View from the hill

DECEMBER 2014

Market update

The table below provides details of the movement in average investment returns from various asset classes for the period up to **30 November 2014.**

Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	-3.3	-4.4	3.5	13.8
Smaller companies	-3.8	-9.6	-4.3	-1.0
International shares (unhedged)	5.3	9.9	12.1	23.8
Emerging markets (unhedged)	1.9	1.6	7.5	12.0
Property - Australian listed	-0.1	1.0	21.6	19.0
Property - global listed	2.9	5.6	26.6	20.2
Australian fixed interest	1.3	1.9	8.0	6.1
International fixed interest	1.4	2.3	10.1	7.4
Australian cash	0.2	0.7	2.5	3.2

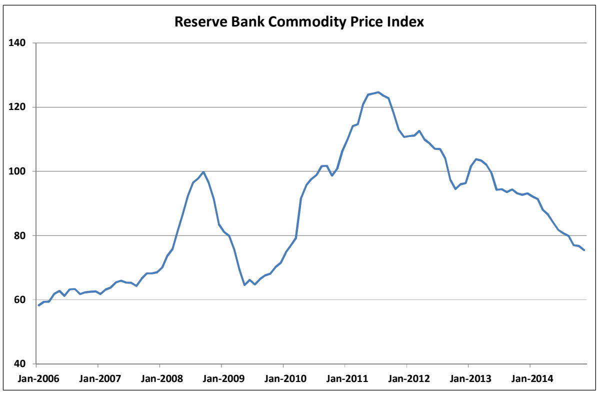
Overview & Outlook

Volatility continued in financial markets over November; with sharp falls in commodity prices having a significant impact on the Australian share market. Sentiment was far more positive on overseas share markets, with the previous month's end to the United States Quantitative Easing program continuing to have no noticeable negative impact on confidence.

Falling prices for oil and other commodities has further entrenched expectations of a continuation of low inflation and low interest rates across the globe. Bond yields moved lower over November as a result. A cut in the official Chinese interest rate added to the downward trend in yields, with the Chinese central bank looking to provide some support to its domestic property market, which has entered a period of price decline.

With company earnings growth continuing to be recorded and monetary policy being highly accommodative, global share price valuations still appear reasonable despite the price growth of recent years.

There is, however, less confidence in the earnings outlook for Australian companies relative to many other developed economies. Falling commodity prices have significantly dented the revenue projections of the Australian resource sector, which is restricting profitability, Government taxation revenue and business investment.



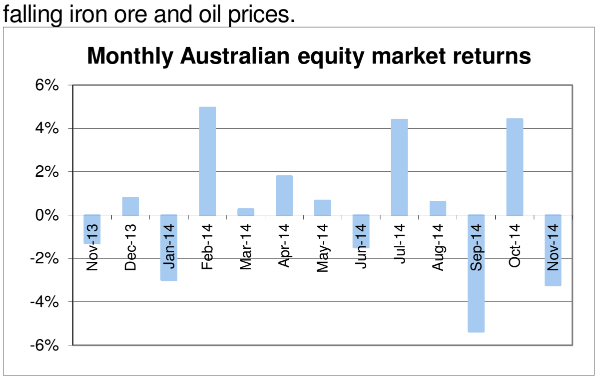
Source: Reserve Bank of Australia.

Australian Gross Domestic Product (GDP) for the September quarter was weaker than expected, suggesting the non-mining economy is yet to fully take up the slack left by the drop in mining investment activity. GDP for the 3 month period was 0.3%, which resulted in the annual rate of economic growth remaining below the long term average at 2.7%.

One possible catalyst for higher growth in the Australian economy may be the decline in the Australian dollar, which gathered momentum in November. Against the $US, the $A fell from US 88.1 cents to US 84.9 cents. The lower $A can stimulate economic growth by making Australian exports cheaper on world markets and increasing the competitiveness of local producers with imports.

