View from the hill

OCTOBER 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 **30 September 2015.**

Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	-3.0	-6.6	-0.7	9.4
Smaller companies	-0.5	-3.9	-4.9	-1.2
International shares (unhedged)	-2.8	0.4	18.9	24.2
International shares (hedged)	-3.4	-7.4	1.3	14.5
Emerging markets (unhedged)	-1.2	-10.2	0.6	8.0
Property – Australian listed	-0.3	1.1	20.3	16.2
Property – global listed	1.4	-0.3	10.4	12.4
Australian fixed interest	0.3	2.2	6.9	4.9
International fixed interest	0.8	1.9	5.7	5.6
Australian cash	0.2	0.5	2.5	2.7

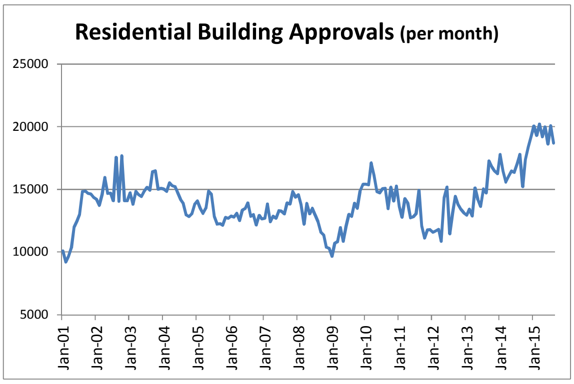
Overview & Outlook

Heightened financial market volatility continued over September, although sharemarket losses were less significant than those recorded in August. Concerns over a slowing in the pace of economic growth in China appeared to be the dominant theme on markets last month. Once again, commodity prices fell in response to these growth concerns, with oil prices experiencing a significant decline. The WTI Oil Spot Price decreased by 8.4% in $US terms, to be 24.2% lower for the September quarter.

Also a major focus of financial markets last month was the decision by the United States Federal Reserve (the central bank) to leave interest rate settings unchanged, with the benchmark cash interest rate remaining close to zero. Given the improvements in economic growth and employment experienced in the U.S. this year, a September lift in interest rates had previously been widely anticipated. However, as per the extract from the Federal Reserve Statement below, recent global developments (e.g. the slowdown in Chinese economic growth) have impacted on the outlook for economic activity in the U.S.:-

"global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term."

The majority of the Federal Reserve's Open Market Committee still anticipates a lift in interest rates this year.

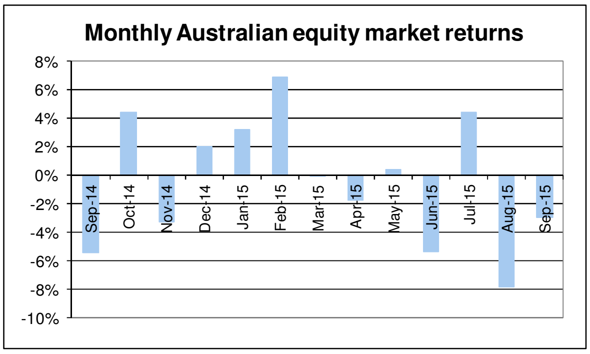


Source: Australian Bureau of Statistics 8731.

Domestically, the Australian Reserve Bank has described the economy as undergoing a "moderate expansion". Economic data released over the month was mixed. Retail sales rose by 0.4% during the month of August to be 4.5% above the level recorded one year earlier. Employment growth also remained reasonably solid, with the number of workers employed growing by 2.0% over the year to August. The unemployment rate has been quite steady in recent months, with the current rate of 6.2% being just 0.1% above the rate of August 2014. There are some signs, however, that the housing industry may have passed its peak in terms of the commencement of new activity. The number of approvals to construct new residential dwellings fell by 6.9% over the month of August and is now 7.5% below the peak reached in March this year.

