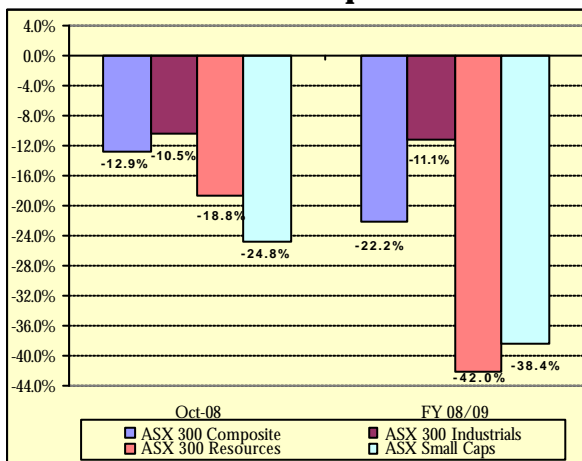


Market Overview

Global share markets experienced heavy losses and extreme volatility in the month of October amid investor concerns regarding government bailout packages and a global recession. Among the more notable events were the US and other governments' moves to prevent a collapse of their respective financial systems. This aggressive action involved a series of co-ordinated emergency rate cuts by the world's leading central banks, including the US Federal Reserve, RBA, the Bank of England and the European Central Bank, as well the move of individual governments to guarantee bank deposits and recapitalise banks by purchasing stakes in major banks. For most equity markets it was the worst month since October 1987. The sharp increase in equity market volatility and risk aversion saw the Volatility Index spike to record levels. Furthermore, evidence continued to mount that global economic growth was slowing, leading to large losses within emerging markets and commodities, including a record monthly decline of 33% in oil prices.

Since October, the US Treasury has abandoned its plan to purchase mortgage assets, which was the original centrepiece of the troubled asset relief programme (TARP). Instead, the focus is now on injecting more capital into banks and working on other mechanisms to provide further liquidity to the financial system. The effect of this change was increased risk aversion and the persistence of extreme volatility. Since then volatility has persisted.

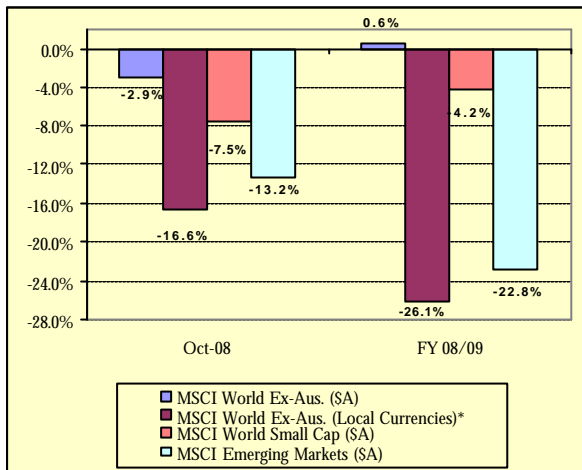
Australian Equities



Deterioration in the domestic and international growth outlooks and the likelihood of global recession saw significant risk aversion and fuelled a major sell-off over the month of October. Consequently, the Australian share market declined by 12.9% in October, which represents its worst one month performance since the 1987 stock market crash. Despite this sharp fall, the Australian share market still fared better than most other key offshore markets. The fall came largely on the back of a poor lead from the US and weaker commodity prices. Small Companies were hit the hardest over the month, falling 24.8% over the month. Resources also underperformed the broad market, with major Resource names retreating in line with weaker commodity and oil prices, and as investors downgraded their expectations for global growth. Financials (excluding Property Trusts) performed relatively better (-7.5%), benefiting from a 1% interest rate cut and the Government guarantee of bank deposits.

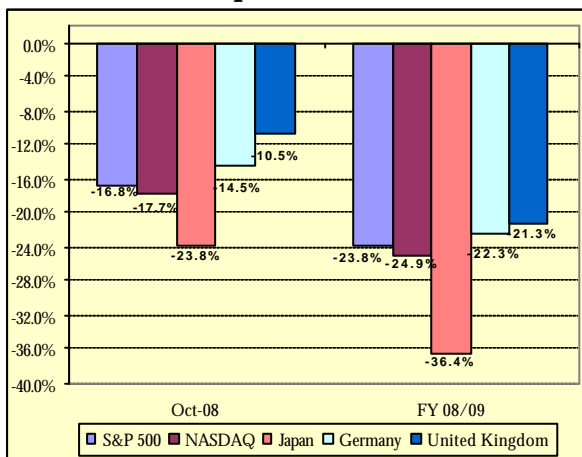
At the sector level, the poor performance from Energy (-19.3%) and Materials (-17.9%) had the biggest overall impact on the S&P ASX 300 Index. Property Trusts (-25.4%) also had a significant impact. Among the worst performing stocks in the Materials sector were Kagara (-80.9%), and Mount Gibson Iron (-75.3%). The best performing sectors on a relative basis were Utilities (-4.4%) and Information Technology (-10.1%).