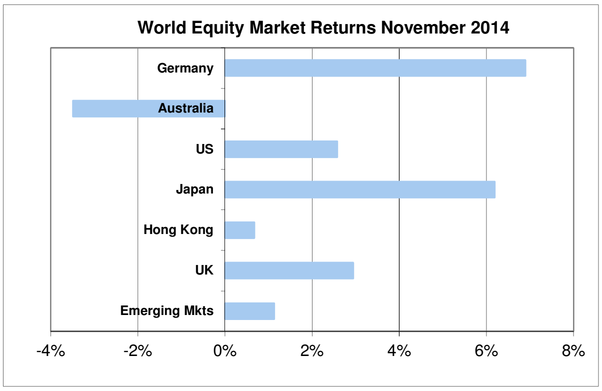
Share markets

There was a wide disparity of performance on share markets over November. Many Northern Hemisphere markets posted significant gains, whereas resource and energy sensitive markets, such as Australia, recorded losses. The Australian S&P ASX 200 Index finished the month 3.3% lower, with resource stocks leading the market down with an average 9.0% fall. Both iron ore and energy producers were sold down heavily as a result of falling iron ore and oil prices.



Source: S&P ASX 200 Index

As indicated on the chart below, positive movements on some overseas markets were significant. Europe posted significant gains as expectations firmed of further expansionary policy from the European Central Bank. The U.S. market again moved into new record high territory, with the supportive economic environment providing investors with the confidence to push prices 2.6% higher over the month. Japan continued the pattern of strong gains, with an impressive 6.2% rise. Gains for Australian investors with unhedhed currency exposures were boosted by the U.S. 3 cents fall in the $A during November. On average, unhedged global share investments provided a positive 5.3% return over the month.



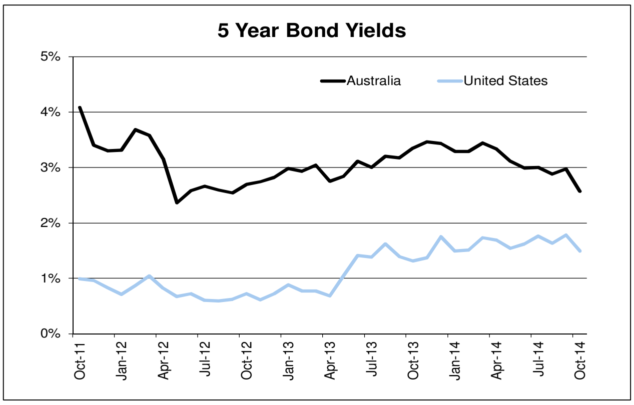
Source: MSCI indexes. Returns in local currency of index

Despite some positive results in Asia, emerging markets underperformed developed markets last month. The MSCI Emerging Market Index rose by 1.1% (in local currency terms). The commodity producing markets of Brazil and Russia were a drag on performance as commodity prices fell over the course of the month.

Interest rates

Lower oil prices further dampened inflationary expectations last month. As result, interest rates moved lower. The U.S. Government 5-year bond yield fell from 1.78% to 1.49%. Falls in the local bond markets were even greater, with the Australian 5-year bond yield dropping from 0.4% to 2.57%. The decrease in bond yields resulted in rising bond prices and positive returns for fixed interest investors last month.

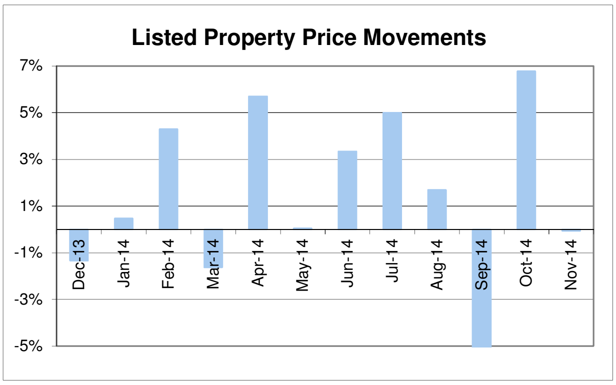
There was no change in the local overnight cash interest rate, which remains at 2.5%. However, given the weakness in key commodity prices and the subdued nature of various economic indicators, speculation that the Reserve Bank will cut interest rates in the New Year is mounting.



Source: Reserve Bank of Australia. US Federal Reserve.

Property

Possibly due to the lower bond yields last month, the listed property sector outperformed the general equity market. Australian listed property declined by just 0.1%, following a significant gain of nearly 7% in the previous month.



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

Returns on overseas listed property markets were stronger those recorded domestically. The UBS Global Investors Listed Property Index rose 2.9% in hedged currency terms, with this sector being the strongest performer in annual terms with an increase of 26.6%.