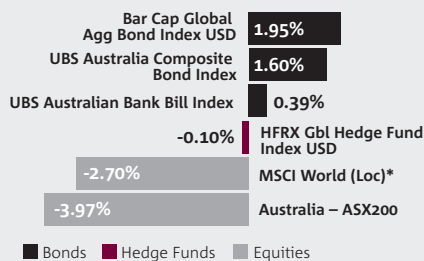


In this issue

- > Risk Monitor – What to watch
- > OTB – Safe haven assets
- > Markets – Correction continues

July 2011 Returns



What's changed in July

Global stocks continued to fall again in July as European and US debt issues and softer economic data impacted investor confidence. Stocks rose late in July as EU leaders agreed to a new bailout package for Greece, but as the US debt default loomed, without agreement on deficit reduction, stocks sank to close lower for the month. Emerging market shares fell less than developed market shares.

- Developed market equities fell 2.7% in local currency terms, led by Europe.
- Emerging market equities were down 1.3% with Latin America posting larger falls than Asian markets.
- Global sovereign bond yields were down for the month. Peripheral European country yields remained elevated.
- Gold rose 8% as investors sought safe haven assets.
- Global credit was up in July as yield declines offset a widening in spreads.
- US equity volatility rose from 16.5% to over 25% as investors bid up the price of option protection.
- The AUD rose against the USD and Euro and fell against the Yen in a volatile month.

Living on the ceiling

Another month, another sovereign debt crisis averted or at least deferred. Didn't we see this movie last month? This time the cast has changed with Greece (and other shady EU characters) replaced by the US, French leader Nicolas Sarkozy substituted with Barack Obama and the tough-talking German Chancellor Angela Merkel's role was played by US Republican House Speaker John Boehner. Same plot, same characters, and with both productions substantially over-budget. Australia's own version of this show has a slightly different plot, given we don't have a sovereign debt problem, however, we have our own version of political polarisation with mining and carbon taxes and the construction of the national broadband network.

Both here and overseas, there are major opportunities for extreme views from

leaders across the political spectrum, given fiscal austerity is not terribly popular, even in the best of times. The fear is, with radical political positions, extreme outcomes or policies become more likely. So far we have avoided extreme outcomes with "debt deals", generally involving some form of deferral, but will we get structural change or large scale wealth redistribution, and who will ultimately bear the fiscal burden?

All of this, however, creates a lot of uncertainty in financial markets at the moment, due primarily to political polarisation. This uncertainty is the root cause of sagging investor confidence and volatile equity markets. Economic growth is also entering into its second economic soft patch in just over a year, evidencing the sluggish growth and the inability of major economies to reach "escape velocity" following the global financial crisis.

Looking ahead

Underweight Australian fixed income and overweight cash

Given the significant falls in market interest rates in Australia since our decision in February to move from an underweight to a neutral position, we now move back to an underweight position. For now, we are more comfortable reducing exposure to fixed rate government securities in favour of cash (specifically term deposits) and floating rate credit securities as safe haven assets. The Australian yield curve is currently pricing in a greater recessionary risk, multiple RBA rate cuts and moderating inflation—none of which we see as a probable scenarios.

Although equity prices are beginning to look quite attractive if we assume corporate earnings and dividends aren't about to fall off a cliff, we maintain our neutral weightings to both Australian and international shares, with a bias towards more defensive, higher yielding stocks and US shares within these allocations, given weak investor sentiment. We also still have a "watching brief" on emerging market shares given they are not looking as expensive as they were late last year and may provide better growth and resilience compared to developed market stocks.

Summary of policy developments

Greek rescue package – EU leaders agreed a further bail-out for Greece worth €109bn, with around €37bn to be contributed by private bondholders in the form of debt swaps or rollovers – likely to be treated as a Greek default.

US debt ceiling raised – The debt ceiling and deficit reduction package raises the US\$14.3 trillion debt ceiling, cuts spending by about US\$1 trillion over 10 years and creates a bipartisan joint committee that will advise on a further US\$1.5 trillion in deficit cuts.

US credit rating downgraded – Standard & Poor's cut the credit rating on long-term US government debt from AAA to AA+ and placed the rating on negative outlook indicating that it could be cut further in the next two years.

Asset Allocation

Equities

Australia

July was another poor month for equities with the Australian market losing 4.0% as investor sentiment weakened due to the debt issues in Europe and the US. Banks, media and retailing stocks fell significantly in July, down 6.3%, 10.7% and 14.4% respectively. Resources stocks only declined 2.2%, with smaller resources companies rising 6.3% over the month, reversing their previous large price falls. Some defensive, yield-driven sectors including utilities and telecoms performed relatively well – largely due to stock specific issues – whilst other defensive sectors such as consumer staples and healthcare fell around 5%. Smaller industrial companies fell only 1.8%, outperforming the 4.8% declines experienced by their larger counterparts.

Despite falling share prices, forecast earnings for fiscal 2012 have been cut, resulting in a more expensive market than last month with S&P/ASX 200 index now trading on 11.6 times forecast 2012 earnings, up from 11.3 times last month. Earnings per share growth has been cut from 11.3% to 10.2% with bank earnings growth cut to around 6.7% over the next year, due to slower credit growth.



