

Mellon Global Alpha Trust

Monthly report as at 31 December 2005

Fund objective

The Mellon Global Alpha Trust actively invests in global equity, fixed income, cash and currency markets with the aim of constructing a diversified global portfolio that targets the outperformance of the RBA Australian Cash Rate by approximately 15% per annum over the medium to long term, with a tracking error of approximately 15% per annum.

Investment manager

- Mellon Capital Management is the sub-investment manager of the assets of Mellon Global Alpha Trust
- Its founders are recognised for their significant contributions to the progress of quantitative investment management and launched the first quantitative tactical asset allocation model in 1972
- The investment philosophy and process is based on sound economic theory and classical valuation methods. It uses a disciplined, risk-controlled method of allocating assets
- Assets are actively allocated across the liquid equity, fixed income and cash markets of the countries: Australia, Canada, Denmark, France, Germany, Japan, the Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, the UK and the US
- Mellon Capital believes that relative asset misvaluations exist within and between country markets and uses a disciplined, quantitative approach to exploit them
- Each asset class is held either as an index portfolio or its derivatives

Fund details

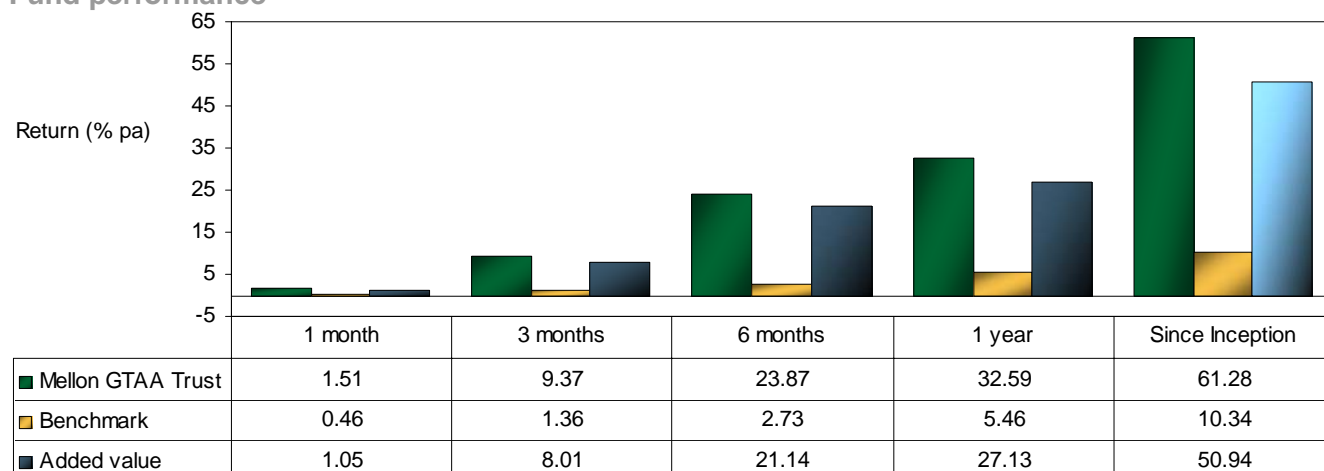
Inception date	5 Jan 2004
Buy/Sell spread	0.25% / 0.25%
NAV unit price Pre/Post	A\$1.3385/A\$1.3109
Fund size	A\$ 145.4 million

Performance review

The Trust outperformed its benchmark in December, benefiting modestly from three out of the four primary sources of alpha in the Global Alpha Model. The Trust's overweight to global equities and underweight to global bonds helped performance as the MSCI World index outperformed the Citigroup WGBI by 1.42% (in local terms). Country selection among equities also continued to perform well with gains coming from the overweight to Japanese and Dutch equities. However, the overweight to US equities limited the country selection gains as US equities under performed global equities. Country selection among global bond markets also contributed to the positive alpha this month as the Trust held an underweight to Japanese bonds, which under performed global bonds.

