Investment Report - For Month Ending 31 October 2010

Asset Class Performance to 31 October 2010

Index*	1 Mth	3 Mths	6 Mths	1 Yr p.a.	2 Yrs p.a.	3 Yrs p.a.	5 Yrs p.a.	10 Yrs p.a.
Australian Shares	1.84%	**5.56%**	-0.73%	4.67%	**12.99%**	-7.64%	5.36%	8.08%
International Shares	**2.76%**	**0.61%**	**-1.83%**	5.82%	**-4.96%**	-9.77%	-3.04%	**-5.14%**
Australian Property Securities	**-0.44%**	2.34%	-1.66%	4.91%	-1.38%	**-24.19%**	**-7.80%**	3.14%
Australian Fixed Interest	0.00%	0.99%	4.35%	7.42%	6.15%	7.61%	6.16%	6.30%
International Fixed Interest	-0.12%	2.31%	**6.15%**	**9.72%**	9.54%	**9.43%**	**7.78%**	**8.10%**
Australian Cash	0.42%	1.19%	2.41%	**4.47%**	4.15%	5.35%	5.71%	5.50%

Indices*

International Shares	MSCI World Ex Australia in $A - Net Dividends Reinvested Index
Australian Shares	S&P/ASX 300 Accumulation Index
Australian Property Securities	S&P/ASX 200 A-REIT (Property Trusts) Accumulation Index
Australian Fixed Interest	UBS Australia Composite Bond Index - All Maturities
International Fixed Interest	Citigroup World Government Bond Index Ex Australia Hedged in $A
Australian Cash	UBS Australia Bank Bill Index

Highest Performing Asset Class for that Period	**Lowest Performing Asset Class for that Period**

Month in Review

Equity markets continued to rise in October led by US markets where third quarter earnings reports exceeded or met forecasts while expectation of further economic stimulus from the US Federal Reserve to boost the US economy helped drive positive investor sentiment. The US Fed announced in early November it's Quantitative Easing (QE2) program of purchasing $600bn of longer tem Treasury securities by the end of the second quarter of 2011 at a rate of $75bn a month over 8 months which was in line with market forecasts. The USD continued to decline over the month on QE2 expectations leading the AUD to reach parity with the greenback. Positive economic data released by China confirmed it's economy is growing strongly which supported rising commodity prices. The best performing asset class for the month was International Shares with a return of 2.76% followed by Australian Shares with a return of 1.84%. International Fixed Interest was the lowest performing asset class with a return of -0.12% as bond yields rose worldwide on expectations of the US Fed's quantitative easing program.

The Australian share market rose 1.84% in October with the All Ordinaries settling above the 4,700 level on continued positive market sentiment, further merger and acquisition action and strong bank annual profit results. The major announcement was the Australian Stock Exchange (ASX) being subject to a merger with the Singapore Stock Exchange (SGX) which has made an $8.4bn bid for the ASX. ASX shareholders have been offered an equivalent of $48 per share in a combination of $22 cash and 3.473 new SGX shares for each ASX share where the proposal will create the 2nd largest exchange in the Asia Pacific region if the deal receives government and regulatory approval. Fund manager Perpetual (PPT) received a takeover offer from private equity firm Kohlberg Kravis Roberts of $1.75bn at a price of $38 to $40 a share while the mining services company, The MAC Services Group (MSL) received a cash offer of $3.90 a share, valuing the company at $650m by bidder Houston based Oil States International. Also, James Packer made a move on the Ten Network by buying 18% of Ten via his company Consolidated Press Holdings (CMJ), making him the network's biggest shareholder. Tabcorp (TAH) announced plans to demerge its casino business from its wagering and gaming business and raise $430m through a share issue to grow the casino business and ensure both companies have appropriate capital structures. Also, BHP and RIO called off their proposed iron ore joint venture in Western Australia citing strong regulatory opposition.

In other Australian company news, BHP announced a 6% rise in iron ore production for the September quarter from the same period a year earlier, a 10% increase in coking coal used in steel production and petroleum reached quarterly production records which was well received by the market. RIO said it will invest $3.1bn to expand iron ore production in Australia to pay for new port and rail infrastructure around Cape Lambert in the Pilbara region of WA, which accounts for about a third of global iron ore trade. Woolworths reported a 4.1% increase in first quarter sales as a reduction in shelf prices helped it withstand tough retailing conditions. The NAB reported a 63% jump in full year net profit, from $2.59bn to $4.22bn for the 12 months to September aided by lower charges for bad debts while its cash profit rose to $4.58bn from $3.84bn and final dividend was raised to 78c a share from 73c. ANZ booked a

53% increase in full year net profit to $4.5bn from $2.94bn as lower charges for problem loans helped boost earnings. Its cash profit rose to $5.13bn from $3.38bn and ANZ increased its final dividend to 74c up from 56c a year ago. Macquarie reported a 16% decline in first half net profit to $403m from $479m a year ago which was less than last month's guidance of a fall of up to 25% and also reiterated its full year forecast which pleased the market.

