



Economic and Investment Market Strategy Report

August 2007

This report has been prepared by St.George Investment Solutions, on behalf of Securitor.



Executive Summary

Economic Overview

Australian Economic Review

- Any lingering doubts regarding the strength of the consumer sector were erased by June's consumer credit data, which posted its largest monthly increase since May 1989.
- Second quarter underlying inflation was revealed to be closer to the RBA's 3% ceiling than forecast.

Global Economic Review

- Various recent economic releases point to a marked increase in Q2 business activity in the US.
- The preliminary Q2 GDP data release saw the US economy expanding a tad stronger than forecast, posting a 3.4% annualised growth rate.
- Bank of Japan governor Fukui revealed that although Q2 GDP growth is expected to be a little subdued, it will not affect the Bank's existing monetary policy outlook.
- The European expansion continues unabated, with corporate investment posting its highest reading for more than a decade.
- The GDP growth rate remained unchanged at 3% in Q2, as the UK economy enjoyed its 60th consecutive quarter of economic growth.
- China enjoyed its fastest economic growth rate for more than 12 years in Q2, as it closes in on Germany to become the world's third largest economy.

Financial Markets Overview

Global Equity Markets

- Global equity markets reached new highs early in the month before coming under pressure in the last weeks of July, as investors sharply increased their risk aversion to financial assets.
- Many global indices recorded their biggest weekly falls whilst Asian equity markets (excluding Japan) recorded positive gains despite the falls in major developed equity markets.
- The World MSCI Price Index (in local currency terms) moved 3.0% lower in July. This index recorded a 0.6% decline on a rolling 3-month basis.

Australian Equity Market

- The ASX All Ordinaries Accumulation index fell 1.9% in July despite hitting fresh intra-month highs and outperforming most other developed equity markets. The slump in the US housing market and worsening losses in the US sub-prime sector drove local shares lower.
- Small caps outperformed large caps, while resource shares outperformed industrial stocks over the month due to firmer metals prices and continued robust commodity demand from Asia.

Fixed Income

- The Australian bond market rallied in July, as investors became risk averse, seeking the relative safety of sovereign debt in the domestic bond market.
- Australian bonds underperformed global bonds (hedged) in July, with the UBS Composite Bond (All Maturities) Index returning 0.7% against the JP Morgan Global Government Bond Index posting a 1.6% return.

Listed Property Trusts

- The S&P/ASX 200 Property Trust Accumulation index moved 4.8% lower in July, underperforming the All Ordinaries Accumulation index by 2.9%.

Currency

- The Australian dollar managed to post a modest 0.3% gain against the USD however lost ground against the all other major currencies and on a trade-weighted basis.

Executive Summary

Asset Allocation Overview

- Included in this report is our most recent June 2007 quarterly review of the recommended tactical asset allocation positions. Table 1 below presents our recommended tactical asset allocation positions for the Balanced Fund.
- Our medium-term return forecasts are calculated on currently available data forecasts for assets prices one-year on from the date of our review. However, given the nature of financial asset markets, our forecasts of financial asset prices may be reached well before or later than the forecast date, as financial asset market prices tend to move in a non-linear path and are subject to variety of extraneous factors that cannot be factored into our model. Readers and investors must be cautioned that commonsense, skill, experience and prudence must prevail when attempting to time the entry and/or exit points for various financial assets in order to implement tactical asset allocation decisions.
- Following the completion of our review, we have increased our International Shares exposure to “Moderate Overweight” and further reduced our exposure to Listed Property still maintaining the “Strong Underweight” position. Our overall exposure to growth assets has been increased from a “Moderate Underweight” to a “Slight Underweight” setting, relative to our long-term strategic asset allocation.
- Our increased allocation to International Shares has come about due their relative attractiveness in total return terms. Typically, financial asset markets become more volatile after a mid cycle pause. We also believe that equity markets remain vulnerable to sharp bouts of weakness and strength as investor appetite for risk fluctuates wildly during the next phase of this business cycle.
- Our allocation to Australian equities remains unchanged at “Slight Underweight”. Our bottom-up and top-down analysis of the Australian stock market points to the market being a shade over fair value at prevailing levels. The strong terms-of-trade being presently experienced has helped Australian corporates retain strong earnings growth while demand for resources and materials continues to dominate our equity market.
- We continue to view the domestic Listed Property sector as being over-valued and believe that the sector is vulnerable to any sharp rise in domestic bond yields. Another negative factor is the continued allocation of capital away from the domestic listed property market and into global listed property. Our allocation to the Australian Listed Property sector has been reduced further and we continue to maintain the “Strong Underweight” position.
- We have targeted the Australian Dollar to maintain the 0.8200 to 0.8400 levels versus the USD, before a period of weakness unfolds. Given the current speculative frenzy in holding high yielding currencies, we will not be surprised if the currency should move into a 0.8700 range in the very near-term. We expect the Australian Dollar to weaken towards the 0.79 or even to a lower level by the end of 2007.
- We have increased our exposure to International Bonds (hedged) from “Slight Underweight” to “Neutral” and increased our exposure to Australian Bonds from “Moderate Underweight” to “Neutral”. The market has largely discounted higher short-term rates and any further weakness in bond markets would prompt us to overweight this asset class given the structural demand for long-term assets by global pension funds and insurance companies. Our Cash exposure has been significantly reduced, with this exposure being redirected toward the improved return prospects of fixed income security asset classes and International Shares.
- For the Balanced Fund, our current position are; “Slight Underweight” Australian Shares, “Moderate Overweight” International Shares, “Strong Underweight” Listed Property, “Neutral” International Bonds, and “Neutral” Australian Bonds, “Slight Overweight” Mortgage Funds and “Slight Overweight” Cash. Detailed asset allocation tables for the five risk tolerance portfolios (Defensive, Moderate, Balanced, Growth and High Growth) are provided in Section 3.2, and across tax profiles in Section 5.

Table 1: Recommended Asset Allocation Positions for Balanced Fund, Q3 2007

Asset Class	Strategic Benchmark	Range		Current Tactical Position	Current Tact (Q3) (%)	Previous (Q2,07) (%)	Change
		Min	Max				
Australian Shares	36	25	46	Slight Underweight	33	33	-
International Shares	25	16	36	Moderate Overweight	31	27	+4
Listed Property	9	0	18	Strong Underweight	4	5	-1
Sub-Total Growth	70	58	82		68	65	+3
International Bonds - hedged	8	0	16	Neutral	8	6	+2
Australian Bonds	12	0	24	Neutral	12	7	+5
Mortgage Funds	5	0	10	Slight Overweight	6	7	-1
Cash	5	0	20	Slight Overweight	6	15	-9
Total	100				100	100	

Source: St George Investment Solutions

Financial Market Performance Table

Table 2: Market Movements to end-July 2007

	Latest Level	% Change:		
		1 Month	Rolling 3mth	Rolling 12mth
Equity Markets (Price)				
World MSCI Local Currency	1141.2	-3.1	-1.3	15.1
US S&P 500	1455.3	-3.2	-1.8	14.0
MSCI Asia Pac Fr ex Japan	479.2	3.8	11.2	38.8
All Ordinaries Index	6187.5	-2.0	0.5	24.8
S&P/ASX 200 Listed Property	2364.1	-6.3	0.9	18.9
	Latest Level	1 Month	Rolling 3mth	Rolling 12mth
Fixed Income (change in basis points terms)				
Aus 90 day bill	6.62	19	23	42
Aus 10 year bond	6.03	-22	16	19
US 90 day Treasury bill	4.82	9	-2	-20
US 10 year bond	4.77	-26	14	-21
Aus – US 10 yr spread (bp)	125	4	1	41
Currency Market				
A\$/US\$	0.8498	-0.1	2.4	11.0
A\$ TWI	68.8	-0.1	2.7	7.7

Source: Datastream, St George Investment Solutions

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1. Economic Overview

Any lingering doubts about the strength of the consumer sector were erased by June's consumer credit data, the largest monthly increase in the reading since May 1989.

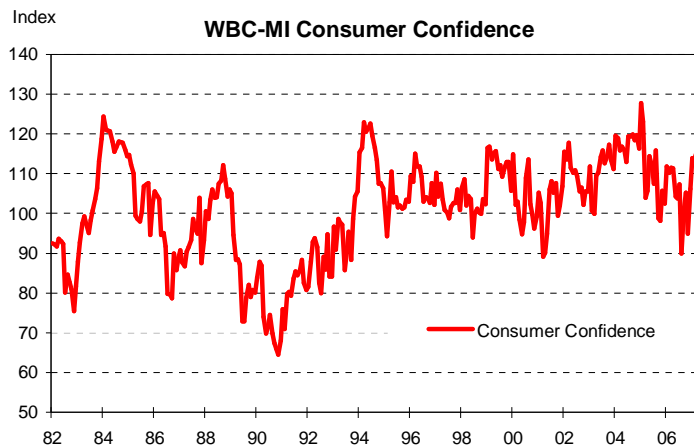
Second quarter underlying inflation was revealed to be closer to the RBA's 3% ceiling than forecast.

1.1 Australian Economic Outlook

Concerns regarding the strength of Australian consumer spending were raised by the early July releases of an unexpected fall in May's Retail Sales figures, dropping 0.1% from April and an increase in June's unemployment rate to 4.3% from the 4.2% figure recorded the previous month. Consumer spending was a key driver of the economy's expansion in the first quarter of this year and analysts are anxious to see the impact of rising interest rates and strong fuel prices on consumer activity. However, after the simultaneous releases of June's private sector credit report and building approvals data in late July, analysts immediately turned their focus on when and how much the RBA will next raise interest rates. Doubts about the robustness of the consumer sector for the moment were forgotten. Credit provided to Australian consumers and businesses in June increased by 1.8% from May, the largest monthly gain since May 1989, which represented annualised credit growth of just over 15%. Traditionally such robust lending growth would alarm the RBA. The number of approvals to build or renovate houses and apartments advanced 7.5% in June, almost four times as much as forecast, although this building approvals figure can be fairly volatile from month to month.

The Consumer Price Index surged more than expected in the year's second quarter, rising 1.2% (1.0% E) from the first, posting an annualised gain of 2.1% (1.9% E). Higher food, fuel, rent and health-care costs were responsible for most of the increase, the fastest quarterly increase for 12 months. The RBA's preferred reading of underlying prices, the trimmed mean measure of inflation, increased 0.9% (0.7% E) for the quarter, registering an annualised increase of 2.7%, worryingly close to the RBA's mandated 3.0% inflationary ceiling. In its May Statement on Monetary Policy, the RBA suggested annual underlying inflation would fall to "a little below 2.5% in the next few quarters." With strong first quarter growth and with the latest elevated underlying inflation reading, many analysts are forecasting the RBA will increase rates at its scheduled August monthly monetary policy reading.

Although over the last three years inflationary pressures have been somewhat elevated in the second quarter, the RBA must be surprised that the strength in the A\$ since earlier this year has not kept inflation more subdued. With recent Westpac consumer confidence readings close to record highs as more people find work and wage levels increase, and with the latest NAB business confidence survey at its strongest since December 2003, pressure will definitely be mounting on the central bank to adjust monetary policy.



Source: DataStream, St George Investment Solutions

1.2 US Economic Overview & Outlook

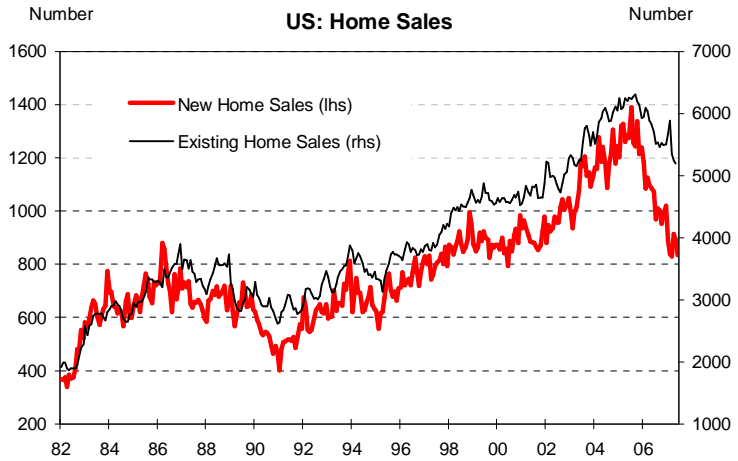
The early July release of both manufacturing and non-manufacturing ISM reports confirmed that economic growth had accelerated quite rapidly in the second quarter from a rather subdued start to the year. Both reports posted their best results for the year, with the manufacturing index experiencing its fifth consecutive monthly increase in June. Also in the first week of July, the Labour Department reported that 132,000 new jobs were created (120,000 E), including 12,000 in the construction sector. The Department also revealed hefty upward revisions to the previous two months' jobs figures and the unemployment rate held steady at 4.5%. Deeper analysis of the employment market revealed that hours worked in the second quarter increased 2.3% on an annualised basis from the preceding quarter and hourly earnings rose a respectable 0.3% in June, posting an annualised increase of 3.9%. High petrol prices, falling house prices, worries about the rising cost of food, and a generally unsettled mood due to the war in Iraq are all factors that contributed to the malaise that subdued the economy in the first quarter and are currently threatening to curtail the present expansion. Indeed, the sharp fall in June Retail Sales data, the largest fall since August 2005, was particularly attributable to falling car sales and energy prices. However, with strong jobs and wages data at home and American industry recording a record export performance in May, due to strong overseas demand and a weak dollar, the US economy seems to be growing at the "moderate rate" predicted by Fed Chairman Bernanke.

The late July release of preliminary Q2 GDP data saw the economy expand at an annualised rate of 3.4% (3.2% E), the most for more than a year. The preliminary Q2 GDP release saw capital spending and exports growing, while consumer spending, the lynchpin of growth in the first quarter, slowed to an annualised 1.3% in Q2, the weakest increase since Q4 of 2005. The largely anticipated beginning of a protracted slowdown in consumer spending, Q1 consumer spending had a 4.2% annual increase, may mean that Q2 will prove to be the strongest quarterly increase in GDP growth for this year.

