MONTHLY MARKETS

FRONTIER ADVISORS

NOVEMBER 2013

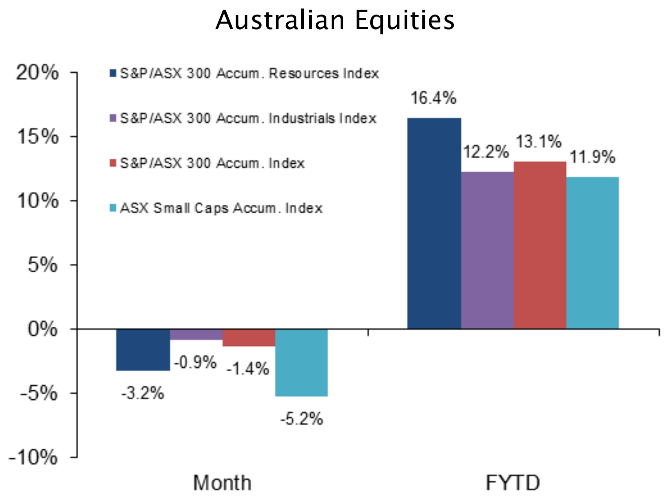
## Market Overview

After the drama of a temporary US government shutdown, it was a case of back to business as usual in November. The release of the US Federal Open Market Committee's (FOMC) October minutes showed the Fed may begin tapering its asset purchasing program in the coming months if the economy improves sufficiently, although most expectations have targeted Q1 2014 as the most likely date. Over the month, conflicting labour market statistics were released. Despite 204,000 net new jobs being created, the unemployment rate edged higher to 7.3% with an accompanying decrease in the participation rate, which fell to its lowest level since 1978. Meanwhile, manufacturing activity remains robust, with the national ISM survey accelerating to its highest level since April 2011, led by an improvement in export orders. Similarly positive was the building permits release which jumped to a five year high. Elsewhere, the Senate Banking Committee voted 14-8 in support of Janet Yellen's nomination as the next Chair of the US Federal Reserve. Her nomination is now with the Democratic controlled Senate, but this now seems all but assured with a rule change requiring only a majority of votes to approve her nomination.

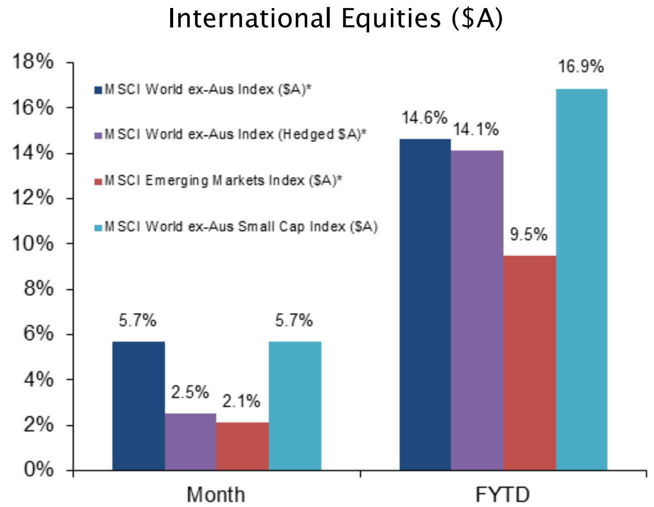
In China, the Communist Party's Third Plenum dominated headlines. A once in a decade meeting, China's top officials laid out the economic policy agenda for the current generation of leaders. A 60-point reform plan was released in the days afterwards, detailing a wide range of planned reforms including capital account liberalisation, reform of the household registration system ("Hukou") and the opening up of sectors dominated by state-owned enterprises.

Europe's nascent recovery stalled in the third quarter as GDP growth slowed to 0.1% q/q. Italy remains in recession – now in its ninth quarter, while the French economy's output declined by 0.1 % q/q. Later in the month though, the forward looking PMI survey showed manufacturing activity in the Eurozone continued to expand in November, increasing slightly from a month earlier. Elsewhere, S&P stripped the Netherlands of its coveted AAA credit rating, citing its bleak economic growth prospects. At the same time, the outlook for Spanish debt was upgraded from negative to stable, while Cyprus' credit rating was upgraded by one notch to B-.

