

Investor Update October 2008

Investment outlook and strategy

You should always consult your Bridges financial planner before taking action on any recommendation given.

Information current as at 31 October 2008

The month began with the US Congress finally passing the \$700bn rescue plan, authorising the Treasury to purchase 'troubled assets' from US financial institutions as well as to provide equity capital where needed. However, this did little to halt the stock market plunge. By mid-month, the plan had morphed into a bank recapitalisation program (taking its cue from an earlier plan from the Bank of England) under which the Treasury would spend \$250bn buying equity positions in major US banks. Europe and Japan followed suit with similar proposals.

Early in the month, the Reserve Bank of Australia (RBA) cut official interest rates from 7.00% to 6.00%. Soon after, the US Federal Reserve, the European Central Bank and the Bank of England cut their cash rates by 0.50%. Despite the rate cuts, equity and credit markets remained under extreme pressure. At a weekend meeting, leaders of the G7 and G20 countries agreed to use all available tools to support struggling financial institutions and prevent their failure.

In a move calculated to put Australian banks on an even footing with European banks and to quell depositor concerns, the government announced that it was guaranteeing 'bank deposits'. Unfortunately, there were unintended consequences that the government and the finance sector are now endeavouring to resolve.

Commodity prices continued to tumble, on continued fears of a global slowdown as well as the beginning of fears of a slowdown in China, with bulk commodities coming under increased pressure. OPEC's decision to cut oil production by 1.5m barrels per day did little to arrest the sliding oil price, which fell around 33% during the month.

In stock trading news standout performers for the month were Goodman Fielder (+19.1%), Bendigo & Adelaide Bank (+13.6%), Amcor (+7.4%), Tatts Group (+5.0%) and Sonic Health (+4.7%).

Profile: AMP Ltd (AMP)

AMP Limited (AMP) is a leading wealth management company with more than 3.4m customers and 3,900 employees in Australia and New Zealand. It is Australia's largest retail and corporate superannuation provider, and one of the region's most significant investment managers with more than A\$117bn in assets under management, as at June 2008.

AMP offers the purest exposure to the Australian superannuation growth story out of any of the top 100 listed stocks on the ASX. This is a high-growth market (we estimate funds under management will grow 12%+ until 2025), where net flows have typically contributed about 6% of funds under management each year to growth. AMP has (until very recently) been tracking around system levels. Given the commutation of Cobalt, only 25% of AMP's operating earnings now come from mature/run-off operations.

We believe that there is limited competition on fees at the moment amongst wealth management product providers. Given the extent of the falls in investment markets, we believe that all product providers are going to be reticent to engage in fee competition, in

order to avoid further degradation in earnings. Most explicit pressure on fees that is evident at the moment is between platform providers and external dealer groups. As AMP owns most of its distribution and its own dealer network, we believe that it will not be subject to the fee pressures affecting some platform providers who predominantly source their funds from independent financial advisers.

We are upgrading AMP to BUY, given its underperformance versus AXA over the last three months. We like the long-term themes offered by AMP: These include exposure to the high-growth superannuation market, with limited fee pressure on its products; high operational leverage; a good history of cost control; and some relative earnings downside protection against markets compared to peers. We believe there is share price upside for investors willing to look through the current market volatility.

Stockwatch

- 1) BHP Billiton Ltd (BHP) – BUY – Weakness in all commodities is resulting in profit downgrades due to deteriorating global economic outlook.
- 2) Commonwealth Bank of Australia (CBA) – BUY – Used weakness in the global banking environment to its advantage by acquiring Bankwest for \$2.1 billion. Bankwest is a strong business and market leader in Western Australia.
- 3) Caltex Australia Ltd (CTX) – HOLD – Earnings outlook has been reduced due to the decline in the Australian dollar.

Australian index returns 31 October 2008

	1mth	3mth	12mth
Australian Shares	-12.94	-19.65	-28.58
Industrial Shares	-9.48	-10.32	-22.65
Resource Shares	-17.21	-33.21	-35.87
Property	-25.37	-22.79	-40.70
Aust Bonds	2.01	5.55	7.87
Bank Bill	0.71	1.98	3.99

All accumulation indices.

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