

June 2015

The last month of the financial year was filled with volatility. In particular, developments in Greece and China wreaked havoc across markets and asset classes globally. As events unfolded over the month, risk assets such as equities sold off (more so in Australia than in other developed markets) and bonds rallied (bond yields falling lower). Fear of the negative impact on global growth was also reflected in commodity prices. In the instance of the recent oil price fall, it appears to be also partly driven by supply reasons with a resilient US shale oil market and potential Iran nuclear deal lifting sanctions on them exporting their oil.

Starting in Europe, all eyes were on Greece when discussion on its bailout package broke down late in the month. As a result, Greece was forced to close its backs and impose capital controls to prevent bank runs. However, in a surprise move, the Greek Prime Minister Alexis Tsipras called a referendum on a bailout offer from the country's creditors that ended with an overwhelming "no" vote from the Greek people at around 61%. This led to the country going "into arrears" as it failed to repay loans to the IMF on 30 June. As at the time of writing, Tsipras and other Eurozone leaders have reached a deal that will need to be legislated by the Greek parliament and agreed also by a number of European countries and the IMF.

We go into more detail of our expected financial market impact from Greece in several recent capital market notes (that are available on request). In essence, we believe it is likely to lead to more volatility and "flight to safe" assets such as core sovereign bonds over the short term as the political brinkmanship continues. Over the long term, we are more concerned of the potential contagion risks that could occur if a "Grexit" were to occur. In particular, we are most concerned around the non-financial risks. For example, a Grexit scenario could give greater support for anti-austerity parties in other

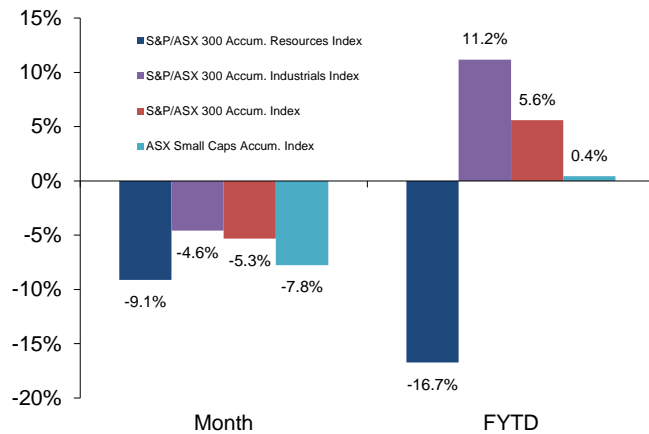
European countries (e.g. the Podemos party in Spain and the National Front party in France). Additionally, the possibility of closer ties between Russia and Greece could further destabilise the region.

Closer to home, China is facing its own crisis as its equity market fell by about 30 per cent. This led to large scale responses by Chinese authorities fearing it could lead to social unrest. In its fourth cut since November, the People's Bank of China (PBoC) lowered its benchmark interest rate by 0.25% to 4.85%. In addition, it also lowered the reserve requirement ratio (RRR) for banks in certain sectors to spur credit growth. Other measures that were implemented to stem the equity sell-off include providing funding to brokerage houses in order to help them buy shares, suspension of initial public offerings as well as banning company executives and major investors from selling shares for six months. Draft rules were also published by the Chinese government that if approved would allow its state pension fund to invest in shares.

In the US, the Federal Open Market Committee (FOMC) once again held back from raising interest rates as economic growth appeared not to be robust enough yet. Also of importance was the FOMC's expectation of its future official interest rate policy settings. Although the FOMC has not changed the timing of its expected first interest rate hike (majority of the FOMC members expect 2015 to be the most appropriate time to begin raising rates), it has changed the profile of its interest rate tightening cycle, revising it lower and closer to market expectations.

Domestically, the Reserve Bank of Australia left the cash rate unchanged at 2%. It highlights in its statement that it will continue to assess new economic data to determine its future policy stance.

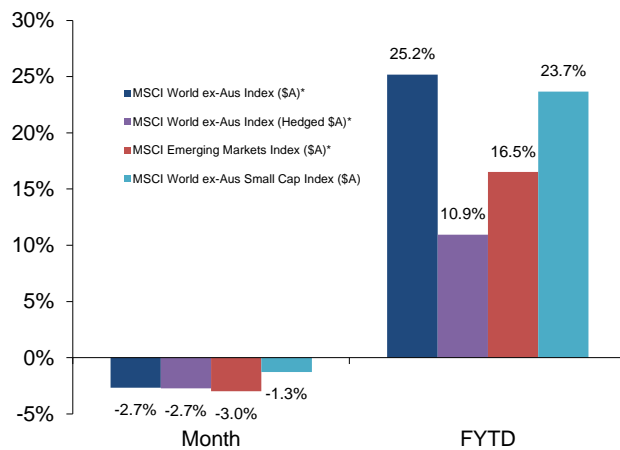
Australian equities



Australian equities ended the month in negative territory as events in Greece and China came to a head late in June. The Resources sector was hit the hardest. Over the 2014/15 financial year, Australian equities delivered a modest return of 5.6% which was coincidentally the same return generated by Australian bonds and international bonds (hedged).