We suggest:
Continue to remain in larger defensive companies with high sustainable dividend yields.

International Equities

Global equities fell roughly 3% in July and are down roughly 1% year-to-date—a pretty good result actually considering the very clear and present danger that policy, politics and sharply weaker growth has had on global share markets.

Regionally, Europe continues to be the weakest link, with contagion fears spreading to envelop Spain and Italy despite a second rescue in Greece. Shares in Italy, Spain, and France were all down around 7%. US shares continue to outperform, even in down markets as earnings growth remains “untouchable” despite sluggish growth and debt talks. It seems ironic that Japan has held up the best in this most recent decline in prices, as many of the global manufacturing and supply disruption concerns were a result of Japan’s earthquake back in March.

We maintain undeterred on our favourable outlook for US equities over European and Japanese shares as earnings growth remains more resilient there than in Europe. The three major concerns we cited last month

have to some extent come and gone with varying impact. The US economy is clearly slowing and the extent of the slow-down isn’t known, however, we suspect that the deteriorating conditions in Europe, with no hope of policy offset, continues to elevate US over European shares. Although it’s unlikely we get a Jackson Hole dividend this month – QE3, it’s likely that the monetary and fiscal approach between the US and Europe will continue to diverge and keep US shares at a premium to European shares.

Second quarter earnings season is winding up in the US with balance sheets flush with cash. High teen earnings growth rates on low teen sales growth rates in a low cost environment (i.e. labour / debt costs) should keep earnings margins firm. Although we witnessed more cautious management outlooks this quarter, we also had more positive dividend announcements, which tend to suggest long-term confidence.



We suggest:
Prefer large capitalisation companies over smaller capitalisation.

Emerging Market Equities (EM)

EM equities outperformed developed markets by 1% in July on growth concerns in the latter. Latin America underperformed both Asia and Eastern Europe, which were flat for the month. Within the regions, stocks in Brazil continued to weaken on tighter monetary conditions and recent credit concerns in the banking sector. Russia was the lone BRIC country to post positive returns, as oil prices remained relatively constant over the month.

Although central banks continue to tighten across emerging economies, the recent deterioration in growth outlooks in the developed world, and abating inflation, may allow a more gradual wait-and-see approach in developing regions and see a pause in tightening of monetary policy. This, by itself, may be reason to get more constructive on EM prospects. However, the aggressive monetary position adopted by central banks in emerging economies, coupled with slower global growth, may actually elevate the risk of hard landings in emerging economies if policymakers have gone too far.

As we flagged last month, we are treating the recent developed market growth downgrade as a flight to growth, and believe EM will marginally outperform developed markets as fundamentals, and relative valuations are better than in developed markets. Although we haven’t seen signs of robust portfolio

in-flows, EM equities should benefit from stronger capital inflows, given the more attractive risk-reward environment in the EM versus risks across the developed-market economies.



We suggest:
Emerging market equities to marginally outperform developed markets. No regional preference.

Fixed Income

Australian Cash

Australia’s underlying inflation rate rose 0.9% in the June quarter and 2.7% over the year, following the 0.9% outcome in the March quarter. Despite a greater-than-expected June CPI reading, the rest of the economic data releases during the month pointed towards a weakening economy. Business and consumer confidence declined, house prices continued to fall and retail trade remained subdued.

Given this domestic economic backdrop, there was no surprise in the RBA decision to leave the cash rate unchanged at 4.75%. Although the RBA acknowledged that some deliberation was given to the possibility of another rate hike, due to the strong CPI number, the recent heightened sense of uncertainty in global financial markets dictated that a more prudent approach was appropriate. In contrast to previous statements, the RBA Board highlighted that global economic and financial concerns are likely to be a key determinant in their near term policy rate decisions.

The sharp drop in market interest rates domestically has prompted us to move to an underweight position in Australian fixed income, favouring cash instead. The global economic uncertainty is likely to delay the RBA’s decision to raise interest rates, making term deposits an attractive proposition.



We suggest:
Term deposits remain attractive.
We prefer six-month deposits.

Australian Fixed Income

July was a month full of global policy indecision. The prolonged Greek saga finished with EU leaders finally agreeing on a second bailout package, however, solvency concerns over Italy and Spain did little to reassure investors. Meanwhile, the US debt

Asset Allocation

Fixed Income continued

ceiling impasse was only resolved on the last possible day. Given the uncertainty over global economic stability, the flight to quality was also a feature in the domestic fixed income market.

Government bonds jumped nearly 2% in July with corporate bonds also benefiting from the drop in yields although spreads widened. Corporate bonds were up 1.6%, while inflation linked bonds were the biggest beneficiaries, jumping nearly 4%.

The drastic drop in yields has inverted the yield curve in Australia. On 5th August, using the cash rate as a starting point, the three-year yield closed at 3.68% and the ten-year yield closed at 4.5%. At these levels, it is difficult to see value being in fixed rates or long duration, so we have decided to go underweight Australian fixed income, preferring floating-rate bonds and term deposits instead.



We suggest:
Underweight Australian fixed income. Shorter duration and floating-rate bonds favoured.

