RBF Market Update 23 January 2008

The last few days have seen substantial volatility in equity markets. Our belief is that the equity markets have been spooked by the sub-prime crisis in the US, and the growing expectation that this might drive the US, and possibly the World, into recession. The situation has also been exacerbated by the unwinding of positions held by market participants, notably those where substantial borrowing has been applied. The outcomes remain unknown at this stage.

Each of the Board's diversified options, as well as the Contributory Scheme, has significant exposures to equity markets, and hence performance for January to date is negative. But it should not be forgotten that returns over the previous five years have been very good, mainly due to strong equity market returns.

Up to 31 December 2007, investors in Australian equities had enjoyed returns in excess of 20%p.a. over the past five years, with currency hedged international equities achieving just over 16%p.a. over the same period. That the Australian market is now 20% off its highs has still not detracted materially from the substantial gains made over the past few years. Investing remains a long term pursuit, and shorter term market movements, while they can be significant, are not necessarily good portents of longer term outcomes.

In terms of the Retirement Benefits Fund, it is pleasing to report that the Board has managed to avoid the major problem areas that have plagued markets over the past year by having:

- no direct exposure to US sub-prime debt issuance,
- no direct exposure to collateralised debt obligations (CDOs); and,
- near zero exposure to listed property trusts, including Centro.

Further, the Board has been pro-active in investing in absolute return-focussed investments, such as Property and Infrastructure, in order to reduce the reliance upon equity markets for returns. The Board has also sought to invest a proportion of its equity exposures with managers who adopt similar defensive strategies.

We remain cautious of the markets at present, as we await the outcomes of the profit reporting season in Australia, and developments regarding the state of the US economy, but do note that in some sections the sell-off has been too extreme, and that opportunities have, and will continue to present over the near term. We expect to consider these opportunities, and to take advantage of some of them.

David Holston

Executive Director

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