View from the hill

APRIL 2016

HILLROSS

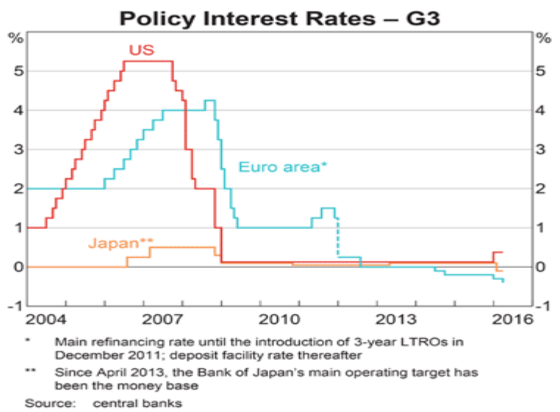
Market update

The table below provides details of the movement in average investment returns from various asset classes for the period up to **31 March 2016.**

Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	4.7	-2.8	-9.6	5.4
Smaller companies	5.5	1.0	3.7	1.5
International shares (unhedged)	-1.0	-5.8	-3.9	18.7
International shares (hedged)	5.2	-1.8	-3.1	11.2
Emerging markets (unhedged)	5.1	0.0	-12.6	5.7
Property – Australian listed	2.5	6.4	11.4	16.3
Property – global listed	7.6	4.7	4.0	11.7
Australian fixed interest	-0.2	2.1	2.0	5.4
International fixed interest	0.9	3.7	4.5	5.3
Australian cash	0.2	0.6	2.3	2.6

Overview & Outlook

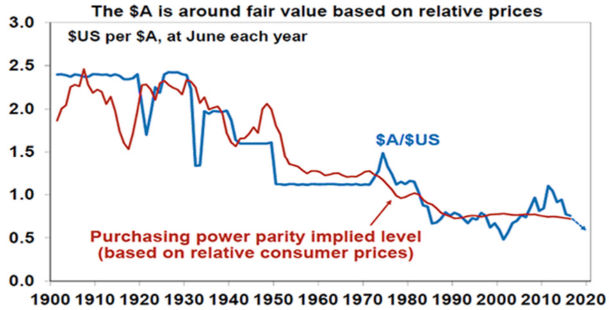
The majority of asset classes recorded increased returns in March. This came as investors moved on from global growth concerns, and central banks continued to ease monetary policy. The strongest returns were recorded in asset classes that had deteriorated the most since the market pullback, which began in late December 2015. Notable returns were the MSCI Emerging Markets Index which rose 12.2% and the MSCI Asia ex-Japan up 10.7%, while the Shanghai Shenzhen CSI 300 rose 11.8%.



Source: Reserve Bank of Australia

Central banks were active over March. In the U.S. the key message from Janet Yellen was that the Federal Reserve would be cautious in raising rates, taking global risks and weak U.S. inflation outlooks into consideration of future rate hikes. Markets interpreted this to mean that further rate hikes are to be very gradual. In China the People's Bank eased bank liquidity, while in Europe the European Central Bank cut deposit rates from -0.3% to -0.4%, putting in place a mechanism for cheap bank financing at a rate of -0.4%. In Australia, the RBA left rates at 2.0% at its April meeting with a continued bias toward easing.

After hitting an almost seven year low of $US0.6827 in January the Australian Dollar has rebounded by 12% to a recent high of $US0.7680. This was driven by a number of factors; including higher commodity and energy prices, generally sound Australian economic growth and the prospect of slower interest rate hikes in the US. Over the medium term, the $AUD is expected to resume its downtrend.



Source: AMP Capital

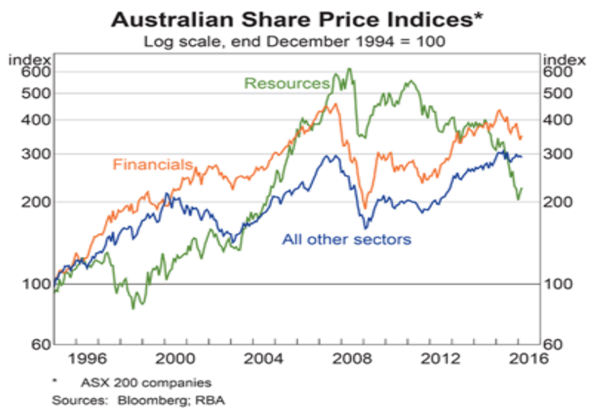
Australian GDP figures released in March showed robust growth of 3% over 2015. Further supporting sentiment was buoyant manufacturing and service trends, with data showing strong growth in February. Furthermore, March job figures were also notable, revealing flat overall employment numbers.

