

## FINANCIAL SERVICES COUNCIL CHIEF INVESTMENT OFFICER INVESTMENT INDEX (December 2011)

### 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.

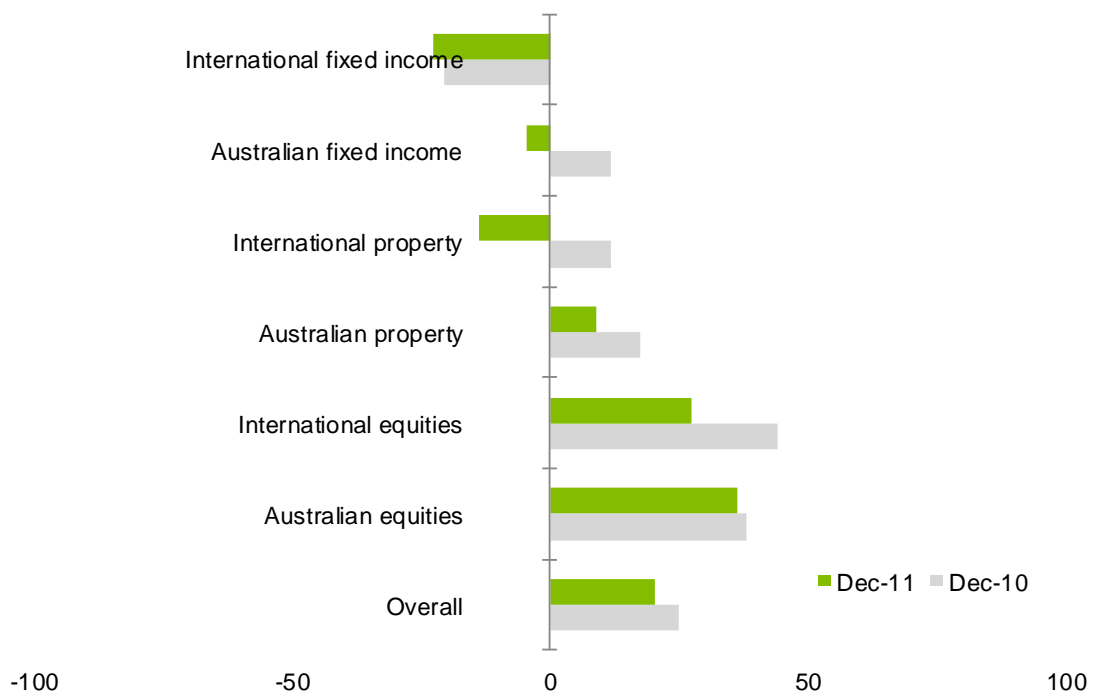
This quarter the Index was **20** from a range of -100 to 100, where a score of 0 is considered neutral. This is down from the score of 25 in December 2010.

Responses indicate that overall CIOs are less confident than 12 months ago. Concerns around European debt levels which was listed as the major risk in December 2010 have now crystallised and international fixed income continues to be rated poorly as an investment prospect for the coming 12 months.

Inflation in the Chinese economy, mentioned as a risk 12 months ago, has now transformed to concerns about the strength and appropriateness of the Chinese government’s policy response to inflation. This combined with potential contagion from Europe to the Chinese economy has sharpened the risk of slower Chinese growth in the minds of CIOs.

Many CIOs also stated that they expect conditions to remain volatile.

