Zenith Monthly Market Report — January 2011

Market Indicators

Market	Indicator	End of Month	Previous Month	1 Month Change	12 Months Ago	12 Month Change
Interest Rates	Overnight Cash	4.75	4.75	0.00%	3.75	1.00%
	3 Month BBSW	4.94	4.95	-0.01%	4.21	0.74%
	10 Year Bond	5.53	5.57	-0.03%	5.44	0.09%
Australian Shares	All Ords	4850.00	4846.90	0.06%	4596.90	5.22%
	S&P/ASX 200	4753.90	4745.20	0.18%	4569.60	3.88%
Regional Shares	Dow Jones Industrials (US)	11891.93	11577.51	2.64%	10067.33	15.34%
	S&P 500 (US)	1286.12	1257.64	2.21%	1073.87	16.50%
	FTSE 100 (UK)	5862.94	5899.94	-0.63%	5188.52	11.50%
	TOPIX (Japan)	910.08	898.80	1.24%	901.12	0.98%
	Hang Seng (Hong Kong)	23447.34	23035.45	1.76%	20121.99	14.18%
Property	ASX 300 A-REITS Index	848.00	828.70	2.28%	861.10	-1.54%
	US$ Gold Price	1332.80	1420.78	-6.60%	1080.85	18.90%
	US$ Oil Price – W Texas Crude	92.19	91.38	0.88%	72.89	20.94%
	US$ CRB Spot Commodity Index	551.03	520.33	5.57%	415.49	24.60%
Exchange Rates	AUD / USD	0.9982	1.0233	-2.51%	0.8838	11.46%
	AUD / EUR	0.7287	0.7643	-4.89%	0.6375	12.52%
	AUD / GBP	0.6226	0.6555	-5.27%	0.5529	11.20%
	AUD / JPY	81.82	83.02	-1.47%	79.78	2.49%
	TWI	74.00	75.80	-2.43%	69.20	6.49%
Volatility	VIX Index	19.53	17.75	1.78%	24.62	-5.09%

Key Points:

- The Australian Dollar (AUD) fell back from its peak against the USD, dropping 2.51%. Falls of an even greater magnitude were seen against the Euro (-4.89%), the Pound (-5.27%) and to a lesser extent, the Yen (-1.47%).
- The RBA continued to leave the cash rate on hold at 4.75% amidst concerns that the floods will exert inflationary pressures on the cost of living.
- The S&P/ASX 200 Index post a weak gain of 0.18% over the month.
- Global markets continued this trend, also showing small gains. The US and Asian indices displayed the strongest performance with the Dow Jones adding 2.64% and the Hang Seng 1.76%.
- Gold fell 6.60% to close the month at US$1,332.80, back down from its record highs which may also be partially due to the strengthening USD.
- The CRB Spot commodity index which indexes price movements across 22 industrial and food-stuff commodities, reversed the trend of recent months posting a gain of 5.57%.
- The Oil price rose a gentle 0.88% after a large gain in December.
- The VIX which measures implied volatility derived from options on S&P500 securities, has fallen 1.78% over the month, reflecting the reduced trading activity over the holiday season.

Cash, Fixed Interest & Credit

Zenith Benchmarks	Index	1 Mth	Past Qtr	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr To Date	Cal Yr to Date
Australian Cash	UBSA Bank Bill	0.43	1.25	4.75	5.17	5.68	2.46	4.75
Australian Bonds	UBSA Australia Composite All Maturities	0.92	0.73	5.59	7.33	5.92	1.73	5.59
International Bonds	Barclays Global Aggregate (USD Hedged)	-0.27	-1.81	3.27	4.43	4.81	-0.49	3.27

Summary of Statistics:

- **Australian Cash** returned 0.43% in January, posting gains of 4.75% over the last 12 months.
- **Australian Bonds** made stronger gains of 0.92% in January; they have returned 5.59% over the last 12 months as measured by the UBS Composite All Maturities Index.
- **International Bond prices** continued to fall, losing another 0.27% during the month as measured by the Barclays Global Aggregate (Hedged $USD) Index. Spreads on 3 year government bonds in the UK contracted marginally by 0.03%, whilst spreads in the US remained at 0.23%.
- In the **Global Corporate Debt Market** high yield debt continued to outperform as spreads contracted by 0.36%, whilst emerging market debt spreads continued to contract at 0.02%. Investment grade debt spreads contracted to 0.13% and AAA bonds continued the trend, contracting to 0.06%.

