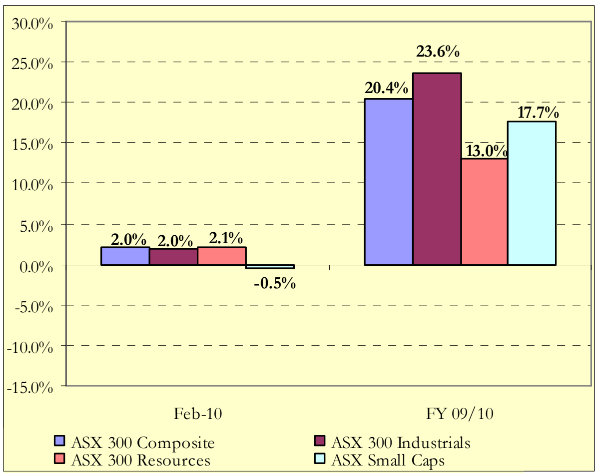
Market Overview

Despite continuing concerns over sovereign debt risks within Europe and a tightening of liquidity conditions in the US, developed world share markets globally held up in February, recovering some of their January losses. Nonetheless, continuing concerns over the uncertainty surrounding the timing and extent of a global economic recovery, the possibility of higher interest rates, and the debt concerns of Greece remain in the minds of investors.

Economic releases continue to be mixed, with the reported Japanese gross domestic product (GDP) figure delivering a positive surprise, whilst European economic data was generally weak. US housing data remains a concern, as there have been few signs of improvement for this market. The US fourth quarter earnings season saw a record number of companies beating Analysts' earnings estimates. Importantly, there have been signs of improvement in company revenue lines, which has provided some support for the strong growth implied by Analysts' forward earnings estimates.

In Australia, economic conditions have been stronger than expected following the moderate downturn a year ago. The positive impacts of the fiscal stimulus on consumer demand have now largely subsided, however, household finances are being supported by a strong labour market and a recovery in net wealth. Public infrastructure spending is now boosting domestic demand, as is an upturn in housing construction activity. Despite the robust domestic outlook, the Reserve Bank of Australia (RBA) held the official cash rate at 3.75% at its February meeting, describing its decision as 'finely balanced' between its optimistic forecast for the domestic economy and concerns over Sovereign risk in Europe. The RBA upgraded its GDP forecast to 3.25% to 3.50% per annum over 2011 and 2012. Further, the RBA's underlying inflation forecast over the same period is now 2.50% to 2.75% per annum, an increase from 2.25% to 2.50%.

Australian Equities

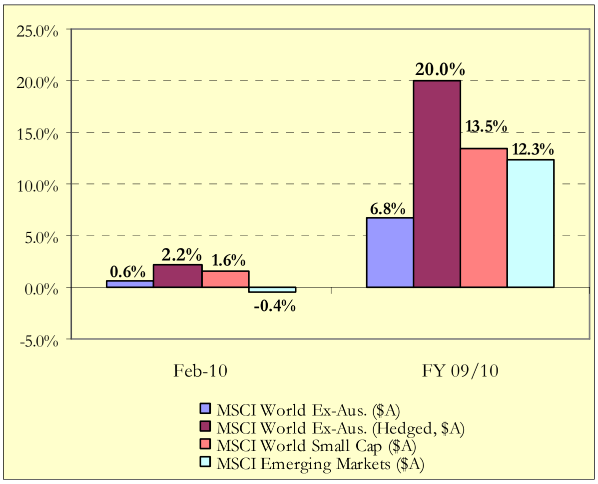


The Australian share market recorded a positive return in February, with the S&P/ASX 300 Accumulation Index returning +2.0% over the month. Small caps underperformed the large caps in February, with the S&P/ASX Small Ordinaries Index returning -0.5% versus the S&P/ASX 100 Accumulation Index return of +2.3%.

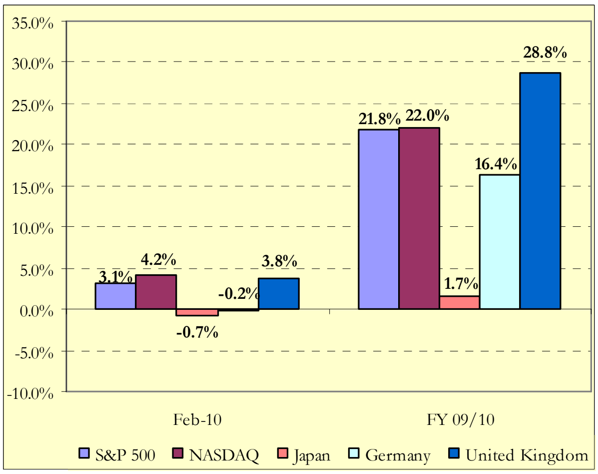
Company reporting was a key focus for investors during the month. One of the key themes was the benefit of significant cost cutting, which has resulted in most companies either maintaining or increasing their earnings margins despite a fall in revenues. Overall, company earnings reports were slightly ahead of the market's expectations, with positive earnings surprises outweighing the negative. However, the market is focused on seeing a return in companies' revenue growth, given the improvements in the Australian economy.

