MUTUAL | TRUST

Client Newsletter
February 2009

In This Issue

Investment Update

Rural Summary

Recent Tax Announcements

Family Office Services

Introducing our Deputy CIO – Tony Huntley

Investment Update

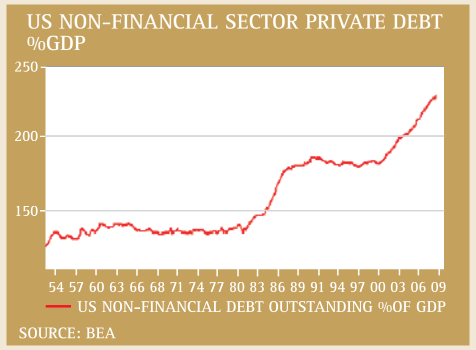
2008 was a very tough year for investors. It was one of the worst ever for global sharemarkets. The Australian market followed suit, down 41% at the end of December 2008, posting its worst year on record. Every other major asset class – real estate, commodities and corporate debt also suffered significant losses, resulting in the destruction of over $30 trillion of global wealth.

Unfortunately, a multitude of factors continue to impact on the global economy and investment markets. We attempt to look through the economic situation and coming corporate results to garner some insight into what to expect in 2009 and beyond.

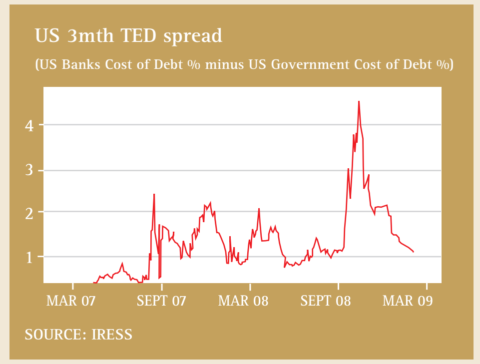
A review of what brought about the turmoil we are now embroiled in provides some guidance as to what is required for stabilisation and recovery in economic conditions and market performance.

Excessive Debt and Greed

Excessive debt taken on at the household and corporate levels increased overall leverage to unsustainable levels. The appetite for debt (subprime to prime, from credit cards to personal loans, from corporate debt to geared property and infrastructure) was further



fueled by unethical profiteering, bonus driven behavior and lack of regulation within the global investment banking sector. As a result of loose lending practices, easy credit was provided in large amounts to borrowers with little or no capacity to repay and certainly no capacity to withstand the tightened credit conditions now in force. To compound the problem the massive debt was further recycled (securitised/onsold) so it could all be done again and again. The end result was a financial accident of massive proportions. Forced asset sales, financial collapses and brutally tightened credit conditions have resulted in the global financial crisis that will take some more time to work through.



Fear and Panic

With so much lending and leverage, the crisis reached its peak in September and October 2008 with banks and depositors in total fear of lending to each other. This spike in credit spreads (cost of funding) was additional to the near quadrupling of spreads that had occurred since the beginning of the credit crisis in mid 2007. With the tight capital and fear, a string of famous and now infamous global banking names fell over in rapid succession. On the back of dramatic cuts by central banks, a quick and coordinated response by global governments somewhat eased conditions with never before seen "bail out" packages.

Fear and panic in the financial sector passed through to all other markets where volatility (the effective cost of insurance) increased by a factor of 8 times.

continued page 2

Recent Government Announcements (Tax)

In response to the recent economic climate the government has announced initiatives to assist business.

PAYG cut to aid small business

In order to assist with small business cash flow requirements, the government has announced a cut to the quarterly pay-as-you-go instalment (PAYGI) payable on 21 January 2009 and 28 February 2009 by 20%. A small business entity is generally those with aggregated turnover of $2 million per annum or less.

It should be noted that all taxpayers have the opportunity to vary their instalments on the basis of estimated tax payable subject to certain provisions outlined by the Australian Taxation Office.

Investment allowance to boost business

As a further measure to fight the economic downturn, the government has proposed, through the economic stimulus package announced on 3 February 2009, a temporary investment allowance in order to encourage important capital investment.

The Federal Government is offering small businesses a tax deduction of 30% of the cost of new capital equipment worth more than $1,000 so long as it is bought by 30 June 2009 and installed before years end.

The tax deduction will be available for any business with a turnover of $2 million a year or less. It will fall to 10% for equipment bought from 1 July 2009 to 31 December 2009 for installation by 31 December 2010.

Bigger businesses will be eligible for the same tax deductions but will have to spend at least $10,000 on new equipment to qualify.

This announcement may act as an incentive to bring forward any planned capital expenditure.

Family Office Services

The Mutual Trust vision is to be the most respected family financial advisors in Australia.

Mutual Trust takes the time to understand thoroughly the aspirations and needs of our clients with respect to their financial and intergenerational affairs.

