FRONTIER ADVISORS

Monthly Markets

July 2015

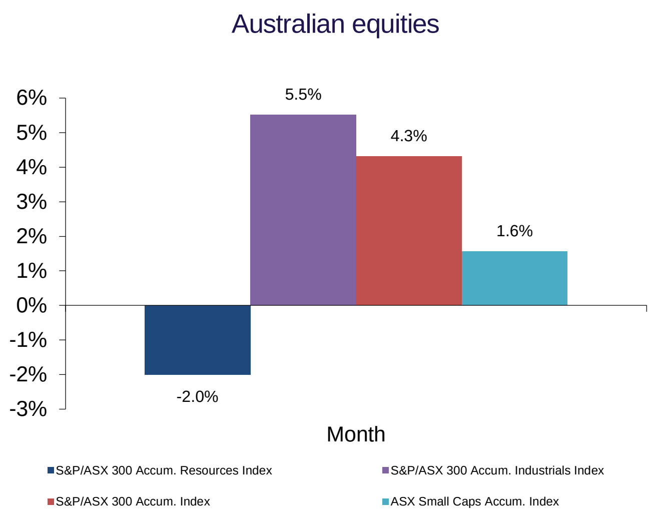
In the first month of the new financial year, global developed markets performed well as diminished concerns over Greece allowed the US and European markets to recover. US equities were also buoyed by positive economic updates including Q2 US GDP growth, and the Fed maintained its signal that interest rates are likely to rise this year if the US economy continues to improve. Volatility remained elevated in emerging markets as the fear of a China "Hard Landing" re-emerged and Shanghai equities dropped another 15% in July. The interest rate hike in South Africa also caused uncertainty in the future growth of emerging economies.

In Europe, despite Greek voters rejecting reform package in a referendum, the Greek government reached an agreement with its creditors in exchange for further bailout money. It involved a number of austerity measures such as budget-cutting and tax-hike, but the government eventually accepted the deal to prevent a banking collapse in Greece that would likely have forced the country out of the Euro zone. At the time of writing, a new €86 billion bailout programme has been officially approved by Euro zone countries, which will ensure that Greece will receive financing over the next three years. This deal marks an end to more than six months of turbulent negotiations between Athens and its creditors that nearly brought Europe's currency union to a painful breakup.

In the US, second quarter GDP expanded by 2.3 percent. At the same time, first quarter GDP was revised from a 0.2% decline to positive growth of 0.6%. US households continued to be a steady source of strength for economic recovery, as Q2 consumer spending climbed by 2.9%, exceeding the median forecast. However, both business investment and government spending were weak, suggesting that the overall US economic expansion is still relatively moderate. The Federal Open Market Committee's statement in July was little changed from June. The Committee acknowledged that the US labour market had improved, with solid job gains and declining unemployment, and maintained that it is likely to raise interest rates if the US economy continues to improve and inflation also moves back to its target range. The market largely anticipates the first rate hike to occur in September this year.

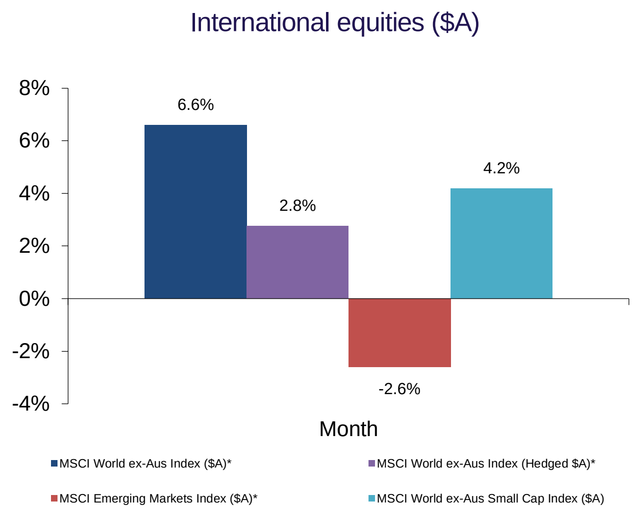
Back in Asia, Chinese equities have experienced extraordinary volatility over the past two months. The slump in the Shanghai share market in the last two weeks of June extended into early July as panic-selling ensued. Government support measures only temporarily restored investors' confidence, as pessimistic sentiment and the fear of a China "Hard Landing" prevailed again towards the end of July which drove another sharp fall in A-shares. The other topical issue that came out of China (in early August) was its unexpected currency devaluation. The RMB fell by approximately 4% over the course of two days, as the PBoC re-set the midpoint of its currency exchange rate range. The PBoC also announced changes in the mechanism in which to determine the daily fixing of the RMB. Going forward, the RMB midpoint will be set with reference to the closing rate of the previous day, a new criterion that was unprecedented in the PBoC's currency setting guidelines. The market positively read the change as a step forward towards the full liberalisation of the RMB and potential inclusion of the RMB in the IMF's Special Drawing Rights (SDR) mechanism in future.

