



August 2014

The biggest announcement this month came from the European Central Bank (ECB). Mario Draghi, President of the ECB, announced the lowering of their key interest rate by 0.1% and that the ECB will begin buying asset backed securities and covered bonds to boost liquidity in the private sector.

More details of the purchasing programme will be provided on October 2nd, but the market expects the size of the programme to be between EUR 500 billion to 1 trillion as the ECB aims to expand its balance sheet back to where it was in 2012. Some of the driving factors behind this surprise (or rather sooner-than-expected) decision have been the risk of deflation with preliminary Euro area inflation rate falling to 0.3% y/y for August and slowing GDP growth rates. In particular, q/q GDP growth for Germany (Europe's largest economy) was at -0.2% for Q2, 2014.

Despite this, over the English Channel, the UK economy is recovering strongly with unemployment falling to 6.4% from 6.5%. The Bank of England (BOE) monetary policy meeting minutes also revealed that the UK are inching ever closer to tightening its monetary policy with a 7 to 2 vote for maintaining interest rate at 0.5%. This is the first divergence in the votes in more than three years.

US real GDP growth was revised up to 4.2% for Q2, 2014 for its second estimate indicating that the US is maintaining its recovery momentum. The manufacturing Purchasing Manager Index (PMI) index was also positive for August, rising to 57.9 points from 55.8 last month.

Non-farm payroll was however weaker this month at 142,000. This was below expectations and was the first month where the monthly jobs added was below

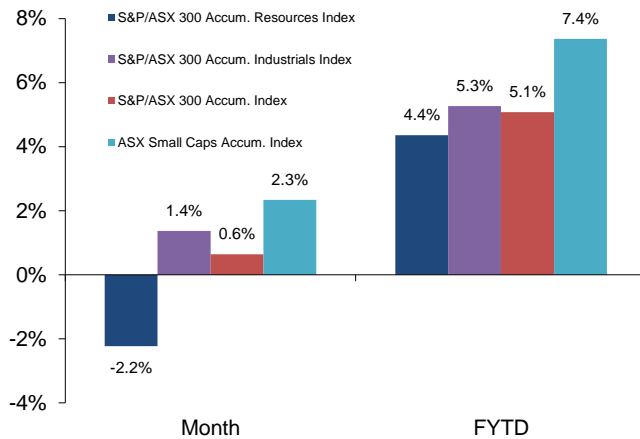
200,000 in six months. The nonfarm payroll data coupled with US core inflation data slowing have given the US Federal Reserve more room to hold off raising interest rates. Regardless, the new jobs added were able to push the unemployment rate lower to 6.1%.

In China, the official manufacturing PMI fell from 51.7 to 51.1 in August showing that conditions have not yet stabilise. In Japan, the hike in consumption tax from 5% to 8% was clearly reflected in its GDP growth which came in at -1.8% q/q for Q2, 2014 which annualises to -7.1% (the biggest contraction since Q1, 2009). This places pressure on Prime Minister Shinzo Abe's decision to raise the consumption tax further to 10% by year end.

While the US economy is picking up, locally, the Australian economy appears to be slowing. Q2, 2014 GDP was lower at 0.5% q/q with net exports being the key detractor from GDP. There were no surprises with the RBA leaving interest rate unchanged at 2.5% at its August meeting but what was surprising was the fall in the unemployment rate from 6.4% to 6.1% with the economy adding a staggering 121,000 new jobs (although most of which were part-time employment).

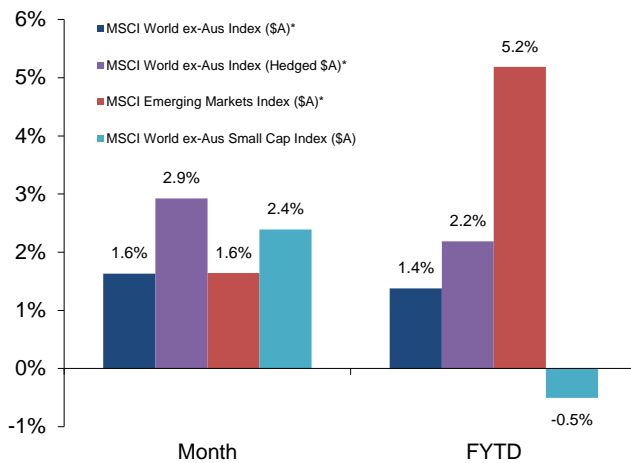
The fall in iron ore prices by around -8% in August to \$87.9/tonne has also been detrimental to the Australian market. This fall translated to losses for the Australian Resources sector with one iron miner, Western Desert Resources voluntarily entering into administration.

Australian equities



August was a mixed month for Australian equities. On the whole, it ended the month slightly positive. The Resources sector fell heavily mainly as a result of the slide in iron ore prices while the Industrials sectors outperformed partly driven by some surprise dividend increases (e.g. Telstra). Small caps outperformed broad caps over the month.

