

Executive Summary

Economic Overview

Australian Economic Review

- As widely expected, the RBA left interest rates unchanged at 6.25% at their February 2007 board meeting.
- Hawkish rhetoric regarding monetary policy is expected from the RBA on 12th February's Monetary Policy Statement.
- December's employment data was three times higher than market estimates, making 2006 the strongest year for job growth since 1989.
- The IMF forecasts the Australian economy to grow at trend during 2007 with the May budget providing fiscal stimulus, putting upward pressure on rates.

Global Economic Review

- Evidence is emerging that the market had overestimated the housing slowdown and underestimated inflationary concerns in the USA.
- January releases of December data show a surprisingly strong US economy emerging from the doldrums of the September quarter slowdown.
- December CPI data saw the first acceleration of inflation in four months. December PPI was surprisingly strong in the USA.
- Political machinations question Bank of Japan's supposed central bank independence while Corporate Japan performs strongly.
- The OECD predicts that the German economy will grow above potential in the foreseeable future.
- German employees accept that productivity and labour agreements are crucial to international competitiveness and job security.
- Bank of England stuns market with an unexpected rate hike in response to worrying inflation developments ahead of round of wage negotiations.
- China to have half of its population urbanised by 2010.
- Monetary tightening measures to be expected during 2007 with the Yuan left to gradually appreciate.

Financial Markets Overview

Global Equity Markets

- Global share markets started the year on a solid footing, with strong economic data out of the U.S and Europe ensuring that most benchmark indices notched up either multi-year or all-time record highs.
- However, indications that the U.S economy is gathering momentum renewed concern that the Federal Reserve will not cut interest rates soon, limiting advances in U.S markets.
- The World MSCI Price Index (in local currency terms) gained 1.8% in December, and has climbed 5.8% over the last three months. Weakness in the Australian dollar inflated the return to 3.0% over the month.

Australian Equity Market

- The Australian sharemarket gained in January, for its sixth consecutive monthly advance. A key feature over the month was the rotation out of cyclical stocks in favour of more defensive sectors, including industrials, telecoms and utilities.

Fixed Income

- Australian bonds posted modest gains in January, with coupon yield offsetting capital losses as bond yields rose. The UBS Composite Bond All Maturities Index gained 0.5% over the month, and posted a lacklustre 0.9% gain over the last three months.
- Global bonds were weak in January as economic data out of Europe and the U.S generally surprised on the up side, forcing yields upwards.

Listed Property Trusts

- Domestic Property continued to outperform other asset classes on speculation the merger and acquisition frenzy taking place in equity markets will spill over into property trusts.
- Domestically, Multiplex advanced after announcing that it had been approached for takeover talks, while locally listed trusts with international assets also gained following a US\$42 billion bid for U.S-based Equity Office, the largest ever buy-out.

Currency

- The Australian dollar weakened against the major currencies in January, losing 1.5% against the U.S dollar, as weaker-than-expected consumer price data reaffirmed expectations the RBA will not raise interest rates when it meets in February.

Executive Summary

Asset Allocation Overview

- We have completed our December 2006 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 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.
- Following the completion of our review, we have reduced our exposure to Australian Shares and Listed Property whilst slightly increasing the exposure to International Shares. Our overall exposure to growth assets has been reduced further and we maintain a “Strong Underweight” setting relative to our long-term strategic asset allocation.
- In our review, it was concluded that we could experience weakness in Australian equities and Listed Property. This weakness is likely to be driven by moderating corporate earnings growth, slowing global economic growth, moderating commodity prices and over stretched valuations in Listed Property. Our allocation to Australian equities was reduced to “Moderate Underweight”.
- We view Listed Property as being over-stretched in terms of valuations and believe that the sector is vulnerable to any market shocks. We would expect any rise in bond yields to exert a negative affect on this sector. We continue to monitor fund flows away from domestic listed property market and into global property as investors move out of an over-valued sector and into a sector that offers higher returns. Our allocation to the Australian Listed Property sector has been reduced from “Moderate Underweight” to “Strong Underweight”.
- We anticipate an initial strengthening in the Australian Dollar in the first half of the year and then weaken toward the 0.75 level by the end of 2007. Our reasoning is that we envisage the US dollar to remain weak during the first half of 2007 and then to strengthen against the major currencies into the end of the year. The weakness in the US economy is likely to be transitional and this would lead to investors reassessing the outlook for the US Federal policy and market interest rates. The possibility of higher US interest rates will force investors to reverse their tactical and strategic “short” US dollar positions, thereby supporting the US Dollar.
- We also expect the Australian Dollar to remain weak against the Japanese Yen and other Asian currencies. Japan’s slower pace of rate normalisation has been the main reason for the Yen’s weakness in 2006. In 2007, we expect the Japanese authorities to gradually normalise policy that will be supportive for the Yen. Over the full year, a weak Australian Dollar will assist the return prospects of unhedged International shares. On a currency-hedged basis, the return prospects have become less favourable and we therefore recommend a gradual reduction for the hedged exposure from its present 60% towards a 40% currency hedged level as the Australian dollar approaches the top end of our expected range.
- We have maintained our exposure to International Bonds (hedged) at “Strong Underweight” and moved our exposure for Australian Bonds from “Slight Underweight” to “Moderate Underweight” in anticipation of rising bond yields both domestically and globally as monetary authorities around the world tolerate slower growth in order to contain inflation and inflation expectations. Offsetting the decrease to these defensive asset classes was an increase to our exposure to Cash whilst our exposure to Mortgage Funds remains unchanged at “Moderate Overweight”.
- For the Balanced Fund, our current position are; “Moderate Underweight” Australian Shares, “Slight Overweight” International Shares, “Strong Underweight” Listed Property, “Strong Underweight” International Bonds, and “Moderate Underweight” Australian Bonds, “Moderate Overweight” Mortgage Funds and “Strongly 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, Q1 2007

Asset Class	Strategic Benchmark	Range		Current Tactical Position	Current Tact (Q1) (%)	Previous (Q406) (%)	Change
		Min	Max				
Australian Shares	36	25	46	Moderate Underweight	31	33	-2
International Shares	25	16	36	Slight Overweight	26	24	+2
Listed Property	9	0	18	Strong Underweight	5	7	-2
Sub-Total Growth	70	58	82		62	64	-2
International Bonds - hedged	8	0	16	Strong Underweight	3	3	-
Australian Bonds	12	0	24	Moderate Underweight	9	11	-2
Mortgage Funds	5	0	10	Moderate Overweight	8	8	-
Cash	5	0	20	Strong Overweight	18	14	4
Total	100				100	100	

Source: St George Investment Solutions

Financial Market Performance Table

Table 2: Market Movements to end-January 2006

	Latest Level	% Change:		
		1 Month	Rolling 3mth	Rolling 12mth
Equity Markets (Price)				
World MSCI Local Currency	1119.7	1.73	5.33	11.95
US S&P 500	1438.2	1.41	4.38	12.36
MSCI Asia Pac ex Japan	407.9	0.06	8.92	17.98
All Ordinaries Index	5757.7	2.01	7.56	17.98
	Latest Level	1 Month	Rolling 3mth	Rolling 12mth
Fixed Income (change in basis points terms)				
Aus 90 day bill	6.39	-5	2	76
Aus 10 year bond	5.94	6	28	58
US 90 day Treasury bill	5.04	10	6	69
US 10 year bond	4.81	11	21	29
Aus – US 10 yr spread (bp)	113	-5	7	29
Currency Market				
A\$/US\$	0.7765	-1.58	0.32	2.37
A\$ TWI	63.8	-1.69	-0.31	0.63

Source: DataStream, St George Investment Solutions

Table of Contents

Section	Page no.
1. Economic Commentary	
<i>1.1 Australian Economic Overview & Outlook</i>	7
<i>1.2 US Economic Overview & Outlook</i>	8
<i>1.3 Global Outlook</i>	10
<i>1.4 Risks to Global Financial Asset Markets</i>	12
2. Financial Market Developments	
<i>2.1 Global Equity Markets</i>	14
<i>2.2 Australian Equity Market</i>	18
<i>2.3 Listed Property Trusts</i>	22
<i>2.4 Fixed Interest</i>	23
<i>2.5 Currency</i>	25
<i>2.6 Asset Class Benchmark Performance</i>	26
3. Asset Class Implications	
<i>3.1 Tactical Asset Allocation Positions & Rationale</i>	28
<i>3.2 Asset Allocations Positions Across Portfolios – Defensive, Moderate, Balanced, Growth and High Growth</i>	34
4. Economic Chart Set	
<i>A pictorial update of data released over the past month</i>	35
5. Asset Allocation Tables Across Tax Profiles	38
6. Market Performance Summary	40

1. Economic Overview

1.1 Australian Economic Outlook

December CPI headline inflation figure of minus 0.1% should see no rate increase at February's RBA board meeting.

As widely expected, the RBA left interest rates unchanged at 6.25% at their February 2007 board meeting. However, market participants' attention was predominantly focussed on the January 24th release of the December quarter CPI data. General consensus was for a rise in headline inflation of 0.2% and more importantly an increase of 0.7% in underlying inflation, taking the annualised underlying inflation rate above the RBA's crucial 3% ceiling and thus heralding a 25 bps rate increase after the February 6th board meeting. The actual December CPI headline inflation figure of minus 0.1% proved to be the first negative inflation rate in almost 8 years; the core data showing an increase of just 0.5% (this figure applied to both weighted median and trimmed mean figures). The annual headline inflation rate was consequently reduced from 3.9% in the third quarter to 3.3% in the fourth and crucially the underlying figure was 2.9% - 3% for the year. The benevolent factors behind the fall in the inflation figure were falling petrol, fruit and vegetable prices; continuing declines in a range of consumer durables; more cautious consumers keeping discounting pressures intense and lower import prices being passed through to consumers. Conversely, emerging price pressures were evident in the tight residential rental market. The market is now focussing on the May RBA board meeting as the earliest possibility for a rate increase.

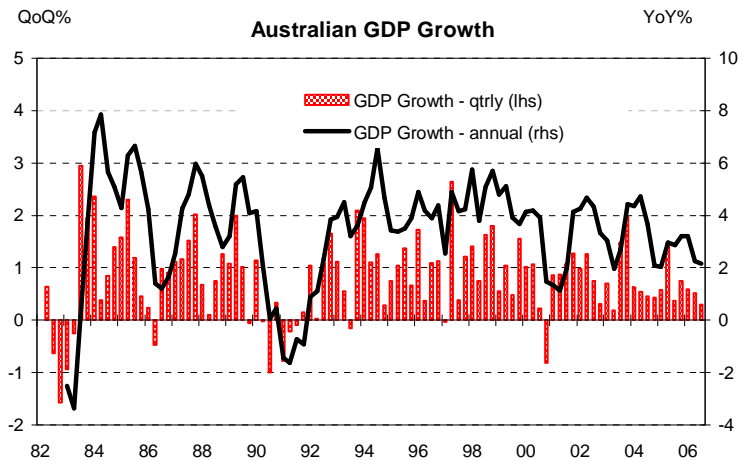
Hawkish rhetoric regarding monetary policy expected this month from RBA.

The February RBA board meeting aside, analysts are anticipating some hawkish interest rate rhetoric emanating from the RBA's February 12th Statement On Monetary Policy and also from the February 21st RBA's Governor's Parliamentary testimony. The RBA is normalising its interest rate policy, has a tightening bias and its hawkish outlook can be summarised in three main themes. Firstly, there is scant spare capacity in the labour market; The RBA being very wary of potential inflationary wage cost spirals emerging. Secondly, consumer spending has been resilient to last year's interest rate increases. Lastly, the international economy has proven to be stronger than forecast, the USA having apparently weathered its housing contraction without spill over affects on the global economy. This favourable international environment providing significant stimulus to the domestic economy.

December employment data at three times market estimate contributes to 2006 being strongest year for job creation since 1989. December unemployment at a 30 year low.

Tight capacity in the jobs market was underlined when December labour data released on January 11th showed that 2006 was the strongest year for jobs growth since 1989. Analysts had expected a December employment increase of some 15,000 and were very surprised when the actual figure was revealed to show an increase of 44,600 new jobs; this after November's employment figure was revised upwards to show the economy created 43,000 new jobs. Released concurrently, December unemployment was at a 30 year low, with the jobless rate at 4.6%. January 8th saw the release of November building approvals data that posted a pick up from the previous month of 4.1% (2.0% E), this several months after the start of The RBA's interest rate normalisation process.

Chart 1: GDP Growth



Source: DataStream, St George Investment Solutions

IMF forecasts Australian economy to grow at trend for 2007. May budget could provide fiscal stimulus putting upward pressure on rates.

In early January The IMF forecast the Australian economy to grow at its trend rate of 3.2% for the year, and with the possibility of a stimulatory May budget, looser fiscal conditions could buffer consumers and work against monetary policy; precedence stating that tax cuts and spending increase ahead of a federal election.

