

SEPTEMBER 2013

## Market Overview

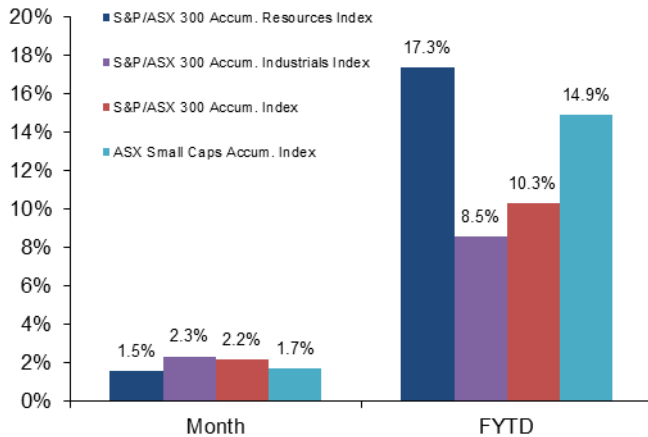
After months of speculation, the US Federal Reserve announced no change to its asset purchasing program. Global equities and bond yields had been gradually increasing in the lead up to the Fed's September meeting. In the aftermath though, equities retraced some of their recent gains, while bonds rallied sharply. Looking ahead, with Janet Yellen set to be named the next Fed Governor, expectations of tapering may be pared back further owing to her reputation as being strongly in favour of the Fed's quantitative easing program. Of more immediate concern is the prospect of a US default. At the time of writing, Republicans and Democrats are locked in a political stalemate over increasing the debt ceiling.

In Europe, Angela Merkel's Christian Democratic Union (CDU) won a resounding victory at the German federal election. The CDU's victory was seen as a strong tick of approval for Merkel's handling of the European debt crisis by German voters. However, despite recording the largest winning margin since German reunification in 1990, Merkel's CDU will need to find a coalition partner having failed to win a majority. On the data front, the nascent recovery in Europe appears to be continuing. Purchasing Manager Index (PMI) survey data showed that the manufacturing and services sectors expanded moderately across the continent over September, meeting expectations.

In Japan, Prime Minister Abe announced the first hike in the country's sales tax since 1997, which will see the rate increase from 5% to 8% in April 2014. To cushion some of the blow, the government will prepare a JPY5 trillion spending package in December aimed at increasing public works spending and providing tax breaks to companies and households. The Chinese government were busy with their own reform efforts over the month. As an early step to encourage the transition to a more services and consumption orientated economy, a free trade zone in Shanghai was established.

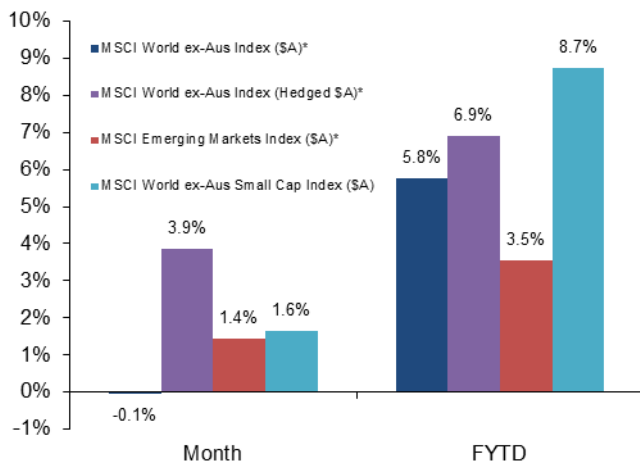
In Australia, the RBA kept rates on hold at 2.5% in its October meeting. The tone of the statement suggested further interest rate cuts would be data dependent. The Boards stated that despite preliminary signs of improvement in consumer and business sentiment, the full impact of earlier interest rate cuts had yet to materialise. The market and economists revised their expectations following the RBA's announcement, judging there to be a decreased probability of another interest rate cut by the end of the year. Over the past month there was mixed data on the residential construction industry. Building approvals fell by 4.7% m/m after an especially strong reading a month earlier. However, the underlying trend in the data continues to show a moderate upturn in activity since the beginning of the year, led by increased detached housing approvals. The result of the latest Australian Performance of Construction Index, an index of construction activity, was consistent with this view. Despite the industry continuing to be in a state of decline, it decreased at its slowest pace in over three years, led by resurgent apartment and housing construction. Lastly, the result of the federal election was announced, with the Liberal Party/National Party coalition defeating the incumbent Labour government as expected.

