Zenith Monthly Market Report (31 October 2010)

Zenith Investment Partners Pty Ltd

Market Indicators

Market	Indicator	End of Month	Previous Month	1 Month Change	12 Months Ago	12 Month Change
Interest Rates	Overnight Cash	4.50	4.50	0.00%	3.25	1.25%
	3 Month BBSW	4.75	4.87	-0.12%	3.92	0.82%
	10 Year Bond	5.23	4.99	0.24%	5.58	-0.35%
Australian Shares	All Ords	4733.40	4636.90	2.04%	4646.90	1.83%
	S&P/ASX 200	4661.60	4582.90	1.69%	4643.20	0.39%
Regional Shares	Dow Jones Industrials (US)	11118.49	10788.05	2.97%	9712.73	12.64%
	S&P 500 (US)	1183.26	1141.20	3.55%	1036.19	12.43%
	FTSE 100 (UK)	5675.16	5548.62	2.23%	5044.55	11.11%
	TOPIX (Japan)	810.91	829.51	-2.29%	894.67	-10.33%
	Hang Seng (Hong Kong)	23096.32	22358.17	3.20%	21752.87	5.82%
Property	ASX 300 A-REITS Index	847.60	851.60	-0.47%	863.00	-1.82%
	US$ Gold Price	1359.40	1308.35	3.76%	1045.40	23.10%
	US$ Oil Price – W Texas Crude	81.43	79.97	1.79%	77.00	5.44%
	US$ CRB Spot Commodity Index	490.03	487.26	0.57%	389.25	20.57%
Exchange Rates	AUD / USD	0.9835	0.9656	1.82%	0.8997	8.52%
	AUD / EUR	0.7052	0.7090	-0.54%	0.6112	13.33%
	AUD / GBP	0.6131	0.6140	-0.14%	0.5468	10.80%
	AUD / JPY	79.08	80.59	-1.91%	81.05	-2.49%
	TWI	72.70	72.90	-0.28%	70.70	2.75%
Volatility	VIX Index	21.20	23.70	-11.79%	30.69	-44.76%

Key Points:

- In October the Australian Dollar (AUD) rose 1.82% against the US, however had declines against other major currencies, closing down 0.28% on a trade weighted basis.
- The RBA surprised the market leaving the cash rate at 4.50%. Lower than expected CPI data justified the decision, and the market eased its predictions of future rate rises, with the 3 month bank bill swap rate easing slightly. Bonds performed weaker during the month as 10 year bonds were sold off.
- The S&P/ASX 300 Index gained 1.84% over the month with materials leading the way, due to commodity price increases during the month. Companies found outside the S&P / ASX 300 Index performed the best during the month, finishing 4.20% higher.
- Global markets rallied during October with the MSCI World Index (Ex Aus, unhedged) returning 2.50% for the month. Europe and China were the strongest performing regions in Australian dollar terms, adding 3.06% and 2.63% respectively. India lagged during the month with a 0.39% return.
- Gold price finished the month higher 3.76% after it reached a new record high of US$1,380 per ounce before easing off to close the month at US$1,359 per ounce.
- Volatility, as measured by the VIX Index, continued to decline, with a decrease of 11.79% in October, down 44.76% from 12 months ago.

Cash, Fixed Interest & Credit

Zenith Benchmarks	Index	1 Mth	Past Qtr	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr To Date	Cal Yr to Date
Australian Cash	UBSA Bank Bill	0.42	1.20	4.47	5.35	5.71	1.20	3.46
Australian Bonds	UBSA Australia Composite All Maturities	0.00	1.00	7.42	7.61	6.16	1.00	4.83
International Bonds	Barclays Global Aggregate (USD Hedged)	-0.09	1.34	6.34	6.11	5.45	1.34	5.17

Summary of Statistics:

- **Australian Cash** returned 0.42% in October, returning 4.47% for the last 12 months.
- **Australian Bonds** remained flat in October, they have returned 7.42% over the last 12 months as measured by the UBS Composite All Maturities Index.
- **International Bond prices** lost 0.09% during the month, as measured by the Barclays Global Aggregate (Hedged $USD) Index. Spreads on 3 year government bonds in the UK and US weakened marginally down 0.13% and 0.01% respectively.
- In the **Global Corporate Debt Market** high yield debt continued to outperform with spreads tightening by 0.42%, emerging market debt spreads shrunk by 0.19% and investment grade debt spreads lost 0.17%.

