

2011 CALENDAR YEAR OUTLOOK SUMMARY

- Strong domestic company earnings growth (+20% in FY11, +13% in FY12) and improving US growth and sentiment should see strong equity market performance globally. The Australian stock market in particular should do well in 2011 given it is not particularly expensive, trading on multiple of 11-12x currently (versus a long term average of 15x).
- Forecast global GDP growth is at 4%. This will be sufficient to deliver record annual global consumption for most key commodities in 2011.
- The RBA is expected to continue to raise interest rates on the back of rising commodity prices and its potential to generate inflationary pressures given the low level of unemployment.
- We see the strength in the Australian dollar being maintained on the back of strong commodity prices and rising interest rates.
- In residential property markets housing affordability is expected to reduce given rising interest rates and increasing house prices. Rental vacancy rates will remain low as the number of new dwellings continues to fall short of population growth and this will support valuations.
- In non-residential property markets, capital valuations will continue to firm as they recover from the GFC and income yields return to their historical averages.

ASSET ALLOCATION

Given the positive outlook for equity markets, specifically for Australia, we are retaining our equity market weightings for the next quarter.

Property markets have, we believe, only recently passed the nadir in the current cycle, and we are increasing our portfolio exposure based on forecast GDP and employment growth.

As earnings certainty becomes stronger and volatility reduced, we are lowering our portfolio exposure to Cash and Hedge Funds for Dynamic Growth and Balanced clients, as well as to Fixed Interest for High Yield clients.

We see the strength in the Australian dollar being maintained on the back of strong commodity prices and consequently overseas assets remain relatively attractive to Australian investors. We will therefore maintain our international equities weighting in the short term.

DECEMBER QUARTER OVERVIEW

Over the December quarter 2010 the ASX 200 Accumulation Index returned 4.4%. This was all due to the Resources sector (Resources price return 12.8%, Industrials -0.5%) which saw its largest quarterly outperformance since June 2008 as commodity prices continued their rise.

Local economic data gave mixed signals with inflation slightly below expectations while



employment remained robust (employment has grown by c.366,000 for the 11 months to November). After holding the cash rate steady since May, the Reserve Bank of Australia (RBA) raised the cash rate by 25bp in November to 4.75%. Bank stocks had a weak quarter (+0.1% accumulation), as the move by major lenders to raise mortgage rates by more than the RBA fuelled political pressure and prompted the government to propose a raft of measures aimed at increasing the competitiveness of the sector.

Commodity stocks were supported by improving US economic data, the Federal Reserve's decision to pursue a second quantitative easing program (QE2), and further fiscal stimulus through extended tax concessions. Notably, the US unemployment rate declined to 9.4% in December, the lowest level since July 2009 (non-farm payrolls increased by 103,000 in December, following upwardly revised gains of 71,000 in November and 210,000 in October).

The QE2, announced in November, was targeted at shorter duration bonds and this helped to keep the short end of the yield curve at low levels. But the improving US economic outlook and prospects of higher inflation saw the long end of the yield curve rise. As a result, the US yield curve steepened substantially. With investors' willingness to take on risk increasing during the quarter, the US dollar and sovereign bonds were sold off globally and underperformed the other major asset classes.

By the end to the quarter, the S&P 500 index had reached levels last seen prior to the Lehman bankruptcy in September 2008, and based on Bloomberg numbers is currently trading in line with the 10-year average forward PE. In fact, with investor confidence returning, all the major equity indices rallied during the quarter and are now trading at fundamentals close to their long-term historical average.