Australian Equities



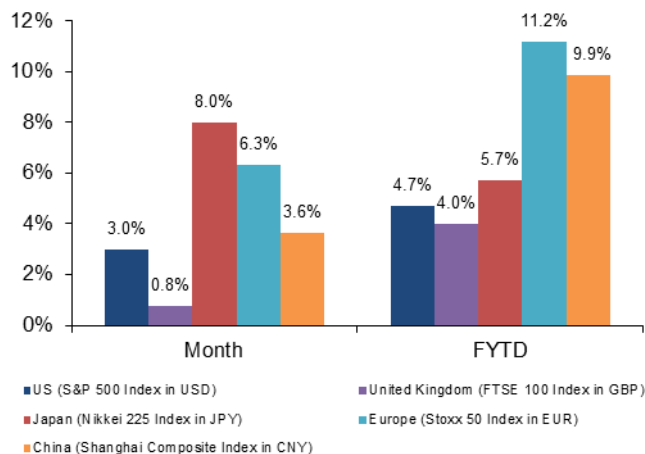
Australian equities recorded moderate gains in September. Gains were led by the Industrials (+4.5%), Financials (+2.4%) and Consumer Discretionary (+2.4%) sectors, although the small Information Technology sector also performed strongly (+3.0%). Meanwhile, the Health Care (-2.5%) and Consumer Staples (-0.6%) sectors were the only ones to record losses for the month.

International Equities (\$A)



In unhedged terms, international equities were slightly down for the month, although this was largely due to the impact of a rising Australian dollar. Taking out this impact, hedged international equities outperformed the Australian market by recording a 3.9% increase over September, led by strong gains across Europe in particular. Emerging market equities also managed moderate returns, led by countries such as Turkey and Thailand, both of which were amongst the most heavily sold off in recent months.

International Equities (Local Currencies)

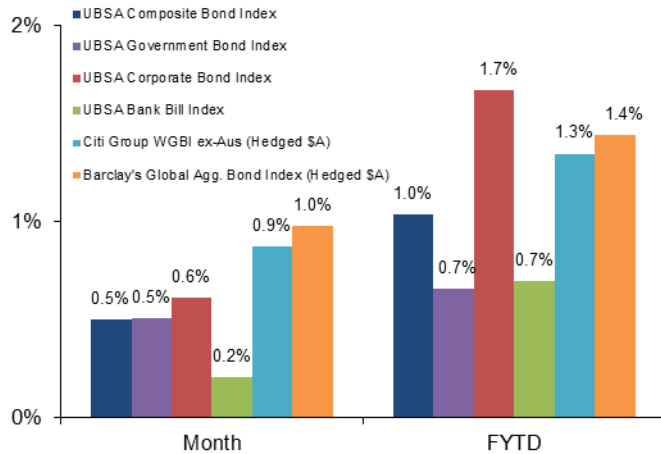


In local currency terms, developed market equities experienced strong returns over the month. The notable laggards were the UK (+0.8%) and Canadian (+1.1%) markets, while Spain (+10.8%) and Japan (+8.0%) led the way. Emerging markets also recorded strong gains in local currency terms, aided by a depreciating US dollar.



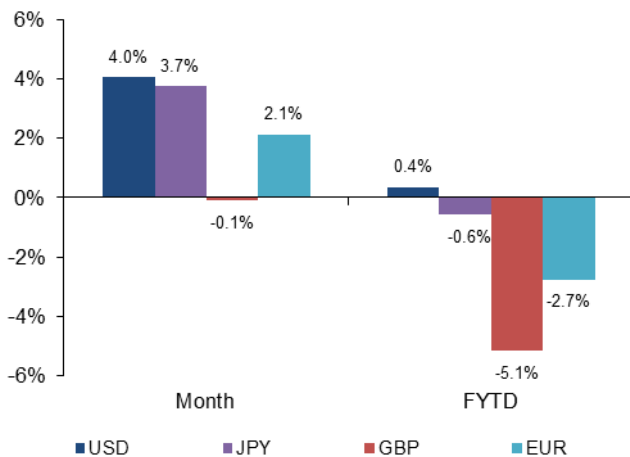
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**Fixed Income**



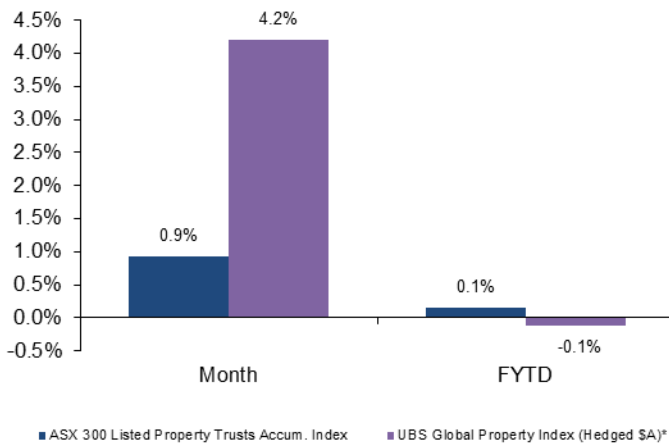
Global and Australian government bond yields fell moderately for the month in the aftermath of the US Federal Reserve's decision to continue its current asset purchasing program. As a result, domestic and overseas bond indices recorded modest gains.

