Market update

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

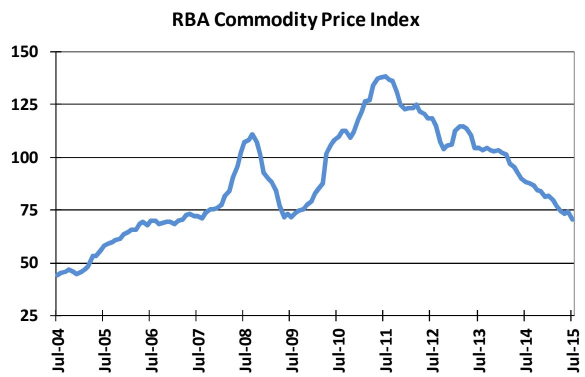
Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	4.4	-0.7	5.7	15.1
Smaller companies	1.6	-4.1	-2.8	3.1
International shares (unhedged)	7.3	7.9	34.1	29.9
Emerging markets (unhedged)	-1.8	-5.9	10.5	14.0
Property – Australian listed	5.7	4.2	21.0	18.3
Property – global listed	4.6	-0.4	12.6	14.8
Australian fixed interest	1.3	0.4	6.7	5.1
International fixed interest	1.0	-0.4	6.2	5.8
Australian cash	0.2	0.6	2.6	2.8

Overview & Outlook

A significantly more positive mood prevailed on financial markets over July. The previous month's concerns over the Greek debt crisis and Chinese share market sell-off failed to deter investors, with equity markets moving sharply higher. Also in contrast to June, bond yields reversed some of their recent increase, creating positive returns for fixed interest investors as well.

In addition to the news of an agreement between the Greek Government and creditors over loan bail-out conditions, there was a generally positive global economic backdrop last month. In particular, conditions in the U.S. economy appear to be continuing to strengthen. U.S. economic growth picked up in the June quarter, with the annual rate of expansion now 2.3%. This improved growth is allowing the unemployment rate to decline, with the current rate of 5.3% some 0.9% below the level recorded one year ago.

Despite the generally positive global economic news last month, commodity prices remained weak. The Reserve Bank's Commodity Price Index dropped 5% in July and is now at its lowest level since February 2007. Falling iron ore and coal prices were the main contributors to the decline in the Index. The lower commodity prices appear to be having a direct impact on the value of the Australian dollar, which finished July at just below U.S. 73 cents – its lowest month end value since April 2009.



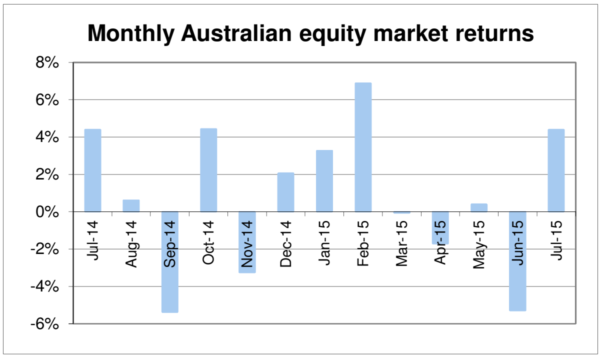
Source: Reserve Bank of Australia. Currency in SDR terms.

The weakness in commodity prices is contributing to a "patchy" pattern of growth in the Australian economy. Mining activity continues to be scaled back; whereas activity in the housing industry is pushing residential construction higher. Both businesses and consumers remain cautious, with businesses investment subdued and retail spending growing slightly below its longer term trend. In the year to June, retail sales were 4.9% higher.

Notwithstanding the patchy nature of Australian economic growth, it has been sufficient to generate some employment growth. Over the year to July, the number of workers employed has risen by 2.1%, with unemployment up marginally over this period from 6.2% to 6.3%.

Share markets

There was a strong recovery on share markets last month, largely in response to the resolution of negotiations between Greece and its creditors. The local market came close to reversing the decline recorded in June, with the S&P ASX 200 Index jumping 4.4% over July.

