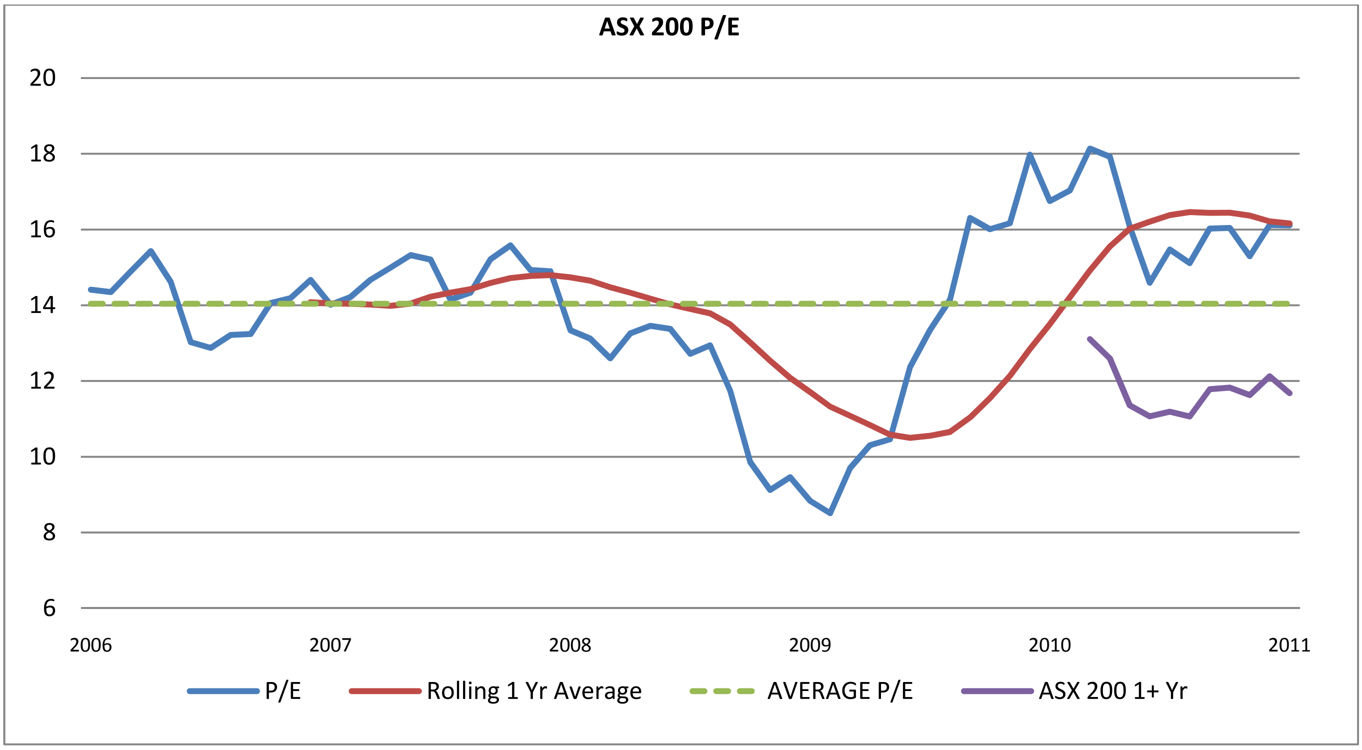


QUARTERLY VALUATION SUMMARY

The ASX 200 (the market) Price to Earnings (P/E) ratio as at the end of 31 December 2010 was trading at 16x, above its 5 year average of 14x. 1 Year forward earnings estimates (as of 1 January 2011) suggest the Forward P/E for the market for 2011 is 11.6x.

The suggested forward market P/E factors in a genuine recovery in domestic corporate earnings, a continuing surge in appetite by our largest trading nations for Australian raw and finished products and an improved economic and consumer sentiment within major developed nations, in order to reignite global growth.

Market sub-sectors that are expected to outperform (above 2010 earnings according to Bloomberg estimates) in 2011 are the largest sectors, Materials and Financials.

DOMESTIC MARKET OVERVIEW

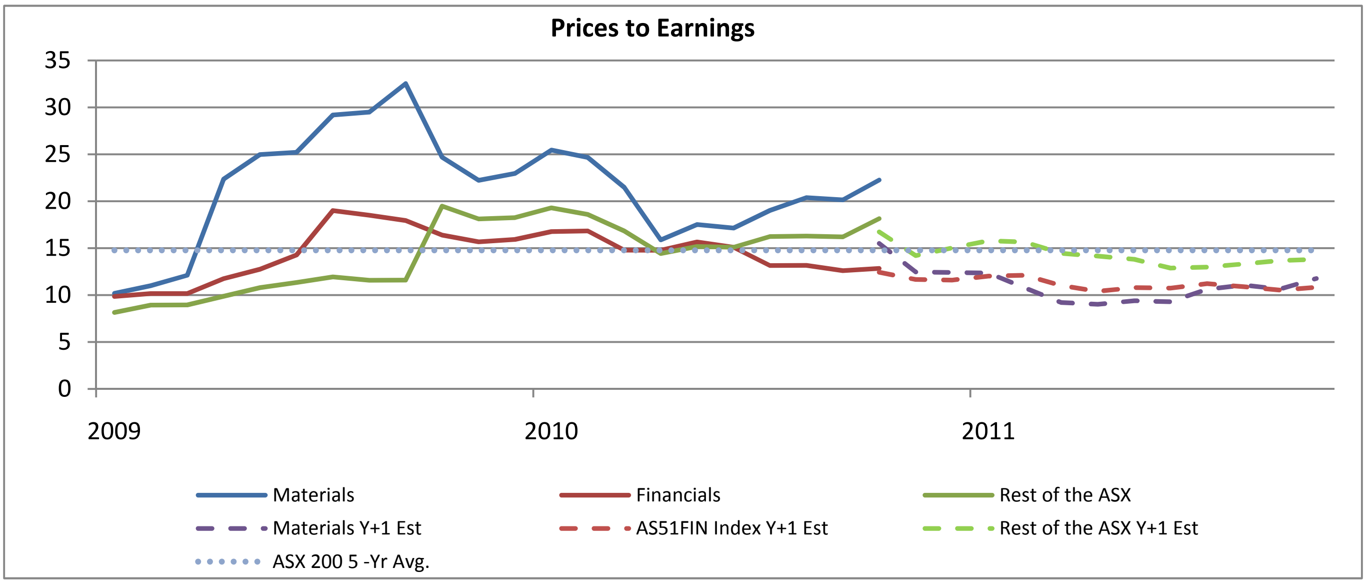
- The ASX 200 rose 4.61% for the quarter (Oct – Dec 2010) with Materials adding +12.44%, Energy +6.85%, Financials (-0.35%), Industrials +0.98%, and Consumer Discretionary (-1.98%) for the quarter.
- Momentum rather than an improvement in underlying fundamentals was the major driving force behind the domestic market return during the quarter.
- Retailers faced a considerable headwind and a potential threat leading into the Christmas period: the threat of online shopping and an increase in the RBA cash rate that occurred unexpectedly in November.
- Severe weather conditions nationally (drought, floods and cyclones) resulted in the loss of lives and livelihoods with a damage bill in the tens of billions. The market impact was a sell down of insurers, which form part of the financial sector.