Domestically, the RBA kept the cash rate unchanged at 2% in July and in early August, but it dropped the reference to the need for "further deprecation" of the AUD in its August statement, signalling that the AUD is trading near its fair value. The current market consensus is that a further interest rate cut is unlikely in the near term.



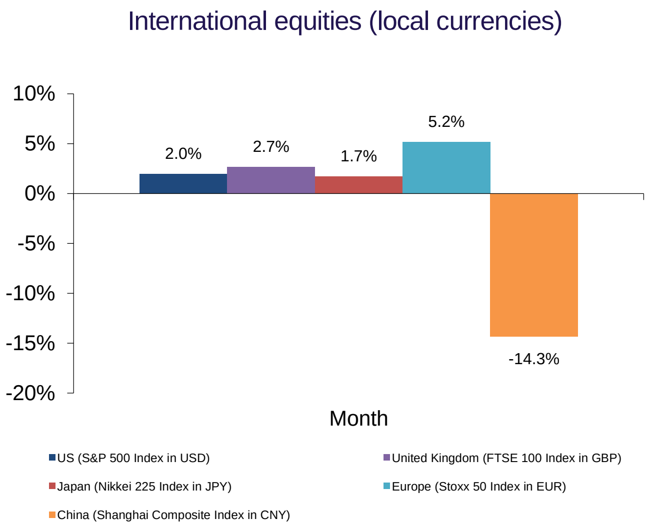
Australian equities ended the month in positive territory. In particular, the Industrial sector jumped by 5.5%. The Resources sector continued to be soft, falling by 2% in July.

By sector, Health Care (9.4%) was the best performer while Materials was the worse.

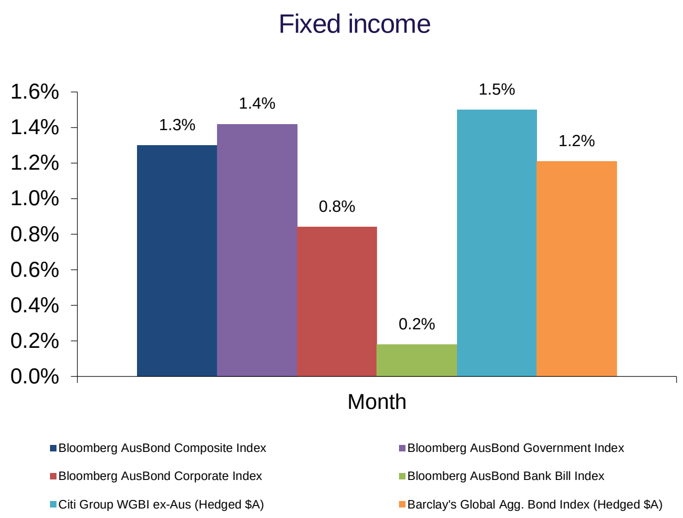


As mentioned in the market commentary, global equities recovered in July following the Greece deal and positive economic updates in the US. The MSCI World Index ex-Aus ($A) went up by over 6%.

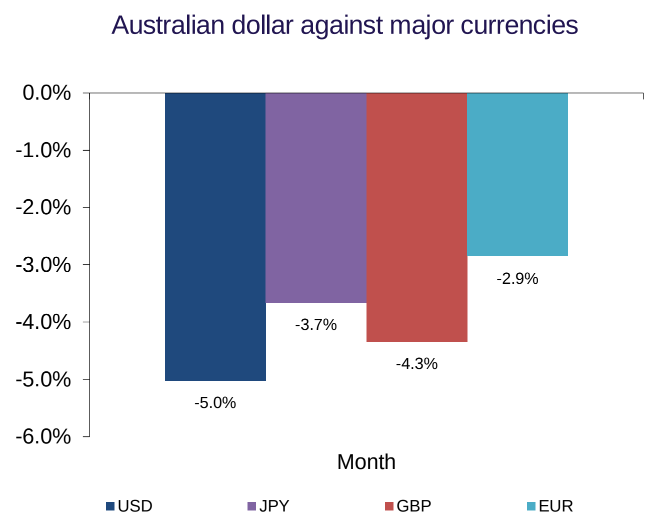
The Australian dollar declined by 5% against the USD in July, driving the difference in return between hedged and unhedged MSCI indices.



