

FEBRUARY 2013

## Market Overview

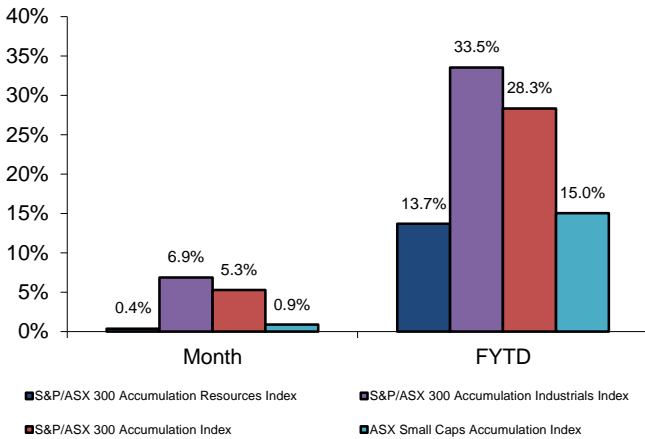
In February, political events moved to the fore again. An indecisive Italian election outcome unnerved European bond and equity markets, while in the US politicians failed to reach a compromise to avert or delay the so-called “sequester”, \$85 billion in automatic spending cuts over the next seven months. US markets, however, shrugged off Washington’s latest deadlock and continued to post gains as Chairman Ben Bernanke reiterated the Federal Reserve’s commitment to quantitative easing, suggesting that investors are currently more concerned with monetary than fiscal policy. Meanwhile the US economy continues to show signs of progress with the Institute of Supply Management (ISM) survey for February indicating above average production growth, with improvement coming from both current production and the more forward looking new orders survey.

In Europe, the inconclusive outcome of the Italian election and the startling success of former comedian Beppe Grillo and his party, the Five Star Movement, were the latest indication of the political uncertainty which continues to shroud the European Union. Economic data also disappointed in February with the latest figures from the European Union’s statistics agency revealing that the recession in the Euro-area deepened in the final quarter of 2012. February’s Eurozone Composite Purchasing Manager’s Index, which gauges the opinions of purchasing managers in the manufacturing and services sectors, fell to 47.9 points contrasting sharply with higher readings in the previous three months and indicating a renewed decline in business activity in the Eurozone.

In Japan, Prime Minister Shinzo Abe announced Haruhiko Kuroda as nominee for the role of Governor of the Bank of Japan. Kuroda has pledged to fight deflation and stimulate the economy with large purchases of long-dated government bonds. In response to his nomination the Nikkei 225 climbed higher and the Yen weakened further against major currencies, as markets anticipate ongoing accommodative monetary policy from the Bank of Japan. In China, the government unveiled new policy measures, including higher mandatory mortgage down payments, a 20% capital gains tax on property sales and restrictions on the purchase of second homes, to rein in a rebound in property prices. For the most part, these policies are reiterations of existing rules and effective enforcement of these measures will be the most important thing to look out for. The Shanghai Composite suffered its worst daily fall in 28 months following the government’s announcement in early March.

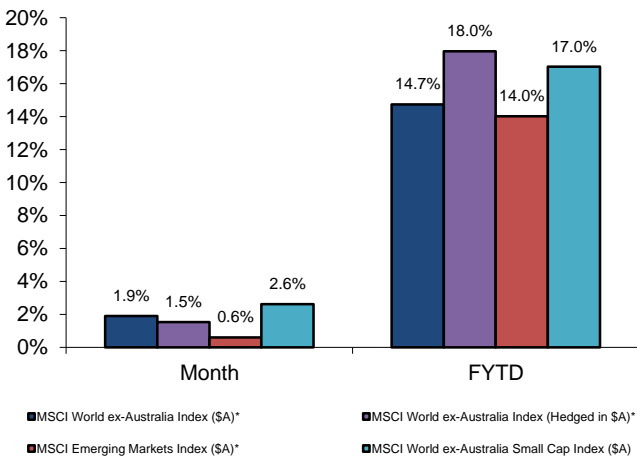
In Australia, the conclusion of the December half 2012 interim earnings reporting season showed that earnings growth forecasts for 2013 were on the whole better than expected, helping to push the equity market 5.3% higher over the month. The RBA decided to keep interest rates steady at 3.0% at their early March meeting reiterating its focus on monitoring the peak in resource investment. The latest CAPEX survey released by the Australian Bureau of Statistics (ABS) showed that business’ investment expectations for the 2013-14 financial year are still increasing year on year suggesting that resource investment may continue to contribute to headline economic growth. GDP in the final quarter of 2012 rose by 0.6% bringing total growth for 2012 to 3.1%; net exports made the largest contribution to growth in the fourth quarter while domestic demand remained soft.