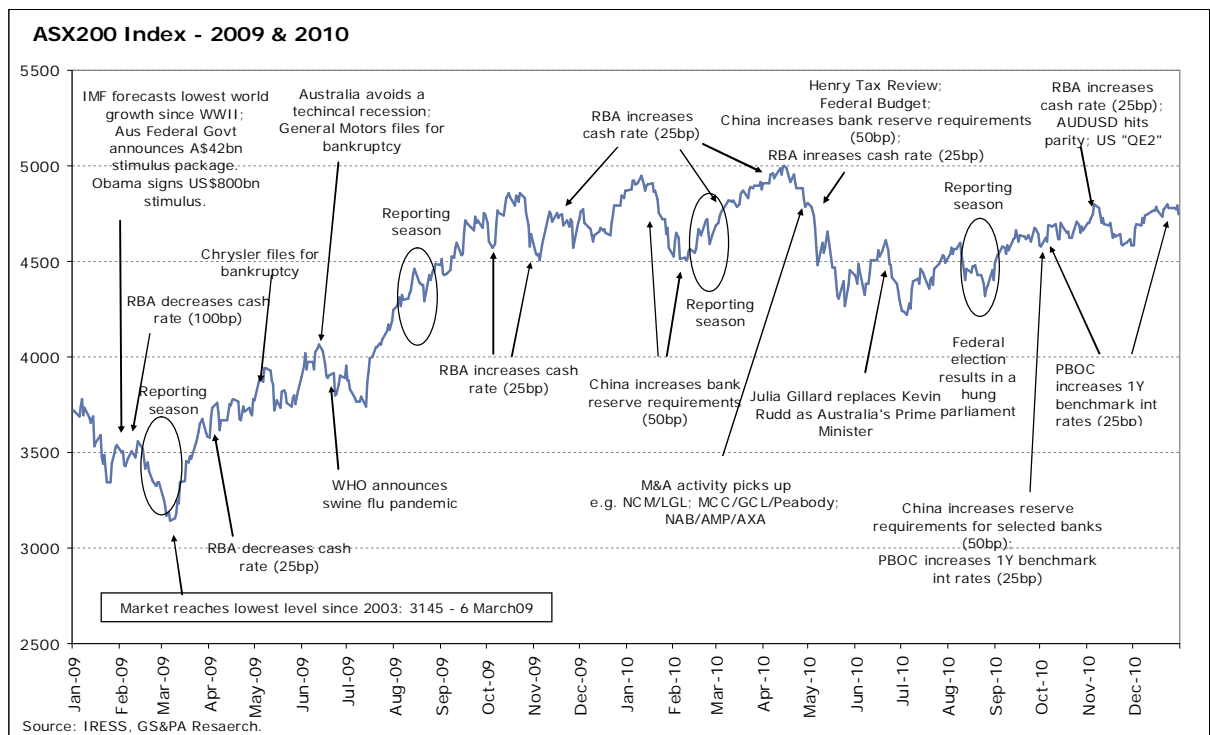
China's GDP grew at an annualized rate of 9.6% in 3Q10, with CPI rising 5.1% in November (year on year), the fastest rate in 28 months. To mitigate this, the People's Bank raised interest rates twice and increased the reserve requirement ratio for banks six times. Despite these measures, the Chinese equity market outperformed most of the major indices over the quarter.

Eurozone GDP grew 1.9% (year on year) in 3Q10. Sovereign debt issues continued to affect confidence with most of the European based equity indices underperforming in the December quarter. Greece reached an agreement with the EU and IMF on loan facilities, prompting them to make a €750b fund available to members needing support. The spotlight fell on Ireland, as it accepted an aid package from the EU and IMF worth €67.5b.

2010 PERFORMANCE, 2011 OUTLOOK

As calendar year 2010 drew to a close, the S&P/ASX 200 Index remained little changed from a year ago. Following a strong recovery during 2009, the market has traded sideways since September 2009 as investor focus has oscillated between the potential leverage from economic recovery, and the re-emergence of specific macro risks reinforcing the continued existence of global imbalances that were instrumental in causing the Global Financial Crisis.

