

JULY 2013

Market Overview

July turned out to be a strong month for global equity markets. The US Federal Reserve continued to emphasise there was little risk of an imminent slowdown in its asset purchasing program, while the results of US and European earnings season were generally positive. Economic data in the US was also encouraging, with a range of manufacturing surveys beating expectations. The ISM manufacturing index was the standout, jumping nearly five points to 55.4 – a level not seen in over two years. Q2 GDP growth also exceeded economists' expectations, running at an annualised rate of 1.7% in the June quarter. On the downside, despite the Case-Shiller home price index increasing sharply, housing starts and building permits unexpectedly fell, while non-farm payrolls came in lower than expected at 162,000. Despite this, the unemployment rate fell to a four year low of 7.4%.

A range of economic data across Europe showed conditions are improving across the continent. The positive data included the Eurozone manufacturing PMI coming in above 50 for the first time in two years, the IFO business climate index increasing for a third consecutive month, the Sentix investor confidence survey improving to its highest level in six months, and an ECB bank lending survey showing consumer credit standards eased for the first time since 2007, although they remain historically tight. Over in the UK, the new Bank of England (BoE) governor, Mark Carney, announced that the BoE would begin providing forward guidance for interest rates in an attempt to limit the potential increase in long term rates and consequently, boost economic growth.

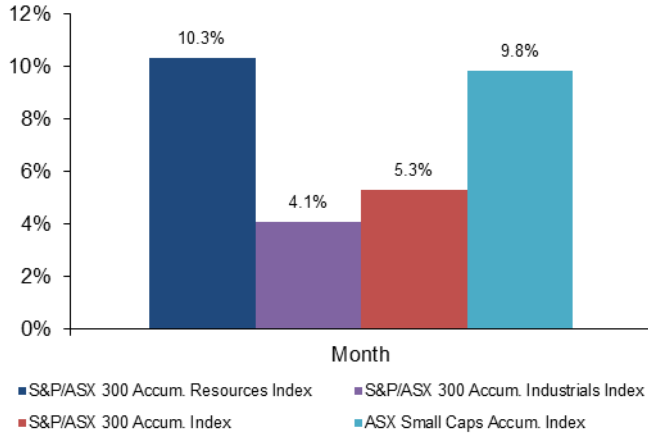
In Asia, Prime Minister Abe's LDP strengthened its grip on Japanese policy making after comfortably winning upper house elections, as expected. With control of both houses of parliament for the foreseeable future, expectations for structural economic reforms remain high. In China, Q2 GDP growth figures showed the economy grew by 7.5% y/y – in line with expectations and the 2013 growth target. Historically, growth would have tracked materially above this target. Later in the month, Premier Li Keqiang provided markets with a degree of certainty for the outlook by indicating 7.0% is the minimum acceptable rate for economic growth. For now though, the data has defied market expectations with the official manufacturing PMI holding above 50 (at 50.8), while industrial production increased to 9.7% y/y – a five month high.

In Australia, the RBA Board cut official interest rates to a new all-time record low of 2.5%, using some of the scope provided by the June quarter CPI reading of 2.4% y/y. Economic data earlier in the month showed the economy's response to recent year rate cuts continues to be muted. The NAB business confidence survey fell to an eight month low despite further declines in the dollar, while business conditions remains near four year lows. Consumers appear to be slightly more optimistic though, at least according to the Westpac-Melbourne Institute consumer sentiment survey, which was flat over the month at 102.1. In the construction industry, building approvals were down for the month, due largely to the volatile "other dwellings" category, although detached house approvals also fell, by 1.3% m/m.



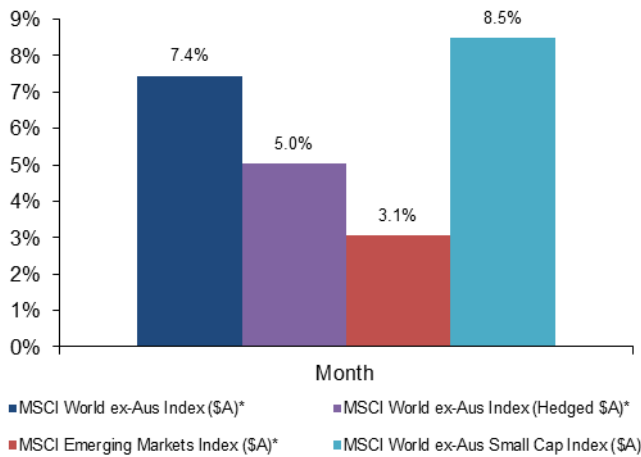
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Australian Equities



