

Month in Review

Market Moves — As at 31.05.2015

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	0.40	-1.37	11.12	9.93	17.43	10.31	8.17
S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX	2.35	2.03	12.16	7.69	3.55	2.22	3.45
GLOBAL EQUITIES							
MSCI WORLD ACC INDEX WITH GROSS DIV (AS)	3.63	3.34	15.29	29.16	27.57	15.68	7.19
S&P 500 COMPOSITE ACCUMULATION INDEX (AS)	4.37	2.92	14.81	35.94	29.50	18.95	8.01
FTSE100 ACCUMULATION INDEX (AS)	3.06	2.86	15.00	16.95	22.50	13.46	5.32
MSCI EMERGING MARKETS FREE W/GROSS DIV (AS)	-0.92	4.04	12.24	21.95	15.20	6.45	8.98
REAL ESTATE INVESTMENT TRUSTS (REITS)							
S&P/ASX 300 A-REIT ACCUMULATION INDEX	2.73	-0.29	16.07	29.34	21.61	14.92	3.22
UBS GLOBAL INVESTORS TR HEDGED (AS)	-0.31	-2.71	5.50	16.81	18.30	17.29	8.25
FIXED INTEREST							
BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX	0.04	-0.32	3.28	7.47	5.09	6.93	6.41
BLOOMBERG AUSBOND BANK BILL INDEX	0.20	0.59	1.28	2.65	2.89	3.69	4.73
BARCLAY GLOBAL AGGREGATE INDEX HEDGED SA	-0.26	0.17	2.70	7.34	6.41	7.77	7.46

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, was up 0.40% in May and is 9.93% higher over the year. The month was a tale of two halves, with the market falling 3.50% initially before recovering to post a modest gain. A number of banks, chemical and building material companies reported negative results or issued adverse trading updates during the month. Banks were the worst performing sub-sector, down 3.20% after several of the 'Big 4' announced equity raisings in the face of growing regulatory pressure to bolster capital ratios. Meanwhile the Australian Federal Budget delivered tax cuts and accelerated tax write-offs for small businesses, prompting a minor rally in some retail stocks that were perceived to be beneficiaries of a predicted boom in sales of computers and office equipment. Thus, discretionary retail was the best performing domestic sub-sector during May.

The S&P/ASX Small Ordinaries Accumulation Index outperformed its broad cap counterpart, up 2.35% for the month. However, over 12 months the 'small cap' market continues to materially lag the broad cap index.

Global equities

Global equity markets finished the month with little change. The US outperforming (S&P 500 Accumulation Index up 4.37%) while emerging markets heavily underperformed (MSCI Emerging Markets Index down -0.92%). Investor attention during the month was focused on (1) speculation over when the Federal Reserve would start to raise interest rates, and (2) the negotiations between Greece and its international partners to forestall an imminent default given Greece was running out of cash.

European equity markets were all down in May: the German DAX -0.40%, French CAC -0.42% and UK FTSE -0.46%. In Asia, the Shanghai Composite Index experienced a wild ride, up 11% at one point before selling off heavily in the last few days of the month to finish up 4%, as the Chinese central bank cut rates once again. Japan's NIKKEI 225 up 5.32%, Hong Kong's Hang Seng Index down -1.90%.

REITs

The S&P/ASX 300 A-REIT Accumulation Index gained 2.73% in May – its first positive result in three months. Over 12 months to May, the Index is up 29.34%. However this is likely to soften as the domestic economy faces headwinds from its dependency on resources, a weakening Australian dollar, and challenging leasing conditions driving elevated vacancy rates and incentives.

The G-REIT market, as measured by the UBS Global Investors TR Hedged (A\$), was down -0.31% in May. Over the year G-REITs underperformed its domestic counterpart by 12.53% yet still managed to return close to 17% for investors. This was driven by the continual 'search for yield' and stable earnings growth.

Fixed interest

The Australian fixed interest market, as measured by the Bloomberg AusBond Composite Index, was relatively flat, up 0.04% in May. While the Bloomberg AusBond Bank Bill Index, which comprises lower risk and shorter dated securities, finished 0.20% higher. The main catalysts for the initial weakness in the domestic bond market in May was a sell-off in global bonds in addition to the RBA rate-cut announcement to generational lows of 2%.

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Month in Review

The Global Fixed Interest market, as measured by the Barclays Global Aggregate Index (Hedged A\$), was down -0.26% as the Fed confirmed that it was on a path towards normalisation of interest rates this year. German bund yields continued to rise sharply from record lows reached mid-April.