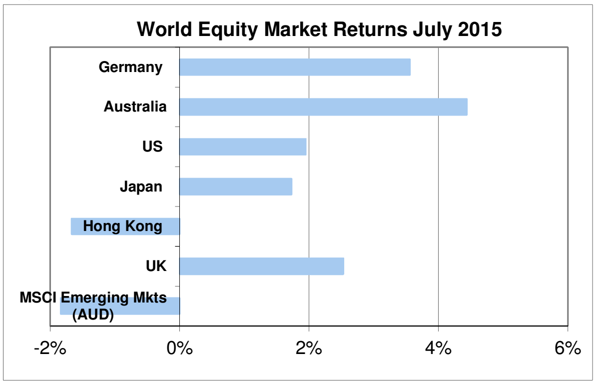


Source: S&P ASX 200 Index

As has been the case the case for much of the past 3 years, resource stocks underperformed the general market last month. Falling commodity prices weighed down mining companies, with BHP Billiton (down 2.2%) and Rio Tinto (down 1.7%) both moving against the general market trend. The weakness in resource stocks also contributed to the underperformance of smaller companies, with the Small Ordinaries Index lagging with an increase of just 1.6%.

Interest rate sensitive stocks performed well last month in response to a decline in bond yields. For example, Telstra rallied to be 5.7% higher. It was also a positive month for the banking sector, despite the firming expectations of the need for additional capital raisings. The 4 large banks posted an average increase of 4.3% over the month. Health care was the best performing sector, with company specific factors pushing Resmed (up 10.0%) and CSL (up 14.4%) sharply higher.

Europe led global equity markets higher last month. The German share market advanced 3.6%, with the French market 5.8% higher. Positive economic results continued to push the U.S. market higher, with U.S. share prices up 2.0%.



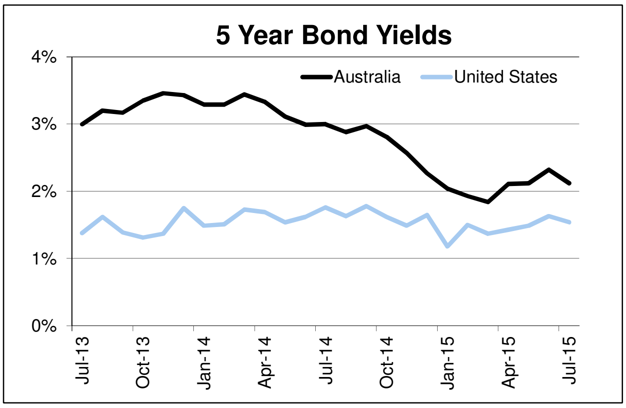
Source: MSCI Indicies.

In addition to rising share markets, the decline in the Australian dollar also boosted returns for Australian investors with unhedged currency positions. The $A fell from U.S. 76.8 cents to U.S. 72.9 cents over July. This contributed to a significant rise in the average value of unhedged global share investments of 7.3% last month.

The combination of weak commodity prices and a sharp decline on the Chinese equity market led to a fall in the value of shares on emerging markets. The MSCI Emerging Market Index was 1.8% lower (in $As) last month; with a 13.4% fall in China A 50 Shares and a 3.6% decline in Brazil making major contributions to this decline.

Interest rates

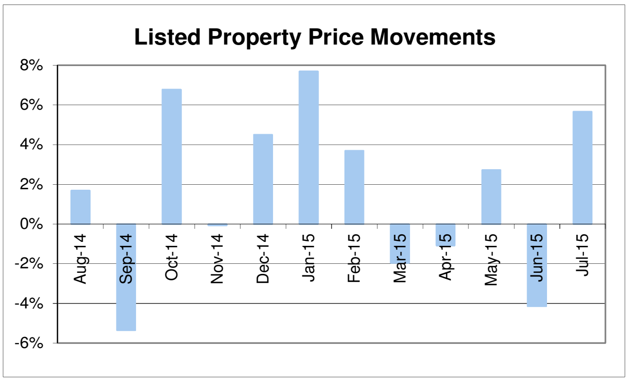
Although there was no change in overnight cash interest rates in July, there was a decline in longer term bond yields. The Australian Government 5-year yield dropped from 2.32% to 2.12%. This fall was consistent with the overseas trend, with the equivalent yield in the U.S. falling from 1.63% to 1.54%.



Source: Reserve Bank of Australia. US Federal Reserve.

Property

The decline in bond yields appeared to have a very positive impact on listed property markets over July, with property yields becoming more attractive in relative terms. The local A-REIT sector was sharply higher, rising by 5.7%, to bring the annual gain to an impressive 21.0%.Trends were similar on overseas markets, where listed property gained 4.6%.



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