Chart 2: Australian Employment



Source: DataStream, St George Investment Solutions

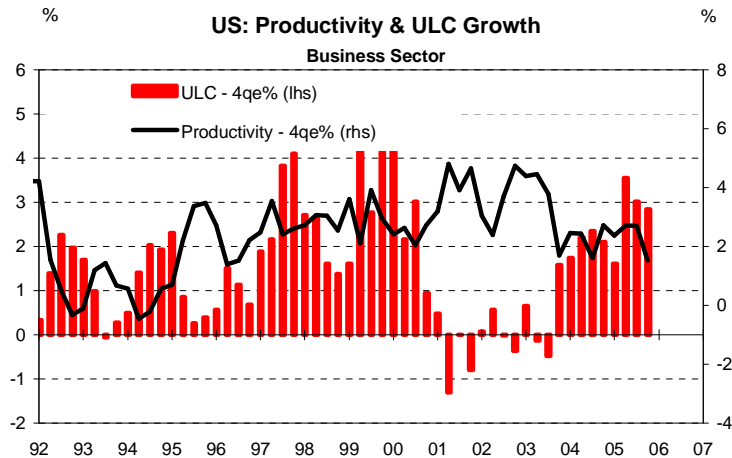
Evidence emerging that market had overestimated the housing slowdown and underestimated inflationary pressures.

1.2 US Economic Outlook

The apparent pinnacle of expectations for a housing market and automobile industry inventory induced recession in the USA can be dated to December 1st last year, when the 10 year treasury note yielded 4.4% (a 10 month low). Since then economic data has shown that the bond market was overly bullish in its growth slow down assessment; revealingly, the 10 year note closed at the end of January at a yield of 4.81%, having

briefly nudged 4.90% just before the month's end. Indeed, emerging evidence is beginning to support the perception that the bond market has been underestimating the risk of higher inflation and overestimating the shock from the housing slump.

Chart 3: U.S Productivity and Unit Labour Costs



Source: DataStream, St George Investment Solutions

January releases of December data show a surprisingly strong economy emerging from the doldrums of the September quarter growth slowdown.

Data released in January had a plethora of economic indicators coming in above their forecasts. Perhaps the most stunning figure was the initial fourth quarter GDP figure revealing the economy grew at an annualised rate of 3.5% (3.0% E); interesting to note that this market estimate was closer to 2.5% forecast growth at the beginning of December. The third quarter GDP figure was confirmed at just 2.0% annual growth. Other data above estimates were December releases of: ISM manufacturing 51.4 (50.0 E), non-farm payrolls increase 167,000 (100,000 E), retail sales 0.9% (0.7% E), retail sales less autos 1.0% (0.5% E), industrial production 0.4% (0.1% E), durable goods 3.1% (3.0% E) and surprisingly new home sales 1120k (1052k E). Indeed, it was difficult to find meaningful January releases of December data that could be construed to show a growth slowdown.

December CPI data sees first acceleration of inflation for four months. December PPI surprisingly strong and worries of its impact on consumer prices.

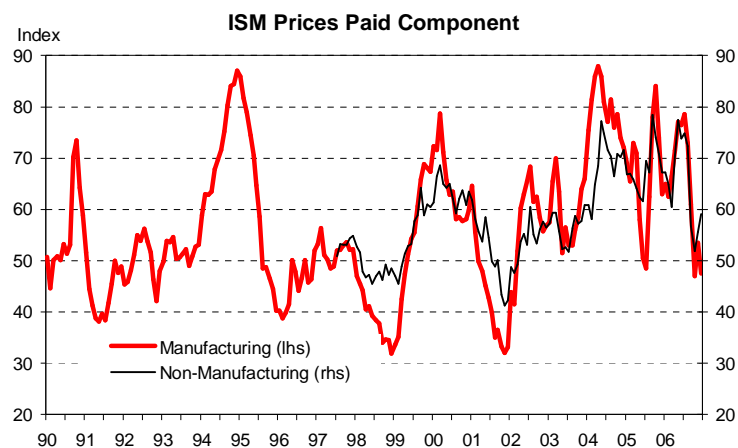
The January 18th release of inflation data saw the December CPI increase by 0.5% (0.4% E), the first acceleration in price data for four months. This was the largest figure since April 2006, and reflected higher petrol and natural gas costs. Core December CPI rose 0.2%, following no change from the previous month. December PPI data released the day before showed a worrying increase of 0.9% (0.5% E) on the previous month's figure, for an annual increase of 1.1% (0.7% E).

Bernanke gains credibility after a challenging first year in office.

In the last week of January this year, Federal Reserve Chairman Bernanke marked the end of his first year as America's pre-eminent banker. He entered office at a difficult time, being responsible for deciding when to pause the long series of interest rate rises instigated in 2003, at a time of rising inflation, high oil prices and a weakening housing market. Until recently there was talk of anaemic economic growth, even recession, but now the outlook seems rosier, indeed the focus now on the part of the Federal Reserve seems to be on inflation. Bernanke always insisted that inflation was a bigger risk than recession. Although inflation showed

some decline towards the end of 2006, the concern is that economic variables might indicate that price pressures are in the pipeline. Specifically debate rages as to whether the tight labour market is indicating dangerous inflationary signals. Indeed recent comments by Fed officials have supported this supposition. San Francisco Federal Reserve Bank President Janet Yellen stated, “While I am inclined to see labour market tightness as transitory, I do take it as a serious risk.” Chicago Federal Reserve Bank President Michael Moskowitz was even more forthright, using the word “certainly” when asked by a reporter if the case for higher rates than the current 5.25% may be needed. As widely anticipated, the FOMC meeting of 30/31 January saw no change in short term interest rates.

Chart 4: ISM PRICES PAID COMPONENT



Source: DataStream, St George Investment Solutions

Political machinations question Bank of Japan's supposed central bank independence.

1.3 Global Outlook

JAPAN – On Tuesday 16th January interest rate futures's markets predicted with an 80% certainty that after the week's Bank of Japan's monthly interest rate policy meeting, rates would be increased by 25bps, taking the overnight call rate to 0.50%. Indeed interviews with BoJ Governor Fukui, Deputy Gov Muto and chief economist Hayakawa late in 2006 had prepared the markets for such an eventuality. Disturbingly, a number of speculative reports were issued by various media outlets in Japan on the evening of 16th January to the effect that rates would remain at 0.25bps. With the announcement after Thursday's meeting that rates would remain unchanged, economic commentators expressed concern that political meddling had intervened in the monetary policy decision process, making a mockery of supposed central bank independence. Monetary hawks on the BoJ interest rate committee had been very keen to continue the interest rate normalising policy that began with the July 2006 rate increase to 0.25% fearing that a huge overhang of money could set off another property and asset bubble if left unabated. Both the Secretary General and Economics & Fiscal Policy Minister of the ruling LDP intervened in the BoJ decision process, stating that a rate increase was “unjustified” and could potentially send the economy back into a deflationary spiral. BoJ governor Fukui denied that politicians had had

any impact on the decision, citing “weaker than expected private consumption data” and concerns that deflation could still prevail due to recent falls in oil and metals prices. Fukui further stated, “There is no change in our stance” and, “ We will gradually adjust interest rate levels based on the economy and prices.” Optimism regarding Japan’s economic outlook has faced a string of disappointments in recent months, including consumer confidence slipping for a second consecutive quarter in September 2006, a 0.7% decline in November’s household expenditure figures and a fall in December wages data. Additionally, the powerful Ministry of Finance is very concerned that rising interest rates could put severe strain on Japan’s enormous public debt (now 170% of GDP), the legacy of desperate Keynesian pump-priming in the 1990s.

Corporate Japan performing very strongly; falling unemployment should see return of the elusive consumer spending factor.

The continuing strength of corporate Japan was underlined with the release of December’s Industrial Production Report at the end of January. The figure of 0.7% was almost double market forecasts and further underlines how corporate Japan has adjusted and restructured its business model following the collapse of the asset bubble in the early 1990s. Exports rose to a record 10% over the year to December and with the US economy strong, China hardly slowing and the competitive yen (at a 20 year low after adjusting for inflation) is amplifying the competitiveness of Japan’s corporate sector.

Persistent worries about consumer spending should abate as the unemployment rate is forecast to move below 4.0% (Dec unemployment rate 4.1%) in the first half of this year; some analysts believing it could even fall as low as 3.0% by year end. The reduction in the unemployment level and the subsequent tightening of the labour market should see an increase in wages and the emergence of the missing consumer-spending factor.

The Japanese economy expanded at its slowest rate in almost 2 years in the third quarter of 2006 as consumer spending fell 0.9% (biggest decline in almost a decade). However B of J senior economist Hayakawa believes that consumer spending probably, “had a big jump in the fourth quarter.” Analysts are anticipating exceptionally strong fourth quarter annualised GDP growth of 3.7% versus the 0.8% annual increase in the third quarter.

The B of J’s next interest rate meeting is scheduled for Feb 20 – 21 and by that time it will have had ample time to digest the February 15th release of this crucial 4th quarter GDP data.

OECD predicts German economy to grow above potential for foreseeable future.

EUROLAND – The German economy accounts for about one third of the euro zone’s GDP and continues to be the region’s big news story. Data released in early January showed German Real GDP growth of 2.5% for 2006 (2.7% if accounting for the shorter amount of work days in the year), the strongest growth since 2000 and much improvement on the anaemic 0.9% growth registered in 2005. Last year’s German GDP growth was underpinned by robust and durable labour data. Employment expanded by 0.7% in 2006 compared with employment actually declining 0.2% annually in the previous 5 years. Labour productivity per employee expanded by a strong 1.8% on average in 2006; labour productivity per hour worked rose by 1.9% for the same period. The OECD believes the German economy is in a sustainable economic recovery and projects it will grow “above potential” for the foreseeable future. Indeed, on January 3rd The German Institute for Economic Research (DIW) in Berlin forecast German real GDP growth to be 2.6% in 2008, the 2007 forecast being

only 1.7% growth due to the various tax increases introduced on January 1st 2007.

German employees accept that productivity and labour agreements are crucial to international competitiveness and job security.

The key to the German economic turnaround has been to follow the example of the British economy in adapting and taking opportunities from globalisation. Borders have been opened to capital and people, product and service markets have been liberalised and flexible trading and working hours have been introduced. German employees have now accepted that higher productivity and more flexible labour agreements are the key to competing on the global stage and thus keeping a job. The continuing strength of the German economic revival was reinforced with the release on January 3rd of November's Industrial Production data 1.8% (1.0 % E) month on month and 6.0% (4.6% E) year on year. Additionally, jobs data released on January 3rd saw unemployment fall below 10%. Seasonally adjusted, German December unemployment was 9.8% (10.1% E).

The European Central Bank currently maintains a monetary tightening bias, implying that upward surprises in GDP and inflation would quickly elicit another 25 bps rate hike. At present, the euro zone inflation rate is very subdued, indeed the December euro zone CPI year on year estimate released on the 4th of January showed prices rising by only 1.9%, just below the ECB ceiling of 2.0%. Comforting markets even more was ECB president Trichet's remarks at the G10 Central Bankers' meeting in Basle on January 9th, when answering a question regarding the inflation outlook, he declared, "We do not declare victory, we have to remain alert." Markets are currently anticipating two more rate increases over the course of 2007, in line with an expanding economy and the return to a more normalisation of rates. However, markets could be unnerved by political rather than economic factors. The forthcoming French election scheduled for April 21st could interfere with the ECB rate policy, with the Euro and the ECB potentially being blamed for France's failure to tackle needed structural economic reform. Any ECB increases in interest rates would prove damaging to Italy, Spain and France - economies that have not responded to the economic changes needed to compete in the twenty first century's global economy

Bank of England stuns markets by surprise rate increase in response to worrying inflation developments ahead of round of wage negotiations.

U.K – The Bank of England totally surprised financial markets by raising the official bank rate 25bps to 5.25% on January 11th. In The Bank's official announcement, The Monetary Policy Committee stated, "Output continues to rise at a firm pace. Domestic demand has grown steadily and credit and broad money growth remain rapid," and risks to inflation "now appear more to the upside." Although sterling has risen and oil prices have fallen back, the margin of spare capacity in the economy appears to be very limited thus adding to domestic pricing pressures and it is likely that inflation will rise further above target in the near term, but then fall back as energy and import price inflation abates. This was the third rate increase since August 2006, representing a five year interest rate peak. Of particular note is the fact it is the first time since January 2000 that the Monetary Policy Committee has pre-empted the February inflation report and raised rates. The UK gilt yield curve anticipates one more 25 basis point tightening in the near term, the official bank rate reaching 5.50% after the April Monetary Policy Committee meeting.

December CPI highest since December 1995. December RPI highest since December 1991.

