

## Market Overview

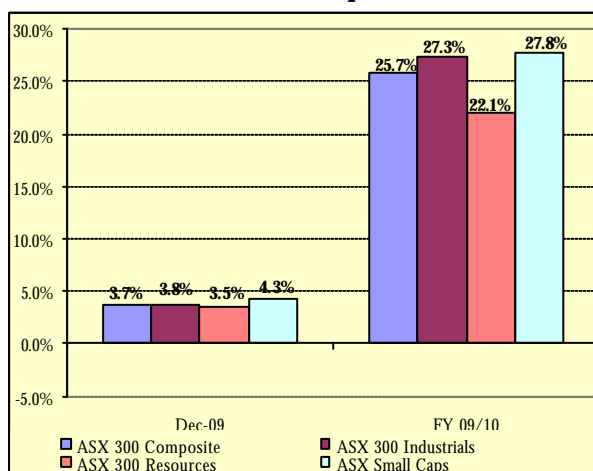
The gradual recovery of the global economy continued in December. The US economy continues to be driven by the consumer, with consumer confidence and retail sales improving over the month. The US labour market showed signs that the long period of deterioration was ending, with the unemployment rate falling to 10%. However, it is still close to a 26-year high, with expectations that it may rise again throughout 2010 as businesses resist putting on new staff until a concrete economic recovery is underway. The US housing market data continues to be mixed. Existing home sales increased, with home inventory falling to its lowest levels since the start of the crisis in 2006. However inventory levels remain above their long term average. US housing construction is yet to show a sustained recovery, and short term data is expected to remain volatile while above average excess housing supply remains and tight credit supply to developers persists. Inflationary pressures in the US are expected to remain subdued, with the US Federal Reserve maintaining its commitment to “keep exceptionally low levels of the Federal Funds rate for an extended period”.

The Asian region continues to be a significant contributor to the global recovery. Driven by improvement in international trade, but also through the sizable fiscal and monetary stimulus that has supported domestic demand, including China’s stimulus package which is estimated to be 4.5% of GDP. China’s annual CPI index recorded its first positive result in November after nine months of deflation. In response to the strong recovery and desire to achieve sustainable economic growth, in January 2010, China’s central bank raised the proportion of deposits that lenders must set aside as reserves, with the intention of cooling the growth in lending by banks.

European economic data released during December was mixed. The Euro area economy returned to positive growth in the September quarter, with output rising by 0.4% in the region. Whereas unemployment rose to a decade-high of 10%. Inflation is likely to remain subdued in the Euro area during 2010. Britain’s GDP for the September quarter was revised upward but still contracted 0.2%, leaving the UK as the last major economy still in recession.

The Australian share market continued to perform positively in December, with the S&P/ASX 300 Accumulation index rising by 3.7%. The S&P/ASX 200 achieved returns of more than 37% for the 2009 calendar year.

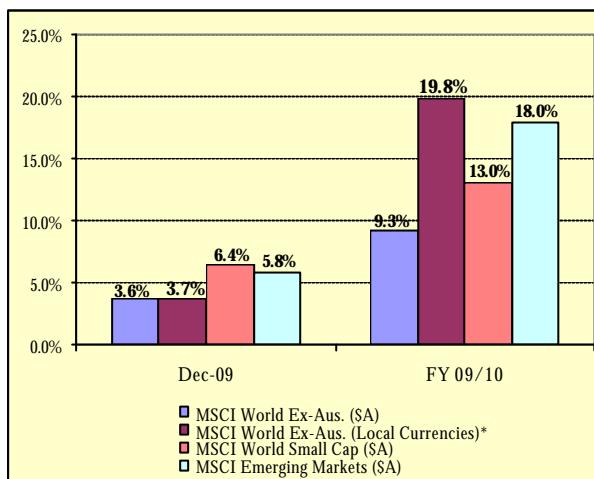
**Australian Equities**



The largest contributors to performance in the Australian share market over the month were the Industrials sector (+7.0%) and Materials sector (4.3%). The more defensive areas of the market were among the weaker performers, Telecoms (+1.0%) and Consumer Staples (+2.0%).

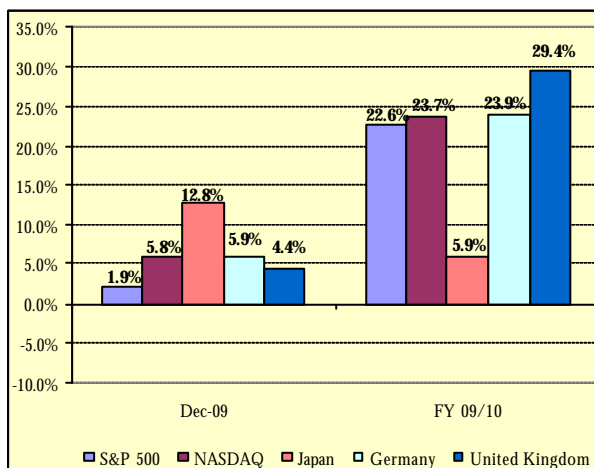
During the month, investor sentiment in the share market was also buoyed by corporate activity, with a competitive bidding situation in AXA Asia Pacific Holdings (AXA) crystallising, with National Australia Bank (NAB) trumping AMP’s revised bid. In the coal sector Macarthur Coal (MCC) and Gloucester Coal announced a friendly merger.

## International Equities (\$A)



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

## International Equities (Local Currencies)



It is expected that 2010 will be a more challenging year for investors, with interest rates rising and higher expectations for profit growth.

Share markets around the world generally posted gains in December, driven by positive economic news, better than expected earnings and corporate activity. During the month, the MSCI World Ex-Australia (total return) Index returned 3.6% in Australian dollar terms and a slightly higher return of 3.7% in local currency terms. For the Financial year to date the MSCI World Ex-Australia in local currencies has significantly outperformed the unhedged MSCI World index in Australian dollars due to the appreciation of the AUD.