Global Fixed Income

Uncertainty was the dominant feature during the month, initially driven by policy indecision in Europe and the US. But the weaker economic data, such as lower PMI numbers, shifted the focus toward the global economic growth prospects, further exacerbated by the fiscal austerity plans agreed, which should serve as a drag on growth.

Despite the fact that uncertainty was driven by policy indecision and fears of rating downgrades (with the US eventually downgraded in August), bond yields in the US fell sharply during the month. US treasury bond prices gained over 2.5% while UK Gilts saw an even greater jump, gaining 3.3%. European government bonds had mixed results; German Bunds gained while Spain and Italy followed the falls in other peripheral country bond prices, as the fear of contagion spread across the region. But perhaps more worryingly, French bonds yields widened against German bond yields on fears that France may lose its triple-A credit rating, a key dependent for expanding the European Financial Stability Fund.

It is difficult to see a strategic benefit in global sovereign bonds. The private-to-public debt transfer that has occurred since the GFC has resulted in a significant debt

burden which is unlikely to improve with given the deteriorating economic growth outlook. We remain underweight global fixed income, preferring global credit within our fixed income allocation.



We suggest:
Remain underweight global fixed income – preferring shorter duration.

Global Credit

In addition to the seasonal slowdown due to summer holidays in the northern hemisphere, the policy uncertainty and deteriorating global economic outlook meant that primary markets were practically shut, with very little new issuance recorded during the month.

Corporate bond indices benefited from the drop in government yields, while banks and financial names suffered the most, particularly in Europe, with sub-financials printing a negative return for the month. European high yield debt also suffered a similar fate, down 1.4%, while US high yield debt had a positive month, up 1.2%.

It is difficult to see a catalyst that is likely to provide a sustainable improvement in sentiment over the near term. Nevertheless we continue to favour corporate debt over sovereign, preferring high-rated issues and avoiding high beta or market sensitive names.



We suggest:
Global credit likely to outperform sovereign fixed income over the next 12 months.

Alternatives

With equity markets continuing to lose ground over the month, overall hedge fund returns were slightly negative, with the HFRX Global Hedge Fund Index declining 0.1% for the month. Year-to-date, hedge funds are down by around 2.2%.

Equity market neutral funds lost 0.5% over the month, bringing year-to-date performance to 2.2%, as factor-based and behavioural equity market neutral strategies reversed their mid month gains. Fundamental value long/short funds lost 0.4% in July and fundamental growth funds were down by 0.7%, with weakness in European, Japanese and large capitalisation US stocks only partially offset by gains on energy, materials and Chinese stocks.

Event-driven funds posted their second losses in six months returning -0.6% in July, with distressed, mergers and special situations strategies all losing money due to risk aversion and widening credit and deal spreads as well as the failure of News Corp's bid for BSkyB which hurt many event funds.

Relative value arbitrage strategies made small gains of 0.3% in July, bringing year-to-date gains to 1.7%. Gains from multi-strategy credit trading were offset by declines in convertible arbitrage and other relative value strategies as widening credit spreads impacted funds.

Macro funds rose 1.3% over the month, with trend-following strategies helped by gains in commodities including precious metals, oil and agricultural commodities, which were also complemented by returns from fixed income trades. Systematic trading posted gains of almost 5% during July, the second largest rise since October 2008. Volatility in currencies and global interest rates negatively impacted the performance of discretionary thematic and currency funds.



We suggest:
Remain overweight alternative investments, particularly equity long/short, global macro and event driven strategies.

Real Estate

Capital city dwelling prices fell 0.2% again in June, the most recently reported month. Capital city house prices were down around 0.2% whilst prices outside capital cities were down by 0.4%. Sydney prices were off 0.2% for the month and are 0.5% higher for the year – the only capital city with prices up over the past 12 months. Nationally, capital city unit prices were up 0.3% in June and flat over the past year. Over the past 12 months, prices for all dwellings were 2.2% lower. Australia-wide rental yields were 4.9% for units and 4.2% for houses, however, yields in Melbourne remain significantly lower than other capitals.

Although the rate of price declines has been modest the outlook for property prices remains relatively subdued, particularly with prospects for higher official interest rates, and muted consumer spending. Although listing volumes, selling times and vendor discounting indicators have improved recently, they remain above longer term averages. Despite weak price growth, fundamentals such as the under-supply of new dwellings, low rental vacancies and growth in disposable incomes should lift prices modestly over the medium to longer term.

Asset Allocation

Real Estate continued

With falling equity markets, listed property securities in Australia fell 6.3% in July and internationally REITs gained 0.7% in US Dollar terms. With the pull-back in prices, listed real estate companies in Australia are currently trading on a forecast 2012 dividend yield of 6.5% with annual earnings growth of around 4-6% over the next two years. Premium commercial property prices appear to be firming as offshore buyers seek higher yielding assets in Australia, which is seen as a safe haven country at present.

Whilst yields and growth forecasts are fair, the property sector continues to look relatively unattractive compared to other asset classes such as cash and equities and we continue to remain underweight property.



