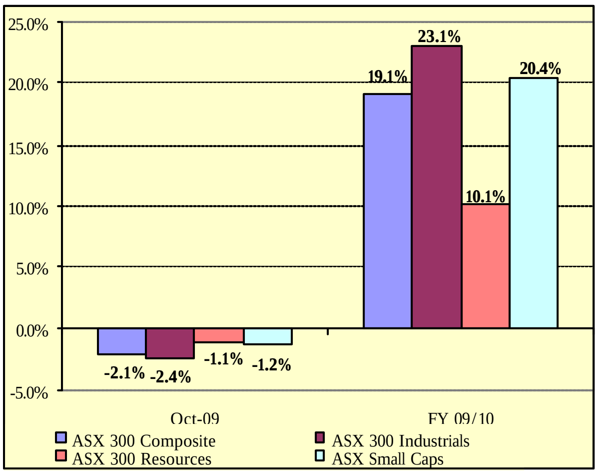
Market Overview

October was a month of mixed results with equity markets declining across the board, following seven consecutive monthly increases. Economic data around the globe also varied with the US officially emerging from recession, reporting a 3.5% annualised rise in gross domestic product (GDP) for the September 2009 quarter, despite an increase in the unemployment rate to 10.2%. Reports from the third quarter earnings season in the US were also encouraging, as over half of companies that reported beat analysts' earnings estimates by more than 5%. These results are likely driven by cost-cutting measures rather than a result of significant improvement in the revenue line however.

The news from the UK was less positive with GDP contracting 0.4% quarter-on-quarter for the September quarter. This is the sixth quarterly decline in economic activity and the longest recession since quarterly records began in 1955. Contrastingly, economic data for Australia have been positive. Employment data revealed a decrease in the unemployment rate from 5.8% to 5.7%, and results of confidence surveys were better than expected with an increase in consumer sentiment and business sentiment remaining strong. Inflation data, which was released in October, recorded a 1.0% increase in the Consumer Price Index over the September quarter, up from the 0.5% rise in the June quarter and resulting in an annual inflation rate of 1.3%. Underlying inflation, which excludes volatile price movements, rose by 0.8% over the September quarter, which contributed to a 3.5% annual inflation rate. Consequently, the RBA announced a 0.25% increase in interest rates to 3.5% in November, after an initial 0.25% increase in October.

Australian Equities



After seven consecutive positive months, the Australian share market declined in October, with the S&P/ASX 300 Accumulation Index falling by 2.1%. The falls came in the last week and were a result of falls in global shares, lower commodity prices and profit warnings from some companies about the negative impact of a continued rise in the Australian dollar. Prior to these falls, the market was up almost 5%.

The largest detractors from performance in the Australian share market over the month were the sectors that had previously been the strong performers; namely Property Trusts (-9.0%), Energy (-5.3%), and Healthcare (-4.1%). Property Trusts were affected by higher official interest rates, further capital raisings and concern over commercial property values, while Healthcare was negatively impacted by a stronger Australian dollar (due to the level of offshore earnings from many companies in this sector). The defensive sectors were the better performers with Consumer Staples up by +1.4%, Utilities by +0.6% and Telecoms up by +0.4%.

Share markets around the world continued to rally in the first half of the month before falling in the latter stages of October with the MSCI World ex-Australia (total return) Index returning -2.2% in local currency terms for October. The strong appreciation in the Australian dollar resulted in a lower return of -4.1% in unhedged Australian dollar terms.

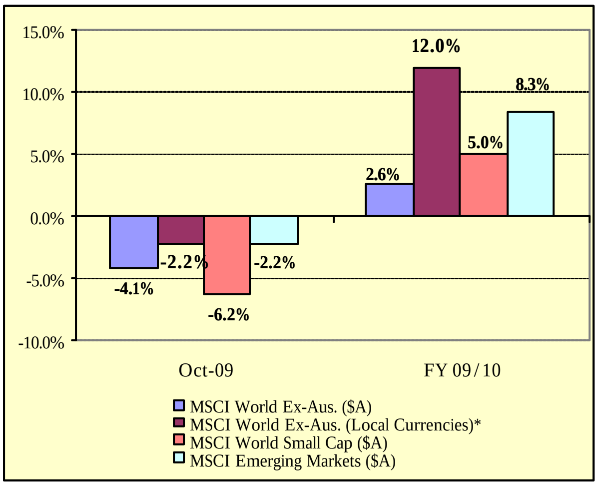
In the US, Financial shares lost ground as market participants took profits, and housing-related stocks were hurt by uncertainty surrounding the future of the government's first time home buyer tax credit and an unexpected decrease in new US homes sales.

European markets were affected by discouraging results which held back shares in Information Technology firms, and a weak demand environment for power and gas weighed upon Utilities. In particular, the UK share market was negatively impacted by the disappointing third-quarter GDP figures.

Asian markets were mixed over October, with Japan's Topix falling -1.7%. China continues to show strong signs of recovery with an increase in GDP of 8.9% in the year to the September quarter. Despite this encouraging economic data, uncertainty over the possible withdrawal of fiscal and monetary stimulus measures hurt global sentiment.