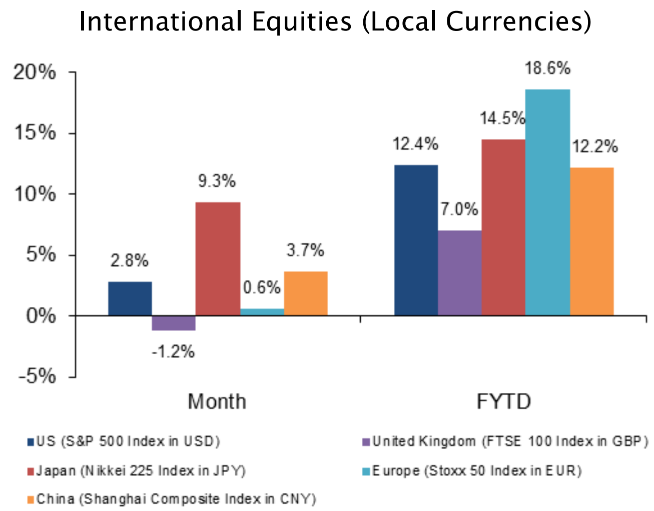
In Australia, the RBA left interest rates on hold at 2.5%, as widely expected. The statement by Governor Stevens noted the Australian dollar remains "uncomfortably high" and that further depreciation will likely be needed to foster more balanced growth in the economy. Earlier in the month, the Governor was seen to escalate the RBA's attempts to talk down the value of the dollar by reminding markets that currency intervention remains a part of the bank's policy toolkit. Lastly, Q3 GDP growth disappointed, coming in below expectations at 0.6% q/q (+2.3% y/y), although Q2 growth was revised upwards by 0.1 percentage points. The business investment and household consumption components were weaker than expected, with the household savings ratio increasing to 11.1%.




Australian equities went backwards in November, with small caps significantly underperforming broad caps. Losses were concentrated in the Energy sector, driving the underperformance of resources relative to industrials. Health Care was the only sector able to avoid a loss over the month, recording a modest 0.3% gain.




Developed market equities continued to outperform their emerging market counterparts, driven by strong contributions from the US, Japan and Germany. In emerging markets, China and Mexico were the only markets to record meaningful gains over the month although returns for Australian investors were boosted by the depreciating Australian dollar. For the same reason, unhedged international equities significantly outperformed their hedged equivalent.




In local currency terms, Japanese equities were the clear standout for November. US equities also recorded a material gain, led by cyclically exposed sectors. In China, the market reacted positively to the pro-reform policy document released following the Communist Party's Third Plenum. European equities continue to lead the way for the financial year to date, as Italian and Spanish equities have re-rated significantly.