Commentary:

Once again the RBA surprised analysts in October, leaving the official cash rate unchanged. Initially the market priced in a November rise, however the 90 day bank bill swap rate traded lower at month end. Underwhelming inflation figures couple with a strong Australian Dollar and weak credit growth, the RBA's decision appeared to be correct. RBA minutes revealed "higher interest rates will be required, at some point" this further eased the expectation of a November cash rate hike, as the market saw this as more medium term.

Domestic bonds were heavily influenced by offshore news flow and speculation. The expectation that the US Federal Reserve was going to implement a 2nd phase of quantitative easing caused Australian 10 year government bonds to be sold off, yields were 24bps higher at month end.

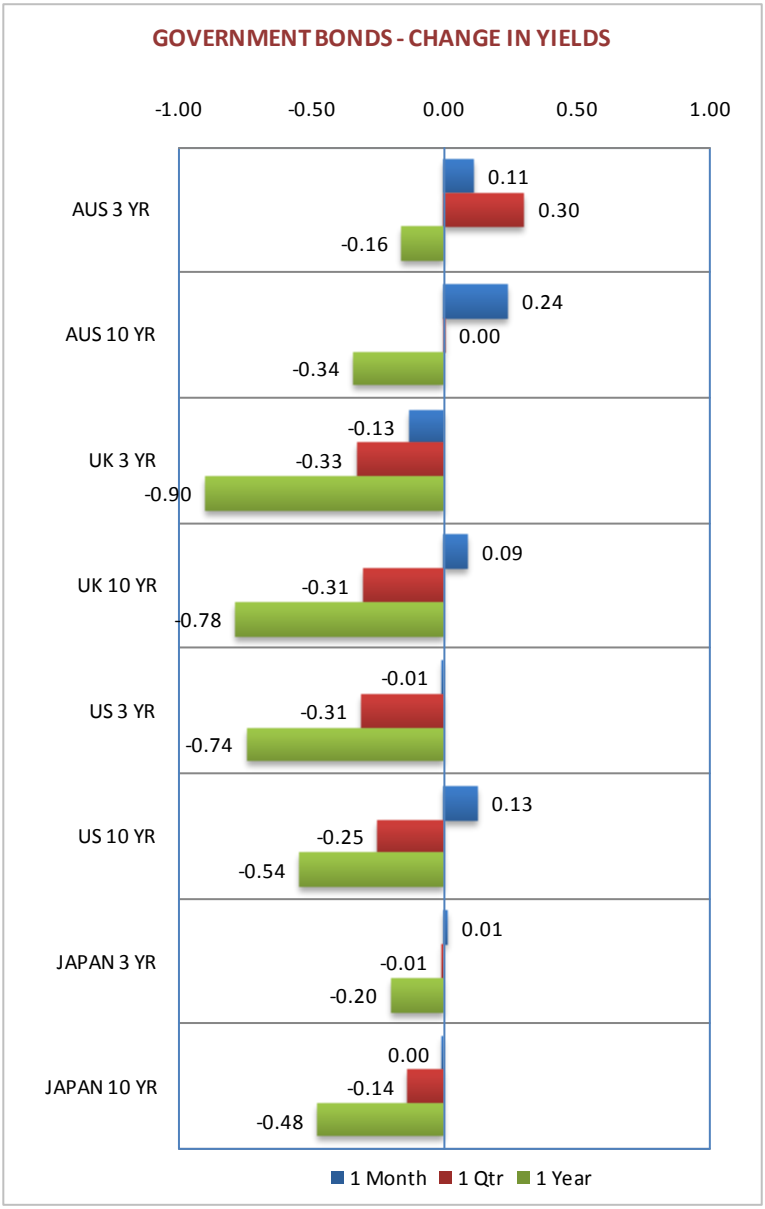
China's inflation rate of 3.6% year on year, prompted a surprise move by the Peoples Bank of China, raising lending and deposit rates for the major banks by 25bps.

