MUTUAL TRUST INVESTMENT TEAM

2011 REVIEW AND 2012 OUTLOOK

JANUARY 2012

Whilst we feel certain that 2012 will remain volatile, we trust it will bring more than the past year. The following piece reflects on the past 12 months, current matters that the global economy and markets are contending with, and our outlook, albeit well qualified, for 2012. We feel the saving grace for 2011 was the solid lift in dividends from the quality stocks that Mutual Trust clients hold. We believe this will continue on in 2012.

2011 Review

Overall, the 2011 investment environment could best be described as exceedingly frustrating! Whilst off to a good start, the Australian equity market demonstrated significant volatility from the get-go, and deteriorated from early April as fears of European sovereign debt problems; inflation-fighting policies across the BRIC (Brazil, Russia, India and China) and other Emerging Market economies; and, political wrangling in the U.S. over the management of public debt undermined investor confidence. At year end the Australian equity market was down 10.5% (net of dividend income), whereas the US market (S&P 500) finished in the black (see chart below). The difference could best be put down to our commodity driven economy, and equity market, and the “risk-off” trade that developed towards year end on concerns of a slowing Chinese economy (our outlook below explores this in more detail). Other notable market movements throughout 2011 were the strong rally in “safe haven” government bonds (read further on this below) and the extreme volatility in global currencies. The continued strength in the AUD impacted on the global competitiveness of some of our best companies and also reduced the value of off-shore profits repatriated back home.

In the second half of calendar 2011, financial markets have experienced and been influenced by the following:

- Significant market volatility;
- High correlations across and within markets, i.e. high and low quality investments falling in concert. Hence, the share prices of excellent long term growth stories are not reflective of relative future earnings' growth;
- Eurozone still complex but better than it was a few weeks ago, i.e. increasing realisation that the EMU (Economic and Monetary Union) situation is serious and must be comprehensively managed, with; Berlusconi gone and technocrat cabinet under new PM Monti in Italy; a Greek Parliament increasingly conscious of the fact the country has no other way out of its predicament; an overwhelming vote by the Spanish for fiscal conservatism, reflecting an electorate that understands that the period of economic profligacy is over; and, almost universal acceptance by EMU countries that markets will no longer tolerate an ad hoc response to fiscal austerity, if the Eurozone is to survive the current crisis.
- However, the additional funding for the EFSF/ESM (European Financial Stability Facility/European Stability Mechanism) has been viewed as totally inadequate in the absence of a change to the ECBs mandate of simply managing inflation concerns.

Mutual Trust Wealth Management

2012 Outlook

So, while the resolution of the Eurozone situation will take time, we believe some progress is occurring incrementally in the right direction, even if the ratings agencies are not assisting as they endeavour to get ahead of the curve, versus last time around. Therefore, Europe will be a major area of concern for a long time but anchored by a stronger than expected Germany, benefiting considerably from the likelihood of a much weaker Euro going forward.

Our investment focus remains on the BRIC and emerging Asia economies; as well as the US.

Turning to the US, there are clear signs of improvement. Recent retail sales and employment data looks promising, as does housing which appears to be turning (albeit slowly), which would be a huge positive for confidence and the ensuing multiplier impact.

If not for the Washington political complexity, we would be even more positive on the US longer term; indeed, on a 5 to 10 year view, we think the US economy will surprise to the upside, supported by the response to what are significant structural change factors which should benefit the US more than any of the other Developed Market economies. For example, for the first time since World War II, the US now generates a net positive trade in energy; it wasn't that long ago that the US demand for oil reflected its pre-occupation with Middle-East politics.

Then there is the corporate sector. US companies are in the best financial shape on record with record profit margins and cash as a % of assets; yet, the Equity Risk Premium is at levels not seen in nearly 60 years. So, value is on offer but, as evidenced by the US market's pre-occupation with Eurozone issues, there is very little interest from investors. When US 10 year bonds at sub 2% are seen as "attractive", we question the degree of logic that investors are adopting. Conversely, if Washington could move on from playing politics and focus on the challenges and opportunities ahead for the country, one only has to wonder what could be achieved by way of structural reform in an economy with a plentiful supply of labour and where the Government can borrow at record low rates of 3% for 30 years!