**Australian Dollar against**



The Australian dollar recovered some lost ground and then some, finishing the month 4.0% higher against the US dollar. Our dollar also recorded gains against the other major currencies, with the exception of the British pound, which experienced strong gains against all majors.

**Property**



Australian listed property trusts increased modestly in September. Meanwhile overseas listed property trusts rebounded strongly from a month earlier, bringing their financial year to date performance broadly in line with their Australian counterparts.

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## Frontier Capital Markets Report as at 30 Sep 2013

30-Sep-13	Index Value	Month	3 Months	FYTD	1 Year
<b>Australian Equities</b>					
S&P/ASX 300 Accum. Index	42,652	2.2%	10.3%	10.3%	23.6%
S&P/ASX 300 Accum. Industrials Index	81,818	2.3%	8.5%	8.5%	31.2%
S&P/ASX 300 Accum. Resources Index	21,399	1.5%	17.3%	17.3%	1.4%
ASX Small Caps Accum. Index	5,412	1.7%	14.9%	14.9%	1.4%
<b>International Equities</b>					
MSCI World ex-Aus Index (\$A)*	4,792	-0.1%	5.8%	5.8%	34.0%
MSCI World ex-Aus Index (Hedged \$A)*	969	3.9%	6.9%	6.9%	25.3%
MSCI Emerging Markets Index (\$A)*	431	1.4%	3.5%	3.5%	12.3%
MSCI World ex-Aus Small Cap Index (\$A)	318	1.6%	8.7%	8.7%	40.9%
US (S&P 500 Index in USD)	1,682	3.0%	4.7%	4.7%	16.7%
United Kingdom (FTSE 100 Index in GBP)	6,462	0.8%	4.0%	4.0%	12.5%
Japan (Nikkei 225 Index in JPY)	14,456	8.0%	5.7%	5.7%	63.0%
Europe (Stoxx 50 Index in EUR)	2,893	6.3%	11.2%	11.2%	17.9%
China (Shanghai Composite Index in CNY)	2,175	3.6%	9.9%	9.9%	4.2%
<b>AUD Versus...</b>					
USD	0.93	4.0%	0.4%	0.4%	-11.0%
JPY	91.13	3.7%	-0.6%	-0.6%	12.4%
GBP	0.58	-0.1%	-5.1%	-5.1%	-10.5%
EUR	0.69	2.1%	-2.7%	-2.7%	-14.6%
<b>Property</b>					
ASX 300 Listed Property Trusts Accum. Index	27,277	0.9%	0.1%	0.1%	16.4%
UBS Global Property Index (Hedged \$A)*	1,624	4.2%	-0.1%	-0.1%	11.8%
<b>Australian Fixed Interest</b>					
UBSA Composite Bond Index	7,572	0.5%	1.0%	1.0%	1.8%
UBSA Government Bond Index	7,918	0.5%	0.7%	0.7%	0.0%
UBSA Corporate Bond Index	7,741	0.6%	1.7%	1.7%	5.1%
UBSA Bank Bill Index	7,909	0.2%	0.7%	0.7%	3.1%
<b>Global Fixed Interest</b>					
Citi Group WGBI ex-Aus (Hedged \$A)	-	0.9%	1.3%	1.3%	3.5%
Barday's Global Agg. Bond Index (Hedged \$A)	-	1.0%	1.4%	1.4%	3.2%
<b>Oil and Commodities</b>					
Crude Oil (\$/bbl)	102	-4.9%	6.0%	6.0%	11.0%
Copper Spot (\$/tonne)	7,290	3.0%	8.3%	8.3%	-11.2%
Gold Spot (\$/ounce)	1,327	-4.9%	8.2%	8.2%	-25.7%
<b>Fixed Income (Yields) as at ...</b>					
	30-Sep-13	31-Aug-13	30-Jun-13	30-Jun-13	30-Sep-12
Australia Bank Bill	2.56	2.56	2.79	2.79	3.36
Australia 10 Year Government Bond	3.81	3.90	3.76	3.76	2.99
US 10 Year Government Bond	2.61	2.78	2.49	2.49	1.63
UK 10 Year Government Bond	2.72	2.77	2.44	2.44	1.73
Germany 10 Year Government Bond	1.78	1.86	1.73	1.73	1.44
Japan 10 Year Government Bond	0.69	0.72	0.85	0.85	0.78

\* Net Dividends reinvested