Having had a preview of the January 16th release of the December inflation data, it became apparent why the MPC was quick to raise the official bank rate. The December CPI registered an annual increase of 3.0% (2.7% E) the highest figure since December 1995 and the eighth consecutive month above 2%. Even more worrying for policy makers was the December Retail Price Index (which includes mortgage interest payments) registering an annual increase of 4.3% (3.9% E) the highest figure since December 1991. The RPI is the favoured inflationary measure used by employers and unions in their northern spring round of wage negotiations and The Bank is very wary that a wage spiral increase could eventuate from this elevated figure. The medium outlook for UK inflation is really dependant upon falling gas and electricity prices (assuming oil prices remain fairly static). Gas prices to households rose 40% over 2006 and remain a major factor why inflation has been so high. Energy analysts say wholesale prices paid for gas are now 51% lower than in Jan 2006 and gas prices could fall 25% and electricity by 20%. If this proves to be the case then inflation could fall back towards 2% by the early northern summer and Mervyn King (The B of E Governor) will breathe a huge sigh of relief, for if the inflation rate rises above 3.0% the Bank's new Charter (instigated since winning independence over monetary policy in 1997) states he must write an explanatory note to the Chancellor of the Exchequer stating why inflation has breached the permissible target zone of plus or minus 50% from its target 2% annual rate of increase.

Other economic releases for the month of December support the case for a tighter monetary policy bias. Fourth quarter GDP data released on January 24th showed an increase of 0.8% (0.7% E) from the previous three months and the annualised rate nudged 3.0% from 2.9% year-on-year from the third quarter. The Treasury is now predicting GDP growth of 3.25% for 2007. Soaring house prices are supporting consumer spending as people borrow against the value of their homes; this being dramatically illustrated by the January 19th release of December Retail Sales data showing the largest increase for 18 months, this after the two previous interest rate increases and amidst predictions of a difficult festive season retailing environment. December Retail Sales rose 1.1% (0.3% E) from November, providing an annual increase of 3.7% (3.2% E).

The Bank of England's Monetary Policy Committee next meets on February the 7th.

China to have half its populace urbanised by 2010 to achieve early stage in long-term industrialisation plan.

China – Towards the end of January experts from the China Centre for Modernisation Research released their "China Modernisation Report 2007," forecasting it would take another 8 years before China enters the first stage of modernisation, a level of economic sophistication the developed nations reached in 1960. The first stage of modernisation being the shift from an agricultural economy to an industrial one, the second and final stage culminating in a knowledge driven information economy by about 2050. A major prerequisite in achieving modernisation's first stage is the urbanisation of 50% of China's population by 2010. Thus the authorities must provide shelter, power, transport, education and healthcare for some 600 million people, approximately 10% of humanity. Given such a plan, analysts agree that the economy's 2007 GDP growth will be more than 10%; recently released data having reported the economy growing by 10.7% in 2006, the fastest rate of growth since 10.9% in 1995.

Monetary tightening measures to be continued in 2007. Expect Yuan appreciation.

Against this background, the government, anxious to avoid an overheated economy and the increased risk of a hard landing, last year instigated three typical monetary tightening measures aimed at slowing the property market, dampening investment generally and cooling the Shanghai stock exchange which had risen 130% in 2006 alone. The first of these measures saw two 27 bps interest rate increases beginning in April 2006 and another increase is expected in the first quarter of this year. The second measure saw bank reserve ratios being lifted three times last year, an increase in ratio requirements is expected in the first quarter of this year, coupled with new administrative controls on lending to overheated industries, such as steel, cement, aluminium and property. The final measure saw the Yuan being allowed to appreciate gradually and it is expected to be allowed to appreciate approximately 5% this year, coupled with a wider daily Yuan trading band from 0.3% per day to 3.0% per day. Interestingly, the measures introduced to dampen investment had an unwelcome impact on the trade surplus, growth in imports falling sharply while exports were resilient. Indeed, recently released data points to the trade surplus increasing approximately 75% over 2006.

1.4 Risks to global financial asset markets

The year 2003 marked the beginning of the implementation of a strategy designed primarily by the US and Britain to change the geopolitical landscape of the Middle East. It appears that the year 2007 may mark the arrival of a full-blown endgame in the region. The danger is that the “one last big push to gain victory over your enemy” policy being suggested by hardline British and US leaders has pushed all the region’s factions into a similar endgame stance. The respective powers take postures to make their final moves to prevent the loss of their respective goals and interest, with each one attempting to win the game before time and opportunity run out. This stance is causing the region’s varied sectarian, political and military factions to polarize. They are lining up on only two fundamental sides, with ever more distinct dividing line between them constituted as the issue of Shi’ite against Sunni, in a struggle for regional ascendancy and domination.

The removal of the Sunni dominated Saddam Hussein led regime in 2003 cleared the path for a region wide Shi’ite ascendancy. It also strengthened the hand of organisations such as Hamas and Hezbollah who relied on Shi’ite dominated Iran to provide them with the means to procure arms, obtain military training and secure funds to propagate their ideals and gain traction amongst the dissatisfied and disillusioned masses. The imbalance of power created by the British and US invasion of Iraq has acutely disturbed the oil-rich Sunni Arab regimes that legitimately fear a regional takeover by an ascendant Iran.

The massive build up of US and British naval forces inside and outside the Persian Gulf and moves within the UN Security council to impose sanctions and embargoes on Iran raises the risks of “measured” military strike against Iran in the near future. The strategy appears to be aimed at weakening the Iranian regime financially and politically over a period of months beginning early this year, leading to a regime change later in the year. The risk with this strategy is that the prevailing pent up Sunni-Shi’ite sectarian tensions burst into the open, imploding in a regional conflagration. US and British leaders appear to rely on the theory of “manageable chaos”. Hoping for a return to a rough balance of power in the region and in particular in Iraq, once the dust settles, giving the US and British an opportunity to exit the region with their reputations intact.

However, with mutual hatred and age old animosity running deep, uncontrollable turmoil in the Middle East region has the potential to send oil and other energy prices above historic heights, causing a major dislocation in financial and traded goods markets and energy dependant economies around the world.

Global equity markets that are priced to perfection have the potential to lose the most, should this scenario that is yet to be discounted by investors unfold. Long term and medium term investors should always be alert and take adequate protection in order to protect their capital and overcome unanticipated market developments because world financial markets appear to be dominated by high-risk takers and leveraged players whose investment horizon is relatively very short.

2. Financial Market Developments

Global equity markets pushed forward in January, driven by continued takeover activity and strong economic data.

Global share markets started the year on a solid footing, although the global equity bull-run lost some steam in January as rising bond yields took their toll on markets. Strong economic data out of the U.S and Europe ensured that most benchmark indices notched up either multi-year or all-time record highs. However, indications that the U.S economy is gathering momentum renewed concern that the Federal Reserve will not cut interest rates soon, limiting advances in U.S markets.

Increased merger and acquisition activity showed no signs of slowing, with construction and airline sectors benefiting from takeover rumours. Crude oil slumped to monthly lows that hovered around US\$50 a barrel on unseasonably warm weather in the U.S, although retraced some of its losses by the end of the month as a cold change led to increased demand for heating fuel.

The Japanese Yen continued to fall, hitting a four-year low against the U.S dollar after weaker-than-expected CPI data reduced the risk of a rate hike and spurred carry-trade selling. The Australian dollar also ended the month weaker as benign consumer prices also weakened the prospect of the Reserve Bank of Australia raising interest rates in February.

2.1 Global Equity Markets

The World MSCI Price Index (in local currency terms) gained 1.8% in December, and has climbed 5.8% over the last three months. On a rolling 12-month basis, the index has advanced 14.5%. Weakness in the Australian dollar inflated the global equities monthly return to 3.0% when converted to Australian dollars.

U.S shares rallied on falling energy prices and signs the economy is growing in a benign inflationary environment.

U.S shares advanced in January, completing their longest stretch of monthly gains in more than a decade, as the Federal Reserve indicated towards the end of the month that the economy was growing without sparking inflation. The S&P500 index added 1.4% over the month, while the Dow Jones Industrial Average hit a succession of all-time highs on the back of strong performances in manufacturing and computer stocks. The technology-laden Nasdaq Composite Index gained 2% in January and is up 17.8% over the last six months, outperforming the S&P500 and the Dow Industrials.

Japanese equities climbed higher in January, outperforming the U.S and European markets, despite heavy selling in the Yen.

Japanese equities, the laggard of equity markets last year, made a solid start to 2007 with the Topix500 index closing up 2.4% over the month in price terms. The Japanese Yen continued to come under heaving selling pressure, with renewed interest in the carry trade that was triggered after weaker consumer price data and the subsequent market pricing of no interest rate rise. Over the last 12 months, the Topix500 index has managed a lacklustre 2.4% return.

European shares had mixed performance in January, with Germany outperforming and the UK losing value.

European equities had mixed performance in January, with Germany performing strongly and the UK market ending the month in negative territory. Continued merger and acquisitions boosted shares, with airlines jumping on an expected takeover of Italian airline Alitalia, and rumours that U.S construction companies may buy Hochtief, a German construction firm. The European Dow Jones Stoxx 600 index gained 2% in January and is up 14.3% over the last six months. Germany's DAX index added 2.9%, while the French CAC 40 index ended the month 1.2% higher. The UK's FTSE 100 index declined 0.3% in January. In a move that was completely

Asian markets (ex-Japan) were flat in January, although China and India continued to dominate.

unanticipated by the market, the Bank Of England raised its key interest rate by 25 basis points to 5.25%, citing capacity and pricing pressures.

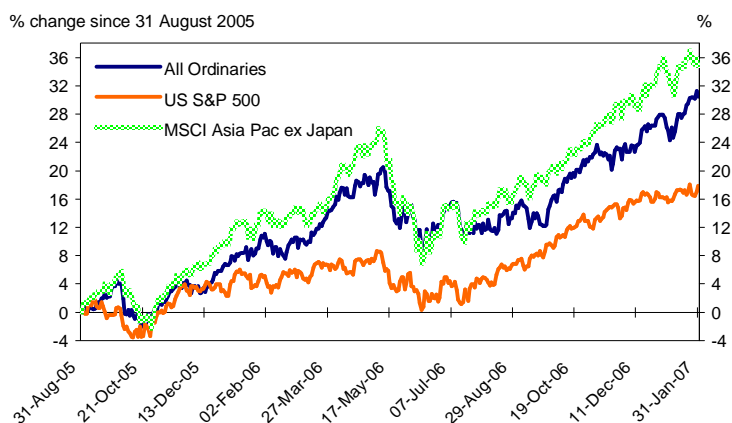
The Asian (ex-Japan) region, the standout performer in 2006, was flat in January. The MSCI Asia ex Japan index gained less than 0.1% over the month, in local currency terms. Within the Asian region, Thailand and Korean equity markets posted the lowest returns in January, while China, Singapore and India were among the regions best performers. The Korean KOSPI slumped 5.2% over the month while Bangkok's SET Composite lost 3.8%. China's Shanghai Stock Price Index gained 4.1% for the best performance and Singapore rallied 4.7%, while India's Bombay SENSEX added 2.2%. Over the last twelve months, Chinese and Indian markets have surged 121% and 42% respectively to be standout performers in the region.

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

	Monthly % D	Rolling 3 months % D	Rolling 12 months % D	Year-to-date % D
MSCI World	1.73	5.33	11.95	15.49
US S&P 500	1.41	4.38	12.36	15.22
US NASDAQ	1.38	3.46	6.19	11.03
German DAX	2.91	8.30	19.65	25.53
UK FTSE	-0.28	1.21	7.69	10.40
Japanese Nikkei	0.91	6.00	4.41	7.89
MSCI Asia Pac (Free) ex Japan	0.06	8.92	17.98	22.92
Aus All Ords	2.01	7.56	17.98	22.28
French CAC	1.20	4.85	13.35	19.10

Source: DataStream; *local currency terms

Chart 5: Equity Market Performance (accumulated % change since August 31 2005)



Source: DataStream, St George Investment Solutions

*The US S&P500
Price Index gained
1.4% in January
(19.9 points).*

Chart 6: U.S. Market Performance – Best and Worst Contributors to Index Return
Weighted Contribution to S&P 500 Return - Jan 2007

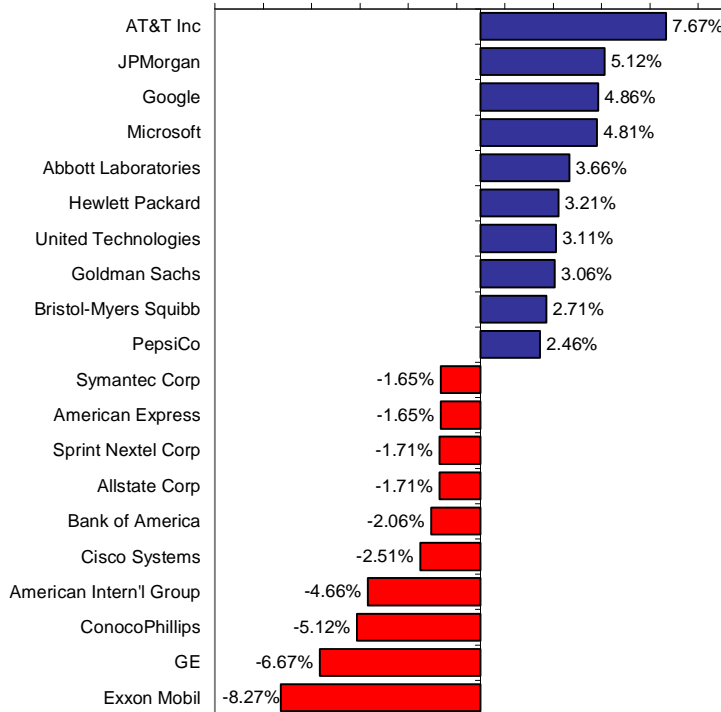


Chart 7: Europe Market Performance - Best and Worst Contributors to Index Return

Weighted Contribution to Dow Jones Stoxx 600 Return - Jan 2006

*The European Dow
Jones Stoxx 600
Price Index gained
2.0% in January
(7.5 points).*

