ASX INVESTMENT SECTOR PERFORMANCE REPORT

Investments Report December 2003

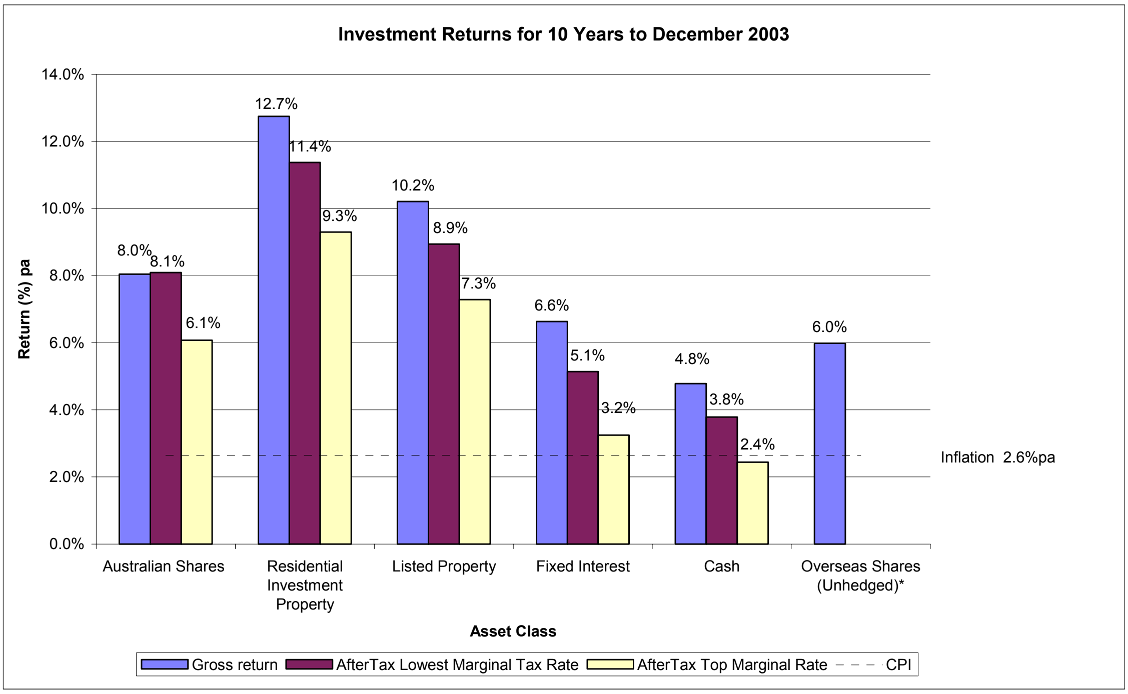
An investment sector performance report prepared for the Australian Stock Exchange by Towers Perrin.

Fair Comparison of Investment Performance

The Australian Stock Exchange has commissioned Towers Perrin to report on the performance of various investments on a consistent net basis (i.e. after all costs and taxation) over the ten-year and twenty-year periods ended 31 December 2003. Performance is calculated over these two periods for two reasons: to assist those private investors who invest for the medium and longer term, and to provide a reasonable comparison between investment sectors.

Six major sectors are included in this report - Australian shares, residential investment property, listed property, overseas shares, domestic fixed interest and domestic cash. Although listed property is considered a separate sector in this report, it is also a sub-sector of Australian shares.

Results by Investment Sectors – Ten Years



*Only before-tax return has been calculated
∅ All returns are net of expenses

Excluding overseas shares from the after-tax analysis, the chart shows that in the past ten years, residential investment property investments have outperformed all other investment sectors after allowing for taxation (capital gains and income tax) and expenses. On a pre-tax basis (but after allowing for expenses), residential investment property investments also outperformed all other investments in the past ten years. Real returns have been particularly strong for residential investment property, listed property trust investments and Australian shares over this period.