Along with the US, China holds the key as to whether global growth will slow dramatically, or whether we experience a soft first half in 2012 before re-accelerating in the second half. We remain strongly of the view that China will successfully - but over time - re-position its economy such that it relies less on exports and more on domestic consumption. China has a high savings rate and the Government is tolerating significant wage growth as well as cutting personal tax rates in order to stimulate the consumer. This will be good news for the rest of the world, or at least countries which have something to trade such as the US.

Notwithstanding, fixed asset investment will continue to represent the largest component of China's GDP for some time, in our view. This is critical to Australia's performance as an exporter of both bulk and soft commodities. We remain positive on companies such as BHP Billiton, Fortescue Metals Group, PanAust, and Woodside Petroleum etc. However, we would hasten to add that any perception that growth rates in these economies are slowing too quickly will probably enable investors to purchase such stocks at lower prices. We are not certain how much lower. A weakening A$ will most likely see the Australian share market outperform its peers - just like we have significantly underperformed on the way up, i.e. since late 2009 our currency rallied from the mid 60s to above parity. A weakening A$ would be our market's safety valve, in our view.

So, we expect a soft landing for China – it is the key as it represents 75% of BRIC GDP – but, weak PMIs (Purchasing Managers' Index) and the likelihood of a "7" in the GDP numbers in the second quarter of calendar 2012, is likely to have the naysayers out in force and, enable the true believers to buy quality resources companies, and other growth stocks, at attractive valuations.

Developed Market Bonds are generally expensive, and largely reflect expectations of a Euro-induced slow-down in global growth, if not an out-right collapse of the Euro. Hence, bond yields reflect investor-driven fear rather than economic fundamentals, with 10 Year US, UK, German, Japanese, and Australian bonds trading at 1.95%; 2.04%; 1.94%; 0.98%; and, 3.74%, respectively.

Conversely, equity markets are trading at earnings yields of around 4 times that of bonds in the case of the US, UK, and Germany; and, in Australia, at around 2.5 times. Moreover, after taking franking credits into account, the ASX200 is trading on a dividend yield of over 8% - somewhat better than Aussie Bonds at 3.74%!

Considering that the payout ratio on the ASX200 is circa two-thirds, investors are according zero value to Australian CEOs' ability to generate any return from retained earnings.

China stocks are trading at record low PEs, reflecting investor expectations of a hard landing.

And yet, the Central Banks in Australia, the BRICs and other Emerging Market economies have substantial capacity to ease monetary conditions, thereby cushioning the effects of a more severe slowdown in Developed Markets and, further reinforcing the attraction of dividend yields in the case of Australian shares.

Therefore, at this time, we are "cautious" but believe there is value building up in quality equities and fixed income. Through early to mid calendar 2012, we will look to make sure our clients are able (bearing in mind their specific goals and objectives) to take advantage of this if they so choose.

Investment Team

9th January 2012

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MUTUAL TRUST CASH FUND (MTCF)

The Annualised Rate of Return for December 2011 was 4.98%, comfortably above the current RBA (Reserve Bank of Australia) rate of 4.25%. We forecast the RBA to cut rates by 50 basis points in the first half of calendar 2012, i.e. to 3.75%, but we expect the MTCF return to perform strongly over the same period.

MUTUAL TRUST CORE AUSTRALIAN EQUITIES MODEL PORTFOLIO

The Mutual Trust Core Australian Equities Model Portfolio returned +2.43% for the quarter ending December 2011, outperforming its benchmark, the ASX200 Accumulation Index by +0.31%.

The Core Australian Equities Portfolio is strongly biased towards Bulk Commodities, Energy & Copper producers and Services companies which support the Resources sector; and, to Domestic/ International sectors/companies which can grow at greater than the GDP rate due to Emerging Market (EM) exposure and/or structural growth opportunities.