The US economy continues to show signs of recovery. During the month, the S&P 500 index gained 1.9% in US dollar terms. This performance is on the back of better than expected third quarter earnings, with over half of reporting companies beating analyst estimates.

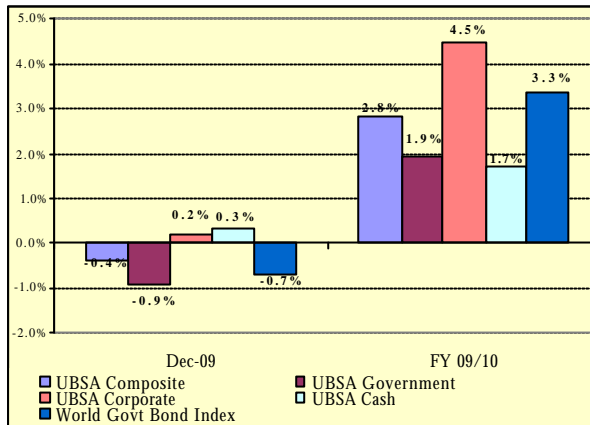
In Europe, equity markets were stronger despite sovereign risk issues persisting. Share markets in Germany (+5.9%), France (+7.0%) and Spain (+2.5%) all rose. In Asia, the Japanese government introduced another stimulus package, focussed on assisting job growth and small business credit. Japan's Nikkei rose by 12.8%, while the Singapore (+6.1%) and Hong Kong (+0.2%) markets also recorded positive returns.

Emerging markets on average benefited from higher commodity prices during the month, with the MSCI Emerging Markets Index returning +5.8% in Australian dollar terms for the month and 3.8% in US dollar terms.

Leading emerging markets higher were Sri Lanka (+16.2%) and Turkey (+15.9%), up on rising optimism and confidence. Top performers for 2009 included China (+127.6%), Sri Lanka (+125.3%), Russia (+106.9%) and Argentina (+101.2%). Saudi Arabia fell 3.2% in December and was one of the worst performing emerging markets in 2009, rising 28.0%.

The Australian bond market weakened in

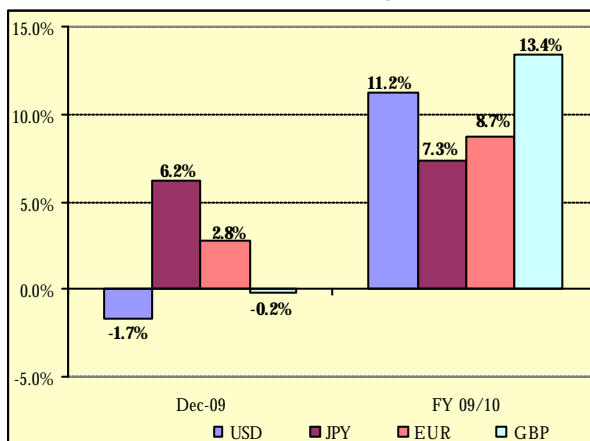
## Fixed Income



December, due to local domestic factors as well as the increase in US government bond yields. As a result, the yield on the Australian three-year bond yield rose to 4.66% and the ten-year government bond rose from 5.24% at the end of November to 5.64% at the end of December. These moves caused a 0.4% fall in the UBSA Composite bond index

Global yields moved generally higher in December, despite some negative global news, such as the downgrade of Greece and Moody's comments on the fiscal challenges facing the US and the UK. In the US 10-year bond yields rose by 0.64% to 3.84% on the back of generally improving global economic data. Additionally, a driver of increasing longer dated bond yields is an expectation that policy-makers will keep monetary policy relaxed, with potential for rising inflation.

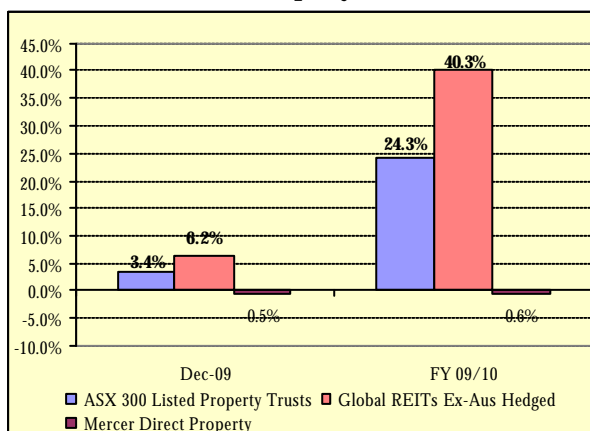
## Australian Dollar against



The European Central Bank left official interest rates on hold as did the Bank of England.

During December, the Australian dollar (A\$) fell against the US dollar for the first month since January 2009. The US\$ rose due to expectations that the US Federal Reserve is moving closer to raising interest rates at some stage during 2010. However the A\$ rose strongly against the Japanese yen (JPY) due to JPY weakness. In general, the A\$ rose only slightly against the currencies of other major trading partners.

## Property



Investor sentiment towards listed property stocks in Australia and overseas continued to improve in December in anticipation of a further improvement in operating conditions. The Australian S&P/ASX 300 Listed Property Trust Index added 3.4% in December, extending gains in the financial year to date to more than 24%. The UBS Global REITs Ex-Aus Hedged Index, climbed 6.2% during the month, extending gains in the financial year to more than 40%. Asian markets including China, Singapore and Japan typically performed well, while stocks in Europe generally fared less well.

The domestic unlisted property sector, as measured by the Mercer Unlisted Property Index, returned -0.5% for the month of December.