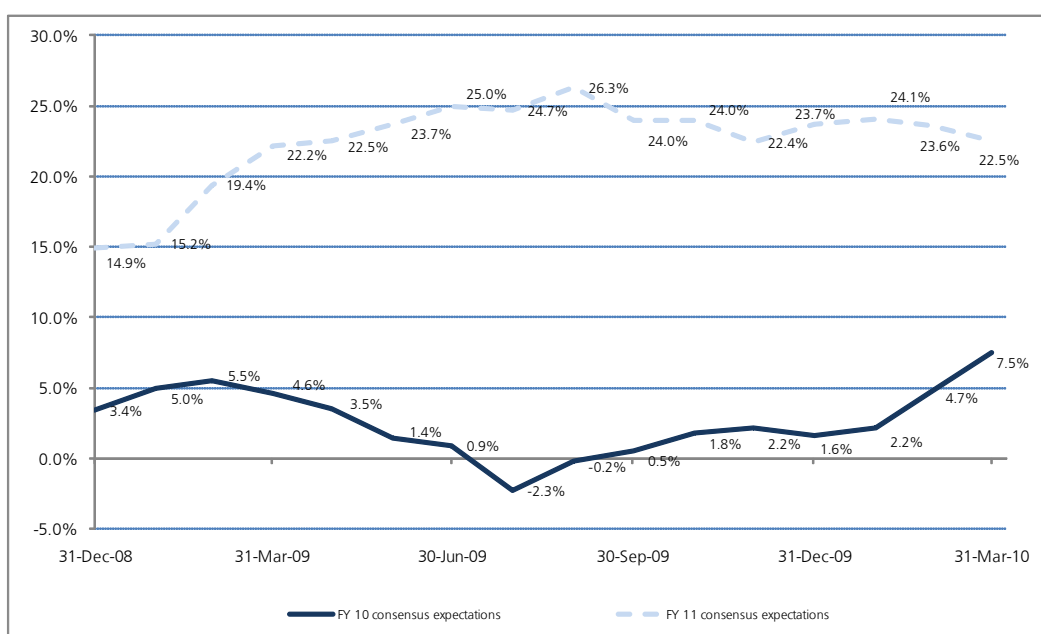


Company earnings expected to trend higher

Following a positive February earnings reporting season, we continue to see consensus earnings upgrades from the market. As seen below, in the past six weeks FY10 consensus earnings have been revised from +2.2% at the end of January to +7.5% today. An encouraging sign for the Australian equity market is that these revisions are not concentrated in a small number of sectors and stocks but are broadly based.

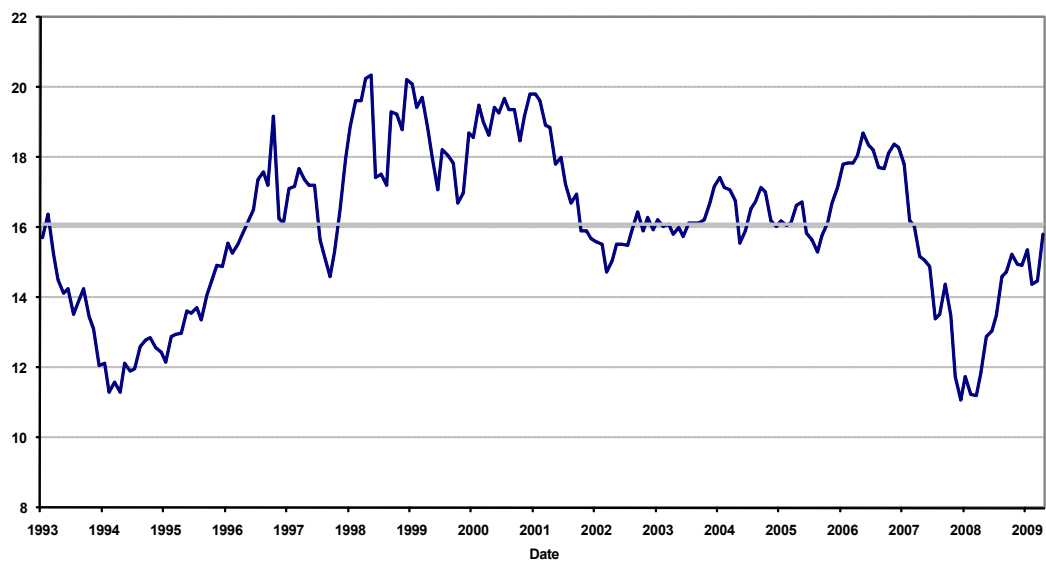


From a market valuation perspective, the Australian equity market has historically traded on a forward P/E multiple of ~14.5x. Within this context, the market PE multiple of 12.8x (for the 2011 FY forecast) represents good value and can be further dissected into very reasonably priced constituent sub-sectors. An expectation of further upward earnings revisions lends further weight to this notion.

March 2010	PE FY 2010 (E) companies	PE FY 2011 (E)	EPS GROWTH FY 2010 (E)	EPS GROWTH FY 2011 (E)
MARKET	15.7x	12.8x	+7.5%	+22.5%
Financials	13.8x	11.8x	+17.6%	+16.6%
- REITS	12.8x	12.3x	-31.5%	+3.8%
Industrials	15.7x	13.7x	-2.6%	+14.4%
Resources	19.9x	13.2x	+30.8%	+50.7%

Source: Ausbil calculation based on consensus broker earnings forecasts as at 31st March 2010.

The attractiveness of the equity market on a P/E basis can be further seen below, with the Industrials sector trading on a forward P/E of 15.8x (rolling 1 year forward earnings) versus a historical average of 16.1x. These metrics are in an environment of improving company earnings.



Source: CitiGroup Investment Research and Ausbil. Graph above excludes the P/E of the Financials sector and News Corporation

In summary, the earnings expectations for the market based on consensus data continues to improve and we believe the trend will remain positive. We believe that the Resources, Construction Materials, Capital Goods, Banks, Media and Retailing sectors are likely to continue to beat earnings expectations. However, stock specific factors will become increasingly important and we do not believe all stocks within these sectors represent compelling value.