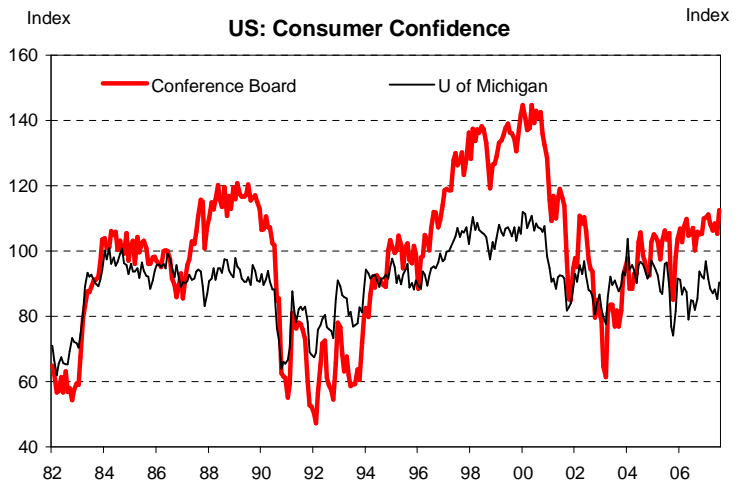
Both headline and core CPI grew 0.2% in June, with core at and headline slightly above forecasts. This was the first relatively subdued reading in headline inflation for over 5 months, the mild reading caused primarily by falling fuel prices. Although food prices rose a substantial 0.5% in June, fuel fell by the same amount, and with the diminution of rental increases since the end of 2006, core inflation in June appeared relatively benign. The Federal Reserve's preferred inflation measure, Core PCE, grew just 0.1% in June, the slowest monthly increase for four years.

Testifying at his semi-annual economic presentation to Congress in mid-July, Federal Reserve Chairman Ben Bernanke announced the central bank was shaving back its "central tendency" forecasts for economic growth this year and next, largely because of a more protracted drag from housing investments. Economic growth for 2007 is projected to decline from 2.5% / 3.0% to 2.25% / 2.5%; growth for 2008 to decline from 2.75 / 3.0% as forecast in April this year, to 2.5 / 2.75%. The revised forecast implies that the Federal Reserve now believes the economy will not return to close to its trend rate of growth until sometime in 2008. Bernanke continued to stress to Congress that the "predominant" concern for the central bank is that inflation will not recede as forecast. Adding further to the Fed's concerns, towards the end of July the Commerce Department revealed that it had overestimated economic growth over the past three years. Although, thankfully, price data remained unchanged, the subsequent downward revision in productivity growth will be a dilemma for the Federal Reserve as it continues to balance inflationary and growth pressures.

Sales of existing homes in the US plummeted in June to their lowest level for nearly five years, as the National Association of realtors revealed in late July that sales fell to a lower-than-expected 5.75 million on an annualised basis, substantially lower than the 5.99 million of sales recorded in the preceding monthly release. The housing market has been falling across the whole of the country, and seems to be experiencing another bout of weakness since the northern spring's initial bout. Commenting on the recent weakness in the housing market, Chairman Bernanke stated that there would be a toughening of the rules to clamp down on "unfair or deceptive" mortgage deals, condemning what he described as "abusive lending practices and outright fraud" that had accompanied an expansion of mortgage lending to borrowers in the sub-prime market.



Source: DataStream, St George Investment Solutions



Source: DataStream, St George Investment Solutions

1.3 Global Outlook

JAPAN

BoJ governor Fukui revealed that although Q2 GDP growth will be a little subdued, it will not affect the existing monetary policy outlook.

In a prepared statement released in mid-July, BoJ Governor Fukui revealed that the central bank expected economic growth to be relatively subdued in the year's second quarter. Although Q2 GDP is to be released about 10 days before the scheduled August 23rd Bank of Japan monetary policy meeting, Fukui announced that the anticipated weak growth data would not influence the meeting's outcome. With regards to concerns about weakness in output data, Fukui stated that the recent subdued Industrial Production readings were a function of companies paring their inventories and that the data posed no concern for the central bank. The BoJ outlook being supported considerably with the July 30th release of June's industrial production data that registered a seasonally adjusted 1.2% (1.0% E) increase from May's figure, bringing to an end the economy's worst manufacturing slump in almost two years. Although the US economy has been subdued of late, demand for Japanese exports has been strong in China and Europe, with China recently usurping the US as Japan's biggest trading partner. Japan's trade surplus surged in June to \$11.5bn, a 56% increase from a year earlier and the strongest figure for nearly six months.

The early July release of the Tankan, a highly regarded quarterly business survey conducted by the Research and Statistics Dept of the BoJ, revealed that overall business confidence sentiment for the second quarter remained unchanged from the preceding quarter's optimistic reading and that strong capital spending plans remained in place. Confidence readings for large, export-focussed manufacturing companies neared two year highs; the combination of a weak yen and strong international demand, particularly from China, providing benign trading conditions for the nation's formidable exporters. Revealingly, sentiment readings for small to medium companies that traditionally have less of a reliance on exports for revenue actually fell over the quarter, confirming the trend of an economic expansion fuelled by export led growth but with a relatively subdued contribution from the domestic economy. Indeed, in stark contrast to the Tankan's recent string of almost bubble-era sentiment readings, consumer confidence sentiment fell to 21/2 year lows in June. Falling wages since the beginning of the year and recent increases in taxes and food and energy prices eating into the cost of living.

Headline consumer prices fell 0.2% in June, the fifth month in a row of falling prices, jeopardising the BoJ's contention that inflation will gradually increase in the medium to longer term (although cheaper crude oil prices from last year will exert strong downward pressure around the third quarter) and interest rates raised in response. Core CPI, which excludes fresh food, declined 0.1% from a year earlier, matching analysts' forecasts. Consumer prices are gradually increasing even though the overall inflation figures are not reflecting this. Declines in the prices of such goods as flat-screen televisions and the recent halving of mobile phone monthly fees in an intense price discounting battle being waged by the major telcos in Japan, are subduing consumer inflation figures. Encouragingly for central bank officials, consumer inflationary expectations are growing quite appreciably amongst surging gasoline and food prices. Three quarters of respondents to a recent second quarter BoJ

consumer survey expected prices to rise this year; while only 59% of respondents shared this view in the survey's first quarter report.

The latest Tankan unexpectedly revealed the employment market remained flat for the second quarter, the first time jobs growth had failed to post a quarterly increase in the economy's present five-year expansion. With the July release of government data confirming monthly wages had fallen in May for the sixth straight month in a row must, central bankers must be anxiously aware that their forecast for falling unemployment leading to wage increases and ultimately the much longed for increase in consumer prices is being vigourously tested by recent reports from the jobs market.

Although the ruling LDP party still controls the more powerful Lower House of parliament, its recent loss of the largely ceremonial Upper House to the DPJ opposition party could lead the country into a period of legislative deadlock, with necessary economic reform likely to be blocked for "the sake of opposition" according to LDP insiders. This is the first time the LDP has lost the Upper House since 1956 and Prime Minister Abe claimed full responsibility. He blamed his party's defeat on the "strong headwinds" of public animosity stirred by a string of corporate scandals and increasing economic disparity between rural and urban Japan.

On numerous occasions BoJ officials have re-iterated they believe interest rates to be too low for an economy expanding at an annual rate of some 2.6% and that they intend to raise interest rates gradually as part of initiatives consistent with a "normalisation" of monetary policy. Tellingly, recent speeches by two voting members of the BoJ interest rate committee reveal that interest rate policy moves are made largely independently of economic data releases and thus there appear limited traditional means for market forecasters to predict the bank's interest rate moves. Indeed, forecasters would probably be best advised to consult either the political calendar or count the months since the last rate increase to discern as to when or if the central bank will adjust rates. In early July, at one of his many mandatory press conferences, Governor Fukui stressed that central bank activity should be focussed on minimising large swings in economic activity, implying that real GDP growth was the predominant focus for interest rate activity rather than a concentration on inflationary developments. The market is currently expecting the next rate increase to occur after the BoJ's scheduled September monetary policy meeting, although such anticipation seems to be based more on a calendar based approach to monetary policy rather than a reliance on economic fundamentals.

The European economic expansion continues unabated with corporate investment posting the highest readings for more than a decade.

EUROLAND

Europe's economy grew faster than initially estimated in this year's first quarter as corporate investment increased the most in more than a decade and exports were revised upwards. The euro zone economy expanded at a revised 0.7% for the first quarter up from the initially reported 0.6% and is set to expand at a more rapid rate than the US for the first time since 2001. Falling unemployment coupled with business and consumer readings near six-year highs creating strong demand conditions.

Although the widely watched IFO business survey revealed German business confidence fell slightly for the second consecutive month in July, the IFO's senior economist still expected growth to be robust in the year's second half, with investment and consumer spending driving growth and only a modest contribution from the export sector due to the strong euro. Also in mid-July, the Berlin based DIW Research Institute upgraded its growth forecast for the domestic economy this year from 2.4% to 2.6% as the German economy continues to benefit from not only the painful labour market reforms of recent years but also from strong growth in the Russian and Eastern-European economies. Unemployment throughout the euro zone has been falling, but has been most pronounced in Germany where since April 2005, unemployment has fallen from 9.5% to 6.4%.

The French equivalent of the German IFO business survey, the INSEE, reported that manufacturers were at their most optimistic about sales for over seven years in July. However, the French economic expansion is expected to drag behind that of the German's until labour market reforms are introduced into the French jobs market. France's unemployment rate fell almost twice as much as expected in June, as strong economic growth spurred job creation helping to cut the jobless rate to 8%, the lowest since March 1982. The OECD recently forecast the French economy would grow by 2.2% this year and next, compared to a 2.5% growth rate for the 13-nation euro area for this year and 2.3% expansion in 2008. The Italian economy, long dubbed the sick man of Europe is resurgent, with the country's manufacturing sector beginning to adjust to the new global economic order. Fiat and the aerospace and defence group Finmeccanica are competing aggressively in the international arena, and Italian industry has gradually overcome its traditional employment legacy of low productivity and high labour costs.

German inflation unexpectedly increased in July, rising 0.2% from June's annualised 2% growth, amidst higher energy and holiday costs. This is the fifth month that German inflation has exceeded the ECB's 2% inflation ceiling. Money supply growth in the euro region also unexpectedly accelerated in June; the 10.9% increase in M3 from a year earlier strengthening the case for another increase in official interest rates by the ECB.

The similarity between the ECB and Bank of England's thinking is striking. Echoing recent comments by B of E officials, ECB president Trichet announced that while uncertain about the direction of inflation, rapid economic growth, coupled with vigorous monetary and credit growth readings occurring at a time of limited spare capacity had heightened inflationary risks and demanded action. After the ECB's rate-setting committee agreed to keep rates on hold at 4% at the conclusion of its scheduled July meeting, President Trichet announced that he would do

nothing to alter market expectations that currently indicate a 25 bpts rate increase in either September or October.

U.K.

GDP growth remained unchanged at 3% in Q2, as the UK economy enjoyed its 60th consecutive quarter of growth.

The broad based acceleration of second quarter GDP growth to 0.8% (0.7% E) surprised forecasters. Manufacturing increased 0.6% in Q2, rebounding impressively from the previous quarter's fall of 0.4%, while both service and construction industries contributed strongly. The quarter's annualised growth rate was 3.0%, unchanged from Q1. The UK economy has now expanded for 60 quarters, driven by a boom in London's financial services industry, and recently released data showed productivity, or output per worker, enjoyed its fastest annual growth in almost three years in the first quarter of this year. Although sterling is at 26 year highs against the US\$, manufacturing production figures are currently reporting their most robust readings for nearly seven years and the latest Industrial Production figure reported growth of 0.6% in May, double both analysts' forecast and the previous month's figure. June's Retail Sales increase of 0.2% (0.3% E), the second consecutive monthly increase, may cause the Bank of England a little angst as it attempts to cool the economy but on an annualised basis Retail Sales appear to be trending downwards due to climbing interest rates.

Unemployment dropped to a two year low in June, with the number of people claiming jobless benefits falling by 13,800 (7,500 E) to 864,100. The latest ILO survey in May reported the unemployment rate to be 5.4% (5.5% E). Although the UK economy is enjoying an historically low jobless rate, the strong influx of migrant workers from former Soviet bloc eastern European states has seen annualised pay, both including and excluding bonuses, increase a modest 3.5% in the three months through May. Admitting wage growth has been "measured", Bank of England officials are now showing concern as to inflationary pressures breaking out at companies, declaring, "The margin of spare capacity in businesses appears limited."

Fears that the Bank of England would raise rates again grew after the mid July release of June's inflation data reported core inflation was growing at ten year highs and headline inflation failed to retreat as much as expected. Data from the Office of National Statistics revealed that although gas and electricity bills fell sharply in June as anticipated, high petrol prices boosted transport costs, which accounted for about half of the monthly increase in the headline rate and food price increases were becoming "sticky". The Bank's latest inflation forecast released in April had anticipated greater declines in price measures due to recent falls in utility bills and a moderation in consumer spending with the additional support of the strong pound.

As widely forecast The Bank of England raised interest rates at its scheduled Monetary Policy Committee meeting in the first week of July. Although inflation had moderated since climbing above 3% in March, Governor King has made clear his belief that the economy requires higher interest rates if the rate of inflation is to be pushed lower over the next two years. Having being raised 25bpts, interest rates are now 5.75%, and the resilience of the economy to the steady increase in interest rates since August last year has led many analysts to forecast that interest rates will eventually hit 6%, or higher. With many more people than previously on

fixed-rate mortgages these days, it takes longer for the Bank's actions to affect homeowners, as they are insulated until their next (usually two-year) term comes to be reset. Just over a million families are expected to have to re-fix their loan towards the end of the year and with personal bankruptcies already at record highs, the Bank is acutely aware of the de facto tightening affect on consumer spending much higher mortgage payments will have. Rather ominously, the City based Financial Services Authority slammed sub-prime mortgage providers in an early July release, accusing lenders of failing in their responsibilities by providing mortgages to vulnerable borrowers with existing high levels of debt. Although the Nationwide Building Society reported house prices had surged by 1.1% in June, taking annual house price inflation to 11.1%, analysts are predicting price growth will half by the end of the year and appreciate by only 2% to 3% over the whole of 2008 as higher than anticipated interest rates gradually bite.

CHINA

China enjoyed its fastest economic growth rate for more than 12 years in Q2, as it closes in on Germany to become the world's third largest economy.