International Equities (\$A)

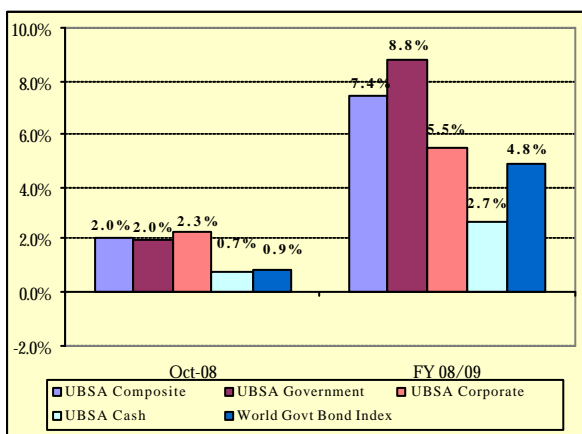


* MSCI World Ex-Aus. Local Currencies Index used as a representative for the Hedged Index

International Equities (Local Currencies)



Fixed Income



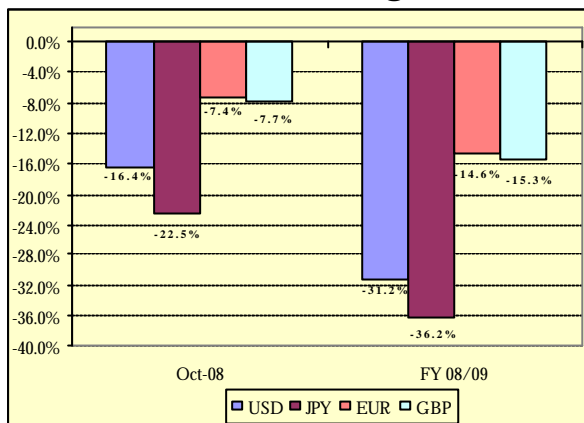
Global equity markets were also sharply down in local currency terms, although the weakening Australian dollar helped to offset these falls to some extent for unhedged investors. A sharp worsening in the financial crisis, a seizure of money markets and a deteriorating outlook for global growth caused further losses across the board. The US market closed the month 16.9% lower, which has a knock-on effect on most other markets. Of the major markets, Japan was one of the hardest hit with stocks ending the month a staggering 23.8% lower. Traditional defensives outperformed as investors concerned with the financial crisis and weakening global growth abandoned Financials and cyclical sectors.

The MSCI Emerging Markets Index (in Australian dollars) fell heavily versus developed markets, represented by the MSCI World ex-Australia Index (in Australian dollars). All major countries and sectors within the MSCI Emerging Markets Index fell, particularly those markets that are heavily tied to commodity markets. Increasing investor fears of global economic recession caused declines in China, despite the announcement of a number of measures to stimulate growth, including interest rate cuts.

The Australian bond market pushed higher in October due to global equity market volatility and concerns about a potential global recession. Global inflation concerns receded with lower oil and commodity prices, which resulted in a further decline in Australian bond yields from 5.40% to 5.17% over the month due to the 1% cut by the RBA (the biggest rate cut since 1992), which was more aggressive than expected, and continued signs of slowing economic momentum. The three year bond yield fell from 5.09% to 4.47% as further aggressive interest rate cuts are priced by the market. As a result, the UBSA Composite Index delivered a strong monthly return of 2.0%. The yield on ten-year bonds ended the month 0.2% lower and the spread between Australian and US ten-year bond yields narrowed further.

International bond yields were mixed in October. Despite slowing economic growth and interest rate cuts, most global long-term bond yields were only marginally lower in the month on concern over an increased supply of bonds to fund various government rescue packages. The US ten year bond yield increased to 3.96% from 3.82%, while two year bond yields fell from 2% to 1.6%. The UK bond yield also increased to 4.52% from 4.45%, while a weakening European

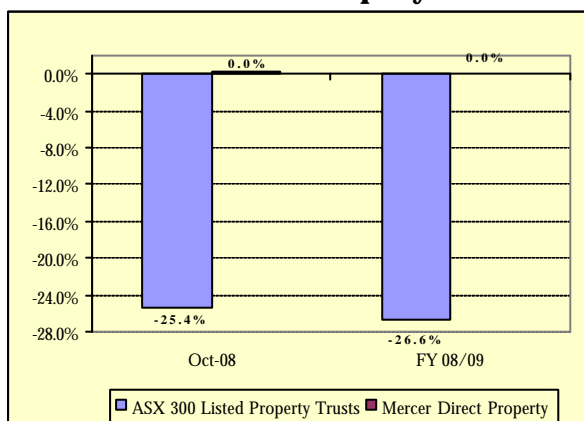
Australian Dollar against



economy and ECB interest rate cuts saw the German bond yield fall to 3.9% from 4.01%.

Renewed financial market stresses and sharp falls in share markets prompted large movements in exchange rates in October. Weaker commodity prices and a 1% rate cut saw the largest monthly decline in the Australian dollar since the currency's float. The Australian dollar fell 15.7% against the US dollar during the month thanks to weaker commodity prices and a resurgent US dollar. Since its peak of US\$0.9849 in July this year, the Australian dollar has now fallen 32%. The Japanese yen continued to gain against the Australian dollar as a result of the unwinding of yen carry trades. The Australian dollar also fell against the euro and the British pound, but to a lesser extent.

Australian Property



The Australian Real Estate Investment Trusts (A-REITs) sector returned -25.4% in October, with the sector not spared amid the broader market volatility. Concerns surrounding debt refinancing, equity raisings and asset sales were again the central theme within the sector as access to debt continued to tighten.

The unlisted property sector, as measured by the Mercer Unlisted Property Index, returned 0.0% for the month of October, reflecting a negative capital return that offset the income return for the month.