Cash and Fixed Interest – Quarterly Report

JUL-SEP 2008

Cash and fixed interest is a relatively low risk investment, offering stable returns over a short period of time. Generally, you're looking at a set fixed rate of interest at the time of purchase and, unlike shares, you pretty much know what you're going to get.

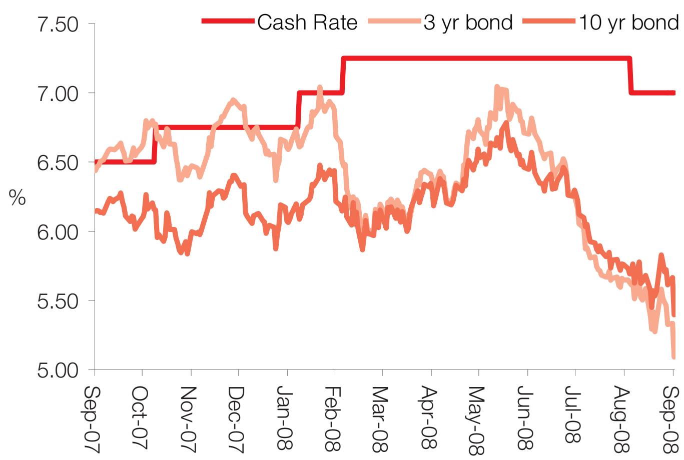
One thing to bear in mind is inflation. For example, if the interest rate on your cash is 5% p.a. and the annual inflation rate is 4% p.a., your real return is 1% p.a.

Quarter 3 review.

Globally, fixed interest and cash were definitely the place to be, finishing the quarter up 5.3%. The squeeze on liquidity and major falls in investor confidence hit new levels when AIG, the largest global insurer, had to be bailed out and Lehman Brothers filed for bankruptcy.

To ease the situation, Central Banks globally cut interest rates and governments united to support financial institutions and the markets. In particular, the US put forward a $700 bn bail out package, which we think will be a biggie in restoring confidence. The UK also chipped in by injecting lots of cash into several financial institutions and going guarantor for some expiring debts.

Daily Yield Over 12 Months



Australia.

Inflation hit a 17 year high, rising to 4.4%. This is bad news, as things become more expensive. Rising inflation usually means interest rate hikes. But the Reserve Bank is worried about slowing growth, so it cut rates by 0.25% instead.

The US.

Rising unemployment numbers suggest weaker growth. So all eyes are on the bail out package. While it's likely to be a short term confidence booster, it doesn't ensure that banks will have enough cash for consumer and business loans.

Outside the US.

Central Banks cut interest rates to stimulate cash flow, but it didn't really do much to restore confidence. The proof of this was when lending rates across the banking sector rose sharply.

Outlook – cautiously optimistic.

It's going to be really important to get investors back into the marketplace and to create more stability. So, we think the US, UK, Europe and Australia will cut rates again. The US aid package will take some time to play out, so fixed interest securities and cash are likely to remain high up on investors' lists over shares and property.

How this relates to Virgin Super options.

The more cash and fixed interest you have in your asset split, the more relevant this information is.

- If you're over 60 and invest in Life Stage Tracker® Balanced, please pay attention, because this investment option invests mostly in cash and fixed interest.
- If you're over 60 and invest in Life Stage Tracker® Aggressive or if you're in your 50s and invest in Life Stage Tracker® Balanced, pay almost as much attention, because this investment option invests quite heavily in cash and fixed interest.
- If you're selecting your own asset split, it depends on how much you chose to put into cash and fixed interest. A low exposure won't affect your account balance much regardless of whether the market rises or falls. A high exposure will strongly impact the size of your account balance.