BROAD CONTRIBUTING FACTORS:

- RBA increased the cash rate by 0.25% (25 basis points) to 4.75% in November.

- Domestic inflation rate for the quarter was 0.4 (below expected 0.7), providing an annualised rate of 2.2% well within the 2-3% band set by the RBA.
- Concerns surrounding the debt crisis in Europe remain (i.e. Portugal, Spain, Ireland and Greece).
- Chinese monetary authorities increased their domestic interest rates twice and their reserve required ratio to stem the rate of inflation while trying to avoid a decline in domestic growth.
- A majority of global equity markets ended Q4 2010 on a positive note with the S&P 500 (USA) +9.72%, Nikkei 225 (Japan) +10.57%, Shanghai Composite (China) +5.74% and FTSE (UK) +5.49%
- The Australian Dollar remained close to parity with the USD during the quarter. Major contributing factors were the US continuing its quantitative easing (QE) strategy, a strong demand for Australia commodities and our relatively high interest rates (in comparison to the US, UK and Japan which are close to zero).

AUSTRALIAN SHARES - MARKET VS. FINANCIAL & MATERIALS



The chart above illustrates the market P/E multiple in comparison to the two largest subsectors (Financials & Materials) and the Rest of the ASX, which is an index combination including Consumer Staples (11%), Consumer Discretionary (22%), Energy (26%), Industrial (30%) and Telecommunication (11%).

The compression in 1 – Yr Forward P/E multiples across the two largest subsectors of the market are based on the expectation of a continuation in the mining boom, an uptick in growth domestically and within the economies of our major trading partners, a consolidation within certain industries (i.e. merger and acquisitions) and a stable global economic and geopolitical environment.

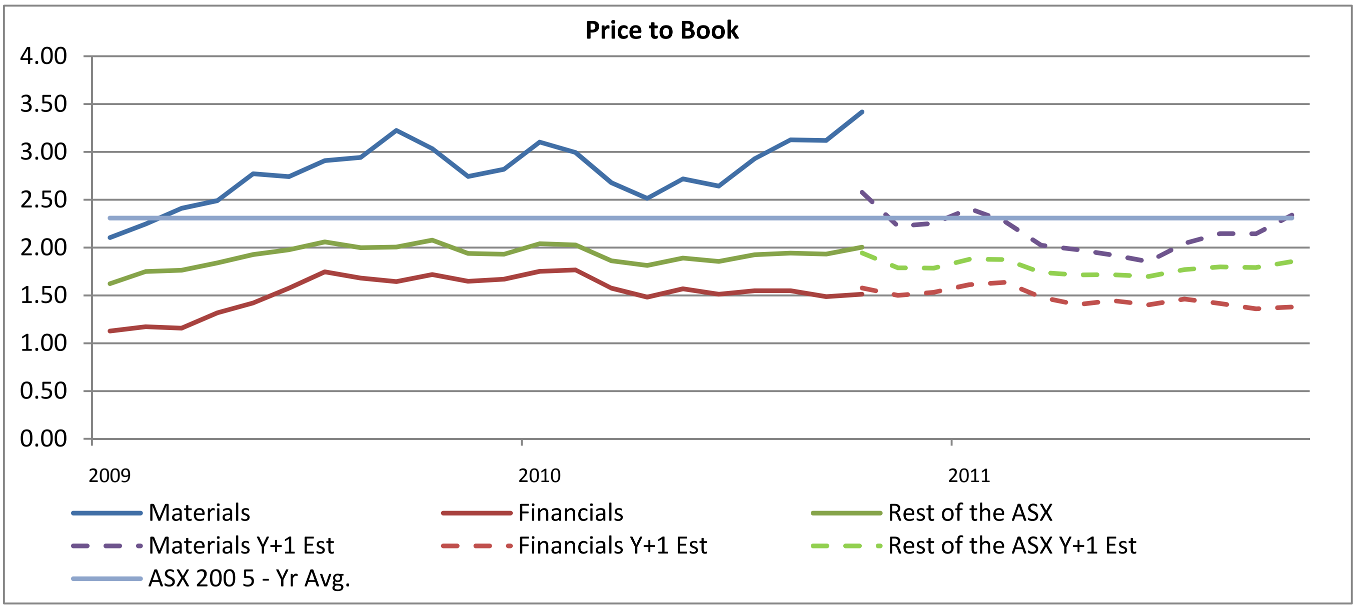
The 'Rest of the ASX' which is heavily weighted to the Industrials, Energy and Consumer Discretionary sectors are expected to have an improvement in their respective P/E multiples in 2011. However, the strong headwinds which have impeded the listed subsectors, over the past 12 months, are expected to persist to some degree over the coming 12 months. These headwinds will lead to a lagged improvement in comparison to the Financial and Material sectors.

VALUATIONS TO FURTHER SUPPORT THE POSITIVE OUTLOOK

As a consequence of the expected improvement in corporate earnings for 2011, the following ratios are all expected to trend positively from a shareholder value perspective; Price to Book, Cash flow per share and Dividend Yield.