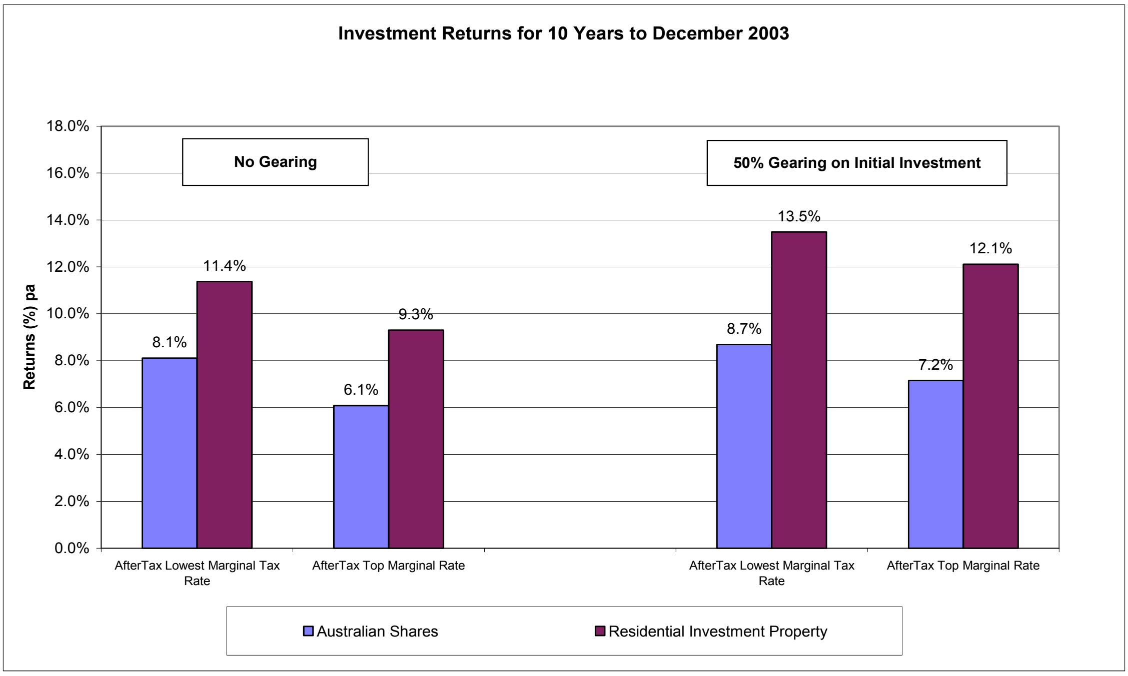
At the lower marginal tax rate, the after-tax returns of residential investment property (11.4% p.a.), listed property (8.9% p.a.), Australian shares (8.1% p.a.), fixed interest (5.1% p.a.) and cash (3.8% p.a.) have all exceeded the average rate of inflation (2.6% p.a.) over the ten year period. At the top marginal tax rate, the after-tax returns from residential investment property, listed property and Australian shares were well above inflation. Returns from fixed interest assets were only slightly higher than inflation, but cash returns (after tax) fell slightly short of average inflation.

Overall, at the top marginal tax rate, the effective tax rate for Australian shares is around 25%, residential investment property is around 27%, listed property is around 29%, fixed interest and cash is around 49%. The relatively low effective tax rate for Australian shares can be attributed mainly to the benefits of dividend imputation.

Effects of Gearing

The after-tax returns calculated so far have been calculated under the assumption that there is no borrowing. Of the asset classes under analysis, gearing is most common amongst investments in Australian shares and residential investment property. The following chart compares the ten-year investment return to 31 December 2003 of Australian shares and residential investment property, on an after-tax basis, with and without gearing. In calculating the after-tax returns with gearing, the following assumptions have been applied:

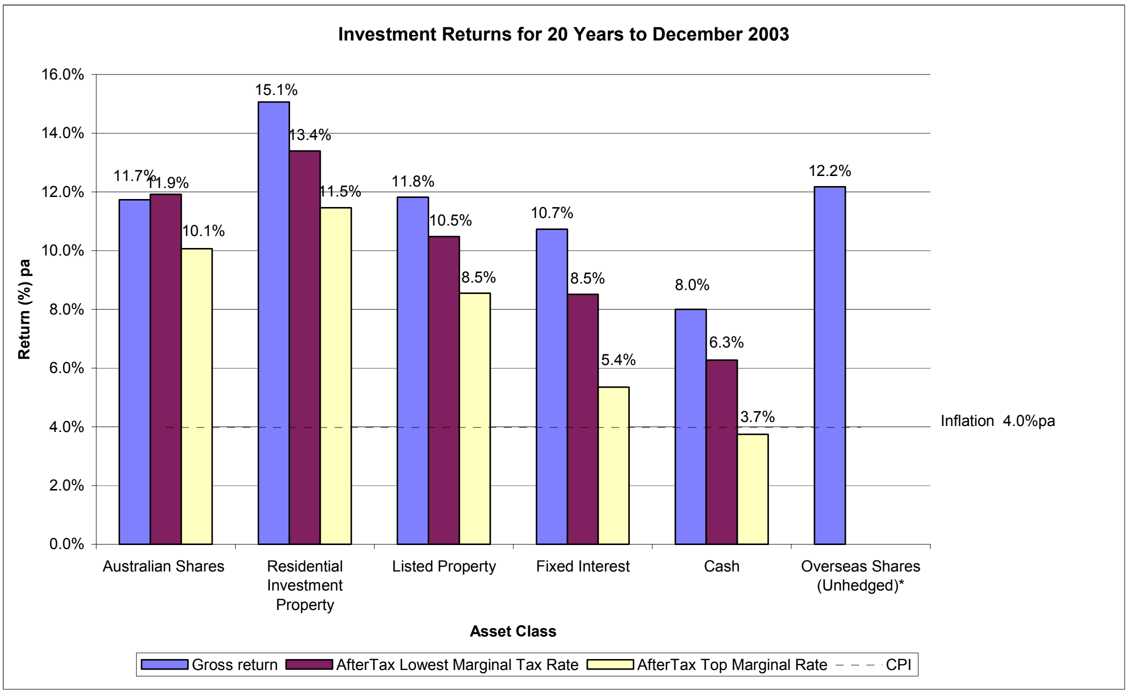
- 50% of initial investment is borrowed (i.e. initial gearing ratio of 0.5); and
- Gearing arrangements involve interest-only loans.



