

FEBRUARY 2014

Market Overview

We have been grappling with the issue on whether recent weak US data has been weather driven or part of a renewed weakening trend. The latest news flow over February brought some comfort in the sense that the weaker data appears to be weather related rather than something more insidious. The US ISM survey, a measure of the manufacturing activity across the country, posted 53.2 points for February beating expectations and was higher compared to 51.3 points in the previous month. This came after the survey outcome missed expectations by the widest margin in the history of the survey last month. The US unemployment rate in January was also on the mend, falling to 6.6% albeit new jobs added were below expectations.

The Federal Open Market Committee (FOMC) minutes revealed that the committee members are now considering changing their forward guidance given the unemployment rate is close to the committee's target of 6.5% which is when it had previously indicated it would consider changing its federal funds rate policy. Additionally, Federal Reserve Chair Janet Yellen conveyed to the market her accommodative stance in her first meeting with the Senate Banking Committee, stating that the FOMC may pause the tapering of quantitative easing if there is a significant change in the economic outlook.

In Asia, the People's Bank of China (PBOC) was active in its money market draining liquidity in an effort to tame excessive credit expansion while the official Chinese Purchasing Managers' Index (PMI) weakened in February to 50.2 but remained above the 50 level which denotes contraction. The Chinese government also maintained its annual economic growth target at around 7.5%, a number on the high side for an economy that is transitioning toward domestic consumption to drive growth. This suggests that the government may do more to support the economy as growth is likely to ease during the transition. In Japan, the Bank of Japan (BOJ) left its interest rate and quantitative easing program unchanged but increased the ceiling of pro-growth loans to 7 trillion yen from 3.5 trillion yen. The application deadline for these loans was also extended by one year to March 2015.

Europe continued to show signs of a recovery as its Manufacturing PMI Index logged in at 53.2 for February. In particular, although the French PMI was still below 50 it has improved from 49.3 to 49.7. Deflation remains a focus in Europe with the inflation rate for January reported at -1.1% for the month. However, over the year, inflation remains unchanged at 0.8%.

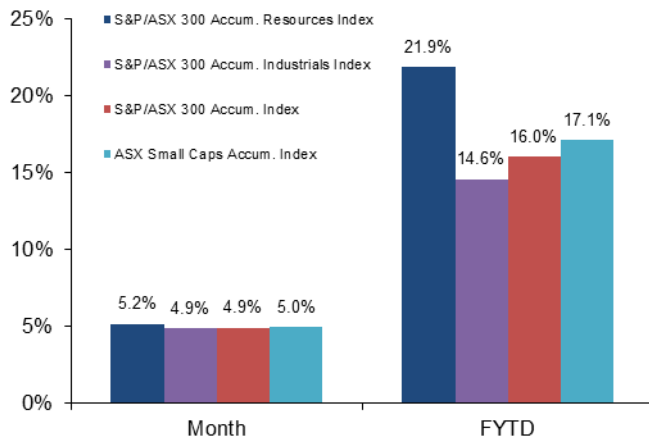
The market was negatively impacted in the latter parts of the month by the events in Ukraine where an uprising ousted President Viktor Yanukovich from power. The situation was escalated further by Russian troops reportedly occupying Crimea, a region in Ukraine. The tension in Ukraine forced the Russian central bank to raise its interest rate from 5.5% to 7.0% to support the plunging Russian Ruble.

Locally, the Reserve Bank of Australia left interest rates unchanged at 2.5% as expected and reiterated its stable interest rate outlook and view that the Australian dollar is still high by historical standards. This came on the back of Australian unemployment rate rising to 6.0% for January from 5.8%.



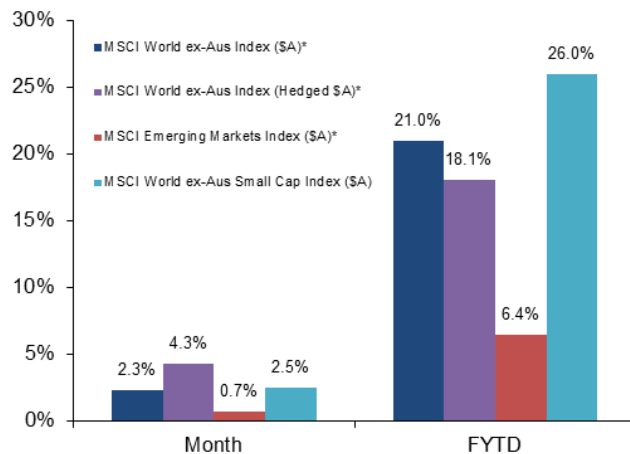
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Australian Equities