Commentary:

In their first meeting for 2011, the RBA elected to leave interest rates on hold. This decision was based on the RBA's need to further consider the economic impact of the Queensland floods, including the effects of a flood levy on consumer confidence and spending.

Japan's credit rating was downgraded by Standard & Poors. Whilst Japan has the highest debt to GDP ratio in the world, interest rates remain low as nearly all of the debt is held by domestic institutional investors who invested trillions of dollars from savings into low risk government bonds. This means the government has been able to borrow at very low rates. The bond market largely ignored the news; there was little impact on the yields on 10 year government bonds which remain extremely low at 1.25%.

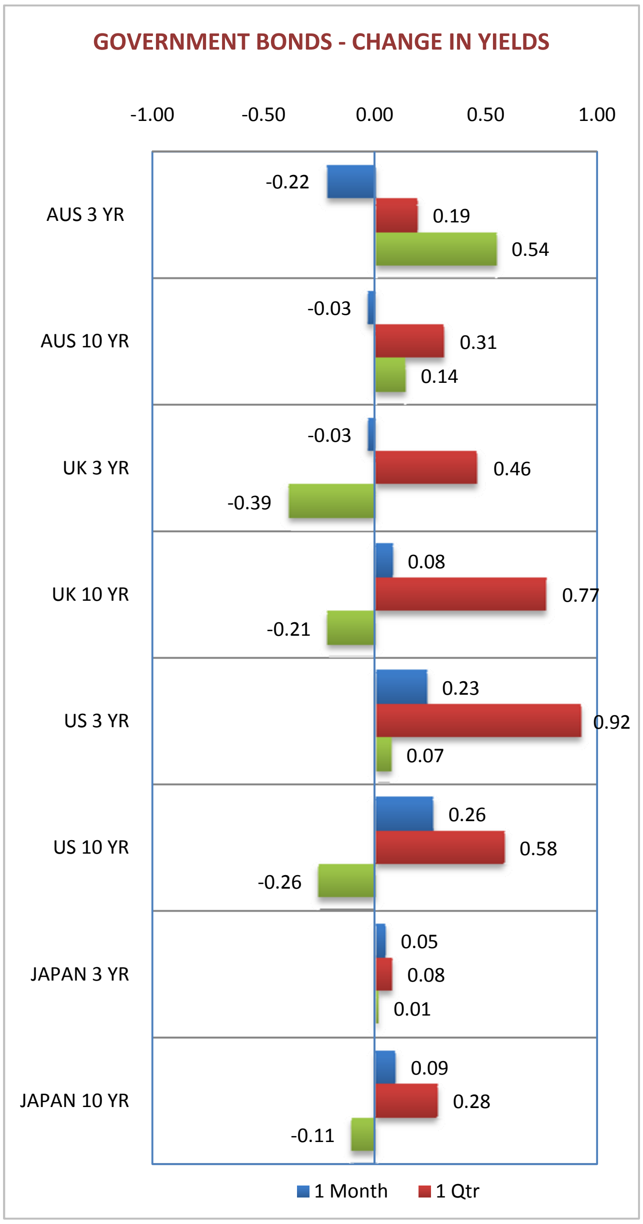
Europe's sovereign debt crisis continues to make headlines, this time in Spain. Spanish bond yields edged higher whilst banking stocks fell amid fresh fears surrounding Spanish banks. The finance minister announced a requirement for banks to raise €20 billion to improve their balance sheets. This was at odds with the consensus expectations that banks would be required to raise €45 to €90 billion in additional capital which is surprising given that the plan requires banks to hold a higher level of capital adequacy than Basel III requirements.