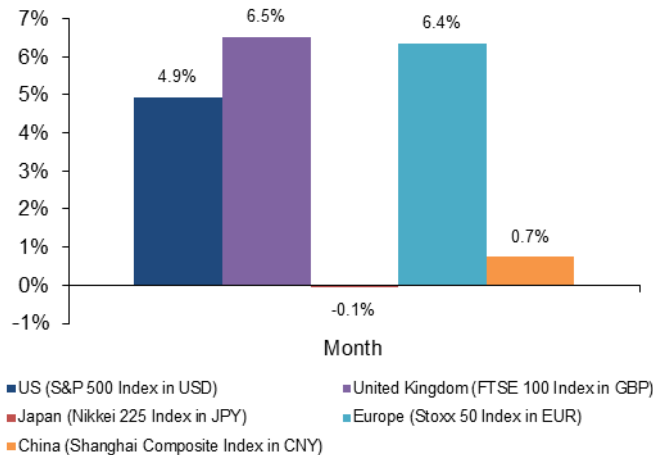
Australian equities began the new financial year positively, returning 5.3% in July. All sectors recorded gains, although Materials were the standout performer, reversing their dismal performance a month earlier in which they were the worst performing sector. At the other end of the scale, the Consumer Staples (+3.3%), Industrials (+3.8%) and Information Technology (+2.6%) sectors' returns were the least impressive.

International Equities (\$A)



Unhedged, international equities experienced a strong month of returns in July, supported by a further depreciation in the Australia dollar. Developed market equities outperformed those from emerging markets. The MSCI World-ex Australia Index's strong returns were primarily driven by the US, although the UK and French markets also contributed. In emerging markets, equities from South Korea, China and Russia gained ground, while Brazilian, Indian and Chilean equities fell.

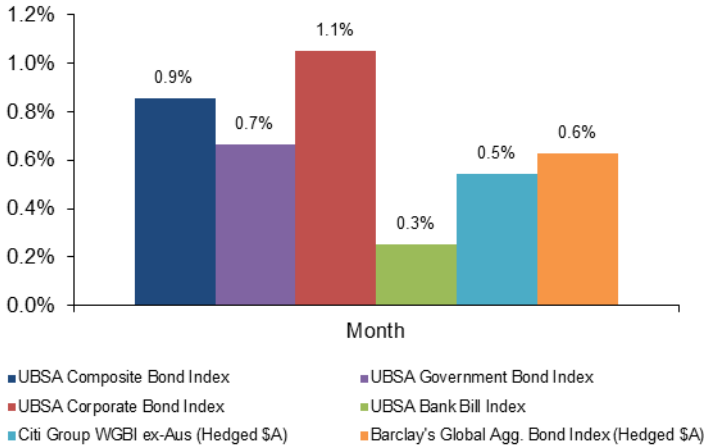
International Equities (Local Currencies)



International equities from the US and Europe generated especially strong returns in July in local currency terms. Similarly, UK equities, as measured by the FTSE 100 Index, recorded their highest monthly return since October 2011 as the Bank of England provided forward guidance on interest rates for the first time. Leading up to upper house elections on July 21st, Japanese equities were also up strongly, but fell away post-election to finish the month slightly lower.

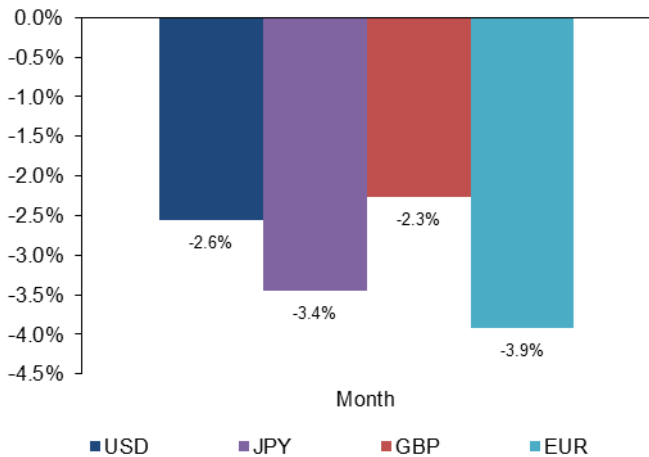
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Fixed Income



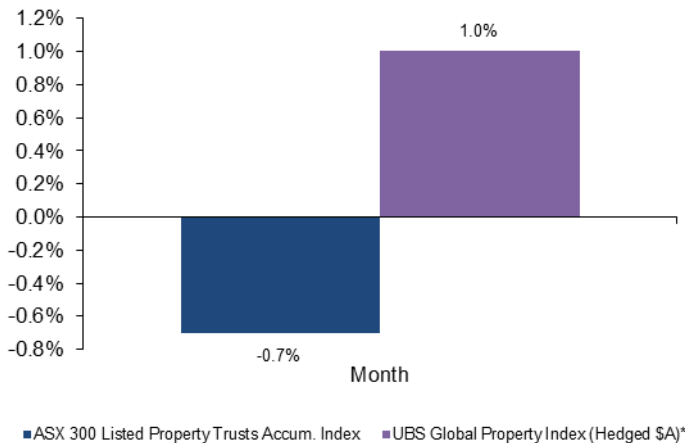
Global government bond yields drifted lower in July as the US Federal Reserve did its best to remind markets an imminent slowdown in its asset purchasing program was not likely. Australian government bond yields also fell over the month, although this was more likely due to concerns over the economy and expectations of further interest rate cuts. As a result, overseas fixed income investments and those in Australia generated modest positive returns.

