

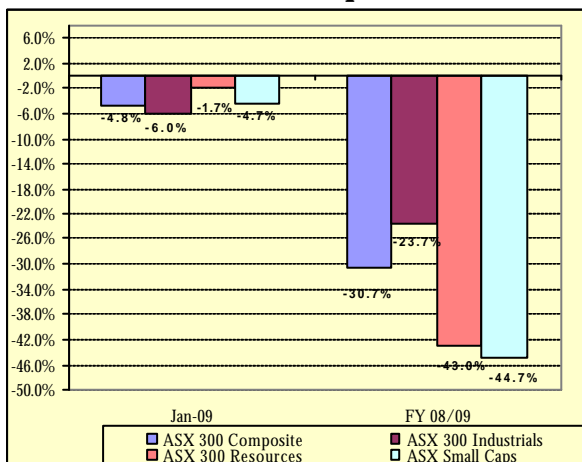
Market Overview

Deterioration of world economies continued during the month of January, with the International Monetary Fund (IMF) forecasting that world growth will virtually stall at 0.5% in 2009. In the US the unemployment rate reached a 17-year high in January and the US housing market remains in a deep recession. Housing starts fell to a 50-year low after decreasing by 15.5% in December alone; home sales and prices also continued to decline. This weakness was a significant contributor to the sharpest US gross domestic product (GDP) contraction in 27 years, with GDP shrinking by almost 4% (annualised) in the December quarter. China's December quarter real GDP growth rate decelerated to 6.8% year-on-year (yoy), its slowest pace in seven years.

In response policy makers have stepped up efforts to counter the economic slide. US and Japanese central banks have already effectively taken cash rates to zero and the central banks of Europe and the UK are heading in the same direction, with the Bank of England cutting interest rates by 0.5% to the lowest ever setting of 1.5%. With the scope for further support from monetary policy fading, governments around the world have been formulating fiscal stimulus packages to boost economic growth. In the US it looks likely that President Obama will implement a package of around US\$825 billion (5.8% of GDP) over the coming two years.

Australia continued to be affected by the world events. In December employment growth slowed, unemployment increased to 4.5% and job advertisements declined 9.7%.

Australian Equities



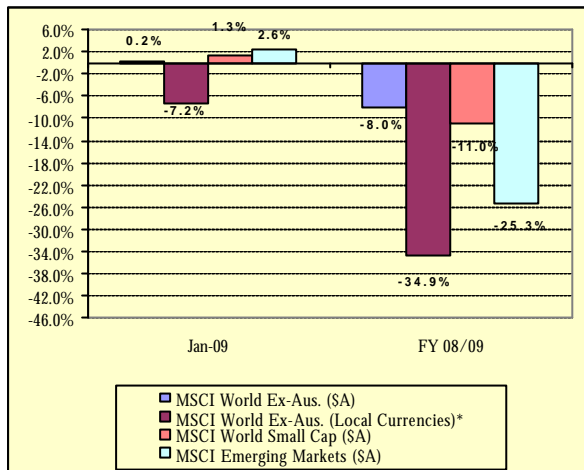
Despite a positive first week of the new-year, the mood in the market took a step backwards mid-way through January as concerns over the health of the global financial system re-emerged. The S&P/ASX 300 Accumulation Index fell 4.8% in January to be down 34.7% over 12 months. On 23 January, the All Ordinaries index reached a new low of 3,300. The previous low was recorded on 20 November 2008 at 3,332.

Problems offshore led our finance sector lower, down 8.8% over January, with the larger falls coming from Bank of Queensland (-25.6%), ASX (-18.5%) and ANZ Banking Group (-13.2%).

The profit outlook deteriorated with many companies announcing earnings warnings ahead of the February reporting season. Further capital raisings also put pressure on investor sentiment. The poorest performing ASX 300 sub-sectors were Industrials (-11.0%), Property (-9.6%) and Consumer Discretionary (-8.6%). Emeco Holdings, Leighton Holdings and Asciano Group in particular were poor performing industrial stocks.

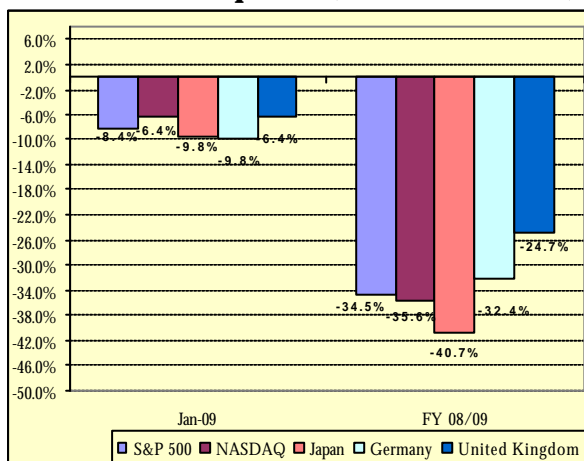
The best performing ASX 300 sub-sectors were Health Care (6.1%) and Telecommunications Services (0.1%). ResMed, CSL and Sigma Pharmaceuticals were the strongest health care performers.

