

SPECIAL MARKET UPDATE

A 'SLEEP AT NIGHT' APPROACH IN UNCERTAIN TIMES

Open any newspaper at the moment and you will be besieged by tales of economic woe in foreign lands, and told of various levels of impending doom about to befall our nation.

While the current sharemarket turmoil may be worrying, it's important to focus on the underlying fundamentals of your investments and keep your long-term horizon front of mind.

At The Trust Company, many of our clients trust us to manage their investments, and it is our sleep at night approach that ensures they are well placed to ride out the current volatility while delivering on longer-term objectives. This Special Market Update contains some background information to the current market fluctuations, and outlines why we believe Australia is well placed to weather the storm.

Australian Market Update

The Australian sharemarket has faced a number of strong shakes, due to global economic factors over the past few weeks. This has resulted in sharemarket corrections being experienced not only in Australia but also across the major global markets. The table below summarises some of the corrections experienced since 1 July 2011 by the major sharemarkets:

Three major global factors have contributed towards the poor sentiment and sharp falls in share prices:

1. Fears of rising government deficits and debt levels across the globe, together with a wave of downgrading of European government debt, has heightened fears in financial markets over the past few months. Since 2009, fears of a sovereign debt crisis have developed among

	1 July 2011	9 August 2011	% Change
Australia (S&P ASX 200)	4591	4035	-12%
New Zealand (NZSX50)	3475	3098	-11%
USA (Dow Jones)	12583	11240	-11%
Japan (Nikkei)	9868	8944	-9%
China (Shanghai Composite)	2759	2526	-8%
UK (FT 100)	5990	5165	-14%
Germany (DAX 30)	7419	5917	-20%
France (CAC 40)	4007	3176	-21%

Source: IRESS





investors concerning some European countries such as Greece, Ireland, and Portugal amongst others. Over the past week, this issue has continued and now the large public debts of Spain and Italy have come under scrutiny.

2. There are increased fears of another recession in the US. Although there have been some weak US economic indicators released over the past week, these have been counterbalanced with stronger than expected US employment figures. The risk of a double-dip recession in the US will have negative flow on effects on global sharemarkets.
3. The sovereign debt rating of the US was downgraded on 5 August 2011 by Standard & Poor's from the highest AAA rating to AA+ due to concerns about the US economy. Over the short term, such an unprecedented downgrade has made the markets nervous, but in reality, the US government remains a very reliable borrower with experts believing it is not likely to default on its debt. Importantly, the other two major credit rating agencies, Fitch and Moody's, have reaffirmed their AAA long-term sovereign debt rating for the US.

How is Australia placed to deal with these global economic risks?

The Australian economy is in the enviable position of being strongly linked to the economic growth in emerging markets, particularly China. As a result, in comparison to other developed nations, our economy has relatively strong fundamentals such as low unemployment, a low budget deficit and policy levers that give us flexibility.

These levers include the ability of the Reserve Bank of Australia (RBA) to lower interest rates to stimulate economic growth, as well as the government having the option to delay its objective of bringing the budget into surplus by 2012-2013.

The imminent risk for the Australian economy, outside the risks of Europe and the US, is a larger than expected economic slowdown in China. However, to date it appears that the Chinese government has managed their economy closely to deliver a sustainable rate of economic growth.

Australian Sharemarket

The fundamentals of many Australian companies remain sound with Australian

corporate balance sheets generally in a strong position with low debt and high asset quality.

It also appears that the dividends of major Australian companies are unlikely to be under threat in the current environment, providing share price support in the near term. For many of our clients with a portfolio focused on income, maintaining dividend ratios is a key driver in the selection of their share portfolios.

Additionally, one of the recent features of the Australian sharemarket has been the increased merger and acquisition activity, which has the potential to increase given the current pullback.

The August company reporting season in Australia is likely to reflect the two-speed economy with resource company earnings relatively stronger than industrial companies. Nonetheless, industrials are generally expected to show some profit growth.

What does all this mean for investors?

