



International Shares

Investment objective

To earn a rate of return above benchmark over rolling 5-year periods within a clearly defined risk profile. The benchmark is the MSCI All Country World ex-Australia Index with net dividends reinvested (50% hedged in \$A).

Multi-manager trust

Ibbotson selects specialist and complementary active managers with varying investment styles that are expected to deliver superior investment returns in excess of their performance benchmarks.

Diversified international shares

The portfolio is invested in listed international shares across developed and emerging markets.

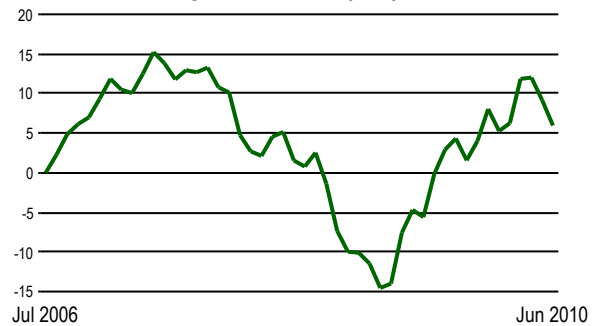
Key attributes

- Access to numerous specialist managers not normally available to Australian investors
- A combination of index-aware strategies and high conviction managers capable of generating significant performance potential
- Risk control through packaging a combination of managers with varying investment styles
- The ability to identify exceptional managers throughout the world is assisted by Ibbotson's access to global resources

Performance¹ to 30 June 2010

1 year	3 years	Since inception
12.3%	-2.4% pa	1.5% pa

Cumulative inception return (net)



¹ Performance measures are expressed after fees and taxes are deducted. The above returns reflect BNP's unit prices and are not necessarily representative of the performance of the underlying Ibbotson Trust.

²Regional allocations

as at 30 June 2010

		Difference to benchmark
North America	46.1%	-2.9%
Europe ex-UK	17.5%	0.2%
Emerging Markets	11.6%	-1.4%
UK	9.4%	0.8%
Japan	8.9%	-0.5%
Pacific ex-Japan	4.8%	2.1%
Cash	1.7%	1.7%

²Total may not add up to 100% due to rounding of individual components.

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Product features

Risk profile	High
Investment time horizon	5 years
Maximum tracking error	2% pa
Trust inception date	1 August 2006
Trust size	\$1.0 million
Unit pricing	Weekly
Management fee ³	0.60% pa
Buy/Sell spread	0.50% / 0.50%
Performance benchmark	MSCI All Country World ex-Australia Index with Net Dividends Reinvested (50% hedged in \$A)

³ The Management fee is inclusive of GST.

Portfolio dynamics as at 30 June 2010

Largest divergent stock positions to the index	Difference to benchmark
Exxon Mobil	-0.9%
Cablevision Systems	0.7%
Vodafone	0.7%
IBM	-0.6%
Johnson & Johnson	-0.5%
Procter & Gamble	-0.5%
Jardine Matheson	0.5%
HSBC	-0.5%
Amazon	0.4%
Jardine Strategic	0.4%

Manager weightings⁴

Ibbotson Int'l Shares High Opportunities (HOT)	High alpha multi-manager	59.5%
AXA Rosenberg	Core (global)	23.6%
Dimensional	Value (global)	12.0%
Others	Other	4.9%

⁴Total may not add to 100% due to rounding of individual components.

Manager style explanation

Core: An approach that does not deliberately target either value or growth stocks, although it is expected that an unintended small bias to either value or growth stocks, from time to time, will occur.

Value: An approach that focuses on selecting stocks that are regarded as relatively cheap based on various price measures.

High alpha multi-manager: An approach that focuses on selecting managers who run high conviction portfolios with the objective of generating significant outperformance.

Passive currency overlay: Managed by Vanguard with the aim of neutralising the portfolio's currency exposure by closely tracking the currency basket of the benchmark index.

Executive Summary – June 2010

Economic and market environment

Having entered the second quarter with decent momentum in the economic recovery, recent months have seen a re-assessment of the trajectory of this improvement, particularly in the US. Economic data released over the quarter is now highlighting that the recovery is starting to face challenges to its longer term momentum.

Further, statements emanating from the end-June G20 meeting point to a more prudent global approach to addressing the growing deficit and debt burden issues for most developed nations, the ramifications for which is likely to be lower global growth. Re-enforcing our more cautious outlook is the continued elevated level of unemployment in the US and Europe, ongoing challenges in their respective housing sectors, constrained bank lending, a Chinese government looking to curb its domestic property market, but probably most importantly, an increasing global aversion to growing deficits and high debt burdens relative to GDP.

Market sentiment has again been dominated by Europe with risk aversion the dominating theme. Europe's sovereign risk concerns saw the Q1 focus on Greece becoming much broader to include other peripheral European countries like Spain, Portugal and Italy. These developments rekindled fears of another financial crisis, akin to the events of September 2008 and culminated in the European Union, together with the IMF, formulating a EUR750bn package to support the region. Despite an initial positive reaction to the news, the appetite for risk quickly dissipated with the markets focussing their attentions to the implications of the rescue package. Further, concerns about the financial sector were brought into focus as funding markets came under pressure and the markets pondered the impact of the outcome of the upcoming European bank stress tests.

