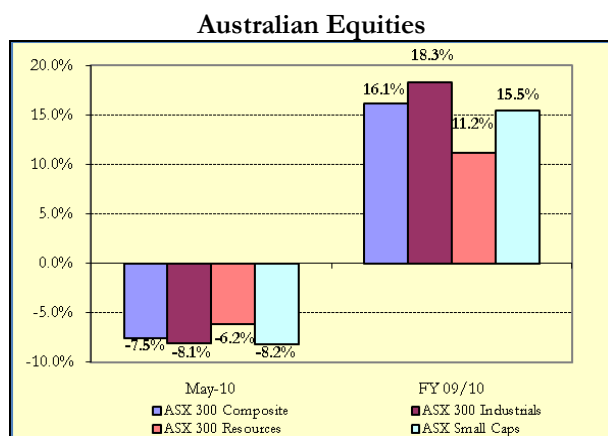


## Market Overview

May has been a tumultuous month for global financial markets, with a confluence of negative events weighing on investor sentiment and risk appetite. The Euro zone was again at the centre of attention, as concerns about the region's debt levels intensified. In response to fears of Greece's inability to meet its debt obligations and contagion from Greece's potential default, the European Union (EU) and International Monetary Fund (IMF) announced a €750 billion emergency package made available to any EU members. The European Central Bank (ECB) also began a 'credit easing' program aimed at addressing investor concerns, however, market confidence generally remained weak, with many major share markets finishing the month significantly lower. Elsewhere, economic indicators suggest that the Chinese economy is starting to see a slowdown following recent tightening measures by its Government. The US economy continued on the path of mild recovery, although weaker payroll numbers and poor consumer sentiment surveys in May suggest that the recovery may be constrained for some time.

In Australia, the Reserve Bank of Australia (RBA) raised the official cash rate for the sixth time in seven meetings, taking the rate from 4.25% to 4.5%. The RBA meeting minutes in May indicated that the latest rate increase will leave monetary policy well placed for the medium term. Indeed, the official cash rate was kept on hold at the RBA's June meeting. Domestic investors were caught by surprise following the introduction of a proposed Resource Super Profit Tax (RSPT) as part of the Henry Tax Review released early in the month. The proposed RSPT effectively imposes a hefty tax burden on resource companies operating in Australia. The release of this proposal had caused some upheaval among investors of mining projects, and many market commentators pointed to the RSPT as a sign of increased sovereign risk in Australia. General economic data released over the course of the month was however generally supportive of an improving economy. Australia's job market showed no signs of slowing, with 33,700 new roles created in April, while building approvals and retail sales data was on average positive.

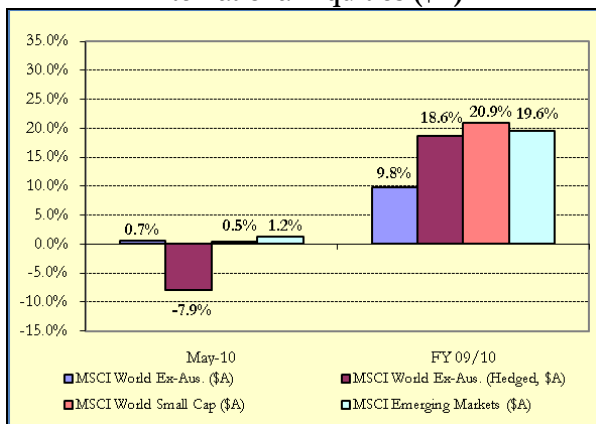


May saw the Australian share market experience one of its steepest monthly declines in recent history, with the S&P/ASX 300 Accumulation Index returning -7.5% for the month. Negative results were recorded across all sectors, with Gold (-0.4%) and Consumer Staples (-1.1%) representing the relatively good performers. While the Energy (-6.9%) and Metals & Mining ex-Gold (-6.8%) sectors suffered from the release of the RSPT, the worst performing sectors were in fact the Industrials (-11.2%), Media (-10.7%) and Financials ex-Property (-10.6%) sectors.

Global share markets suffered sharp falls in May, with the MSCI World ex-Australia (Hedged) Index returning -7.9% over the month. Not surprisingly, the European nations at the centre of the crisis were the focus of selling, with Greece and Irish equities recording -19.6% and -13.1% respectively. Developed nations also fared poorly, with US (-8.0%) UK (-6.1%), and Japan (-11.7%) all recording large negative returns.