By sectors, Consumer Discretionary (-10.9%) was the worst performer while Telecommunication was the best (-1.3%).

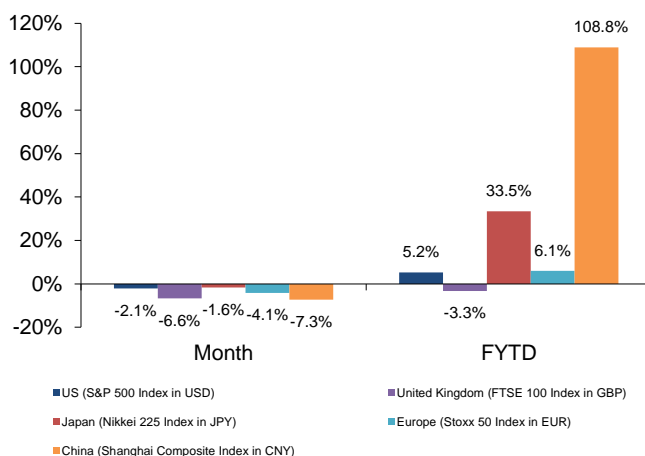
International equities (\$A)



Likewise, the fear spawned by Greece and China led to a wider sell-off in global equities in June.

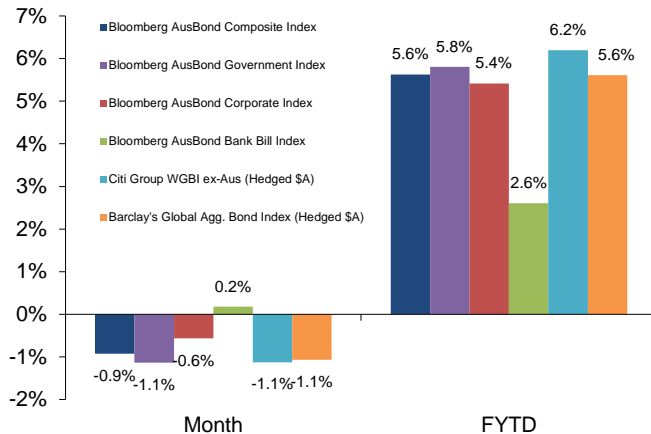
There was little between the performance of the hedged and unhedged developed market equities over the month as the Australian dollar was relatively unchanged against the US dollar which accounts for a material portion of the index.

International equities (local currencies)



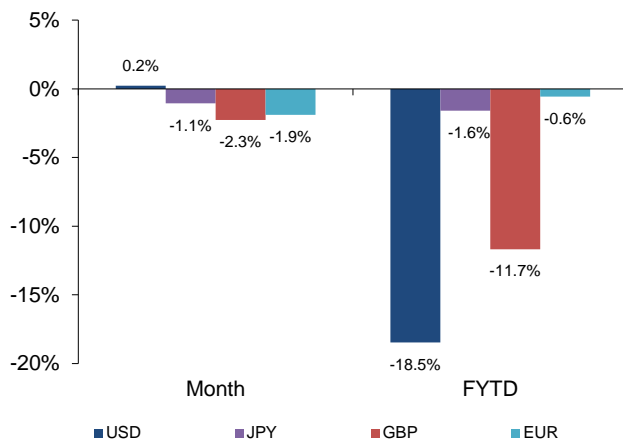
Although the end of June only caught the initial sell-off in Chinese equities, the Chinese market still ended the financial year delivering more than 100% return in local currency terms. Other equity markets also had a poor month, particular in Europe.

Fixed income



Although global core sovereign bond yields fell during the latter part of June to reflect the issues in Europe, they did not decrease sufficiently to offset the increase in yields that had occurred earlier in the month. As a result performance from both Australian and international fixed interest (hedged) was negative for the month.

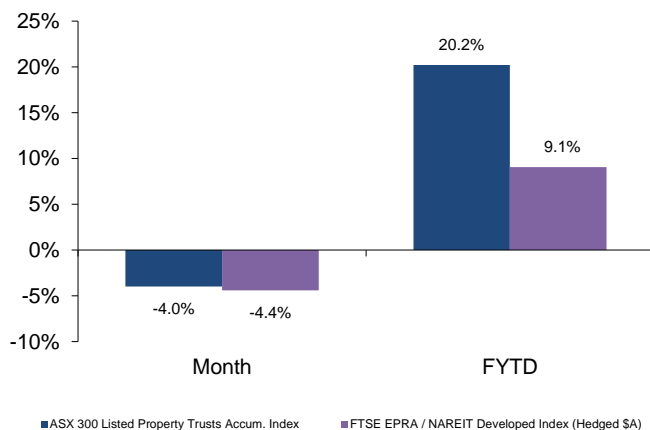
Australian dollar against major currencies



During June, the Australian dollar (AUD) was relatively unchanged against the US dollar (USD) and depreciated against the Japanese Yen (JPY), British Pound (GBP) and Euro (EUR). The month ended before the risk-off sentiment took hold resulting in the depreciation of the AUD early in July.