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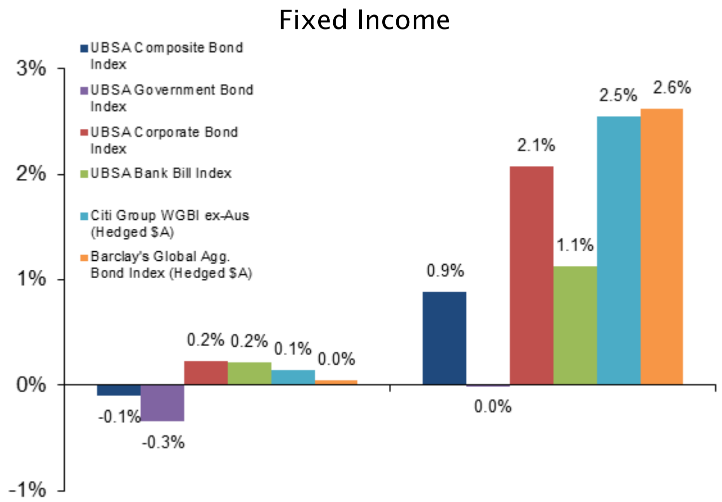
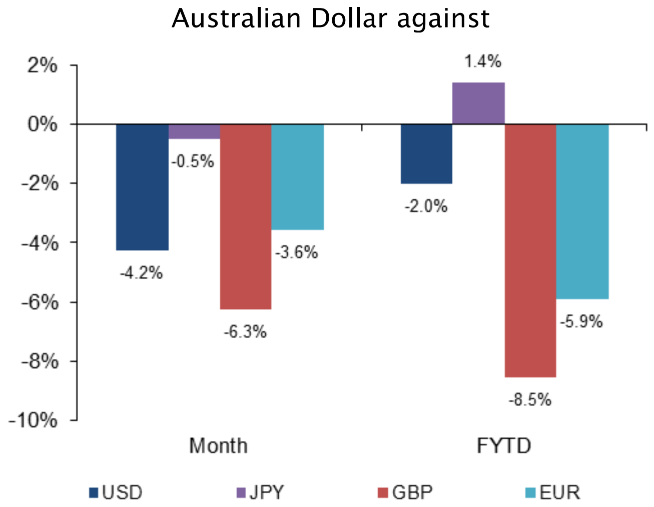
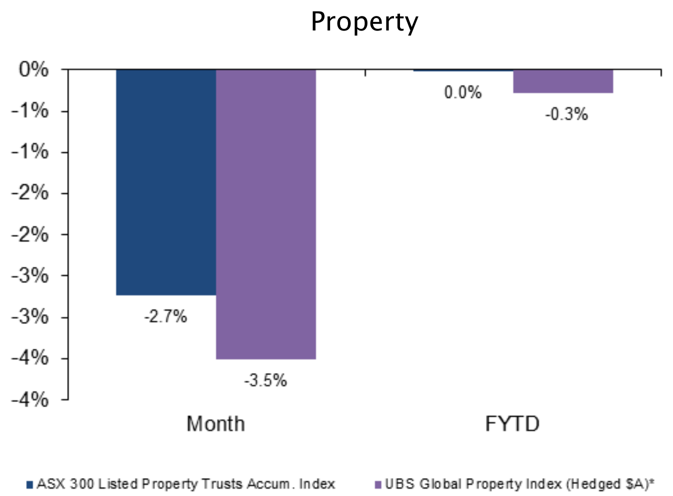



Australian fixed interest securities underperformed their overseas counterparts over the month as the intermediate and long end of our yield curve sold off, pushing yields higher. For the financial year to date though, International fixed interest has outperformed Australian fixed interest despite the material increase in US and UK 10 year bond yields, because the impact of this has been offset by the reduction in Japanese and European yields.




The Australian dollar depreciated sharply against most of the major currencies over November, with the majority of the weakening occurring over the final week of the month after the remarks made by RBA Governor Stevens. The Australian dollar finished the month at two-month lows against the US dollar and Euro, while it fell to its lowest level since July 2010 against the UK pound as economic momentum there appears to be improving.




Australian and international listed property trusts lost ground over November, effectively wiping out the gains for the financial year to date. Although a tapering of the US Federal Reserve's quantitative easing program is not expected to occur until the first quarter of 2014, investors appear to be repositioning their portfolios in advance.

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## Frontier Capital Markets Report as at 30 Nov 2013