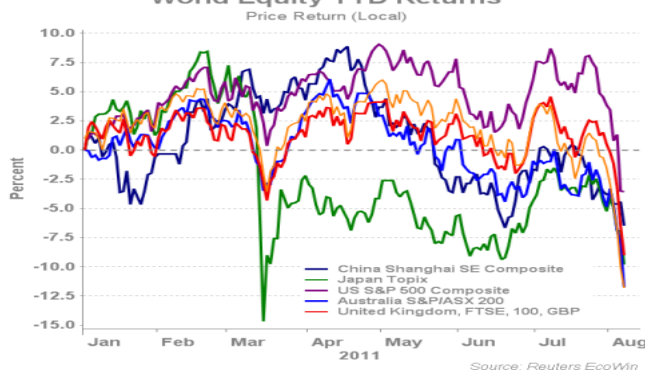
We suggest:
Cheaper Sydney residential, opportunistic growth opportunities in Australia and Asia.

About our recommendations



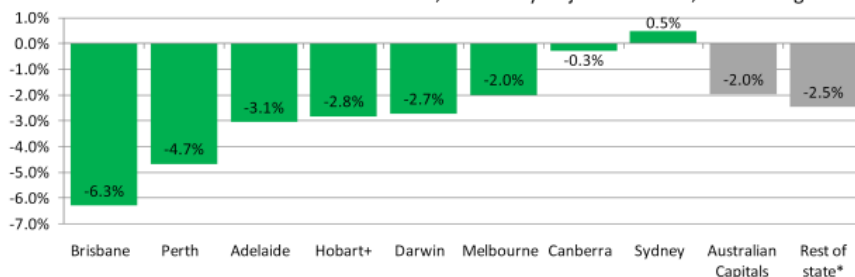
The Asset Allocation recommendations reflect the NPW's views on the relative attractiveness of the asset class over a 1–3 year holding period. A neutral allocation (orange) means hold a neutral strategic allocation to the asset class, single minus underweight (orange) or single plus overweight (light green) recommendations are meant to rebalance the asset class progressively towards the bottom or top of your strategic asset allocation range using cashflows inflows or outflows to the portfolio. A double plus overweight (dark green) or double minus underweight (red) recommendation is intended to be rebalanced to the top end or bottom end of your strategic asset allocation range immediately by selling some assets and buying others.

World Equity YTD Returns



Annual change in dwelling values, year ending June 2011

RP Data–Rismark Home Value Index, Seasonally-Adjusted Results, All dwellings



Source: RP Data–Rismark + Hobart data to May 2011 * Rest of state data based on results for houses only

Current Asset Allocation



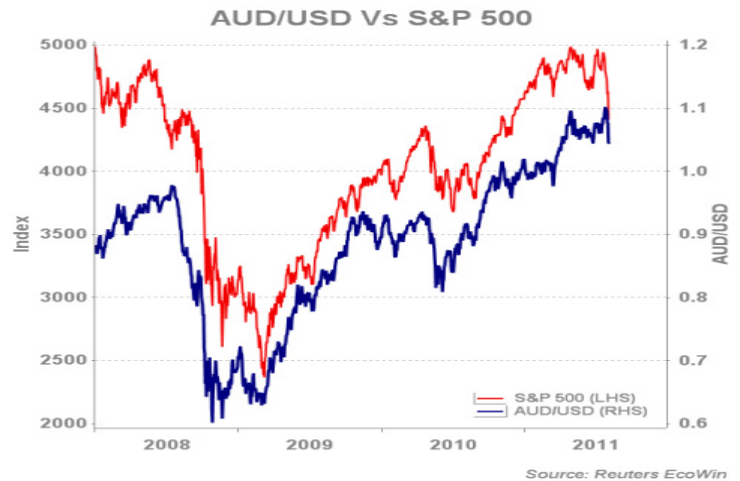
Strategy

Currency Corner

An interesting pattern that has evolved in recent months has been the resilience of the AUD. Despite contagion fears in Europe, concerns of slower growth in the US and the ongoing uncertainty of a hard landing in China, the AUD has become less sensitive to risk aversion. In addition to our low debt-to-GDP ratio and healthy growth prospects, AUD resilience is also a function of Australia's shrinking current account deficit, the much smaller reliance on short-term debt funding, moves by international central banks to diversify their foreign currency reserves and also the overall weakening of the US Dollar.

The stronger-than-expected June CPI number and the weak US Dollar helped push the AUD/USD exchange rate to a new post-float high in July. However, from its 29-year high of US\$1.1081 struck on July 27, the AUD/USD has declined by over US6.5 cents or 5.8% to 5th August. This compares with a near-11% slide in the S&P 500 index over the same period. We expect that the AUD will remain in the US\$1.00 to US\$1.10 range over the next six months assuming that there is a rebound in GDP growth later in the year, a soft landing in China and no new global financial crisis. Over the near term, while investors remain concerned over global economic growth prospects, it is difficult to see a significant rebound in the AUD, nevertheless with our central scenario of a rebound in Australian growth later in the year, any signs of a pickup in domestic consumption, wages growth or improvement in the global economic outlook should provide a boost to the domestic currency.