Performance History as at 31/12/2011	Mutual Trust Core Model Portfolio	ASX 200 Accumulation Index	Excess Return
1 Month	-1.41%	-1.35%	-0.06%
3 Months	2.43%	2.12%	0.31%
6 Months	-9.62%	-9.71%	0.09%
12 Months	-5.01%	-10.54%	5.53%
24 Months	-5.31%	-9.14%	3.83%
36 Months	47.01%	24.51%	22.50%
Since Inception	12.18%	-8.24%	20.42%

* Inception date was 3rd September 2007

MUTUAL TRUST CONVICTION AUSTRALIAN EQUITIES MODEL PORTFOLIO

The Mutual Trust Conviction Australian Equities Model Portfolio returned +4.55% for the quarter ending December 2011, outperforming its benchmark, the ASX200 Accumulation Index by +2.43%.

The Mutual Trust Conviction Australian Equities Portfolio is based on the Mutual Trust Core Model Portfolio as well as the broader stock universe that the Mutual Trust Strategy Team follows. The portfolio will take a large position in a stock which we believe is demonstratively under-valued relative to the stock's expected share price target in the short to medium term; if a situational or event driven opportunity is created; or, if a market correction or volatility creates a short term trading opportunity.

Performance History as at 31/12/2011	Mutual Trust Conviction Model Portfolio	ASX 200 Accumulation Index	Excess Return
1 Month	0.15%	-1.35%	1.50%
3 Months	4.55%	2.12%	2.43%
6 Months	-6.88%	-9.71%	2.83%
9 Months	-6.14%	-13.34%	7.20%
Since Inception	4.30%	-10.74%	15.04%

* Inception date was 24th January 2011

MUTUAL TRUST INTERNATIONAL EQUITIES MODEL PORTFOLIO

The Mutual Trust International Equities Model Portfolio returned +10.86% for the quarter ending December 2011, outperforming its benchmark, the MSCI World Index by +3.75%.

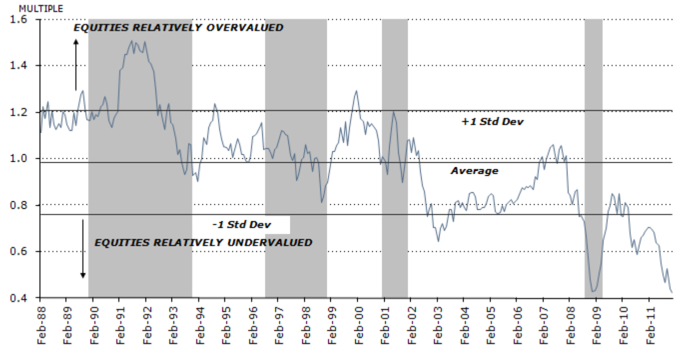
The Mutual Trust International Equities Model Portfolio is largely (70%) made up of US domiciled multinational companies which offer exposure to Global Consumer-Facing Technology (Apple, Google); Informational Technology (Intel, IBM); Financials (American Express, JP Morgan Chase); and, Branded Consumer Goods (Coca Cola and Colgate Palmolive). The balance is largely comprised of companies which are generating most of their growth from Emerging Market demand (Louis Vuitton, Prada).

Performance History as at 31/12/2011	Mutual Trust International Model Portfolio	MSCI All World Index	Excess Return
1 Month	-0.16%	-0.17%	0.01%
3 Months	10.86%	7.11%	3.75%
6 Months	-2.47%	-11.16%	8.69%
9 Months	-7.18%	-11.41%	4.23%
12 Months	-3.47%	-7.62%	4.14%
Since Inception	-0.21%	-6.15%	5.93%

* Inception date was 16th December 2010
** USD denominated. Unhedged.