ASX 200 Stock Movements

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

BEST PERFORMERS	
UGL	+32.95%
SIRIUS RESOURCES	+30.69%
EVOLUTION MINING	+25.67%
SIRTEX MEDICAL	+25.55%
JAMES HARDIE INDUSTRIES	+20.88%

WORST PERFORMERS	
INDEPENDENCE GROUP	-17.80%
REA GROUP LTD	-17.28%
AUSTRALIAN AGRICULTURAL CO	-14.20%
MMA OFFSHORE	-12.86%
CARDNO	-11.85%

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

BEST PERFORMERS	
LIQUEFIED NATURAL GAS	+276.58%
QANTAS AIRWAYS	+150.53%
NORTHERN STAR RESOURCES	+104.33%
CORPORATE TRAVEL MANAGEMENT	+101.75%
SELECT HARVESTS	+84.64%

WORST PERFORMERS	
ARRIUM	-77.76%
MMA OFFSHORE	-70.53%
KATHMANDU HOLDINGS	-60.28%
STW COMMUNICATIONS GROUP	-57.93%
CARDNO	-52.71%

Economic News

Australia

Consumer sentiment jumped in May after the Reserve Bank declared a 0.25% cut in its cash rate to 2.0% while the Federal Budget announced big boosts for small business. The Budget forecast a deficit of \$41.1 billion (2.6% of GDP) for FY15 and \$35.1 billion (2.1% of GDP) for FY16. Despite this, the Westpac-Melbourne Institute of Consumer Sentiment rose 6.4% in May to 102.4 indicating optimists outnumbered pessimists for the first time since February this year. Furthermore, the Westpac-Melbourne Institute Index of Unemployment Expectations fell by 5.8% to 147.3 indicating more confidence around the domestic employment outlook. Meanwhile lower interest rates will act to boost housing finance in the near-term, however at present APRA is closely monitoring lending to the investor segment.

Australia's April unemployment rate was announced in May. Unemployment rose by 0.1% to 6.2%, with the ABS estimating that 21,900 full-time jobs were shed which was partially offset by a 19,000-strong rise in part-time employment.

The domestic PMI manufacturing index rose by 4.3 points in May to 52.3, following five months of sub-50 readings (indicating the sector was in decline). The May reading is equal to or higher than comparable PMI readings in the Eurozone (52.3), Japan (50.9) and China (50.2) although still lags the US (53.8). However given the volatility of the Australian series, it is premature to declare the manufacturing sector is in an upswing,

particularly with having to navigate the closure of car making facilities and the downdraft from mining investment over the coming 18 months.

Latest dwelling price statistics by CoreLogic RP Data show Australian house prices fell by -0.9% in May for only the second month in the past year. The fall in prices was broad-based at a regional level, with declines reported in all capital cities outside of Canberra and Darwin. By dwelling type, over the past month, houses (-0.7%) have significantly outpaced that for units (-2.3%) with Sydney losses (-2.8%) topping Melbourne (-2.5%).

Global

US ADP private payrolls rose 201k in May after April's gain of 165k. The last four monthly outcomes are the weakest since the middle of 2013. US ISM non-manufacturing fell from 57.8 to 55.7 in May, its weakest since April 2014 with new business activity, orders and jobs all recording slower growth in the month. The US trade deficit narrowed almost \$10bn in April to \$40.9bn. This reflected a 1% rise in broad-based exports outside of food and consumer goods, while imports dropped 3.3%, correcting for March's 6.5% jump which reflected the resolution of the West Coast ports dispute. Imports recorded declines across every category. Retail sales were weaker with flat growth in April missing the forecasted rate of 0.2% for the month. Meanwhile housing starts for April surpassed analysts' expectations – jumping 20.2%, while core CPI rose by 0.3%.

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ISSUE DATE: 5-06-2015

Euroland unemployment fell to 11.1% in April and retail sales rose 0.7% to be up 2.2% over the year to April. Both outcomes were slightly stronger than expected, adding to the sense that the domestic economy has been doing somewhat better. Mario Draghi himself noted that where there was some disappointment around the growth story it was generally due to weakness emerging in Europe's trading partners, especially in the developing economies. Also the Eurozone PMI composite was revised from 53.4 to 53.6 in May, still down from April's 53.9 but a gentler than previously reported decline, due in part to a stronger French services sector survey result.

Early in the month the People's Bank of China announced its third interest rate cut in six months, cutting benchmark rates another 25 basis points, as well as lifting the ceiling of the deposit rate floating range from 1.3 times of the benchmark rate to 1.5 times.

Commodities

The iron ore price rose 9% during May on declining stockpiles at major Chinese ports. However, most other commodities fell during the month given the strength in the US dollar. Base metals had a particularly tough time, with Aluminium and Nickel falling over 10%.

Currency

The AUD finished the month weaker at \$0.766, down -3.98% against the USD on the back of relatively weak Australian economic data in addition to the strength of the USD. The USD rose on the Fed's comments and comparatively strong US housing and inflation data. Other results were mixed: JPY +0.29%, EUR -2.78%, GBP -3.48% and NZD +2.09%.

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