∅ All returns are net of expenses

In calculating the after tax returns, allowance has been made for the tax deductibility of interest costs. The chart shows that the use of leverage over the past ten years has increased both the after tax return of Australian shares and residential investment property. The results reflect that the performance of the two asset classes have more than offset borrowing costs over the ten-year period.

Results by Investment Sectors – Twenty Years



*Only before-tax return has been calculated
∅ All returns are net of expenses

Excluding overseas shares from the after-tax analysis, the chart shows that in the past twenty years, residential investment property investments have outperformed all other investment sectors after allowing for taxation and expenses. On a pre-tax basis (but after allowing for expenses), the real returns of residential investment property, overseas shares, listed property and Australian shares investments have been strong.

At the lower marginal tax rate, the after-tax returns of residential investment property (11.5% p.a.), Australian shares (10.1% p.a.), listed property (8.5% p.a.), fixed interest (5.4% p.a.) and cash (6.3% p.a.) have all exceeded the average rate of inflation (4.0% p.a.). At the top marginal tax rate, the after-tax returns from residential investment property, Australian shares and listed property were well above inflation. Returns from fixed interest assets were more moderate, but cash returns fell slightly short of average inflation.

The results highlight the greater impact of personal taxation on fixed interest and cash investments. The impact of personal taxation on Australian shares returns has been less significant, due to the introduction of dividend imputation in July 1987. At the lower marginal tax rate, the tax credits from dividend imputation resulted in the after-tax return being marginally greater than the gross return.

The start of the twenty-year holding period was prior to the introduction of capital gains tax. Hence, capital gains tax has not been calculated on the original investment. However, capital gains tax has been calculated on any reinvestment of income subsequent to the introduction of capital gains tax.

Changes to Property Taxation in NSW

In May 2004, the NSW State Government passed a series of amendments relating to the taxation of property. These amendments do not affect this report, however, as the changes take effect this year they are expected to affect future reports. The changes expected to affect future reports are as follows:

- All investment property will be liable for land tax effective as of 31 December 2004. Previously, where the land component of the property was valued at less than $317,000 no land tax was payable. As of 31 December 2004, land values of less than $400,000 will pay a land tax rate of 0.4%. Land tax is levied as at mid-night on 31 December each year, so this change will affect the 2005 report and not the 2004 report.
- A vendor transfer duty of 2.25% will be imposed when an investment property is sold. Exact commencement date is yet to be confirmed by the Office of State Revenue but taxes will begin to be imposed sometime between 1 June and 1 July 2004 regardless of when the property was purchased.

The other changes relating to First Home Buyers, Premium Property Tax and amendments to stamp duty for properties purchased for more than $3 million will not affect next years report.

Performance Calculations

The ASX Investment Report has been prepared by Towers Perrin on the following basis:

- All investment returns are determined after taking into account expenses relating to the acquisition, management and disposal of the asset. Gross returns are calculated pre-tax but after expenses. Net returns allow for the taxation treatment of each investment over the period of analysis. This represents a realistic method of comparing the different asset classes for an investor.

- Compound returns are calculated over a ten-year period from 1 January 1994 to 31 December 2003, and over a twenty-year period from 1 January 1984 to 31 December 2003. The returns are equivalent to the per annum compound returns that investors would have received for an investment in the particular asset class if they invested in an equivalent portfolio over the two periods.