Due to the relentless success of her export industries, China is drawing very close to overtaking Germany and becoming the world's third largest economy. With recently released second quarter annualised GDP growth of 11.9% (11.0% E), the fastest growth in over 12 years, analysts were prompted to agree that any slowing to single digit GDP growth will not occur until 2009 at the earliest. The acceleration in the quarter's growth was surprisingly broad based with investment, consumption and net exports all contributing substantially. Total fixed asset investment growth (roads, bridges etc) rose by 25.9% y-o-y in Q2; Retail sales rose by 15.8% y-o-y in Q2; Merchandise net exports rose by 75% y-o-y Q2. A recent update to the IMF's World Economic Outlook first published in April 2007 forecasts the Chinese economy to grow by 11.2 % this year.

With the current growth slowdown in the USA occurring at the same time as China experiences exceptionally rapid economic expansion, for the first time China will be the major contributor to the increase in global growth as measured in both market exchange rate and purchasing power parity terms. China has recently provided up to a quarter of the annual growth rate of the world economy; when combined together with Russia and India in a single trading bloc, China accounts for more than half of world economic growth so far this year. The same update to the mentioned April IMF report forecasts China's growth falling back to a very robust 10.5% in 2008.

China's trade surplus jumped 84% in the first six months of this year from the same period last year. The US\$112.5 billion surplus for the January to June period was more than that reported for the whole of 2005. Exports of some products increased dramatically in the first half. Steel exports increased 97% from the previous year, although some of this increase was due to the government ceasing export tax rebates from July 1 on energy-intensive products. Traditional exports such as textiles remain strong but manufacturers are also moving away from a reliance on cheap, low-margin goods to value-added items offering higher profits. Sales of televisions fell by 51% in the year's first six months, while exports of telecommunications equipment have been growing exceptionally strongly for the last 18 months.

The massive inflow of money generated as a consequence of her amazing success as an exporter pushed China's foreign-exchange reserves, the world's largest, to US\$ 1.3 trillion at the end of June with subsequent leakages of cash into the domestic financial system, hindering vigorous government initiatives to subdue economic growth. Causing additional concern is the continuing strength in business investment. The authorities becoming increasingly conscious of the likelihood of an excess of industrial capacity letting loose a boom-bust capital spending cycle. Specific concerns centre on the possibility of excessive real estate development and factory building igniting inflationary pressures that ultimately result in a growing list of heavily indebted individuals and small business owners. Any major economic policy responses or initiatives are not expected to be introduced until the Communist Party's 17th National Congress due this year at a date to be announced.

In late July the Chinese authorities raised interest rates for the fifth time since April 2006. The standard 27 basis point increase saw rates rise to 6.84% in an attempt not just to slow the quickest pace of economic growth for 12 years but also to combat record inflation. Additionally, in an effort to cool a run away stock market that has appreciated almost 90% this year and also in an attempt to improve the declining savings rate, the People's Bank of China increased the retail deposit rate to 3.33% while simultaneously slashing withholding tax on interest income deposits to 5% from 20%. From mid-August, the Bank also signalled its intention to increase the Reserve Ratio Requirement threshold from 11.5% to 12% as the authorities seek to decrease the pool of money available for borrowing.

The authorities are well aware that investment is overheated and inflation is forecast to accelerate over the next few months. The June CPI figure revealed that prices had increased by 4.4% (3.4% E) from the same period a year ago, meaning that further cooling measures and monetary policy tightening will have to be introduced and giving a stark reminder to Beijing that accumulating world record reserves of US\$1.3 trillion in an attempt to hold down the Yuan is playing havoc with monetary policy and causing inflationary "blow-back" at home.

Although overall Chinese manufacturing unit labour costs in 2005 were only 4% of those in the USA and 7% of those in S.Korea, industrial wages on China's eastern seaboard have jumped 50% over the last two years and the authorities are monitoring wage developments closely in their attempt to contain inflationary pressures.

Having learnt from the 1997 Asian financial crisis, China now has all the foreign currency reserves it needs and is establishing global ambitions by not only lending to the West but also by owning large chunks of it. Almost US\$300 billion has been earmarked to fund foreign acquisitions. In June, Beijing purchased 10% of the Blackstone US private equity house and has signalled intentions to purchase a substantial shareholding in Barclays plc, the UK high street bank. Additionally, in mid June Beijing used US\$5bn from its reserves to create the Africa Development Fund, an initiative focussed on developing that continent's oil and mineral wealth amidst growing global anxieties over energy supplies.

The first half of 2007 confirmed a significant trend that emerged last year, Europe overtook the USA as China's largest export market. The rapidly expanding Chinese trade surplus with the Europe is fuelling calls by some

EU member countries to reimpose curbs on textile imports when temporary measures expire at the end of this year. Peter Mandelson, the new EU trade commissioner, warned Beijing that EU-Chinese trade relations were at a “crossroads” and Europe needed improved access to the expanding Asian market. Mandelson added that pressure would mount for more European protectionism unless there was a genuine two-way street in trade. The European trade deficit with China is growing and Mandelson stated that EU companies need not only better access to China’s markets but also a “sea-change” in intellectual property rights protection and copyright law.

Ominous Congressional developments in late July saw the US Senate Finance Committee approve a bill that would open the way for punishing China over its exchange rate policy. The bill, sponsored by both a Republican and a Democrat, would allow for anti-dumping penalties to be introduced if a country failed to revalue its currency if identified as having a “fundamentally misaligned unit of exchange”. On the eve of the US presidential elections anti-China rhetoric in Congress is building and the threat of successful legislation is more acute than ever.

1.4 Special Report

“The Straw That Broke The Camel’s Back” The Subprime Saga

The Backdrop:

Within a capitalistic economic structure, financial asset markets and financial institutions assist individuals and groups of individuals in performing a myriad of important functions. Some basic functions include; the provision of competitive advice and superior savings avenues; the creation of efficient ways to spend these savings or borrowed funds; assisting in retirement planning and the protection and enhancement of financial wealth; the provision of competitive advice and the creation of cost efficient opportunities to raise capital and to insure against future risk, to name but a few.

There are many participants in the market place. “Financial intermediaries” are a key group of market participants, presently playing a major role in enabling the market place to function efficiently. In many instances, this group has replaced the traditional trading banks as key financiers, advisors, providers and originators of financial instruments. Financial intermediaries use their market skill, innovative capabilities, market reputation and the strength of their respective balance sheets to carve out “niche” positions in the market place. However, unlike the traditional trading or savings banks, these intermediaries rely on the market place to provide them with sufficient capital to function efficiently and profitably.

The savings and spending gap and implications:

Over the past one and a half decades, a growing gap has emerged between global aggregate savings and global aggregate spending. The integration of global financial, labour and product markets has made this “glut” of excess capital more pronounced as capital has moved across geographic and political borders with hardly any obstacles. There has also been an

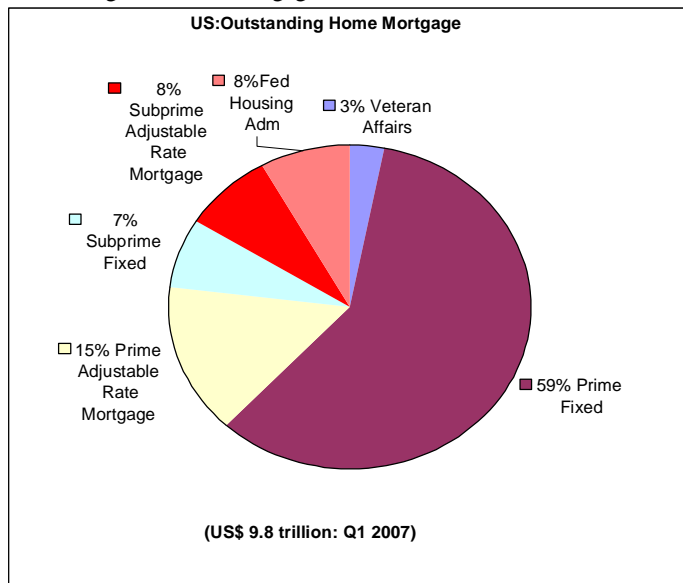
acute shortage of global financial assets. The supply of financial assets has had a hard time in keeping up with the demand for “store of value” and collateral from households, corporations, governments, insurance companies and financial intermediaries.

The current savings glut, historically low financial market volatility, central bank transparency, low volatility in economic data, a fall in global risk premiums, relative global socioeconomic and geopolitical stability and the relentless search for higher yield and returns by investors has given financial intermediaries the incentive to create financial instruments that will help close the gap between global aggregate savings and global aggregate spending. However, given that the sum of all this activity would net-out to be “Zero”, the observable impact has been a steep rise in most financial asset prices, a sharp increase in synthetic financial asset products and a fall in the quality of high risk financial instruments, as evidenced by the sharp contraction of the yield spread between sovereign and other credit products.

The exponential growth in financial derivative products, coupled with financial leverage and the much mentioned “carry trade” has ultimately led to high risk markets “collapsing under their own weight”. The resulting “risk aversion” has spread to almost all financial asset markets. This phenomenon is typical in open and free markets, where the age-old combination of “greed and fear” acts to push markets to extreme valuations in either direction. It is estimated that the value of outstanding financial derivative contracts as at the end of March 2007 was close to US\$300 trillion versus a global economy that is estimated to be around US\$45 trillion. While the rapid growth in financial derivative products by themselves is not a problem, it is the magnitude of “leverage” that these products contain and encourage that is at the crux of the present predicament. It is estimated that financial derivatives account for nearly 80% of current global liquidity.

The US Home Mortgage Market:

A favourable cocktail of low interest rates, rising house prices and a marked rise in residential property ownership resulted in a sharp increase in the US household leverage in the post-Dotcom bubble years. The following chart highlights the composition of some US\$ 9.8 trillion of outstanding US home mortgages as at the end of March 2007:



Source: Moody's & St George Investment Solutions

Financial innovation and the huge investor appetite for yield set the stage for the subprime-lending boom. From a moderate 3% of total mortgages outstanding in 2002, subprime lending surged to 15% of total outstanding mortgages at end of March 2007. The gradual tightening of official rates that began at the 30th June 2004 Federal Open Market Committee meeting, marked the turning point in the liquidity cycle and the delinquency rates for subprime mortgages had begun to move higher by mid-2005. Further tightening and the softening of house prices set the scene for an increase in delinquencies, defaults and foreclosures. The subprime market was at the epicentre of the global credit markets and was the “straw that broke the proverbial camel’s back”

The Subprime Mortgage Chain:

As the surge in the subprime lending business attracted greater competition, mortgage originators lowered credit standards in order to sustain lending volumes. This led to a sharp increase in the number of loans with little documentation, poor repayment or servicing capabilities and high loan-to-value ratios.

The subprime mortgage chain begins with the mortgage originator granting the loan either directly to the individual borrower or through a network of brokers. Portfolios of loans are then sold wholesale to the underwriter by the mortgage originator. The underwriter, often an investment bank / financial intermediary repackages the loans and sells them to the end investor in tranches with different levels of risk, such as senior, mezzanine or equity. These packaged products (with the exception of the equity tranche) would most likely be rated “investment grade” by rating agencies and attract asset-starved investors seeking both higher yield and return. The tranches of bonds with a highly rated triple “A”, having a repayment priority, remained at the top of the capital structure while the lower tranches with triple “B” or triple “B minus” ratings earned much higher interest rates on their debt in order to compensate investors for the considerably higher risks residing in these securities.

To facilitate the sale of the higher risk tranches, financial intermediaries repackaged many triple “B” mortgage backed securities and even more of the triple “B minus” tranches into new securities called mezzanine collateralized debt obligations or CDO’s, which were sold to institutional investors. In some cases, not only is the very structure of the product leveraged but some financial institutions also lent funds to investors encouraging them to buy these assets and then lodge them as collateral against the loan.

Volatility & Risk Aversion:

While the deck of cards continues to fall around us, market volatility and risk aversion continue to climb. The following chart depicts the rise in the volatility of the US S&P 500 Index:



Source: Bloomberg & St George Investment Solutions

One of the principal ways in which increased volatility impacts financial asset prices is due to the fact that volatility is a key input in most financial asset pricing models that measure “financial risk”. As volatility rises, the amount of risk that can be borne will decrease, forcing the “involuntary” liquidation of underlying assets. This type of risk aversion is quite natural, sensible and logical on the part of an investor but has the capacity to exaggerate price movements when it is done collectively in the market place. This phenomenon is called the “fallacy of composition effect”, where individual investors do the right thing but collectively their actions are detrimental to the market place and to the health of the asset class. The spill over effect from this type of market action is that passive investors enter the market place to liquidate assets that keep falling in price, further exaggerating downward price action forcing all levels of investors to do the same. Credit downgrades by rating agencies also impact asset prices in a similar fashion, where forced liquidation sets off a “domino effect” in asset prices.

Response by the Monetary Authorities:

Both the recent fall in equity market prices and the widening of credit spreads have combined to tighten financial market conditions. Given that the transmission mechanism of official monetary policy in a developed and open economy is essentially via financial asset market prices, many market commentators believe that tight financial conditions will force monetary authorities to cut official interest rates in the near future.

A Central Bank is, first and foremost, the lender of last resort to the financial system. It is, therefore, quite logical for them to take preemptive action in the face of a threatened breakdown in the orderly functioning of the financial system as it is the central bank’s duty to keep the markets functioning. However, this is not to say that it is the central bank’s duty to keep asset prices rising.

Apart from the lender of last resort function, central banks would be fully aware of the recent volume of corporate debt issued to retire equity and leverage existing real balance sheets, rather than to support economic growth through capital investment. During the recent Leveraged Buy-Out (LBO) flurry, funds raised in the credit markets were largely devoted to

the purchase and restructuring of existing assets, not for the purpose of creating new assets.

We believe that most central banks will stay on the side lines during the current market turmoil because they have long lamented the “conundrum” type of liquidity excesses that ran counter to continued rate hikes. Tightening financial conditions would be perceived as a natural, welcome and belated adjustment at this stage of the economic and business cycle.

The outlook:

In our opinion, the character of financial markets has changed to reflect a maturing economic and business cycle. Market volatility typically rises during this phase of the cycle as financial market participants adjust their risk / return expectations while businesses adjust their mix of capital investments versus labour market hiring, inventory levels and forward order books.

In our opinion, the gap that still exists between aggregate global savings and the acute shortage of financial assets will continue to support financial asset market prices. Investors are likely to witness market corrections of the magnitude seen recently for many more years. This is a self-correcting mechanism in a free and open market. Once investors recognise this pattern early as being part of the prevailing economic and business cycle, they will have to adjust their investment horizon and strategies accordingly. Portfolio diversification, prudent tactical and strategic asset allocation, thorough and careful hiring of skilled and experienced fund managers, and skilful risk budget allocation are some of the initiatives that will help survive this next phase of the market cycle.