| 30-Nov-13 | Index Value | Month | 3 Months | FYTD | 1 Year |
|---|---|---|---|---|---|
| **Australian Equities** | | | | | |
| S&P/ASX 300 Accum. Index | 43,729 | -1.4% | 4.7% | 13.1% | 22.7% |
| S&P/ASX 300 Accum. Industrials Index | 84,599 | -0.9% | 5.8% | 12.2% | 30.1% |
| S&P/ASX 300 Accum. Resources Index | 21,229 | -3.2% | 0.7% | 16.4% | 0.1% |
| ASX Small Caps Accum. Index | 5,269 | -5.2% | -1.0% | 11.9% | -0.1% |
| **International Equities** | | | | | |
| MSCI World ex-Aus Index ($A)* | 5,194 | 5.7% | 8.3% | 14.6% | 45.0% |
| MSCI World ex-Aus Index (Hedged $A)* | 1,034 | 2.5% | 10.9% | 14.1% | 31.9% |
| MSCI Emerging Markets Index ($A)* | 456 | 2.1% | 7.2% | 9.5% | 18.3% |
| MSCI World ex-Aus Small Cap Index ($A) | 342 | 5.7% | 9.2% | 16.9% | 51.7% |
| US (S&P 500 Index in USD) | 1,806 | 2.8% | 10.6% | 12.4% | 27.5% |
| United Kingdom (FTSE 100 Index in GBP) | 6,651 | -1.2% | 3.7% | 7.0% | 13.4% |
| Japan (Nikkei 225 Index in JPY) | 15,662 | 9.3% | 17.0% | 14.5% | 65.8% |
| Europe (Stoxx 50 Index in EUR) | 3,087 | 0.6% | 13.4% | 18.6% | 19.9% |
| China (Shanghai Composite Index in CNY) | 2,221 | 3.7% | 5.8% | 12.2% | 12.1% |
| **AUD Versus...** | | | | | |
| USD | 0.91 | -4.2% | 1.6% | -2.0% | -12.9% |
| JPY | 92.94 | -0.5% | 5.8% | 1.4% | 8.1% |
| GBP | 0.56 | -6.3% | -3.7% | -8.5% | -14.6% |
| EUR | 0.67 | -3.6% | -1.2% | -5.9% | -16.8% |
| **Property** | | | | | |
| ASX 300 Listed Property Trusts Accum. Index | 27,232 | -2.7% | 0.8% | 0.0% | 11.8% |
| UBS Global Property Index (Hedged $A)* | 1,621 | -3.5% | 4.0% | -0.3% | 9.0% |
| **Australian Fixed Interest** | | | | | |
| UBSA Composite Bond Index | 7,560 | -0.1% | 0.3% | 0.9% | 1.6% |
| UBSA Government Bond Index | 7,866 | -0.3% | -0.1% | 0.0% | -0.3% |
| UBSA Corporate Bond Index | 7,772 | 0.2% | 1.0% | 2.1% | 4.5% |
| UBSA Bank Bill Index | 7,943 | 0.2% | 0.6% | 1.1% | 2.9% |
| **Global Fixed Interest** | | | | | |
| Citi Group WGBI ex-Aus (Hedged $A) | - | 0.1% | 2.1% | 2.5% | 3.4% |
| Barclay's Global Agg. Bond Index (Hedged $A) | - | 0.0% | 2.2% | 2.6% | 3.0% |
| **Oil and Commodities** | | | | | |
| Crude Oil ($/bbl) | 93 | -3.8% | -13.9% | -4.0% | 4.3% |
| Copper Spot ($/tonne) | 7,054 | -2.6% | -0.3% | 4.8% | -11.6% |
| Gold Spot ($/ounce) | 1,250 | -5.6% | -10.5% | 1.9% | -27.5% |

| Fixed Income (Yields) as at … | 30-Nov-13 | 31-Oct-13 | 31-Aug-13 | 30-Jun-13 | 30-Nov-12 |
|---|---|---|---|---|---|
| Australia Bank Bill | 2.58 | 2.58 | 2.56 | 2.79 | 3.17 |
| Australia 10 Year Government Bond | 4.22 | 4.02 | 3.90 | 3.76 | 3.16 |
| US 10 Year Government Bond | 2.74 | 2.55 | 2.78 | 2.49 | 1.62 |
| UK 10 Year Government Bond | 2.77 | 2.62 | 2.77 | 2.44 | 1.78 |
| Germany 10 Year Government Bond | 1.69 | 1.67 | 1.86 | 1.73 | 1.39 |
| Japan 10 Year Government Bond | 0.61 | 0.60 | 0.72 | 0.85 | 0.72 |

* Net Dividends reinvested