Australian Equities



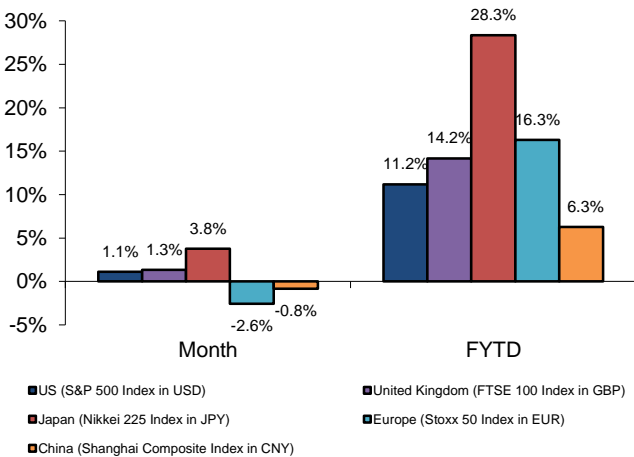
Australian equities recorded another month of solid gains, returning 5.3% in February and outperforming international developed markets. Gains were led by Consumer Staples (+9.7%), Financials (+6.5%) and Industrials (+6.1%), while Materials (-0.4%), Information Technology (-0.3%) and Telecommunications (-0.1%) were the weakest performers over the month. For the financial year to date, Australian equities have returned 28.3%.

International Equities (\$A)



International developed equity markets also posted gains in February, however, they considerably underperformed the Australian market in unhedged \$A terms (+1.9%). Developed market performance was dragged down by European equities with the Stoxx 50 declining 2.6% over the month. Emerging markets also saw a positive month, although the gains were much smaller at +0.6% in unhedged \$A terms. South Korea had a solid month while China and Brazil suffered notable declines.

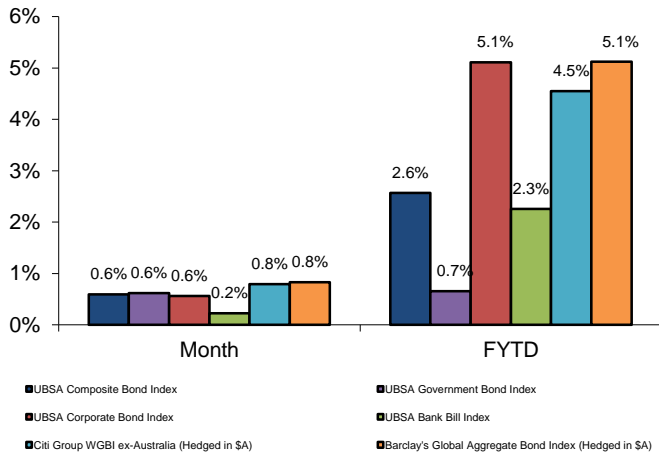
International Equities (Local Currencies)



Global equity market performance was mixed over the month. The Nikkei 225 continued to make solid gains adding another 3.8% in February, while European equities moved lower over the month (-2.6%) unnerved by an indecisive Italian election outcome. In China, the Shanghai Composite also closed lower on speculation that the Chinese government would introduce new measures to rein in rising property prices. The UK (+1.3%) and the US (+1.1%) also finished the month higher.

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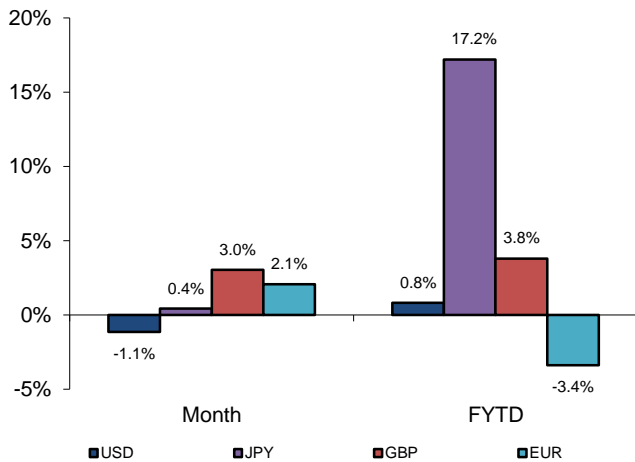
Fixed Income



In February, Australian long dated yields declined driving gains in Australian bonds with both the UBSA Composite Bond Index and UBSA Government Bond Index returning 0.6% for the month.

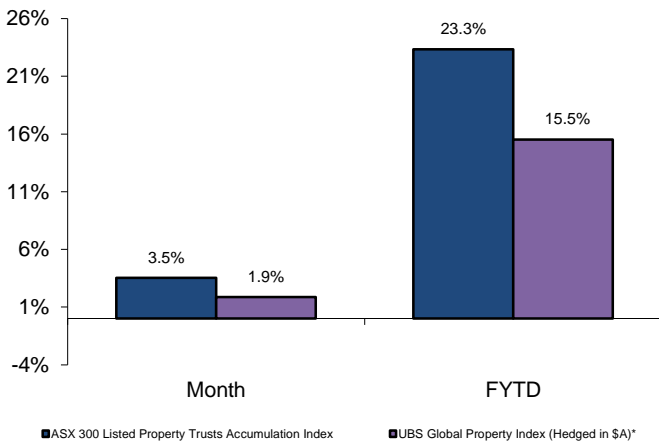
International bond yields also suffered declines, with US, UK, German and Japanese 10 years yields all moving lower. As a result both the Citi and Barclay's global bond benchmarks closed 0.8% higher.