On a medium term outlook, we still prefer equities to bonds and in particular prefer large cap growth stocks. The premium between emerging market equities and bonds versus developed market equities and bonds will gradually fade over time, making strategic allocations towards emerging markets help deliver superior diversification benefits. The global commodity super cycle has a long way to go given the shift in global growth towards emerging economies, their capital investment needs and the usual demand that accompanies the industrialisation of emerging economies.

We will continue to be cautious with leveraged trades as the near term risks still favour more adjustments in financial asset prices as the de-leveraging process gradually unfolds. Some high yielding currencies are also vulnerable to this adjustment. We are also mindful of the possibility of near-term geopolitical uncertainties and the possible introduction of legislation by various key global authorities who feel that they need more accountability and transparency within the financial market structure in order to avoid the structure from heading towards a systemic collapse.

2. Financial Market Developments

Global equity markets moved lower, as investors became risk averse, off-loading financial and cyclical stocks

Global equity markets reached new highs early in the month before declining in the last weeks of July as investors became highly risk averse to financial assets. Investors became concerned by the increased likelihood of tightening financial conditions after the failure or postponement of some high-profile leverage-buy-outs due to problems with financing and concerns over the sub-prime US housing sector. The US reporting season revealed mixed results over the month and provided little support towards months end. Many global indices recorded their biggest weekly falls during the month. Asian equity markets (excluding Japan) recorded positive gains despite the falls in major developed equity markets.

Australian shares outperformed major developed global equity markets, however they were unable to keep pace with the strong performance of most Asian markets.

2.1 Global Equity Markets

The World MSCI Price Index (in local currency terms) moved 3.1% lower in July and has now recorded a 1.3% decline on a rolling 3-month basis. On a rolling 12-month basis, this index has posted a 15.1% return. In Australian dollars terms, the World MSCI Price index added only 5.5% over the last 12 months, illustrating the impact of the strength of Australian dollar against the major global currencies.

The market weakness toward the end July saw stocks linked to the financing cycle suffer the greatest losses during the sell off. Globally, the worst performing sectors were REITs and the investment banks while domestically, non-financial industrials underperformed as the LBO premium came under pressure.

US shares moved lower in July on concerns relating to the weak housing sector

In the US, the technology-weighted NASDAQ Composite Index moved 2.2% lower over the month however managed to outperform the boarder S&P 500 index which posted a 3.2% decline. These markets where driven lower on concerns that rising corporate bond risk would limit further takeover activity and defaults among US sub-prime borrowers would flow into the economy.

Japanese equities were hit hard on concerns of US credit risk.

Japanese equities were hit hard over the month and underperformed all of major global equity markets. The deteriorating aspects of the US sub-prime housing loans with the possibility that this could have a flow-on effect on the US economy was the main catalyst to this market's weakness. It is believed that these affects could drag on the Japanese exporters and potentially prove to be another obstacle for raising interest rates. Other key influences for the Japanese markets over the month included falling consumer prices, tight labour markets, falling consumer confidence due to higher taxes and falling wages and the decision by the Bank of Japan to keep the official cash rate steady at 0.5%. The Nikkei 225 index posted a 4.9% decline over the month, with the twelve-month return standing at 11.6%.

European shares closed down in July, with Germany's DAX posting the weakest return.

European equities closed down in July, with the German equity market underperforming the main European bourses. European equity markets ended in negative territory, as markets took their lead from the US with a sudden increase in risk aversion. For the month, Germany's DAX index posted a negative return of 1.6%, the UK's FTSE100 index moved 3.8% lower, whilst France's CAC40 fell 5.0%.

The Asian region (ex-Japan) bucked the world trend and performed strongly in July, with the MSCI Asia (ex Japan) price index adding 3.8% over the month in local currency terms, to be 11.2% higher on a three-month basis.

In China, the Shanghai Stock Price Index strengthened 17% over the month with stronger-than-expected economic growth and inflation rates supporting the equity market. These figures led to Chinese authorities raising interest rates in a bid to quench the exuberant economy. In a move to encourage saving over investing in the over heated equity market, the Chinese authorities also cut withholding tax on interest income deposits.

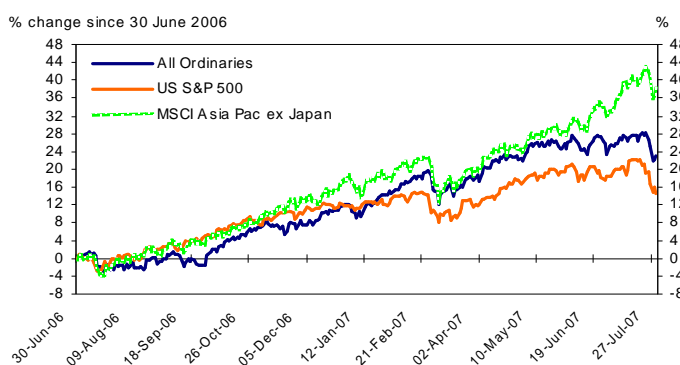
The Shanghai index has now risen 16.4% over the last 3-months. Over the last 12 months, this Index has achieved a staggering 177.2% return. In comparison, India's Bombay SENSEX 500 index performance over the month is modest, with a strong gain of 6.2%.

Table 3: Global Equity Market Price Indices * (% change to end July 2007)

	Monthly % D	Rolling 3 months % D	Rolling 12 months % D	Year-to-date % D
MSCI World	-3.1	-1.3	15.1	3.7
US S&P 500	-3.2	-1.8	14.0	2.6
US NASDAQ	-2.2	0.8	21.7	5.4
German DAX	-5.3	2.4	33.5	15.0
UK FTSE	-3.8	-1.4	7.3	2.2
Japanese Nikkei	-4.9	-0.9	11.6	0.1
MSCI Asia ex Japan	3.8	11.2	38.8	17.5
Aus All Ords	-1.9	0.5	24.8	9.6
French CAC	-5.0	-3.5	14.8	3.8

Source: Datastream; * local currency terms

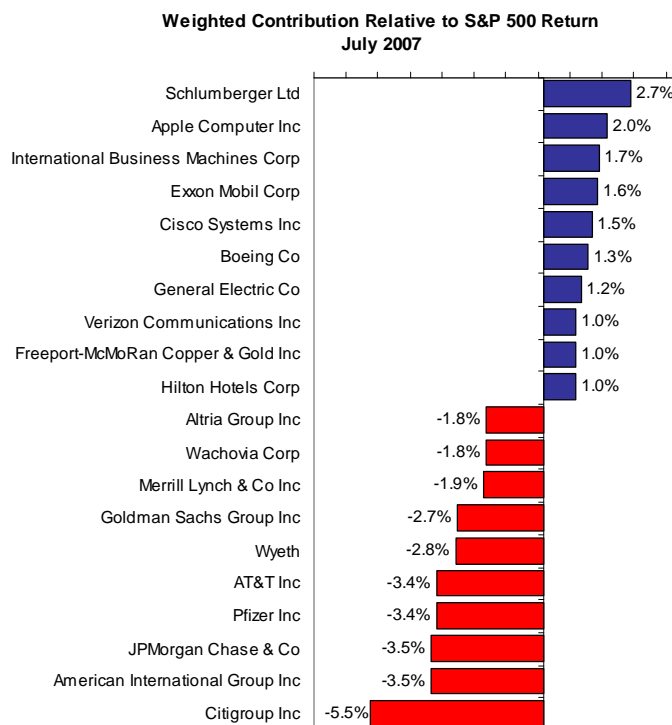
Chart 5: Equity Market Performance (% change since 31 July 2006)



Source: Datastream, St George Investment Solutions

Chart 6: U.S. Market Performance – Best and Worst Contributors to Index Return

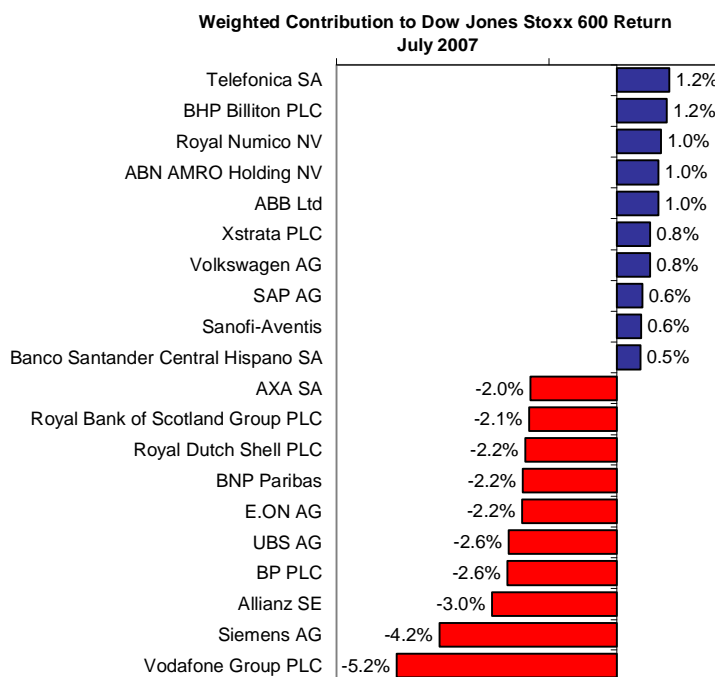
The US S&P 500 Price Index declined 3.20% in July (down 48.08 points).



Source: DataStream, St George Investment Solutions

Chart 7: Europe Market Performance - Best and Worst Contributors to Index Return

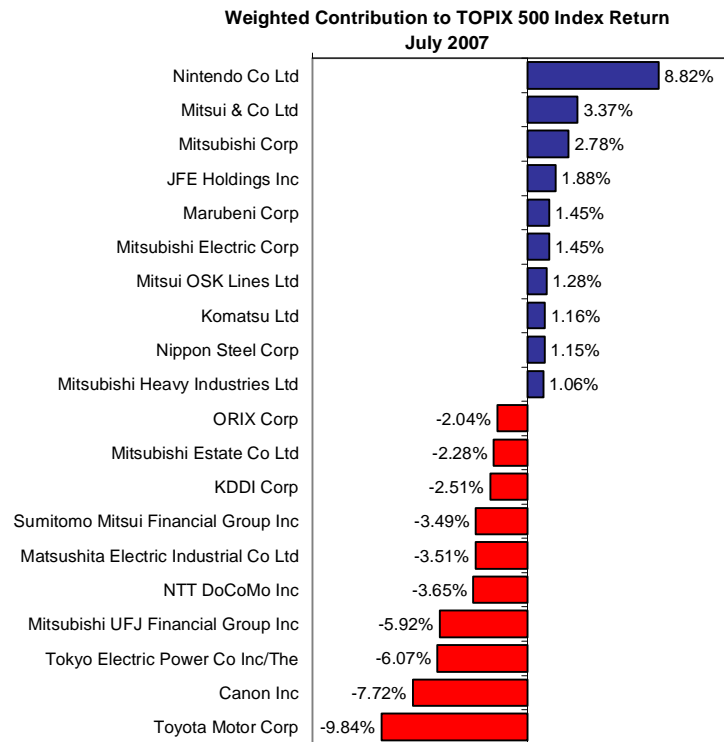
The European Dow Jones Stoxx 600 Price Index retreated 3.46% in July (down 13.64 points).



Source: DataStream, St George Investment Solutions

Chart 8: Japanese Market Performance - Stock Contributors by Index Points

The Japanese Topix 500 Price Index fell 3.98% in July (down 56.32 points).



Source: DataStream, St George Investment Solutions

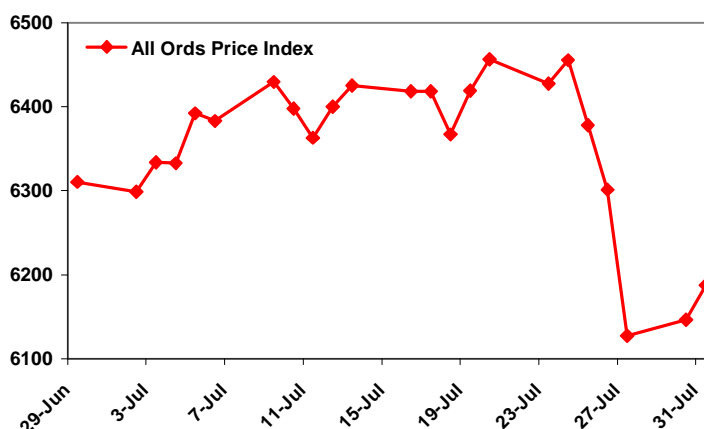
2.2 Australian Equity Market

Australian shares finished lower in July, despite setting a new record high intra-month.

The Australian share market ended the first month of the 2008 financial year lower. It finished in the red for a second consecutive month after enjoying 10 straight gains from August 2006 to May 2007. Although the benchmark S&P/ASX 200 index posted a negative 2.1% return when measured in price terms, the Australian market still outperformed most other developed markets. During the month, Australian equities set a record high before sliding dramatically as increasing concerns set in over the continuing deterioration in the US sub-prime mortgage market and the possibility of reduced world growth and consumption caused by the depressed US housing market.

Liquidity remained mostly strong in July, however some of it dried up towards the end of the month as investors became risk averse and placed more premium on risky assets. Strong domestic manufacturing and business activity along with the continuing Chinese demand for commodities limited the market's loss. Material stocks dominated the positive performers, rallying as most base metal prices firmed in July. Gold, lead, zinc and copper all gained with the exception of nickel, which continued a downward slide. The stronger Australian dollar and slumping US housing market reduced exporters' revenue, forcing down their share prices.

Chart 9: All Ordinaries Price Index - Daily Closing Values for July, 2007



Source: DataStream, St George Investment Solutions

Resources strongly outperformed industrials over the month.

Small cap stocks performance have surpassed large cap stocks over the month, and have now also beaten the large caps over three month, six month and 1 year periods. The ASX Small All Ords Accumulation index retraced 1.1% in July and advanced 4.4% over the last three months, outperforming the ASX 100 Accumulation index by 1.1% and 4.5% respectively over the same periods. Over the last 12 months, the ASX Small All Ords Accumulation index has returned 43.5% compared with 27% for the ASX 100 Accumulation index.

Resources strongly outperformed industrials over the month.

