

New Hybrid Infrastructure Fund

AMP Capital Investors has announced the launch of a new hybrid infrastructure fund, which will give retail investors the opportunity to invest in a range of global infrastructure sectors. This is the first time AMP has offered the retail market access to its infrastructure fund, which will give investors access to quality infrastructure assets that institutional investors have benefited from for years.

The AMP Capital Core Infrastructure Fund is intentionally structured for a blend of 50 per cent listed infrastructure securities and 50 per cent unlisted infrastructure assets, providing investors with a higher level of liquidity and stability than is generally associated with unlisted infrastructure investments.

The unlisted assets will be acquired directly and through AMP Capital's Wholesale Infrastructure Equity Fund. The fund has secured an initial amount of \$10 million in the equity fund, which includes assets such as aged health care provider, Principal Healthcare, and the M5 Motorway. There are also plans to invest \$20 million in Australia Pacific Airports Corporation, which owns a 99-year lease on Melbourne's Tullamarine Airport.

Small Business CGT Concessions

Amendments to the capital gains tax (CGT) small business concessions have extended the range of situations in which tax relief applies. This means that more small business owners may be eligible to take advantage of the changes and minimise tax on the sale of their CGT assets. The key changes are as follows:

- The upper limit for the maximum net asset value test has increased to \$6 million (from 2007/08).
- An alternative to the maximum net asset value test has been introduced. Broadly speaking, any business with an annual aggregate turnover of less

than \$2 million will meet the new small business test (from 2007/08).

- The 'controlling individual test' has been replaced with the 'significant individual test'.
- In addition to the existing test, an alternative test, the '90% CGT stakeholder small business participation percentage test', is now available. This test allows a company or trust to access CGT relief upon the sale/disposal of shares in another company or an interest in another trust.
- There is no longer a requirement for the asset to be an 'active asset' just before the earlier of: the CGT event and, if the relevant business ceases in the 12 months before the CGT, when the business ceases.
- A 'reasonable to conclude' test has been introduced as an alternative to meeting the 80% market value test' for the purposes of the active asset test.

Clearly, this is a technical area and so please contact us or your accountant if you have any questions.

Market Summary

The great inflation debate reopened during October. The Consumer Price Index (CPI) for the September quarter was released this month and showed that the nation's inflation rate was running at 1.9%. This looks good but, sadly, the figure was dragged down by changes to child care payments and a few other one off items.

Underlying inflation, which takes out volatile and one off items showed inflation at 3.0% and rising. Given our inflation target of 2-3%, this was bad news and has led to the Reserve Bank's decision a few days ago to raise interest rates by 25 basis points.

In other economic news, unemployment fell to 4.2%; retail spending was up 7.8% over 12 months and oil pushed above \$US 90 per barrel.

The AUD rose 4.6% against the US dollar (USD) during October. It started the month at US 88.58 cents and

ended it at US 92.62 cents. A year ago the AUD stood at US 77.50 cents.

Australian shares After the turbulence of July and August, the Australian sharemarket scaled new heights during October. The All Ordinaries share price index hit a new high of 6808 in the month, while the S&P/ASX 300 Accumulation index rose 2.9% to be up 30.5% over 12 months.

Is this irrational exuberance or is the market reflecting genuine ongoing earnings growth? Those who fear a correction make the following points. The Reserve Bank appears set to continue raising official interest rates; the recent credit crunch will hurt corporate profits; the strong AUD will hurt profits earned overseas; the sheer pace of the market's growth suggests a pull back and the commodity price boom cannot last forever.

These are all valid points, but a case can be made for yet higher share prices. Interest rates are rising because the economy is strong (this is good for the market), the US will work through its sub-prime issue and continue to grow as the US Federal Reserve cuts interest rates; China's growth is based on industrialisation and urbanisation (and it will not stop soon) and India is becoming an engine of world growth. Finally, the International Monetary Fund (IMF) is still forecasting above average world economic growth in 2008.

The past three years have seen the market pull back a number of times. The most recent was the 12.2% decline in July / August. Such events cannot be ruled out over the next six months but attempting to time them is a hazardous affair. In essence there are short term risks but the medium term outlook remains positive.

Global shares Global sharemarkets were a mixed bag during October. Some major markets were up but others were down. The MSCI World index, a broad measure of global shares, rose 3.0% in USD but fell 1.5% when

measured in AUD. The strong AUD continues to erode returns for Australian investors.

In the United States, the Dow rose 0.3%, the S&P500 was up 1.5%, and the NASDAQ was up 5.8%. The US profit reporting season is in full swing and to date, several financial companies have seen profits fall due to the sub-prime issue but other sectors such as services and technology have seen profits rise.

While few are forecasting a recession in the US, the slowdown in its economy is weighing on investors.

European markets were less tainted by the sub-prime issue than their US counterparts and earnings growth, though in most cases not spectacular, was reasonable.

In Asia (ex Japan), China's Shanghai's B market (the market into which foreigners may invest) rose a further 3.6% to be up 254% over 12 months. The Shanghai A market, for Chinese locals, is up 223% over 12 months.

The MSCI Emerging markets index was up 11.0% in USD and 6.2% in AUD terms in October for a return of 37.4% over 12 months in AUD.

Global economic growth is set to remain well above average but left field hiccups can descend into heartburn from time to time.

Commercial property After years of outperformance the listed property is struggling to keep up with the broader equity market. Although the sector benefited from the market turmoil of August it could not sustain the pace in September or October.

With the market now prepared to 'buy risk' once more, the traditionally defensive listed property sector has seen slower growth and it cannot provide the earnings growth recently witnessed among some of the industrial and resource companies. Despite this, the economy is supporting the sector and medium term returns remain positive.

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