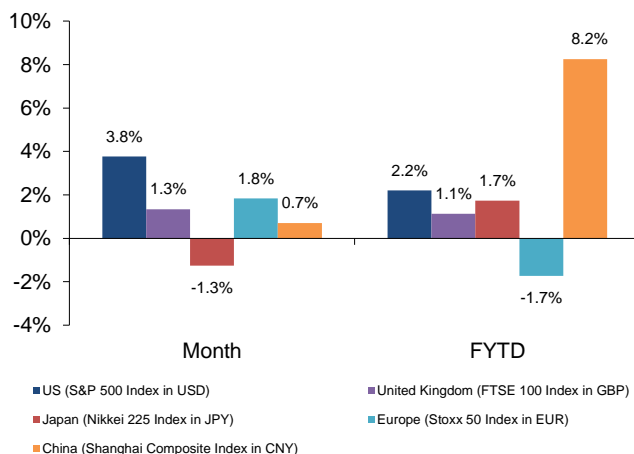
International equities (\$A)



Over the month, developed market equities outperformed Australian equities from an Australian investor's perspective. The key contributing countries were mainly the US.

Emerging market equities also performed strongly which was largely driven by Brazilian equities.

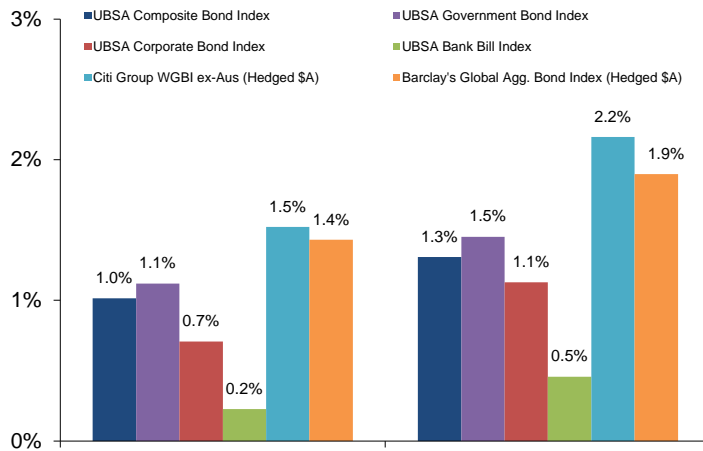
International equities (local currencies)



In local currency terms, the US equity market was the standout performer out of the major developed equity markets.

In emerging markets, the strongest performer in August was Brazil which was likely due to the falling approval rating of its current President, Dilma Rousseff in the polls for their upcoming October election raising investors' hopes for economic reforms from her political opponents.

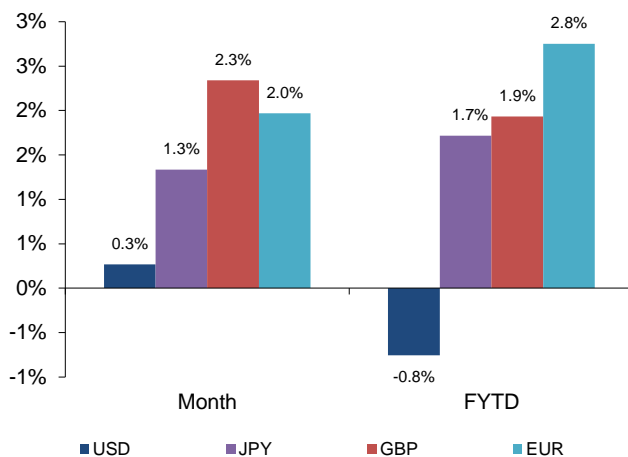
Fixed income



Fixed income investments delivered positive returns in Australia and overseas in July. The move was broad based across regions. In Europe, the yields of both core and peripheral countries' sovereign bonds fell.

Both the US and Australian yield curve "bull flattened" over the month as yield on the long end fell more than at the short end. This typically suggests that markets are more pessimistic about the growth outlook.

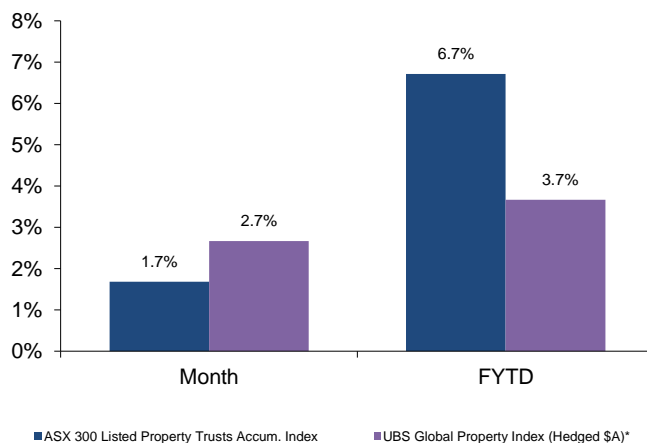
Australian dollar against major currencies



Over the month, the Australian dollar appreciated against the major currencies. It rose the most against the British Pound.

