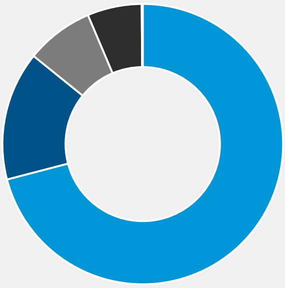
Wholesale Premium Cash Funds

Monthly update

August 2010

Wholesale Premium Cash Fund[1]

Fund composition



- Negotiable Cert of Deposits 70.94%
- Term Deposits 14.87%
- Promissory Notes 7.8%
- Bank Bills 6.27%
- Cash 0.12%

Fund facts as at 31 August 2010	
Fund size (A$ million)	3,153.60
Term to maturity	47 days
Duration	0.13 year
Rating	AAAm (Standard & Poor's)

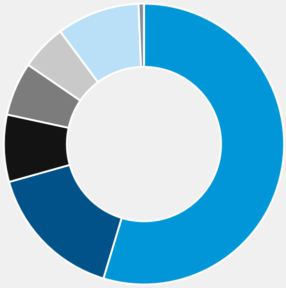
Performance	Fund	Benchmark*	Excess
1 mth	0.42%	0.37%	0.04%
3 mths	1.27%	1.12%	0.15%
6 mths	2.39%	2.17%	0.22%
1 yr	4.42%	3.92%	0.50%
2 yrs pa	4.66%	3.99%	0.67%
3 yrs pa	5.69%	4.98%	0.70%
5 yrs pa	5.90%	5.35%	0.54%

* The benchmark is the RBA cash rate. Performance is before fees and expenses.

Maturity profile	
0 - 30 days	45.18%
31 - 90 days	42.13%
91 -180 days	12.69%

Wholesale Premium Cash Enhanced Fund[2]

Fund composition



- Negotiable Cert of Deposits 54.69%
- Term Deposits 15.98%
- FRNs (Mortgage Backed) 7.72%
- Promissory Notes 6.15%
- FRNs (Commercial) 5.28%
- Bank Bills 9.58%
- Cash 0.62%

Fund facts as at 31 August 2010	
Fund size (A$ million)	909.80
Term to maturity	54 days
Duration	0.15 year
Rating	AAf (Standard & Poor's)

Performance	Fund	Benchmark*	Excess
1 mth	0.46%	0.41%	0.06%
3 mths	1.38%	1.23%	2.29%
6 mths	2.64%	2.29%	0.35%
1 yr	4.97%	4.21%	0.76%
2 yrs pa	5.57%	4.41%	1.16%
3 yrs pa	6.33%	5.48%	0.85%
5 yrs pa	6.33%	5.74%	0.59%

* The benchmark is the UBS Australian Bank Bill Index. Performance is before fees and expenses.

Maturity profile	
0 - 30 days	48.13%
31 - 90 days	32.42%
91 -180 days	19.45%

During the month bank bill yields fell again across the curve in Australia. The key driver of lower yields was offshore, rather than domestic events. Fears of a double dip recession in the US gained momentum during the month and subsequently yields on US bonds were pushed in some instances to historic lows. In Australia the yield on 1 month bank bills fell 4 basis points to finish at 4.64%, whilst 3 month bank bill yields fell 3 bps to end the month at 4.78%. 6 month bank bills rallied more aggressively than the shorter bills, closing the month 8 basis points lower at 4.88%.

Market participants were not expecting any change in the cash rate and the Reserve Bank of Australia (RBA) left interest rates unchanged at 4.50% for the third month in a row. The statement accompanying the decision to leave rates on hold was quite neutral, providing the market with little insight as to the possible direction of further moves. Stating, 'the current setting of monetary policy is resulting in interest rates to borrowers around their average levels of the past decade.' With growth likely to be close to trend, inflation close to target and the global outlook remaining somewhat uncertain, the Board judged this setting of monetary policy to be appropriate.

Economic data released during the month in Australia provided some mixed signals as to economic strength in Australia. Early in the month the release of June building approvals (-3.3% versus an expectation +2.0%) and June retail sales (+0.2% versus an expectation of +0.4%) both surprised on the weak side. However evidence of strong exports was confirmed unequivocally with the release of trade data. The trade surplus jumped to $3.5bn in June, the highest monthly trade surplus on record (after $2.4bn in October 2008), a result well above market expectations of +$1.8bn. Employment data released later in the month was close to market expectations with 23,500 jobs created in July and an unemployment rate of 5.3%. However, money market pricing has been dominated by weakening momentum in the US economy and the risk this poses to the global growth outlook.

The spread between BBSW and the overnight index swap (OIS) rate was less volatile in August than in previous months when Europe's sovereign issues dominated attention. After peaking at 45 bps near the end of June and declining through July, BBSW/OIS spreads have been relatively steady in August between 20 bps and 28 bps. The 90-day spread closed at 27 bps.

With regards to longer term global credit spreads, following a substantial rally in July, in August spreads widened somewhat on the back of a large increase of supply. Since the end of July, the European investment grade iTraxx 5-year (Series 13) index traded within a 20 bps range, ending up 12 bps. The North American 5-year investment grade CDX (Series 13) index traded within a 15 bps range, ending up 10 bps. The European crossover iTraxx 5-year index widened by around 52bps. The Aussie iTraxx traded within a 22 bps range and finished the month at 130 bps, up 14 bps for the month.

We made no major changes to the structure of the portfolios or our strategy over the course of the month. We have continued to structure the portfolio to maintain some core holdings in assets which return us yields higher than equivalent maturing BBSW, thereby taking advantage of short end yield curve anomalies. These securities (promissory notes and term deposits) we invest at the front end of the yield curve. Other core security holdings such as bank bill and NCDs provide superior liquidity, and so we invest these to maturities on the yield curve that provide us with the best value in line with our overall duration targets. We will continue to closely monitor market developments, both domestically and overseas, and seek out opportunities in regards to both credit and duration when they appear, to maximise portfolio performance.

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1 Colonial First State Wholesale Premium Cash Fund (ARSN 089 468 360)
2 Colonial First State Wholesale Premium Cash Enhanced Fund (ARSN 095 107 618)

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