

**FINANCIAL SERVICES COUNCIL
CHIEF INVESTMENT OFFICER
INVESTMENT INDEX # 02
(Q2 FY11)**

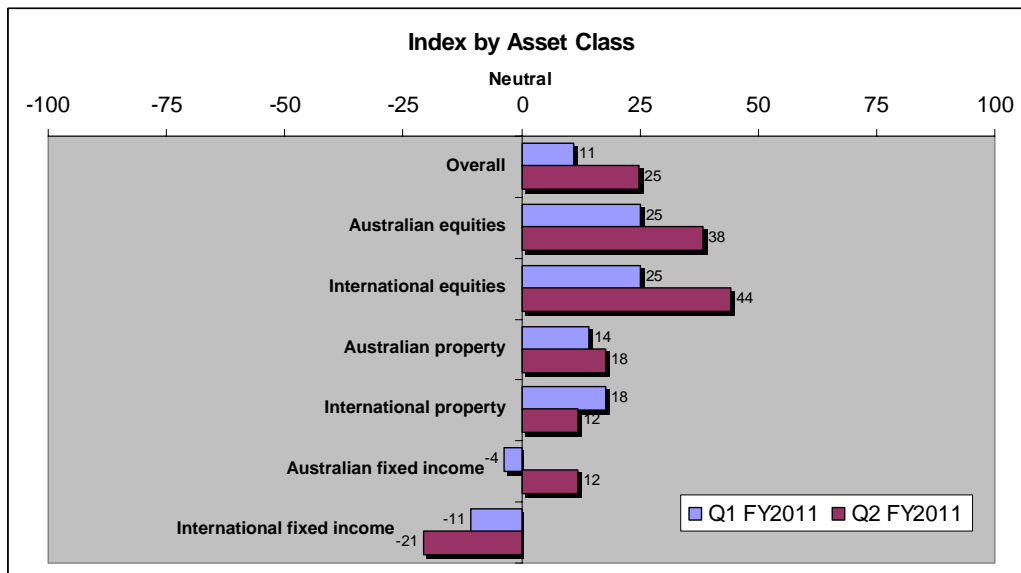
Key Findings

The ‘Financial Services Council Chief Investment Officer Investment Index’ gauges the sentiment of Chief Investment Officers (CIOs) towards the investment environment over the next 12 months.

This quarter the Index scored **25** from a range of -100 to 100, where a score of 0 is considered neutral. This is up from the score of 11 in the last quarter.

Responses indicate a growing optimism among CIOs over the next 12 months. Of the concerns raised this quarter many were also mentioned last quarter. These included the possibility of European economies defaulting and issues associated with systemic regulatory impediments.

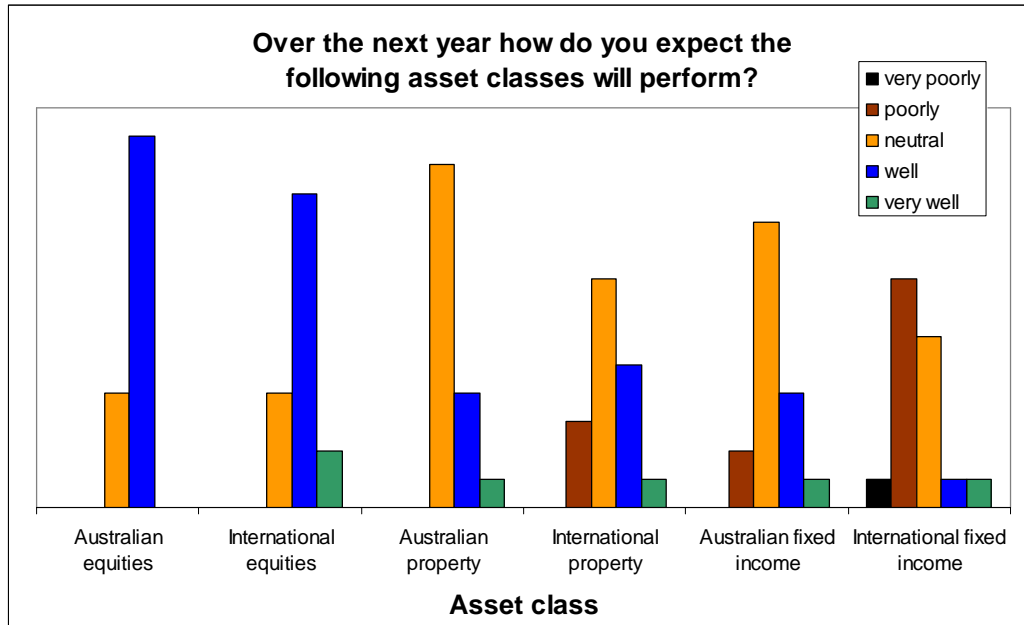
However the resounding emphasis on these factors has abated. There is now increasing attention being given to fears of inflation and government reactions to control it, especially in China, and the future influence of emerging markets on investments.