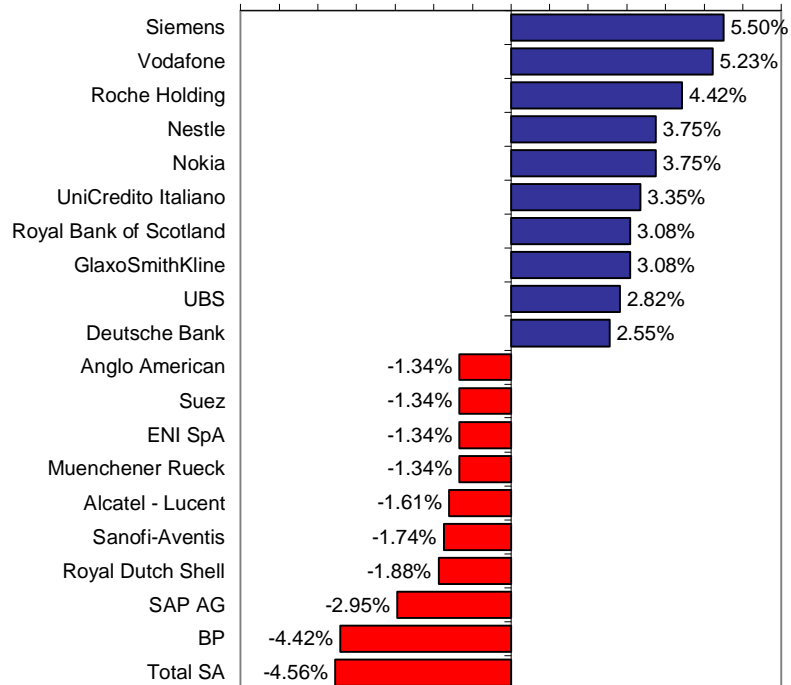
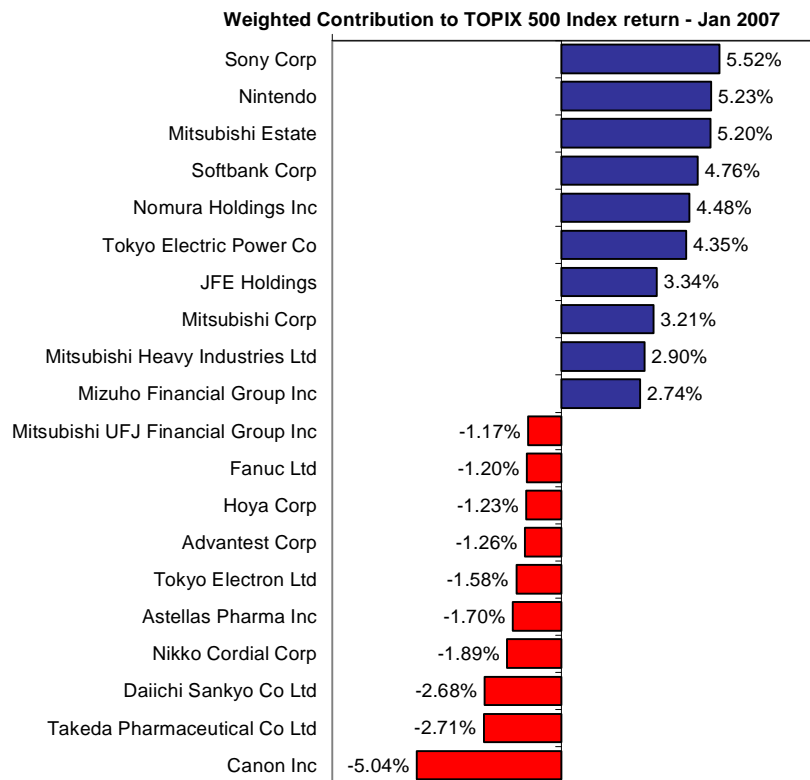


Chart 8: Japanese Market Performance - Stock Contributors by Index Points

*The Japanese Topix
500 Price Index
gained 2.4% in
January (up 31.7
points).*



2.2 Australian Equity Market

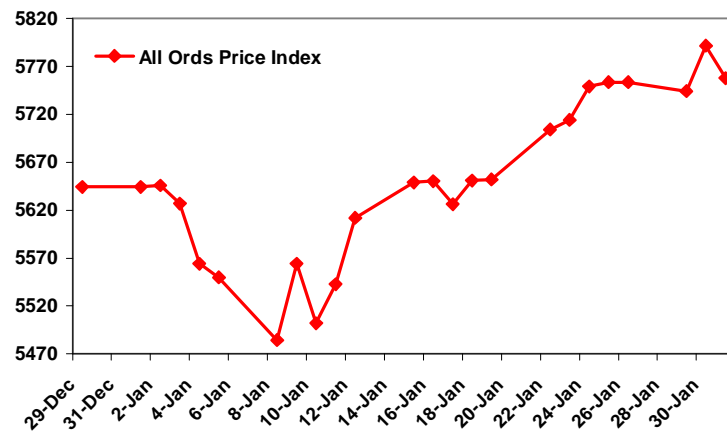
Australian shares gained in February, with industrials shares rallying on takeover news.

The Australian sharemarket gained in January, for its sixth consecutive monthly advance. A key feature over the month was the rotation out of cyclical stocks in favour of more defensive sectors, including industrials, telecoms and utilities. Industrial shares were supported by the M&A frenzy that is showing no signs of slowing down in 2007.

January was a volatile month, with resource shares swinging between gains and losses as oil plunged and then later recovered as unusually warm weather in the U.S ended and demand increased for heating fuel as the colder weather moved in. Benign inflation data in the form of weaker-than-expected CPI numbers supported the local sharemarket as investors priced in minimal chance of an interest rate hike in February.

The benchmark S&P/ASX 200 total return index gained 1.8% in January and was up 7.2% over the last three months. On a 12-month basis to the end of January, the index achieved a 17.1% return, including dividends.

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



Source: DataStream, St George Investment Solutions

Small cap stocks performed in line with large cap stocks in January, with the S&P/ASX Small Ordinaries total return index gaining 2.48% compared with the S&P/ASX 200 index return of 2.52%. However, small caps still outperform large caps over the last three-month, six-month and one-year time periods. Over the last 12 months, the Small Ordinaries Total Return Index rallied 32.6%, while the S&P/ASX 200 index gained 23%.

Industrial shares clearly outperformed resources in both large and small cap stocks in January as investors rotated out of cyclical stocks in favour of industrial shares with more stable earnings profiles and higher yields. The S&P/ASX 200 Industrials Accumulation index advanced 2.4% in January, while the same index measure for resource stocks fell 0.4%.

Sector and Stock Performance – January 2007

Utilities and Industrials outperformed in January on proposed management buyouts and speculation of overseas takeovers.

January saw a continuation of investor rotation out of cyclical stocks in favour of defensive sectors including utilities and industrial shares. Takeover activity, be it proposed or speculative, drove industrials and utilities shares higher while energy stocks began the year with a loss as crude oil tumbled.

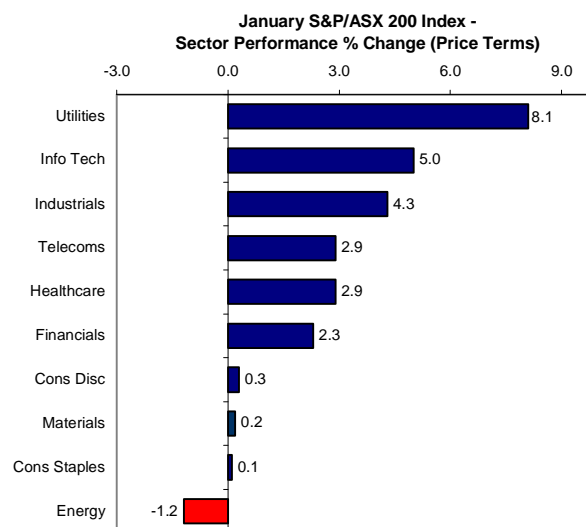
Of the 10 industry groups in the S&P/ASX 200 index, nine finished in positive territory while the energy sector was the only industry group to lose value. Utilities, Information Technology and Industrials all outperformed, gaining 8.1%, 5.0% and 4.3% respectively. Telecoms and Healthcare shares both advanced 2.9%, while materials and consumer-related stocks, both stapled and discretionary, underperformed the broader market.

Alinta Ltd, the Perth-based owner of infrastructure assets including gas pipelines, led utilities shares higher, surging 18.6% for the best performance in the sector. During the month, a group of executives including the former CEO announced they were working on a management buyout proposal. **Spark Infrastructure** and **AGL Energy Corp** also performed strongly, advancing 10.5% and 7.0% respectively.

Information technology shares advanced 5.0% for the second best performance among the benchmark's 10 industry groups, led by credit-checking company **Veda Advantage** on takeover speculation.

The S&P/ASX 200 measure of industrial shares rallied 4.3% for the third best performance out of 10 industry groups, led by freight company **Toll Holdings**. The stock soared 14.7% in January following upbeat management presentations to investors on the proposed restructure of the group. **Leighton Holdings**, Australia's biggest construction company, advanced 8.8% with most of the gain attributable to the possibility of U.S construction firms acquiring a stake in **Hochtief**, a German construction company that has Leighton as its Australian unit. **CSR**, a diversified industrial company that owns sugar refineries, lost 4.5% and helped limit gains in industrial shares.

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



Source: Bloomberg, St George Investment Solutions

Healthcare shares gained on takeover news and increased private health insurance premiums.

Telecoms added 2.9% in January, with **Telstra Corp** advancing 2.4%. Telstra's share price rally was limited after it announced it would lodge a challenge in the High Court following The Australian Competition and Consumer Commission's requirement for Telstra to provide rivals with below-cost Internet services.

Healthcare stocks added 2.9% over the month, driven by strong performances in Healthscope and Symbion Health. Healthscope, an owner of private hospitals, jumped 14.1% on speculation regarding the magnitude of the increase in annual private health insurance premiums. Symbion Health soared 9% following a takeover proposal from Primary Healthcare, a smaller healthcare provider. Sigma Pharmaceuticals slumped 11.4% for the worst performance among healthcare stocks.

Financial shares added value in January, led by property trusts.

Consumer Staples shares ended the month up 0.1%, underperforming the broader market in January. Woolworths dragged down the sector, losing 0.6%, despite recording a strong second quarter sales result. Foster's Group gave back some of last month's gains, losing 2.2% for the worst performance among consumer staples shares. Its wine business continues to struggle amidst competitive trading conditions, with value growth down 10.5% for the six months ended December 2006.

Financial shares gained 2.3% in January, led by property trusts including Tishman Speyer, Valad Property Group and Multiplex Group. QBE Insurance rallied 6.8% while Suncorp Metway advanced 6.1% on little company newsflow. QBE surged after it acquired Winterthur U.S for A\$2.2 billion including debt. ANZ Banking Group gained 3.2% after delivering an economic briefing in which the bank expects credit growth to recover towards the back of 2007 and into 2008. Financial shares also got a boost following weaker-than-expected CPI data that triggered the market to price in minimal chance of an interest rate hike in February.

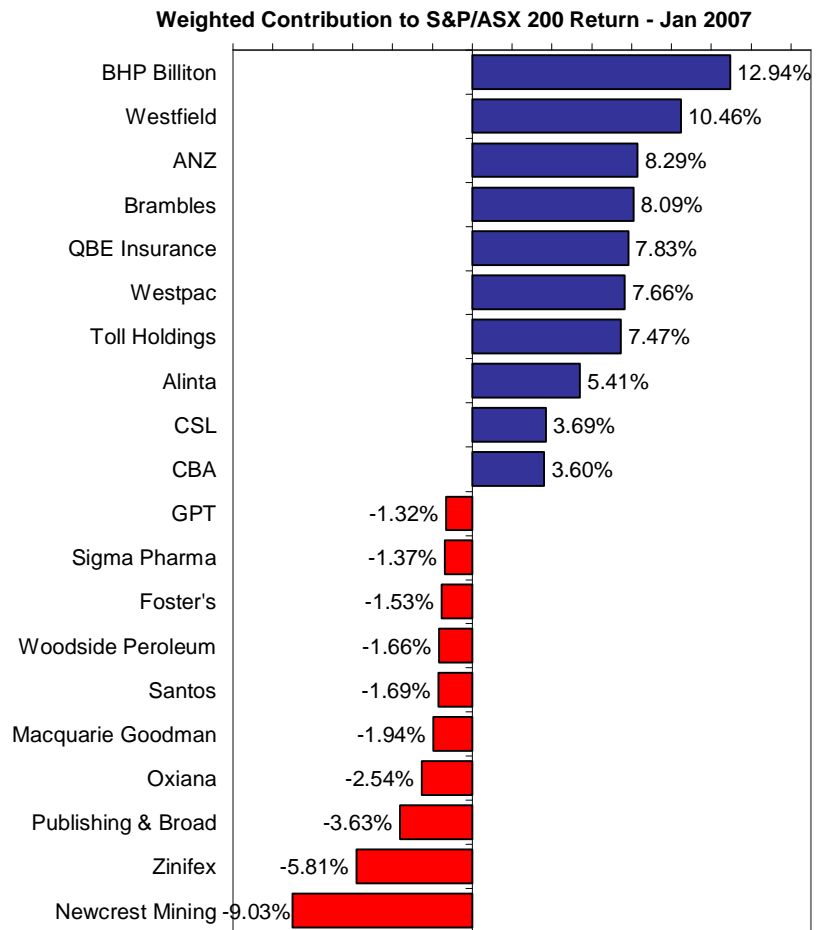
Materials shares made slight gains in January, with gains in BHP and Rio Tinto offsetting losses in Newcrest Mining.