We suggest:
Maintain AUD/USD strategic hedge ratio at 75%
(Last change May 2011)



Strategy Corner

	Income Focus	Growth Focus	Opportunistic Trade Ideas
Liquid	<ul style="list-style-type: none"> Australian buy-write or reverse convertible strategies Diversified global credit Domestic term deposits Inflation-linked bonds and deposits Insurance-linked investments Australian bonds 	<ul style="list-style-type: none"> US shares – large capitalisation, major brands Australian shares – large capitalisation, defensive sectors with high fully-franked dividends Long/Short equity hedge funds particularly Asian focused funds Systematic macro hedge funds 	<ul style="list-style-type: none"> Short US equity volatility Write calls on 10-year Australian Government bonds Write puts on Australian banks Sell 3-year Australian Government bond futures
Illiquid	<ul style="list-style-type: none"> Mezzanine and private debt 	<ul style="list-style-type: none"> Diversified private equity – fund secondaries and co-investments Opportunistic property Australian water entitlements 	
All-weather portfolio	60–70%	20–30%	0–10%
Currency positioning		75% hedged into AUD / 25% unhedged	
Interest rate positioning		Shorter term fixed rate or floating rates	

Strategy

Risk Monitor – What to watch

We continue to focus on the issues likely to shape the pattern of asset returns over the remainder of 2011. It's important to remember that current events have a way of shaping our longer-term thinking. We need to counter-balance this tendency by observing what the likely impact today's issues may have on valuations and sentiment, and understand what the risk/reward trade-off looks like under a variety of scenarios.

- European debt crises** — The second bail-out package for Greece announced in July has disappointed the market as contagion fears continue to escalate. Although the €109 billion plan included some new measures that address Greece's debt burden and that may help combat spreading liquidity concerns, investors were not sated. The slow-down in the periphery as a result of announced austerity measures is starting to spread to core Europe with recent data pointing to weaker growth across all of Europe. Italy and Spain are next in the market's crosshairs, as both are at recession's door, with doubts growing over whether these countries can meet their budget deficit goals for this year and beyond. Industrial production and business surveys are pointing to weaker growth in Germany recently as well, suggesting that Germany's ability and will to support the periphery cannot be relied upon. Crises continues....
- Global food and energy prices** – The recent softening in economic growth does have a silver lining... commodities have softened across the board, especially within energy and agriculture/foodstuffs. WTI Oil is back closer to US \$80 a barrel—a level last seen late in 2010. We highlighted escalating concern around the higher cost of living in the developing world as precursor to the “Arab Spring”, but also the first order effects rising raw material costs have on inflation in the developing economies. Although inflation remains a serious threat in selected emerging economies, like India and Brazil, the recent fall in commodities is likely to allow central banks in the developing world to soften their hard stance, removing the risk of harder economic landings.
- Currency impasse** – Equities in emerging markets fell by less than in the “developed” world. This makes sense given that fears over slowing growth are focused elsewhere, and because EM policymakers have room to introduce more policy stimulus. Nonetheless, heightened financial-market volatility is likely to bring at least a brief pause in most tightening cycles across the region. During July, the USD was also supported by evidence of Asian central banks buying the greenback to limit gain in their own currencies. Meanwhile, Brazil imposed a tax on bets against the USD and warned it may boost intervention in the currency derivatives market to weaken its currency.
- US growth** – With the economic drag from a massive government deficit reduction programme over the next few years, at a time data is suggesting that the US economy has been pretty weak, there is an outside chance that the US could slip back into recession. Growth in the US in the first half of the year was far weaker than previously thought, and the fall in the ISM manufacturing index to the lowest level since July 2009 hasn't helped paint a bright picture of the US economy. However, with lower energy and commodity prices than earlier in the year, and easing in the Japanese earthquake-driven supply shortages, the outlook for sustained economic softness, or an outright recession in the next 12 months, has weak foundations. Lower interest rates, and a currency that remains at near record lows against major trading partners, coupled with an accommodative Federal Reserve are also helpful for an improving economy that should generate moderate growth over 2011 and 2012.
- Australian residential housing** – Residential property price growth continues to remain subdued with capital city house prices down again in June, the most recently reported month. Prices peaked in May 2010, and although falls have been relatively modest compared with many other countries, subdued consumer spending and possible interest rate rises mean that prospects for large price gains appear to be low over the next year. With rising disposable incomes, low unemployment and consumer de-leveraging, material cross-the-board price falls are also unlikely.

5yr French Bonds spread
(to German Bunds)



Copper Spot LME
USD



Strategy

Outside the Box: Safe haven assets

A safe haven asset can be described as an investment that offers downside protection, stability and liquidity during times of uncertainty. Traditionally, triple-A rated government bonds would have been considered as safe haven assets. Similarly, G3 currencies (that is the US Dollar, Euro and Yen) have also enjoyed this status, as traditionally, their governments have been stable with strong economies. Gold is another asset that has enjoyed a reputation of protecting investors during periods of uncertainty.

Paradigm change

The sovereign debt crisis has meant that a deleveraging process by consumers and companies has been mirrored by government debt issuance, particularly across developed nations. In the past decade, government issuance represented about 10-15% of all the securities issued, however, in the last few years that ratio has risen to above 35%. The surge in government debt issuance has meant that many economies, traditionally perceived as strong and stable, are now so highly indebted that in many cases the huge debt burden has challenged their safe haven status, despite the fact that they have maintained a high credit rating by the rating agencies (although the US has now been downgraded to AA+ by Standard & Poor's and concerns over France's rating remain).

