



Monthly Market Watch – December Issue 2009

MARKET COMMENTS – NOVEMBER

November was an unusual month with all major asset classes reporting positive gains. Better than expected reported data from global and local economies saw equities perform positively for the month. The return of risk appetite helped lift equities markets substantially higher in the first half of November, with the All Ordinaries temporarily surpassing the 4,770 level. Robust gains were also recorded in most global equities markets.

In late November however, the upward trend suddenly came to a halt on news that the government owned Dubai World is looking to defer interest payments on its US\$59 billion outstanding debt. The news evoked memories of the bad debt problems experienced by financial firms which eventually led to the global financial crisis. The news initially triggered sharp corrections in all major markets before rebounds shortly after; on the announcement by Abu Dhabi that it will provide assistance to the affected lender.

The Australian equities market finished the volatile month 1.8% higher. Developed equities markets gained 2.3% (in Australian dollar terms), while global emerging markets added 2.4%.

Demand for fixed interest securities, particularly government bonds, returned with the rising risk aversion and investors tactically rotating away from risk assets. The standout for the month was gold bullion. The precious metal gained 12.8% (in US dollar terms) over the month amid US dollar weakness and the expectation that central banks will continue to diversify their reserves away from US dollar denominated assets. In inflation adjusted terms, gold bullion has been trading at its highest level since the early 1980's on record investment demand for the commodity.

As the value of the US dollar weakened and the prospect of a more sustainable global economic recovery began to form, the price of commodities strengthened for the month. The DJ-UBS Commodities Index advanced 3.5% (in US dollar terms) with metals, energy and agricultural composites all contributing to performance.

STOCKS IN THE NEWS

AXA Asia Pacific Holdings Ltd (AXA)

AXA Asia Pacific Holdings rejected a takeover proposal from AMP and AXA's French Parent AXA SA on 7 November 2009. AMP offered AXA investor's 0.69 AMP shares plus \$1.3796 in cash for each AXA share. This implied a total offer price of \$5.34 per AXA share, representing a premium of almost 31% to AXA's closing price on 5 November 2009.

Despite AXA rejecting the proposal, AXA's share price shot up to almost \$6.00 on the prospect of a higher revised bid from AMP. The revised bid came on 14 December, increasing the cash component of the offer to \$1.92 per share, implying a total offer price of \$6.22 per AXA share, an improvement of 16% on the original proposal. AMP has declared this their best and final offer, stating that if the proposal is not accepted and recommended by 21 December, the offer will lapse.

AXA's directors have stated that they will consider the revised proposal carefully, which may have been a disappointing response for AMP as AXA refused to give its immediate endorsement for the increased bid. The takeover deal aims to segregate the Asian and Australian assets, with AXA's parent company AXA SA purchasing the Asian assets from AMP.

Woodside Petroleum (WPL)

On 14 December Woodside announced a \$2.5 billion equity raising through a 1 for 12 entitlement offer at a price of \$42.10 per share. This price represented a 10% discount based on the closing price of Woodside shares on 11 December 2009. Investors who held Woodside shares on 17 December 2009 will be eligible to purchase 1 new share for every 12 held through this fully underwritten, renounceable entitlement offer. As the capital raising is renounceable, investor's will have the choice to sell their entitlement on market if they choose not to increase their holding in Woodside.

Woodside have stated that the capital raising will improve their balance sheet and increase liquidity in preparation for further liquefied natural gas (LNG) developments. Standard & Poor's and Moody's placed Woodside on negative ratings watch in November, saying a major debt increase to fund the "Pluto" LNG project in Western Australia had put pressure on

Woodside's ratings. The capital raising should help address these concerns and improve Woodside's credit ratings.

Woodside Petroleum investor's can contact Strategem to discuss this entitlement offer in further detail.

STOCKS TO CONSIDER

ANZ Banking Group (ANZ) - ADD

ANZ provides a range of consumer banking, business banking, institutional banking, insurance and funds management services, mainly within Australia, New Zealand and the Pacific Islands. It also has a growing presence in Asia. ANZ recently announced the buy-out of ING's 51% stake in their Australian and New Zealand funds management joint venture.

ANZ's underlying businesses continue to benefit from solid earnings momentum, supported by improving economic conditions and expanding margins. The bank is very well capitalized and looking for more opportunistic acquisitions in Asia and Australia. ANZ's short term outlook has improved as the bank has shown that it was well placed to deal with difficult market conditions, bad debts and funding difficulties experienced over the past 12-18 months.

ANZ also recently announced the acquisition of AWB's Landmark Financial Services loan and deposit books, which will greatly increase its exposure to the agribusiness sector in Australia.

Price as at 14 December 2009 \$21.16

ASX Ltd (ASX) - Add

ASX operates Australia's primary national stock exchange for equities, derivatives and fixed interest securities and facilitates capital raisings for unlisted companies. ASX essentially provides listing, trading and clearing facilities, as well as market-related information.

ASX provides direct exposure to the expanding equity and derivative markets, with leverage to trading volume activity. Given a positive long-term view on equity markets, it is expected that there will be further increases in trading volumes across ASX's product range, supported by growth in superannuation inflows.

With improved investor sentiment and economic conditions, along with stronger equity markets and an easing in credit markets, ASX is forecast to continue to grow earnings in the coming years.

Price as at 14 December 2009 \$33.80

Sonic Healthcare (SHL) - ADD

Sonic is a medical diagnostics company, with interests in the provision of both pathology and radiology services in Australia, Europe and the US. It is a leader in diagnostic services in Australia.

Sonic Healthcare's strong market position in the Australian private pathology market provides a significant competitive advantage and a unique platform for the company's diversification into radiology.

Sonic Healthcare are expected to accelerate its pathology growth in the US and Germany, with scale the key to margin expansion in the high fixed cost business. The proven high-quality management team has an enviable track record of delivering strong earnings growth.

The recession resistant nature of Sonic's businesses is very attractive as economic activity will be slow to recover. Future growth prospects are expected to be fuelled by Sonic's well-executed, international diversification strategy.

Price as at 14 December 2009 \$14.60

STRATEGEM TRADING OVER CHRISTMAS

Over the Christmas period, the ASX trading period is shortened on Christmas Eve (Thursday 24th December) and New Years Eve (Thursday 31st December). On these particular days the market will open at 10:00am and close at 2:10pm. The market will be closed on Christmas day (Friday 25th December) and Boxing day holiday (Monday 28th December)

Given that Strategem will have limited trading capacity over the Christmas break (from Tuesday 29th December to Thursday 31st December), we will only be able to place trades via CHESSE ie. no issuer sponsored trades

Strategem would like to wish everyone a safe and Merry Christmas, and a Happy New Year.

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