Energy-related shares lost value in January, dragged lower by slumping oil prices following unseasonal hot weather in the U.S. Santos, the country's third largest oil producer, declined 5.8% over the month following its lower-than-expected fourth quarter production report. Oil Search rallied 5.1% despite the falling oil price.

Materials shares slightly added value in January, up 0.2% but masking a volatile month as base metals swung between gains and losses. BHP Billiton and Rio Tinto advanced in January, gaining 2.9% and 3.1% respectively. Limiting the sector's advance was a slump in Newcrest Mining. Australia's biggest gold mining company plunged 20.7% on news of a downgrade to its gold and copper reserves at its Telfer mine. Rinker Group, the biggest supplier of cement blocks to the U.S, advanced 3.1% after the company proceeded with a series of bolt-on U.S acquisitions in Utah and Tennessee.

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

The S&P/ASX 200 price index gained 1.8% in January.



2.3 Listed Property Trusts

January in Review

Domestic property trusts outperformed equities for a third month running, starting 2007 with a bang on speculation the merger and acquisition frenzy taking place in equity markets will spill over into property trusts. Domestically, Multiplex advanced after announcing that it had been approached for takeover talks with a third party, while locally listed trusts with international assets also gained following a US\$42 billion bid for U.S-based Equity Office, the largest ever buy-out.

The S&P/ASX 200 Property Trust Accumulation index added 2.4% over the month, and is up 15.6% over the last three months. The LPT sector is offering an estimated 2007 cum-adjusted dividend yield of 5.3%, a 110 basis point discount to 90-day bank bill rates (6.4%) and a 60 basis point discount to 10-year bonds (5.9%).

Retail trusts were the strongest performing sub-sector in January, while Diversified and Industrials underperformed.

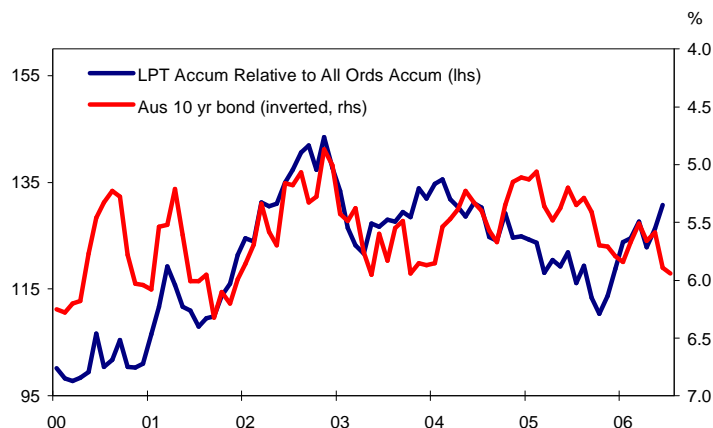
On a sector level during January, Retail was the strongest absolute performer for a second month, gaining 7.9%. Real Estate Managers and Developers added 3.7% and Commercial finished the month up 2.6%. Diversified (+1.2%) and Industrial (-1.6%) underperformed the broader market.

Tishman Speyer rallied 17.3% in January for the best performance among domestic property trusts, on no news flow. The driver of performance was the contested bid for Equity Office in the U.S which has seen the market focus closely on the value being placed on U.S office assets and highlighted the possibility that Tishman's NTA is significantly understated.

Multiplex advanced 11.5% following the announcement that they had received a request from a third party to commence discussions that may lead to an offer for the company or its assets.

Westfield added 6.3%, although no material announcements were made during the month. However, a stronger economic environment both in Australia and in the U.S supported Westfield, with retail sales rising domestically and unemployment continuing to track at record lows.

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



Source: DataStream, St George Investment Solutions

2.4 Fixed Interest

January In Review

Australian bonds posted modest gains in January, with coupon yield offsetting capital losses as bond yields rose. The UBS Composite Bond All Maturities Index gained 0.5% over the month, and posted a lacklustre 0.9% gain over the last three months. Domestic bonds have managed a 12-month return of just 3.5%, underperforming cash, as commodity prices softened and domestic economic data, with the exception of the CPI release, continued to point to a strengthening economy.

Yields on Aussie 90 day bank bills ended the month 5 basis points lower at 6.39%.

Yields on ninety-day bank bills ended the month 5 basis points lower than at the start of January, closing at 6.39%. The main focus of the domestic bond market was whether the Reserve Bank of Australia would raise rates in February. By the end of the month, thanks to weaker-than-expected CPI numbers, the market had priced in minimal chance of a February rate hike.

A strong domestic employment report released on 11 January lifted market expectations that the Reserve Bank of Australia may tighten policy, and yields rose in response. Yields continued to rise until 24 January, when the release of consumer price data came in below expectations. The headline CPI fell by 0.1% in the fourth quarter and the annual inflation rate stepped down from 3.9% in Q3 to 3.3% in Q4. The CPI numbers saw the market reduce the odds for a rate rise in February, and yields fell in sympathy.

Aussie 10-year bond yields rose, influenced by the U.S, as reports continued to indicate a strengthening economy.

The yield on 10-year Commonwealth Government bonds rose steadily from 8 January, increasing 6 basis points over the month to close at 5.94%, its highest level since 15 June 2004. The rise in yields was principally due to international factors with U.S bond yields trending higher over the month as economic data from late December to early January generally came in above market expectations.

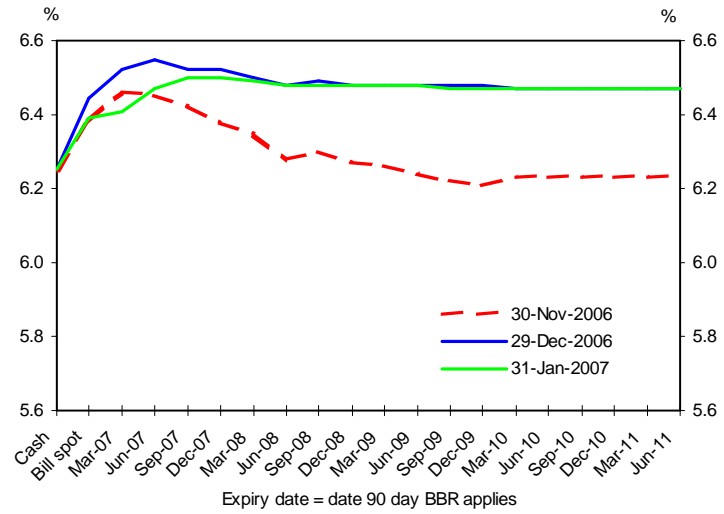
U.S bonds were weaker in January, with yields on the benchmark U.S 10-year bond rising 11 basis points on stronger economic data. Stronger-than-expected numbers were found in ISM surveys, non-farm payrolls, trade, retail sales, industrial production, housing starts, consumer confidence, new home sales and fourth quarter GDP. On the last day of January, Chicago manufacturing came in below expectations and, combined with a "less hawkish" statement by the FOMC, bond yields commenced a sharp rally that sent yields down 10 basis points the day.

Global government bonds were flat in January, with the JPMorgan Global Government Bond Index (hedged into A\$) ending the month relatively unchanged. European bonds continued on a moderate decline in January, as signs of global inflation were still present. German GDP growth of 2.5% last year and expectations of growth in Euro exports suggests the European Central Bank will need to keep raising rates, although the next rate rise is unlikely to place until March. The European Monetary Union (EMU) Index was down 0.42% over the month

UK Gilts ended the month lower by 1.1%, while France and Germany declined by 0.5% and 0.4% respectively. Emerging Europe experienced mixed results, with Hungary down 0.6% and Poland up 0.8%. Czech Republic bonds fell by 0.4%.

The long-end of the curve remained unchanged despite the volatility during the month

Chart 13: Financial Market's Interest Rate Expectations



Source: Iress, St George Investment Solutions

2.5 Currency Markets

The Australian dollar was the weakest currency relative to the majors in January.

The Australian dollar (AUD) weakened against the major currencies in January, losing 1.5% against the U.S dollar (USD), 0.2% against the euro, 1.8% against the British pound (GBP) and 0.2% against the Japanese Yen (JPY).

In trade-weighted terms, the value of the Australian dollar depreciated by 1.7% in January with the TWI ending the month at 63.8 having started the month at 64.9. This index is down 0.3% over the last three months and is up 0.6% over the year.

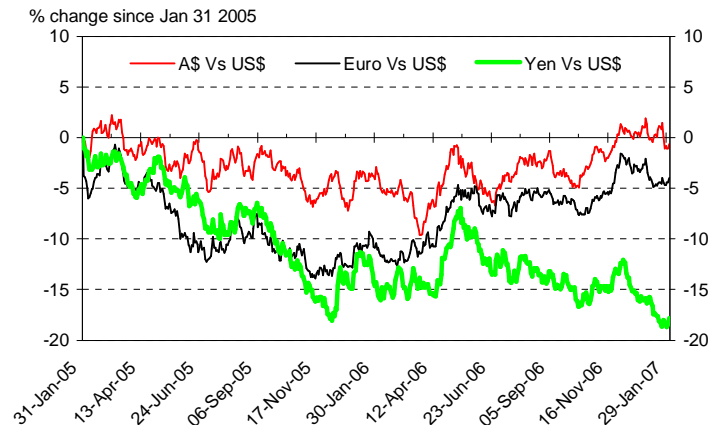
Australia's favourable yields and the risk of another RBA rate hike in the near term got the AUD off on a good start, reaching a high of US\$0.7980 on 3 January for its highest level since March 2005. At this time, investors had priced in a 50% chance of a rate hike at the RBA's next board meeting in February. The AUD reached its monthly low of US\$0.7698 on 31 January following weaker-than-expected consumer price data that triggered the market to price in minimal chance of a rate hike in February. Stronger-than-expected U.S data over most of January provided support to the greenback and helped keep the Australian dollar lower.

The GBP recorded strong broad-based gains in January, underpinned by its relatively favourable yields. The pound strengthened 1.7% against the JPY, 1.8% against the AUD, 0.3% against the USD and 1.6% against the euro. The Bank of England surprised the market by raising interest rates 25 basis points to 5.25% on 11 January. The GBP gained 1.75 U.S cents in the 24 hours after the decision to up the cash rate to its highest level in 5.5 years. The Bank Of England cited stronger-than-expected economic growth indicators and upside risks to inflation.

Weakness in the Japanese Yen (JPY) continued in January, falling 1.4% against the USD and 1.7% against the GBP. The Bank of Japan kept rates steady at 0.25% on 18 January, setting the stage dor declines as carry trade investors sold JPY to buy higher yielding currencies.

Chart 14: Cross Rates Versus the US\$ (% change since 31 January 2005)

This chart highlights the cumulative percent change in select cross rates versus the US\$, since Jan 1 2005. A rise in the line represents an appreciation in the local currency versus the US\$



Source: DataStream, St George Investment Solutions

2.6 Benchmark Performance

Domestic Property continued to outperform other asset classes in January.

Among the major asset classes, Australian Property was again the best performing asset class, although global equities recorded the best return in Australian dollar terms, helped by weakness in the Aussie dollar. Domestic Property trusts, as measured by the S&P/ASX 200 Property Trusts Accumulation index, advanced 2.4% in January, and were up 15.6% over the last three months. Over a rolling 12-month period, domestic property trusts have significantly outperformed global equity and bond markets, surging 38.9%.

Following a similar trend to recent months, Australian Equities were the second best performing asset class behind domestic property. The All Ordinaries Total Return index advanced 2.0% over the month for its sixth consecutive monthly gain, buoyed by a spate of takeover activity that pushed industrial shares higher. A continued slump in crude oil weighed on resources shares, limiting markets gains and ensuring that property outperformed. On a rolling 12-month timeframe, The Australian All Ordinaries index has rallied 23.0%.

The MSCI World Accumulation Index advanced 1.8% in local currency terms over the month. In Australian dollar terms, the same index gained 3.0%, out-performing the local currency index due to the weakness in the Australian dollar. As a result of currency movements being largely unchanged over the last three months (despite intra-month volatility), the return on international equities of 5.8% over the last three months was the same in local currency and in Australian dollar terms.

