



Market update October 2008

(Prepared by Mark Sainsbury, Chief Investment Officer, FSS Trustee Corporation)

A challenging year ahead

The new financial year has already exposed a number of challenges for investment markets. At present, financial markets seem to switch from concerns about investment banks to concerns about banks and insurance companies generally. The environment at the end September 2008 is being driven by the emergency package which passed the US Congress, which will allow the US Treasury Department and the Federal Reserve banking system to acquire a series of poorly performing assets from banks, in exchange for fresh capital to be released by the banking system in the form of new, and presumably better performing, loans.

The success of the package will depend on whether the injection of new capital will restore confidence in the ability of banks to make new loans, either among themselves or to the end customer, and thereby slowly repair their balance sheets. We need to recognise that the restoration of bank balance sheets will take time, and this huge effort to restore confidence in the banking system will take place over a number of quarters, and probably at least until mid-2009, if not longer.

In the meantime, we must also recognise that even though the Australian financial system is part of the global banking system, Australian banks have much higher prudential standards, and this should mean that the domestic economy and financial system is in a much better position to withstand the challenges of the difficult credit conditions.

The trustee of the Fund has been closely monitoring the immediate investment environment, and the prospects for investment markets both for the remainder of this financial year, and for the next few years. The portfolios have generally been defensively set to avoid the company-specific difficulties that have emerged, although when markets fall, all investment portfolios will display disappointing numbers. The Fund will try to mitigate the more severe effects of the market falls by reducing exposure to share markets where appropriate, but to also look for opportunities where markets show that some confidence has returned.

This year will be both challenging and demanding, and it is expected that careful discipline and caution with investment positioning will put members in a better position than they might otherwise have been.

Important note: This communication contains general information only. It does not contain financial product advice, and should not be relied upon as an indication of future investment performance. The information in this communication is current as at October 2008. Prepared by FSS Trustee Corporation ABN 11 118 202 672, AFSL 293340, the trustee of First State Superannuation Scheme ABN 53 226 460 365.

