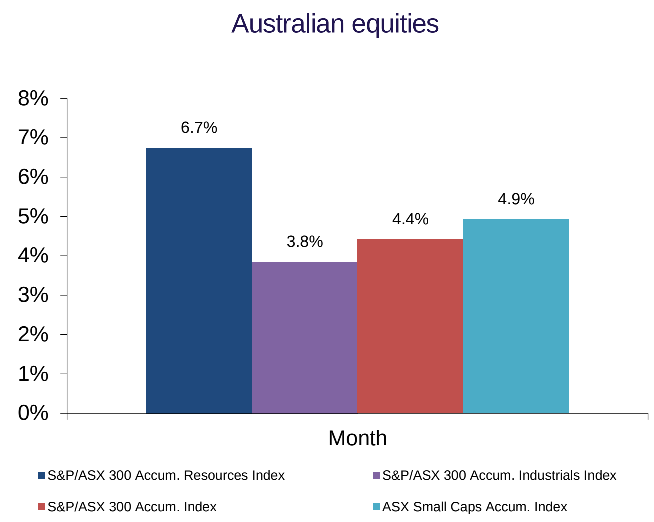
July 2014

US real GDP growth accelerated to an annualised rate of 4.0% in 2Q14, with a higher than expected inventory build-up making a significant contribution. More forward looking indicators suggest Q3 growth should stay robust if the current trend continues. Composite survey data (mix of manufacturing and services sectors) from the ISM and Markit both have activity accelerating to new highs in the current economic expansion. That said, indicators on the health of the labour market were mixed. Non-farm payrolls disappointed, coming in at 209,000. In contrast, initial jobless claims have been steadily decreasing over the past month. Elsewhere, those market participants fearing a near-term rate increase would have welcomed the inflation data over the past month. After rising in recent months, core CPI slowed to 0.1% m/m in July, while hourly wage growth is running at 2.0% y/y.

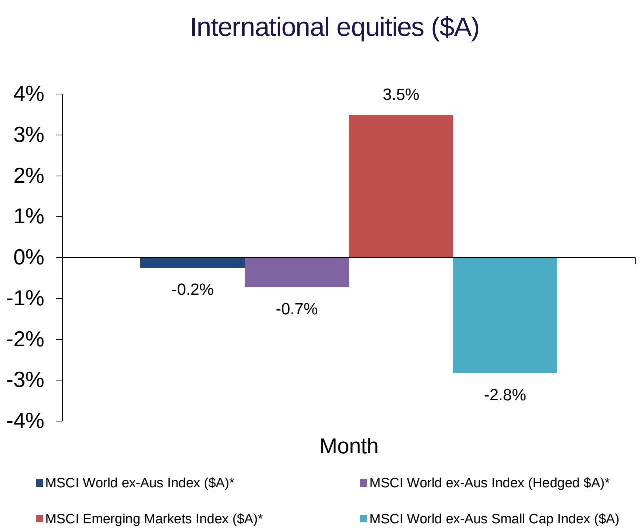
Despite on-going geo-political concerns on its doorstep, the latest European PMI surveys seemed to assuage concerns growth momentum was slowing as the composite reading rebounded 1.0 point to 53.8. However, there are some signs of weakening in Germany. The EU labour market continues to ameliorate slowly, with the unemployment rate falling by another 0.1% in June. Although it remains elevated at 11.5%, it has now fallen by 0.5% since it peaked in Q3 2013. There was no change for the near-term inflation outlook with core CPI staying steady at 0.8% y/y.

The stabilisation of growth in China continues to look fragile. While two separate manufacturing PMI surveys showed growth in the sector was expanding at its most rapid pace in some 18 months, the related services PMI survey went in the opposite direction. However, this diverging data didn't seem to have as much of an impact on the local market compared with the formal announcement of a corruption investigation being launched against Zhou Yongkang. A retired member of the Politburo Standing Committee, China's top leadership group, Zhou is the most senior party leader to have been caught in the current anti-corruption drive.

In Australia, the Reserve Bank left interest rates unchanged at 2.5% in their August Board meeting. The accompanying statement noted that although inflation had picked up recently, 2Q14 inflation picked up to 3.0% y/y, the outlook over the next two years was still consistent with the 2% - 3% target. This degree of freedom turned out to be highly significant when days later the labour force survey showed an unexpected spike in the unemployment rate to 6.4%. Despite a variety of non-economic factors being cited as possible reasons behind the jump, there has been an undeniable increase in the trend unemployment rate in recent months. Markets looked to have focused on this latter point, with the AUD/USD exchange rate falling by circa USD0.5 cents immediately following the announcement while government bonds rallied substantially.