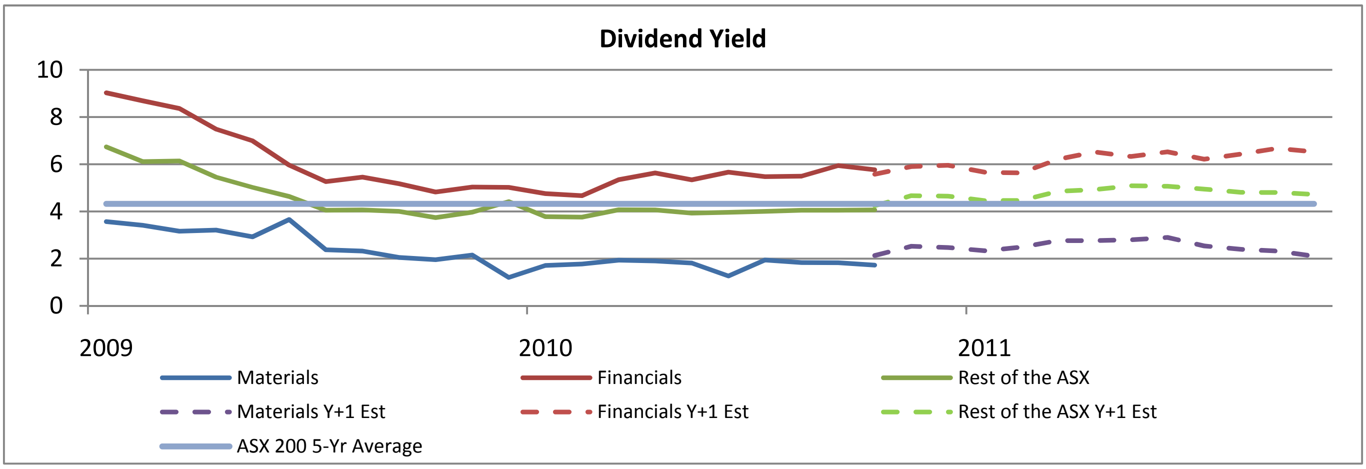
PRICE TO BOOK:

- The P/B ratio is a more appropriate valuation tool when evaluating the Financials index (comprising of Commercial Banks, Insurance Companies, & Investment Banks). The measure is considered the most successful measure of the true intrinsic value of shares.
- The current P/B of the market stands at 2x, which is currently trading below the 5 Year average of 2.3x.
- Financials P/B ratio is not expected to deviate greatly over the coming 12 months, based on Bloomberg 1 Year Forward estimates. The current P/B ratio for Financials stands at 1.5x and is expected to remain around that mark over the coming period.
- Materials 1 Year Forward estimates indicate a significant revaluation in P/B from 3.3x to 2.3x.



DIVIDEND YIELD:

- The market 5 Year average dividend yield is 4.3%. The 1 Year forward dividend yield expectation from both the Financials and Materials sectors is 5.7% and 1.7% respectively.
- Generally the underlying stocks within the Materials sector redeploy capital back into their respective businesses and projects to generate further growth. Therefore the dividend yield expectation is low in comparison to the Financials sector.
- The Financials sector is expected to increase their payout ratio (dividend), over the coming 12 months which is line with the positive expected growth in earnings during the period.



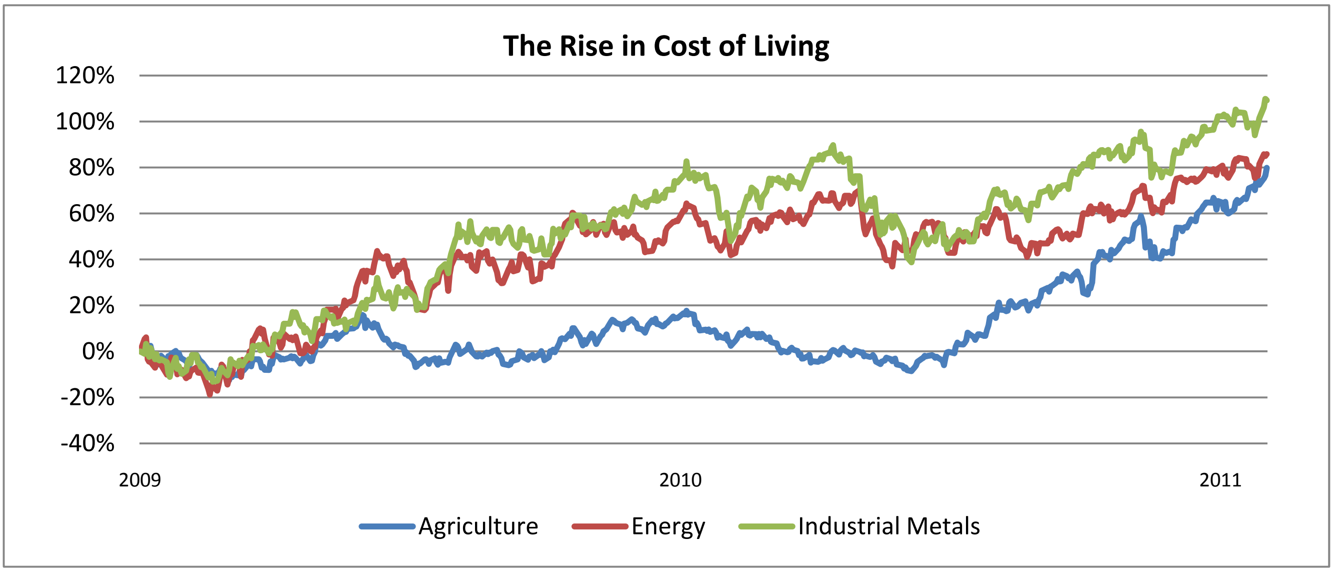
FACTORS DRIVING MARKET EXPECTATION IN 2011

To understand the projected expectation of improved corporate earnings for the next 12 months one must understand the potential risks and headwinds facing the domestic market and economy before making a well informed assessment on the prospects for 2011.

- China is our largest trading partners and accounts for over 21% of Australian export trade followed by Japan (19%), South Korea (7.9%) and India (7.4%). From 2008/09 – 2009/10 only two of Australia's four largest trading partners increased their appetite for Australian exports, China (up 18%) and India (up 4.9%). A slowdown in either could stunt the growth of the Australian economy and equity market.

- Climate impact through floods, drought, and cyclones. The recent floods in QLD followed by the Cyclone Yasi have impacted certain Miners (i.e. Coal, Copper) and a range of agriculture industries (Banana, Sugar, Dairy and live stock such as beef and chicken).