Resource shares significantly outperformed industrials stocks in July and over the quarter as surging oil prices and a number of failed takeover attempts impacted industrial shares. The S&P/ASX 200 total return measure of resource shares advanced 1.5% and 15.4% for the month and 3 month respectively, while the same measure for industrial shares detracted 3.1% over the month and lost 3.5% over the quarter.

Sector and Stock Performance – July 2007

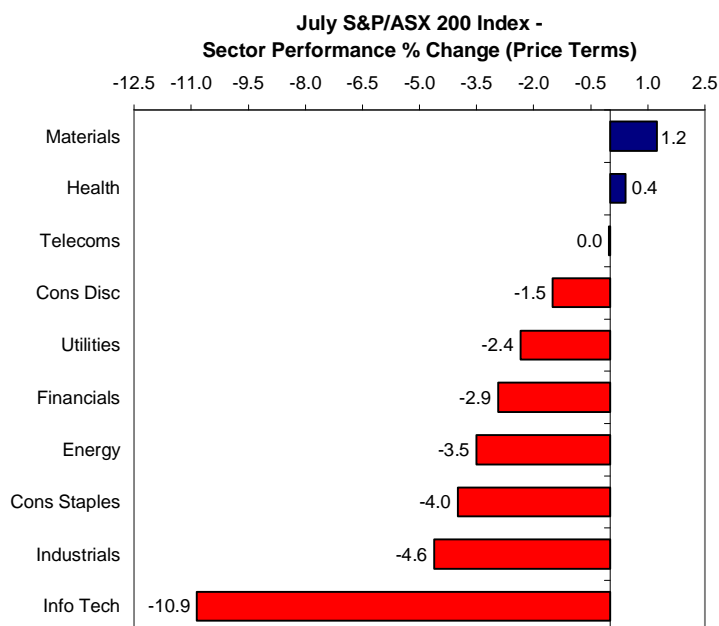
Materials shares limited the market's decline in July.

Stronger prices in most base metals supported the prices of miners in July.

Only two out of ten sectors achieved positive performances. A strong performance in materials sector was the main positive driver for the market in July, while the information technology sector was the main drag on performance. The telecommunications sector was flat due to a lack of news flow.

The S&P/ASX 200 measure of materials stocks advanced 1.2% for the best performance among the ten industry groups in the benchmark index. News of **Rio Tinto's** US\$44 billion cash bid for Canadian aluminium producer **Alcan** dominated the sector. **BHP Billiton** surged 5.6% as the world's largest mining company passed up the chance to acquire US based **Alcoa** in a bid to become the world's largest aluminium producer. Investors welcomed BHP's move as it was speculated that Rio had paid a premium in its acquisition of Alcan. Shares of Rio Tinto retraced 5.8% as a result. Stronger prices in most base metals supported the prices of miners in July. Copper producers were the sector's top performers. **Aditya Birla** jumped 21.8% on reports of strong quarterly production. **Pan Australian** added 10.5% after confirming its Phu Kham copper project in Laos is ahead of schedule, and **Equinox** moved ahead 20.5% on encouraging drill results at its Lumwana project in Zambia. Gold miners advanced after gold prices rallied as the weakened US dollar increase the precious metal's appeal. **Newcrest Mining** rose 9%, **Bendigo Mining** added 3.1% and **Lihir Gold** lifted 2%. Materials stocks dominated the top ten contributors in the broader market with BHP Billiton, Newcrest Mining, **Zinifex**, **Bluescope Steel** and **Oxiana** all providing strong assistance to overall performance.

Chart 10: ASX 200 GICS sectors (price return for July 2007)



Source: Iress, St George Investment Solutions

The Healthcare sector gained 0.4% over July for the second best performance among the sectors in the Australian market. The proposed takeover of **Symbion Health** by **Healthscope** continued to dominate headlines. Healthscope jumped 5.2% and Symbion Health ended 1.7% higher, as Healthscope undertook initiatives to address the ACCC's potential competition concerns. Sonic Healthcare rose 2.3% after announcing the acquisition of New York based Sunrise Medical. **ResMed** recovered 5% in July following rival **Respironics'** strong 4Q07 result. **CSL** put on 1.1% as it gained US Food and Drug Administration (FDA) approval for its liquid form of Privigen and anticipated a launch in early 2008.

The telecommunications sector was flat as there was little news flow.

The telecommunication sector was flat in July. Shares of **Telstra** and Telstra instalments were up slightly as there was little news flow apart from the commencement of its Dividend Reinvestment Plan. SingTel drifted slightly lower. The company launched its much-anticipated IPTV product in Singapore. In Australia, Optus continued its aggressive strategy by introducing Australia's first combined fixed line voice and broadband cap.

Consumer discretionary stocks had mixed results. **Publishing & Broadcasting** was the worst performer, slumping 5.5% in July. **News Corporation** retreated 2.4%. The international media company descended as the strong Australian dollar negatively impacted on its Australian stock price and also because of uncertainty surrounding the company's bid for the **Dow Jones Company**. **Fairfax Media** rose 3% on the announcement that in association with **Macquarie Media Group** it would be making a takeover bid for **Southern Cross Broadcasting**. Shares of Southern Cross Broadcasting were up 7.8%. **Seek Limited** surged 14.2% as investors reconsidered the company's strong growth profile and operating leverage ahead of its FY07 result in August. Gaming stocks including **Aristocrat** and **Tabcorp** all fell over the month. Aristocrat slumped 5% as all gaming operators in Victoria and NSW were impacted by the implementation of 100% smoking bans during the month.

Within the utilities sector, **Origin Energy** retraced 1.1% after a strong run in June. **Alinta** fell 2.8% as the market awaits the shareholders vote in August. **Envestra** and **Spark Infrastructure** lost 3.9% and 3% respectively, with both of their performance negatively impacted by a combination of rising bond yields and a lack of news flow.

Financial shares lost value in July, declining 2.9% as an index group. Most of the major banks ended the month weaker, as **HBOS** announced plans to expand its presence by adding 160 branches on the east coast over the next 3 years. **National Australia Bank** tumbled 6.5%, **ANZ** lost 2.4% and the **Commonwealth Bank** slipped 1.8%. **QBE** shed 3.9% as it has been speculated that the general insurer may have exposures to the record UK floods. **ASX** added 0.7% as it continued to experience another month of strong equities trading.

Crude oil traded above US\$77 a barrel. Oil producers rose higher on the back of the surging oil price before retreating on a few disappointing company quarterly reports late in the month. **Woodside Petroleum** fell 5.4% and **Oil Search** sank 7.9% as both released poor results. However, **Tap Oil** bucked the trend, soaring 17% on a solid quarterly result.

Within the consumer staples sector, **Woolworths** gained 1.1% after reporting a strong fourth quarter sales result while **Coles Group** plummeted 10%.

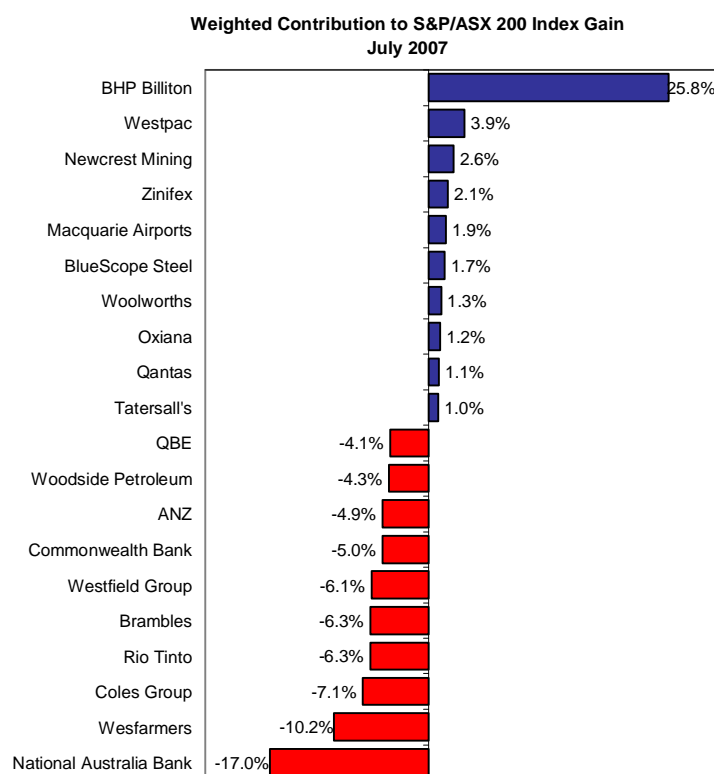
Information technology was the worst performing sector in July, driven lower by Computershare.

Industrial stocks trended 4.6% lower in July. **Wesfarmers** plunged 14.7% for the worst performance among industrial shares. The consumer goods company fell as investors realised they may have to wait until FY09 before any significant benefits of the Coles takeover are realised. **Toll Holdings** slid 1.8% as it launched its domestic airfreight network. Toll Holdings spin off **Asciano Group** continued to drift lower, falling 6% with little company specific news flow.

Information technology was the worst sector, falling 10.9% in July. **Computershare** decreased 11.5% as it was crippled by the weakening US dollar and the temporary cessation of the buyback.

Chart 11: Australian Market Performance - Stock Contributors by Index Points

The S&P/ASX 200 price index lost 2.08% in Jul. (down 130.7 points).



Source: DataStream, St George Investment Solutions

Domestic property trusts underperformed the broader market over the month of July.

2.3 Listed Property Trusts

For the second consecutive month, the Domestic Property Trusts have underperformed the broader market over July as investor sold down their interests in interest rate sensitive financials and cyclical stocks. This sector weakness follows on from the fall in June where the S&P/ASX 200 Property Trust Accumulation index declined 5.0%. In price terms, the sector has moved 4.8% lower over the month against a broader market that returned a negative 2.0%.

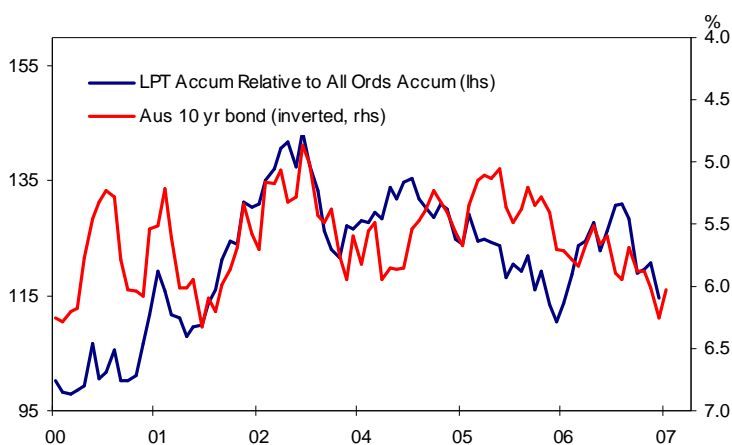
The S&P/ASX 200 Property Trust Accumulation index moved 4.8% lower in July, underperforming the All Ordinaries index by 2.9%. Over a 3-month period, listed property has posted a fall of 5.7% whilst on a rolling 12-month basis, the sector has returned a strong 16.7% and underperformed the All Ordinaries by 13.0%.

The LPT sector is offering an estimated 2008 cum-adjusted dividend yield of 6.3%, a 32 basis point discount to 90-day bank bill rates (6.62%) and a 27 basis point premium to 10-year bonds (6.03%). This is the first month where the LPT yield is at a premium to the 10-year bond since November 2006.

On a sector level, the Commercial property sector was the strongest performer although it posted a negative return of 3.6%. Retail property followed on with a negative 4.3% return whilst the Diversified and Industrial sectors posted negative returns of 4.9% and 6.2% respectively.

ING Industrial was up 6.4% over the month following Goodman International acquiring a 9.4% stake. Babcock & Brown Japan Property Trust added 1.4% as the Australian dollar retracted against the Yen as risk aversion set in and carry trades began to be unwound. Mirvac underperformed after posting a negative 9.8% after it announced the launched two new managed funds. Large contributors to the sector's underperformance included Westfield Group and Stockland Group, which returned negative 1.29% and 0.47% respectively.

Chart 12: Relative Performance of LPT's & the Australian 10 Year Bond Yield



Source: Datastream, St George Investment Solutions

2.4 Fixed Interest

Australian bonds yields were dominated by widening credit concern from the US.

The Australian bond market rallied in July as falling bond yields in the US lead to falls in domestic bond market. This was more prevalent in longer dated bonds and occurred more so toward the end of the month as credit concerns widened and risk aversion became more evident. The release of economic data had little affect with credit concerns being the dominant force to bond market direction.

The benchmark UBS Composite Bond (All Maturities) Index moved 0.7% higher over the month whilst on a rolling three-month basis, the index has returned a lacklustre 0.3%. This index has underperformed the bank bill index by 1.3% over the past three-months and 1.9% over the past 12-month period.

The Reserve Bank of Australia left the cash rate unchanged at 6.25% following its Board meeting in July however a strong inflation figure in the month has lead to the market participants expecting the Reserve Bank to raise rates in August. This is also reflected in the pricing of bank bill futures rate with the price of the September bank bill futures implying a rate of 6.63% at months end and the increased likelihood of an interest rate increase in the coming months.

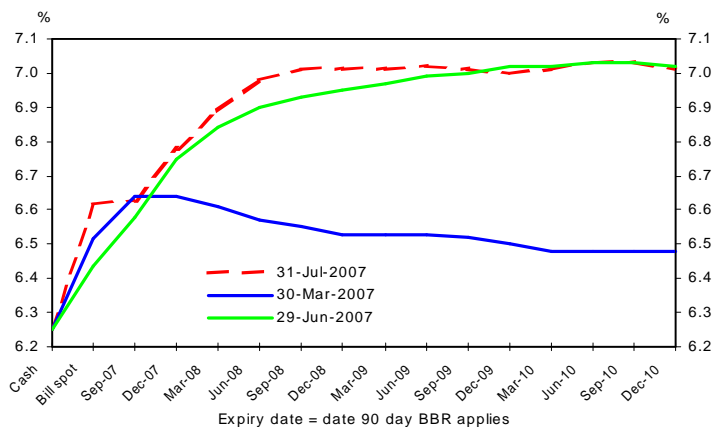
The yield on 90-day bank bills ended the month 19 basis points higher, closing at 6.62%. This follows on from the 8 basis point rise that took place in June. The Australian 3-year bond ended the month 2 basis points lower at 6.39%. The Australian 10-year bond ended the month at 6.03% having moved 22 basis points lower.

