

MARCH 2013

Market Overview

In March, we were reminded flare ups in Europe continue to have the capacity to influence markets. The initial deal between the EU/IMF and Cyprus on a EUR10 billion rescue package saw, for the first time, the imposition of losses on bank depositors. The market reaction was what one would expect – significant falls in European equities to reduce gains made earlier in the month and core, safe haven yields declining, while peripheral yields spiked. Marathon negotiations led to a last minute agreement being reached just before the ECB was due to withdraw emergency financial support. The final deal saw the burden of responsibility shift entirely to large depositors who are expected to contribute EUR4.2 billion to the rescue package. In the aftermath, EU officials stressed the terms of the deal with Cyprus were not a blueprint for future financial crises, as feared by some investors. Away from Cyprus, Italian politics remains in a state of limbo after the elections in February with Beppe Grillo's Five Star Movement ruling out a coalition with either of the major established parties.

In contrast, the US seemed to be minimally impacted by the events in Europe. The Dow Jones Industrial Average recorded eight consecutive days of all-time record highs, while the S&P 500 also closed above its record high, set in October 2007, after threatening to do so on a few occasions. Generally positive economic data supported the market's strong performance, with the housing sector and labour market standing out.

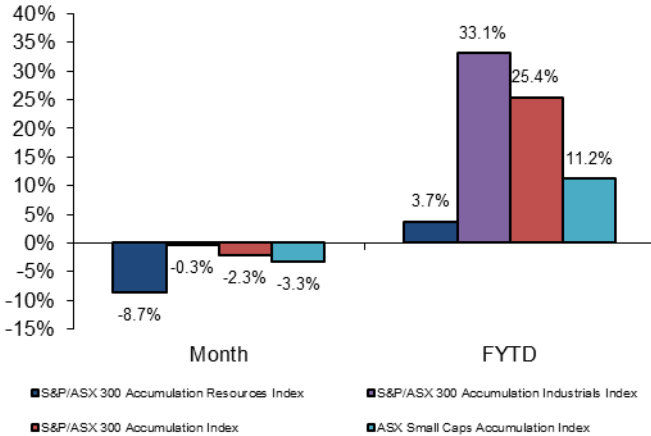
The other large market movements in March emanated from Japan. The yen depreciated significantly against all the major currencies, while Japanese equities were the standout performer. Throughout March, investors continued to bet the incoming BoJ Governor, Haruhiko Kuroda, and his two deputies, would take significant action to reverse years of deflation. These expectations were reinforced when all three nominees were approved by the lower and upper houses of parliament without incident. In the Board's first meeting since the new appointments, Kuroda and his colleagues didn't disappoint. The existing asset purchasing program was substantially expanded with JPY7 trillion in bonds to be bought monthly, and a relaxation on conditions such as removing the maturity cap on the debt the BoJ purchases. Elsewhere in Asia, China announced a 7.5% GDP growth target for 2013 as the People's National Congress concluded.

In Australia, the RBA decided to keep official interest rates on hold, as widely expected by the market. In reaching their decision the RBA observed the economy has been showing early signs of reacting to previous rate cuts, although the full impact is expected to emerge over time. In comparison to a month earlier, market expectations for future rate cuts have been significantly toned down as a result of RBA rhetoric and slightly stronger economic data, of which the much better than expected February labour force survey (+71.5k jobs created vs. 10k expected) was the highlight.



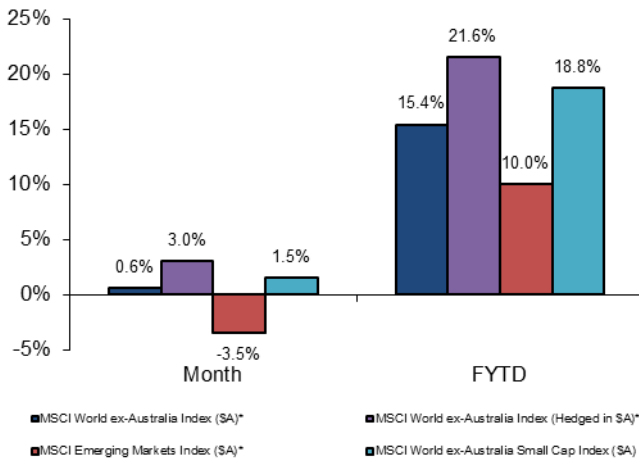
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Australian Equities