On the house price front, home prices rose moderately in February, up 0.5%. This has left annual price growth at 7.6%, showing momentum continues to slow.

Equity markets

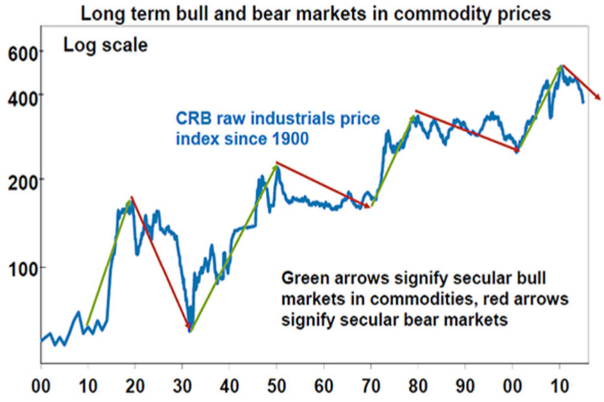
International shares performed well over the month, up 5.2% (hedged). However due to the strength of the $AUD throughout March, unhedged international shares recorded negative 1.0%. These strong gains were driven by central bank policy measures, and while there are still some concerns around global growth, investor sentiment has improved from the fear pervaded markets of January and early-February.

The Australian equity market rose strongly in March with the S&P/ASX 200 Accumulation Index up 4.7%. The announcement by ANZ toward the end of the month that bad debts has risen by $100m, largely due to resource exposures, caused a significant selling of the four major banks as investors re-focused on the downside of the commodity price declines. However, actual bad debt losses remain very low and the banks raised significant capital in 2015 to protect their balance sheets from any bad debt losses so the sell-down may have been over-done at least in the short-term, despite the sell-off the sector was up 6.5% in March. Putting it in context, resources related loans are only around 2% of total loans for the big four banks. Adverse media reports regarding the insurance operations at CBA and an investigation by ASIC into rate-fixing by Westpac acted to keep a lid on investor sentiment toward the sector.



Source: Datastream, AMP Capital Investors

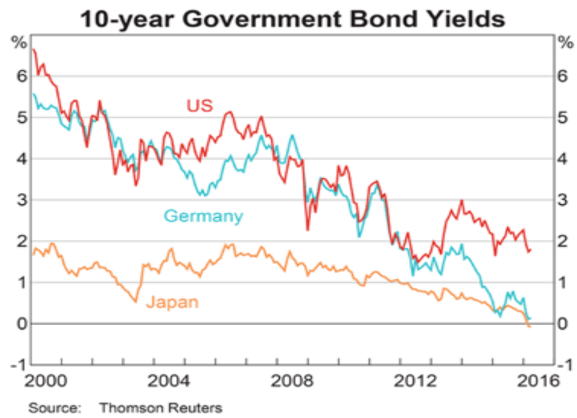
The best sectors were Energy (6.2%) and Materials (6.1%) with Healthcare the laggard at 0.4% largely due to the strong currency. Despite stronger commodity and energy prices both RIO (6.0%) and BHP (9.7%) were laggards in the Materials sector, possibly indicating that investors are concerned commodities have entered a longer-term down-cycle. Within the cycle however prices will be volatile, and it is notable that from recent lows, oil is up 50%, copper 15% and iron ore 45%.



Source: Datastream, AMP Capital Investors

Fixed Interest

Bond yields were generally stable at very low-average levels with some 25% of global government bonds currently recording negative yields. In this environment investors are cautious about the impact of increasing rates on their fixed interest holdings. However, given weak growth, soft commodity and energy prices, and very low inflation, it appears unlikely that rates will move up in the medium-term. In this environment bond yields moved to very low levels, notable were German 10 year bond yields at 0.15% and Japanese 10 year bond yields of -0.04%. By comparison Australian 10 year yields were 2.49%.



Property

The AREIT market maintained a positive month, returning 2.50%, thus bringing the annual return to 11.4%, well ahead of the -9.6% for the equity benchmark. The commercial sub-sector was a stand-out, driven by the potential takeover of Investa Office Fund by Dexus Property Group, which saw both AREITS record sound performances.