In terms of specific asset classes, Australian and international equities are again expected to perform the best. Both have improved considerably since last quarter however the improvement in sentiment towards international equities has been particularly strong. Equity assets, both here and abroad, are expected to perform better than property and fixed income assets.

A divergence in sentiment has developed in the last quarter with significantly more positive sentiment towards Australian fixed income assets compared with their international equivalents. In fact, Australian fixed income assets have moved from -4 to +12 whereas sentiment for International fixed income has become increasingly negative moving from -11 to -21. International fixed income was the asset class with the worst sentiment by a significant margin.

In a reversal from last quarter, Australian property is expected to perform slightly better than International property.



There has been an increase in consistency of responses since last quarter. This is especially apparent in the responses to the expected performance of the three international asset classes. The only exception to this greater consistency is with the Australian fixed income asset class where individual impressions of sentiment have diverged slightly.

Sentiment towards Australian asset classes is generally more consistent than that of their International equivalents. It is the Australian and international equities asset classes that demonstrate the greatest consistency of responses amongst CIOs.

The range of sentiment expressed toward fixed income assets, both here and abroad, and international property varies considerably. However there is a consistency of sentiment in respect to Australian equities with all respondents expecting those assets to perform either neutrally or well.

Main factors contributing to optimism/pessimism

The general sentiment among CIOs regarding the investment environment over the next 12 months is fairly positive. Levels of concern around the state of the US economy have reduced significantly. Further, European sovereign debt fears also seem to be dissipating albeit more slowly. As these fears lessen, the need for the Chinese economy to continue to grow is increasingly being considered.

Many respondents have noted that (apart from in Europe) there have been strong global corporate earnings and an expectation that they will improve further. There is also a perception that sufficient risk is currently built in to investment markets.

Finally, while deleveraging is continuing to occur globally, governments are seen to be conscious and responsive to this trend. Emerging markets, with low debt levels, are considered to be well positioned.

Most significant short term risk factors (12 months)

The most significant risk factors identified by CIOs over the next year are:

- Possible default of European economies;
- Risk of a slowdown in China; and
- Systemic regulatory headwinds.

Most significant long term risk factors (5+ years)

How governments manage their debt reduction and further fiscal stimulus measures are considered major sources of long term risk. Another risk factor is the volatility brought about through the increasing significance of emerging markets. Finally, inflationary pressures and moves to control these, especially in China, are increasingly being considered as risk factors in the long term.

What is the 'Financial Services Council Chief Investment Officer Investment Index'

The 'Financial Services Council Chief Investment Officer Investment Index' is based on a survey of Chief Investment Officers from a sample of Financial Services Council members. It is designed to gauge their response to a range of questions about the investment environment predominantly over the next 12 months but also considering longer investment timeframes.

How is the 'Financial Services Council Chief Investment Officer Investment Index' calculated

The 'Financial Services Council Chief Investment Officer Investment Index' is calculated by combining the responses to a number of questions about the current investment environment. These questions are used to determine sentiment across six individual asset classes as well as sentiment on the investment environment as a whole. Its theoretical range is from -100 (worst possible sentiment) to +100 (best possible sentiment).

About the Financial Services Council

The Financial Services Council represents Australia's retail and wholesale superannuation, funds management and life insurance industries. The Council has over 135 members who are responsible for investing more than \$1.4 trillion on behalf of more than 11 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Stock Exchange and is the fourth largest pool of managed funds in the world. The Financial Services Council promotes industry best practice by ensuring members adhere to the Council's Standards and Guidance Notes.

Companies included in the 'Financial Services Council Chief Investment Officer Investment Index'

- Aberdeen Asset Management
- Alliance Bernstein
- Australian Unity
- AXA Australia
- Bennelong Funds Management
- Blackrock
- BT Investment Management
- Equity Trustees Limited
- Franklin Templeton Investments Australia
- Goldman Sachs & Partners Australia
- Invesco Asset Management Australia
- NABInvest
- Perpetual Investments
- Principal Global Investors
- Schroder Investment Management Australia
- State Street Global Advisors
- UBS Global Asset Management