International Equities (\$A)

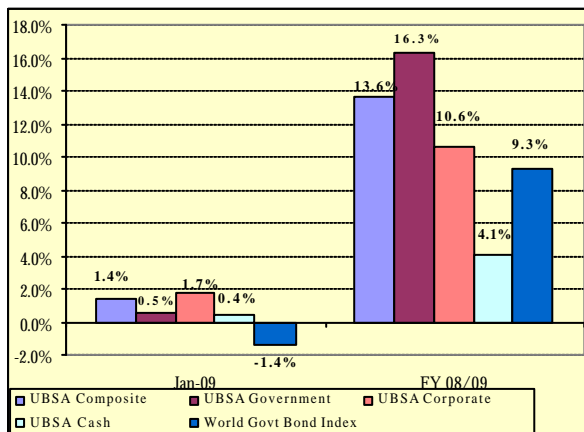


* MSCI World Ex-Aus. Local Currencies Index used as a representative for the Hedged Index

International Equities (Local Currencies)



Fixed Income



Although beginning the year with an optimistic tone, sentiment in international equity markets quickly turned with the continuation of poor economic data, company profit downgrades and further reporting on the fallout in the banking sector. The MSCI World (ex-Australia) Accumulation Index, returned -7.2% in local currencies (or -7.4% in unhedged Australian dollar terms).

In the US, the Dow Jones Industrial Index was down 8.8%, while the S&P 500 fell 8.4% and the NASDAQ declined 6.4%.

European markets moved lower over January as the European economy weakened sharply. The German economy in particular has been hard hit, suffering from a slowdown in global trade, with its sharemarket down 9.8%, while Spain (-8.1%), France (-7.6%) and Italy (-6.3%) all fell. The UK market was down 6.4% despite a large cut to official interest rates.

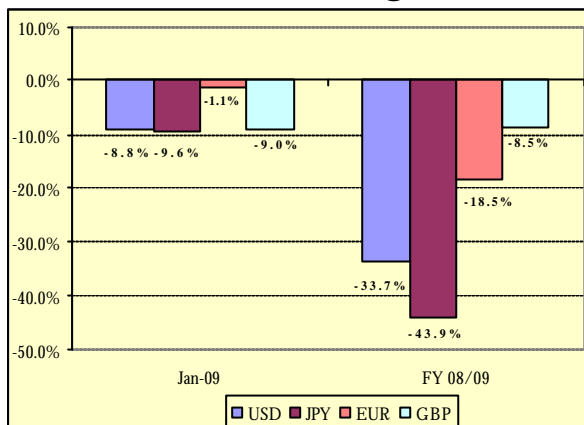
Asian markets were predominantly lower in January, weighed down by a weak Japanese economy. The Nikkei index fell 9.8% while Hong Kong was down 7.7%, Malaysia (+0.9%) and South Korea (+3.4%) performed better. The Chinese sharemarket rose 12.5% despite the authorities there reporting a slowdown in economic growth.

Emerging markets had a mixed month. The MSCI Emerging Markets index fell 6.6% in \$US but was up 2.6% in \$A. Emerging European sharemarkets have been hard hit as government finance issues are worked through amidst slowing economic growth. The Czech Republic (-9.8%), Poland (-9.3%) and Russian (-9.2%) sharemarkets all fell.

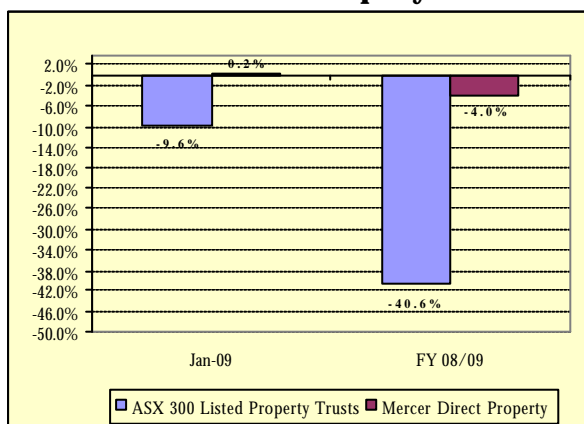
Although the RBA did not meet in January, expectations of another aggressive rate cut by the RBA put significant downward pressure on short-dated yields (this expectation was realised on 3 February with a 1% cut). The three month bank bill rate opened at 4.15% and closed lower at 3.41%. The six-month bank bill rate experienced a similar decline, opening at 3.70% and falling to 3.11% at close. Bond yields may fall further in the short term as growth and inflation slow.

In contrast, the yield on ten-year bonds ended the month higher, rising from 4.07% to 4.10% over the month. Australia's three-year bond yield opened at 3.11% and closed lower at 2.90%.

Australian Dollar against



Australian Property



Overseas Government bond yields moved higher in January, impacted by expectations that significant global monetary and fiscal policy action during the month might promote stability. The US ten-year bond yield rose 0.06% to 2.84% and Japan's ten-year bond yield gained 0.013% to 1.30%. Germany's ten-year bond yield increased to 3.30%, while the UK ten-year bond yield moved 0.07% higher to close at 3.70%.

Globally, 10 year bond yields remain at low levels, driven by the large demand for 'safer' investments and increasing supply concerns.

Currency markets in January saw the focus for investors regarding the Australian dollar return to the theme of weakness relative to other currencies. The Australian dollar (A\$) closed the month at US\$0.636 down from the previous month close of US\$0.697 as a combination of weak Chinese growth, risk aversion and the expectation of further RBA rate cuts weighed on the currency. The trade-weighted index (TWI) closed the month at 53.2 (down 4.3% from 55.6).

The Australian Real Estate Investment Trusts (A-REITs) market, as measured by the S&P/ASX 300 Property Trust Accumulation Index, continued to decline, plunging by 9.6% in the month of January. The sector has fallen 52.8% over the past 12 months. Profit downgrades, refinancing concerns and a weaker economic outlook has seen the sector lose confidence among investors.

The unlisted property sector, as measured by the Mercer Unlisted Property Index, recorded a slight positive return of 0.2% for January. Softer demand for office space and industrial accommodation is partly being offset by falling interest rates, which are assisting to make property yields more attractive. Pessimistic consumer sentiment continues to hamper the outlook for the retail market, despite any short term positive impacts from the Federal Government's fiscal stimulus package.