Global macroeconomic concerns resulted in a resurgence of the defensive sectors within the

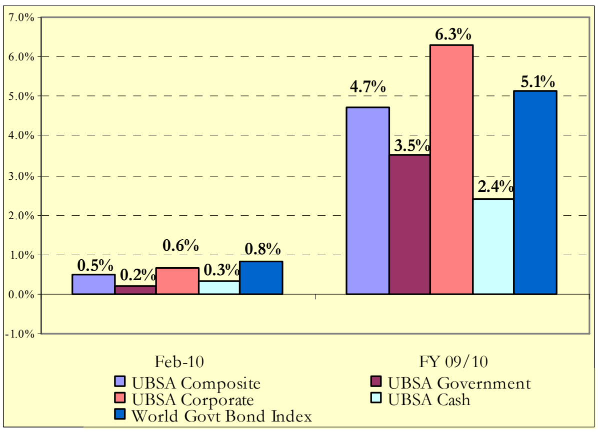
International Equities ($A)



International Equities (Local Currencies)



Fixed Income



Australian market, with the Consumer Staples sector (+7.3%), Health Care sector (+3.9%), and Utilities sector (+2.9%) the best performing sectors over the month.

Global share markets were positive in February, with the MSCI World ex-Australia (Hedged) Index delivering +2.2% over the month. However, performance was mixed across regions. Canada (+4.9%) and the UK (+3.8%) were amongst the best performers for the month. As per last month, European developed markets were again subject to sharp declines. Greece was the worst performer, returning -8.1% in February, while Spain (-5.6%) and Portugal (-4.3%) were also under pressure as the fiscal position of these countries came under further investor scrutiny.

The US share market performed well despite mixed economic data, with the S&P 500 gaining +3.1% over the month. Concerns over the increased discount rate (the rate charged by the Federal Reserve to borrowing banks) from 0.50% to 0.75% were largely dismissed with the market expecting that the Federal Reserve's target cash rate will remain at the current low level for an extended period of time.

In Asia, Japan recorded a -0.7% return over the month, as it is continuing to experience a slow pace of economic recovery. In contrast, Hong Kong (+3.9%) and Singapore (+0.9%) posted gains. Export volumes across Asia are reportedly improving, which is a positive sign for growth within the region.

Emerging markets ended February little changed, returning -0.4% for the month in Australian dollar terms. Turkey (-9.3%) and Russia (-6.3%) were the worst performers for the month, while Peru (+7.9%) and the Philippines (4.8%) were the best performing emerging market countries.

The Australian bond market strengthened over the month, with Commonwealth government bond yields rising during February. The 10-year yield rose 0.05% to 5.44% as at the end of February. Further, the UBSA Composite Bond Index returned 0.5%. With the RBA opting to leave the official cash rate on hold, 90-day bank bills yields fell from 4.38% to 4.13% over the month.

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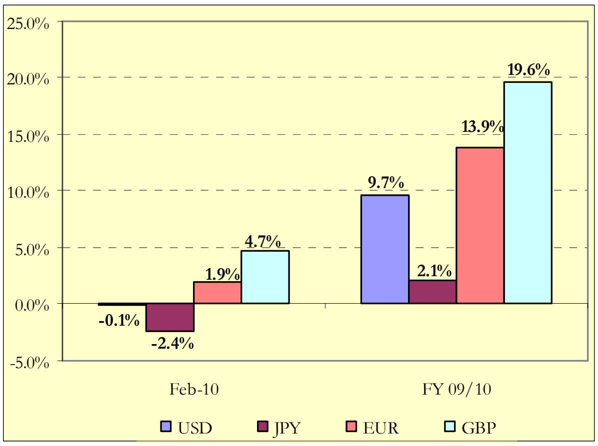
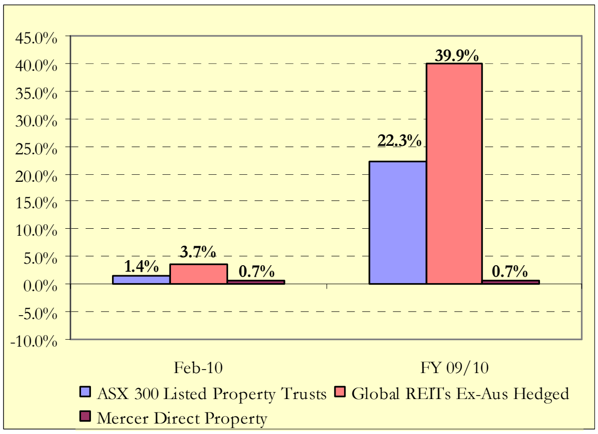
Australian Dollar against



Property



Government bond market investors focused on Sovereign risk during February as a result of the uncertainty around Greece's large government deficit and high borrowing needs not being confined to one country. Other European countries such as Italy, Ireland and Portugal are experiencing less pertinent government deficit and debt stresses. As a result, yields in Europe fell over the month as investors moved into German bonds out of other European countries' government debt. US 10-year bond yields were relatively flat over the month, rising 0.03% to 3.62%. The UK 10-year bond yield rose by 0.12% to close the month at 4.03%, a move which was reportedly based on investor concerns around the upcoming election and budget deficit figures.

Currencies were relatively flat over the month, however, the Australian dollar strengthened against the British pound and Euro. Some market commentators have noted that the Australian dollar is expected to strengthen further against the currencies of its major trading partners (as measured by the Trade Weighted Index) on the back of an improving global outlook, strong demand for Australian resources, and rising interest rates.

The Australian Real Estate Investment Trusts (A-REITs) market, as measured by the S&P/ASX 300 Property Trust Accumulation Index, returned 1.4% for the month, reflecting an increase in investor confidence that property companies will be able to deliver sustainable earnings. The price of international listed property stocks also improved over February, with the Global REITS ex-Australia (hedged) Index returning 3.7% for the month. As was the case in Australia, several US and European listed property companies reported their earnings during February. While most companies were cautious in their earnings outlook statements, investors appear to be anticipating a gradual improvement in the global economy and a recovery in property asset values, both of which should support earnings growth throughout the year.

The domestic unlisted property sector, as measured by the Mercer Unlisted Property Index, returned 0.7% for the month of February.