Despite the short-term turmoil and ensuing fears, we believe the long-term fundamentals of the Australian sharemarket

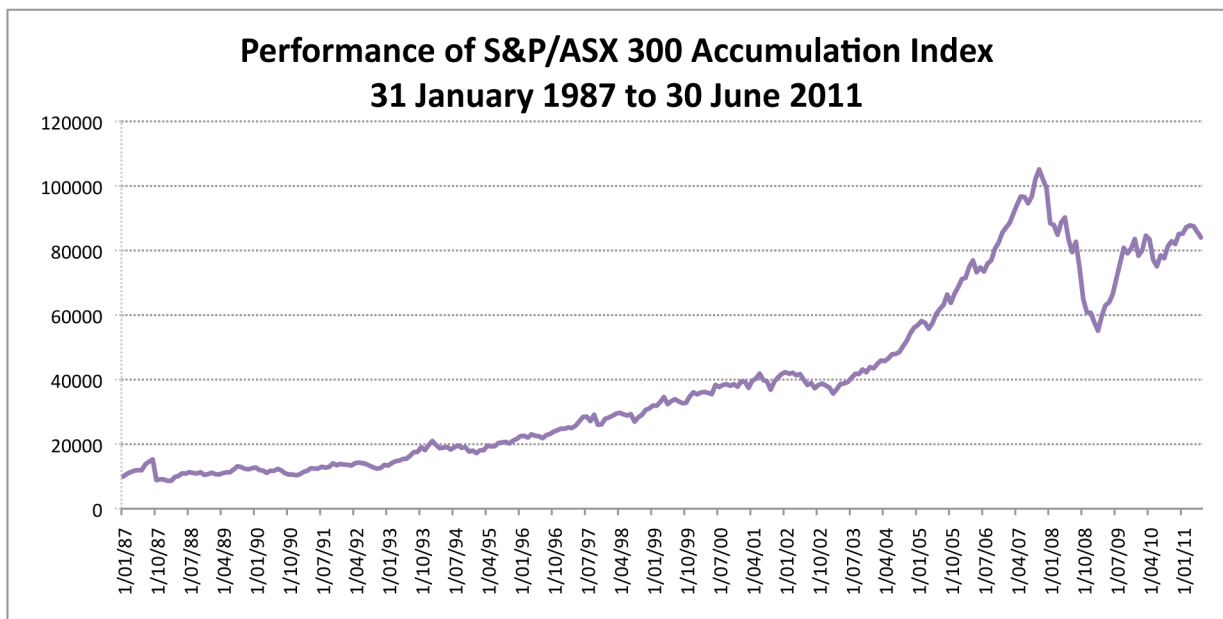
remain sound, supported by the demand for commodities as the industrialisation of emerging economies continues, a solid domestic economy and a well capitalised financial services sector.

The current global economy is facing some of the strongest headwinds since the Global Financial Crisis. Some of the above risks are likely to linger and affect investor confidence and returns for a period of time, as the global economy works through the issues. Generally, during such periods where there is increased anxiety due to poor market sentiment and lack of investor confidence, the markets tend to overreact.

Sharemarkets, by their nature, are volatile, which means investors' returns can go up and down in the short-term. This volatility is a key reason for taking a long-term investment horizon when investing in shares, allowing a greater opportunity to meet strategic objectives.

The chart below illustrates that investors who remained invested after the 1987 market crash achieved a solid performance over the long-term, although over the short term their portfolio would have experienced volatility.

**Performance of S&P/ASX 300 Accumulation Index
31 January 1987 to 30 June 2011**



Source: IRESS

The Trust Company's approach - sleep at night

In the current market environment, we believe investors should remain focused on their long-term objectives and not react too strongly to short-term news. History has shown that during periods of market dislocations, investors have strong opportunities to make attractive long-term investments.

We continue to monitor the investment markets daily, and make any necessary adjustments to our funds to ensure they are delivering on clients objectives.

In terms of our approach to investing in Australian shares, we believe in the short to medium term, a large proportion of investors returns will come from company dividend payments, especially during a period of volatile investment markets.

The Trust Company's 'sleep at night' investment philosophy is well suited to

these conditions, as we invest in companies that usually demonstrate the following characteristics:

- A history of stable earnings growth
- Track record of paying dividends with the underlying strength to continue to pay and increase those dividends
- Balance sheet strength
- Operate in stable industry structure.

As well as a focus on shares, we also recommend to our clients that they diversify their investments into other instruments such as bonds and cash. This process encapsulates the investment philosophy of our origins as a trustee company - a balance between maximising income and preserving and increasing capital over the long-term.

Should you have any questions regarding your investment portfolio, please contact your Client Advisor or call us on 1800 662 812.

PRIVACY: For more details on our privacy policy please email privacy.officer@thetrustcompany.com.au <<mailto:privacy.officer@thetrustcompany.com.au>> or call 1800 622 812. To update your details, to subscribe or unsubscribe from receiving future market updates, please email us at marketing@thetrustcompany.com.au.

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