The Mutual Trust team embraces our values of Excellence, Trust and Teamwork.

Introducing our Deputy CIO – Tony Huntley

Tony Huntley joined Mutual Trust this year as Deputy Chief Investment Officer.

In his new role, Tony supports our CIO, Peter Antonie, in the leadership of our team of investment advisors.

Tony has had various roles in investment markets across analysis and portfolio management. He was also a co-founder/principal of a venture capital fund.

More information

Further information about matters raised in this newsletter or on the advice available from Mutual Trust can be obtained by contacting:

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This document has been prepared in Australia by Mutual Trust Pty Ltd ABN 7 1004 285 330

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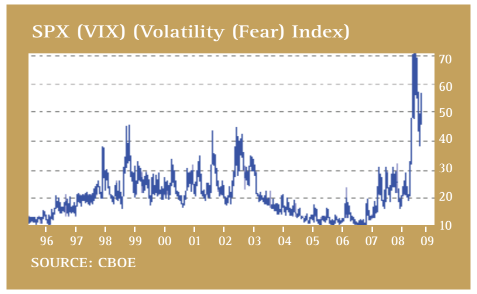


Hard Landings

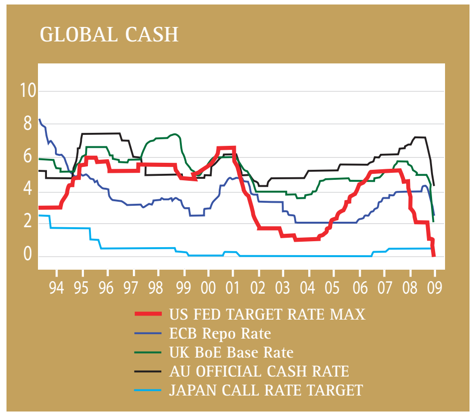
The market disruption and wealth destruction has now quickly moved to the global economy with all advanced economies in the midst of very hard landings.

The painful process of the deleveraging of the credit bubble has to occur before recovery. Emerging markets, particularly China, are also in a severe slowdown. The result is global recession.

Sufficient time has now passed for the major global policy responses to take effect and we are seeing some signs of stability returning to economies and markets. Interest rates have already been cut to the bone with nowhere further to go in most economies.

The Australian Situation - Are we different?

With the Reserve Bank of Australia cash rate still at a relatively high 3.25% there remains scope for interest rate cuts to assist our slowing economy. The bursting of the commodities bubble, a weakening China and high household debt are negatives for Australians. However a fundamental housing shortage, little sub prime lending, relatively high interest rates and available Government surpluses are positives. At least at the moment the impact is not as severe as in other countries.



What to be aware/beware of

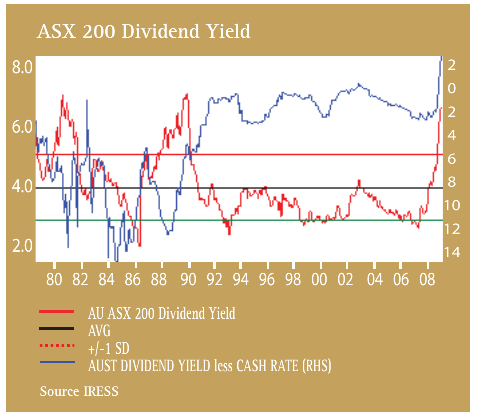
We remain concerned about the tightness in credit markets. This tightness results in increased costs of funding for companies and difficulties in sourcing debt, particularly when existing facilities need to be rolled over. We are therefore wary of companies with high gearing levels, near term refinancing needs, large off-shore debt components or goodwill or intangibles at risk of downward revaluations. We are also very wary of companies with high dividend payout ratios, requirements for further rescue capital raisings and the potential for negative earnings surprises, the effect of which might be falling dividends.

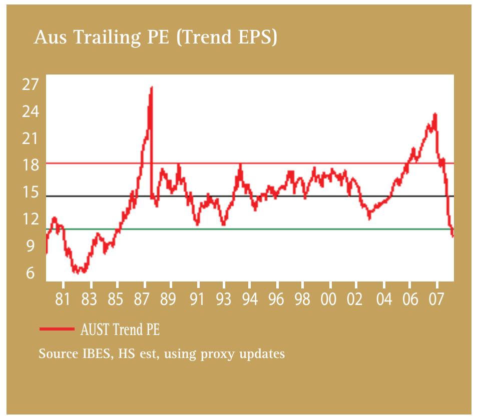
All of these factors are inexorably tied together and will test investor sentiment toward companies in these situations. As hard as it may be after all we experienced in 2008, it will continue to be appropriate to move away from positions where these risks outweigh the chance of medium term recovery. Our advice has generally been to move to higher quality positions with a greater likelihood of solid recovery when the market bounces.

Is value emerging?