Speculation surrounding a 2nd round of quantitative easing by the US Federal Reserve caused a further selling off of the USD. In terms of the Australian Dollar, the AUD hit parity with the USD, albeit briefly, for the first time since it was floated in 1982. The AUD/USD finished 1.82% higher at month's end, while on a trade weighted basis, it finished 0.28% lower.

Unsecured AUD bond issuance remained strong, totalling $6 billion for October, although this was down on the $9billion issued in September.

Moody's have changed its outlook on Thailand from negative to stable. The credit rating agency downgraded the rating during the political unrest that occurred at the start of the year. China's rating by the agency is also on review for a possible upgrade.

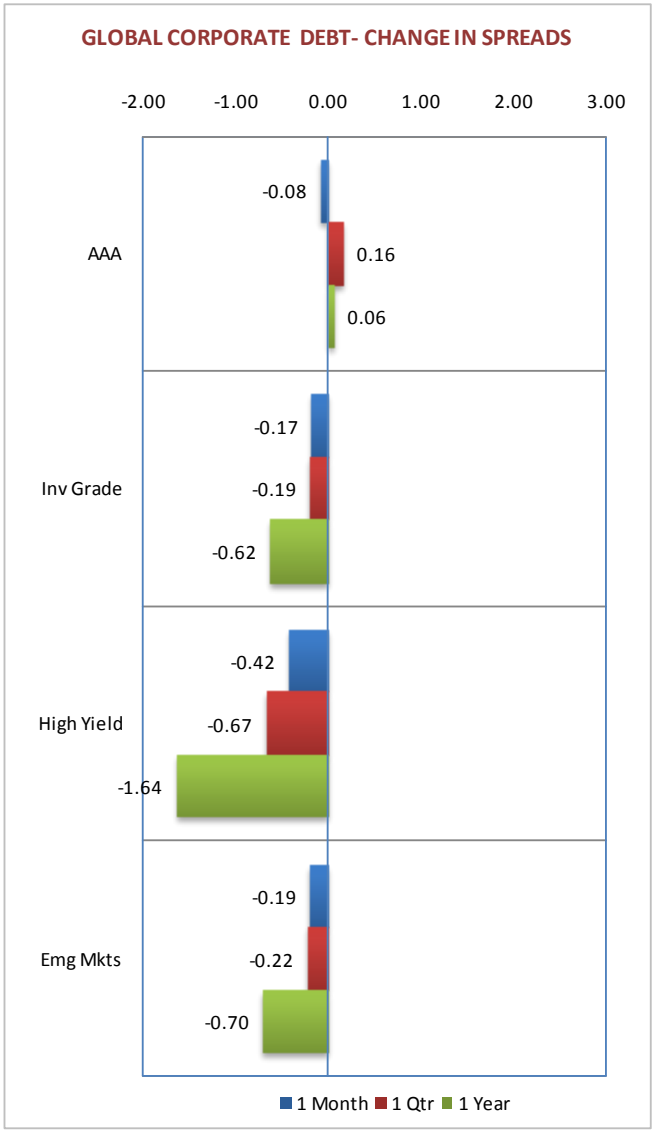
Cash, Fixed Interest & Credit (cont)



This chart shows the change in Government Bond yields over the past 1 month, 1 quarter and 1 year. A negative change in yields indicates a rise in Bond prices. Country weightings for the Barclays Global Aggregate Index, as at 31 May 2010 were as follows: Aus 1%; UK 6%; US 26%; Japan 33%.

This chart shows the change in Global corporate debt spreads over the past 1 month, 1 quarter and 1 year. A negative change in spreads indicates a rise in corporate debt security prices and vice versa.

The below shows a mild decrease in 1-month spreads, across all debt classes, with a larger tightening in the long term maturities.