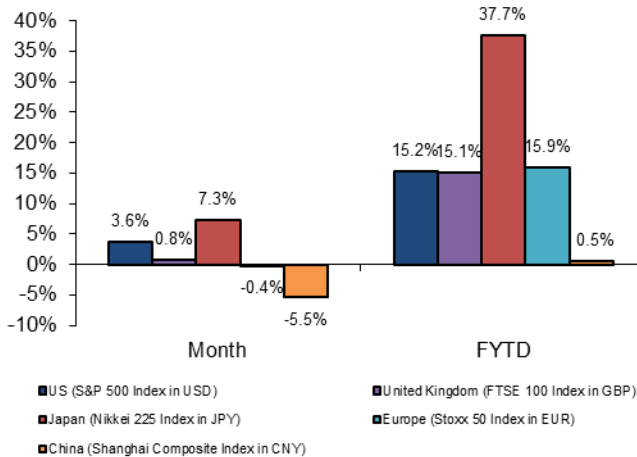
Australian equities finished March broadly flat, although financial year to date performance has remained exceptional at +33.1%. For the month, Materials (-8.3%) and Energy (-3.3%) were the biggest drags on the index, while Consumer Discretionary (+2.5%) and Utilities (+1.5%) gained the most.

International Equities (\$A)



Developed market international equities recorded a moderate positive return for the month of +3.0% in hedged AUD terms. A record breaking run in the US and continued market positioning in Japan in anticipation of aggressive central bank easing were the main contributors. Emerging markets continue to lag, losing 3.5% for the month as equity markets in the seven largest constituent countries of the MSCI Emerging Markets Index declined on overheating concerns.

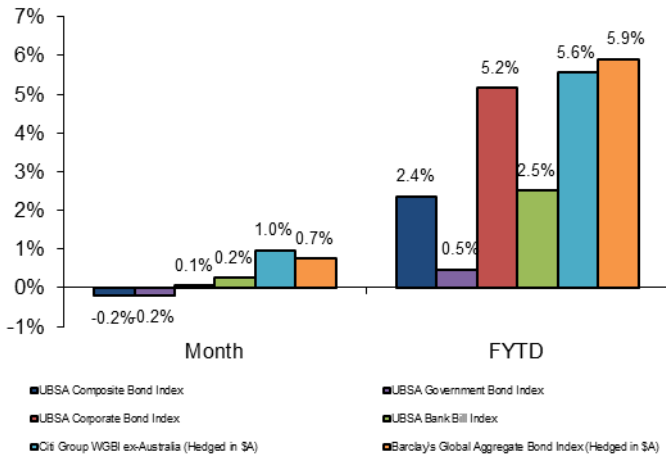
International Equities (Local Currencies)



Global equity markets were mixed in March. US markets continued to appreciate as both the Dow Jones Industrial Average and the S&P 500 broke all-time record highs. European markets also recorded gains, albeit less spectacular as developments in Cyprus renewed investor fears. Asian markets were also mixed. Japanese equities continued to record exceptional returns as investors bet the Bank of Japan would deliver on its strong rhetoric, while the Chinese market was amongst the worst performers.

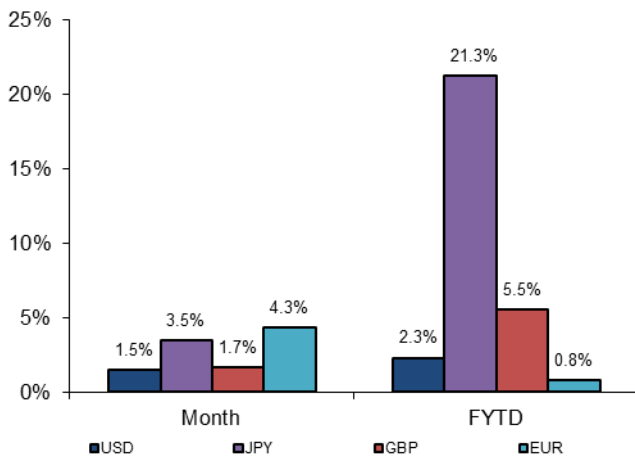
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Fixed Income



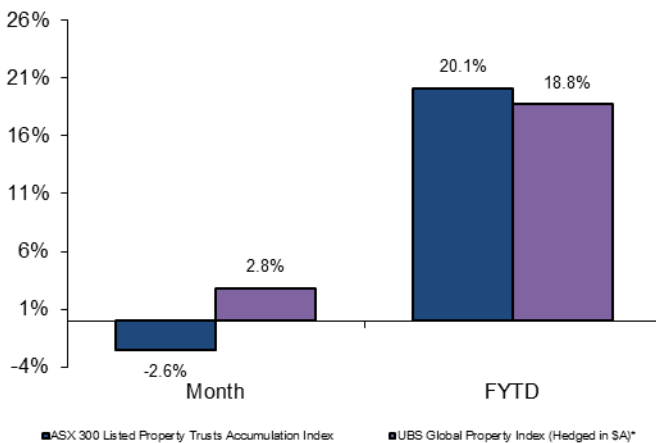
Australian bond yields generally rose in March due to a combination of some better than expected economic data and the market reducing its expectation for further interest rate cuts. Shorter dated investments outperformed for the month as the yield curve steepened. Meanwhile, international fixed income returns were moderately positive as core, safe haven yields were pushed down by developments in Cyprus, as their prices rose.