Share markets

A lowering in growth expectations for China saw all major share markets finish in negative territory over September. With China Australia's largest trading partner, the impact was material with the S&P ASX 200 Index falling 3.0% over the month. The annual return on the local market remained in negative territory, with a decline of 0.7% recorded over the past year.

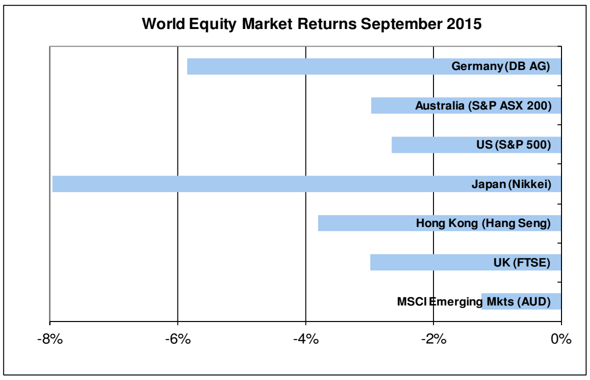


Source: S&P ASX 200 Index

Given the decline in oil prices, the energy sector was sold down sharply. Australian energy stocks experienced a fall of 12.0% and are now down 40% for the year. Resource stocks also recorded significant falls, finishing 8.1% lower, with the sector once again impacted by lower commodity prices.

Following heavy losses in the previous month, the finance sector performed largely in line with the market average with a 2.8% decline recorded. The Industrial sector (up 2.1%) and Information Technology (up 6.2%) were the two best performers over the month. As was the case in August, smaller companies also performed better than the market average, with a fall of just 0.5% recorded on the Small Ordinaries Index.

Heavy losses took place in the Asian region last month, given the dominant concern being related to the outlook for China. The Shanghai market was 4.9% lower with Hong Kong and Japan falling 3.8% and 8.0% respectively. Europe and the U.S. also experienced falls, with the overall average decline for overseas share investors being 3.4%

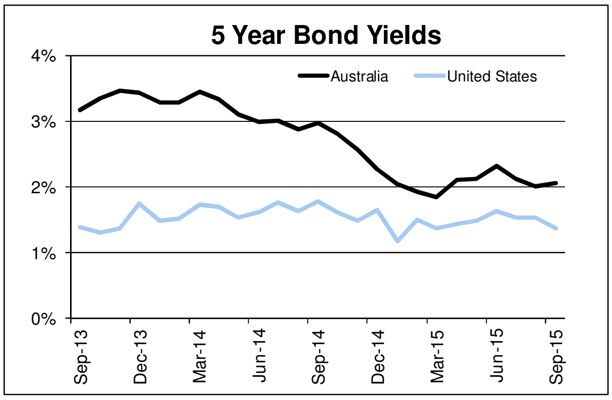


Source: Indicies as shown on chart.

In contrast to recent trends, emerging markets performed better than developed markets in September. The MSCI Emerging Market Index was just 1.2% lower for the month. Despite being negatively impacted by poor results in China and resource orientated markets in South America, a healthy 2.0% rise in the South Korean market limited the overall loss in the emerging market category.

Interest rates

Australian interest rates remained relatively steady last month. There was no change in the target overnight cash rate from the record low of 2%. Longer term yields were also largely unchanged, with the 5-year Government bond yield rising just marginally from 2.0% to 2.1% over the month. In the United States, the decision by the Federal Reserve Board not to raise interest rates did result in some lowering of longer term yields. The 5-year U.S. Government bond yield finished the month 0.2% lower at 1.4%.



Source: Reserve Bank of Australia. US Federal Reserve.

Property

Listed property continued to perform better than the equity market generally, with the local A-REIT sector recording a decline of just 0.3% last month. For the September quarter as a whole, A-REITs have actually posted a positive 1.1% return, compared to a negative 6.6% return for the overall Australian equity market. Global listed property has also performed well, with lower U.S. bond yields contributing to a gain of 1.4% last month.

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