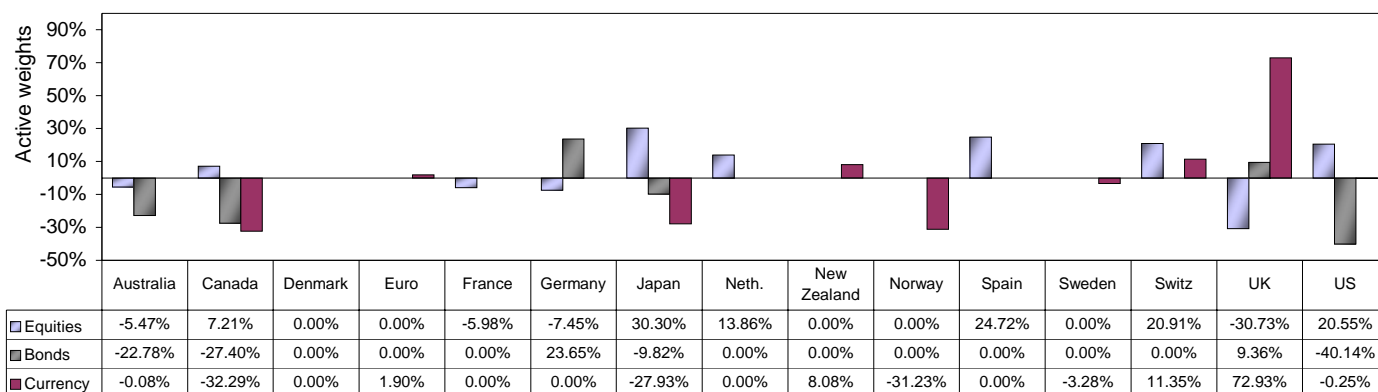
Currency selection was the only alpha source that had a negative impact on performance in December. The underweight to the Japanese yen and Canadian dollar hurt the Trust as the Australian dollar appreciated against both of these currencies. The losses were partially offset from the overweight position to the Euro, which appreciated against the Australian dollar during the month.

Fund performance



***Inception date of the Trust was 5 Jan 2004**

Past performance is not a guarantee of future performance. Source: Mellon Global Investments Australia Limited, total return, gross of fees, in Australian dollars, assumes reinvestment of distributions and does not reflect unit price performance, as at 31 December 2005. * Benchmark used is the RBA Australian Cash Rate. On 30 April 2004, the benchmark for the Mellon Global Alpha Trust changed from the UBS Warburg Australian Composite Bond Index to the Reserve Bank of Australia (RBA) Australian Cash Rate.



Source: Mellon Capital Management.

Monthly portfolio commentary

During the month of December, Mellon Capital reallocated among global stocks, bonds, and currencies. Bond yields diverged near the beginning of the month among European and Japanese bond markets, with the European bond yield curve flattening while the yield curve steepened in Japan. As a result, Japanese bonds became more attractive relative to European bonds and Mellon Capital promptly responded by purchasing Japanese bonds while selling European bonds. Near the middle of the month, Mellon Capital reallocated among global equities as price performance diverged around the world. The equity markets in France and the US had been gaining while the equity markets in Australia and Spain were relatively flat. In addition, global earnings forecasts had increased in Australia and Spain, prompting us to purchase Australian and Spanish equities while selling French and US equities. A currency reallocation trade was also done near the end of the month. The Euro became less attractive as real rates in Euroland decreased as short-term inflation increased. Mellon Capital responded by selling the Euro and purchasing the Swiss Franc.

Current allocation summary

At the end of December, the Trust held a **68%** overweight to stocks, a **67%** underweight to bonds, and a **1%** underweight to cash. During the month, the strategy's equity overweight increased by 3%, its bond underweight increased by 2%, and its underweight to cash increased by 1%.

Equities

Currently, the Trust's largest equity overweight is in Japan at 30% and its largest equity underweight is in the UK at -31%. UK equities remain less attractive compared to other equity markets on a hedged expected return basis. Japanese equities remain attractive from both a local TAA perspective as well as from a hedged expected return perspective.

Bonds

The strategy's largest bond overweight continues to be in European bonds (ex UK) at 24%, while the largest bond underweight is to US bonds at -40%. European bonds (ex UK) remain more attractive relative to other global bonds on a hedged expected return basis, while US bonds are relatively less attractive from both a local TAA perspective as well as from a hedged expected return basis.

Currencies

The strategy's -32% underweight to the Canadian dollar remains Mellon Capital's largest short position in terms of currencies as real interest rates in Canada remain low. Mellon Capital's 73% overweight to the UK pound is the strategy's largest overweight due to the high real interest rates in the UK.

Prepared for professional investors only. Not to be distributed to the public.

Mellon Global Investments Australia Limited ABN 56 102 482 815, AFS Licence No. 227865 has authorised and caused the issue of the information provided within. Neither the performance of the investments discussed nor the payment of any income return or the return of any capital is guaranteed by Mellon Global Investments Australia or any other member of the Mellon Financial Corporation, or any related body corporate.

The value of investments and the income from them can fall as well as rise. Past performance is not a guarantee of future performance and investors may not get back the full amount invested. Changes in the rates of exchange may affect the value of investments. The holding of units in the Trust is subject to investment and other risks. As a result, unit prices may fluctuate markedly and losses as well as gains may occur.

Investments in the Mellon Global Alpha Trust (ARSN No. 106 779 444) may only be made through the Information Memorandum dated 11 April 2005.

This information has not been prepared to take into account the investment objectives, financial objectives or particular needs of any particular person. Before making an investment decision you should carefully consider, with or without the assistance of a financial adviser, whether such an investment strategy is appropriate in light of your particular investment needs, objectives and financial circumstances.

Mellon Global Investments Australia Limited, Level 7, 2 Bulletin Place, Sydney, NSW 2000

www.mellonglobalinvestments.com.au

A Mellon Financial CompanySM