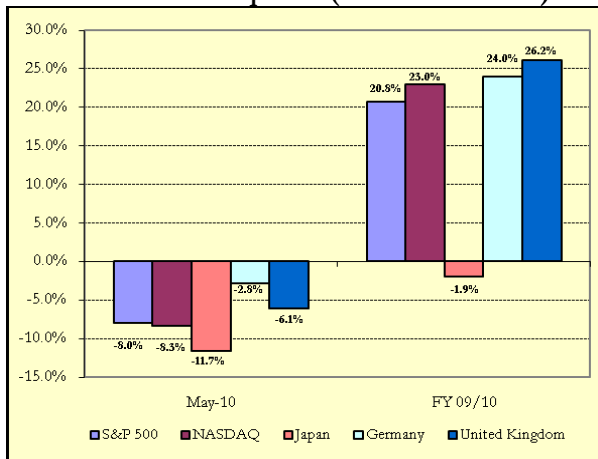


## International Equities (\$A)



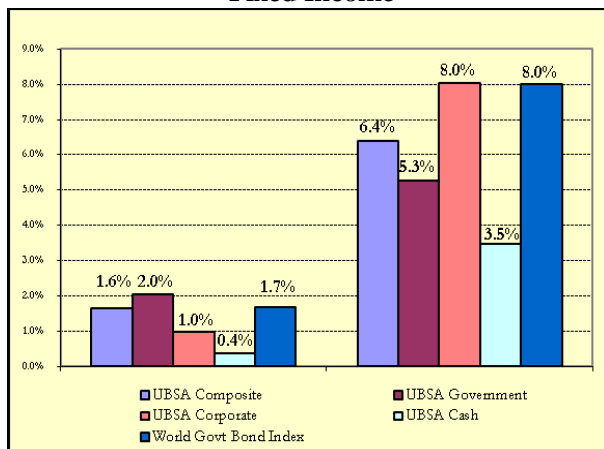
Emerging markets were not immune to the global selloff, although in aggregate the emerging nations performed better than their developed peers. Peru (+3.0%) and Chile (+0.9%) were the few countries that managed gains, while Russia (-11.0%), Hungary (-10.8%) and Argentina (-9.3%) joined the global equity market rout. Despite recent falls, emerging economies continue to record strong economic growth. This has been reflected by recent moves by central banks in Brazil, India and Malaysia to lift interest rates to curb rising inflation pressures, largely due to food and commodity prices.

## International Equities (Local Currencies)



Bond yields in general rallied during the month of May as a result of the heightened risk aversion among investors triggered by the European sovereign debt crisis. In Australia, RBA's rate hike decision in May also contributed to the rally. The yield on a three-year Australian Government bond declined sharply from 5.31% at the start of the month to 4.72%, while a ten-year Australian Government bond closed the month 0.34% lower at a yield of 5.37%. The UBSA Composite Bond Index returned 1.6% for the month and 6.4% for the financial year to date.

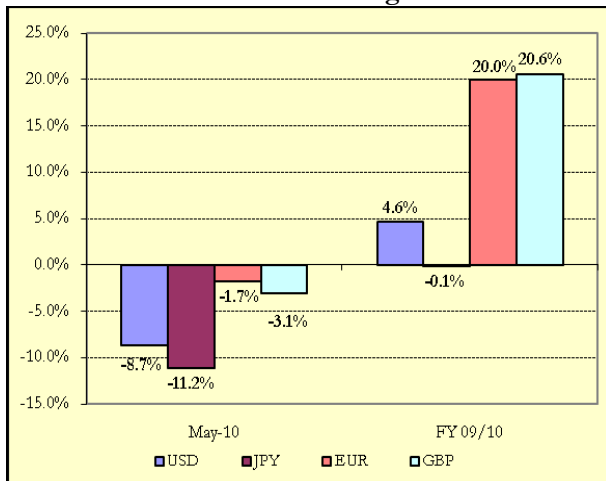
## Fixed Income



International bond yields fell across the board, with the US ten-year bond yield decreasing by 0.38% to 3.28% and Japan's ten-year bond yield falling by 0.02% to 1.27%. These large scale declines were also witnessed in Europe, as the yields on the ten-year UK Gilt and German Bunds fell by 0.33% and 0.36% respectively. The VIX volatility index, which is widely used as a gauge of investor confidence, rose to the highest levels since March 2009, indicating a return of risk aversion close to the level seen during the global financial crisis. Concerns that the tightening of fiscal policies by Governments around the world (particularly in Europe) would dampen growth prospect also resulted in a flight to quality in Government bond markets.

With ongoing concerns in Europe, the Euro (EUR) suffered significant losses in May, falling by 8% against the US dollar (US\$), taking its total fall against the US\$ to 19% in the past six months. Commodity linked currencies like the Australian dollar (A\$) also fell considerably during the month, with the A\$ closing the month at US\$0.85, down from US\$0.93 at the start of May.

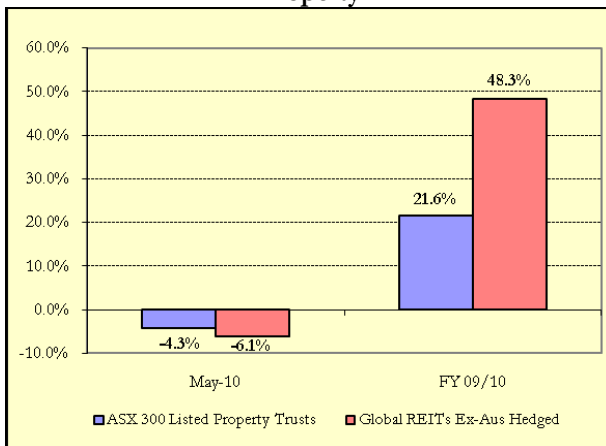
### Australian Dollar against



While the decline of the A\$ was largely due to the increased risk aversion, concerns about the proposed RSPT and how it might impact on Australia’s resource-focused economy also affected the strength of the currency.

The Australian Real Estate Investment Trusts (A-REITs) market, as measured by the S&P/ASX 300 Property Trust Accumulation Index, declined by 4.3% during the month. Despite the decline, the sector fared better than the broader share market. All areas of the listed A-REITs market performed poorly, with Industrials (-11.8%) in particular recording poor results. In contrast, the Retail sub-sector performed relatively well following the release of favourable retail sales data.

### Property



Global REITs also recorded negative returns for the month, with the Global REITs ex-Australia (hedged) Index returning -6.1% for the month. Italy and China were among the markets that suffered the greatest decline, while Hong Kong and Canada outperformed during the month.