Market Update March 2011

ENTRUST

The Australian sharemarket has sold off nearly 10% from its mid-February high. Much of the decline has come in reaction to the destruction from the massive earthquake and tsunami in Japan. Over the last 2 days, potential implications of the unfolding crisis at the Fukushima nuclear power plant have become the focus of concern. While situation remains fluid, we'd like to make the following observations with regard to your portfolio at Entrust:

- Entrust portfolios have **no exposure to pure uranium stocks** and only very limited, and diluted, exposure through the Diversified Resources stocks BHP Billiton and Rio Tinto.
- The impact of the disaster on the overall Japanese economy is likely to be limited and transitory despite the enormous scale of the human suffering in the affected areas. Using the 1995 Kobe earthquake as a guide, we can expect a short period of disruption to activity, followed by a rebound over the next 3 months and then further boost to activity as reconstruction begins on a larger scale in about 9 months' time.
- **The impact on the world economy will be minimal:** Japan represents only 6% of global GDP and its contribution to global growth over recent years has been very small.
- The economic **impact on Australia** is also likely to be **very small.** Japan accounts for around 20% of Australia's exports. However, this is heavily skewed towards coal, iron ore and LNG. Apart from the some temporary disruptions, the net impact on these commodities is likely to be positive – particularly for coal – as the recovery effort gets under way.
- The fundamentals of the **Australian sharemarket** remain **attractive.** The broad market (ASX200 Index) is currently trading at a **20% discount to the long-term average PE-valuation** of 15x. While uneven across sectors ("two-speed economy"), overall **earnings are rising** at around 15%pa. **Corporate balance sheets** are **very strong** (low gearing ratio).
- Therefore, we believe that the **current correction presents a buying opportunity in quality stocks,** especially in the Energy (increased demand for coal and LNG), Diversified Resources (increased demand for iron ore, coking coal, steel and base metals as reconstruction gets underway) and Banking sectors (attractive valuation after sell-off).