

**Attachment A: Economic & Individual Commentaries (provided by CPG Research & Advisory)*****Economic Data Commentary*****International Market**

The Dow Jones and S&P 500 Index closed up 0.01% and down 0.75% respectively in April. UK's FTSE 100 Index was down 0.53%, France's CAC 40 declined 6.16% on Sarkozy's likely election loss (which would trigger the end of budget austerity measures) while Germany's DAX was down 2.67%.

Ireland's Index (ISEQ) dropped 0.93% as Spain's stock Index (IBEX) fell 12.45% as data confirmed a recession and another spike in unemployment, while Spanish bonds again came under selling pressure.

In Hong Kong, the Hang Seng rose 2.62% and China's Shanghai Composite Index recovered 5.90%. Japan's Nikkei Index closed down 5.58% lower.

The MSCI World Index ex-Australia, a broad measure of global stocks, declined 1.50% in local currency terms.

US 10 year bonds hovered around the 2% level through the month, before closing at 1.95%.

**Other highlights included:**

US unemployment was 8.2% in March, down from a high of 10.0%, recorded in October 2009. +120,000 jobs were added, half that of February, with wages up +2.1%.

The Consumer Price Index (CPI) moved up 0.3% in March after a 0.4% gain in February. The CPI has risen 2.7% in the last 12 months, easing from February's +2.9%, still affected by oil and gas prices.

The Purchasing Managers' Index (PMI) of the US rose to 53.4 in March from 52.4 in the prior month.

Housing starts fell 5.8% to an annual rate of 654,000 in March, after a 2.8% drop in February. The March decline is the fourth in the last six months.

Real GDP of the U.S economy slow to an annualised rate of 2.2% in Q1, after a 3.0% increase in Q4 2011.

The Fed's policy statement contained several minor but important modifications which suggest a marginal upgrade of the U.S. economic outlook.

Despite some signs of improvement, housing sector still remains depressed.

The Federal Reserve sees US growth picking up and unemployment falling by the end of the year, as it stuck fast to existing stimulus policies despite some short-term economic headwinds.

The Chinese economy grew at an 8.1% annual rate in the March quarter (consensus 8.4%) down from 8.9% in the previous quarter. It was the slowest annual growth rate in 2½ years.

## Domestic Market

Domestic headline CPI was just +0.1% in Q1, well below consensus +0.6%. The annual rate was 1.6% in Q1 2012 compared to 3.1% in the final quarter of 2011.

The RBA's underlying CPI measure was +0.4% in Q1, +2.2% over the year - at the bottom end of the RBA's 2-3% inflation target range.

Fuel, rent and health care were the main contributors to the index rise, while prices fell for imported goods such as clothes and overseas travel, held lower by the strong Australian dollar. Households notice fuel and rent more than the relative cost of overseas travel – consumer confidence is very weak.

Final stage producer prices fell by 0.3% in the first quarter of 2012; +1.4% for the year and down from 2.9% in Q4. Employment surged by +44,000 in March after falling by 15,400 in February. The unemployment rate remained at 5.2%.

## Credit Market

The global credit indices were largely stable during March particularly after Greece managed to get 85.8% acceptance on the debt swap valued at close to €200bn. The Greek debt restructure brought down the borrowing costs in European Capital Markets and this was reflected through to the CDS, bringing in the spreads on a number of corporate credits. Overall, it was another positive return for credit markets, with physical assets benefiting from a stabilisation of spreads:

Credit Indices	30 Apr 12	31 Mar 12	30 Apr 11
iTraxx Australia 5 Yr CDS	155bp	148bp	103bp
iTraxx European 5 Yr CDS	141bp	125bp	103bp
CDX North American 5 Yr CDS	95bp	91bp	88bp

Source: Markit

## Currencies and Commodities

A falling US dollar pushed the Australian dollar higher, closing at \$1.0453.

There is dissent within the Fed about keeping interest rates through to 2014 – the Richmond Fed dissenting in a 9-1 vote.

Oil prices fell at the end of April amid fears over economic gloom in the Eurozone and the United States (and potentially still China).