- Domestic / Global Inflation: Food and Energy account for almost half of the consumer price index (a measure of inflation) in emerging economies like China and India, and account for only 15% in the USA. In the event commodity costs continue to rise within EM economies this will be damaging to growth and inflation in developed markets in 2011.



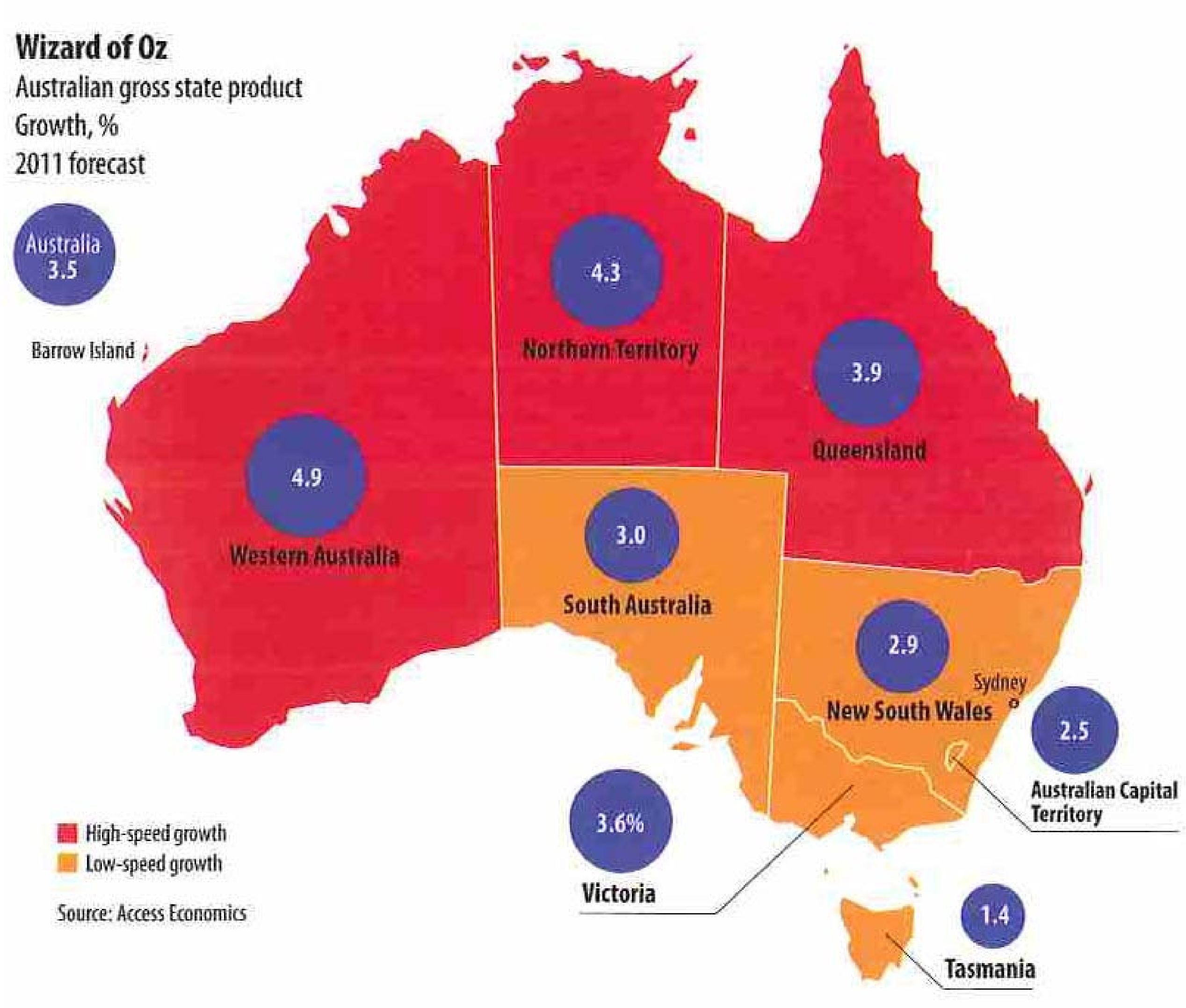
- On the other hand, if EM monetary authorities adjust their domestic interest rates too aggressively, to counter act the rise in inflation, it will be a relatively disappointing year for EM equities relative to their developed market counterparts.

- The reduction in developed world debt scheduled for 2011 is expected to cut 1% from developed countries' GDP. How developed economies will fare once artificial support is removed and how policy makers will implement their respective austerity measures remains the great unknown.

OUTLOOK FOR 2011

From a fundamental analysis standpoint, 2011 will be the year where corporate earnings improve across all major sectors, although at varying rates, with Materials and Financials expected to be clear standouts.

From a top-down perspective, corporate earnings could potentially encounter a range of risks and headwinds.