Dividend yields and price to earnings ratios are now at 30 year extremes. We are very wary of "value traps" where further falls in corporate earnings will show extremes in both measures and could be the market's forecast of imminent disaster.

In some cases however there may be good value to be found in those companies with strong balance sheets (low gearing and strong growing cash flows) – we believe QBE Insurance is one such company.





Effect on investors

Despite the obvious fall in asset values investors now face challenges on the income front with the very real possibility of wholesale dividend cuts as company boards face up to lower earnings. For investors, the dramatic reductions in short term cash rates is now resulting in far lower yields on defensive cash positions. Consideration needs to be given to the potential cost of the government guarantee on deposits greater than $1m.

On a more positive note, if there is no deterioration in credit and economic conditions, stability may return to equities markets.

What do we need to see for some market recovery?

In our view, in order for us to see some recovery in markets, we need to see the following:

- Continued easing in credit conditions;
- Sustained government responses to the crisis (fiscal stimuli, bail outs and perhaps market participation);
- Signs of recovery in global growth through an increase in industrial production and confidence (business and consumer);
- Some positive movements in asset prices (equities, properties, commodities and credit securities);
- A fall in the overall level of market volatility.

While some of these factors are starting to emerge, we believe there will be more shocks before clear direction emerges. After all, substantial market corrections precipitated by financial crises have historically lasted longer than other corrections.

What to do?

We believe the appropriate investor response to these conditions is to take stock of personal financial situations and in a rational manner reanalyse risk tolerance. Through these measures asset allocation targets can be confirmed and changes made if necessary.

In particular, an analysis and response to the potential for falling portfolio income is required. There should be an ongoing reassessment of underlying investments with movements away from any investment that shows signs of uncertainty and risk. Quality is absolutely paramount in these times. Ongoing review of personal situations and portfolio positioning is essential.

Peter Antonie - Chief Investment Officer

Superannuation and Estate Planning

The tax treatment on death benefits paid from superannuation has changed since the simpler super reforms were introduced on 1 July 2007.

A review of your superannuation death benefit should be undertaken as part of a review of your entire estate. Some issues you should consider when undertaking a review of your superannuation are:

1. Passing control of your superannuation interest to the most appropriate person upon your death.

2. Structuring your superannuation death benefit to minimise tax payable by your beneficiaries. This may include the use of a binding death benefit nomination form.

3. Considering a tax effective income stream from your superannuation fund on your death to your dependants.

4. Establishing a testamentary trust to ensure ongoing benefits for the beneficiaries of your estate.

5. Updating your Will and superannuation trust deed to make sure that it is current with the latest strategies.

6. Incorporating your family into your succession planning through education and planning.

At Mutual Trust, we can assist you with your estate planning requirements, advise you of the best taxation and superannuation strategies and liaise with your lawyer, or refer you to one, in order to achieve the best outcome for you and your family.

RURAL SUMMARY

Remember when you were a student waiting for exam results? The 2008 production year is now being measured for performance. Certainly, it has been a challenging year, but without the extremes of bad news that has characterised other parts of the economy.

The cropping season of 2008 was not quite as exciting as the previous year. Canola yields as high as 4.1 t/ha have been reported. Cereal yields have been variable, with the earlier sown crops proving to be the higher yielders. Most of the Mutual Trust associated properties have averaged higher than $75 for prime lambs. Beef prices have been buoyant with the dual impact of lower $A and lower grain prices.

Our rural team is now focused on budgeting and planning for the coming financial year. There are opportunities to restructure finance to take advantage of cheaper interest rates. Leasing of land may provide a sound option to expand – however careful analysis is required.

This year, with the tight economic situation and considerable volatility in farming, businesses are not immune from the wider challenges we face. Good advice, sound planning, flexibility and an ability to locate the right opportunities are some of the ingredients to help us during 2009.

Mutual Trust Cash Fund performance to 31 December 2008

Mutual Trust Cash Fund	
December 2008	5.81%
3 months annualised	6.70%
6 months annualised	7.11%
12 months annualised	7.25%

All returns quoted in this document are net of all fees and charges.

Mutual Capital Limited is the Responsible Entity for the Mutual Trust Cash Fund.

Mutual Capital Limited (AFS Licence No 238314) is a wholly owned subsidiary of Mutual Trust Pty Ltd.

Investments in the Mutual Trust Cash Fund can be made by completing the application form in the Product Disclosure Statement (PDS). Copies of the PDS may be obtained from Mutual Trust at Level 33, 360 Collins Street, Melbourne, or by calling (03) 9605 9500. Information provided in this document does not constitute personal advice. All decisions to invest in the Mutual Trust Cash Fund should only be made having read and understood the product disclosure document.

Your personal financial circumstances have not been taken into consideration in this document. You should consider consulting a financial adviser before deciding to invest in this product. Past performance may not be indicative of future performance.