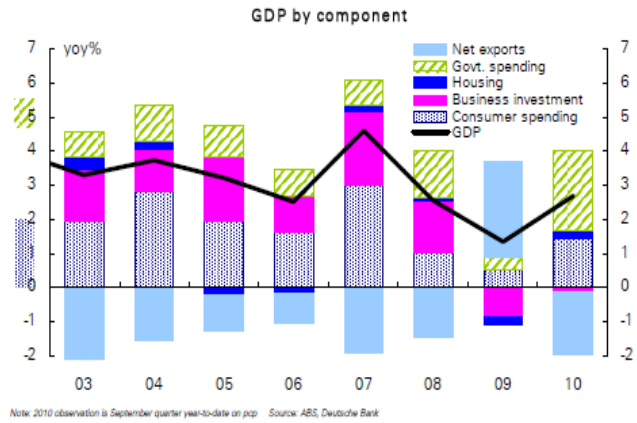
For Australia, 2010 was more about overcoming headwinds than about reaping the rewards of a robust Australian economy. These headwinds included - fears of a double dip recession in the US, sovereign credit crises in Europe, a policy led pull-back in China, a 100bp rise in domestic official interest rates, a post-float record high in the AUD, and anti-business proposals from the Government (e.g. the Resource Super Profits Tax/ Minerals Resource Rent Tax, a carbon tax and bank sector measures). These headwinds should abate in 2011. Expectations are for a year where strong domestic earnings growth, abundant global liquidity, improving growth and sentiment in the US, and accelerating corporate activity could drive a double-digit return from current levels in the ASX200.



Market Fundamentals

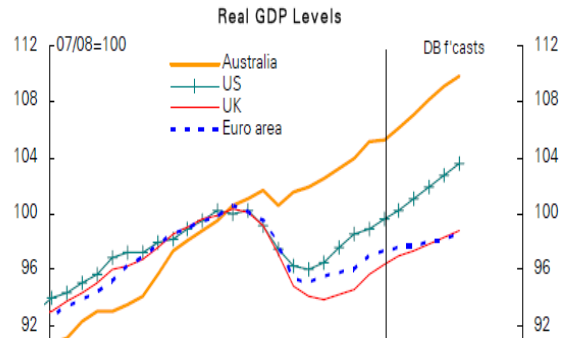
From a fundamental perspective, since May 2010 the Australian market experienced net downgrades to company earnings, in contrast to the US and other markets, despite an improvement in the economy. The pick-up in economic conditions largely bypassed listed companies as stimulus programs were mostly carried out by small companies, while consumers spent on cars and restaurants rather than retail. Further, an increase in resources capital expenditure was expected given the large amount of work in the pipeline. But growth in work done was quite muted, likely because of delays associated with uncertainty around the mining tax and global growth mid-year.

Looking to 2011, we see the economic recovery broadening and lifting the earnings of listed companies, and we expect to see a substantial ramp-up in resource capex. It is important to note that while company earnings were downgraded during the year, solid growth was still experienced, and is expected to manifest over the coming years (+20% in FY11; +13% in FY12).

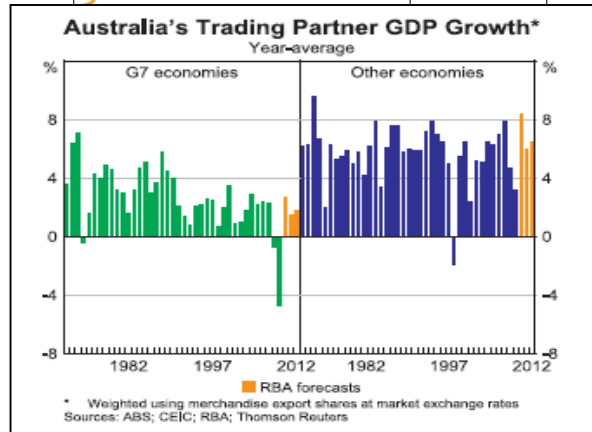


A de-rating of the market PE multiple in 2010 has been broad based across the world's equity markets, reflecting the global nature of macro risks. The Australian market PE multiple de-rated from 15x to 11-12x and is now trading on a similar multiple to both the US and China. Looking through 2011 and taking into account the risks of US and Europe as well as anticipated local interest rate rises, ongoing earnings growth should lift the market to c13x.