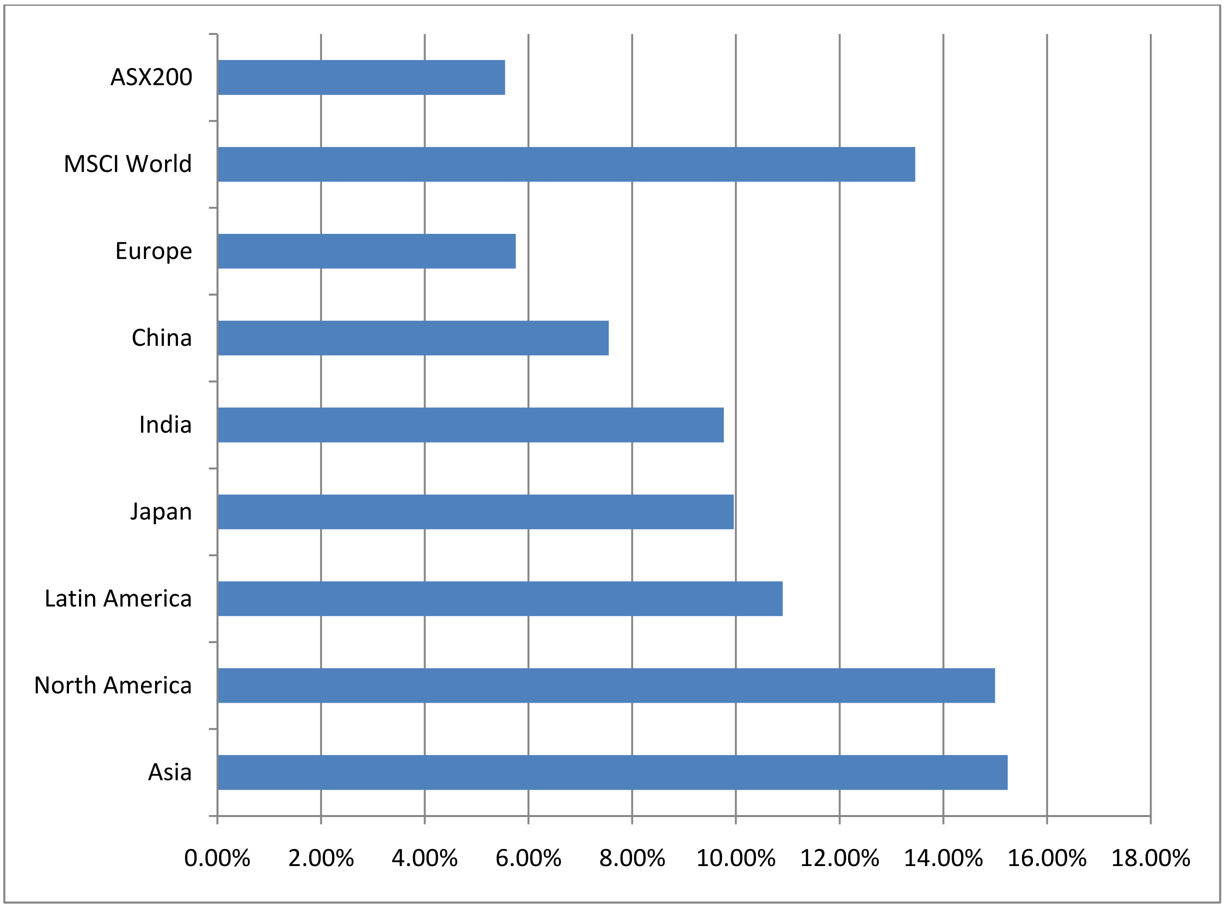


Source: The Economist

They include a drop in global demand for our raw and finished products or from the impact of tighter domestic monetary policy, higher inflation, additional taxes (Flood, Mining and Resources tax) and a continuation of the two-speed economy. The map below outlines the Economist magazines prediction for State, Territory and National GDP growth in 2011.

CRYSTAL BALL

Ground hog day, as the belief amongst market commentators is that a genuine recovery is unlikely in the short term, with a repeat of 2010 more likely. Global equity markets are continuing the risk on/risk off trade as investor sentiment is as fickle as Melbourne's weather.



MSCI INDICES ACROSS THE LISTED NATIONS AND REGIONS

Global equity markets recorded strong returns in Q4 2010, as detailed in the chart above. Significant gains were realised in the US, Asia ex Japan, Latin America, Japan and India.

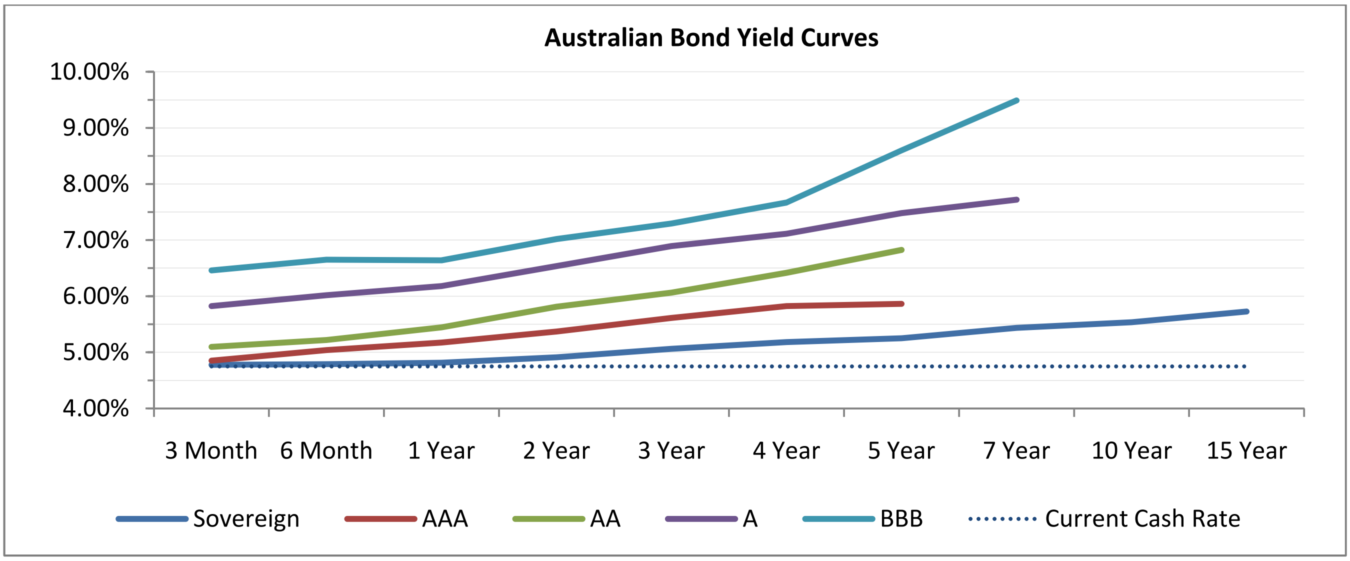
One surprising aspect of the chart above is the level of outperformance of the MSCI North America relative to the MSCI China and MSCI India index. The MSCI North America bottomed out in early September 2010 and rallied due to a recovery in corporate earnings (above analyst expectations), the Federal Reserve launching another round of quantitative easing and a slight improvement in consumer sentiment and retail sales.

The divide between Emerging Market indices and Developed Market indices increased in Q4 2010, with developed markets rallying on continued economic strength and emerging markets stuttering as the enormity of economic challenges (inflation and social/ political unrest) starts to become clear.