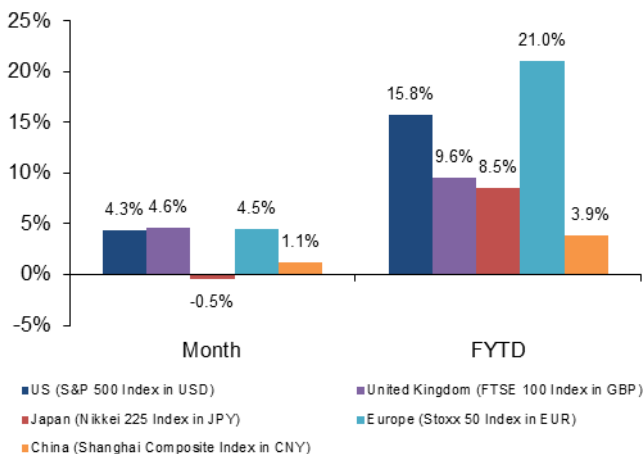
Domestic equities recovered in February from their poor performance in the previous month. Broadly, cyclical sectors outperformed defensive sectors. Small caps also kept up with broad cap during the month but continue to underperform over the financial year to date.

International Equities (\$A)



Both developed and emerging market equities recorded positive return for February albeit emerging markets continue to underperform developed markets. The appreciation of the Australian dollar assisted in the outperformance of hedged developed market equities over its unhedged counterpart. Developed market small caps also maintained their strong performance over broad caps over the month and financial year to date.

International Equities (Local Currencies)

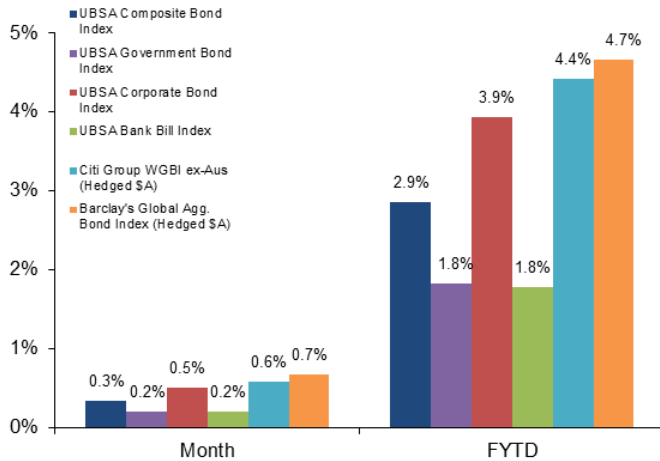


In local currency terms, major developed market equities were up in February with the exception of Japan. Japanese equities were likely negatively impacted by lower than expected fourth quarter GDP data and weaker current account and machine order data. Over the financial year, European equities have outperformed other major developed market equities.



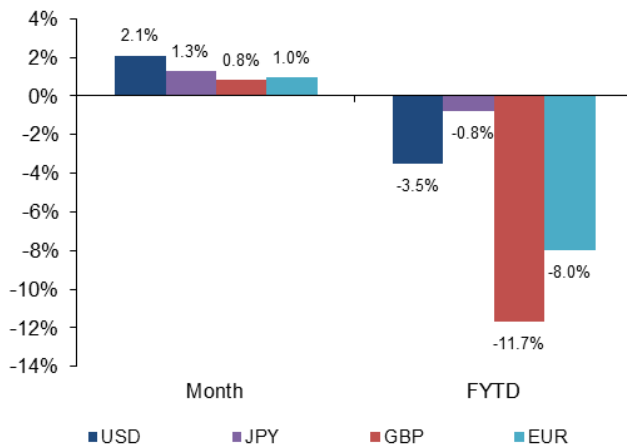
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Fixed Income



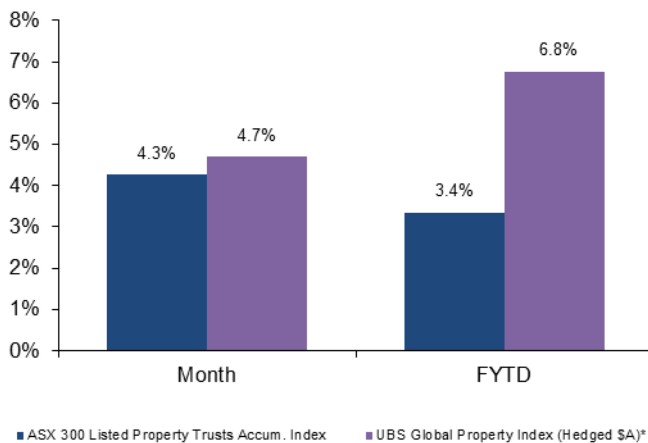
Despite rising tensions related to Ukraine, local and international fixed interest remained relatively unchanged over the month. The 10 year Australian government yield fell by around 10 basis points during the month, hovering just above 4.0%. German and French 10 year government yields also compressed by a similar amount over the month while the US 10 year government yield was relatively unchanged.