Recent figures from China revealed it sold off $US21.1bn of short term US treasury debt, whilst adding about $US10bn to its long term holdings. If China continues to step back from buying US Government bonds, US interest rates could rise, putting fresh strain on US households and corporations.

This month the AUD pulled back slightly against all major currencies after reaching record highs in December. This is likely to be due to various factors including concerns over the floods, foreign investors becoming fearful of risk assets as the Middle East erupts and concerns that China's rising inflation will lead to further monetary tightening policies. The decision to leave interest rates on hold has already resulted in a more buoyant dollar and should support our local currency.

*Zenith has converted USD data to AUD series using 3-month forward rates

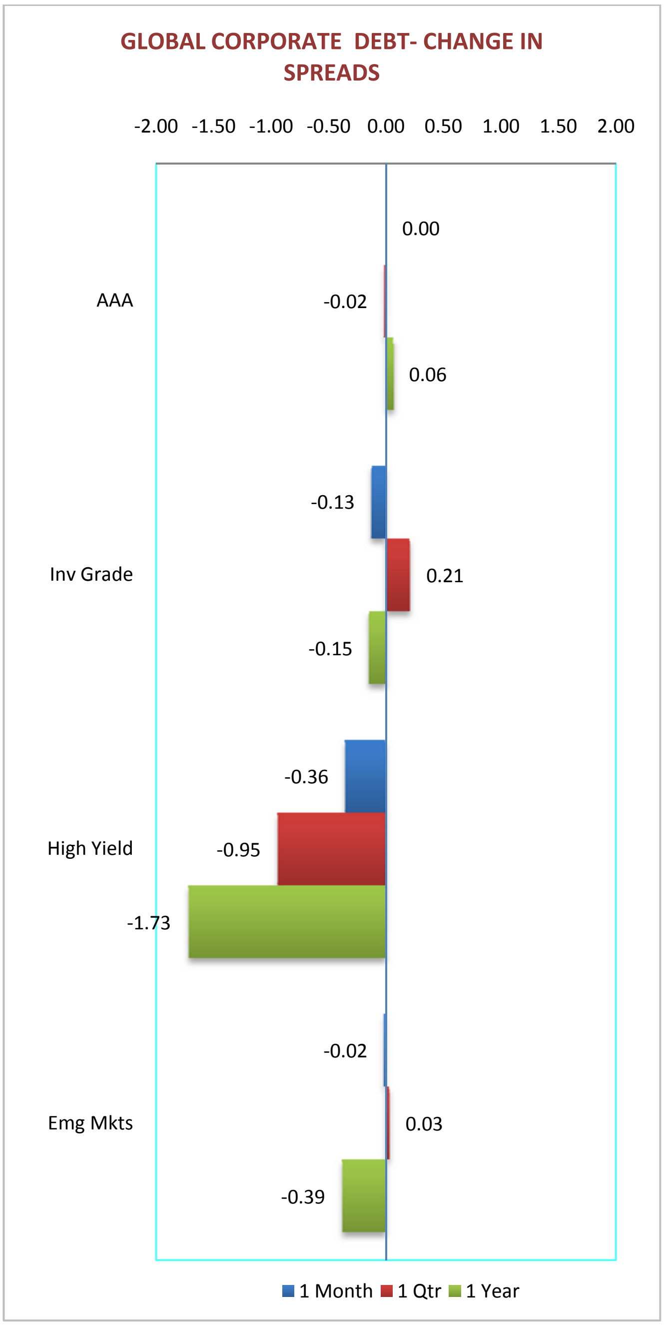
Cash, Fixed Interest & Credit (cont)



This chart shows the change in Government Bond yields over the past 1 month, 1 quarter and 1 year. A negative change in yields indicates a rise in Bond prices. Country weightings for the Barclays Global Aggregate Index, as at 31 May 2010 were as follows: Aus 1%; UK 6%; US 26%; Japan 33%.

