.00	-1.13	–	8.47
Asset Allocation Alpha Fund	2.4	380.0	0.9393	0.00	–	Dec 09	Jun 10	-1.86	-0.52	-2.57	2.05	–	–	18.47
Global Allocation Fund (Aust)	23.7	716.3	1.0213	0.00	–	Dec 09	Jun 10	4.71	22.81	22.81	0.00	2.74	–	6.96

	Product Size $M	Total Fund Size $M	Unit Prices	Last Distribution Cents Per Unit	% Franked	Period End	Next Distrib.	3 Months %	1 Year Total %	1 Year Growth %	1 Year Income %	3 Years % pa	5 Years % pa	Since Inception % pa
Wholesale														
Wholesale Funds														
Managed Income Fund	108.4	108.4	0.8693	0.42	19.31%	Dec 09	Jan 10	2.52	7.18	1.57	5.61	-3.77	1.24	5.69
Balanced Fund	1193.6	1193.6	1.6390	0.79	148.11%	Dec 09	Jun 10	1.55	14.94	13.53	1.41	0.49	6.33	8.05
Australian Share Fund	703.2	703.2	1.9248	1.78	98.73%	Dec 09	Mar 10	2.87	33.31	28.59	4.72	2.55	10.80	10.43
Global High Conviction Fund	37.1	37.1	0.8449	0.00	–	Dec 09	Jun 10	2.31	4.09	-3.72	7.81	-6.04	1.03	5.17
International Bond Fund	66.0	66.0	1.0051	0.00	–	Dec 09	Mar 10	0.89	8.77	2.99	5.78	5.97	5.24	6.02
CLASS D UNITS														
Aust Share Fund Plus	8.2	8.2	0.9987	1.03	93.25%	Dec 09	Mar 10	2.83	32.61	27.96	4.65	2.34	–	8.54
Aust Quant Strategies Fund	19.7	143.3	0.6912	0.96	94.07%	Dec 09	Mar 10	2.69	31.90	26.83	5.07	-2.61	–	6.67
Monthly Income Fund	816.2	915.2	0.6955	0.29	–	Dec 09	Jan 10	5.33	33.10	24.64	8.46	-5.12	-0.49	0.34
Comb. Prop Income Fund	431.9	456.5	0.8388	1.34	–	Dec 09	Mar 10	-0.93	-8.87	-14.17	5.30	-12.15	-0.55	4.20
Property Securities Fund	4.9	156.9	0.6456	0.83	–	Dec 09	Mar 10	-4.95	9.94	3.88	6.06	-23.81	-7.84	-0.20
Global High Conv Fund – Hedg	29.5	35.6	0.6685	0.00	–	Dec 09	Jun 10	5.91	32.85	32.85	0.00	-5.29	3.11	2.72
Hedg Global Small Cap Fund	165.5	180.5	0.8733	0.00	–	Dec 09	Jun 10	5.83	39.42	39.42	0.00	-0.85	6.29	6.06
Global High Conv Fund – Unhed	36.2	74.4	0.5257	0.00	–	Dec 09	Jun 10	2.42	4.19	-3.67	7.86	-6.98	0.77	-3.13
Global Small Cap Fund	256.5	258.9	0.7946	0.00	–	Dec 09	Jun 10	2.50	11.18	11.18	0.00	-3.12	3.41	-0.23
Global Equity Enh Index Fund	77.1	125.3	0.5984	0.00	–	Dec 09	Jun 10	2.13	-1.39	-4.32	2.93	-10.08	-1.11	-4.37
International Gold Fund	47.1	51.9	1.3787	0.00	–	Dec 09	Jun 10	7.97	21.71	21.71	0.00	-0.16	12.60	12.23
Global Allocation Fund (Aust)	456.2	716.3	1.0307	0.50	0.63%	Dec 09	Jun 10	4.85	23.44	22.84	0.60	3.34	–	7.34
Asset Allocation Alpha Fund	321.1	380.0	1.1265	0.00	–	Dec 09	Jun 10	-1.74	-0.12	-2.11	1.99	23.80	–	18.08
Monthly Income Fund – R	1.8	915.2	0.6799	0.29	–	Dec 09	Jan 10	5.31	33.07	24.43	8.64	-5.14	-0.52	-0.14
Direct Property Fund - W	14.3	394.8	0.9005	1.54	–	Dec 09	Mar 10	1.21	-16.66	-20.97	4.31	-3.16	3.44	4.48
Global Allocation Fund (Aust) – S	32.2	716.3	0.8609	0.00	–	Dec 09	Jun 10	4.78	23.07	23.07	0.00	2.98	–	4.17
Long Short Capital Fund	8.1	8.1	0.9732	2.32	86.40%	Dec 09	Jun 10	2.51	30.19	24.82	5.37	–	–	0.07
Direct Real Estate – K	0.3	394.8	0.7112	1.42	–	Dec 09	Mar 10	1.52	-15.63	-21.30	5.67	–	–	-13.79
Direct Real Estate – W	10.4	394.8	0.7145	1.16	–	Dec 09	Mar 10	1.12	-16.95	-21.25	4.30	–	–	-10.83
Pooled Super Funds/Trusts														
Balanced PST[1]	119.9	119.9	6.8607	–	–	–	–	1.57	12.37	–	–	0.90	5.99	9.53
Corporate PST[2]	3.4	3.4	4.3453	–	–	–	–	1.44	11.79	–	–	0.35	5.37	7.10
Australian Equities PST[3]	39.2	39.2	2.2688	–	–	–	–	2.92	31.27	–	–	4.09	11.55	10.99
Non-Tax Paying Balanced Fund[4]	11.2	11.2	2.2245	–	–	–	–	1.55	15.51	–	–	1.14	6.99	6.67