Indeed, when we look at developments in the respective economies, it is obvious that Australia is in a far superior position, with respect to current and forecast output relative to pre-crisis peaks. While the US economy is expected to grow by more than 3% in 2011 by some forecasters, the consensus is for Australia to do the same, if not better.



Overall, global output is estimated to have grown by c.4.75% in year-average terms in 2010, which is above the average rate of global growth recorded during the decade prior to the recent global downturn. World output growth is expected to be around 4% in both 2011 and 2012.

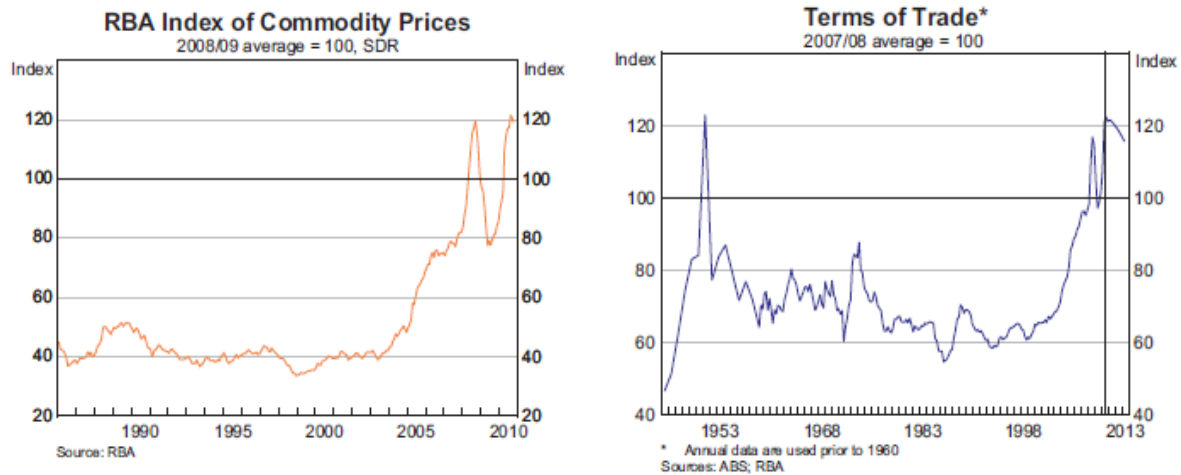


Equities could get further support from the low level of bond yields. The gap between the equities' earnings yield (the inverse of the PE ratio) and the bond yield is particularly large in the US, but also sizeable in Australia.



Commodity Prices

Commodity prices have risen sharply over the past year, supported by strong demand from Asia. The RBA's Index of Commodity Prices is now around 55% above its trough in mid-2009 and around its previous peak in September 2008.



The increases in commodity prices have boosted Australia's terms of trade to a historically high level, which in turn is supporting nominal incomes. The increase in commodity prices over the past year has been broad based, with the prices of all commodities included in the RBA's Index of Commodity Prices having increased. Forecast global GDP growth of 4%, will be sufficient to deliver record annual global consumption for most key commodities in 2011.

