

MARKET INDICATORS

Market	Indicator	Current	Last Month	1 Month Change	12 Months Ago	12 Month Change
Interest Rates	Overnight Cash	4.50	4.25	0.25%	3.00	1.50%
	3 Month Interbank Borrowing Rate	4.83	4.55	0.28%	3.44	1.39%
	10 Year Bond	5.38	5.73	-0.35%	5.28	0.10%
Australian Shares	All Ords	4453.60	4833.90	-7.87%	3813.30	16.79%
	S&P/ASX 200	4429.70	4807.40	-7.86%	3818.00	16.02%
Regional Shares	Dow Jones Industrials (US)	10136.63	11008.61	-7.92%	8500.33	19.25%
	S&P 500 (US)	1089.40	1186.68	-8.20%	919.14	18.52%
	FTSE 100 (UK)	5188.43	5553.29	-6.57%	4417.94	17.44%
	TOPIX (Japan)	880.46	987.04	-10.80%	897.91	-1.94%
	Hang Seng (Hong Kong)	19765.19	21108.59	-6.36%	18171.00	8.77%
Property	ASX 300 A-REITS Index	852.15	890.95	-4.35%	717.61	18.75%
	US\$ Gold Price	1203.00	1150.05	4.60%	959.80	25.34%
	US\$ Oil Price – West Texas Crude	73.06	87.23	-16.24%	64.87	12.63%
	US\$ CRB Spot Commodity Index	424.66	443.69	-4.29%	360.31	17.86%
Exchange Rates	AUD / USD	0.85	0.93	-8.71%	0.79	7.31%
	AUD / EUR	0.69	0.70	-1.74%	0.56	22.18%
	AUD / GBP	0.59	0.61	-3.12%	0.49	19.02%
	AUD / JPY	77.71	87.49	-11.18%	76.38	1.74%
Volatility	VIX Index	32.07	22.05	45.44%	28.92	10.89%

Key Points:

- The Australian Dollar performed poorly in May, depreciating against all major currencies. On a trade weighted basis the Australian Dollar finished the month 6.90% lower.
- Australian shares weakened significantly during the month (-7.54%), with small caps underperforming large caps (-8.18%).
- Largely due to the \$A weakening, unhedged investment in global equity markets strengthened in May, returning 0.46%, as measured by MSCI World Index (unhedged \$A). On an \$A unhedged basis, China (+5.03%) was the best performing region, Europe (-2.29%) performed the worst during May.
- The Gold Price rose 4.60% in May, trading at \$US1203 at month's end.
- Volatility rose significantly for the second consecutive month, up 45.44%, as measured by the VIX Index.
- The RBA increased the official cash rate by 25bps (to 4.50%), in line with consensus. Australian government 10 year bond yields rallied, finishing the month 35bps lower.

CASH, FIXED INTEREST & CREDIT

Zenith Benchmarks	Total Return Indices	1 Mth %	1 Yr %	3 Yr % p.a.	5 Yr % p.a.	Fin Yr TD %	Cal Yr TD %
Australian Cash	UBS Bank Bill Index	0.38	3.77	5.60	5.79	3.48	1.75
Australian Bonds	UBS Composite All Maturities	1.65	5.78	7.02	5.90	6.40	3.49
International Bonds	Barclays Global Aggregate \$A	1.18	11.38	9.22	7.16	10.14	4.82

Summary of Statistics:

- **Australian Cash** returned 0.38% in May. So far it has returned 3.48% for the financial year as measured by the UBS Bank Bill Index.
- **Australian Bonds** rose 1.65% in May, as measured by the UBS Composite All Maturities Index. Australian 10 Year government bonds are now yielding 5.38% in comparison to 5.73% last month and 5.28% one year ago.
- **International bonds** rose 1.18% in May, as measured by the Barclays Global Aggregate (Hedged \$A) Index. 10 Year bond yields fell in the US (from 3.66% to 3.29%) and the UK (from 4.10% to 3.82%); whilst bond yields remained relatively flat in Japan.
- **Credit spreads** rose in May, with higher rated credit outperforming.

Commentary:

Government bonds rallied in May with the continuing saga of the European sovereign debt risk prevalent during the month. The Australian 10 year Bond finished the month at 5.38% (yields falling 35bps). US 10 year bond finished the month at 3.29 (yield falling 37bps). UK bonds also rallied (yield fell 28bps). Japanese bonds remained relatively flat (yield fell 2bps).

During the month the European sovereign debt situation remained the focus, and it is likely to continue. Investor's perceptions for the region were weakened even further when Germany added to the concerns placing a ban on short selling. Reprieve for the region came late month as China announced it would not be trimming its holdings in European bonds.

Domestically, the RBA raised the official cash rate by 25bps (to 4.5%). The rate hike was widely predicted by analysts. RBA minutes released announced that the global economic growth had picked up pace, however sovereign risk concerns in Europe have drastically increased. The RBA suggested the cash rate had reached its long term average. Analysts read this as a signal for a break in rate rises in the coming months, and towards month end some were even pricing in for a future rate cut.