Australian Shares

Zenith Benchmarks	Index	1 Mth	Past Qtr	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr To Date	Cal Yr to Date
Australian Shares	S&P/ASX 300	1.84	5.56	4.67	-7.64	5.36	5.56	5.67
Australian Shares - Market Cap	ASX 50 Leaders	1.70	4.45	4.04	-6.69	5.82	4.45	4.87
	ASX Midcap 50	1.55	6.71	3.94	-11.09	3.08	6.71	5.55
	ASX Small Ordinaries	3.31	14.71	11.47	-10.06	4.91	14.71	13.46
	S&P/ASX Emerging Companies	4.20	24.36				24.36	17.40
Australian Shares - GICS Sectors	S&P/ASX 300 Materials	5.64	11.70	20.63	-2.82	13.78	11.70	16.75
	S&P/ASX 300 Industrials	1.41	11.84	2.79	-15.24	-0.03	11.84	1.86
	S&P/ASX 300 Consumer Discretionary	1.46	5.50	2.55	-12.75	-1.29	5.50	4.22
	S&P/ASX 300 Consumer Staples	-0.02	10.75	13.17	3.32	12.72	10.75	19.65
	S&P/ASX 300 Energy	1.65	6.28	-0.06	2.56	13.58	6.28	7.63
	S&P/ASX 300 Healthcare	-0.20	2.74	1.05	-2.30	8.97	2.74	2.60
	S&P/ASX 300 Information Technologies	3.31	2.85	-3.59	1.77	8.24	2.85	-5.73
	S&P/ASX 300 Telecommunication	1.86	-9.85	-8.28	-8.23	0.58	-9.85	-8.32
	S&P/ASX 300 Financials ex Property	0.09	1.98	-1.37	-6.19	5.82	1.98	0.34
	S&P/ASX 300 Utilities	1.02	9.56	13.50	-6.78	3.18	9.56	12.54
	S&P/ASX 300 Property	-0.37	2.25	4.51	-24.63	-8.11	2.25	3.19

Summary of Statistics:

- The S&P ASX 300 Accumulation index rallied 1.84% during the month, lagging the MSCI World Index. The index returned a total of 4.67% for the last 12 months.
- Materials performed strongly during the month due to increasing commodity prices. Property was the worst performing sector, marginally down 0.37% during the month.
- On a market cap basis, the S&P/ASX Emerging Companies index led the way with a 4.20% gain, followed by the ASX Small Ordinaries with 3.31%.

Commentary:

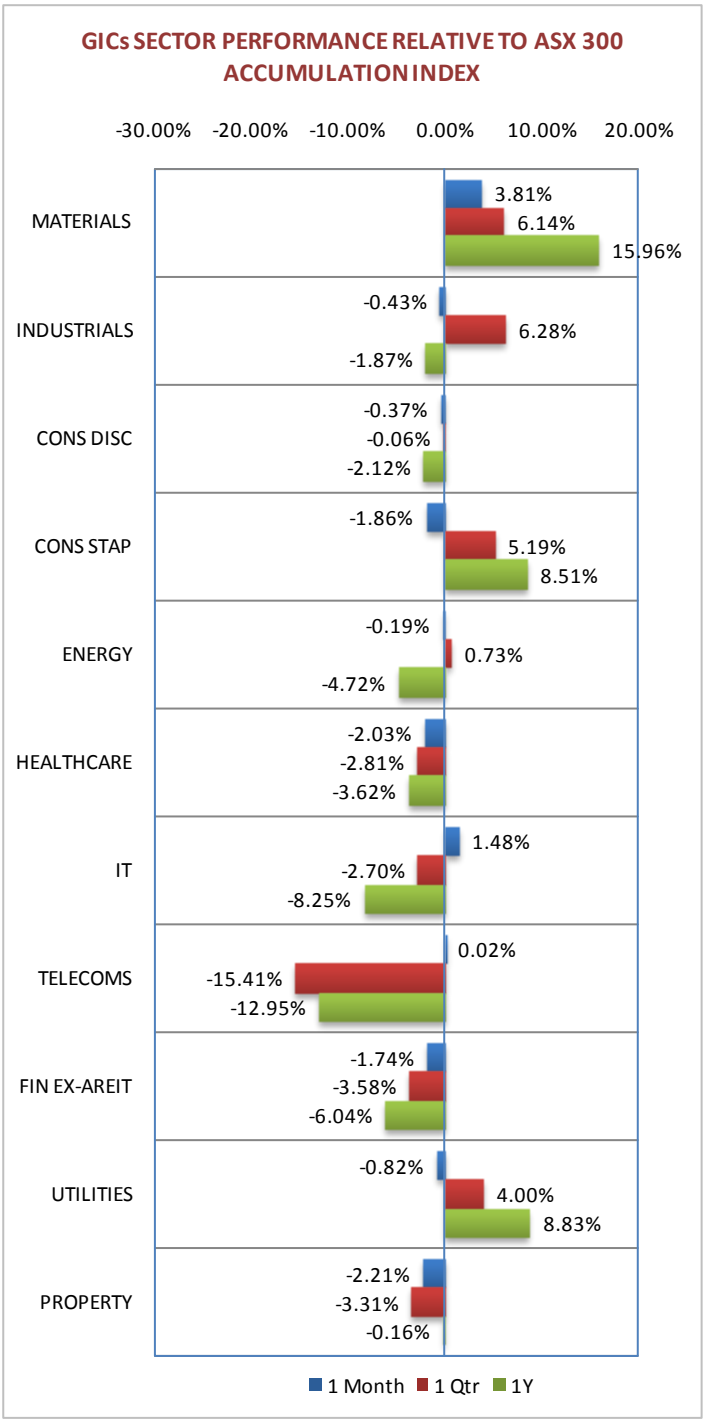
The Australian market continued its run in the black, returning a solid 1.84% for the month. The market was led higher by the Materials sector and on a market cap basis Emerging companies (companies that fall outside the S&P/ASX 300 Index) after commodities had a steady rise during the month.

