View from the hill

FEBRUARY 2015

HILLROSS

Market update

The table below provides details of the movement in average investment returns from various asset classes for the period up to **31 January 2015.**

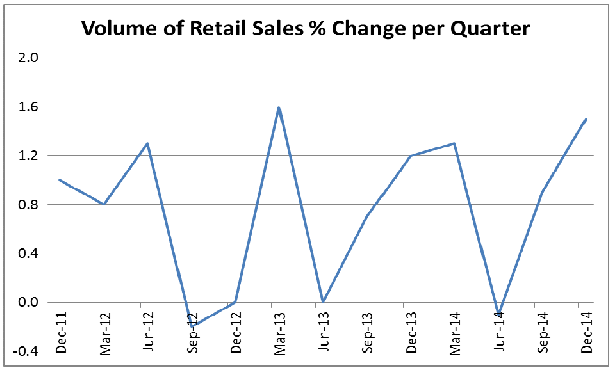
Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	3.3	2.0	12.5	14.5
Smaller companies	0.9	-2.5	-0.2	-1.6
International shares (unhedged)	3.2	11.5	20.1	25.6
Emerging markets (unhedged)	5.7	7.2	17.9	11.6
Property - Australian listed	7.7	12.5	36.2	22.7
Property - global listed	7.7	12.4	35.0	20.3
Australian fixed interest	1.6	4.6	10.4	7.0
International fixed interest	2.2	4.2	10.9	7.7
Australian cash	0.3	0.7	2.7	3.1

Overview & Outlook

The environment of low interest rates has become more entrenched over the past month as a subdued economy combined with low inflation and low consumer confidence culminated in the Reserve Bank lowering cash interest rates in early February. This environment of loose monetary policy and falling interest rates has provided further support for equities; and in particular, higher yielding defensively positioned equities.

Globally, monetary policy settings were also loosened with the European Central Bank (ECB) announcing a much expected Quantitative Easing program. The ECB confirmed that it will commence purchasing up to $70 billion in bonds each month from March. Longer term interest rates declined and European equities rallied in response to the new policy. The additional liquidity generated by the program is anticipated to be supportive of both equity and bond prices.

Despite the record low interest rate settings, economic growth remains subdued in most developed economies outside of the United States. During January, the International Monetary Fund lowered its forecast for global economic growth in 2015 from 3.8% to 3.5%. The ongoing weakening in the outlook for global production, combined with supply increases in various commodity markets, resulted in further declines in commodity prices (including oil) over January.



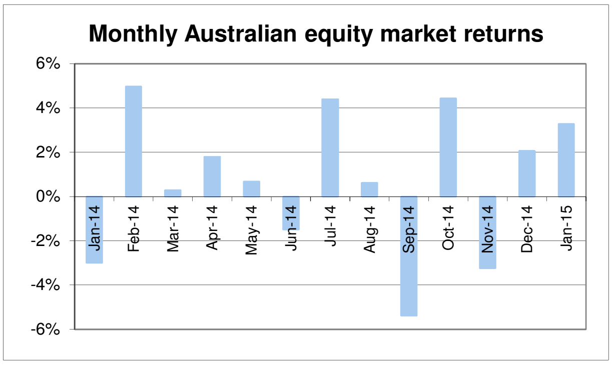
Source: Australian Bureau of Statistics 8501. Seasonally Adjusted Data.

Lower oil prices have been a contributing factor to the dominant theme on financial markets of lower inflation and falling interest rates. Australian Consumer Price Index data for the December quarter was impacted by the decline in oil prices, with inflation measured at just 0.2% for the quarter and 1.7% for the year.

Although the significant fall in oil prices may have a negative impact on Australian energy producers, it is expected to provide some scope for increased consumer spending as savings on petrol costs are directed elsewhere. Retail trade data for the December quarter showed that the volume of sales increased by 1.5%.This was the strongest quarterly increase since March 2013. However, the growth in terms of dollar sales has been weak, due to low underlying price growth and discounting by retailers.