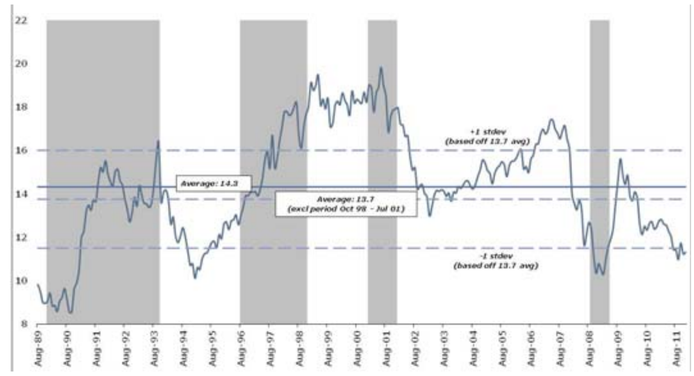
Australian Valuations

Equity Risk Premium
Valuation of Equities Relative to Bonds



Source: GSA Research Estimates

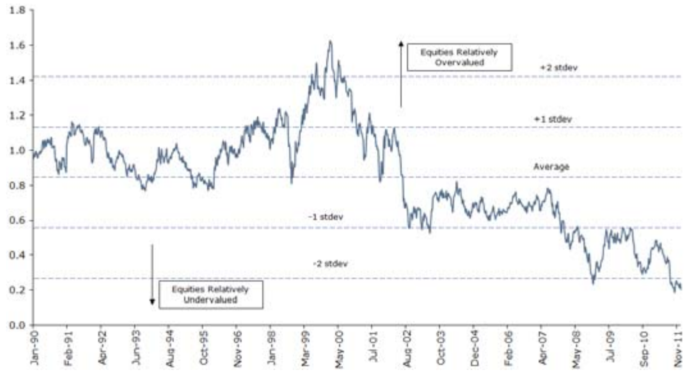
Price / Earnings Multiple
Prospective PER – Rolling 12 Months Forward



Source: GSA Research Estimates

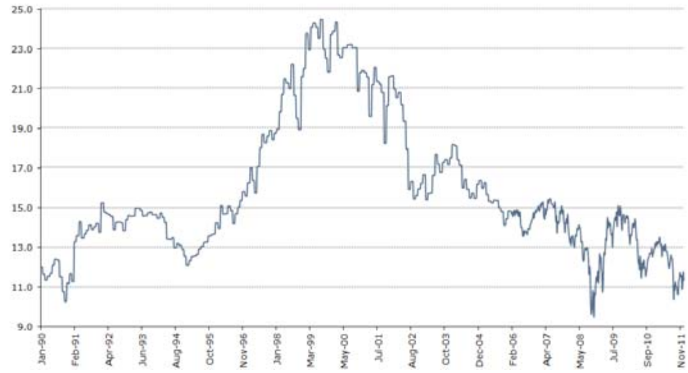
USA Valuations (S&P 500)

Equity Risk Premium
Valuation of Equities Relative to Bonds



Source: GSA Research Estimates

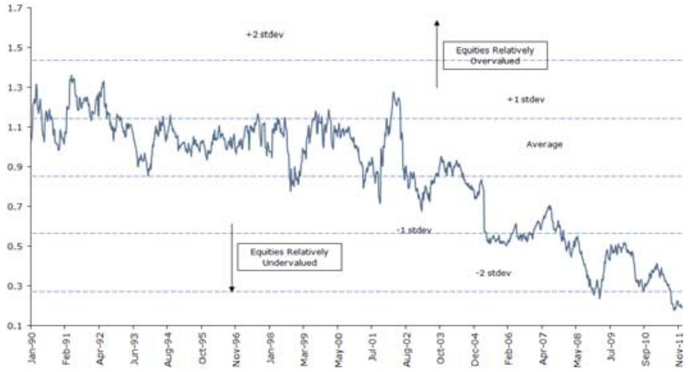
Price / Earnings Multiple
Prospective PER – Rolling 12 Months Forward