In the US, the 90-day Treasury bill ended the month 9 basis points higher and closed at 4.82%. Whilst long dated bond yields experienced sharp falls with the US 10-year bond falling 26 basis points to close at 4.77% by months end.

The Australian-US spread widened as Australian bonds underperformed the US bonds. The Australian-US 10 year bond yield spread widened to 125 basis points by end July from a starting point of 121 basis points at the end of June. The shorter Australian-US two-year bond spread widened significantly as both markets moved to lift the implied likelihood of a rate hike in Australia and a rate cut from the US Federal Reserve.

Yields rose at the short-end of curve in anticipation of an interest rate hike.

Chart 13: Financial Market's Interest Rate Expectations



Source: Iress, St George Investment Solutions

2.5 Currency Markets

Fears over the US sub-prime housing sector saw the unwinding of carry trades.

Currency markets continued to experience increased volatility over the month as fears over the US sub-prime housing sector saw risk aversion among investors lift sharply. This in turn led to the unwinding of carry trades whilst global equity prices fell and movements of funds into safe-haven defensive assets ensued. This caused the Australian dollar (AUD) to depreciate sharply against the US dollar (USD) and other major currencies. Over the month, the AUD managed to post a modest 0.3% gain against the USD however lost ground against the all other major currencies and also on a trade-weighted basis.

Against the other major currencies, the AUD fell 0.8% against the British pound (GBP), 3.5% against the Japanese yen (JPY) and 0.8% against the euro (EUR). On a trade-weighted basis, the AUD eased by 0.1%. Over the past 12-months, the AUD continues to stand out as the strongest major currency, having risen 14.8% against the JPY, 11.1% against the USD, 3.7% against the EUR and 2.1% against the GBP.

Against the commodity currencies of the New Zealand dollar (NZD) and the Canadian dollar (CAD), the AUD strengthened by 1.6% against the NZD and 0.3% against the CAD over the month. Over the past 12-months, the AUD has strengthened 4.7% against the CAD however has eased 9.8% against the NZD.

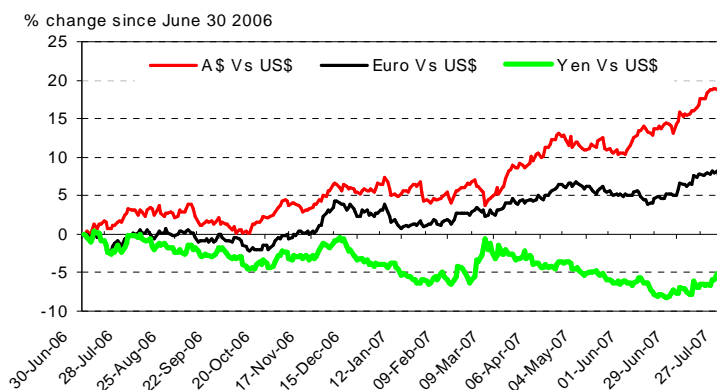
A stronger-than-expected Australian inflation rate saw the AUD reach a high of US\$0.8874

The AUD started the month at US\$0.8494 the gradually increased until it reached its month high on the 25th July at US\$0.8874 this followed on after the announcement of a stronger-than-expected Australian inflation rate. This data lifted the market's expectation of an interest rate rise in August and led to the support in the AUD. The unwinding of carry trades led to the AUD reaching its low on the 30th July at US\$0.8874 and closed the month at US\$0.8515. On a trade-weighted basis, the AUD edged lower over the month with the index closing at 68.8 after having reached a low of 68.3. This index weakened 0.1% over the month but remains 2.7% higher on a three-month basis.

The Japanese Yen continued to strengthen against all of the major currencies in July as carry trades unwound, gaining 3.6% against the AUD, 3.9% against the USD, 2.8% against the euro and 2.7% against the GBP.

This chart highlights the cumulative percent change in selected cross rates versus the US\$, since June 30 2006. A rise in the line represents an appreciation in the local currency versus the US\$

Chart 10: Cross Rates Versus the US\$ (% change since June 30 2006)



Source: Datastream, St George Investment Solutions

Growth asset classes weakened in July as investor switched to defensive assets.

2.6 Benchmark Performance

Growth asset classes underperformed the traditional defensive asset classes, as markets became risk averse in light of growing credit concerns and the deteriorating sub-prime home loans market. Hardest hit were interest rate sensitive financial and cyclical equities and this was evident in Listed Property Trust.

Listed Property Trust performances suffered the worst falls with the S&P/ASX 200 Property Trusts Accumulation Index moved 4.8% lower in July and underperformed the broader market. Performing marginally better was the World MSCI index in local currency terms, which fell 3.0% over the month. The movement in Australian dollar had little effect on the performance on unhedged global equities given that the Australian dollar eased a minor 0.1% over the month. In Australian dollar terms, the World MSCI moved 3.2% lower.

Australian equities, as measured by the All Ordinaries Accumulation Index, moved 1.9% lower over the month although managed to hit new record highs before coming unstuck toward month's end.

Global bonds outperformed all asset classes in July.

Global government bonds were the best performing asset class as investor reduced their appetite for risk amid increased credit concern and sort the safety of fixed income securities. The global bond market as measured by the JP Morgan Global Government Bond Index posted a positive 1.6% in July. Whilst the Australian bond market, as measured by the UBS Composite Bond (All Maturities) index posting a modest 0.7% return over the month.

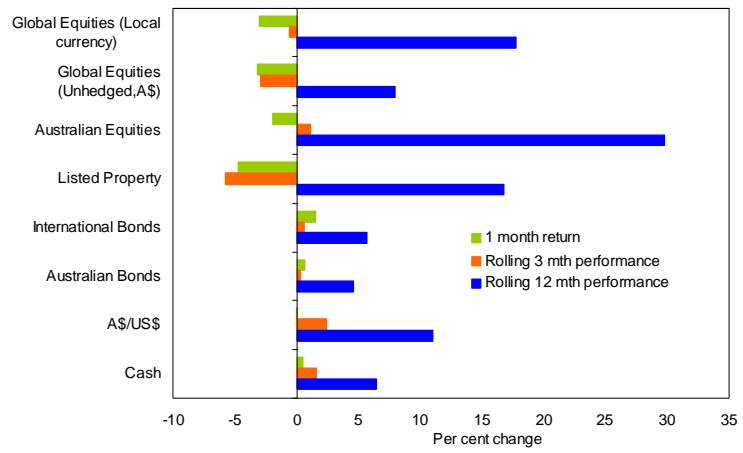
The Australian dollar weakened against most major currencies apart from the USD and NZD. Carry trade currency positions were unwound as risk aversion became paramount with developments in the troubled US sub-prime housing sector.

Table 4: Performance to July 2007*

	% Change over:		
	Month (%)	Rolling 3 Months (%)	Rolling 12 Months (%)
<i>Growth assets under-performed in July as risk aversion sets in.</i>			
World MSCI (local currency)	-3.0	-0.6	17.7
World MSCI (A\$)	-3.2	-2.9	7.9
All Ordinaries Index	-1.9	1.1	29.7
Listed Property Trusts	-4.8	-5.7	16.7
JP Morgan Global Government Bond (hedged)	1.6	0.6	5.7
UBS Aus Composite Bond – All Maturities	0.7	0.3	4.6
A\$/US\$	-0.1	2.4	11.0
UBS Aus Bank Bill Index	0.5	1.6	6.5

* Total return (accumulation) Indices. Source: Datastream, Iress, St George Investment Solutions

Chart 15: Benchmark Performance to End July 2007



Source: Datastream, St George Investment Solutions

3. Asset Allocation Implications

Our regular quarterly in-depth review of our current asset allocation positions, versus the portfolios' strategic (long-term) benchmarks was concluded in early July 2007.

The changes made from the previous quarter were to increase the portfolios' exposure to International Shares, Australian Bonds and International Bonds for the Defensive, Moderate, Balanced and Growth portfolios. Offsetting these increases have been a reduction in allocation to Listed Property, Mortgage Funds and Cash. This changes our overall exposure to growth assets from a "Moderate Underweight" to a "Slight Underweight".

We have increased our exposure to International Shares, with the allocation towards this asset class moving to "Moderate Overweight". Our exposure to Australian Shares remains unchanged at "Slight Underweight".

We have increased our exposure to International Bonds and Australian Bonds, with the allocation positioning for both of these asset classes moving to "Neutral". This move is a result of recent increases in global bond yields. For the Defensive, Moderate, Balanced and Growth portfolios we have decreased our exposure to Cash with the allocation positions moving to "Slight Overweight" from "Strong Overweight".

Early indications, based on surveys and data releases from a majority of developed and emerging economies, point to a significant revival in global economic growth over the coming quarters.

3.1 Tactical Asset Allocation Positions & Rationale

As anticipated by us, global economic growth is now re-emerging from an inventory driven mid cycle slowdown. Early indications, based on surveys and data releases from a majority of developed and emerging economies, point to a significant revival in global economic growth over the coming quarters.

Financial asset market prices now reflect this change in outlook and investor sentiment, particularly in global fixed income prices. Markets now speculate on no change, a slight upward shift or perhaps even a restrictive policy regime in a majority of countries in the near future, with the majority leaning towards a tighter policy regime. Our views differ somewhat from the broad market consensus because of what we believe to be a contemporary approach to monetary policy settings presently being pursued by a majority of monetary authorities.

Financial innovation and financial market disintermediation, the integration of major global economies and financial asset markets, clarity, transparency and openness of central bank policy, exponential growth in financial derivative usage and leverage, low volatility and amplitude of economic data, the near mobility of factors of production and the impact of financial asset prices on investor and consumer behaviour have all combined to create a more complex set of variables that a modern central bank has to cope with. Central bankers must not only assist in the moulding and engineering of a healthy environment of non-inflationary growth but also gain and retain sufficient global investor confidence and credibility, in order to steer the domestic economy towards a desired outcome within the context of an integrated and complex global structure.

We agree with consensus that this increased focus on global dynamics increases the chances of synchronised monetary policy trends in major and emerging economies. However, we differ on the magnitude and

timing of such changes. We believe that global and domestic financial conditions are very important in setting monetary policy because financial asset market prices have a major impact on the behaviour of consumers and investors. Key to this is the pattern of discretionary spending in the case of consumers and capital spending in the case of corporations. Quite often, financial asset market prices act as an “automatic” stabiliser to the magnitude and extent of savings, borrowing, spending and investment in an economy.

We believe that financial asset market prices will do a reasonable degree of monetary tightening or loosening for the authorities, making their job easier. In the current context, the authorities will only have to do modest or cosmetic changes to monetary policy, should money market yields and bond yields remain elevated and credit market spreads continue to move wider, relative to sovereign yields.

Global employment growth during the past few years has been remarkably firm despite the recent economic slowdown. This has been caused by the substitution of labour for capital. Massive corporate investment in capital stock in the mid to late 90’s is now being replaced with modest capital spending and increased hiring of labour. This trend is likely to be a cyclical phenomenon with shifting global demographic dynamics also playing a minor role at present. The new spurt in global growth will most likely add further pressure to already tight levels of resource utilisation, leading to global monetary authorities retaining a bias towards tighter monetary policy or actually tightening policy. We expect a modest upward shift of around 0.25% in Australia, USA and the UK, around 0.50% increase in Canada and Europe and a 0.75% to 1.00% hike in Japan during the second half of this year and into next year. Policy tightening in emerging economies will most likely follow a similar pattern with China in particular keen to engineer a slowdown in both capital spending and speculative flows into the domestic stock market.

The fall in labour productivity in the US highlights that potential growth has slowed to around 2.5% p.a. However, productivity in Europe, Japan and Europe has been moving higher along with sharp productivity growth being recorded in China. A fall in productivity and a declining workforce can have a medium to long-term detrimental impact on the economic growth trajectory of the US. Although the US current account deficit continues to be in record deficit, the size, liquidity and depth of the US financial asset markets continue to attract large pools of global savings due to a chronic shortage of global financial assets. There are early indications that this huge imbalance between aggregate global savings and aggregate global investments may be narrowing due to direct investment projects such as community development and infrastructure projects being pursued by creditor nations. A diversification of global savings away from financial assets to direct assets will tend to shift financial asset prices lower.

The US should register solid growth over the next few quarters while outside the US, the underlying improvement in economic conditions across most developed and emerging economies is quite impressive. Japan continues to make progress in moving out of deflation, while China remains a solid demand engine for the Asian region as a whole. Commodity producers like Australia continue to benefit from significant terms-of-trade improvements. Perhaps the most impressive recent development comes from Europe, where a broad-based domestic demand recovery is underway. While resource utilisation rates are high elsewhere, nowhere are the constraints on growth binding as they are in the US.

Solid domestic demand, high commodity prices and better economic management are supporting growth in Latin America, Asia and Emerging Europe.

In terms of global growth, we anticipate global GDP to be around 3.9% to 4.2% in 2007 and moving into a 4.3% to 4.6% range by 2008.

Australian Shares

Our current positions are:

For Australian shares, our exposure remains unchanged at “Slight Underweight” for the Defensive, Moderate, Balanced and Growth portfolios.

... Slight Underweight Australian shares

Our bottom-up and top-down analysis of the Australian stock market points to the market being a shade over fair value at prevailing levels. Our analysis points to global equity markets being vulnerable to extreme volatility during the unfolding phase of this current global business cycle. The strong terms-of-trade position has helped Australian corporates retain strong earnings growth while demand for resources and materials continues to dominate our equity market. We doubt if there will be any meaningful decline in demand for resources and materials given the massive infrastructure projects that are underway in leading emerging economies.

In the short-term the market is highly vulnerable to typical market volatility around the August to October period. The trend into the end of year is likely to be positive after a period of seasonal weakness. On a medium to long-term basis, changes made to superannuation benefits and investments by the “Future Fund” will benefit our equity market. We do not anticipate any distinct style or market cap to be in vogue, but rather expect bottom up stock picking to provide investors with good returns. We believe that materials, retailing and services should provide good returns.

... Moderate Overweight International shares

International Shares

We have increased our exposure to International Shares to “Moderate Overweight” from “Slight Overweight” exposure for the Defensive, Moderate, Balanced and Growth portfolios.

Typically, financial asset markets become more volatile after a mid cycle pause. We also believe that equity markets remain vulnerable to sharp bouts of weakness and strength as investor appetite for risk fluctuates wildly during the next phase of this business cycle. While the next leg of the economic growth cycle appears to be underway, we feel that corporate earnings growth peaked late last year.