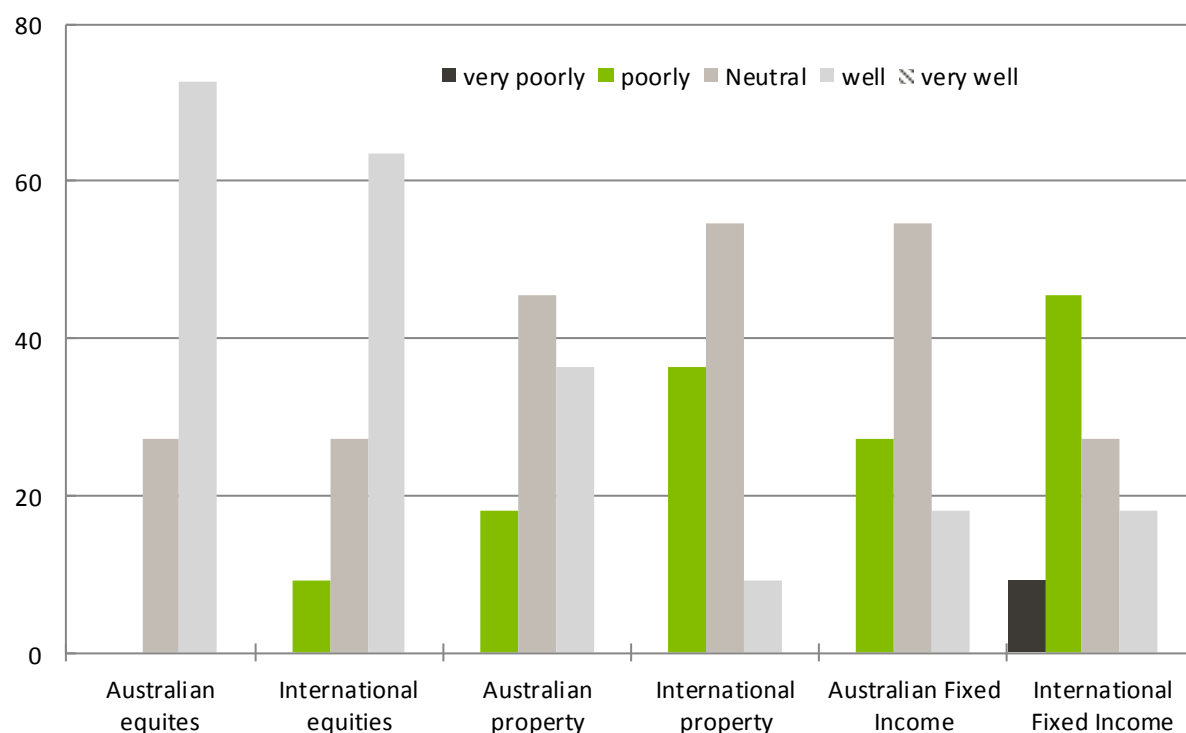
### Sentiment by Asset Class



Australian and international equities are expected to outperform other asset classes. While confidence in Australian equities remains around the same high level as December 2010, expectations around international equities have fallen to bring them closer in-line with Australian equities.

The crystallising of risks around European debt levels, the impact this has had on European economies and perceptions of a property price bubble in China have had a negative impact on expectations around international property.

## Expected Performance of Asset Classes Coming 12 Months



## Main factors contributing to optimism/pessimism

There is a general view among CIOs that equities are currently undervalued and this is driving optimism in this asset class. Price earnings ratios are good and corporate balance sheets are strong which is expected to drive appreciation.

On the downside, concerns over European debt mentioned by many CIOs in December 2010 have come to fruition. As a result, international fixed income continues to drag on confidence and is now affecting expectations of international property and international equities. A new development is respondents expressing a lack of confidence in the European and US political systems to deliver solutions to debt problems.

## Most significant short term risk factors (12 months)

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

- Failure to resolve European debt problems; and
- Risk of a slowdown in China.

These factors were weighted equally by respondents.

## Most significant long term risk factors (5+ years)

The impact of governments unwinding debt in the United States and Europe is seen as the most significant risk over the medium term. Long term political stability in China, in the face of slower economic growth is also mentioned as a risk to the global economy.

### 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 \$1.8 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
- Blackrock
- BT Investment Management
- Equity Trustees Limited
- Franklin Templeton Investments Australia
- Goldman Sachs & Partners Australia
- Invesco Asset Management Australia
- NAB Invest
- Perpetual Investments
- Principal Global Investors
- Schroder Investment Management Australia
- State Street Global Advisors
- UBS Global Asset Management