Australian Dollar against



The Australian dollar appreciated against the major currencies over February. This is likely driven by the RBA's change to a stable interest rate stance (from a perceived "easing bias") despite continuing to jawbone the Australian dollar.

Property



Australian and international listed property continued its positive performance in February. However, local listed property trusts continue to underperform their overseas counterparts.

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	28-Feb-14	Index Value	Month	3 Months	FYTD	1 Year
Australian Equities						
S&P/ASX 300 Accum. Index		44,871	4.9%	2.6%	16.0%	10.2%
S&P/ASX 300 Accum. Industrials Index		86,362	4.9%	2.1%	14.6%	13.8%
S&P/ASX 300 Accum. Resources Index		22,226	5.2%	4.7%	21.9%	-1.8%
ASX Small Caps Accum. Index		5,516	5.0%	4.7%	17.1%	-3.6%
International Equities						
MSCI World ex-Aus Index (\$A)*		5,482	2.3%	5.6%	21.0%	40.4%
MSCI World ex-Aus Index (Hedged \$A)*		1,070	4.3%	3.5%	18.1%	24.7%
MSCI Emerging Markets Index (\$A)*		443	0.7%	-2.8%	6.4%	7.5%
MSCI World ex-Aus Small Cap Index (\$A)		368	2.5%	7.8%	26.0%	46.2%
US (S&P 500 Index in USD)		1,859	4.3%	3.0%	15.8%	22.8%
United Kingdom (FTSE 100 Index in GBP)		6,810	4.6%	2.4%	9.6%	7.1%
Japan (Nikkei 225 Index in JPY)		14,841	-0.5%	-5.2%	8.5%	28.4%
Europe (Stoxx 50 Index in EUR)		3,149	4.5%	2.0%	21.0%	19.6%
China (Shanghai Composite Index in CNY)		2,056	1.1%	-7.4%	3.9%	-13.1%
AUD Versus...						
USD		0.89	2.1%	-1.5%	-3.5%	-12.9%
JPY		90.91	1.3%	-2.2%	-0.8%	-4.1%
GBP		0.54	0.8%	-3.4%	-11.7%	-20.8%
EUR		0.65	1.0%	-2.2%	-8.0%	-16.5%
Property						
ASX 300 Listed Property Trusts Accum. Index		28,150	4.3%	3.4%	3.4%	3.9%
UBS Global Property Index (Hedged \$A)*		1,736	4.7%	7.1%	6.8%	7.3%
Australian Fixed Interest						
UBSA Composite Bond Index		7,708	0.3%	2.0%	2.9%	3.1%
UBSA Government Bond Index		8,009	0.2%	1.8%	1.8%	1.5%
UBSA Corporate Bond Index		7,913	0.5%	1.8%	3.9%	5.0%
UBSA Bank Bill Index		7,994	0.2%	0.6%	1.8%	2.8%
Global Fixed Interest						
Citi Group WGBI ex-Aus (Hedged \$A)		-	0.6%	1.8%	4.4%	4.4%
Barday's Global Agg. Bond Index (Hedged \$A)		-	0.7%	2.0%	4.7%	4.1%
Oil and Commodities						
Crude Oil (\$/bbl)		103	5.2%	10.6%	6.2%	11.5%
Copper Spot (\$/tonne)		7,080	-0.2%	0.4%	5.2%	-9.0%
Gold Spot (\$/ounce)		1,322	6.6%	5.6%	7.7%	-16.7%
Fixed Income (Yields) as at ...						
	28-Feb-14	31-Jan-14	30-Nov-13	30-Jun-13	28-Feb-13	
Australia Bank Bill	2.62	2.61	2.58	2.79	2.94	
Australia 10 Year Government Bond	4.02	4.00	4.22	3.76	3.35	
US 10 Year Government Bond	2.65	2.64	2.74	2.49	1.88	
UK 10 Year Government Bond	2.72	2.71	2.77	2.44	1.97	
Germany 10 Year Government Bond	1.62	1.66	1.69	1.73	1.45	
Japan 10 Year Government Bond	0.59	0.62	0.61	0.85	0.66	

* Net Dividends reinvested