Bond markets struggled in January as economic data out of Europe and the U.S generally surprised on the up side.

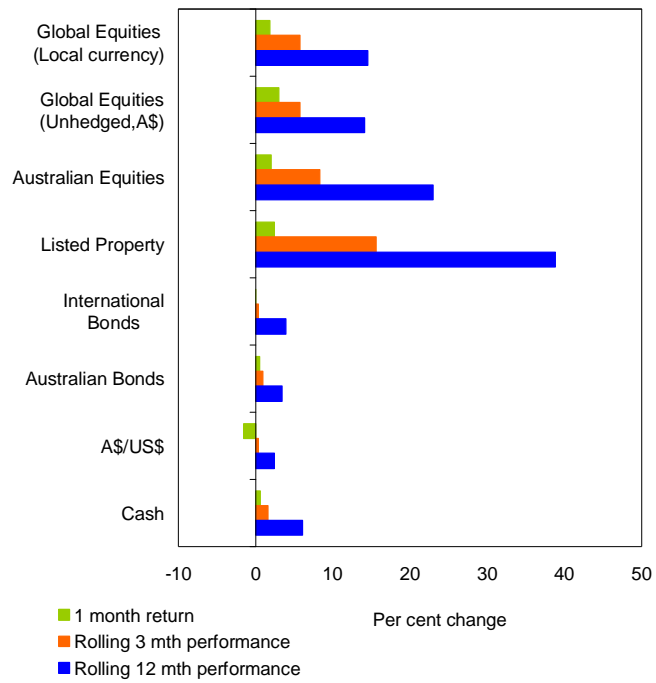
Bond markets again turned in lacklustre performance in January, with domestic bond yields rising. The rise in yields was principally due to international factors with U.S bond yields trending higher over the month as economic data from late December to early January generally came in above market expectations. Australian bonds, as measured by the UBS Australian Composite Bond (All maturities) Index, ended the month up 0.5% and has risen 0.9% over the last three months. Global government bonds were also weak in January on stronger economic data out of Europe and the U.S. The JPMorgan Global Government Bond Index (Hedged into AUD) was flat in January, and managed to gain just 0.3% in the last three months for the weakest performing asset class.

Table 4: Performance to January 2007*

	% Change over:		
	Month	Rolling 3 Months	Rolling 12 Months
World MSCI (local currency)	1.8	5.8	14.5
World MSCI (A\$)	3.0	5.8	14.1
All Ordinaries Index	2.0	8.3	23.0
Listed Property Trusts	2.4	15.6	38.9
JP Morgan Global Government Bond (hedged)	0.0	0.3	3.9
UBS Aus Composite Bond – All Maturities	0.5	0.9	3.5
A\$/US\$	-1.6	0.3	2.4
UBS Aus Bank Bill Index	0.6	1.6	6.1

* Total return (accumulation) Indices. Source: DataStream, Iress, St George Invest Solutions

Chart 15: Benchmark Performance to End January 2007



Source: DataStream, St George Investment Solutions

3. Asset Allocation Implications

We recently completed the regular quarterly in-depth review of our current asset allocation positions, versus the portfolio's strategic (long-term) benchmarks.

The changes made from the previous quarter were to reduce the portfolios' exposure to Australian Shares, Listed Property and Australian Bonds for the Defensive, Moderate, Balanced and Growth portfolios and offsetting these reductions has been an increase in allocation to International Shares and Cash. This further reduces our overall exposure to growth assets and maintains our position at "Strong Underweight".

We have reduced our exposure to Australian Shares and Listed Property with the allocation positioning to these asset classes moving to "Moderate Underweight" for Australian Shares and "Strong Underweight" for Listed Property.

We have also reduced our exposure to Domestic Bonds, with the allocation positioning to this asset class being moved to "Moderate Underweight". This move is in anticipation of increases in domestic and global bond yields. For the Defensive, Moderate, Balanced and Growth portfolios we have increased our exposure to Cash however the position remains at "Strong Overweight". Our position to Mortgage Funds remains unchanged at "Moderate Overweight".

We are of the opinion that initial strength in the Australian Dollar to occur in the first half of the year and then weaken toward the 0.75 level by the end of 2007. The weakness in the US economy is likely to be transitional and this would lead to investors reassessing the outlook for the US Federal policy and market interest rates. The possibility of higher US interest rates will force investors to reverse their tactical and strategic "short" US dollar positions, thereby supporting the US Dollar. On a currency-hedged basis, the return prospects have become less favourable and we therefore recommend a gradual reduction for the hedged exposure from its present 60% towards a 40% currency hedged level as the Australian dollar approaches the top end of our expected range.

3.1 Tactical Asset Allocation Positions & Rationale

Central bankers are concerned about excess global financial market liquidity, strong wage growth, strong monetary growth and energy driven headline inflation, which are the building blocks of future price pressure.

We do not expect official interest rates in the major economies to move significantly away from where they are at present, other than in Japan where the authorities are likely to gradually normalise rates over 2007. However, we believe that most monetary authorities are likely to retain a tightening bias going forward, because they appear to subscribe to the view that the positive effects from globalisation and other supply side factors may have run its course. Also, central bankers are concerned about excess global financial market liquidity, strong wage growth, strong monetary growth and energy driven headline inflation, which are the building blocks of future price pressure.

Global economic growth has been running above potential over the past few years, mainly because of the boost to aggregate domestic demand via ultra-easy monetary policies that were being pursued by major central banks. Most monetary authorities set monetary policy on the basis of their reading of "core" inflation, which excluded volatile items such as food and energy, as opposed to headline inflation that has remained elevated due to persistently high-energy prices. Fears of a major global economic slowdown and a strong focus on core inflation resulted in a regime of

“easy money”. This buoyed global aggregate demand and stretched resource utilization in most major economies. Once the benefits of the substitution of capital for labour began to recede, employers began to accelerate their hiring of labour while curbing capital investment. Strong labour markets raised household incomes and household wealth, which was supportive for global aggregate growth via strong global aggregate consumer demand.

The global economy appears to be in the midst of a typical “mid-cycle pause” within a broader and healthy business cycle. Global industrial production has moderated and businesses have been liquidating their inventories, particularly in the auto sector. However, with global financial conditions still supportive of demand led growth, our belief is that this business cycle is likely to match the length and breadth of the previous cycle, which lasted around ten years. Household balance sheets, on average are in better shape due to improved employment income and strong financial asset market prices delivering stellar returns over recent years. Advanced communication and technological developments have helped businesses manage their “just-in-time” inventories more efficiently. In the often-mentioned US housing industry where activity has been subdued for some time, housing starts remained subdued, thereby enabling the industry to gradually liquidate excess inventories without causing a major dislocation to the economy.

The risks to this relatively sanguine outlook, other than some left field extraneous factor causing a major dislocation, could yet be a sharp contraction in the US residential property market, tensions in the global traded goods and/or financial markets due to protectionism, higher than anticipated inflation pressure forcing monetary authorities to keep nudging official rates higher or a sharp spike in the price of oil due to the escalation of turmoil in the Middle East.

We give a higher probability weighting to higher wages driven inflation in advanced economies during 2007 because of slower growth in the workforce and falling labour productivity, combining to push unit labour costs higher. This phenomenon will be more pronounced in major “services” based as opposed to “manufacturing” based economies. There is the risk that inflation creeps higher in a “stealth” pattern catching policy makers off-guard and forcing them to scramble for cover in order to preserve their credibility, protect gains made in inflation and also to contain inflation expectations. Most academic studies on this subject reveal that inflation is persistent or “sticky” once it takes a firm grip in the minds of wage earners or consumers.

In terms of global growth, we anticipate global GDP to be around 3.9% after a 4.3% in 2005 and estimated 4.7% in 2006. Advanced economies are likely to grow around 2.4% in 2007 having grown at an estimated 3.1% in 2006 and 2.6% in 2005. Growth will be strong in the Asian, Central and Eastern European and Latin American economies. Emerging markets growth will likely be around 7.2% in 2007 having grown at an estimated 7.6% in 2006 and 7.4% in 2005.

Australian Shares

Our current positions are:

***... Moderate Underweight
Australian shares***

For Australian shares, we reduced our exposure to “Moderate Underweight” from “Slight Underweight” for the Defensive, Moderate, Balanced and Growth portfolios.

Bottom-up and top-down analysis of the Australian stock market point to the market being around fair value at prevailing levels. Given that other key asset markets look stretched, domestic equities have the potential to

deliver total returns of around high single to low double-digit returns over the year. However, the risks to this scenario are evenly balanced. The downside risks to this optimistic scenario will unfold should there be a sharp slowdown in the global economy, an oil shock or a rate hike by the RBA due to persistent inflationary pressures. The upside risk to the scenario is the massive volume of global liquidity and leveraged capital working its way into the domestic equity market, pushing it higher and beyond what would be considered to be fair value. We are also cautiously optimistic on domestic equities because of the anticipated inflow of capital through changes made to superannuation benefits and investments by the “future fund”. 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, insurance, retailing and services should provide good returns.

The key reason for the recommended under weight is our belief that the market is vulnerable for a sell-off in the near term as investors begin to realise that monetary policy in key economies are set to remain tight for some time and the risk of major turmoil in the Middle east.

*... Increased exposure to Slight
Overweight International shares*

International Shares

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

Globally, strong sales growth and expanding margins have continued to finance higher dividends, more buybacks and strong merger and acquisition activity. The increase in domestic consumer activity and corporate investment led growth in the emerging economies continues to support emerging market equities. With margin expansion at a 35-year peak and global growth moderating towards trend, we believe that margins are likely to remain flat over the year. However, we still remain positive on global equity markets. Although global capital markets are highly correlated significant asset allocations on a regional basis needs to be done on a tactical basis. We favour Asian, European and key emerging markets from a strategic standpoint due to economic growth potential being greater in these regions. 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. From a tactical and strategic point of view we favour large caps and are neutral on style. Excess returns are likely to come from prudent stock picking rather than from value or growth stocks. Going forward, the risk of increased market volatility makes us favour large cap stocks due to their liquidity, dividend yield protection and perceived earnings safety. Small caps on the other hand tend to be riskier at macro inflection points due to slower growth and moderating risk appetite. They also tend to be highly geared and are thus less profitable. We favour financials, energy, healthcare and materials from a sectoral point of view and are less comfortable with consumer discretionary, information technology and utilities. The key reason for the slight increase in the exposure to International equities is the relative attractiveness in total return.

...Reduced allocation to Listed Property to Strong Underweight

Listed Property Trusts

We decreased our allocation towards Listed Property Trusts from “Moderate Underweight” to “Strong Underweight” for the Defensive, Moderate, Balanced and 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.

Maintained allocation to International bonds at Strong Underweight.

International Bonds

We have maintained our exposure for International Bonds – Hedged at “Strong Underweight” for the Defensive, Moderate, Balanced and Growth portfolios.

International sovereign debt yields factor-in a scenario that calls for major central banks cutting official rates due to economic weakness. We believe that markets have moved sovereign debt yields to levels that cannot be sustained on pure valuation or economic fundamentals. We expect major central banks to hold a steady monetary policy with a bias to tighten as mounting evidence that falling productivity and higher unit labour costs pose a threat to future inflation and inflation expectations. Japan is the most likely country that will move official interest rates significantly higher as they normalise their interest rate structure.

We believe that the bellwether US Ten-year note will drift higher into the 5% to 5.25% range and then trade a broad 4.5% to 5.0% range for some time. A 5.0% plus yield is likely to generate investor demand for long dated bonds due to asset / liability matching requirements by defined benefit pension schemes and long dated debt instrument needs by insurance companies. This long end buying pressure will most likely keep sovereign bond yield curves relatively flat or inverted. This trading pattern will be mirrored in most global bond markets with Japanese bonds the only exception having to carry the additional burden of significantly higher official interest rates during 2007.

Global credit spreads are most likely set to widen versus sovereign debt as corporate debt issuance gathers pace for leverage buyout or merger and acquisition strategies and as default rates gradually increase. Higher yielding emerging market local currency debt and foreign currency debt will find good demand as investors reach out for superior yields.

... Reduced allocation to Australian bonds to Slight Underweight

Australian Bonds

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

Australian bonds are likely to drift higher into the 6% plus yield level in the near term and then trade a 5.5% to 6.0% range for some time. The ten-year spread with the US is likely to remain around the 0.75% to 1.25% level, with a bias to remain at the top end of the range for most of the year. The demand for higher yield is likely to keep the sovereign / corporate spread with a widening bias but find good buying support to ongoing strong investor demand for higher yielding fixed income instruments.

... Moderate Overweight Mortgage Funds

Mortgage Funds

We have maintained the exposure to Mortgage Funds at “Moderate Overweight” for the Defensive, Moderate, Balanced and Growth portfolios portfolio.

... Strong Overweight Cash

Cash

We increased our exposure to Cash and have maintained the “Strong Overweight” position for the Defensive, Moderate, Balanced and Growth portfolios.