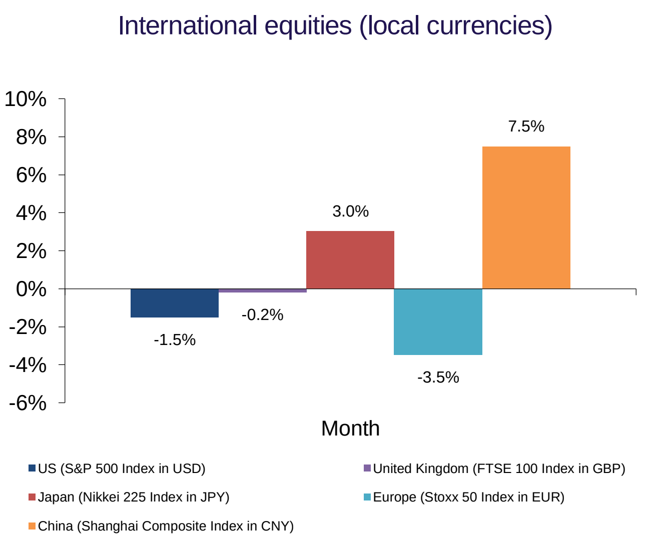


Australian equities started the new financial year with a bang, with better news out of China (pick up in manufacturing activity and the perception of renewed momentum in economic reform) the most likely reason. Unsurprisingly resources outperformed industrials over the past month, while small caps outperformed their broad cap counterparts. Looking ahead, August performance is likely to be dominated by reporting season.



Developed market international equities significantly underperformed Australian equities from an Australian investor's perspective. Geo-political tensions in Eastern Europe and the Middle East weighed on sentiment.

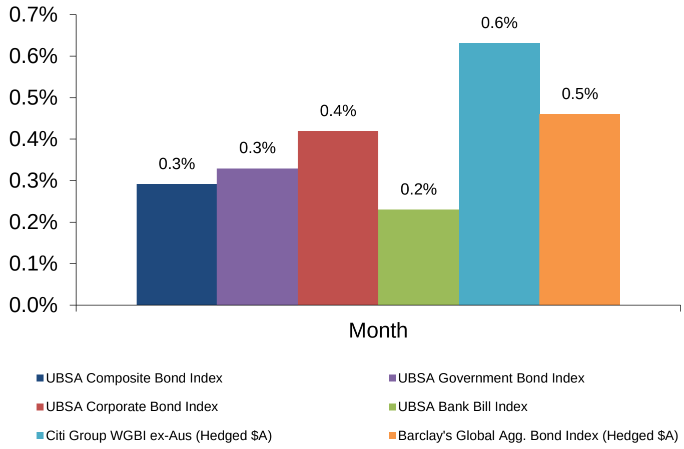
In contrast, emerging markets performed well, largely due to the rebound in Chinese equities. Australian investors also benefitted from a weaker AUD.



In local currency terms, the Japanese equity market was the only major international developed market to generate a positive return, which coincided with a depreciation in its currency. Predictably, European equities were the laggards as geo-political tensions continued to simmer on its borders.

In emerging markets, China and Korea were the only two major markets to register a positive return, with the Chinese market responding strongly to both economic and political factors.

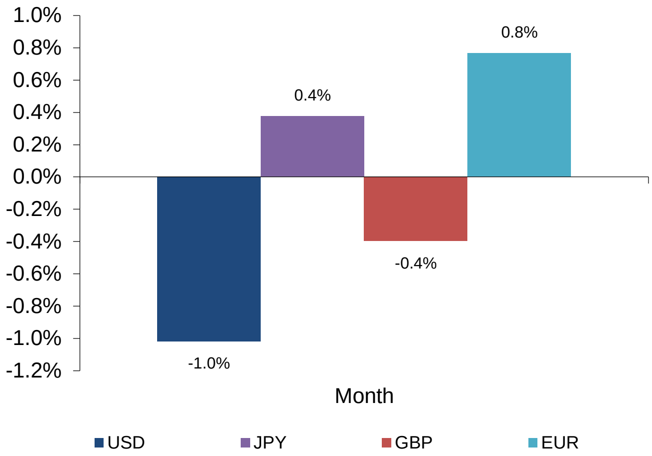
Fixed income



Fixed income investment both in Australia and internationally generated respectable returns in July. The largest moves came in Europe as safe haven countries such as Germany, the UK and France experienced significant moves in contrast to a broad sell-off in peripheral European markets.

Locally, our yield curve "bull flattened" as yields at the long end fell by more than those at the short end.