In company specific news, BHP remained in the news during October, as the planned iron ore joint venture with Rio Tinto was blocked by the ACCC. A statement released by RIO mid-month officially ended the JV proposal. Investors determined that the venture was more favourable to RIO, as BHP's infrastructure was of more value. However, both companies performed strongly during the month, with commodity prices trading strongly on the back of continued demand from China. BHP returned 7.74% and RIO returned 7.71% for the month.

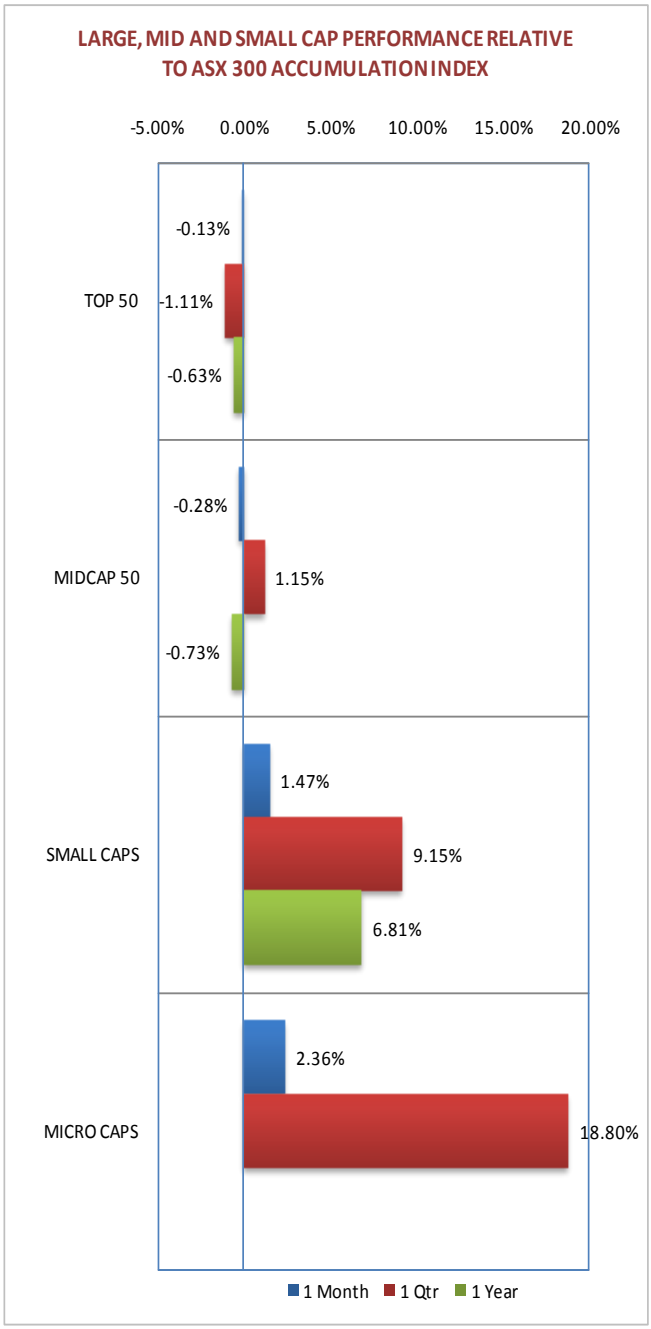
Perpetual received a $1.75 billion takeover proposal by Kohlberg Kravis Roberts & Co., a New York based global private equity firm. The takeover proposal offered a 20% premium on its current share price, however once news flowed through to the market its share prices quickly caught up. Although the initial proposal was rejected, Perpetual appear to have left the door open for further discussions.