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.

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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 December 2009

	31/12/09	31/12/08	1 Month (%)	3 Month (%)	1 Year (%)	3 Years (% pa)	5 Years (% pa)
STOCK MARKET INDICES							
Australian							
S&P/ASX 200 Accumulation	33985.86	24801.27	3.74	3.39	37.03	-0.70	8.36
All Industrials Accumulation	56396.16	42162.95	3.79	0.95	33.76	-4.31	5.20
All Resources Accumulation	25959.43	17816.71	3.62	9.82	45.70	11.63	20.11
S&P/ASX 200 Price	4870.60	3722.30	3.60	2.68	30.85	-4.94	3.76
All Industrials Price	6622.90	5230.90	3.59	-0.01	26.61	-9.16	0.03
All Resources Price	5422.43	3817.97	3.62	9.77	42.02	9.11	17.31
20 Leaders Accumulation	40281.50	28918.60	2.88	2.72	39.29	4.21	11.22
50 Leaders Accumulation	34053.30	24995.60	3.37	3.34	36.24	0.48	8.89
100 Leaders Accumulation	8448.00	6202.90	3.63	3.24	36.19	-0.23	8.52
International (local currency return)							
Dow Jones	10428.05	8776.39	0.80	7.37	18.82	-5.77	-0.67
S&P 500	1115.10	903.25	1.78	5.49	23.45	-7.70	-1.65
Toronto Comp	11746.11	8987.70	2.61	3.08	30.69	-3.10	4.90
Nikkei	10546.44	8859.56	12.85	4.08	19.04	-15.09	-1.70
Dax	5957.43	4810.20	5.89	4.97	23.85	-3.34	6.96
FTSE 100	5412.88	4434.17	4.28	5.43	22.07	-4.53	2.37
Hang Seng	21872.50	14387.48	0.23	4.38	52.02	3.09	8.98
NZSE 50	3230.14	2715.71	3.35	2.19	18.94	-7.30	1.06
Cac 40 Index	3936.33	3217.97	6.96	3.71	22.32	-10.78	0.60
ASSET CLASSES^							
Australian Shares			3.74	3.39	37.03	-0.70	8.36
International Shares							
– Hedged in $A			3.97	5.38	26.71	-6.49	2.67
– Unhedged			3.61	2.09	-0.30	-10.00	-1.02
Australian Listed Property			3.38	-5.01	7.92	-23.10	-7.27
Australian Direct Property			-0.52	0.27	-9.06	3.16	8.27
Australian Bonds			-0.38	1.03	1.73	6.56	5.72
International Bonds							
– Hedged in $A			-0.64	1.07	7.69	8.05	7.03
– Unhedged			-3.34	-3.76	-20.50	3.41	1.68
Cash			0.32	0.88	3.47	5.92	5.90

	Australia	U.S.	Japan	Germany	U.K.
INTEREST RATES					
Cash	3.75	0.25	0.10	1.00	0.50
90 Day Bills	4.28	0.25	0.28	0.66	0.61
Long Bonds	5.64	3.84	1.30	3.39	4.02

	31/12/09	31/12/08	1 Month (%)	3 Month (%)	1 Year (%)
EXCHANGE RATES					
Aus Dollar					
USD	0.90	0.70	-2.00	1.69	27.77
NZD	1.24	1.21	-3.08	1.56	2.22
EUR	0.63	0.50	2.59	3.86	24.54
GPB	0.56	0.48	-0.37	0.49	15.59
JPY	83.48	63.67	5.47	5.42	31.11
TWI	69.70	55.60	0.87	2.20	25.36
US Dollar					
JPY	93.02	90.64	7.65	3.70	2.63
EUR	0.70	0.72	4.70	2.15	-2.49
GBP	0.62	0.68	1.66	-1.17	-9.70
COMMODITIES					
Oil WTI (USD/bbl)	79.36	44.60	2.69	12.39	77.94
Gold (USD/oz)	1096.95	882.05	-7.01	8.86	24.36
Copper LME (USD/tn)	7342.00	3041.75	6.36	19.43	141.37
Zinc LME (USD/tn)	2529.00	1180.25	10.32	30.14	114.28
Aluminium LME (USD/tn)	2197.00	1507.75	8.28	18.37	45.71

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.

For further information
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