AUSTRALIAN SHARES

Zenith Benchmarks	Total Return Indices	1 Mth	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr TD	Cal Yr TD	%Ch. Fr. 12mth High	% Ch. Fr. 12mth Low
Australian Shares	S&P/ASX 300	-7.54	20.72	-7.26	6.03	16.12	-7.64	-11.11	22.84
Australian Shares - Small Caps	ASX Small Ordinaries	-8.18	19.02	-13.08	4.70	15.49	-9.60	-12.93	23.15
Australian Shares - Style	SPGI BMI Australia Growth	-6.88	16.01	-5.45	8.02	13.37	-8.16	-11.86	20.99
	SPGI BMI Australia Value	-8.28	27.17	-8.55	4.74	20.53	-6.84	-11.20	26.57
Australian Shares - GICS Sectors	S&P/ASX 300 Materials	-5.85	16.71	-0.88	14.42	16.91	-8.49	-12.94	26.47
	S&P/ASX 300 Industrials	-11.39	23.21	-17.24	-2.15	18.23	-13.19	-16.00	26.20
	S&P/ASX 300 Consumer Discretionary	-7.05	27.08	-16.20	-2.83	20.34	-5.38	-8.60	27.74
	S&P/ASX 300 Consumer Staples	-1.15	20.18	-0.05	9.83	15.08	-4.15	-6.77	19.09
	S&P/ASX 300 Financials	-9.64	31.91	-10.59	3.07	23.60	-6.56	-11.94	30.15
	S&P/ASX 300 IT	-8.23	23.20	-5.05	11.32	19.74	-4.87	-12.98	25.76
	S&P/ASX 300 Telecommunication Svs.	-7.22	0.85	-10.44	-3.49	-7.16	-10.84	-13.20	1.65
	S&P/ASX 300 Financials ex-Property	-10.58	32.66	-7.09	5.40	23.91	-7.35	-13.34	30.68
	S&P/ASX 300 Property Trusts	-4.27	27.56	-25.27	-7.28	21.58	-2.16	-7.51	29.44

Summary of Statistics:

- **Australian shares**, as measured by the S&P/ASX 300 index substantially weakened in May, down 7.58% during month.
- The **small cap sector** underperformed large caps, finishing the month down 8.18%.
- On a **sector** basis, consumer staples (-1.15%) was the best performing sector, with industrials (-11.39%) and Financials ex. Property (-10.58%) the worst performers in May.
- The Australian share market significantly underperformed the MSCI World Index on an unhedged basis during April. However, it only slightly underperformed the Hedged version of the index.

Commentary:

The Australian market substantially weakened in May, where it recorded the biggest one month loss since October 2008 (first full month after Lehman brothers collapsed). Key drivers during the month were a fall in commodity prices, a rise in sovereign debt risk, the proposed mining profits tax, a rise in volatility and an AUD currency slide. In local currency terms the Australian market tracked closely with the US market.

Key indicators during the month were mixed: the unemployment rate was above expectation at 5.4%, however 33,700 jobs created during April; building approvals were 15% above the previous month; and company operating profits rose 3.9% for the quarter (market forecast at 3.0%). Retail sales disappointed; as did a fall in home loans, indicating the affects of the official cash rates hikes are being realised. ASX listed companies also reported that they raised \$3.6 billion in secondary capital in April.

In company specific news, Fosters Group outlined plans to demerge its beer and wine operations, into separately listed companies. The timing of the demerger has not yet been announced, although it is expected to occur in the first half of 2011, should there be no delays in regulatory approval. Speculation arose that the merger could open the door for a takeover bid of the brewing operation, with analysts predicting Coca Cola Amatil as a possible candidate.

NAB's May 31 deadline to outline changes to the ACCC blocked AXA acquisition proposal has been extended 6 weeks. The new deadline is July 15.