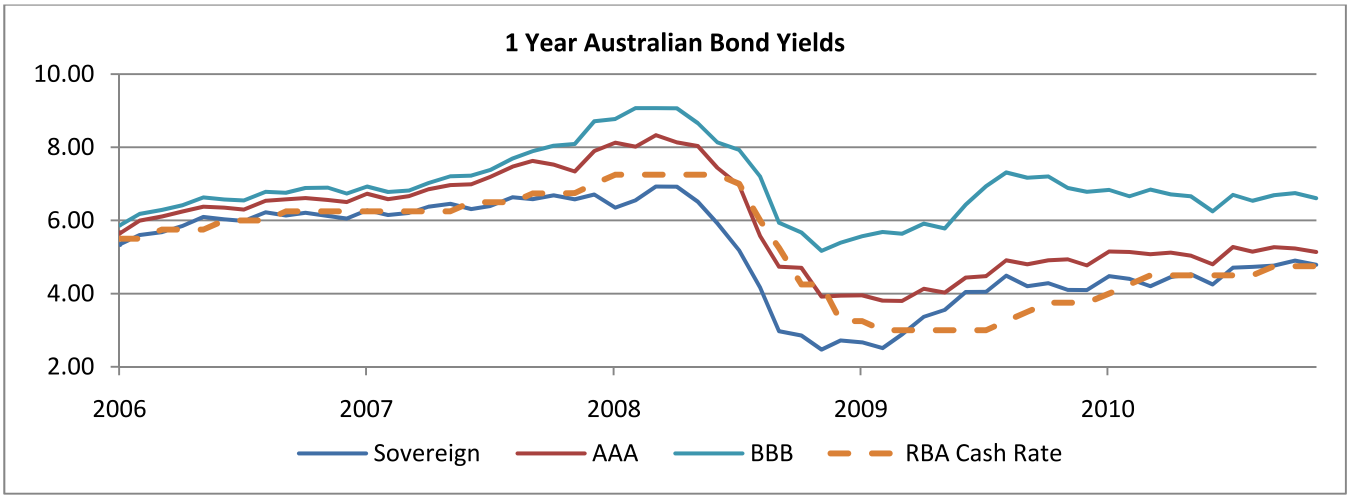
Global fixed income markets faced a period of significant instability throughout 2010, particularly in Europe where sovereign debt concerns persisted, largely in Ireland and Greece. Post-credit crisis witnessed a general widening of credit spreads and higher costs of borrowing for banks around the world.

DOMESTIC MARKET OVERVIEW

With extensive commentary surrounding the series of RBA cash rate rises last year, the Australian debt markets continued to exhibit upward sloping yield curves across all credit ratings. The below chart is a snapshot of Australian bond curves as at the end of December 2010. Long-term sovereign debt is priced to yield slightly more than 5.70%p.a., with a slight flattening in longer-term AAA-rated corporate debt yielding around 5.80%. This implies market holds expectations of rate rises totalling 75-100 basis points within the next 2-5 years. The below sovereign debt yield curve is relatively flat, representing a modestly positive outlook for economic conditions in Australia, with the market factoring in a moderate level of economic growth in the long term.



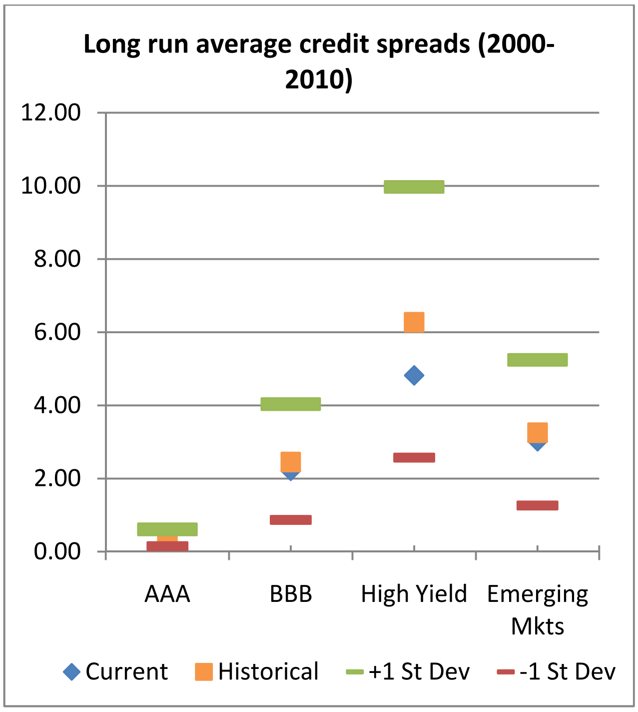
Current domestic spreads above the sovereign debt rate are a good demonstration of the confidence investors have in higher-risk grades of debt, and as seen below are still relatively wide when compared to pre-credit crisis spreads. The below chart shows yields on 1 year Sovereign, AAA and BBB rated bonds compared to the current cash rate. Note the increase in spread across the three credit ratings post credit crisis; this is a result of investors seeking greater compensation for the additional risk taken.

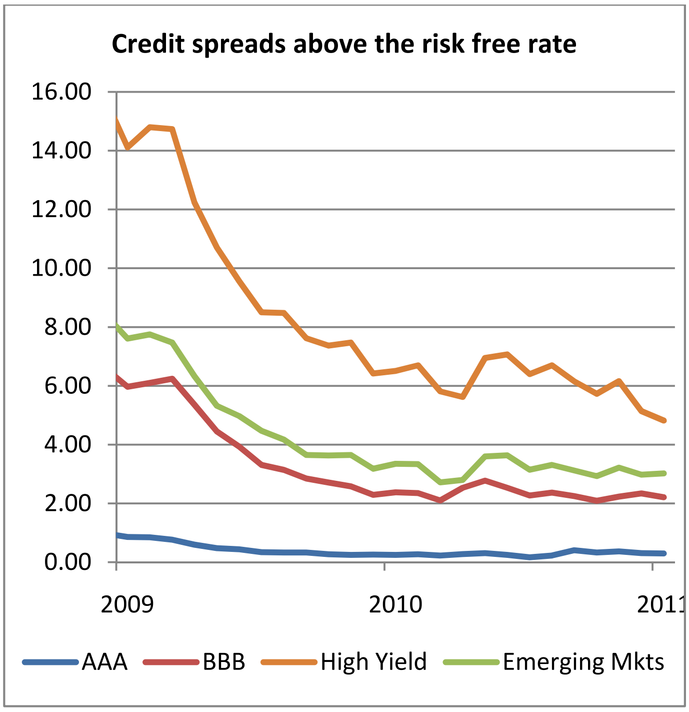


Spreads of AAA and BBB rated debt above the domestic cash rate are in line with global debt spreads, and despite recovering significantly from the global credit crisis, are still well above historic averages.