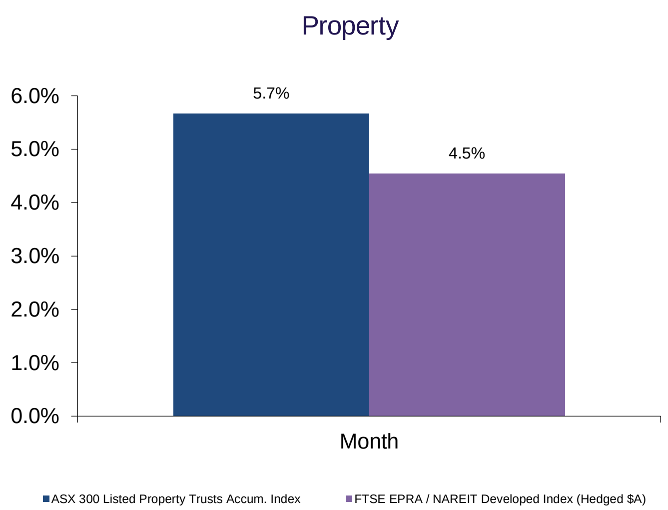
The sell-off in Chinese equities continued in the first month of the new financial year, falling by over 14%. Major developed equity markets (measured in local currencies) performed well in July.



Yields fell across Australian and major international markets in July. As a result performance from both Australian and international fixed interest (hedged) was positive for the month.



As key commodity prices continued to decline, the Australian dollar depreciated against major foreign currencies in July. Positive economic update in the US and UK contributed to the relatively stronger appreciation of the USD and GBP among major foreign currencies.



Local and global listed property ended the month with solid performances, both delivering positive returns (particularly the case for A-REITs).

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31-July-2015	Index value	Month	3 months	FYTD	1 year
Australian equities					
S&P/ASX 300 Accum. Index	49,962	4.3%	-0.8%	4.3%	5.5%
S&P/ASX 300 Accum. Industrials Index	103,610	5.5%	1.1%	5.5%	13.0%
S&P/ASX 300 Accum. Resources Index	17,492	-2.0%	-10.4%	-2.0%	-23.5%
ASX Small Caps Accum. Index	5,435	1.6%	-4.1%	1.6%	-2.8%
International equities					
MSCI World ex-Aus Index ($A)*	7,279	6.6%	7.4%	6.6%	33.8%
MSCI World ex-Aus Index (Hedged $A)*	1,287	2.8%	1.4%	2.8%	14.8%
MSCI Emerging Markets Index ($A)*	524	-2.6%	-6.5%	-2.6%	9.7%
MSCI World ex-Aus Small Cap Index ($A)	460	4.2%	7.3%	4.2%	32.6%
US (S&P 500 Index in USD)	2,104	2.0%	0.9%	2.0%	9.0%
United Kingdom (FTSE 100 Index in GBP)	6,696	2.7%	-3.8%	2.7%	-0.5%
Japan (Nikkei 225 Index in JPY)	20,585	1.7%	5.5%	1.7%	31.8%
Europe (Stoxx 50 Index in EUR)	3,601	5.2%	-0.4%	5.2%	15.6%
China (Shanghai Composite Index in CNY)	3,664	-14.3%	-17.5%	-14.3%	66.4%
AUD versus …					
USD	0.73	-5.0%	-8.6%	-5.0%	-21.8%
JPY	90.48	-3.7%	-4.4%	-3.7%	-5.5%
GBP	0.47	-4.3%	-9.8%	-4.3%	-15.2%
EUR	0.67	-2.9%	-7.3%	-2.9%	-4.2%
Property					
ASX 300 Listed Property Trusts Accum. Index	38,426	5.7%	4.2%	5.7%	21.0%
FTSE EPRA / NAREIT Dev. Index (Hedged $A)*	2,219	4.5%	-0.3%	4.5%	12.6%
Australian Fixed Interest					
Bloomberg AusBond Composite Index	8,507	1.3%	0.4%	1.3%	6.7%
Bloomberg AusBond Government Index	8,864	1.4%	0.1%	1.4%	7.0%
Bloomberg AusBond Corporate Index	8,635	0.8%	0.6%	0.8%	5.9%
Bloomberg AusBond Bank Bill Index	8,289	0.2%	0.6%	0.2%	2.6%
Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged $A)	-	1.5%	-0.1%	1.5%	7.1%
Barclay's Global Agg. Bond Index (Hedged $A)	-	1.2%	-0.1%	1.2%	6.4%
Oil and Commodities					
Crude Oil ($/bbl)	47	-20.8%	-21.0%	-20.8%	-52.0%
Copper Spot ($/tonne)	5,222	-9.3%	-18.0%	-9.3%	-26.8%
Gold Spot ($/ounce)	1,095	-6.7%	-7.6%	-6.7%	-15.0%
Fixed income (yields) as at …	**30-Jul-15**	**31-Jun-15**	**31-Apr-15**	**30-Jun-15**	**31-Jul-14**
Australia Bank Bill	2.14	2.13	2.24	2.13	2.64
Australia 10 Year Government Bond	2.76	3.01	2.65	3.01	3.51
US 10 Year Government Bond	2.18	2.35	2.03	2.35	2.56
UK 10 Year Government Bond	1.88	2.02	1.83	2.02	2.60
Germany 10 Year Government Bond	0.64	0.76	0.37	0.76	1.16
Japan 10 Year Government Bond	0.42	0.47	0.34	0.47	0.54

* Net dividends reinvested