- The lowest and highest marginal tax rate are currently 18.5% and 48.5% respectively. These rates have varied slightly over the ten and twenty years due to changes in taxation policy and the Medicare levy. These variations have been taken into account in the calculation of after-tax returns. Both bottom and top marginal rates include the Medicare levy of 1.5%.

- The corporate tax rate was reduced from 34% to 30% from July 2001. The corporate tax rate has varied slightly over the past ten years due to changes in taxation policy. These variations have been taken into account, including the impact on the calculation of franking credits, which have an impact on after-tax returns for Australian shares.

- Generally, assets acquired on or after 20 September 1985 are subject to the capital gains tax provisions. For investments purchased after this date, capital gains tax is taken into account when calculating the after-tax returns. For the calculation of ten-year returns, capital gains tax is calculated on both the initial investment and any subsequent reinvestment of income. For the calculation of twenty-year returns, capital gains tax is calculated only on the reinvestment of income on or after 20 September 1985. Cash is the only asset sector not subject to capital gains tax as all gains are taxed as income.

- The Government's Tax Reform Plan has included changes to the capital gains tax regime applying from 21 September 1999. Assets acquired prior to this date and held for a minimum of twelve months can be assessed for capital gains tax in one of two ways. Private investors can choose to pay capital gains tax (at their marginal tax rate) on either 100% of the capital gain (with indexation) or 50% of their capital gain (with no indexation). In this report, we have presented sector returns based upon the calculation method that provides the higher after-tax returns. The discounted capital gain method (as opposed to indexation) has provided the higher after-tax returns.

- Capital losses may be carried forward indefinitely and offset against other capital gains in future periods. We have assumed the investor has other investments, either today or in the future that have, or will, produce capital gains to which capital losses may be offset. For instance, in fixed interest a capital loss was made over the 10 and 20 year period. Therefore, in our calculations the tax credits on the capital loss have been given value.

- After tax return returns with gearing have also been calculated for Australian shares and residential investment property, over the ten year period from 1 January 1993 to 31 December 2003. Half of the initial investment is assumed to be borrowed and gearing arrangements are assumed to involve interest-only loans (i.e. periodic payments do not include any repayment of principal). In addition, allowance is made for the deductibility of interest costs. Borrowing costs are based on data from the Reserve Bank of Australia bulletin and ANZ margin lending.

- The residential property measure is a population weighted average return across major capital cities. Increases in value are based on median house prices obtained from the Real Estate Institute of Australia. Data from the Australian Bureau of Statistics is used to make adjustments for capital improvements. Net rental income allows for vacancy rates, maintenance expenses, management fees, government charges and insurance. Acquisition and disposal costs include conveyancing, stamp duty and agents' fees.

- The cash measure assumes an investment in cash management trusts, with data sourced from the RBA Bulletin.

- The Australian shares measure is based on investment in listed shares with price movements and dividend reinvestment consistent with the S&P / ASX All Ordinaries Accumulation Index. Allowance is made for brokerage and stamp duty (where applicable) on acquisition and disposal. Stamp duty ceased to apply from 1 July 2001 to transfers of marketable securities quoted on the Australian Stock Exchange. Dividend franking is taken into account in determining the impact of tax on dividends.

- The fixed interest measure is based on investment in Government bonds. Price movements and interest income are derived from the Commonwealth Bank All Series All Maturities Index.

- The listed property measure is based on the returns implied by the S&P / ASX Property Trust Accumulation Index. Acquisition and disposal costs, such as brokerage and stamp duty (where applicable), have been factored into the return calculations. Assumptions have been made with respect to the tax treatment of listed property income, including the component of tax-free (abolished in July 2002) and tax-deferred income.

- The overseas shares measure is based on investment in listed shares with price movements and dividend reinvestment consistent with the MSCI World ex Australia Gross Dividends Accumulation Index (Unhedged). Allowance is made for brokerage on acquisition and disposal. Only a before-tax return has been calculated due to differential tax treatment of overseas shares investments by an Australian investor in different countries.

Disclaimer

While every care has been taken in the calculation of investment returns, neither the Australian Stock Exchange nor Towers Perrin warrants the accuracy of this information. No invitation is issued to any investor to rely upon this information or related comments and accordingly neither the Australian Stock Exchange nor Towers Perrin will be liable for any loss suffered in purported reliance of same. When comparing investment returns between asset sectors it may also be prudent to consider the volatility of those returns.

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Acknowledgement

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Questions?

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