Australian Dollar

The anticipated weakness in the US Dollar unfolded during 2006 with the British Pound gaining over 13%, The Euro over 10% and the Australian Dollar gaining over 7%, while the Yen was a shade weak against the dollar. A weakening US economy, the possibilities of a rate cut by the Fed, higher rates elsewhere, talk of reserve diversification by central banks and investor preference for higher yielding emerging market currencies weighed on the US Dollar. We acknowledge that macro economic factors have the capacity to nudge the US Dollar lower but would estimate that any further weakness, most likely will be limited to around another 8% to 10% against major currencies.

Our favoured outlook is for the US Dollar to remain weak during the first half of 2007 and then to strengthen against major currencies into end of year. The US Dollar is likely to remain weak against Asian currencies. The weakness in the US economy is likely to be transitional. This would lead to investors reassessing the outlook for Fed policy, market rates and the US currency around mid 2007. The possibility of having higher US interest rates would force investors to reverse some of their tactical and strategic short US Dollar positions, supporting the currency. We expect the Australian Dollar to reach the 0.80 to 0.84 levels during the first half of the year and then weaken towards the 0.75 level by end of 2007. The Australian Dollar is also likely to remain weak against most major currencies, in particular against Asian currencies. The Yen lost around 8% against the Australian Dollar during 2006. A slower pace of rate normalisation in Japan has been the main reason for this weakness. We expect the Japanese authorities to gradually normalise policy during 2007, lending the Yen support. We expect the Yen to remain steady against the US Dollar and strong against the Australian Dollar during the second half of 2007.

Table 5: Asset Class Return Forecasts*

	Long-term return (SAA)#	Income Component (SAA)	Growth Component (SAA)	Medium-term return (as at Q1 2007)**
International Shares (40% Hedged for Medium-term outlook)	9.2	2.0	7.2	12.7
Australian Shares	11.0	3.8	7.2	8.5
Listed Property Trusts	8.8	6.0	2.8	4.4
International Bonds (hedged)	6.7	6.7	-	6.0
Australian Bonds	6.5	6.5	-	5.3
Mortgage Funds	6.3	6.3	-	6.9
Cash	6.0	6.0	-	6.3

* 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 40 % Hedged return and 60% 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, Q1 2007

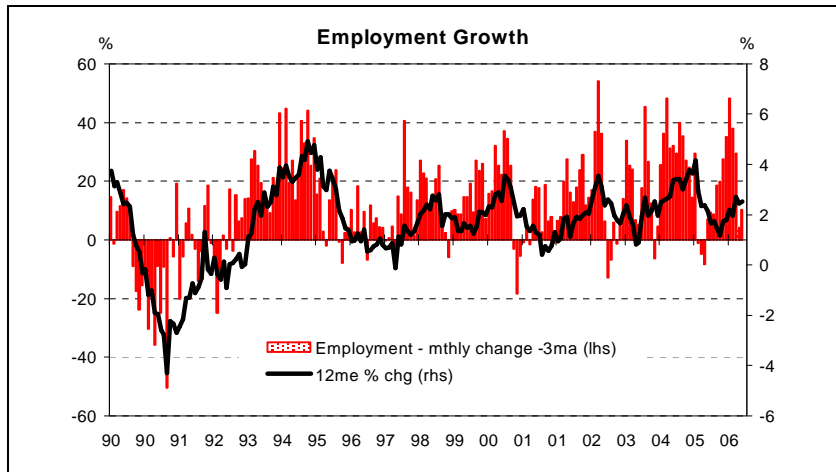
Asset Class	Strategic Benchmark	Range		Current Tactical Position (Q4 06)	Current Tact (Q1) (%)	Previous (Q4 06) (%)	Change from Previous
		Min	Max				
Defensive							
Australian Shares	16	10	22	Moderate Underweight	12	14	-2
International Shares	9	4	15	Slight Overweight	10	9	+1
Listed Property	5	0	10	Strong Underweight	1	4	-3
International Bonds -hedged	15	0	30	Strong Underweight	10	10	-
Australian Bonds	20	5	35	Moderate Underweight	17	19	-2
Mortgage Funds	20	10	30	Moderate Overweight	24	24	-
Cash	15	0	30	Strong Overweight	26	20	+6
Moderate							
Australian Shares	28	19	36	Moderate Underweight	23	26	-3
International Shares	16	9	24	Slight Overweight	17	16	+1
Listed Property	6	0	12	Strong Underweight	2	4	-2
International Bonds -hedged	10	0	20	Strong Underweight	5	5	-
Australian Bonds	15	0	30	Moderate Underweight	12	14	-2
Mortgage Funds	15	5	25	Moderate Overweight	18	18	-
Cash	10	0	25	Strong Overweight	23	17	+6
Balanced							
Australian Shares	36	25	46	Moderate Underweight	31	33	-2
International Shares	25	16	36	Slight Overweight	26	24	+2
Listed Property	9	0	18	Strong Underweight	5	7	-2
International Bonds -hedged	8	0	16	Strong Underweight	3	3	-
Australian Bonds	12	0	24	Moderate Underweight	9	11	-2
Mortgage Funds	5	0	10	Moderate Overweight	8	8	-
Cash	5	0	20	Strong Overweight	18	14	+4
Growth							
Australian Shares	42	29	54	Moderate Underweight	38	39	-1
International Shares	31	20	44	Slight Overweight	31	30	+1
Listed Property	10	0	20	Strong Underweight	7	8	-1
International Bonds -hedged	4	0	8	Strong Underweight	2	2	-
Australian Bonds	8	0	16	Moderate Underweight	6	8	-2
Mortgage Funds	0	0	5	Moderate Overweight	2	2	-
Cash	5	0	15	Strong Overweight	14	11	+3
High Growth							
Australian Shares	50	36	64	Slight Underweight	49	49	+3
International Shares	45	32	60	Moderate Overweight	51	48	+3
Listed Property	5	0	10	Strong Underweight	0	3	-6
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

December employment growth of 44,600, more than 3 times estimates, makes 2006 the strongest year for jobs growth since 1989.

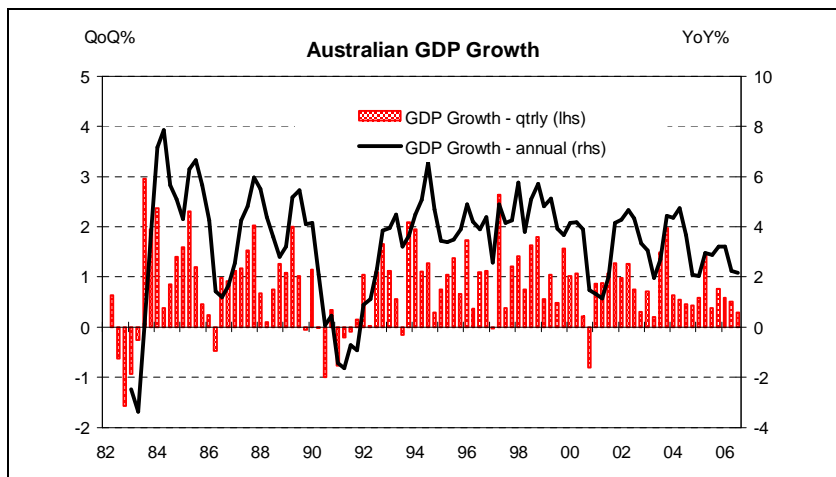
Chart 16: Australia – Employment Growth



Source: DataStream, St George Investment Solutions

IMF forecasts Australia's economy to grow at its trend rate of 3.2% for 2007.

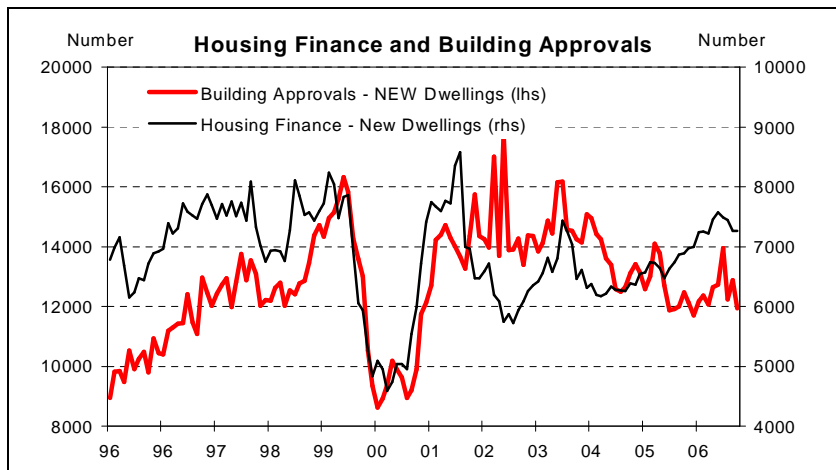
Chart 17: Australia – GDP Growth



Source: Westpac Melbourne-Institute, DataStream, St George Investment Solutions

Australia's November building approvals of 4.1% more than double market forecast.

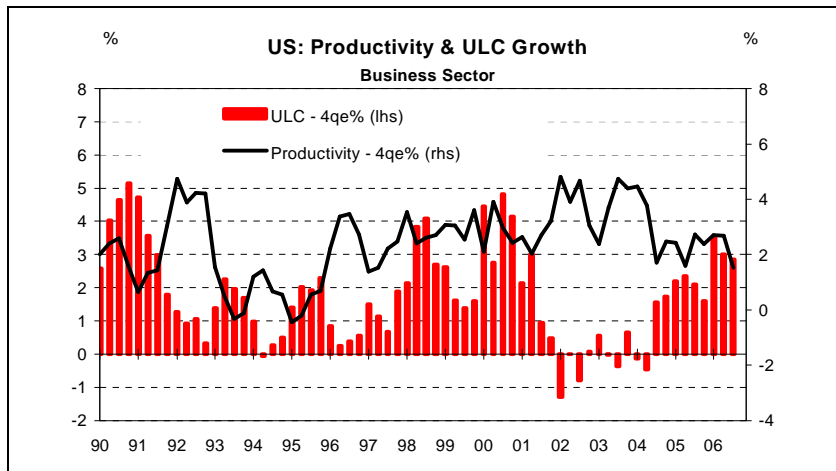
Chart 18: Australia – Housing Finance and Building Approvals



Source: ABS, DataStream, St George Investment Solutions

US productivity and unit labour costs keenly watched by market participants as tight labour market could see emergence of wage induced inflationary spiral.

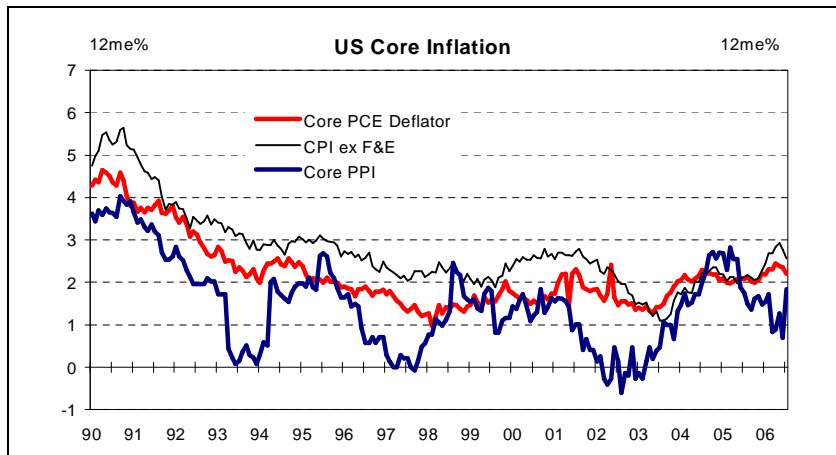
Chart 19: US – Productivity & Unit Labour costs – Business Sector



Source: DataStream, St George Investment Solutions

December PPI data showed a worrying increase of 0.9% from the previous month, almost double market forecasts of 0.5%.

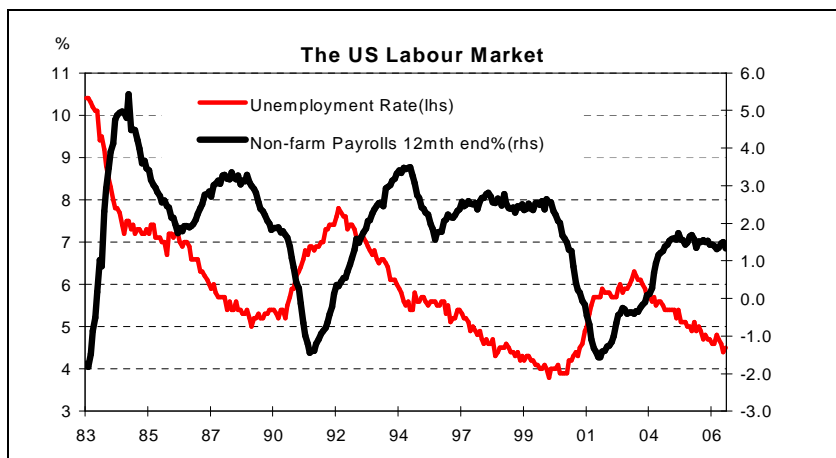
Chart 20: US – Core Inflation



Source: DataStream, St George Investment Solutions

Employers in the U.S added more workers than forecast in December. The employment increase of 167K followed an upward revised gain of 154K the prior month. Hiring accelerated in banking, insurance and restaurants, while manufacturers shed 12K jobs.