As a consequence, the G3 currencies have also lost some of their appeal as safe haven assets. In Asia, Japan not only has been struggling with slow growth and increasing debt, but it has also lost its influential status as China has overtaken it as the biggest economy in the region. In Europe, the relatively strong and stable German economy is in stark contrast with the highly indebted, and structurally imbalanced, peripheral nations and sandwiched in between there is Spain and Italy with an increasingly unstable economic outlook, making the Euro a less appealing asset. In addition to increasing indebtedness, the lack of political will, coupled with a jobless and anaemic recovery means that the US Dollar has also lost some of its reliable characteristics.

On a trade-weighted basis, the US Dollar is now trading at its lowest since 1995,

while the Euro has been very volatile. Although the Yen and Swiss Franc have strengthened against other major currencies, the intervention by their central banks has added some uncertainty for those investors searching for safety.

The new safe havens

With the lower US credit rating and growth prospects, the search for alternative safe havens has meant that countries such as Norway and Australia with stable economies, triple-A sovereign debt ratings and low debt-to-GDP ratios have seen a surge in the demand for their bonds. In Australia, more than 70% of government bonds are now owned by foreigners and this increase in demand has been a key factor in the dramatic decline in yields in the domestic market.

Similarly, in the currency market, the search for alternatives to the G3 currencies has meant that Australian and Canadian Dollars have gained in prominence. In Europe, the Swiss Franc has also enjoyed a similar fate with the EUR/CHF exchange rate reaching a new record low earlier in August. The surge in demand for these currencies has not only been driven by institutional investors as many central banks have also been buying in an effort to diversify their foreign exchange reserves.

Beware of the risks

The weak, or even negative, correlation between gold and risky asset prices has been a very effective protection strategy in recent times, supporting the view of gold being as a safe haven asset. Nonetheless, the challenges in determining the fair value of gold makes

it difficult to assess when, or at what level, it becomes too expensive. History tells us, however, that when the rush for exit begins, the move will be violent and quick.

The relative strength of the Australian and Northern European (such as Norway and Sweden) economies, provide a sensible argument for the strength of the currency and bond markets of these nations. However, investors should also be aware that countries such as Australia and Norway are very small players in the global market. The total amount of outstanding US treasuries is over US\$8 trillion, France and Germany have about US\$1.7 trillion of sovereign debt outstanding, Australia has about US\$0.3 trillion while Sweden is close to US\$0.1 trillion.

The health of these new safe havens is also linked to specific risks. Australia's wellbeing is highly linked to the health of the Chinese economy, a large proportion of Canada's exports sent to the US, Norway's wealth is linked to oil prices and Switzerland's wellbeing is closely entwined with Germany's. Any escalation in the European debt crisis or a hard landing in China may shift the focus from financial health to liquidity, resulting in a challenging environment for small open economies like Australia's.

All investments have their risks, and the notion of a safe haven asset is fluid and conditional on the economic environment. Prudence therefore dictates that when investing in safe haven assets, diversification must also be an integral component of the decision-making process.

Strategy

Tracking Our Changes

Asset Class	View	Changed From	Date Of Change	Comments
Cash	+	N	August 2011	Dry powder – simple market vulnerability hedge
Domestic Fixed Income	–	N	August 2011	Domestic yields have fallen below our fair value range
Global Fixed Income	—	N	January 2010	Fundamentals remain unattractive
Credit	N	+	January 2010	Healthy balance sheets provide appealing alternative to sovereign debt
Australian Equity	N	+	February 2011	Attractively priced but subdued earnings growth
International Equities	N	N	–	Mixed outlook – US supportive factors starting to weaken slightly
EM Equity	N	–	January 2010	Policy headwinds abating – on positive watch
Alternatives	+	+	–	Flexibility preferred in uncertain environments – Long/Short equity
Real Estate	—	N/A	September 2010	Yields and price growth generally unattractive relative to other sectors

nabprivatewealth

This information may be regarded as general advice. That is, your personal objectives, needs or financial situations were not taken into account when preparing this information. Accordingly, you should consider the appropriateness of any general advice we have given you, having regard to your own objectives, financial situation and needs before acting on it.

For further information regarding the content of this report, please contact your NAB Private wealth banker, adviser, or contact

NAB Private Wealth on 1800 060 172 (VIC/SA/WA) or 1800 771 523 (NSW/QLD).

No part of this report should be reproduced in any form, or referred to in any other publication without express written permission of NAB Wealth.

About NAB Private Wealth

NAB Private Wealth is a part of National Australia Bank's wealth management division, MLC & NAB Wealth. NAB Private Wealth offers a range of wealth management and

transactional services to high and ultra-high-net-worth individuals. We have offices in all major states across the country and our capabilities include wealth planning, estate planning, investment advisory, relationship banking, capital markets, risk management, asset servicing, cross-border solutions and trusts & philanthropy. For further information visit www.nabprivatewealth.com.au