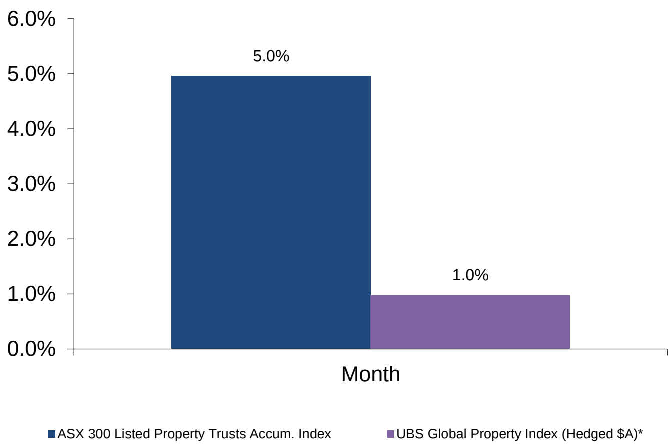
Australian dollar against major currencies



The Australian dollar experienced a mixed month over July, depreciating against the US dollar and UK pound, but appreciating against the euro and Japanese yen.

The dollar had jumped in the immediate aftermath of the higher than expected inflation reading, but it gave up these gains over the course of the month as geo-political risks escalated.

Property



Australian listed property trusts got off to a strong start in FY15, assisted by a buoyant Australian equities market following the better news out of China. A general "risk-off" environment over much of the month saw international listed property trusts also register a positive return for the month in hedged Australian dollar terms despite a depreciating dollar.

31 July 2014	Index value	Month	3 months	FYTD	1 year
Australian equities					
S&P/ASX 300 Accum. Index	47,352	4.4%	3.6%	4.4%	16.3%
S&P/ASX 300 Accum. Industrials Index	91,715	3.8%	3.5%	3.8%	16.9%
S&P/ASX 300 Accum. Resources Index	22,877	6.7%	3.6%	6.7%	13.7%
ASX Small Caps Accum. Index	5,590	4.9%	3.8%	4.9%	8.1%
International equities					
MSCI World ex-Aus Index ($A)*	5,441	-0.2%	1.7%	-0.2%	11.8%
MSCI World ex-Aus Index (Hedged $A)*	1,121	-0.7%	3.4%	-0.7%	17.8%
MSCI Emerging Markets Index ($A)*	478	3.5%	7.9%	3.5%	11.3%
MSCI World ex-Aus Small Cap Index ($A)	347	-2.8%	0.0%	-2.8%	9.3%
US (S&P 500 Index in USD)	1,931	-1.5%	2.5%	-1.5%	14.5%
United Kingdom (FTSE 100 Index in GBP)	6,730	-0.2%	-0.7%	-0.2%	1.6%
Japan (Nikkei 225 Index in JPY)	15,621	3.0%	9.2%	3.0%	14.3%
Europe (Stoxx 50 Index in EUR)	3,116	-3.5%	-2.6%	-3.5%	12.5%
China (Shanghai Composite Index in CNY)	2,202	7.5%	8.6%	7.5%	10.4%
AUD versus …					
USD	0.93	-1.0%	0.4%	-1.0%	3.2%
JPY	95.79	0.4%	0.7%	0.4%	8.3%
GBP	0.55	-0.4%	-0.3%	-0.4%	-7.2%
EUR	0.70	0.8%	3.4%	0.8%	2.1%
Property					
ASX 300 Listed Property Trusts Accum. Index	31,752	5.0%	8.5%	5.0%	17.4%
UBS Global Property Index (Hedged $A)*	1,891	1.0%	5.1%	1.0%	15.2%
Australian Fixed Interest					
UBSA Composite Bond Index	7,973	0.3%	2.5%	0.3%	5.5%
UBSA Government Bond Index	8,288	0.3%	2.7%	0.3%	4.7%
UBSA Corporate Bond Index	8,157	0.4%	2.1%	0.4%	6.0%
UBSA Bank Bill Index	8,083	0.2%	0.7%	0.2%	2.7%
Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged $A)	-	0.6%	2.3%	0.6%	7.5%
Barclay's Global Agg. Bond Index (Hedged $A)	-	0.5%	2.2%	0.5%	7.6%
Oil and commodities					
Crude Oil ($/bbl)	98	-6.8%	-1.6%	-6.8%	-6.5%
Copper Spot ($/tonne)	7,136	1.3%	7.1%	1.3%	3.8%
Gold Spot ($/ounce)	1,283	-3.0%	-1.0%	-3.0%	-2.9%
Fixed income (yields) as at …	**31-Jul-14**	**30-Jun-14**	**30-Apr-14**	**30-Jun-14**	**31-Jul-13**
Australia Bank Bill	2.64	2.68	2.67	2.68	2.64
Australia 10 Year Government Bond	3.51	3.54	3.95	3.54	3.73
US 10 Year Government Bond	2.56	2.53	2.65	2.53	2.58
UK 10 Year Government Bond	2.60	2.67	2.66	2.67	2.36
Germany 10 Year Government Bond	1.16	1.25	1.47	1.25	1.67
Japan 10 Year Government Bond	0.54	0.57	0.63	0.57	0.80

* Net dividends reinvested