In Australian economic news, the Reserve Bank of Australia (RBA) surprised financial markets in early November when it tightened monetary policy for the first time in 6 months in a pre-emptive strike to stave off inflation pressures led by the mining boom. In its decision to raise rates by 25 basis points to 4.75%, the RBA said surging terms of trade are boosting national incomes "very substantially", with the outlook for inflation expected to rise. Market forecasts are that this 0.25% move will be the last for this year with up to a further 1% of tightening expected through 2011. However, the CBA lifted its variable home loan interest rate by 45bps, almost double the RBA's 25bps rise, to 7.81% which outraged the government and the public. The other major economic release was the weaker than expected Q3 inflation data where the Consumer Price Index (CPI) rose 0.7% with annual CPI easing from 3.1% to 2.8%, well within the RBA'S 2-3% target band. Weak credit growth was reported where Australian business credit slumped by 0.9% in September and has fallen 3.7% for the year while overall credit growth rose by 0.1% in the month, the slowest growth rate in 10 months. Housing credit was up 0.6% in September and 8% over the year while housing prices were flat in Q3 as measured by the Australian Bureau of Statistics. The average price of established houses in the 8 capital cities rose 0.1% in Q3 and is up 11.5% from a year ago. In Sydney, average house prices rose 11% for the year and fell 0.9% in Q3 while Melbourne had the largest quarterly increase of 2.7%.

US share markets continued their recent rally in October on expectations the US Federal Reserve would announce more stimulus, the mid term federal elections would lead to a Republican takeover of the House of Representatives and due to a positive Q3 company earnings season. The Dow Jones index rose 3.06% for the month, the Dow's best October since 2006 while the S&P 500 climbed 3.69% for its highest October return since 2003. The Dow has risen 12% over the past two months fuelled by expectations of US Fed action where a $600bn quantitative easing program (QE2) was announced in early November. QE2 involves the US Fed buying government bonds which increases their demand & raises their prices, thus pushing long term interest rates down for mortgages and corporate bonds. This effectively injects more cash into the economy with hopes that it will lead to increased economic activity by increasing asset prices & encouraging consumers & businesses to spend & hire staff so as to lower the currently high 9.6% unemployment rate. Good Q3 profit results from the likes of Citigroup, Intel, Alcoa, JP Morgan, IBM and Google buoyed investor confidence where 85% of firms have exceeded analysts' expectations with US exporters enjoying the benefits of a weak US dollar making their goods more affordable to overseas buyers. US GDP for Q3 rose at an annual rate of 2.0% after increasing 1.7% in Q2, still too weak to reduce unemployment. US inflation remains much lower than the US Fed prefers with Q3 inflation at 0.8% p.a. compared to the Fed's target range of 1.5% to 2%. In a positive sign, US retail sales jumped 0.6% in September, above forecasts & the third monthly gain in a row while US manufacturing rose for October, above expectations of a decline.

China reported its GDP rose 9.6% from a year earlier in Q3, slowing from 10.3% growth in Q2 as Beijing continued to withdraw stimulus and took measures to slow the property market. China's GDP was slightly above forecasts for a 9.5% rise with authorities turning off electricity to steel, cement and other industries from the start of September expected to further slow the economy in Q4. In further monetary tightening, The People's Bank of China raised its one year lending and deposit rates during the month with the lending rate increasing from 5.31% to 5.56% and the deposit rate rising to 2.5% from 2.25%. Industrial output expanded at a 13.3% annual pace in September, down from 13.9% in August while spending on roads and power plants grew at a 24.5% annual rate in the 9 months to September. Retail sales increased at an 18.8% annual rate in September while inflation rose by 4.4% p.a. for Q3 with the good economic results having positive implications for China related Australian companies.

Model Portfolio Performance	**1 Mth**	**3 Mths**	**6 Mths**	**1 Yr p.a.**	**2 Yrs p.a.**	**3 Yrs p.a.**	**5 Yrs p.a.**	**10 Yrs p.a.**
HM Conservative Benchmark	1.22%	2.89%	0.86%	4.68%	6.77%	-1.36%	4.70%	5.47%
HM Conservative Portfolio	**0.73%**	**2.53%**	**0.34%**	**4.61%**	**7.85%**	**-**	**-**	**-**
Value Add	**-0.49%**	**-0.36%**	**-0.52%**	**-0.07%**	**1.08%**	**-**	**-**	**-**
HM Balanced Benchmark	1.60%	3.27%	0.12%	4.84%	6.75%	-4.17%	3.79%	4.66%
HM Balanced Portfolio	**0.98%**	**3.06%**	**-0.66%**	**3.80%**	**6.72%**	**-**	**-**	**-**
Value Add	**-0.61%**	**-0.21%**	**-0.78%**	**-1.04%**	**-0.03%**	**-**	**-**	**-**
HM Growth Benchmark	1.86%	3.67%	-0.43%	4.93%	7.18%	-6.22%	3.31%	4.39%
HM Growth Portfolio	**1.16%**	**3.43%**	**-1.52%**	**3.08%**	**6.50%**	**-**	**-**	**-**
Value Add	**-0.69%**	**-0.23%**	**-1.09%**	**-1.85%**	**-0.68%**	**-**	**-**	**-**