Despite a strong start to the quarter, global equities suffered due to the increasing risk aversion across global markets. Initially the more risk averse tone was fuelled by developments in Europe, but later in the quarter it was revised expectations as to the state of the global economic recovery and worries over the European banking system that fuelled weakness in equities. We note that these downward shifts were despite a better than expected Q1 results season, but given the elevated level of current earnings expectations, the results looked to have been more than priced into equity prices.

Government bond markets were the biggest beneficiaries of the more cautious environment as yields fell to, or near historic lows. The fall in the US 10yr to below 3% was notable; particularly given consensus expectations saw it ending 2010 well above 4% on supply concerns. Other bellwether developed countries like the UK, Japan and Germany also saw sizeable drops in their yields over the quarter helping them to deliver strong returns. It was not the case for all government bonds though with a number of the peripheral European issuers coming under significant pressure despite the austerity measures proposed by their governments and the availability of the support package offered by both the EU and IMF.

Australian treasuries also benefited from the risk averse environment, seeing the 10yr yield fall from 5.8% to 5.24%, to help it clawback some of its recent under performance. The fall in yields was despite the RBA raising rates twice in the quarter to take the cash rate to a more 'normalised' level of 4.5%.

The strength of Australian treasuries was not reflected in the Australian dollar, however, as it was seemingly used as a global proxy for risk. Having closed end-March at 92 cents, it fell to a low of 81 cents at the height of the market sell-off, before recovering slightly to close at 84 cents. During this volatile period, the fundamentals, which supported it at levels above 90 cents appeared to attract little attention, instead its moves were being dictated by the volatility in US equity markets.

This leaves markets in fragile state, in our view, as current global macro concerns look to have gained precedence over shorter term indicators pointing to an eventual recovery. Risk sentiment has also materially shifted over the course of the quarter and with downward revisions to growth expectations now starting to filter through we expect the present environment is to foster further uncertainty, and ultimately volatility for markets.

Investment outlook

On balance, we continue to expect a more benign economic recovery in the major developed markets, with the impact of large government deficits, and a weak consumer constraining growth. On the back of benign growth, sustained high unemployment, and material excess capacity, inflation is unlikely to pose a threat, instead we see inflation remaining anchored for some time to come. This environment will give the major central banks the ability to maintain low policy rates for extended periods seeing the prospect of tighter monetary policy as an unlikely event until 2011. One of the few exceptions to this view could be Australia as it grapples with its growing terms of trade and limited employment capacity, and on this basis further rate rises in H2 2010 are likely.

This environment is likely to see investors remain cautious and markets continuing to be range bound, until investors are more confident that a sustainable recovery is under way. This will require a major catalyst, and whilst it is difficult to identify what this might be, the upcoming Q2 earnings season is likely to be a key focus, particularly in regard to current equity valuations. Although valuations seem less stretched following Q2 market moves, we expect a strong earnings season is required to justify present earnings expectations currently priced into the equity prices. Equally important will be company outlook statements, which many investors are likely to compare against broader macro growth revisions.

Looking at global equities on a regional level, Europe still appears more attractive due to depressed profit margins and relatively low PE ratios; however the European economies continue to lag developed markets and have material potential downside risks around future growth within the EU and the outcome of the bank stress tests. The U.S. market remains the most expensive despite recent weakness, while the U.K. and Australia are also on the expensive side on above average profit margins. Notwithstanding valuations, earnings are recovering and the U.S. market has the potential to surprise on the upside, especially given the potential for a boost in corporate spending by cash rich multi-national corporates.

Australian REITs (Real Estate Investment Trusts) enjoyed a good relative Q2, but still stand out as one of the most attractive growth assets, despite apparent investor apathy towards the asset class. With many institutional investors moving to global REITs and yields not standing out next to Australian government bonds yields, Australian REITs still

lag other growth assets. However, in our view the fundamental outlook for commercial property in Australia is improving, the reduced leverage and more sensible capital structure policies have reduced the risk associated with many REITs and yields for Australian REITs are still reasonable. Investor sentiment remains unsupportive but we are less concerned about this for two reasons. Firstly, the risk/reward profile still provides a reasonable total return with potential downside capital protection. Secondly, the potential upside surprises for Australia REITs given their improving fundamentals and the potential swing in investor sentiment following confirmation of the improvements in REIT NTA's (Net Tangible Assets).

Sentiment and positioning in bond markets remains bearish but less so following the events of the last quarter. While investors generally remain cautious around government bonds, largely due to technicals around near-term supply/demand dynamics and absolute valuations, it is our view that the more benign outlook for developed market growth, and lower inflation supports lower bond yields, at least in the short to medium term.