The Australian dollar also appreciated against the Euro as a result of market expectations for a quantitative easing programme/further interest rate cuts from the European Central Bank. This eventually occurred in September but it was much sooner than expected by the market.

Property



Both Australian and international listed property trusts recorded positive performance for August with international property trusts outperforming their local counterparts. The majority of the Australian listed property trusts that reported in August met market forecasts.

Monthly Markets

| 31-Aug-14 | Index value | Month | 3 months | FYTD | 1 year |
|---|------------------|------------------|------------------|------------------|------------------|
| Australian equities | | | | | |
| S&P/ASX 300 Accum. Index | 47,656 | 0.6% | 3.6% | 5.1% | 14.1% |
| S&P/ASX 300 Accum. Industrials Index | 92,976 | 1.4% | 3.8% | 5.3% | 16.3% |
| S&P/ASX 300 Accum. Resources Index | 22,368 | -2.2% | 2.6% | 4.4% | 6.1% |
| ASX Small Caps Accum. Index | 5,721 | 2.3% | 6.2% | 7.4% | 7.5% |
| International equities | | | | | |
| MSCI World ex-Aus Index (\$A)* | 5,530 | 1.6% | 1.8% | 1.4% | 15.3% |
| MSCI World ex-Aus Index (Hedged \$A)* | 1,154 | 2.9% | 3.9% | 2.2% | 23.7% |
| MSCI Emerging Markets Index (\$A)* | 486 | 1.6% | 6.5% | 5.2% | 14.3% |
| MSCI World ex-Aus Small Cap Index (\$A) | 355 | 2.4% | 1.9% | -0.5% | 13.5% |
| US (S&P 500 Index in USD) | 2,003 | 3.8% | 4.1% | 2.2% | 22.7% |
| United Kingdom (FTSE 100 Index in GBP) | 6,820 | 1.3% | -0.4% | 1.1% | 6.3% |
| Japan (Nikkei 225 Index in JPY) | 15,425 | -1.3% | 5.4% | 1.7% | 15.2% |
| Europe (Stoxx 50 Index in EUR) | 3,173 | 1.8% | -2.2% | -1.7% | 16.6% |
| China (Shanghai Composite Index in CNY) | 2,217 | 0.7% | 8.7% | 8.2% | 5.7% |
| AUD versus ... | | | | | |
| USD | 0.93 | 0.3% | 0.3% | -0.8% | 4.5% |
| JPY | 97.07 | 1.3% | 2.5% | 1.7% | 10.5% |
| GBP | 0.56 | 2.3% | 1.2% | 1.9% | -2.2% |
| EUR | 0.71 | 2.0% | 3.6% | 2.8% | 5.0% |
| Property | | | | | |
| ASX 300 Listed Property Trusts Accum. Index | 32,285 | 1.7% | 10.3% | 6.7% | 19.5% |
| UBS Global Property Index (Hedged \$A)* | 1,942 | 2.7% | 4.7% | 3.7% | 24.6% |
| Australian Fixed Interest | | | | | |
| UBSA Composite Bond Index | 8,054 | 1.0% | 2.1% | 1.3% | 6.9% |
| UBSA Government Bond Index | 8,381 | 1.1% | 2.4% | 1.5% | 6.4% |
| UBSA Corporate Bond Index | 8,215 | 0.7% | 1.8% | 1.1% | 6.8% |
| UBSA Bank Bill Index | 8,101 | 0.2% | 0.7% | 0.5% | 2.7% |
| Global Fixed Interest | | | | | |
| Citi Group WGBI ex-Aus (Hedged \$A) | - | 1.5% | 2.8% | 2.2% | 9.2% |
| Barclay's Global Agg. Bond Index (Hedged \$A) | - | 1.4% | 2.5% | 1.9% | 9.3% |
| Oil and commodities | | | | | |
| Crude Oil (\$/bbl) | 96 | -2.3% | -6.6% | -8.9% | -10.9% |
| Copper Spot (\$/tonne) | 7,009 | -1.8% | 1.3% | -0.5% | -1.0% |
| Gold Spot (\$/ounce) | 1,287 | 0.4% | 3.3% | -2.7% | -8.2% |
| Fixed income (yields) as at ... | | | | | |
| | 31-Aug-14 | 31-Jul-14 | 31-May-14 | 30-Jun-14 | 31-Aug-13 |
| Australia Bank Bill | 2.63 | 2.64 | 2.69 | 2.68 | 2.56 |
| Australia 10 Year Government Bond | 3.29 | 3.51 | 3.66 | 3.54 | 3.90 |
| US 10 Year Government Bond | 2.34 | 2.56 | 2.48 | 2.53 | 2.78 |
| UK 10 Year Government Bond | 2.37 | 2.60 | 2.57 | 2.67 | 2.77 |
| Germany 10 Year Government Bond | 0.89 | 1.16 | 1.36 | 1.25 | 1.86 |
| Japan 10 Year Government Bond | 0.50 | 0.54 | 0.58 | 0.57 | 0.72 |

* Net dividends reinvested