GLOBAL MARKET OVERVIEW

Corporate credit spreads over time, shown below right, illustrate persistently high spreads throughout 2009-10. These spreads are quite large relative to pre-credit crisis conditions; however a downward trend is clearly apparent, especially on high yield (speculative grade) securities, as investor confidence slowly returns. While credit spreads are relatively high compare to pre-credit crisis conditions, government interest rates are at historical lows around the world.

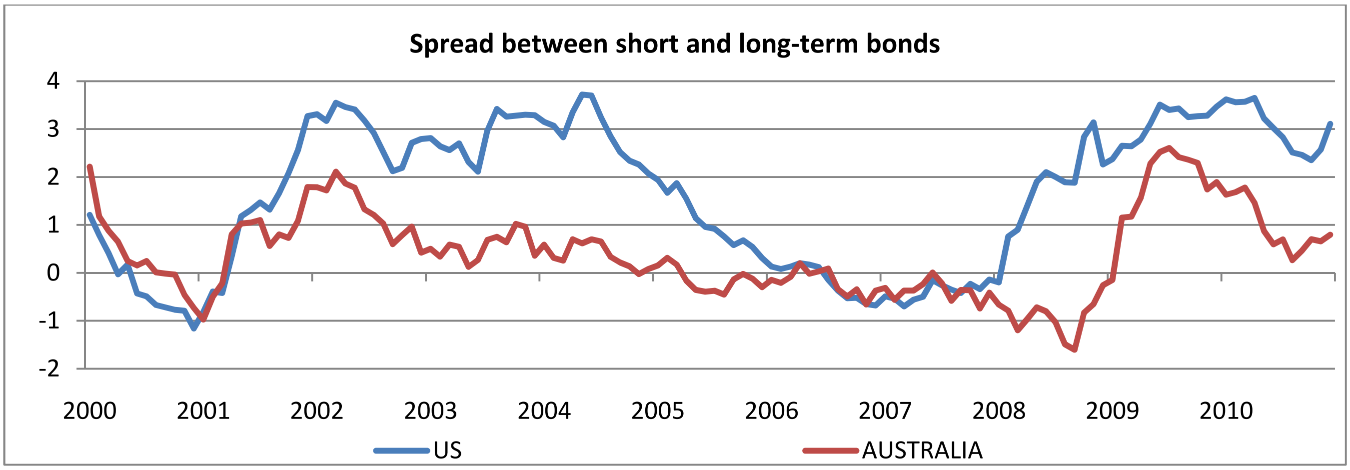




Current credit spreads are trading below their 10 year averages, as per the above left chart, which draws on BarCap's Global Aggregate Bond Indices and include the volatile spreads experienced throughout the credit crisis. While AAA rated bonds have historically offered little additional return above the risk free rate, BBB, High yield and emerging market debt are all trading at a slight premium. This is a reflection investors' willingness to add risk in pursuit of greater returns and emerging market exposure.

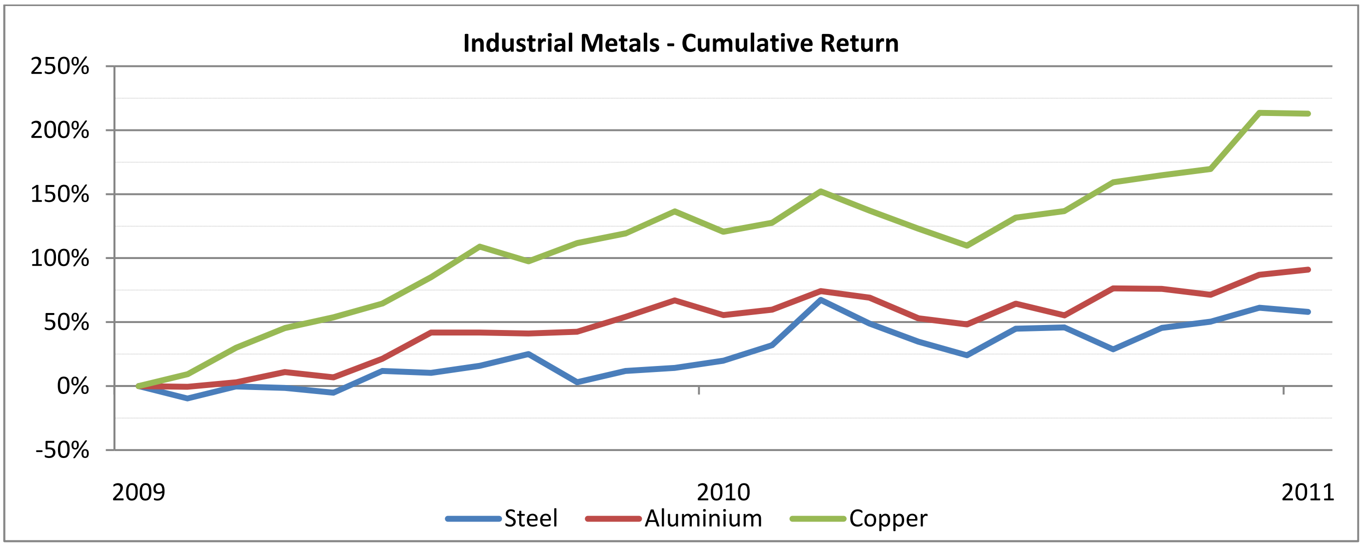
OUTLOOK FOR 2011

The spread between yields on short-term government bonds versus long-term government bonds is often used as a leading economic indicator and has been used in the past to forecast recessions with reasonable accuracy. The above chart illustrates the spreads between 10 year government bonds versus the overnight cash rate in Australia and the US since the beginning of 2000. A recent trend upward beginning in the latter half of 2010 indicates relatively positive market sentiment for economic growth in the medium to long run.