The Henderson Maxwell Model Portfolios have under-performed their benchmark returns in October and for the year to October 2010 as equity markets continue to rally as slightly more cash was held in anticipation of a market pullback. The best performing sector for the month was Materials (+4.83%) which benefited from further positive market sentiment and rising commodity prices while Information Technology (+3.04%) and Consumer Discretionary (+1.72%) were the other top sectors. The best performing stocks within the portfolios this month included ASX (+13.9%) as it agreed to merge with the Singapore Stock Exchange subject to government approval, Leighton (+11.0%) on further contract wins prior to it's profit downgrade and BHP (+7.7%) as commodity prices rose.

Asset Allocation changes included an increased exposure to growth assets towards benchmark weightings as further positive economic data was released during the month and in anticipation of the US Fed quantitative easing program in early November. A new purchase was made into the iShares Emerging Markets ETF (IEM) to increase exposure to international shares while the AUD is at high levels and to benefit from expected growth from emerging economies. A further purchase was made into the Aii S&P/ASX200 Resources ETF (RSR) in expectation of continued rising commodity prices and due to the sector trading on PE ratios lower than the broader market.

Henderson Maxwell Asset Allocation as at 31 October 2010

Asset Class	HM Conservative			HM Balanced			HM Growth		
	Portfolio	Bench mark	Range	Portfolio	Bench mark	Range	Portfolio	Bench mark	Range
Australian Shares	38.75%	40%	0% - 50%	55.65%	50%	0% - 70%	67.14%	60%	0% - 80%
International Shares	3.85%	10%	0% - 20%	7.52%	20%	0% - 30%	8.74%	25%	0% - 40%
Australian Property Securities	5.05%	-	0% - 20%	7.12%	-	0% - 20%	9.44%	-	0% - 20%
Fixed Income	32.43%	-	0% - 60%	17.99%	-	0% - 40%	6.37%	-	0% - 30%
Australian Cash	19.92%	50%	10% - 100%	11.72%	30%	2% - 100%	8.31%	15%	2% - 100%

Outlook

The AUD reached parity with the USD during October & has subsequently remained above US$1 in early November on the back of confirmation of the US Fed's QE2 stimulus package. By the US effectively printing more money, it further dilutes the value of US dollars & makes the Aussie even more attractive. This is the first time since July 1982 that our currency has been on an equal level with the greenback & some forecasts are for the AUD to head toward US$1.10 due to continued boom in China and record prices for our commodities such as iron ore & coal. Assets which will benefit from a depreciating USD include commodities where rising prices increase the price of our exports. At the same time, a stronger AUD reduces the price of Australia's imports which improves the country's terms of trade & expands the economy leading to the RBA may wanting to prevent the economy from over heating by further raising interest rates. However, the AUD could fall back quickly if the US & world economy appears to be going back into recession which is unlikely or if the US economy recovers more quickly than expected. Forecasters expect the US economy to grow by 2.50% in 2010 & 2.80% in 2011 with growth predictions being steadily pared back by forecasters as the US economy experiences a sluggish recovery. With the US mid term elections resulting in the Republicans winning a majority in the House of Representatives, investors often view the Republicans as being more business friendly which benefits the economy. US stocks have tended to perform well following mid term elections with the S&P 500 gaining an average of nearly 16% in the year after a mid term election, with positive returns every time since World War II. Thus, with an appreciating AUD and commodity prices together with an expected rising US market, Australian equities are well placed to benefit.

Economic Statistics and Forecasts

Australia	Latest 8/11/10	Dec-10f	Mar-11f	Jun-11f	Sep-11f	Dec-11f
Cash Rate % - RBA	4.75	4.75	5.00	5.25	5.25	5.25
	Qtr 1 – 2010	**Qtr 2 – 2010**	**Qtr 3- 2010**	**Qtr 4 - 2010 forecast**	**Qtr 1 - 2011 forecast**	**Qtr 2- 2011 forecast**
CPI headline %	0.9	0.6	0.7	0.4	1	0.7
annual % change	2.9	3.1	2.8	2.7	2.8	2.8
Unemployment Rate %	5.3	5.2	5.1	5	4.8	4.8
GDP (qtr % rate)	0.7	1.2	0.9	1.0	1.1	0.9
annual % change	2.6	3.3	3.9	3.9	4.3	4.0
	2008	**2009**	**2010f**	**2011f**		
Aust – CPI headline %	3.7	2.1	2.7	3.2		
Aust - Unemployment Rate %	4.3	5.6	5.2	4.8		
Australia GDP %	2.2	1.2	3.5	4.0		
United States GDP %	0.0	-2.6	2.5	1.1		
World GDP %	3.0	-0.6	4.8	4.2		

Sources: Westpac, International Monetary Fund (IMF)