Table 1: Commodity Price Growth
Per cent, SDR terms

	Since end July 2010	Since end October 2009
RBA index	1	45
- Excluding bulk commodities	7	26
Bulk commodities	-4	68
- Coking coal ^(a)	-3	53
- Iron ore ^(a)	-6	97
- Thermal coal ^(a)	1	31
Rural	18	36
- Sugar	40	63
- Wheat	15	42
- Other	15	29
Base metals	10	25
Gold	10	30
Oil ^(b)	6	12

(a) Export prices; RBA estimates for recent months

(b) Average of WTI and Tapis crude oil prices

Sources: Bloomberg; RBA

Interest Rates

The RBA raised cash rates by 25bp to 4.75% at their November meeting. In the December Minutes of the Monetary Policy Meeting, the RBA's key concerns remain centred around the massive boost to national income from the commodity boom and its potential to generate inflationary pressures given the low level of unemployment. The unemployment rate has remained within 5.1-5.3% throughout the year as higher participation offset job creation. The Q3 GDP result was "a little softer than expected", but nominal GDP had risen 9.6% over the year as the terms of trade reached a new peak. The rebalancing of growth from public to private was continuing, and while investment was strengthening, spending and borrowing by the household sector remained subdued. The RBA noted that if this restraint continued it would help make room for the expected increase in investment.

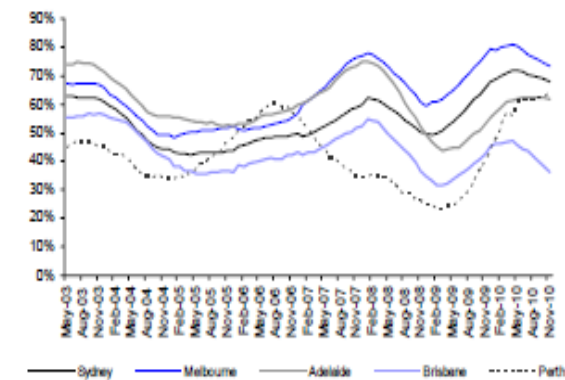
On this basis, the market is expecting further rate rises in 2011, with the next hike expected in February. The key to this will be the employment and inflation data due out in January.

Property Markets

Housing affordability in Australia is expected to reduce due to increasing interest rates (and increasing house prices, albeit at a slower rate over the next 12 months). On a weighted average of 8 capital cities, the price index for established houses increased 11% yoy (flat mom) in September 2010 (+34% vs the historical average). Prices have increased the most in Melbourne with the price index for established houses increasing by 19% yoy (3% mom) to September 2010.

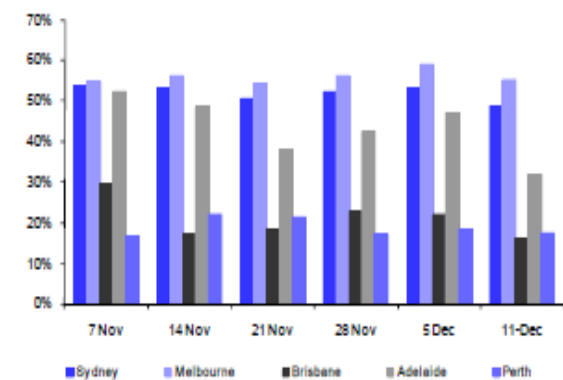
Monthly auction clearance rates in Sydney declined from a recent peak of 81.6% in January 2010 to 66% in September 2010. Auction clearance rates also declined in Melbourne from its recent peak of 82.6% in March 2010 to 68.6% in September 2010. On a weekly basis (11 December 2010) auction clearance rates declined to 48.7% and 54.9% in Sydney and Melbourne respectively from recent highs of 59% and 62% respectively on 31 October 2010.

Annualised auction clearance rates (monthly)