Australian Dollar against



The Australian dollar had another mixed month of performance against major currencies. It declined against the US dollar (-1.1%), while making gains against the Euro (+2.1%) and the British pound (+3.0%). A downgrade by Moodys of the UK's sovereign credit rating from AAA to Aa1 and talk of further monetary easing weighed on the pound in February. The AUD continued to appreciate against the Japanese yen (+0.4%), bringing the cumulative financial year to date gain to 17.2%.

Property



The ASX 300 Property Accumulation Index continues to make positive gains adding another 3.5% in February. The sector is up 23.3% for the financial year to date.

The international property sector, as measured by the UBS Global Property Index in hedged \$A terms, continues to underperform the Australian market adding 1.9% over the month and 15.5% financial year to date.

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**Frontier Capital Markets Report as at 28 Feb 2013**

	28-Feb-13	Index Value	Month	3 Months	FYTD	1 Year
<b>Australian Equities</b>						
S&P/ASX 300 Accumulation Index		40,721	5.3%	14.2%	28.3%	23.4%
S&P/ASX 300 Accumulation Industrials Index		75,893	6.9%	16.7%	33.5%	37.4%
S&P/ASX 300 Accumulation Resources Index		22,633	0.4%	6.7%	13.7%	-8.2%
ASX Small Caps Accumulation Index		5,723	0.9%	8.5%	15.0%	-2.4%
<b>International Equities</b>						
MSCI World ex-Australia Index (\$A)*		3,905	1.9%	9.1%	14.7%	16.5%
MSCI World ex-Australia Index (Hedged in \$A)*		858	1.5%	9.4%	18.0%	15.9%
MSCI Emerging Markets Index (\$A)*		412	0.6%	7.0%	14.0%	5.8%
MSCI World ex-Australia Small Cap Index (\$A)		252	2.6%	11.9%	17.0%	16.3%
US (S&P 500 Index in USD)		1,515	1.1%	7.0%	11.2%	10.9%
United Kingdom (FTSE 100 Index in GBP)		6,361	1.3%	8.4%	14.2%	8.3%
Japan (Nikkei 225 Index in JPY)		11,559	3.8%	22.4%	28.3%	18.9%
Europe (Stoxx 50 Index in EUR)		2,634	-2.6%	2.3%	16.3%	4.8%
China (Shanghai Composite Index in CNY)		2,366	-0.8%	19.5%	6.3%	-2.6%
<b>AUD Versus...</b>						
USD		1.03	-1.1%	-1.5%	0.8%	-5.0%
JPY		94.80	0.4%	10.3%	17.2%	9.1%
GBP		0.68	3.0%	4.3%	3.8%	-0.2%
EUR		0.78	2.1%	-2.6%	-3.4%	-2.5%
<b>Property</b>						
ASX 300 Listed Property Trusts Accumulation Index		27,094	3.5%	11.2%	23.3%	33.2%
UBS Global Property Index (Hedged in \$A)*		1,617	1.9%	8.8%	15.5%	24.6%
<b>Australian Fixed Interest</b>						
UBSA Composite Bond Index		7,479	0.6%	0.5%	2.6%	8.2%
UBSA Government Bond Index		7,892	0.6%	0.0%	0.7%	6.6%
UBSA Corporate Bond Index		7,539	0.6%	1.4%	5.1%	9.9%
UBSA Bank Bill Index		7,776	0.2%	0.8%	2.3%	3.7%
<b>Global Fixed Interest</b>						
Citi Group WGBI ex-Australia (Hedged in \$A)		1,806	0.8%	0.8%	4.5%	7.3%
Barday's Global Aggregate Bond Index (Hedged in \$A)		-	0.8%	0.9%	5.1%	8.0%
<b>Oil and Commodities</b>						
Crude Oil (\$/bbl)		92	-5.6%	3.5%	8.3%	-14.0%
Copper Spot (\$/tonne)		7,784	-4.2%	-2.4%	1.2%	-8.3%
Gold Spot (\$/ounce)		1,578	-5.0%	-8.0%	-2.2%	-8.6%
<b>Fixed Income (Yields) as at ...</b>						
	28-Feb-13	31-Jan-13	30-Nov-12	30-Jun-12	29-Feb-12	
Australia Bank Bill	2.94	2.93	3.17	3.53	4.41	
Australia 10 Year Government Bond	3.35	3.45	3.16	3.04	3.97	
US 10 Year Government Bond	1.88	1.98	1.62	1.64	1.97	
UK 10 Year Government Bond	1.97	2.10	1.78	1.73	2.15	
Germany 10 Year Government Bond	1.45	1.68	1.39	1.58	1.82	
Japan 10 Year Government Bond	0.66	0.75	0.72	0.84	0.96	

\* Net Dividends reinvested