This chart shows the change in Global corporate debt spreads over the past 1 month, 1 quarter and 1 year. A negative change in spreads indicates a rise in corporate debt security prices and vice versa.

The below shows a mild decrease in 1-month spreads, across all debt classes with the exception of Investment Grade debt.



Australian Shares

Zenith Benchmarks	Index	1 Mth	Past Qtr	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr To Date	Cal Yr to Date
Australian Shares	S&P/ASX 300	0.11	2.88	8.71	-1.24	3.68	8.59	8.71
Australian Shares - Market Cap	ASX 50 Leaders	0.62	2.41	7.40	-0.47	3.91	6.97	7.40
	ASX Midcap 50	-1.70	4.43	10.22	-5.13	2.06	11.43	10.22
	ASX Small Ordinaries	-2.18	5.29	19.46	-1.62	4.30	20.78	19.46
	S&P/ASX Emerging Companies	-1.66	10.77	30.04			37.75	30.04
Australian Shares - GICS Sectors	S&P/ASX 300 Materials	-3.12	4.47	21.97	2.81	10.10	16.69	21.97
	S&P/ASX 300 Industrials	0.04	0.97	2.85	-8.43	-1.65	12.93	2.85
	S&P/ASX 300 Consumer Discretionary	0.69	-2.62	1.50	-8.83	-1.79	2.74	1.50
	S&P/ASX 300 Consumer Staples	2.45	-2.14	17.08	6.64	11.82	8.38	17.08
	S&P/ASX 300 Energy	-1.30	4.84	12.83	9.10	9.85	11.42	12.83
	S&P/ASX 300 Healthcare	0.61	9.68	12.54	2.74	9.56	12.69	12.54
	S&P/ASX 300 Information Technologies	-3.93	-0.95	-6.62	7.96	6.97	1.88	-6.62
	S&P/ASX 300 Telecommunication	0.96	5.45	-3.32	-3.95	2.81	-4.94	-3.32
	S&P/ASX 300 Financials ex Property	2.41	4.11	4.46	1.68	4.41	6.17	4.46
	S&P/ASX 300 Utilities	-1.84	-2.76	9.43	-3.11	0.68	6.53	9.43
	S&P/ASX 300 Property	2.37	1.55	4.79	-16.56	-9.15	3.83	4.79

Summary of Statistics:

- The S&P/ASX 300 Accumulation Index post weak gains of 0.11% in January, easily outperformed by the MSCI World (ex Australia) Index which gained 5.23%.
- The S&P/ASX 200 shows continued but slow improvement, up 3.88% for the 12 month period.
- The Small Ordinaries Index continued to outperform the broader markets, returning 5.29% for the quarter against the S&P/ASX 300 return of 2.88% although returns were negative this month.
- Consumer Staples and Financials were the best performers, returning 2.45% and 2.41% for the month.
- Information Technology trailed the market falling 3.93%, whilst Materials reversed the trend of recent months, underperforming with a loss of 3.12%.
- On a market cap basis, the S&P/ASX Emerging Companies Index fell 1.66% this month although it continues to strongly outperform the indices, adding 10.77% for the quarter.