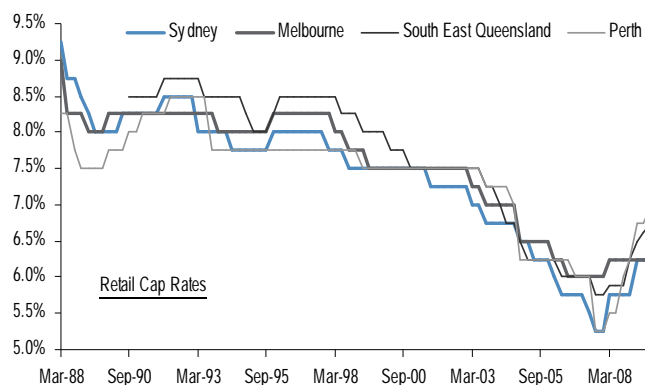
Source: ZBM

Weekly auction clearance rates



Source: RP Data

In the listed property market, asset values stabilized in 2010 as comparable transactional evidence was reported. This trend is clear in the charts of retail and office capitalization rates. Similarly, Prime Industrial Average cap rates compressed by 37bp to

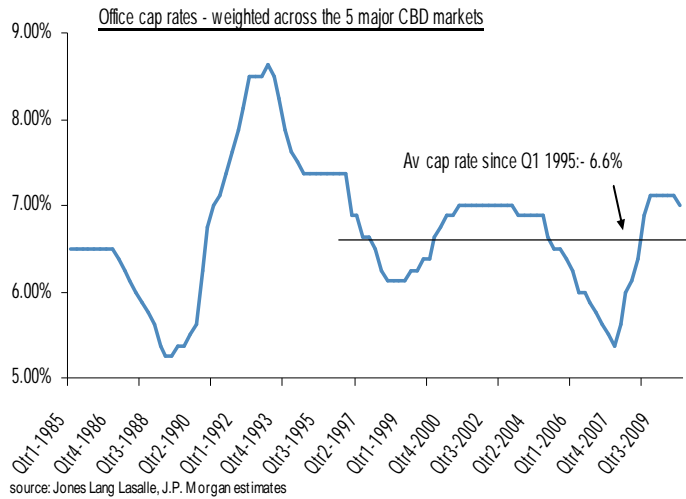


source: Jones Lang Lasalle, J.P. Morgan estimates

8.33% over the year to the September 2010 quarter.

The Melbourne office market is continuing to recover on the back of strong tenant demand (cap rates average 7.5%, compressing 23bp for the year to September 2010). In contrast, the Sydney recovery continues to be pushed out with incentives remaining higher for longer (cap rate average of 7.0%, compressing 13bp for the year to September 2010).

As property markets continue to recover from the GFC cap rates will continue to compress as they return to their historical average. We continue to prefer unlisted property investments as they are better placed to take advantage of opportunities as they present themselves.



Financial Market Metrics

Interest Rates	Yield 31-Dec-10	Yield 30-Sep-10	Change (pts)
Australian 90 Day Bill	5.02	4.90	+0.12
Australian 10 Year Bond	5.51	4.96	+0.55
US 10 Year Bond	3.30	2.53	+0.77
US Federal Reserve Funds Rate	0.25	0.25	-

Commodity	Price 31-Dec-10	Price 30-Sep-10	Change (%)
Gold (USD / oz)	1,421	1,308	+8.7%
Oil (USD / bbl)	91.38	79.97	+14.3%
Copper (USD / ton)	9,580	8,054	+19.0%
Nickel (USD / ton)	24,120	23,390	+3.1%
Aluminum (USD / ton)	2,450	2,314	+5.9%

Currency	Price 31-Dec-10	Price 30-Sep-10	Change (%)
AUD/USD	1.0251	0.9683	+5.9%
AUD/EUR	0.7641	0.7092	+7.7%
AUD/GBP	0.6547	0.6144	+6.6%
AUD/JPY	83.1367	80.8876	+2.8%
AUD/NZD	1.3121	1.3164	-0.3%

Sharemarket Indices	Price 31-Dec-10	Price 30-Sep-10	Change (%)
ASX200	4,745	4,583	+3.5%
S&P 500	1,258	1,141	+10.2%
FTSE 100	5,900	5,549	+6.3%
DAX	6,914	6,229	+11.0%
Nikkei 225	10,229	9,369	+9.2%
Hang Seng	23,035	22,358	+3.0%