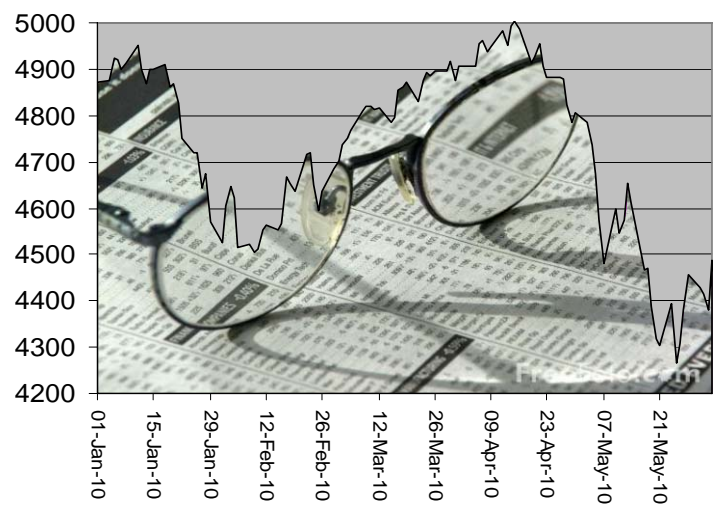


Investment Managers Weekly Review

4 JUNE 2010

PERFORMANCE AT A GLANCE

WEEKLY MARKET WRAP		
Aust Market	4486	2.4%
US Market	10255.28	0.0%
US Nasdaq	2303.03	1.1%
UK Market	5211.18	0.3%
GOLD	1210	-0.2%
OIL	74.61	0.1%
A\$US\$	0.8446	-0.8%



THE AUSTRALIAN SHARE MARKET - YEAR TO DATE

Market Wrap

Australian Market Performance (S&P/ASX 200): 4,486.0 +2.4%

The Australian market started the week in the red. Our market is in 'confession season', the period before reporting season when companies update profit forecasts. Revelations this week by Virgin Blue, Downer EDI, Insurance Australia Group and iSOFT sent their shares into negative territory. Our market swung around in the latter half ending up 2.4% for the week, as investors rushed back into beaten down shares.

On the economic front:

- The RBA kept rates unchanged at 4.5%. Sovereign debt worries in Europe weighed on the board's decision. The RBA said interest rates to borrowers are around the average levels of the past decade and that monetary policy was "appropriate for the near term". The RBA is confident Australia would continue to grow, buoyed by higher commodity prices and favorable terms of trade.
- The Australian economy grew by 0.5% in the March quarter (+1.1% in December quarter), mainly due to continued government stimulus spending. With fiscal stimulus now winding back, the onus will be for the private sector to lead the way in the year ahead.
- April retail sales rose 0.6% beating expectations of a 0.3% rise. However, households continue to be cautious with forecasts of more interest rate rises to come.
- Weak Chinese manufacturing data, the purchasing managers index (PMI) fell more than expected in May after China's Government moved to rein in investment in key sectors like high-end real estate. The lower demand for new orders in home construction has recently caused Chinese steel traders to dump steel reserves onto the market, dropping the price of steel. Chinese spot iron ore prices have now stabilised after falling nearly 20% in May. Most analysts expect China's growth rate to moderate closer to 9% p.a at year end, after surging 12.2% in the first quarter of 2010.

BSF – Investment Manager’s portfolio commentary

BALANCED FUND



Shares

The Fund’s targeted exposure to Australian shares is between 20% and 60% of the portfolio and the Investment Manager tactically adjusts the share portfolio within this range as market conditions change. In late 2009 the share weighting was reduced marginally when prices were deemed temporarily high, and in recent weeks we have been buying shares at prices we deem to be good value.

The share portfolio comprises large Australian companies, with nearly all of them being components of the S&PASX50 Index, (an index comprising the largest 50 companies on the Australian market). The portfolio is fairly concentrated with 20 to 25 companies, and the intent is not to invest disproportionately in any one company. Shares are selected based on their relative value and we do not index-weight the portfolio. For example an investment in BHP Billiton might represent 4% to 6% of the share component of the Fund, despite it representing approximately 12% of the overall Australian Stock Market.

Share prices have retreated recently as negative global economic news (particularly in Europe) has coincided with weaker commodity prices and an expectation of slower growth from China. In the longer term share prices are broadly reflective of economic conditions, and as the financial crisis of 2008/09 gradually eases in the coming years share prices should generally rise, particularly when more positive economic signs emerge in the United States, the world’s largest economy.

International Shares

The BSF has only a modest allowable exposure to overseas shares. Keeping the investment in overseas shares low makes strategic sense; as such investments often carry the dual risks of share price and currency exposure. Furthermore, many leading Australian companies have operational exposure to global economies and, in particular, the United States dollar. Therefore global investment exposure is partially attained via the domestic share portfolio. The Australian dollar has been trading at historically high levels recently, particularly against the UK Pound and the Euro. We are currently assessing the merit and risks of increasing the Fund’s investment in overseas shares in expectation that such an investment may improve overall performance if and when the Australian dollar falls.

Fixed Interest

The BSF target portfolio composition includes 40% of the assets invested in interest bearing investments. Interest rates have risen this year so returns on shorter term deposits have increased. In particular the returns on floating rate notes with regular variable interest rates have performed better and the Fund has increased its investment in these securities. Typically these securities offer an interest rate of 2% to 4% higher than the prevailing bank bill rates.

Short-term interest rates will likely stay steady for a few months before rising again later in the year. Long-term interest rates are likely to remain between 5% and 6%, with the higher end of this range more likely in 2011.

Fund Members can expect future investments in the fixed Interest part of the portfolio to mostly be invested in term deposits and variable rate securities, mostly issued by the major banks or large corporations. Lingering weak economic conditions in the property and finance sectors will render new investments in mortgages and debentures unlikely.

CONSERVATIVE FUND



The Conservative Fund is unable to own shares or property so the portfolio comprises entirely of interest bearing securities and deposits. At present approximately 50% of the Fund is invested in cash and term deposits and the remainder in a variety of fixed interest investments.

It is likely that further investments in interest bearing securities will be made this year with a preference for variable rate investments, particularly those that are bank-backed. Such securities are likely to improve the overall yield and performance of the portfolio.

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