

Investment Update

Investment returns over the first four months of the 2009-10 year have been extraordinarily strong. Australian shares have been the star performer with the market up by 25% since the start of the financial year.

At the other end of the return spectrum, the safest asset, cash, has returned less than 1% over the period due to interest rates being at or near record lows. Since its lows in early March, the Australian share market has had a return of 51% as compared to just 2% for cash.

Returns from other asset classes have been mixed but generally far better over recent months than in 2008-09. However, the remarkable strength of the \$A has had a marked dampening effect on returns from overseas assets, including international shares.

Looking forward, while we would not be at all surprised to see some correction to the extraordinary gains of share markets, economic recovery is now well underway in Australia and most of the signs are positive for some pick up in global growth, albeit from very low levels.

Very significantly, the Chinese economy appears to have weathered the downturn extremely well, with demand from Chinese consumers surprising on the upside. This has seen a marked pick up in both demand and prices for many of our commodity exports.

As regards our investment strategy, we believe that the most likely economic scenario will be one of a continued modest recovery in economic activity which will provide support to share prices. In the past, when markets have fallen as sharply as they did in this crisis, the recovery in share prices tends to persist for a number of years, but with the strongest gains in the first six months.

We would not be surprised to see this pattern repeat itself this time around. As a consequence, our default option is modestly overweight Australian shares. However, we have also maintained a high degree of diversification as both economic and market risks remain above average.

Nevertheless, with the Balanced Option having returned almost 10% since 30 June, we are very confident that this will continue to be a far better year than last.

Tim Hughes
Chief Investment Officer

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