Global Performance Markets Monitor – 30 July 2011

	Last Price Level	Return 5 Day	MTD	3 Mth	YTD	1 Y	2009	2008
Global Equity Markets Performance								
Australia – ASX200	4424.65	-3.9	-3.97	-7.6	-4.9	2.0	37.0	-38.4
Japan – Nikkei 225*	9833.03	-3.0	0.17	-0.2	-3.9	1.4	19.0	-42.1
Japan - TOPIX	841.37	-3.2	-0.92	-1.1	-5.2	-0.2	7.6	-40.6
Hong Kong - Hang Seng	22440.25	-0.0	0.19	-4.0	-0.6	9.6	56.6	-46.4
Shanghai Composite (A&B)*	2701.73	-2.5	-2.18	-7.2	-3.8	2.0	80.0	-65.4
Singapore - STI*	3189.26	0.2	2.21	0.3	-0.0	6.4	64.5	-49.4
New Zealand - NZX50**	3395.63	-1.6	-1.53	-3.5	2.6	12.0	18.9	-32.8
US Dow Jones	12143.24	-4.2	-2.05	-4.6	6.4	19.1	22.7	-31.9
US S&P 500	1292.28	-3.9	-2.03	-4.8	3.9	19.7	26.5	-37.0
NASDAQ*	2756.38	-3.6	-0.62	-4.1	3.9	22.4	43.9	-40.5
Canada - TSX	12945.63	-4.0	-2.50	-6.6	-2.3	13.2	35.1	-33.0
Mexico - Bolsa*	241.41	1.3	-1.94	-3.0	-3.5	17.0	44.6	-42.8
India - Sensex*	5391.25	-2.8	-2.92	-4.6	-10.7	0.1	82.7	-53.7
Brazil - Bovespa**	58823.45	-2.4	-5.74	-11.1	-15.1	-12.1	82.7	-41.2
UK - FTSE100	5815.19	-2.0	-2.13	-3.4	0.5	13.0	27.3	-28.3
France - CAC40	3671.28	0.0	-5.10	-5.5	2.4	7.5	27.6	-40.9
Germany - DAX**	7158.77	-2.3	-2.95	-4.7	3.5	16.7	23.8	-40.4
Spain - IBEX	9630.70	-4.2	-6.19	-9.1	1.4	-4.3	38.3	-36.5
Italy - MIB	18433.68	-5.3	-8.67	-15.6	-6.0	-9.2	24.8	-46.7
World/Regional Indices Performance								
MSCI World (Loc)*	3023.26	-3.5	-2.7	-5.3	0.5	12.3	26.5	-38.3
MSCI World Value	1952.80	-3.4	-3.1	-7.8	0.9	11.4	23.0	-42.3
MSCI World Growth	1411.17	-3.0	-0.7	-4.1	3.2	20.2	30.9	-42.0
MSCI AC Europe*	786.09	-2.9	-4.2	-7.0	-1.5	6.2	30.2	-40.0
MSCI Asia ex Japan USD*	571.68	-1.1	0.8	-3.6	0.8	17.1	68.3	-53.6
MSCI Emerging Markets Local	45984.01	-1.4	-1.3	-5.3	-4.5	6.1	58.6	-47.2
World EPRA/NAREIT Property USD*	3104.77	-2.0	0.7	-1.3	6.9	10.2	9.0	-35.3
World/Regional Indices Performance								
MSCI World Cons Discretionary	120.75	-2.2	-0.4	-1.8	4.7	25.3	38.5	-43.1
MSCI World Cons Staples	145.43	-1.1	0.9	-0.5	6.4	16.3	19.5	-25.7
MSCI World Energy	265.56	-2.4	2.8	-5.6	8.6	32.2	23.8	-40.2
MSCI World Financials	79.59	-2.8	-2.3	-9.8	-3.0	2.0	28.6	-55.9
MSCI World Health Care	114.53	-2.5	-0.8	-0.8	10.1	22.6	17.6	-23.7
MSCI World Industrials	153.49	-4.1	-3.0	-8.3	1.0	17.1	25.5	-44.8
MSCI World Materials	274.63	-2.6	0.1	-6.3	-0.3	27.0	58.6	-51.3
MSCI World Telecommunications Serv	59.74	-1.6	-1.4	-6.1	3.0	13.8	9.1	-36.3
MSCI World Utilities	108.97	-2.2	-1.2	-5.7	-1.1	1.7	2.8	-32.0
MSCI World Information Technology	91.16	-1.6	2.6	-3.3	1.7	15.2	53.1	-45.1
Global Rates Levels Change								
AUS - 10Y Govt	4.82	-0.19	-0.42	-0.62	-0.70	-0.39	1.74	-2.34
AUS - 3Y Govt	4.42	-0.05	-0.37	-0.67	-0.82	-0.19	1.61	-3.86
AUS 5 yr Swap Rate	5.22	-0.03	-0.29	-0.54	-0.65	-0.15	1.63	-3.25
AUS 3 yr Swap Rate	4.81	-0.05	-0.33	-0.60	-0.71	-0.32	1.52	-3.66
AUS 1 yr Swap Rate	4.94	0.15	-0.04	-0.16	-0.26	0.02	1.47	-4.22
3 Mnth Bill Rate	5.03	0.00	-0.02	0.03	-0.12	-0.22	-0.50	-2.70
US - 30Y Govt	4.12	-0.14	-0.25	-0.28	-0.21	0.05	1.96	-1.80
US - 10Y Govt	2.79	-0.17	-0.37	-0.50	-0.50	-0.19	1.62	-1.81
US - 5Y Govt	1.35	-0.16	-0.41	-0.62	-0.66	-0.32	1.13	-1.94
US - 2Y Govt	0.36	-0.03	-0.11	-0.25	-0.25	-0.23	0.38	-2.29
TIPS 10	0.37	-0.24	-0.34	-0.36	-0.60	-0.84	-0.67	0.44
10y Breakeven	2.42	2.35	2.45	2.56	2.31	1.78	0.13	4.67
Bund - 30Y Govt	3.30	-0.26	-0.48	-0.43	-0.14	-0.13	0.58	-1.07
Bund - 10Y Govt	2.56	-0.28	-0.45	-0.70	-0.40	-0.16	0.44	-1.41
Bund - 5Y Govt	1.72	-0.29	-0.56	-0.88	-0.11	0.02	0.10	-1.79
Bund - 2Y Govt	1.16	-0.23	-0.45	-0.62	0.31	0.33	-0.37	-2.26
Gilt - 30Y Govt	4.02	-0.10	-0.26	-0.16	-0.16	-0.34	0.72	-0.66
Gilt - 10Y Govt	2.86	-0.24	-0.52	-0.61	-0.53	-0.54	0.99	-1.55
Gilt - 5Y Govt	1.40	-0.22	-0.46	-0.80	-0.79	-0.73	0.32	-2.01
Gilt - 2Y Govt	0.64	-0.06	-0.18	-0.40	-0.45	-0.18	0.28	-3.35
JGB 30Y Govt	2.01	-0.00	-0.01	-0.13	0.01	0.21	0.53	-0.59
JGB 10Y Govt	1.08	-0.02	-0.06	-0.13	-0.04	-0.01	0.12	-0.33
JGB 2Y Govt	0.37	-0.02	-0.06	-0.10	-0.03	0.01	-0.24	-0.33
Global Currency & Commodity Levels Change								
AUD/US	1.10	0.01	0.03	0.00	0.08	0.20	0.19	-0.17
EUR/US	1.44	0.00	-0.01	-0.04	0.10	0.13	0.03	-0.06
GBP/US	1.64	0.01	0.04	-0.03	0.08	0.08	0.15	-0.52
JPY/US	76.73	-1.79	-3.79	-4.48	-4.42	-10.03	2.30	-20.73
NZD/AUD	1.25	-0.00	-0.04	-0.10	-0.06	0.01	0.03	0.07
Gold (Spot)	1626.14	28.89	126.54	62.54	206.69	459.71	217.50	45.00
WTI Crude	95.68	-3.85	0.38	-17.71	4.30	17.38	34.79	-51.32
GSI Commodity Index	5200.87	-2.21	2.43	-9.68	5.21	23.81	13.48	-46.49
Volatility Index (VIX), Close, USD	25.25	7.73	8.73	10.50	7.50	1.12	-18.32	17.50