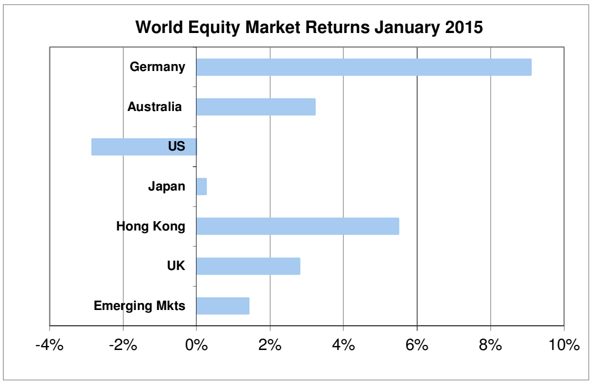
Share markets

Strong gains were recorded on the Australian share market over January, with the S&P ASX 200 Index advancing 3.3%. Once again, it was the industrial sectors that led the market higher with resource and energy stocks losing further ground due to falling commodity prices. Resource stocks fell by 1.2% over the month, with the energy sector down 6.5%. Telstra was one of the best performed larger stocks, gaining 8.9%, with consumer discretionary stocks also making major gains (up 6.2%). Lower interest rates and the lower $A both contributed to the positive sentiment on the local market last month.



Source: S&P ASX 200 Index

European share markets rose strongly as the European Central Bank Quantitative Easing program provided a boost to confidence. Increases of 8.0% and 9.1% were recorded in France and Germany respectively. Switzerland was the exception last month, with its share market sold down by 6.8% following the decision to abandon the "cap" placed on the Swiss Franc exchange rate with the Euro.

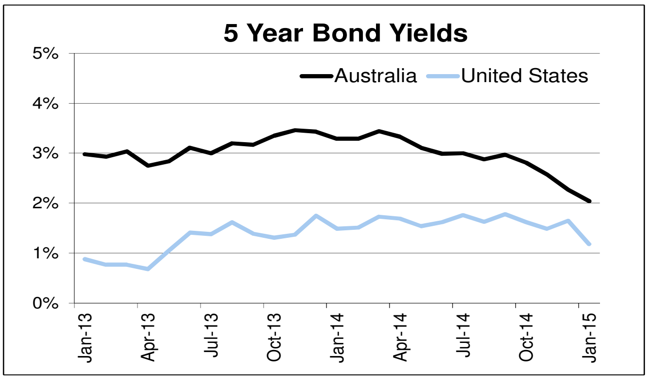


Source: MSCI indexes.

Overall global share market returns were weighed down by the U.S. market last month, which finished 2.9% lower. A strengthening $US caused some concern amongst investors and resulted in the market pulling back from recent record highs. However, for Australian investors with unhedged currency positions, global equity returns remained in positive territory as the $A decline increased the value of foreign currency domiciled assets. Against the $US, the $A fell from U.S. 82.0 cents to U.S. 77.8 cents.

Interest rates

The announcement by the European Central Bank to commence a Quantitative Easing program sent bond yields lower across globe. Strong flows into U.S. bonds saw the 5-year Government yield drop significantly over the month from 1.65% to 1.18%. The global trend, combined with firming expectations of a cash interest rate reduction, lowered bond yields in Australia as well. The local 5-year Government bond yield declined 0.23% to 2.04% over January.

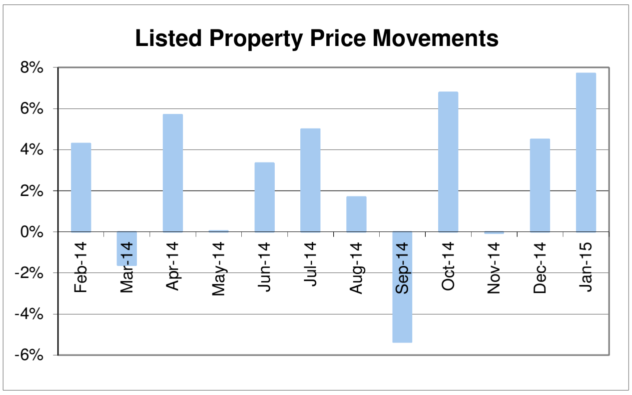


Source: Reserve Bank of Australia. US Federal Reserve.

Following the meeting of the Reserve Bank Board in the first week of February, the Australian overnight cash interest rate was decreased from 2.5% to 2.25%. This was the first change in the overnight cash rate since August 2013.

Property

It was another strong month for the listed property sector with lower interest rates continuing to attract investors to higher yielding assets. The A-REIT sector recorded a gain of 7.7% during January. Over the past 12 months, Australian listed property has produced a return of 36.2%. Returns on overseas listed property markets have tracked a similar path to Australian vehicles, with the UBS Global Investors Listed Property Index rising 7.7% in hedged currency terms over January.



Source: S&P ASX 200 A-REIT Acc Index.