Australian Dollar against



The Australian dollar continued to depreciation against all major currencies in July even as commodity prices increased. However, the dollar's fall for the month occurred almost entirely over a single day in late August in which the market reacted to comments made by RBA governor, Glenn Stevens. During a speech, Stevens said that it may take a number of years to engineer the transition to a new source of economic growth and that the RBA faces no "serious impediment" to lowering the cash rate further.

Property



Australian listed property trusts fell slightly over July, underperforming their global counterparts which returned 1.0% over the same period.

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Frontier Capital Markets Report as at 31 Jul 2013

	31-Jul-13	Index Value	Month	3 Months	FYTD	1 Year
Australian Equities						
S&P/ASX 300 Accum. Index		40,726	5.3%	-1.9%	5.3%	23.2%
S&P/ASX 300 Accum. Industrials Index		78,445	4.1%	-2.8%	4.1%	30.4%
S&P/ASX 300 Accum. Resources Index		20,116	10.3%	1.7%	10.3%	1.6%
ASX Small Caps Accum. Index		5,173	9.8%	-1.9%	9.8%	4.2%
International Equities						
MSCI World ex-Aus Index (\$A)*		4,868	7.4%	19.7%	7.4%	45.3%
MSCI World ex-Aus Index (Hedged \$A)*		952	5.0%	4.6%	5.0%	29.1%
MSCI Emerging Markets Index (\$A)*		429	3.1%	6.6%	3.1%	19.5%
MSCI World ex-Aus Small Cap Index (\$A)		317	8.5%	22.0%	8.5%	51.7%
US (S&P 500 Index in USD)		1,686	4.9%	5.5%	4.9%	22.2%
United Kingdom (FTSE 100 Index in GBP)		6,621	6.5%	3.0%	6.5%	17.5%
Japan (Nikkei 225 Index in JPY)		13,668	-0.1%	-1.4%	-0.1%	57.2%
Europe (Stoxx 50 Index in EUR)		2,768	6.4%	2.1%	6.4%	19.0%
China (Shanghai Composite Index in CNY)		1,994	0.7%	-8.5%	0.7%	-5.2%
AUD Versus...						
USD		0.90	-2.6%	-12.8%	-2.6%	-14.1%
JPY		88.48	-3.4%	-12.7%	-3.4%	7.4%
GBP		0.59	-2.3%	-11.3%	-2.3%	-11.4%
EUR		0.68	-3.9%	-13.8%	-3.9%	-20.5%
Property						
ASX 300 Listed Property Trusts Accum. Index		27,044	-0.7%	-5.3%	-0.7%	16.6%
UBS Global Property Index (Hedged \$A)*		1,642	1.0%	-7.0%	1.0%	13.5%
Australian Fixed Interest						
UBSA Composite Bond Index		7,558	0.9%	-0.3%	0.9%	3.3%
UBSA Government Bond Index		7,919	0.7%	-1.0%	0.7%	1.0%
UBSA Corporate Bond Index		7,694	1.1%	0.8%	1.1%	6.6%
UBSA Bank Bill Index		7,874	0.3%	0.7%	0.3%	3.2%
Global Fixed Interest						
Citi Group WGBI ex-Aus (Hedged \$A)		-	0.5%	-1.7%	0.5%	3.7%
Barday's Global Agg. Bond Index (Hedged \$A)		-	0.6%	-1.9%	0.6%	3.6%
Oil and Commodities						
Crude Oil (\$/bbl)		105	8.8%	12.4%	8.8%	19.3%
Copper Spot (\$/tonne)		6,873	2.1%	-2.1%	2.1%	-9.0%
Gold Spot (\$/ounce)		1,313	7.1%	-11.0%	7.1%	-19.3%
Fixed Income (Yields) as at ...						
	31-Jul-13	30-Jun-13	30-Apr-13	30-Jun-13	31-Jul-12	
Australia Bank Bill	2.64	2.79	2.90	2.79	3.55	
Australia 10 Year Government Bond	3.73	3.76	3.09	3.76	3.11	
US 10 Year Government Bond	2.58	2.49	1.67	2.49	1.47	
UK 10 Year Government Bond	2.36	2.44	1.69	2.44	1.47	
Germany 10 Year Government Bond	1.67	1.73	1.22	1.73	1.29	
Japan 10 Year Government Bond	0.80	0.85	0.61	0.85	0.79	