Australian Dollar against



During March dollar gained against all the majors. The largest movements were against the EUR and JPY due to renewed fears about Europe and continued speculation of Bank of Japan policy action, respectively. Against the yen, the dollar has now broken through the 100 barrier. Continued weakness in the UK economy and expectations about the new Bank of England governor engaging in policy easing measures have seen the dollar stay around multi-decade highs against the pound.

Property



Australian listed property trusts underperformed their international counterparts in March, losing 2.6% as other high yield sectors in the ASX 300 remained broadly flat. For the financial year to date, the gap in returns between Australian and international listed property returns, in hedged AUD terms, narrowed.

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Frontier Capital Markets Report as at 31 Mar 2013

	31-Mar-13	Index Value	Month	3 Months	FYTD	1 Year
Australian Equities						
S&P/ASX 300 Accumulation Index		39,803	-2.3%	8.0%	25.4%	19.2%
S&P/ASX 300 Accumulation Industrials Index		75,667	-0.3%	12.9%	33.1%	32.3%
S&P/ASX 300 Accumulation Resources Index		20,653	-8.7%	-6.4%	3.7%	-12.6%
ASX Small Caps Accumulation Index		5,532	-3.3%	1.6%	11.2%	-5.8%
International Equities						
MSCI World ex-Australia Index (\$A)*		3,929	0.6%	7.2%	15.4%	10.8%
MSCI World ex-Australia Index (Hedged in \$A)*		884	3.0%	10.5%	21.6%	16.8%
MSCI Emerging Markets Index (\$A)*		398	-3.5%	-2.0%	10.0%	1.3%
MSCI World ex-Australia Small Cap Index (\$A)		256	1.5%	9.7%	18.8%	12.2%
US (S&P 500 Index in USD)		1,569	3.6%	10.0%	15.2%	11.4%
United Kingdom (FTSE 100 Index in GBP)		6,412	0.8%	8.7%	15.1%	11.2%
Japan (Nikkei 225 Index in JPY)		12,398	7.3%	19.3%	37.7%	23.0%
Europe (Stoxx 50 Index in EUR)		2,624	-0.4%	-0.5%	15.9%	5.9%
China (Shanghai Composite Index in CNY)		2,237	-5.5%	-1.4%	0.5%	-1.2%
AUD Versus...						
USD		1.04	1.5%	0.4%	2.3%	0.2%
JPY		98.08	3.5%	9.6%	21.3%	14.9%
GBP		0.69	1.7%	7.2%	5.5%	5.9%
EUR		0.82	4.3%	3.6%	0.8%	4.7%
Property						
ASX 300 Listed Property Trusts Accumulation Index		26,395	-2.6%	5.3%	20.1%	30.5%
UBS Global Property Index (Hedged in \$A)*		1,663	2.8%	8.6%	18.8%	23.1%
Australian Fixed Interest						
UBSA Composite Bond Index		7,464	-0.2%	0.2%	2.4%	7.0%
UBSA Government Bond Index		7,877	-0.2%	0.0%	0.5%	5.9%
UBSA Corporate Bond Index		7,543	0.1%	0.8%	5.2%	8.7%
UBSA Bank Bill Index		7,795	0.2%	0.7%	2.5%	3.6%
Global Fixed Interest						
Citi Group WGBI ex-Australia (Hedged in \$A)		1,823	1.0%	1.6%	5.6%	8.3%
Barday's Global Aggregate Bond Index (Hedged in \$A)		-	0.7%	1.3%	5.9%	8.6%
Oil and Commodities						
Crude Oil (\$/bbl)		97	5.6%	5.9%	14.4%	-5.6%
Copper Spot (\$/tonne)		7,510	-3.5%	-5.0%	-2.4%	-11.4%
Gold Spot (\$/ounce)		1,596	1.0%	-5.0%	-1.2%	-5.3%
Fixed Income (Yields) as at ...						
	31-Mar-13	28-Feb-13	31-Dec-12	30-Jun-12	31-Mar-12	
Australia Bank Bill	3.04	2.94	3.04	3.53	4.28	
Australia 10 Year Government Bond	3.41	3.35	3.27	3.04	3.98	
US 10 Year Government Bond	1.85	1.88	1.76	1.64	2.21	
UK 10 Year Government Bond	1.77	1.97	1.83	1.73	2.20	
Germany 10 Year Government Bond	1.29	1.45	1.32	1.58	1.79	
Japan 10 Year Government Bond	0.55	0.66	0.79	0.84	0.99	

* Net Dividends reinvested