Source: GSA Research Estimates

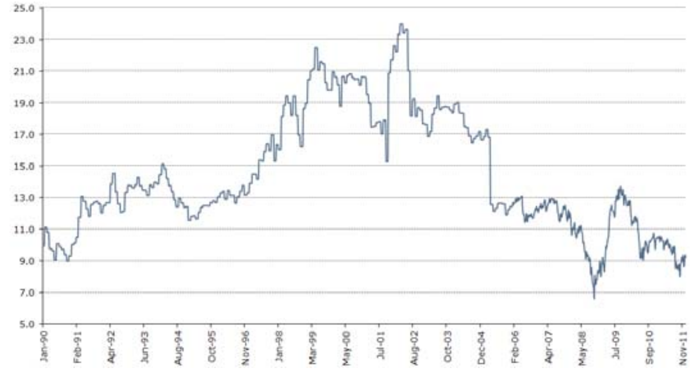
UK Valuations

Equity Risk Premium
Valuation of Equities Relative to Bonds



Source: GSA Research Estimates

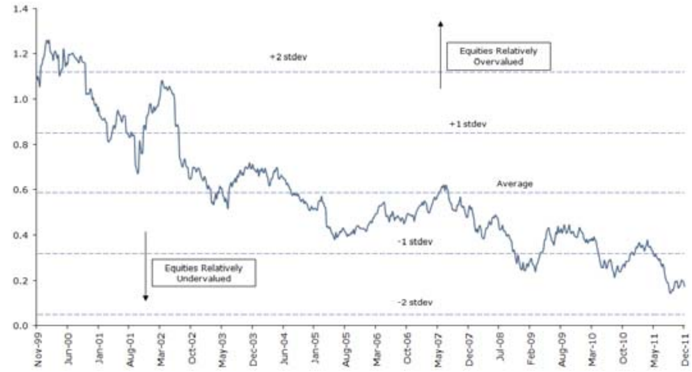
Price / Earnings Multiple
Prospective PER – Rolling 12 Months Forward



Source: GSA Research Estimates

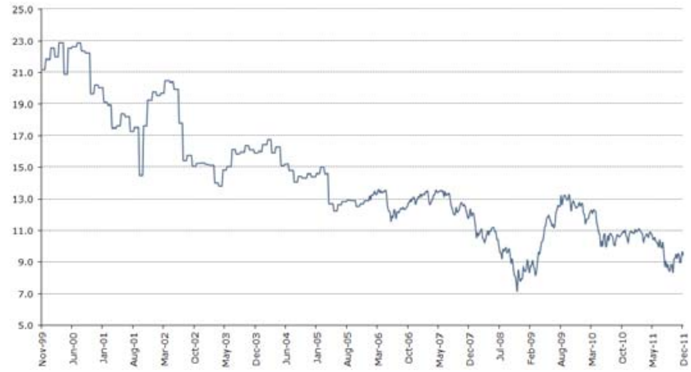
Europe Valuations (Stoxx Equities Index)

Equity Risk Premium
Valuation of Equities Relative to Bonds



Source: GSA Research Estimates

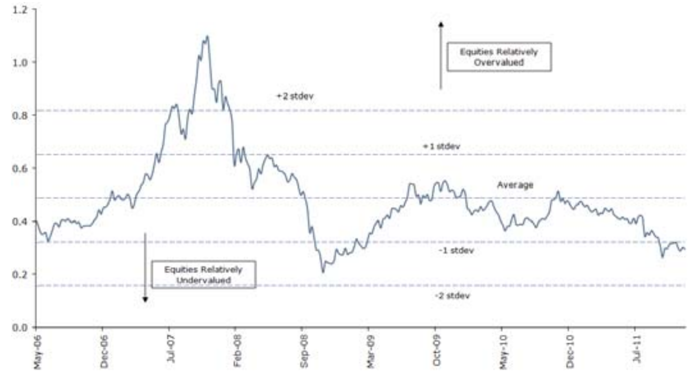
Price / Earnings Multiple
Prospective PER – Rolling 12 Months Forward