Irrespective of market volatility, strong sales growth and steady margins will ensure solid earnings growth in the short to medium-term. The sharp rise in corporate bond yields, in most cases returns are now higher than the equity earnings yield, will make equities less attractive than they were over the past years. These forces will dominate equity market performance making stock selection and regional allocation the key to superior investment returns.

We favour Asian, European and key emerging markets from a strategic standpoint due to economic growth potential being greater in these regions. However, increased market volatility will have a greater impact

on emerging market returns and create greater uncertainty in the short to medium term. We like the Japanese market from a medium to long-term point of view due to the great potential for out-performance from this market but remain cautious due to the dominance of foreign investors in this market. If our outlook for increased volatility is correct, from a tactical and strategic point of view we would favour large caps with a modest tilt towards a growth style bias. The key reason for the slight increase in the exposure to International equities is the relative attractiveness in total return.

In the short-term the market is highly vulnerable to typical market volatility around the August to October period. The trend into end of year is likely to be positive after a period of seasonal weakness.

... *Strong Underweight Listed Property.*

Listed Property Trusts

We have reduced our exposure for Listed Property Trusts and maintained the “Strong Underweight” position for the Defensive, Moderate, Balanced Growth and High Growth portfolios.

The outlook for domestic listed property is not that positive as the market appears overvalued given the negative outlook for bonds. This is even more apparent given that the dividend yield in listed property is below the sovereign 10-year bond yield. Increased asset allocation towards this sector by investors seeking a higher yield appears to have run its course. However, our outlook for global listed property is more positive as the newly created listed property markets expand, become more transparent and attract increased amounts of global capital that is seeking both higher returns and efficient portfolio diversification.

...*Neutral International Bonds.*

International Bonds

We have changed our exposure for International Bonds (Hedged) from “Slightly Underweight” to “Neutral” for the Defensive, Moderate, Balanced and Growth portfolios.

The market has largely discounted higher short-term rates and any further weakness in bond markets would prompt us to overweight this asset class given the structural demand for long-term assets by global pension funds and insurance companies. While the Japanese bond market is more vulnerable to further weakness, the structural demand for long dated fixed income securities by domestic investors will continue to provide a steady level of support to the domestic bond market.

We believe that the bellwether US ten-year note will remain in a 5% to 5.25% range in the short-term and then drift towards the 5.50% level, where we will look to increase our exposure to defensive assets.

Global credit spreads are most likely set to widen versus sovereign debt as corporate debt issuance and risk aversion gathers pace. Higher yielding emerging market local currency debt and foreign currency debt will find good demand as investors reach out for superior yields.

In the long-term, we believe that global bonds are now in a secular bear trend but will remain confined to a narrow range in the short to medium-term.

... *Neutral Australian bonds*

Australian Bonds

We increased our exposure from “Moderate Underweight” to “Neutral” for Australian bonds for the Defensive, Moderate, Balanced and Growth portfolios.

Australian bonds have now reached what we believe to be “fair value”. We see the ten-year yield trading around the 6.00% to 6.75% range with any weakness towards the higher end presenting us with a great opportunity to over-weight this asset class. The ten-year spread with the US is likely to remain around the 1.00% to 1.25% level, with a bias to remain at the top end of the range for most of the year. In the short-term, we anticipate the sovereign/corporate spread widening as risk appetite wanes and investors seek safe investments such as sovereign bonds. However, while we believe that the credit market is vulnerable to significant bouts of weakness due to the re-assessment of “risk” by global investors, the fundamental backdrop will remain in favour of higher yielding credit instruments once nervous investors bail out. The reason for this trend is twofold. One, being the demand for steady and higher coupon incomes by the “baby boomer” generation and a large pool of liquidity still looking for a home while the huge imbalance between aggregate global savings and aggregate demand for global investments remains.

... *Slight Overweight Mortgage Funds*

Mortgage Funds

We have slightly reduced our allocation from “Moderate Overweight” to “Slight Overweight” for Mortgage Funds.

... *Slight Overweight Cash*

Cash

We have significantly reduced our exposure from “Strong Overweight” to “Slight Overweight” position for the Defensive, Moderate, Balanced and Growth portfolios.

Australian Dollar

Our favoured outlook has been that the US Dollar will remain weak during the first half of 2007 and then strengthen against major currencies into end of year. We believe that we are at that point where the US Dollar will gather upward momentum and strength, particularly now that investors have changed their views on future US monetary policy. We had targeted the Australian Dollar to reach the 0.8200 to 0.8400 level before a period of weakness unfolds. Given the current speculative frenzy in holding high yielding currencies, we will not be surprised if the currency should move into a 0.8700 range in the very near-term. We expect the Australian Dollar to weaken towards the 0.79 or even to a lower level by end of 2007. The Australian Dollar is also likely to weaken against most major currencies, in particular against Asian currencies. We suggest that investors gradually take off currency hedges on their overseas investments with the optimal hedge being around the 25% to 35% of overseas investments.

Table 5: Asset Class Return Forecasts*

	Long-term return (SAA)#	Income Component (SAA)	Growth Component (SAA)	Medium-term return (as at Q3 2007)**
International Shares (35% Hedged for Medium-term outlook)	9.2	2.0	7.2	11.4
Australian Shares	11.0	3.8	7.2	9.8
Listed Property Trusts	8.8	6.0	2.8	4.9
International Bonds (hedged)	6.7	6.7	-	6.6
Australian Bonds	6.5	6.5	-	6.2
Mortgage Funds	6.3	6.3	-	6.9
Cash	6.0	6.0	-	6.4

* Gross Returns. Source: St George Investment Solutions

Long-term return outlook for International Shares incorporates 35% Hedged return and 65% Unhedged return.

** Medium-term return outlook for International Shares incorporates 35 % Hedged return and 65% Unhedged return.

Our medium-term return forecasts are calculated on the current available data forecasts for assets prices one-year on from the date of our review. However, given the nature of financial asset markets, our forecasts of financial asset prices may be reached well before or later than the forecast date, as financial assets market prices tend to move in a non-linear path and are subject of to a variety of extraneous factors that cannot be factored into our model. Readers and investors must be cautioned, that commonsense, skill, experience and prudence must prevail when attempting to time the entry and/or exit points for various financial assets in order to implement tactical asset allocation decisions.

3.2 Current Asset Allocation Positions Across Portfolios

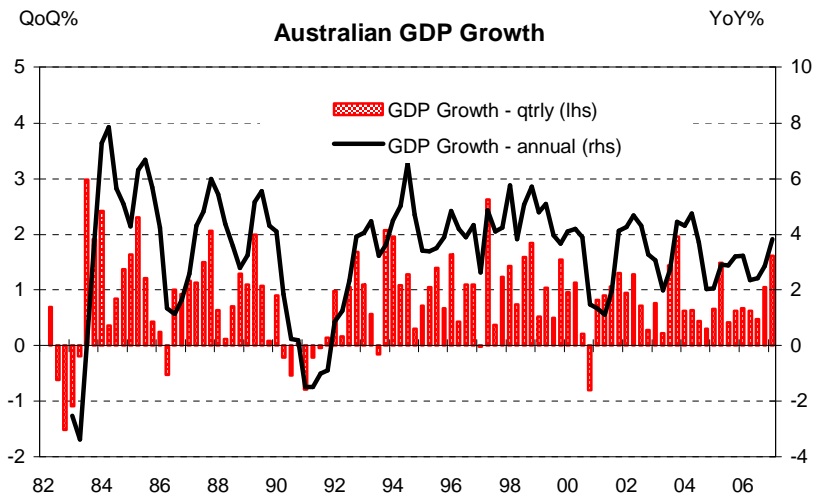
Table 6: Recommended Asset Allocation Positions, Q3 2007

Asset Class	Strategic Benchmark	Range		Current Tactical Position (Q3 06)	Current Tact (Q3) (%)	Previous (Q2 06) (%)	Change from Previous
		Min	Max				
Defensive							
Australian Shares	16	10	22	Slight Underweight	14	14	-
International Shares	9	4	15	Moderate Overweight	13	11	+2
Listed Property	5	0	10	Strong Underweight	1	1	-
International Bonds -hedged	15	0	30	Neutral	15	14	+1
Australian Bonds	20	5	35	Neutral	20	14	+6
Mortgage Funds	20	10	30	Slight Overweight	21	22	-1
Cash	15	0	30	Slight Overweight	16	24	-8
Moderate							
Australian Shares	28	19	36	Slight Underweight	25	25	-
International Shares	16	9	24	Moderate Overweight	21	18	+3
Listed Property	6	0	12	Strong Underweight	2	2	-
International Bonds -hedged	10	0	20	Neutral	10	8	+2
Australian Bonds	15	0	30	Neutral	15	9	+6
Mortgage Funds	15	5	25	Slight Overweight	16	17	-1
Cash	10	0	25	Slight Overweight	11	21	-10
Balanced							
Australian Shares	36	25	46	Slight Underweight	33	33	-
International Shares	25	16	36	Moderate Overweight	31	27	+4
Listed Property	9	0	18	Strong Underweight	4	5	-1
International Bonds -hedged	8	0	16	Neutral	8	6	+2
Australian Bonds	12	0	24	Neutral	12	7	+5
Mortgage Funds	5	0	10	Slight Overweight	6	7	-1
Cash	5	0	20	Slight Overweight	6	15	-9
Growth							
Australian Shares	42	29	54	Slight Underweight	38	39	-1
International Shares	31	20	44	Moderate Overweight	39	33	+6
Listed Property	10	0	20	Strong Underweight	4	6	-2
International Bonds -hedged	4	0	8	Neutral	4	3	+1
Australian Bonds	8	0	16	Neutral	8	4	+4
Mortgage Funds	0	0	5	Slight Overweight	1	1	-
Cash	5	0	15	Slight Overweight	6	14	+8
High Growth							
Australian Shares	50	36	64	Neutral	50	49	+1
International Shares	45	32	60	Moderate Overweight	50	51	-1
Listed Property	5	0	10	Strong Underweight	0	0	-
International Bonds -hedged	0	0	0	-	0	0	-
Australian Bonds	0	0	0	-	0	0	-
Mortgage Funds	0	0	0	-	0	0	-
Cash	0	0	0	-	0	0	-

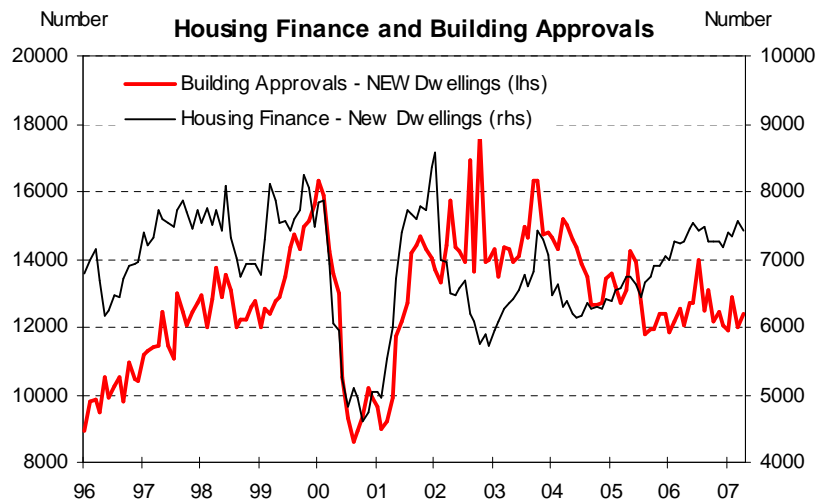
In our process, a tactical asset allocation position can be one of seven states relative to the strategic benchmark – strong underweight, moderate underweight, slight underweight, neutral, slight overweight, moderate overweight, or strong overweight. Source: St George Investment Solutions

4. Economic Chart Set

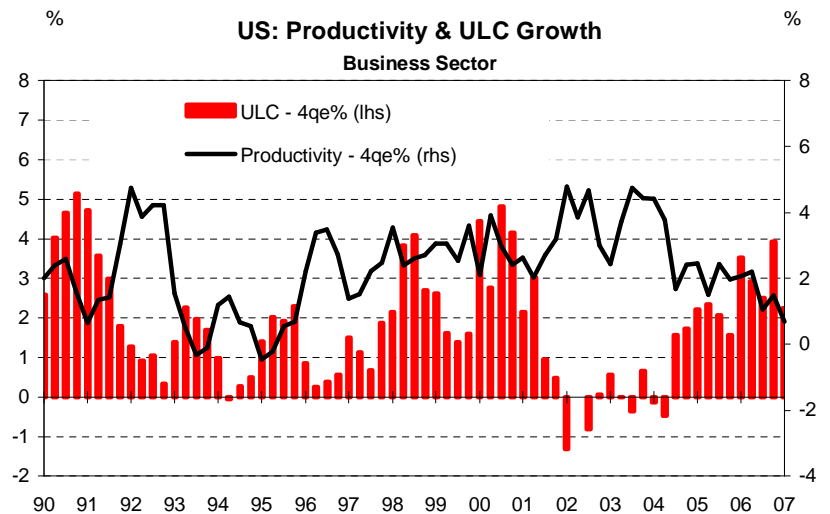
Australia's economy remains strong due to the continuing robustness of the global commodity boom.



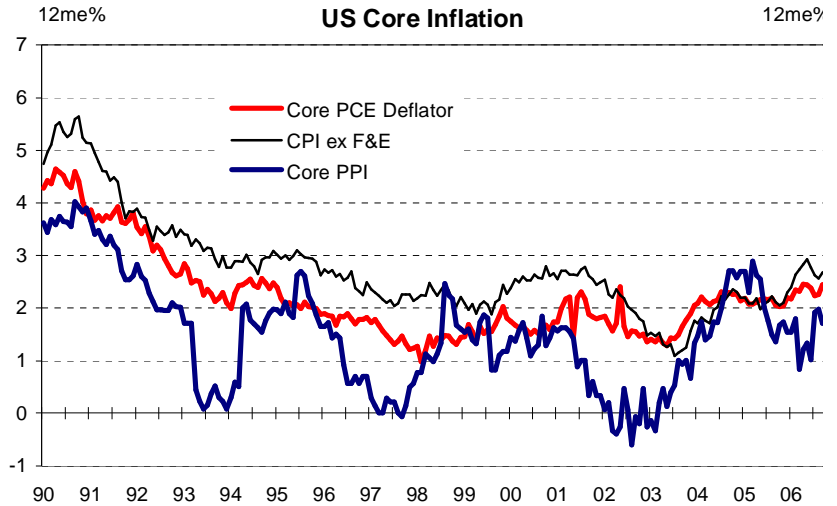
Australia's building approvals continue to improve from March's surprising 10.5% decline.