Australian Banks remained in an enviable position globally, as three of the 'Big 4' banks announced their financial year profits. CBA, NAB and ANZ all announced record profits during the month, as consumer's shifter to the financial security of large banks. Westpac would later (on November 3rd) top them, by announcing a profit of $6.25 bill, up 84% year to year.

Australian Shares (cont)



This chart shows GICs Sector performance relative to the ASX 300 Index, over the past 1 month, 1 quarter and 1 year time periods. GICs Sector weightings for the ASX 300 Index, as at 31 May 2010 were as follows: Materials 25%; Industrials 7%; Consumer Discretionary 4%; Consumer Staples 9%; IT 1%; Telecommunication Services 4%; Financials ex-AREIT 33%; Property 6%; Energy 7%; Utilities 1%; Healthcare 4%.



This chart shows market capitalisation segmental performance relative to the ASX 300 Index. Please note the ASX Emerging Companies Index, as represented by Micro Caps in this chart has less than 1 year's performance history.

International Shares

Zenith Benchmarks	Index	1 Mth	Past Qtr	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr To Date	Cal Yr to Date
International Shares in A$	MSCI World Ex Au Unhedged A$	2.50	0.67	3.94	-9.90	-3.12	0.67	0.49
	MSCI World A$	2.46	0.82	3.93	-9.79	-2.87	0.82	0.65
	MSCI Small Cap World Ex Aus	2.69	2.13	13.21	-6.23	-1.29	2.13	6.60
International Shares - Regional in A$	MSCI North America	2.56	-0.02	7.64	-8.46	-3.50	-0.02	1.78
	MSCI Asia	1.11	0.41	5.02	-8.72	-0.78	0.41	2.13
	MSCI AC Asia ex-Japan	1.38	4.30	13.64	-6.71	8.88	4.30	11.02
	MSCI China	2.63	1.76	2.43	-12.36	17.14	1.76	7.14
	MSCI Europe	3.06	3.01	-0.13	-12.12	-1.61	3.01	-0.05
	MSCI Emerging Markets	1.65	3.55	13.90	-5.76	8.86	3.55	9.45
	MSCI India	0.39	7.56	24.39	-4.92	15.66	7.56	15.15
	MSCI Japan	0.80	-3.70	-3.41	-11.02	-7.05	-3.70	-6.51
International Shares - Hedged	MSCI World ex Au Local Currency *	2.90	6.37	12.02	-8.60	0.61	6.37	8.55
International Shares - Gold Shares in A$	FTSE Gold Mines	0.50	9.50	20.95	4.10	9.78	9.50	25.07
International Shares - Global Resources in A$	HSBC Global Mining	5.66	11.11	22.23	-4.88	13.91	11.11	16.20

Summary of Statistics:

- **International Shares (ex-Australia)** gained 2.50% in October on an unhedged basis, and gained 2.90% from a local currency perspective.
- The **FTSE Gold Mines Index**, which reflects gold mining stocks globally, rose 0.50% in Australian dollar terms for the month, despite a rise 3.76% in $US gold price.
- On a **Regional** basis, Europe and China were the strongest performing regions in Australian dollar terms, adding 3.06% and 2.63% respectively. India lagged during the month with a 0.39% return.