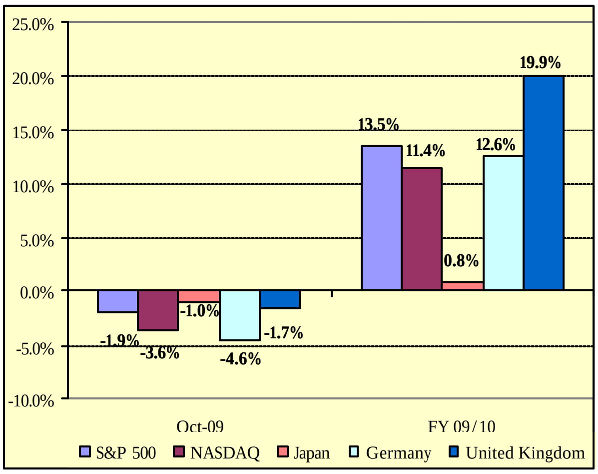
Emerging markets also underperformed, but to a lesser extent than developed markets. The MSCI Emerging Markets Index was down 2.2% in Australian dollar terms but was flat in US dollar terms. Russia (+6.4%), Poland (+2.3%) and the Philippines (+2.3%) all recorded positive growth in local currencies as emerging markets continue to attract investor inflow based on recent and expected economic performance. Other countries recorded large declines, in particular countries such as Colombia, Thailand and Taiwan, which fell by 11.3%, 8.6% and 6.4% (in Australian dollar returns) respectively. South Korea announced a positive economic growth figure of 2.9% for the quarter and 0.6% over the year to September, however its share market fell 5.5%.

International Equities ($A)

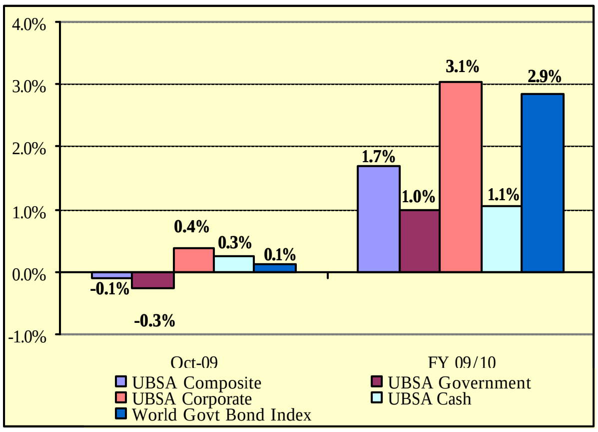


* MSCI World Ex-Aus. Local Currencies Index used as a representative for the Hedged Index

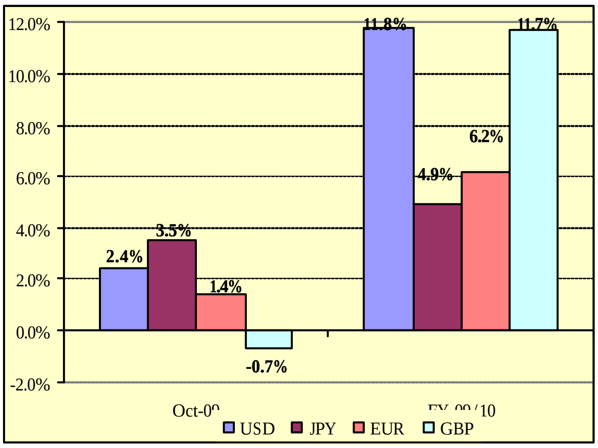
International Equities (Local Currencies)



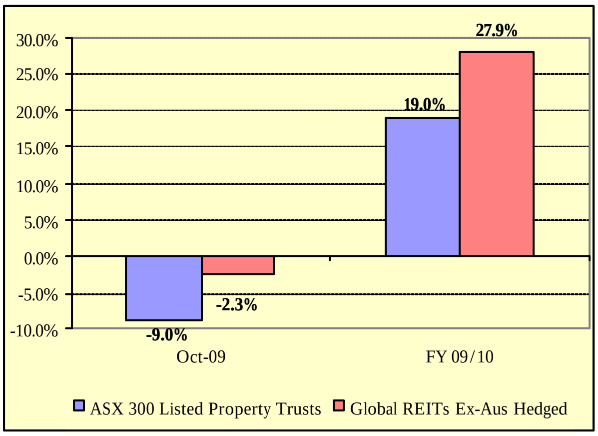
Fixed Income



Australian Dollar against



Property



Strong domestic economic data and the central bank's comments regarding further potential rate increases resulted in Australia's bond market selling off over the first half of October. The yield on the Australian ten-year government bond increased by 0.18% to 5.54%.

The rally in global long-term bonds lost steam in October, despite falls across most equity markets. The US ten-year bond yield increased from 3.31% to 3.39%, while in Europe, the German ten-year bond yield marginally increased from 3.22% to 3.23%, and the UK ten-year bond yield rose 0.03% to close the month at 3.62%. High yield and investment grade credit spreads continued to contract over the month.

The Australian dollar (A$) pushed higher again in October against all other developed market currencies apart from pound sterling, which rebounded after being oversold. These gains followed the increase in the RBA cash rate, which has further widened interest rate differentials between Australia and the other major economies, and the general resilience of the Australian economy. Improving risk appetites, commodity prices and global growth prospects have also positively impacted the currency.

The Australian Real Estate Investment Trusts (A-REITs) sector fell during October, after six months of gains. Rising bond yields, expectations of further capital gains and tight financing conditions negatively impacted the sector. There was, however, very little news during the month.

After seven consecutive months of positive returns, the global REITs markets sold off during October. In particular, the global market was negatively impacted by US (-4.6%) and Australian REITs, although Germany, Japan and China were also weak performers. Contrastingly, Hong Kong (+6.5%), Singapore (+3.6%) and Europe (+1.1%) were the better performing regions.

Data for the domestic unlisted property sector, as measured by the Mercer Unlisted Property Index, was not available at the time of writing.