ISSUE DATE: 10-07-2015

Month in Review

Market Moves — as at 30•06•2015

RETURNS (%) P.A.	1 MTH	3 MTH	6 MTH	1 YR	3 YR	5 YR	10 YR
AUSTRALIAN EQUITIES							
S&P/ASX 200 ACCUMULATION INDEX	-5.30	-6.55	3.10	5.68	15.06	9.69	7.08
S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX	-7.77	-4.04	2.97	0.44	2.46	1.35	2.04
GLOBAL EQUITIES							
MSCI WORLD ACC INDEX WITH GROSS DIV (A$)	-2.98	-0.69	9.06	24.67	26.29	15.88	6.84
S&P 500 COMPOSITE ACCUMULATION INDEX (A$)	-2.34	-0.33	7.78	31.92	29.12	19.58	7.80
FTSE100 ACCUMULATION INDEX (A$)	-3.93	2.40	8.85	13.18	20.36	12.86	4.79
MSCI EMERGING MARKETS FREE W/GROSS DIV (A$)	-3.22	-0.36	9.23	16.43	14.39	6.00	8.33
REAL ESTATE INVESTMENT TRUSTS (REITS)							
S&P/ASX 300 A-REIT ACCUMULATION INDEX	-3.97	-2.33	6.67	20.20	18.29	14.23	2.32
FTSE EPRA/NAREIT DEVELOPED NR INDEX HEDGED (A$)	-4.39	-6.97	-0.47	9.05	14.39	15.08	6.78
FIXED INTEREST							
BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX	-0.93	-1.99	0.63	5.63	4.82	6.44	6.25
BLOOMBERG AUSBOND BANK BILL INDEX	0.18	0.56	1.23	2.60	2.85	3.65	4.70
BARCLAY GLOBAL AGGREGATE INDEX HEDGED $A	-1.07	-1.67	0.84	5.62	5.98	7.27	7.23

Data source: IRESS & Financial Express. Returns greater than one year are annualised
Commentary regarding equity indexes below references performance without including the effects of currency (unless specifically stated)

Australian equities

The Australian ‘broad cap’ equity market, as measured by the S&P/ASX 200 Accumulation Index, lost -5.30% in June as the market reacted to a raft of earnings downgrades as the financial year came to an end. Almost all Australian sectors underperformed their global counterparts with Consumer Discretionary leading the charge. Of the sub-sectors, Mining experienced the biggest loss over the month.

The S&P/ASX Small Ordinaries Accumulation Index underperformed its broad cap counterpart, down -7.77% in June. This trend extends over 12 months with the ‘small cap’ market materially lagging the broad cap index.

Global equities

Global equity markets sold off heavily towards the end of the month as the drama of the Greek sovereign debt crisis played out, combined with a plunge in the Chinese stock market. This follows its astounding rally of greater than 150% over the 12 months to June. The Chinese authorities responded with interest rate cuts and an announcement that the country’s official pension funds would be permitted to invest in its own stocks for the first time – causing the Shanghai A Shares Index to rally 5.5% on the final day of the month. However the overall descending trend continued throughout Asia - Japan’s NIKKEI 225 down -1.17% and Hong Kong’s Hang Seng Index down -4.88% for the month.

REITs

The S&P/ASX 300 A-REIT Accumulation Index lost -3.97% in June while still outperforming general equities. However, across a broader time horizon, AREITs delivered a 20% return in FY15, largely driven by low interest rates and bond yields. Positive earnings surprises for many stocks, solid capital growth in asset values and mergers & acquisitions also aided returns.

The UBS Global Investors TR Hedged (A$) Index measuring the performance of the GREIT market ceased operating in May 2015. The FTSE EPRA/NAREIT Developed NR Index Hedged (A$) will be used going forward, down 4.4% in June.

Fixed interest

The Australian fixed interest market, as measured by the Bloomberg AusBond Composite Index, was down -0.93%. Yields on long dated Australian bonds rose due to increasing confidence in the underlying global growth outlook and subsequent scope for offshore central banks to eventually normalise their cash rates. The Bloomberg AusBond Bank Bill Index, which comprises lower risk and shorter dated securities, finished 0.18% higher.

The Global Fixed Interest market, as measured by the Barclays Global Aggregate Index (Hedged A$), edged down -1.07%. Global bonds had another volatile month. Early in the month, the 10 year German bund tested the one percent yield level and experienced a 32 basis point sell off over two trading sessions (the largest two day move in 17 years). US payroll data was also stronger than expected. Large trading volumes and thin inventory of broker dealers seem to have exacerbated price moves in bond markets. Secondary market liquidity for bonds in the light of post GFC regulatory changes at Investment Banks continues to be a hot topic. Later in the month, as Greece began to dominate market attention, a flight to quality rally drove yields on bonds and treasuries lower (and prices higher) but prices of peripheral European bonds sold off.