Gold futures edged lower on stronger-than-expected manufacturing data from the US.

## Individual Fund Commentaries

### BlackRock Care & Maintenance Fund (CMF)

The BlackRock fund provided a mark-to-market return of -0.30% (net actual) for the month of April, underperforming the bank bill index return of +0.38%. Poor sentiment in the European region (Greece, Spain and France in particular) drove physical credit spreads wider. Coupled with the weak financial market in the US, this resulted in the fund's underperformance during the month.

Despite the volatility over the past year, the fund continues to comfortably outperform bank bills over longer-time periods. In fact, over the past 3 years, it has returned around +14% p.a. versus the bank bill return of +4.5% p.a.

### T-Corp Hourglass Cash Facility

The T-Corp Hourglass Cash Facility provided a return of +0.39% (net actual) in April, performing in line with the UBSA Bank Bill Index while outperforming the official cash rate by 5bps.

Although the broader credit indices generally widened during the month, physical spreads amongst the senior major bank FRNs remained relatively unchanged. For the month of April, three month

bank bills fell a further 29bps to 4.09% as markets continued to factor in multiple rate cuts over upcoming months.

### ***Recommendation – Term Deposits***

With recent adjustments in fixed interest markets and the potential for further disappointments in the cash rate, any medium-term rates **near or above 6%** should seriously be considered. This will soften the impact of a fall in income (in absolute terms) over upcoming financial years. At the time of writing, we see value in the following medium-term deposits:

- Bank of Cyprus Australia (NR) – likely to be rated A- in the near future 6.10% p.a. for 5 years (+238bps over bills)
- RaboDirect (AA) 5.90% p.a. for 5 years (+218bps over bills) – conditions apply
- Bank of Cyprus Australia – likely to be rated A- in the near future 5.75% p.a. for 4 years (+213bps over bills)
- Credit Union Australia (BBB) 5.95% p.a. for 2 years (+235bps over bills)

Note that both Investec Bank Australia and ING Bank Australia have fixed and floating options available for 1-5 year term investments.

Given the inverse yield curve, opportunities in the short-term (less than 1 year) space are starting to fade, with the highest deposit offered in the mid-5%'s. This will be the new norm should interest rates continue to be cut.