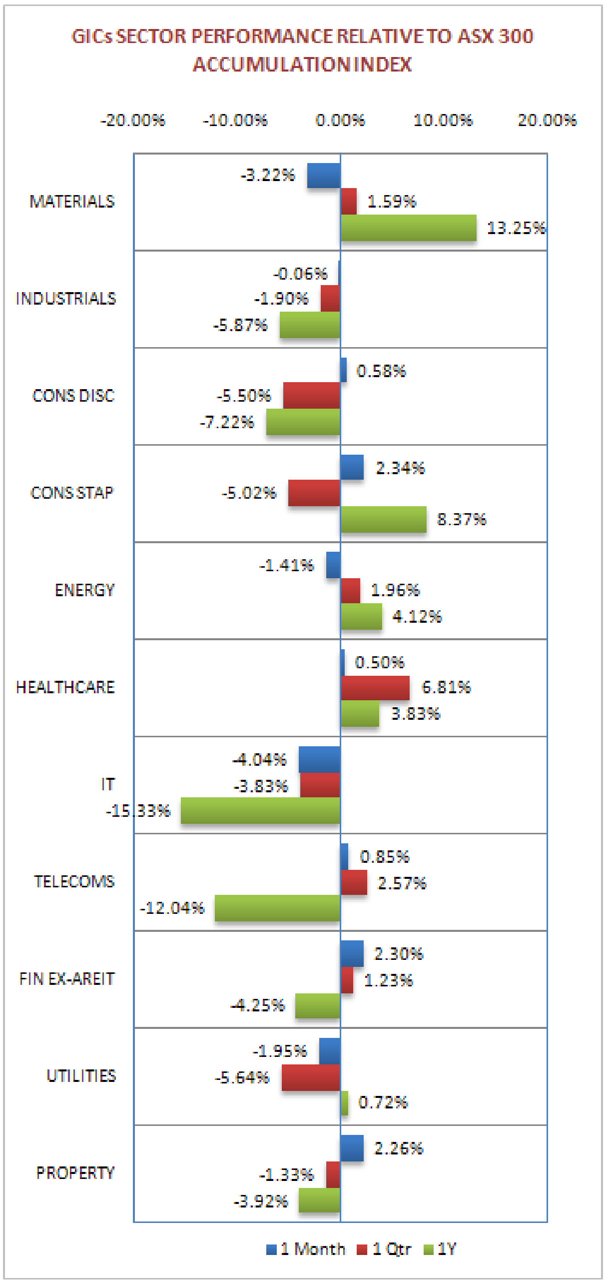
Commentary:

The Australian share market showed weak gains of 0.11% in January, returning 2.88% for the quarter. The positive result was achieved despite the Materials sector's underperformance weighing down the index. Financials and Consumer Staples performed strongly with gains of 2.41% and 2.45%, suggesting a flight to safety as concerns over the effects of the floods on the economy and the miners made the headlines.

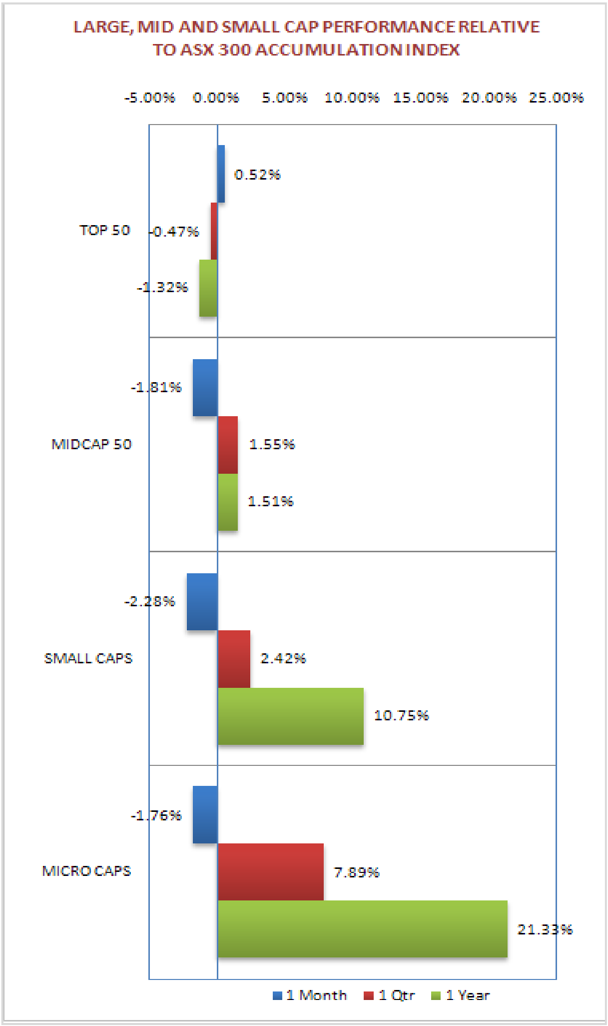
Over the quarter, the Small Caps and Emerging Companies Indices continued to add value, outperforming the large caps (ASX 50) which returned 2.41%. However both have shed some of their earlier gains this month, again reflecting concerns over the ability of Queensland based miners to reach expected production targets. Small miners and mining services companies make up a significant proportion of both indices. Furthermore, fourth quarter economic data from China suggests another round of monetary policy tightening and the prospect of falling commodity prices.