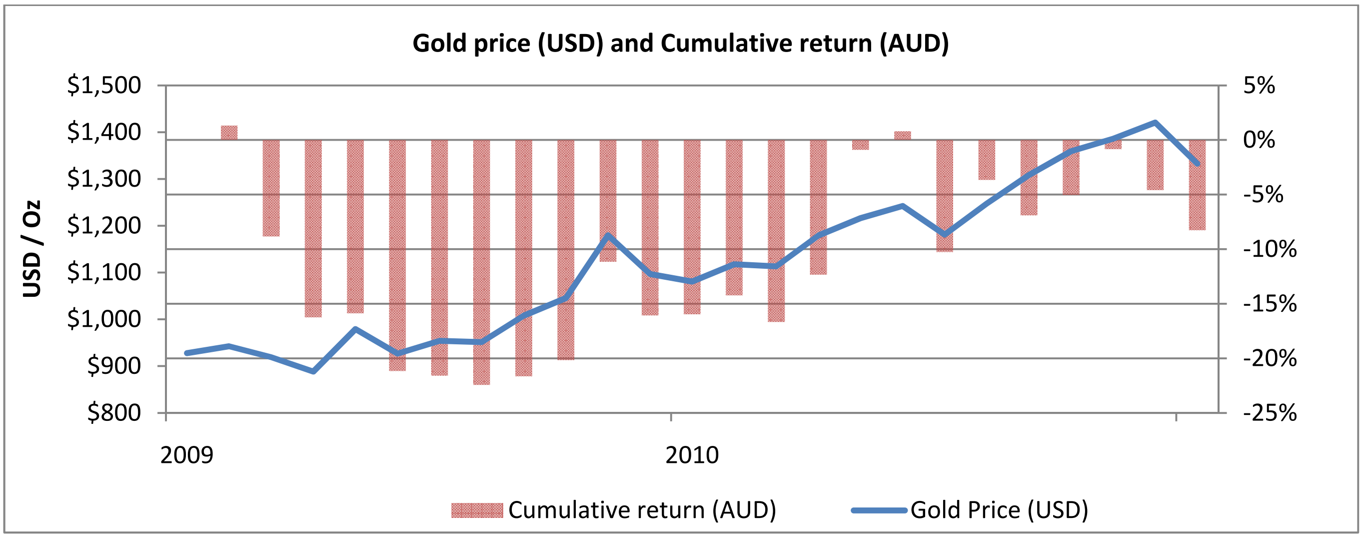


COMMODITIES AND CURRENCIES

Industrial metals have enjoyed a meteoric appreciation in prices throughout the past 2 years with booming growth in China and other developing economies driving demand. The below chart illustrates the cumulative appreciation of the three most widely used industrial metals according to the London Metals Exchange. The biggest story stems from copper, which has seen a price appreciation of over 212% since the beginning of 2009. The high prices have been attributed to extraordinary growth in demand dwarfing the ability of suppliers to keep up. This, combined with forecasts of considerable disruptions to supply, copper prices should continue to rally in the short to medium term. Steel and aluminium have each added over 57% and 90% respectively.

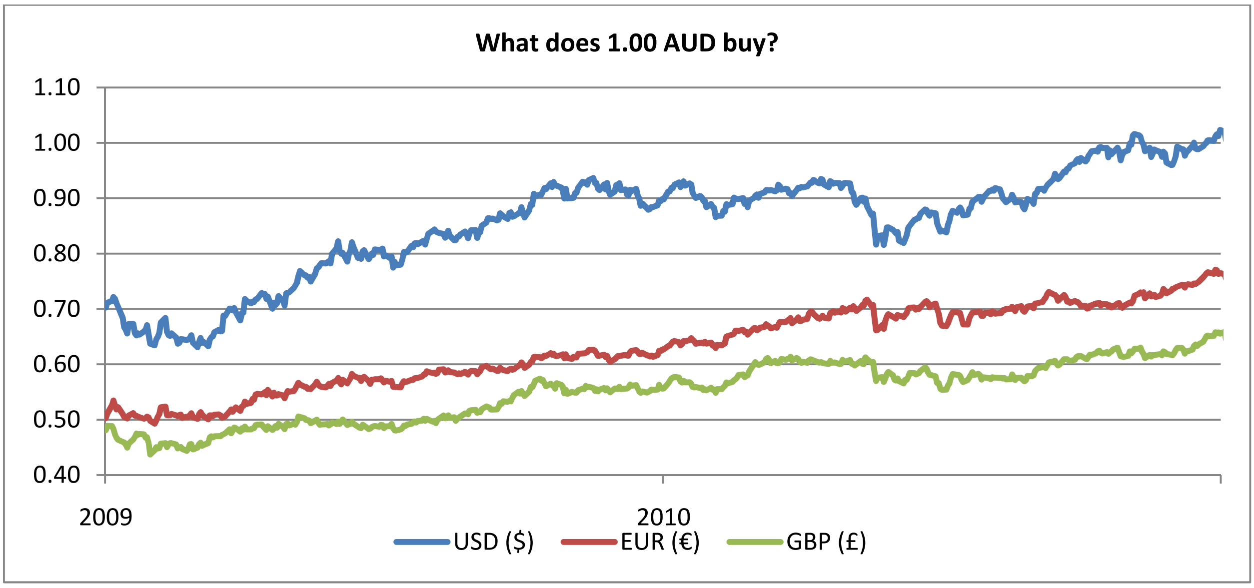


The Australian currency has enjoyed a strong quarter, thanks to the booming commodity prices and relatively high domestic interest rates, increasing its strength against most major currencies. With economic uncertainty persisting globally, gold has also experienced extraordinary appreciation, with prices continuing well above the US$1,400 mark. However, when converted into Australian dollars, gold has not performed overly well, with a cumulative return of -4.60% since the beginning of 2009.



As the gold price has risen from US$ 927.85/oz at the beginning of 2009 to US$1,332.8/oz at the end of January 2011, the Australian dollar has appreciated even more, erasing all gains in US dollar denominated gold holdings, rising from US$0.6375 to US$0.9982 in the same period.

The Australian Dollar has persisted to appreciate against all major currencies with a strong link to Chinese growth coupled with high interest rates relative to other major economies. The Australian financial system has exhibited a sound resilience to global credit issues and has continued to attract considerable foreign investment given its exposure to China. How long the Australian dollar will persist to appreciate remains to be seen, with Chinese inflation becoming a key concern, along with renewed confidence in the US economy.



Data Source: Bloomberg, The Economist

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