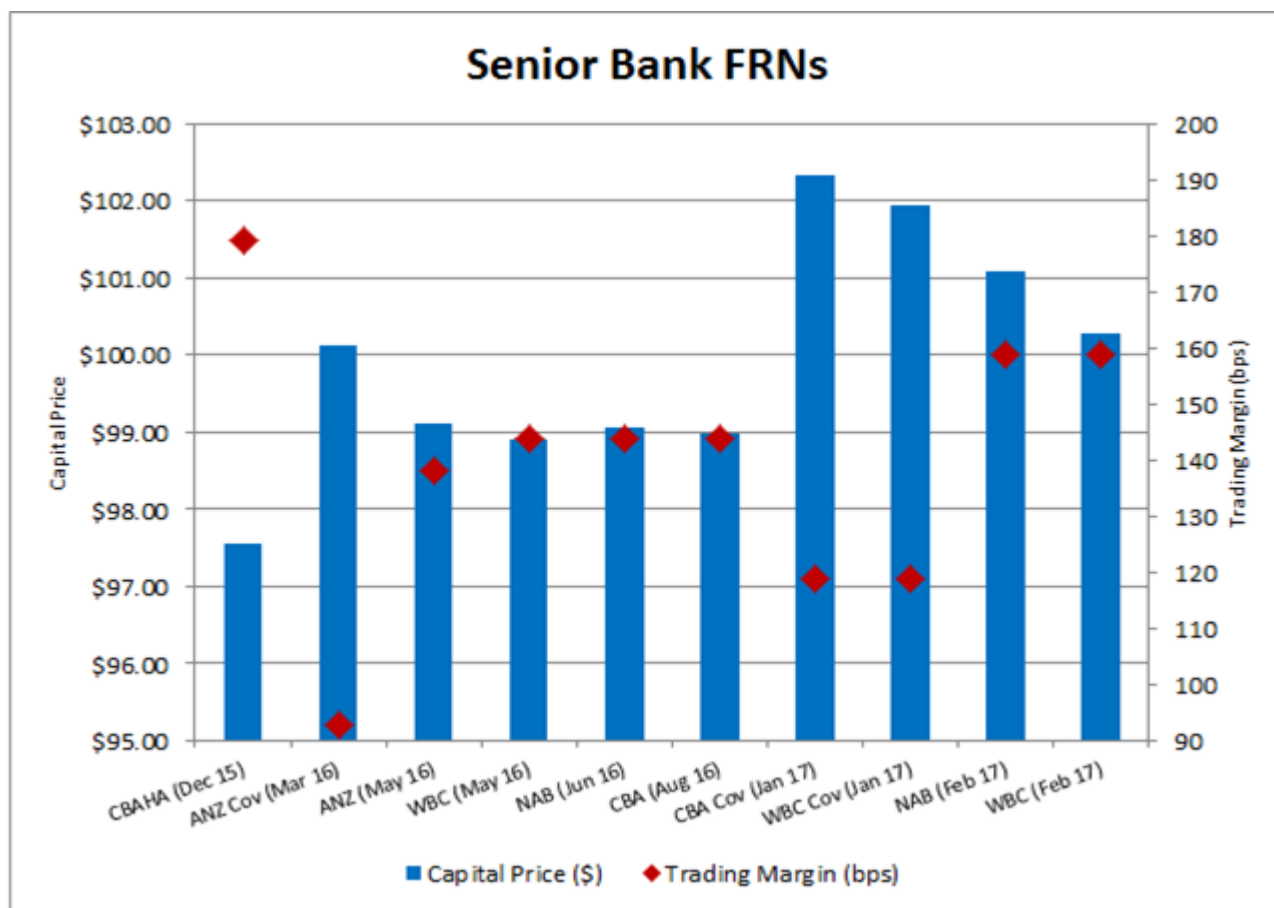
Should compelling fixed deposit rates disappear or should capacity limits be fulfilled (e.g. counterparty limits), we highlight the use of senior floating rate notes (FRN's) going forward.

### ***Recommendation – Senior Floating Rate Notes (FRNs)***

There are still opportunities to take advantage of liquid, longer-dated major bank FRNs which are competitive to illiquid longer-dated major bank deposits.

Strategically, in a stable economic environment and unchanged credit curve, a holding period of around bank bills plus 180bps or more (for a major bank FRN) can still be achieved by rolling down the curve in 3.5 years as the capital price moves up towards \$101 (the indicative price of a 1.5 year senior major bank FRN). **This strategy is potentially more lucrative than almost any (even unrated) ADI deposits, but it provides the liquidity and credit quality of a major bank.**

Otherwise, we do see value in diversifying a small allocation of investor's portfolio into the ING Bank Australia (A) 4-year (March 2016) senior FRN, currently being offered at a slight discount of +270bps with a fixed coupon margin of +250bps over the 3m swap rate.

**Chart 4 – Senior Bank FRNs – Relative Value**

The CBA retail bond “**CBAHA**” is now also looking more attractive once again. With over 2 weeks of accrued this quarter, recent trading has seen it being offered at \$97.80 (gross), or yielding around +175bps over swap.

We can provide more specific advice on the day to investors.

If you have any queries, please do not hesitate to contact Michael Chandra or Andrew Vallner on (02) 8246 8800.

#### **Running Yields as at 30 April 2012**

<b>Security</b>	<b>Apr-12</b>
AMP BESA	5.10
ANZ Premium BSA	5.10
CBA 24 Hr	4.20
BlackRock Care & Maintenance	8.43
Term Deposits	6.09
<b>Total</b>	<b>6.12</b>

#### **Terminology:**

**Running yield** is a measure of the return (before costs) that would be earned from current positions if there were no trades and no fluctuation in market yields.

**Buy/sell spreads** refers to the difference between the entry and exit prices. The buy/sell spread is the cost charged by some investment managers for transaction costs in buying and selling underlying assets.