In 2011 we may see significant mergers & acquisition activity as companies with robust balance sheets drive increased corporate activity, particularly in the resources sector. Cashed up private equity firms will add to the M&A activity going forward. Economic growth should continue to improve both domestically and internationally, but emerging markets inflation and the European debt crisis will no doubt increase market volatility in the short term.

Australian Shares (cont)



This chart shows GICS Sector performance relative to the ASX 300 Index, over the past 1 month, 1 quarter and 1 year time periods. GICS Sector weightings for the ASX 300 Index, as at 31 May 2010 were as follows: Materials 25%; Industrials 7%; Consumer Discretionary 4%; Consumer Staples 9%; IT 1%; Telecommunication Services 4%; Financials ex-AREIT 33%; Property 6%; Energy 7%; Utilities 1%; Healthcare 4%.



This chart shows market capitalisation segmental performance relative to the ASX 300 Index. Please note the ASX Emerging Companies Index, as represented by Micro Caps in this chart has less than 1 year's performance history.

International Shares

Zenith Benchmarks	Index	1 Mth	Past Qtr	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr To Date	Cal Yr to Date
International Shares in A$	MSCI World Ex Au Unhedged A$	5.23	5.62	6.14	-5.32	-3.71	6.32	6.14
	MSCI World A$	4.66	5.12	5.80	-5.28	-3.57	5.98	5.80
	MSCI Small Cap World Ex Aus	3.33	8.63	15.79	1.06	-2.42	10.94	15.79
International Shares - Regional in A$	MSCI North America	4.25	6.55	8.45	-4.01	-3.44	6.53	8.45
	MSCI Asia	2.34	4.40	6.62	-3.28	-3.25	4.83	6.62
	MSCI AC Asia ex-Japan	1.80	1.22	12.38	0.28	5.11	5.58	12.38
	MSCI China	2.28	-5.21	1.56	-1.77	10.93	-3.54	1.56
	MSCI Europe	6.87	2.36	2.31	-7.74	-3.15	5.44	2.31
	MSCI Emerging Markets	0.65	0.40	9.88	-0.28	4.04	3.96	9.88
	MSCI India	-10.61	-14.03	-1.01	-7.63	6.82	-7.53	-1.01
	MSCI Japan	2.94	8.17	1.13	-6.57	-8.57	4.16	1.13
International Shares - Hedged	MSCI World ex Au Local Currency *	1.78	7.32	16.50	-1.99	0.15	14.16	16.50
International Shares - Gold Shares in A$	FTSE Gold Mines	-9.19	-8.30	14.69	-1.21	0.68	0.41	14.69
International Shares - Global Resources in A$	HSBC Global Mining	-2.97	5.33	22.39	0.01	8.62	17.03	22.39

Summary of Statistics:

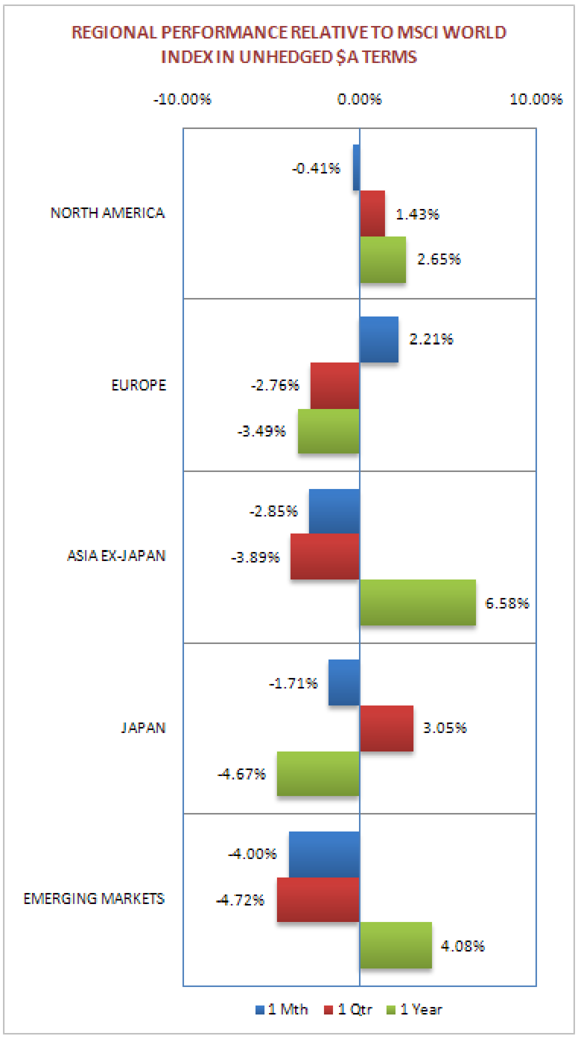
- **International Shares (ex-Australia)** posted strong gains of 5.23% in January on an unhedged basis, but gained just 1.78% from a local currency perspective as the Aussie fell against the USD.
- The **FTSE Gold Mines Index**, which reflects gold mining stocks globally, continued to fall. It registered a drop of 9.19% in Australian dollar terms on the back of falling gold prices.
- On a **Regional** basis, North America and Europe were again the strongest performers, as the European markets continued to rally up to 6.87%, and 4.25% in North America. India went against the positive trends, falling 10.61%.

Commentary:

International equity markets performed strongly across most regions during January. European equity markets continue to recover their losses. Surprisingly, it looks like the rally may be sustained in the shorter term, although fears of another round of banking collapses are still at the forefront of investor's minds.

North American markets showed a significant rise this month, adding to strong quarterly returns. Quantitative easing measures continue to inflate risk assets, but the markets have been buoyed by increasingly positive economic data, particularly early signs that the US consumer is regaining confidence, with rising incomes and sales data in addition to robust manufacturing activity.

China's increasingly high inflation remains a key concern. The markets responded positively to the release of higher than expected fourth quarter GDP and CPI data, reversing the trend of recent months. However, the positive news may trigger additional government measures to lower inflation and the rally may be short lived.



This chart shows Regional performance relative to the MSCI World Index in Unhedged $A terms, over 1 month, 1 quarter and 1 year time periods. Regional weightings for the MSCI World Index, as at 31 May 2010 were as follows: North America 58%; Europe 29%; Asia ex-Japan 2%; Japan 11%. Note Emerging Markets is not part of the index.

Property & Infrastructure

Zenith Benchmarks	Index	1 Mth	Past Qtr	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr To Date	Cal Yr to Date
Australian Listed Property	S&P/ASX 300 Property	2.37	1.55	4.79	-16.56	-9.15	3.83	4.79
Global Listed Property - Hedged in A$	FTSE E/N Dev	1.69	3.33	23.67	-8.25	-6.01	13.16	23.67
Global Listed Infrastructure - Hedged in A$	UBS Global Infra. & Utilities	2.65	4.35	13.40	-1.47	4.90	9.25	13.40
Global EM Listed Infrastructure - Hedged in A$	UBS EM Infra. & Utilities	0.76	-1.08	-0.97	-1.60	6.95	-2.49	-0.97

Summary of Statistics:

- The **S&P/ASX 300 Property Index** rallied strongly with a return of 2.37%, outperforming the **FTSE EPRA/NAREIT Index** which lost 2.50%. It also outperformed the ASX 200 which only returned 0.18%.
- **Global Listed Infrastructure** gained 2.65%, outperforming **Global Emerging Markets Listed Infrastructure** which gained only 0.76% for the month and continuing the usual pattern.