Source: GSA Research Estimates

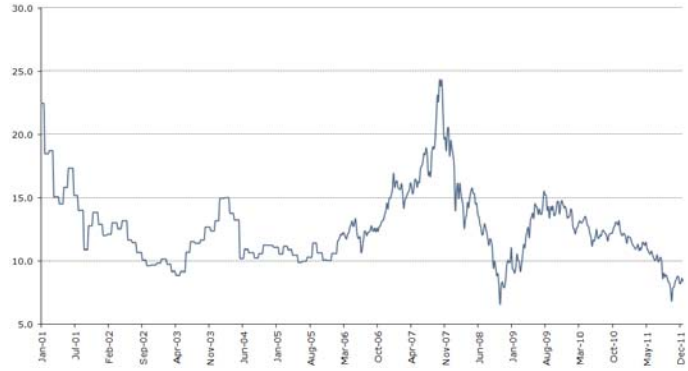
China Valuations

Equity Risk Premium
Valuation of Equities Relative to Bonds



Source: GSA Research Estimates

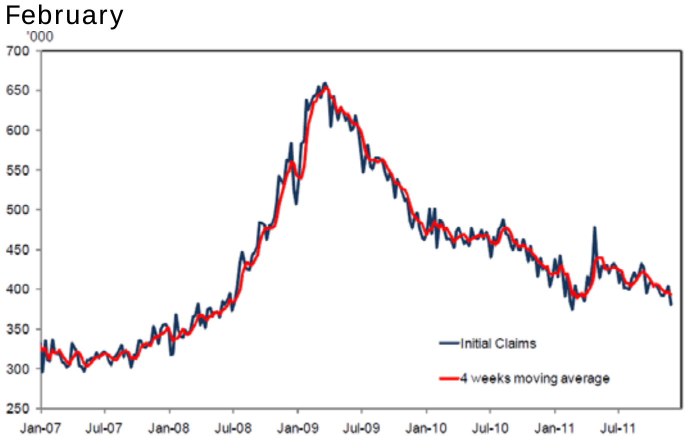
Price / Earnings Multiple
Prospective PER – Rolling 12 Months Forward



Source: GSA Research Estimates

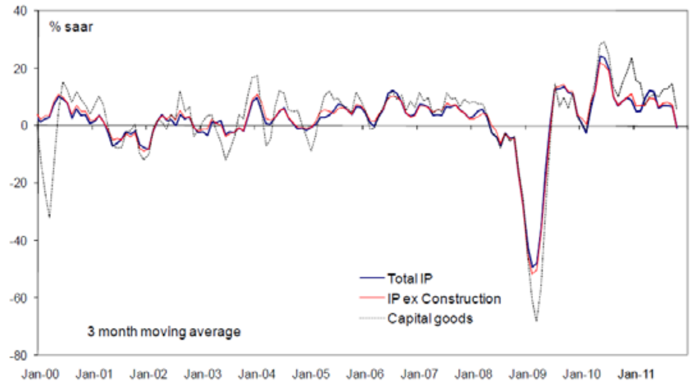
Other Charts of Interest

US Initial Jobless Claims
Jobless Claims fall to Lowest level since late February



Source: Deutsche Bank

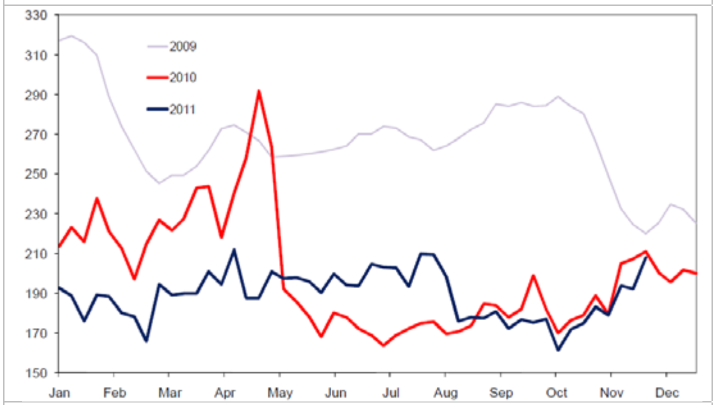
German Industrial Production
German IP beat expectations in October