INTERNATIONAL SHARES

Zenith Benchmarks	Total Return Indices	1 Mth %	1 Yr %	3 Yr % p.a.	5 Yr % p.a.	Fin Yr TD %	Cal Yr TD %	% Ch. Fr. 12mth High	% Ch. Fr. 12mth Low
International Shares	MSCI World Ex-Au A\$	0.78	8.58	-10.69	-0.76	10.31	0.70	-2.37%	12.93%
	MSCI World A\$	0.46	8.98	-10.53	-0.55	10.52	0.38	-2.63%	13.24%
International Shares - Small Caps	MSCI World Small Companies Ex-Au A\$	0.68	22.83	-8.48	1.32	22.79	9.13	-2.74%	25.82%
International Shares - Regional	MSCI US A\$	2.03	15.46	-8.94	-1.54	16.35	5.60	-1.77%	20.12%
	MSCI Europe A\$	-2.29	0.24	-14.65	-0.76	3.22	-9.61	-11.46%	6.12%
	MSCI AC Asia Ex-Jap \$A	1.70	14.35	-1.01	9.65	16.01	1.63	-0.37%	6.12%
	MSCI Japan A\$	2.01	-0.02	-11.78	-1.67	-0.77	6.52	-5.85%	14.32%
	MSCI China A\$	5.03	9.03	3.76	19.31	5.75	-0.45	-4.06%	9.60%
	MSCI India A\$	2.12	18.20	1.29	17.89	22.03	5.39	-0.57%	29.38%
	MSCI Emerging Markets A\$	1.27	17.12	-0.90	11.71	19.88	1.48	-1.24%	22.89%
International Shares - Hedged	MSCI World ex-Au \$A (Hedged)	-7.47	16.79	-10.13	0.98	16.98	-2.55	-9.89%	22.44%

Summary of Statistics:

- **International Shares (ex-Australia)** rose 0.78% in April on an unhedged basis, whilst it returned -7.47% on a fully hedged basis.
- **Small caps** underperformed the broader market, returning 0.68%.
- On a **regional** basis, China was the best performing region (+5.03%), whilst Europe (-2.29%) performed the weakest during May.

Commentary:

Global equities markets weakened during the month (in local currency terms). European sovereign debt risk concerns continued to have a negative impact, along with concerns that the Chinese economy will slow down after an increase in bank reserve requirement and the proposal of a resources super profit tax by the Australian government. Financials were negatively affected by the official criminal investigations into Goldman Sachs which began early month. Tensions at the South/North Korean border also created unease for investors later in the month.

Key indicators out of the US in May were relatively strong: the labour market was boosted by 290,000 new jobs, well above the market expectation of 190,000 jobs; sales growth for both new and existing homes were above market expectations; whilst weaker news included a downward revision of the estimated annualised GDP growth (from 3.4% to 3.0%).

In company specific news, oil giant BP Plc featured in the news for the entirety of the month following a continuing oil spill from an oil well in the Gulf of Mexico. Contingency plans to shut the well failed late-month and alternatives to close the well may take months. The costs associated with the attempted closure, as well as clean up expenses have already totalled US \$1 billion. Investors were spooked by company backlash (from local residents, as well as a statement by president Obama), the loss of revenue (from associated cleanup and lost production) and the potential litigation costs that may occur in the future. BP Plc's US listing has lost 23% (on a local currency basis) in a two month period, since the well started leaking oil.

Banks with exposure in PIIG's (Portugal, Italy, Ireland, Greece and Spain) were hit particularly hard during the month. ING announced that it had more than a \$15 billion exposure to the area, while Societe Generale had an exposure of \$13 billion to the area. The banks share prices lost 10.71% (US listed company) and 13.24% respectively, on a local currency terms during the month.

PROPERTY & INFRASTRUCTURE

Zenith Benchmarks	Total Return Indices	1 Mth %	1 Yr %	3 Yr % p.a.	5 Yr % p.a.	Fin Yr TD %	Cal Yr TD %	% Ch. Fr. 12mth High	% Ch. Fr. 12mth Low
Australian Listed Property	S&P/ASX 300 Property Trusts	-4.27	27.56	-25.27	-7.28	21.58	-2.16	-7.51	29.44
Global Listed Property	FTSE EPRA/NAREIT GLOBAL REITS (Hedged \$A)	0.02	62.43	-3.63		62.77	18.54	-4.09	72.39
Global Listed Infrastructure	S&P Global Infrastructure Hedged \$A	-7.37	14.84	-8.71	5.87	13.28	-5.92	-9.73	18.52

Summary of Statistics:

- Australian Listed Property continued its trend of underperforming the global property markets, returning 4.27% against +0.02% for Global Listed Property (on a \$A hedged basis).
- Global Listed Infrastructure** returned -7.36%, as represented by the S&P Global Infrastructure Hedged \$A.

Commentary:

In May the global property sector (in hedged terms) performed strongly relative to the broader market. The sector has returned 62.43% in a 12 month period to the 31st May 2010.

In global company-specific news, Simon Property Group's US\$6.5 billion takeover bid of General Growth Properties (GGP) was withdrawn when Pershing Square Capital Management opposed the deal committing to acquire 17million shares to have GGP as a standalone organisation.

Domestically, the property market outperformed the broader Australian equities market returning -4.27% for the month and has also outperformed the broader equities market on a 12 month basis, returning 27.56%.

In domestic company-specific news, Transurban agreed to acquire Sydney's Lane Cove Tunnel for \$631 million funded with \$542m of new equity. During the month the company rejected takeover bids from a consortium of Canadian pension funds, which placed the company's value at more than \$7 billion. Transurban stated it was unacceptable that the takeover bids be conditional on it discontinuing its equity raisings for the Lane Cove Tunnel acquisition.

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