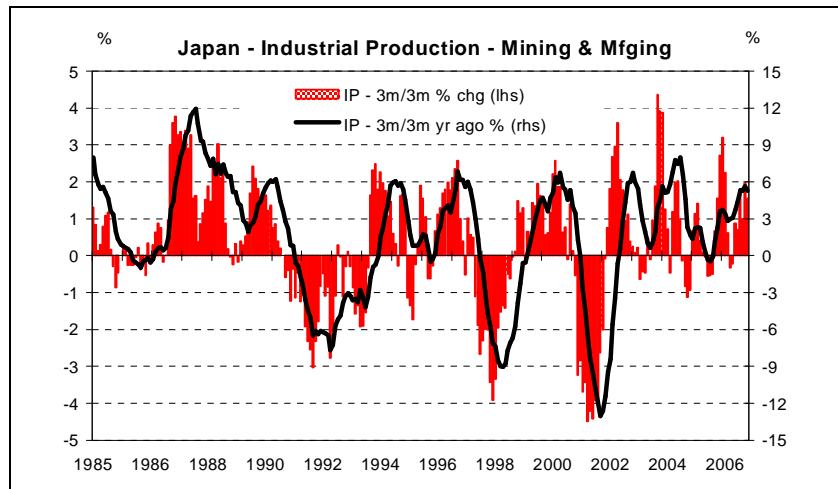
Chart 21: US – Labour Market



Source: DataStream, St George Investment Solutions

Japan's industrial production figures for December almost double market forecasts and emphasizes the resurgence of corporate Japan..

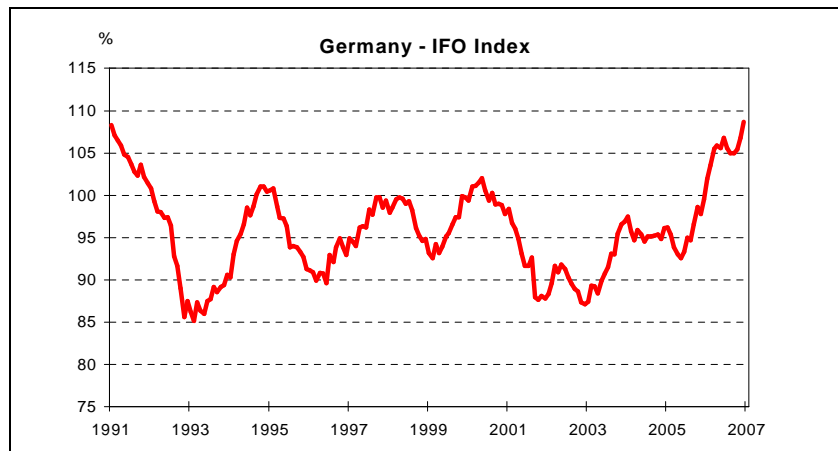
Chart 22: Japan – Industrial Production 12me%



Source: DataStream, St George Investment Solutions

German business confidence unexpectedly surged in December to the highest level since 1990 with the Munich-based business climate index climbing to 108.7.

Chart 23: Germany – IFO Business Climate Index



Source: DataStream, St George Investment Solutions

China's retail sales grew 14.6% in December from a year earlier as rising incomes spurred consumer spending in the world's fastest growing major economy.

Chart 24: China – Retail Sales



Source: DataStream, St George Investment Solutions

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	12	23	31	38	49
International Shares	9	16	25	31	45	10	17	26	31	51
Listed Property	5	6	9	10	5	1	2	5	7	0
Sub-Total Growth Assets	30	50	70	83	100	23	42	62	76	100
International Bonds -	15	10	8	4	0	10	5	3	2	0
Australian Bonds	20	15	12	8	0	17	12	9	6	0
Mortgage Funds	20	15	5	0	0	24	18	8	2	0
Cash	15	10	5	5	0	26	23	18	14	0
Total Assets	100	100	100	100	100	100	100	100	100	100

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	38	48
International Shares	9	16	26	32	46	9	16	25	31	49
Listed Property	6	7	9	10	5	5	5	7	8	3
Sub-Total Growth Assets	30	50	70	83	100	27	46	64	77	100
International Bonds -	16	10	8	5	0	11	5	3	3	0
Australian Bonds	19	15	12	7	0	18	14	11	7	0
Mortgage Funds	20	15	5	0	0	24	18	8	2	0
Cash	15	10	5	5	0	20	17	14	11	0
Total Assets	100	100	100	100	100	100	100	100	100	100

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	12	25	31	36	47
International Shares	9	16	27	33	46	9	16	26	32	49
Listed Property	7	7	9	11	6	6	5	7	9	4
Sub-Total Growth Assets	30	50	70	83	100	27	46	64	77	100
International Bonds -	16	11	9	6	0	11	6	3	3	0
Australian Bonds	19	14	11	6	0	18	13	11	6	0
Mortgage Funds	20	15	5	0	0	24	18	8	3	0
Cash	15	10	5	5	0	20	17	14	11	0
Total Assets	100	100	100	100	100	100	100	100	100	100

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	11	23	29	34	46
International Shares	10	17	28	34	46	10	17	27	33	49
Listed Property	7	8	10	12	7	6	5	8	10	5
Sub-Total Growth Assets	30	50	70	83	100	27	45	64	77	100
International Bonds –	18	13	11	7	0	13	7	4	4	0
Australian Bonds	18	13	10	5	0	17	13	10	5	0
Mortgage Funds	19	14	4	0	0	23	18	8	3	0
Cash	15	10	5	5	0	20	17	14	11	0
Total Assets	100	100	100	100	100	100	100	100	100	100

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	45
International Shares	11	18	28	34	46	11	18	27	33	49
Listed Property	7	9	11	13	8	6	6	9	10	6
Sub-Total Growth Assets	30	50	70	83	100	28	45	64	76	100
International Bonds –	19	14	12	8	0	13	7	6	4	0
Australian Bonds	17	12	9	4	0	16	13	8	5	0
Mortgage Funds	19	14	4	0	0	23	18	8	4	0
Cash	15	10	5	5	0	20	17	14	11	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 January 2007

Statistics close out time: 1/31/07 17:39

		Close	Month	3 Months	365 Days	P/E ratio	DY 12m
Stock Market Price Indices							
Australia							
	S&P/ASX 200	5,773.40	1.83%	7.23%	17.12%	17.0	3.5
	S&P/ASX Small Ords	3,466.20	1.86%	9.49%	26.72%	30.2	3.2
	All Industrials	9,113.95	3.16%	10.18%	21.81%	17.6	3.8
	All Resources	4,170.71	-0.09%	-0.41%	4.04%	15.2	2.1
	Listed Property Trusts	2,488.70	2.37%	13.96%	30.37%	10.5	5.3
United States							
	Dow Jones Industrials	12,621.69	1.27%	4.48%	16.17%	21.1	2.1
	S&P 500 Composite	1,438.24	1.41%	4.38%	12.36%	18.0	1.8
	NASDAQ Composite	2,463.93	2.01%	4.11%	6.86%	34.8	0.6
	NYSE Comp	9,254.73	1.27%	5.47%	14.16%	1.7	2.2
Asia							
Japan							
	Nikkei 225	17,383.42	0.92%	6.00%	4.41%	37.4	1.0
	Tokyo (Topix)	1,721.96	2.43%	6.46%	0.65%	29.0	1.1
Hong Kong							
	Hang Seng	20,317.44	1.79%	10.90%	29.01%	14.8	2.8
Singapore							
	Singapore Straits Times	3,139.78	5.16%	16.22%	30.17%	15.1	3.1
Europe							
Germany							
	Dax Index	6,789.11	2.91%	8.30%	19.65%	14.5	2.6
France							
	CAC 40	5,608.31	1.20%	4.85%	13.35%	14.7	2.5
UK							
	FTSE 100	6,203.10	-0.29%	1.21%	7.69%	18.0	3.9
	DJ Euro Stoxx 50	4,178.54	1.42%	4.34%	13.20%	12.8	3.2
Euro							
	Bloomberg European 500	267.17	2.15%	5.75%	15.99%	15.9	2.9
	MSCI EAFE in \$A		1.81%	5.96%	11.97%		
World							
	MSCI World in \$US		0.94%	5.68%	16.16%		
	MSCI World (local currency)		1.61%	5.19%	11.67%		
Exchange Rates							
	\$A/\$US	0.7726	-2.12%	-0.15%	1.91%		
	\$US/GBP	1.9623	0.15%	2.87%	10.28%		
	\$US/Euro	1.2962	-1.81%	1.56%	6.63%		
	\$US/Yen	121.3650	-1.91%	-3.62%	-3.44%		
	\$A/GBP	0.3937	2.26%	2.93%	7.58%		
	\$A/Euro	0.5959	0.31%	1.67%	4.42%		
	\$A/Yen	93.7602	0.22%	-3.61%	-5.53%		
Commodities							
	Goldmans Cmnty Index	5,413.69	-3.80%	-5.52%	-22.18%		
	CRB Cmnty Futures Indx	298.30	-2.92%	-2.48%	-14.44%		
	Gold US\$/oz	\$ 645.50	1.38%	6.41%	1.38%		
	CrudeOil (WTI) US\$/bbl	\$ 56.97	-6.68%	-2.38%	-6.68%		
Interest Rates & Bond Yields							
SSB World Govt #N/A RI Tim (non \$A - Hedged \$A)			0.25%	-0.84%	0.18%		
Australia							
	3 Mo Bank Bill indx (mid)	6.393	-0.048	0.017	0.760		
	Austrn Govt Bonds 3 Year	6.108	-0.004	0.080	0.830		
	Austrn Govt Bonds 10 Year	5.937	0.055	0.279	0.584		
United States							
	US 3 Month Treasury Bill	5.129	0.118	0.051	0.664		
	US Treasury 3 Year Bond	4.911	0.179	0.295	0.427		
	US Treasury 10 Year Bond	4.869	0.165	0.269	0.352		
	US Treasury 30 Year Bond	4.976	0.165	0.260	0.298		
Japan							
	3 Mo CD Rates	0.355	0.029	0.080	0.280		
	JP Govt 3 Year Bond	0.850	-0.046	0.000	0.362		
	JP Govt 10 Year Bond	1.705	0.020	-0.015	0.135		

Advance Asset Management Limited ("Advance") has endeavoured to ensure that the information contained in this communication is accurate, but to the maximum extent permitted by law, disclaims liability for any errors or omissions. The information contained in this communication is confidential and has been produced for identified recipient only. Any unauthorised use of the contents is strictly prohibited. Advance is a member of the St. George Group. Any questions should be directed to Andrew Taylor on 02 9236 6024, or emailed to taylorand@stgeorge.com.au Sources used: Bloomberg

St George Investment Solutions Team

Felix Stephen

Acting Head of Investment Solutions & Senior 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

Research Analyst
valcasn@stgeorge.com.au

Dimitra Voutas

Portfolio Manager
voutasd@stgeorge.com.au

Andrew Taylor

Research Analyst
taylorand@stgeorge.com.au

Andrew Stuart Dowie

Economist
dowiea@stgeorge.com.au

Victor Zheng

Analyst
zhengv@stgeorge.com.au

Disclaimer: This publication is produced by **St George Investment Solutions** and is subject to applicable terms and conditions. Material contained in this publication is a summary only and is based on information believed to be reliable and received from sources within the market. The opinions contained in this publication are and must be construed solely as statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. It is not the intention of **St George Investment Solutions** that this publication be used as the primary source of reader's information but as an adjunct to their own resources and training. No representation is given, warranty made or responsibility taken as to the accuracy, timeliness or completeness of any information or recommendation contained in this publication and **St George Investment Solutions** will not be liable to the reader in contract or tort (including for negligence) or otherwise for any loss or damage arising as a result of the reader relying on any such information or recommendation (except in so far as any statutory liability cannot be excluded). This publication has been prepared for general information and not having regard to any particular person's investment objectives, financial situation or needs. Accordingly, no recommendation (express or implied) or other information should be acted on without obtaining specific advice from an authorised representative. Estimates of income and capital growth projection rates are based on assessments of current and likely future economic conditions, as well as investment manager past and likely future performances. Such figures are purely estimates and may vary with changing circumstances. Please note past performance may not be indicative of future performance.

Disclosure: **St George Investment Solutions** is a division of St George Bank Limited, (ABN 92 055 513 070), and operates under the financial services licence of St George Bank Limited, Australian Financial Services Licence Number 240997.

Warning: This publication has been prepared for general information and not having regard to any particular person's financial or investment objectives, financial situation or needs. Accordingly, no recommendation (express or implied) or other information should be acted on without obtaining specific advice from an authorised financial adviser. Any person using the data should consider, where relevant, its appropriateness in the light of their own or their clients' objectives, financial situation or needs, before acting on any advice contained within the data. If the data contains advice that relates to the acquisition of a financial product, you should consider the Product Disclosure Statement ("PDS") for that product before making any decision or recommendation based on that advice.