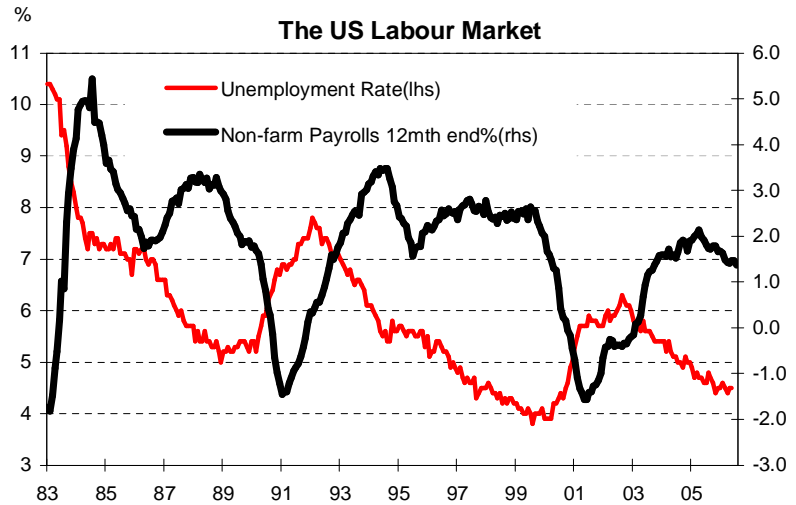
Worries persist over US productivity growth after the Commerce Department revealed in July that it had overestimated GDP growth for the last three years.



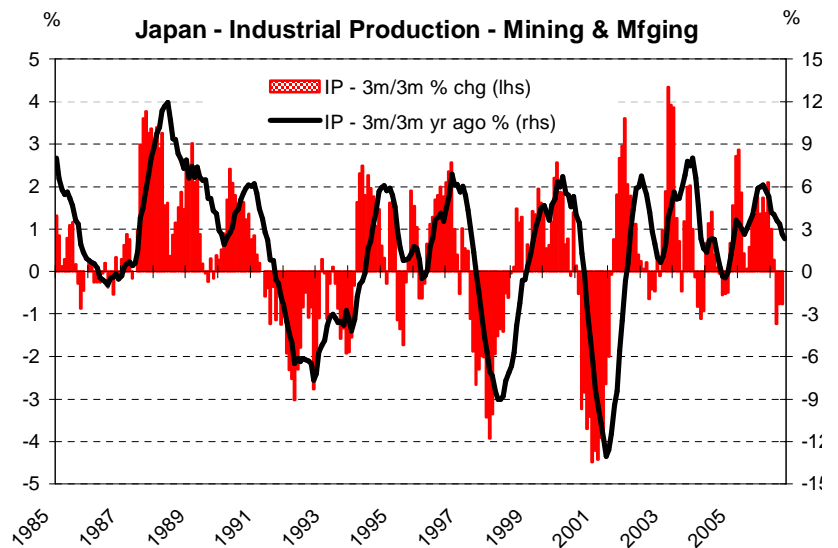
The Federal Reserve's predominant policy concern remains the risk that core inflation fails to moderate as the economy expands from the weak Q1 towards its potential growth rate.



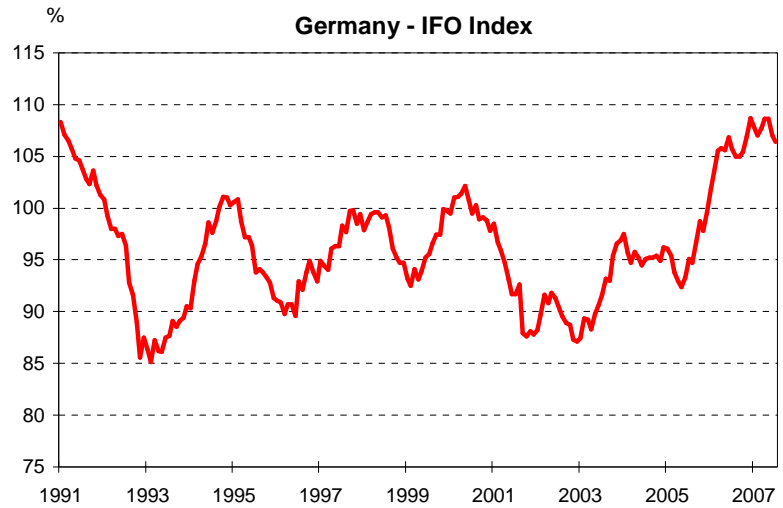
The US unemployment rate remains near record lows, although the Federal Reserve outlook is for unemployment to breach the 5% level towards the end of this year.



Japan's industrial production is picking up after falling in sympathy with the year's earlier subdued US GDP outlook.



German business and consumer confidence readings continue to post strong results, although some corporate readings are a touch subdued due to the strong Euro's detrimental affect on exporters.



China's retail sales continue to post strong gains as the economy accelerates towards the 2008 Olympic games.



5. Asset Allocation Across Tax Profiles

Table 7.1: Net of Tax at 0%

Investor Risk Profile ¹	Strategic Allocations					Current Tactical Allocations				
	A	B	C	D	E	A	B	C	D	E
Australian Shares	16	28	36	42	50	14	25	33	38	50
International Shares	9	16	25	31	45	13	21	31	39	50
Listed Property	5	6	9	10	5	1	2	4	4	0
Sub-Total Growth Assets	30	50	70	83	100	28	48	68	81	100
International Bonds -	15	10	8	4	0	15	10	8	4	0
Australian Bonds	20	15	12	8	0	20	15	12	8	0
Mortgage Funds	20	15	5	0	0	21	16	6	1	0
Cash	15	10	5	5	0	16	11	6	6	0
Total Assets	100	100	100	100	100	100.0	100.0	100.0	100.0	100.0

Table 7.2: Net of Tax at 7%

Investor Risk Profile ¹	Strategic Allocations					Current Tactical Allocations				
	A	B	C	D	E	A	B	C	D	E
Australian Shares	15	27	35	41	49	13	25	32	37	49
International Shares	9	16	26	32	46	13	21	32	40	51
Listed Property	6	7	9	10	5	1	2	4	4	0
Sub-Total Growth Assets	30	50	70	83	100	27	48	68	81	100
International Bonds -	16	10	8	5	0	16	10	8	5	0
Australian Bonds	19	15	12	7	0	20	15	12	7	0
Mortgage Funds	20	15	5	0	0	21	16	6	1	0
Cash	15	10	5	5	0	16	11	6	6	0
Total Assets	100	100	100	100	100	100.0	100.0	100.0	100.0	100.0

Table 7.3: Net of Tax at 15%

Investor Risk Profile ¹	Strategic Allocations					Current Tactical Allocations				
	A	B	C	D	E	A	B	C	D	E
Australian Shares	14	27	34	39	48	13	25	31	35	49
International Shares	9	16	27	33	46	13	21	34	42	51
Listed Property	7	7	9	11	6	1	2	4	4	0
Sub-Total Growth Assets	30	50	70	83	100	27	48	69	81	100
International Bonds -	16	11	9	6	0	16	11	8	6	0
Australian Bonds	19	14	11	6	0	20	14	11	6	0
Mortgage Funds	20	15	5	0	0	21	16	6	1	0
Cash	15	10	5	5	0	16	11	6	6	0
Total Assets	100	100	100	100	100	100.0	100.0	100.0	100.0	100.0

Table 7.4: Net of Tax at 31.5%

Investor Risk Profile ¹	Strategic Allocations					Current Tactical Allocations				
	A	B	C	D	E	A	B	C	D	E
Australian Shares	13	25	32	37	47	12	23	29	33	48
International Shares	10	17	28	34	46	14	22	35	43	52
Listed Property	7	8	10	12	7	1	3	4	5	0
Sub-Total Growth Assets	30	50	70	83	100	27	48	68	81	100
International Bonds –	18	13	11	7	0	19	13	11	7	0
Australian Bonds	18	13	10	5	0	18	13	10	5	0
Mortgage Funds	19	14	4	0	0	20	15	5	1	0
Cash	15	10	5	5	0	16	11	6	6	0
Total Assets	100	100	100	100	100	11	23	29	35	47

Table 7.5: Net of Tax at 48.5%

Investor Risk Profile ¹	Strategic Allocations					Current Tactical Allocations				
	A	B	C	D	E	A	B	C	D	E
Australian Shares	12	23	31	36	46	11	21	28	33	48
International Shares	11	18	28	34	46	16	24	35	43	52
Listed Property	7	9	11	13	8	1	3	5	5	0
Sub-Total Growth Assets	30	50	70	83	100	28	48	68	81	100
International Bonds –	19	14	12	8	0	19	14	12	8	0
Australian Bonds	17	12	9	4	0	17	12	9	4	0
Mortgage Funds	19	14	4	0	0	20	15	5	1	0
Cash	15	10	5	5	0	16	11	6	6	0
Total Assets	100	100	100	100	100	100	100	100	100	100

1. A = Defensive; B = Moderate; C = Balanced; D = Growth; E = High Growth
 Source: St George Investment Solutions

6: Market Performance Summary

Market Performance - Month Ending 31 July 2007

Statistics close out time: 8/1/07 8:34

		Close	Month	3 Months	365 Days	P/E ratio	DY 12m
Stock Market Price Indices							
Australia	S&P/ASX 200	6,144.20	-2.08%	-0.03%	23.35%	16.9	3.5
	S&P/ASX Small Ords	3,935.90	-1.07%	3.98%	38.44%	29.6	3.1
	All Industrials	9,128.44	-3.14%	-4.24%	21.37%	16.1	4.0
	All Resources	5,374.57	1.50%	16.59%	30.27%	19.9	1.8
	Listed Property Trusts	2,251.10	-4.78%	-5.99%	10.31%	8.0	5.8
United States	Dow Jones Industrials	13,211.99	-1.47%	1.14%	18.12%	17.4	2.2
	S&P 500 Composite	1,455.27	-3.20%	-1.83%	13.99%	16.9	1.9
	NASDAQ Composite	2,546.27	-2.19%	0.84%	21.75%	36.3	0.7
	NYSE Comp	9,554.50	-3.23%	-0.76%	15.92%	1.8	2.3
Asia							
Japan	Nikkei 225	17,248.89	-4.90%	-0.15%	11.71%	36.3	1.1
	Tokyo (Topix)	1,706.18	-3.87%	0.76%	8.88%	31.0	1.2
Hong Kong	Hang Seng	23,184.94	6.49%	14.11%	37.10%	17.2	2.5
Singapore	Singapore Straits Times	3,547.66	-0.02%	5.55%	45.10%	13.8	3.1
Europe							
Germany	Dax Index	7,584.14	-5.29%	2.37%	33.48%	13.4	2.6
France	CAC 40	5,751.08	-5.02%	-3.51%	14.81%	15.5	2.9
UK	FTSE 100	6,360.10	-3.75%	-1.38%	7.28%	13.2	3.7
	DJ Euro Stoxx 50	4,315.69	-3.88%	-1.75%	16.90%	12.9	3.4
Euro	Bloomberg European 500	270.90	-3.48%	-1.98%	15.72%	14.7	3.1
	MSCI EAFE in \$A	#N/A RI Tim	-3.31%	-1.14%	15.52%	#N/A N Ap	#N/A N Ap
World							
	MSCI World in \$US	#N/A RI Tim	-2.22%	-0.25%	20.10%	#N/A N Ap	#N/A N Ap
	MSCI World (local currency)	#N/A RI Tim	-3.12%	-1.27%	15.10%	#N/A N Ap	#N/A N Ap
Exchange Rates							
\$A/\$US		0.8522	-0.41%	2.59%	12.00%		
\$US/GBP		2.0305	0.98%	1.31%	8.72%		
\$US/Euro		1.3677	0.70%	0.25%	7.15%		
\$US/Yen		118.5400	3.47%	0.86%	-3.24%		
\$A/GBP		0.4197	1.39%	-1.29%	-3.04%		
\$A/Euro		0.6230	1.11%	-2.34%	-4.50%		
\$A/Yen		101.0100	3.75%	-1.74%	-15.78%		
Commodities							
	Goldmans Cmnty Index	6,332.53	5.55%	7.25%	-11.01%		
	CRB Cmnty Futures Indx	324.10	2.65%	3.64%	-7.36%		
	Gold US\$/oz	\$ 663.90	2.00%	-2.15%	4.50%		
	CrudeOil (WTI) US\$/bbl	\$ 78.21	10.65%	19.02%	28.11%		
Interest Rates & Bond Yields							
	SSB World Govt I#N/A RI Tim		1.96%	-2.60%	-6.07%		
	(non \$A - Hedged \$A)						
Australia							
	3 Mo Bank Bill indx (mid)	6.618	0.182	0.235	0.408		
	Austn Govt Bonds 3 Year	6.373	-0.075	0.350	0.426		
	Austn Govt Bonds 10 Year	5.965	-0.291	0.149	0.125		
United States							
	US 3 Month Treasury Bill	4.946	0.139	0.060	-0.163		
	US Treasury 3 Year Bond	4.507	-0.378	-0.051	-0.399		
	US Treasury 10 Year Bond	4.741	-0.285	0.103	-0.236		
	US Treasury 30 Year Bond	4.903	-0.222	0.087	-0.159		
Japan							
	3 Mo CD Rates	0.550	0.000	0.050	0.275		
	JP Govt 3 Year Bond	1.099	-0.025	0.137	0.100		
	JP Govt 10 Year Bond	1.800	-0.079	0.140	-0.129		

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St George Investment Solutions Team

Patrick Farrell

General Manager – St George Investment Solutions
farrellp@stgeorge.com.au

Felix Stephen

Senior Investment Strategist
stephenf@stgeorge.com.au

Dustin Adams

Senior Research Analyst
adamsd@stgeorge.com.au

Mark Vrkic

Senior Research Analyst
vrkicm@stgeorge.com.au

Nick Valcas

Quantitative Analyst
valcasn@stgeorge.com.au

Dimitra Voutas

Portfolio Manager
voutasd@stgeorge.com.au

Andrew Dowie

Economist
dowiea@stgeorge.com.au

Victor Zheng

Analyst
zhengv@stgeorge.com.au

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