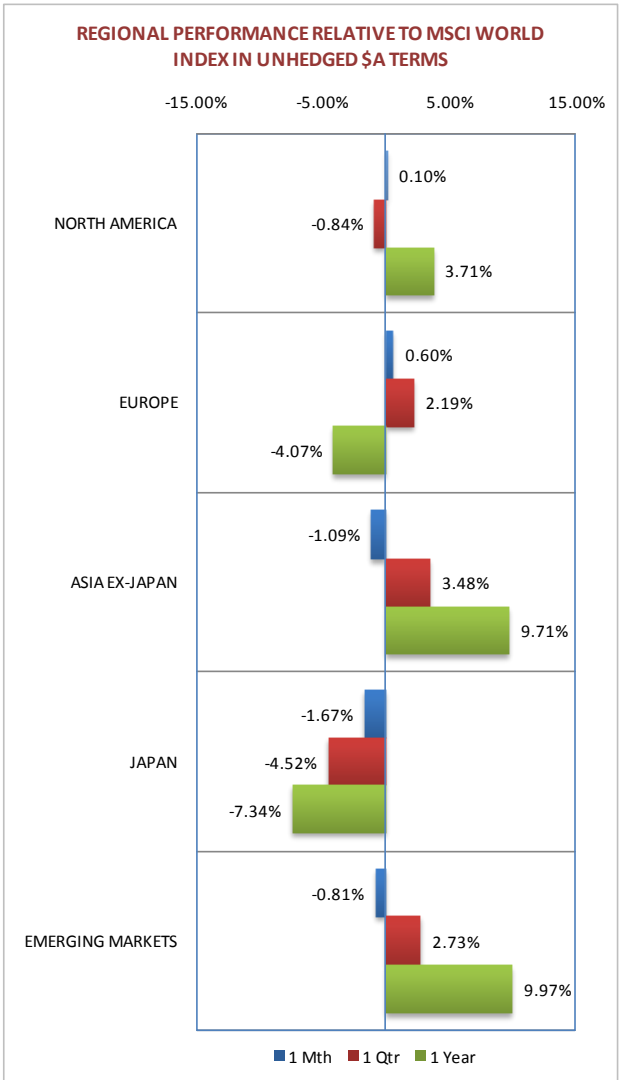
Commentary:

Speculation over another round of quantitative easing by the US Federal Reserve and generally strong economic results were received positively by the market, the Dow Jones Industrials Index rose 3.06%, the best October return for 4 years.

Whilst commodity prices rose during the month, prices eased late month when the Peoples Bank of China increased its interest rates for the first time since December 2007.

The Banking sector released Q3 profit results; all major banks recorded profits, however results were mixed as many didn't reach their Q2 results. Morgan Stanley was the most notable company that didn't reach analyst expectations. Morgan Stanley lagged other financials, with a return of 0.97% for the month.

Gold prices continued to hit record highs, reaching US$1,380 per ounce before easing to US$1,359 per ounce.



This chart shows Regional performance relative to the MSCI World Index in Unhedged $A terms, over 1 month, 1 quarter and 1 year time periods. Regional weightings for the MSCI World Index, as at 31 May 2010 were as follows: North America 58%; Europe 29%; Asia ex-Japan 2%; Japan 11%. Note Emerging Markets is not part of the index.