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ASX 200 Stock Movements

S&P/ASX 200 Stock Performance for the Month of June 2015

BEST PERFORMERS		WORST PERFORMERS	
KATHMANDU HOLDINGS	+21.24%	SLATER & GORDON	-40.96%
PACT GROUP HOLDINGS	+11.43%	BRADKEN	-34.47%
SIRTEX MEDICAL	+8.88%	VIRTUS HEALTH	-30.80%
STEADFAST GROUP	+8.39%	SENEX ENERGY	-28.21%
SANDFIRE RESOURCES	+7.68%	NINE ENTERTAINMENT CO HOLDINGS	-27.91%

S&P/ASX 200 Stock Performance for the Year to June 2015

BEST PERFORMERS		WORST PERFORMERS	
QANTAS AIRWAYS	+150.79%	ARRIUM	-80.46%
SELECT HARVESTS	+114.01%	MMA OFFSHORE	-74.03%
M2 GROUP	+85.12%	BRADKEN	-62.24%
LIQUEFIED NATURAL GAS	+78.04%	SENEX ENERGY	-59.71%
EVOLUTION MINING	+75.71%	METCASH	-58.14%

Economic News

Australia

The slow growth theme continued on the domestic front throughout June. Q1 GDP released early in the month showed annual growth slowing to 2.3% y/y from 2.5% in Q4 2014. This outcome was better than expected but masked worryingly soft components. Real net national disposable income slowed to -0.2% y/y while domestic demand grew only 0.8% y/y and was dependent predominately on households running down their savings.

In the housing market, April home loans were up strongly by 2.9% in value with the value of owner-occupier loans up by 3.1% and investor loans up by 2.6%. Housing activity is the strong edge of the economy, while the boom in home sales becomes more confined to Sydney (as confirmed at the RBA June meeting).

The RBA left its cash rate unchanged at 2.0% at its June policy meeting but noted if demand in the economy needs more support it is open to reducing the cash rate further.

Australia's trade deficit remained stubbornly large in May as export earnings failed to bounce back. The deficit narrowed to $2.8bn, from a record $4.1bn in April. Imports declined by -4.0%, while export earnings only edged 0.8% higher.

Finally, a 0.3% rise in retail sales in May disappointed the market's expectations as the RBA's recent rate cut and a decent bounce in consumer sentiment had been expected to drive a somewhat better gain.

Global

Global economic readings in June continued to indicate growth struggling to gain momentum with mildly improving economic activity in the US and Europe.

Most regions and countries continue to pursue growth accommodating monetary conditions, although the US Federal Reserve is moving closer to starting to lift its cash interest rate from zero.

Towards month end the prospect of a Greek default loomed large as the latest negotiations with its creditors appeared to fracture. Greek banks were forced to close. Given that default will mostly impact international government institutions such as the IMF, ECB and European Union, the funding and recapitalising of those institutions will partly influence the broader economic ramifications of the heightened Greek problem.

One important bright spot in the global economy is that the world's biggest economy, the US, seems to be pulling out of the soft patch over the winter months. The final reading of Q1 GDP showed annualised growth at a weak -0.2%, but April and May economic readings have mostly firmed and are consistent with annualised GDP growth around 2.5% or better in Q2. US housing activity has taken a turn for the better with May existing and new home sales up by 5.1% and 2.2% respectively. Housing permits (the equivalent of Australian home building approvals) were up by 11.8% in May. In turn, US homebuilders have become optimistic and the June National Association of Homebuilders' Index jumped to 59 from 54 in May.

The US Federal Reserve continued to point to a first interest rate rise later in 2015 at its June policy meeting but also made it clear that the move would be dependent upon the run of US economic data showing sufficient strength to warrant a rate increase.

In China, economic readings remained quite weak. May industrial production rose by 6.1% y/y, better than the 5.9% reported in April, but still pointing to output growth languishing near a seven-year low. May retail sales rose by 10.1% y/y only edging up from 10.0% y/y in April, while May urban fixed asset investment

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spending slipped to 11.4% y/y from 12.0% y/y as the downturn in property development continues to weigh. The monthly economic readings are more consistent with 6.5% annual GDP growth rather than 7.0% being targeted by the authorities and registered in Q1 2015. China's authorities continue to easy policies in response to weakening growth announcing an extensive urban housing renewal program and increased spending on transport links. The Peoples' Bank of China announced a further 0.25% cut to it one-year lending and deposit rates. The rate cuts were the fourth since November 2014.

Commodities

The Iron ore price initially continued its rally that had begun in early April, rising to over US$65/Mt by mid-month before sliding back to under $60/Mt. Base metal prices generally fell, with Nickel hitting a six-year low. Agricultural commodities bucked the trend, with the Wheat price rising over 20% during June as wet weather drenched crops in US growing regions.

Currency

Major currencies were mostly down attributable to the 'Grexit' turmoil in Europe. However, the Japanese Yen made headlines when it briefly touched a 13-year low against the USD. Against the AUD, the Yen was down -1.06% in June. The AUD/USD closed at $0.780, up 0.22%, while other results included: EUR -1.86%, GBP -2.26% and NZD +5.36%.