Source: Deutsche Bank

US Mortgage Applications

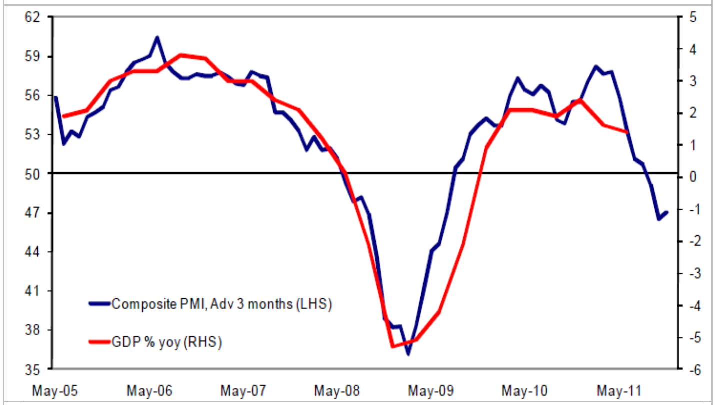
MBA New Mortgage Applications Index up 12.8% in latest week



Source: Deutsche Bank

Euroland PMI & GDP Growth

Euroland Composite PMI remains recessionary

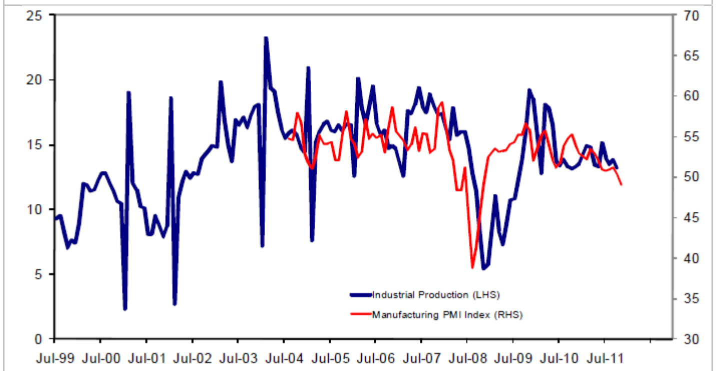


Source: Deutsche Bank

* PMI – Purchasing Managers Index

China IP (%yoy) and PMI

Chinese PMI under 50 for first time since Feb 09

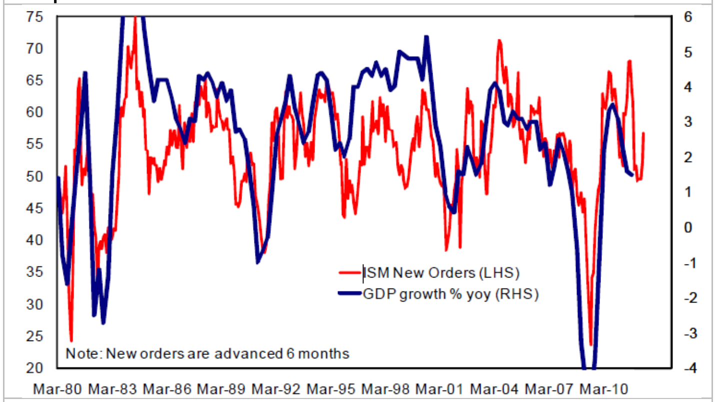


Source: Deutsche Bank

* IP – Industrial Production

ISM New Orders and GDP

US ISM new orders showing encouraging improvement

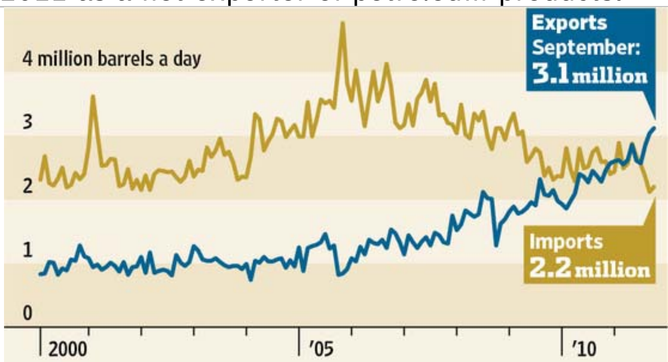


Source: Deutsche Bank

* ISM – Institute for Supply Management

Total US Imports and Exports of Petroleum Products

The US in on track to finish 2011 as a net exporter of petroleum products.



Source: Wall Street Journal