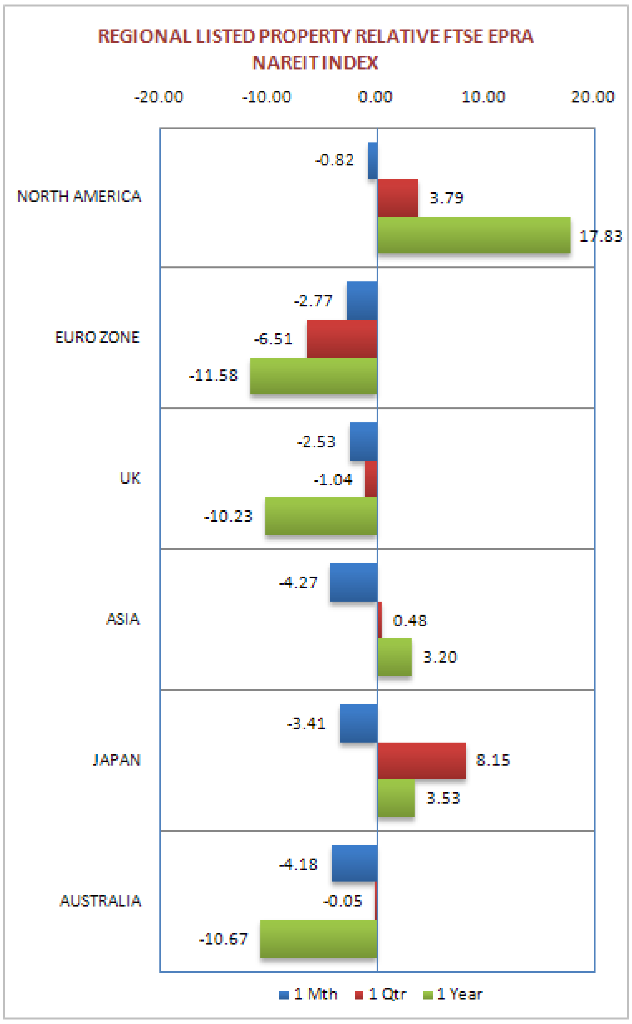
Commentary:

The S&P/ASX 300 Property Index continued to gain ground reversing the trend of the previous quarter. Global listed property has continued to outperform the domestic market, returning 23.67% over the last 12 months.

ASX listed property group Becton warned of a likely $25-30million first-half loss following revaluations and losses from the group's fund management operations. While expecting a net loss, Becton said it would have an after-tax operating profit of $6m-$9m and was in discussions with Suncorp about extending two debt facilities for its retirement business.

This year the property market is likely to see a recovery in organic earnings and higher payout ratios to support dividend growth, although results across the sector will continue to be mixed. Returns will remain influenced by economic conditions although higher earnings growth is expected as the sector enters 2011 with generally stronger balance sheets. While improving real estate fundamentals and falling debt costs should contribute to bolster returns for the year, growth should be slow but steady however risks to the sector still remain.

This chart shows Regional performance relative to the FTSE EPRA/NAREIT Index, over 1 month, 1 quarter and 1 year time periods. Regional weightings for the FTSE Index, as at 31 May 2010 were as follows: North America 46%; Europe ex-UK 10%; UK 5%; Asia ex-Japan 20%; Japan 10%; Australia 9%.



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Data source: Bloomberg