**Attachment B: Movement of funds between months**

<b>PORTFOLIO CREDIT LIMITS movement over the reporting month</b>						
<b>Credit Rating - Long/Short</b>	<b>Total Investments Held (Current Month)</b>	<b>% of Total Investments (Current Month)</b>	<b>Total Investments Held (Previous Month)</b>	<b>% of Total Investments (Previous Month)</b>	<b>Movement \$</b>	<b>Movement %</b>
AAA/A-1+	1,027,576	1.48%	1,023,646	1.44%	3,930	0.38%
AA/A-2	19,957,382	28.72%	17,893,402	25.24%	2,063,980	11.53%
A/A-2	31,505,913	45.34%	35,998,374	50.77%	(4,492,461)	(12.48%)
BBB & Unrated /A-3	12,000,000	17.27%	11,000,000	15.51%	1,000,000	9.09%
Long Term	4,991,106	7.18%	4,991,106	7.04%	-	0.00%
<b>TOTAL INVESTMENTS</b>	<b>69,481,977</b>	<b>100.00%</b>	<b>70,906,528</b>	<b>100.00%</b>	<b>(1,424,551)</b>	<b>(2.01%)</b>

<b>INDIVIDUAL INSTITUTION or COUNTERPARTY LIMITS movement over the reporting month</b>						
<b>Financial Institution</b>	<b>Total Investments Held (Current Month)</b>	<b>% of Total Investments (Current Month)</b>	<b>Total Investments Held (Previous Month)</b>	<b>% of Total Investments (Previous Month)</b>	<b>Movement \$</b>	<b>Movement %</b>
<b>TERM DEPOSITS</b>						
AMP	3,000,000	4.32%	3,000,000	4.23%	-	0.00%
BoQ	3,000,000	4.32%	-	0.00%	3,000,000	100.00%
Bendigo	2,000,000	2.88%	5,000,000	7.05%	(3,000,000)	(60.00%)
Credit Union Australia	2,000,000	2.88%	2,000,000	2.82%	-	0.00%
ING Direct	17,000,000	24.47%	17,000,000	23.98%	-	0.00%
IMB	2,000,000	2.88%	4,000,000	5.64%	(2,000,000)	(50.00%)
Investec	5,000,000	7.20%	5,000,000	7.05%	-	0.00%
NAB	14,000,000	20.15%	14,000,000	19.74%	-	0.00%
RaboDirect	1,000,000	1.44%	1,000,000	1.41%	-	0.00%
Suncorp	9,000,000	12.95%	9,000,000	12.69%	-	0.00%
<b>TOTAL TERM DEPOSITS</b>	<b>58,000,000</b>	<b>83.47%</b>	<b>60,000,000</b>	<b>84.62%</b>	<b>(2,000,000)</b>	<b>(3.33%)</b>
<b>MANAGED FUNDS</b>						
Tcorp	1,027,576	1.48%	1,023,646	1.44%	3,930	0.38%
Blackrock	4,991,106	7.18%	4,991,106	7.04%	-	0.00%
<b>TOTAL MANAGED FUNDS</b>	<b>6,018,682</b>	<b>8.66%</b>	<b>6,014,752</b>	<b>8.48%</b>	<b>3,930</b>	<b>0.07%</b>
<b>FUNDS AT CALL</b>						
AMP	505,913	0.73%	1,998,374	2.82%	(1,492,461)	(74.68%)
ANZ	534,940	0.77%	1,529,490	2.16%	(994,550)	(65.02%)
CBA	4,422,442	6.36%	1,363,912	1.92%	3,058,530	224.25%
<b>TOTAL FUNDS AT CALL</b>	<b>5,463,295</b>	<b>7.86%</b>	<b>4,891,776</b>	<b>6.90%</b>	<b>571,519</b>	<b>11.68%</b>
<b>TOTAL INVESTMENTS</b>	<b>69,481,977</b>	<b>100.00%</b>	<b>70,906,528</b>	<b>100.00%</b>	<b>(1,424,551)</b>	<b>(2.01%)</b>