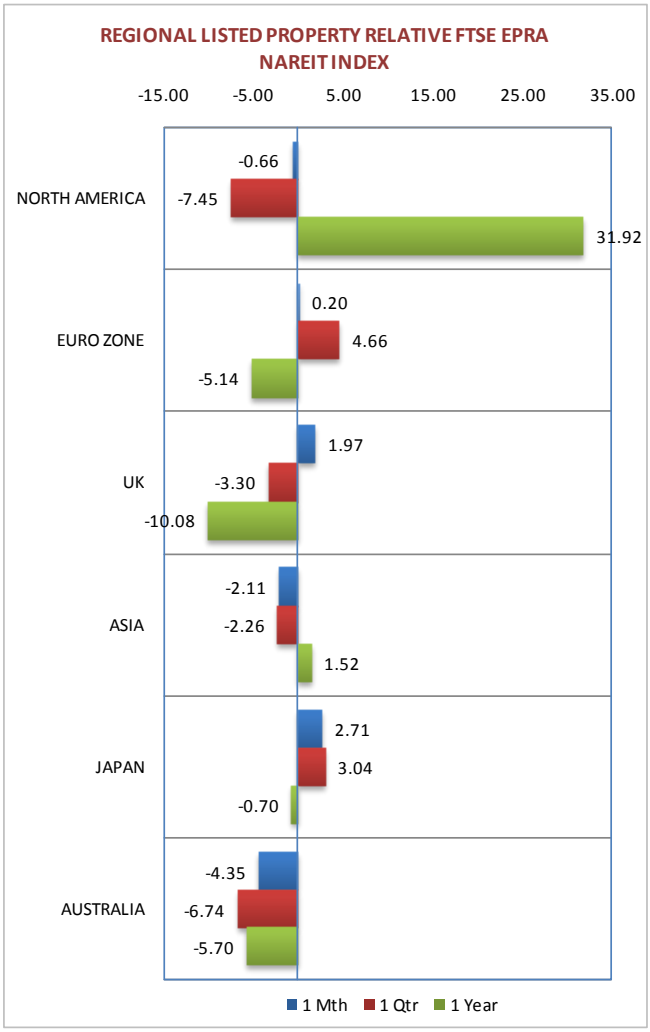
Property & Infrastructure

Zenith Benchmarks	Index	1 Mth	Past Qtr	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr To Date	Cal Yr to Date
Australian Listed Property	S&P/ASX 300 Property	-0.37	2.25	4.51	-24.63	-8.11	2.25	3.19
Global Listed Property - Hedged in A$	FTSE E/N Dev	3.45	9.52	20.16	-10.80	-6.63	9.52	19.69
Global Listed Infrastructure - Hedged in A$	UBS Global Infra. & Utilities	2.79	4.69	17.13	-5.52	6.01	4.69	8.67
Global EM Listed Infrastructure - Hedged in A$	UBS EM Infra. & Utilities	0.42	-1.43	6.91	-5.17	8.59	-1.43	0.12

Summary of Statistics:

- The **S&P/ASX 300 Property Index** weakened 0.37%, underperforming the **FTSE EPRA/NAREIT Index** for the second consecutive month, which returned 3.45% for the month.
- **Global Listed Infrastructure** returned 2.79%, outperforming **Global Emerging Markets Listed Infrastructure** which gained 0.42% for the month.

This chart shows Regional performance relative to the FTSE EPRA/NAREIT Index, over 1 month, 1 quarter and 1 year time periods. Regional weightings for the FTSE Index, as at 31 May 2010 were as follows: North America 46%; Europe ex-UK 10%; UK 5%; Asia ex-Japan 20%; Japan 10%; Australia 9%.



Commentary:

The S&P/ASX 300 Property Index weakened for the second consecutive month. Global listed property has continued to outperform the domestic market, returning 19.69% for the calendar year to date.

In company specific news, Australia's largest coal rail company, QR National, is in the final stages of its $6billion float on the ASX. Consensus amongst analysts is that the forecast $2.50 - $3.00 target is too expensive for the rail operator.

In other news, Stockland sold its 13% holding in rival company GPT group. Stockland abandoned its hopes of a merger, after it originally bought its stake in GPT in 2008 as part of a strategic opportunistic move. The estimated value for the sale was between $600 million and $800 million.

European REITs have continued issuing corporate bonds at a steady pace, with €4.85 billion in issuance for the calendar year to date.

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Data source: Bloomberg

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