The main theme over the financial year was the expectation of rate hikes in the US and UK leading to the AUD's weakness against those two currency pairs.

Property



We have replaced the UBS Global Property Index with the FTSE EPRA/NAREIT Developed Index (hedged \$A) this month due to its discontinuation.

Although local and global listed property ended the month in negative territory, both have delivered positive returns (particularly the case for A-REITs) driven by investor's "thirst for yield".

Monthly Markets

30-June-2015	Index value	Month	3 months	FYTD	1 year
Australian equities					
S&P/ASX 300 Accum. Index	47,896	-5.3%	-6.5%	5.6%	5.6%
S&P/ASX 300 Accum. Industrials Index	98,196	-4.6%	-6.8%	11.2%	11.2%
S&P/ASX 300 Accum. Resources Index	17,850	-9.1%	-4.7%	-16.7%	-16.7%
ASX Small Caps Accum. Index	5,352	-7.8%	-4.0%	0.4%	0.4%
International equities					
MSCI World ex-Aus Index (\$A)*	6,828	-2.7%	-0.1%	25.2%	25.2%
MSCI World ex-Aus Index (Hedged \$A)*	1,253	-2.7%	0.0%	10.9%	10.9%
MSCI Emerging Markets Index (\$A)*	538	-3.0%	0.1%	16.5%	16.5%
MSCI World ex-Aus Small Cap Index (\$A)	441	-1.3%	0.5%	23.7%	23.7%
US (S&P 500 Index in USD)	2,063	-2.1%	-0.2%	5.2%	5.2%
United Kingdom (FTSE 100 Index in GBP)	6,521	-6.6%	-3.7%	-3.3%	-3.3%
Japan (Nikkei 225 Index in JPY)	20,236	-1.6%	5.4%	33.5%	33.5%
Europe (Stoxx 50 Index in EUR)	3,424	-4.1%	-7.4%	6.1%	6.1%
China (Shanghai Composite Index in CNY)	4,277	-7.3%	14.1%	108.8%	108.8%
AUD versus ...					
USD	0.77	0.2%	0.6%	-18.5%	-18.5%
JPY	93.92	-1.1%	2.4%	-1.6%	-1.6%
GBP	0.49	-2.3%	-5.4%	-11.7%	-11.7%
EUR	0.69	-1.9%	-2.9%	-0.6%	-0.6%
Property					
ASX 300 Listed Property Trusts Accum. Index	36,364	-4.0%	-2.3%	20.2%	20.2%
FTSE EPRA / NAREIT Dev. Index (Hedged \$A)*	2,123	-4.4%	-7.0%	9.1%	9.1%
Australian Fixed Interest					
Bloomberg AusBond Composite Index	8,397	-0.9%	-2.0%	5.6%	5.6%
Bloomberg AusBond Government Index	8,740	-1.1%	-2.7%	5.8%	5.8%
Bloomberg AusBond Corporate Index	8,563	-0.6%	-0.7%	5.4%	5.4%
Bloomberg AusBond Bank Bill Index	8,274	0.2%	0.6%	2.6%	2.6%
Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged \$A)	-	-1.1%	-2.2%	6.2%	6.2%
Barclay's Global Agg. Bond Index (Hedged \$A)	-	-1.1%	-1.7%	5.6%	5.6%
Oil and Commodities					
Crude Oil (\$/bbl)	59	-1.4%	24.9%	-43.6%	-43.6%
Copper Spot (\$/tonne)	5,755	-4.2%	-5.1%	-18.3%	-18.3%
Gold Spot (\$/ounce)	1,172	-1.5%	-1.0%	-11.6%	-11.6%
Fixed income (yields) as at ...					
	30-Jun-15	31-May-15	31-Mar-15	30-Jun-14	30-Jun-14
Australia Bank Bill	2.13	2.13	2.23	2.68	2.68
Australia 10 Year Government Bond	3.01	2.73	2.32	3.54	3.54
US 10 Year Government Bond	2.35	2.12	1.92	2.53	2.53
UK 10 Year Government Bond	2.02	1.81	1.58	2.67	2.67
Germany 10 Year Government Bond	0.76	0.49	0.18	1.25	1.25
Japan 10 Year Government Bond	0.47	0.39	0.41	0.57	0.57
* Net dividends reinvested					