Strategy

About The Nab Private View

The NAB Private View reflects the view of NPW strategy and solutions team on different asset classes and investment markets, after taking into account the views and research sourced from a variety of internal and external sources including JANA Investment Advisers, MLC Investment Management, ThreeSixty Research, NAB Wholesale Banking Global Markets Research, Lombard Street Research, leading buy-side fund managers, and sell-side research.

The Asset Allocation recommendations reflect the team's views on the relative attractiveness of the asset class over a 1–3 year holding period. A neutral allocation means hold a neutral strategic allocation to the asset class, single minus or single plus underweight and overweight recommendations are meant to rebalance

the asset class progressively towards the bottom or top of the strategic asset allocation range using cashflows inflows or outflows to the portfolio. A double plus or double minus overweight or underweight recommendation is intended to be rebalanced to the top end or bottom end of the strategic asset allocation range immediately by selling some assets and buying others.

Opportunistic themes are designed to be implemented by clients who hold cash outside their strategic asset allocation portfolios to implement concentrated thematic investment ideas across short, medium, and long term time horizons.

Analyst Disclaimer

The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Private Wealth Division of National Australia Bank Limited (ABN 12 004 044 937, AFSL 230686). The views of the author(s) do not necessarily reflect the views of the National Australia Bank Group ("NAB") and are subject to change without notice.

New Zealand

In New Zealand the publication is for Bank of New Zealand internal use only

DISCLAIMER: While care has been taken in preparing this material, National Australia Bank Limited (ABN 12 004 044 937, AFSL 230686) does not warrant or represent that the information, recommendations, opinions or conclusions contained in this document ("Information") are accurate, reliable, complete or current. The Information has been prepared for dissemination to professional investors for information purposes only and any statements as to past performance do not represent future performance. The Information does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. In all cases, anyone proposing to rely on or use the Information should independently verify and check the accuracy, completeness, reliability and suitability of the Information and should obtain independent and specific advice from appropriate professionals or experts. To the extent permissible by law, the National shall not be liable for any errors, omissions, defects or misrepresentations in the Information or for any loss or damage suffered by persons who use or rely on such Information (including by reasons of negligence, negligent misstatement or otherwise). If any law prohibits the exclusion of such liability, the National limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. The National, its affiliates and employees may hold a position or act as a price maker in the financial instruments of any issuer discussed within this document or act as an underwriter, placement agent, adviser or lender to such issuer.