

OCTOBER 2013

## Market Overview

Events in the US dominated the headlines in October with a 16-day partial government shutdown interrupting economic data flows and unnerving equity markets. However, markets staged a rebound following the resolution of the government shut down and an eleventh-hour deal to negotiate the country's debt ceiling. Additionally Janet Yellen, well known for her "dovish" policy stance, was nominated as the next Fed Governor and she is expected to replace Ben Bernanke in January 2014. At the October Federal Open Market Committee (FOMC) meeting the Fed decided to leave the pace of asset purchases unchanged stating that it will await further evidence that economic progress has been sustained before adjusting the pace of its current stimulus. The combination of Yellen's nomination and the interruption of fourth quarter data flow are likely to have increased the prospect of a further delay to the Fed's policy tapering process.

Eurozone inflation fell to a four-year low in October coming in at 0.7% as record levels of unemployment have dampened price growth. Eurozone unemployment remained at an historical high of 12.2% in September, after the August data was revised upwards from 12.0%. Youth unemployment rates (representing those under the age of 25) in Greece and Spain are now approaching 60%. While October Purchasing Managers surveys (PMI) showed that economic expansion continued for a fourth month running in the Eurozone, a reading below September levels for both the composite and services indices suggests that recovery may be losing some momentum. In response to mounting deflation concerns and a fragile euro area recovery, the European Central Bank (ECB) unexpectedly cut its benchmark interest rate to a record low of 0.25% during the month.

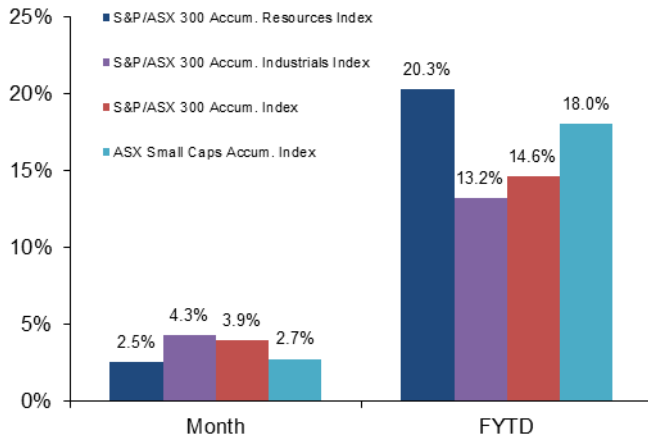
The Chinese government announced that the upcoming Third Plenary Session of the 18th Central Committee will take place from November 9<sup>th</sup>-12<sup>th</sup> where it is expected that the Communist leadership will provide an indication of their commitment and capacity to push through economic reform over the next few years. Meanwhile in Japan, economic growth has been showing signs of gaining momentum with Japanese retail sales surging in September and the PMI services index reaching its highest level (55.3) since 2007. Japan's manufacturing PMI also jumped higher over the month with a solid move up in the new orders component.

The RBA kept rates on hold at 2.5% at its November meeting noting that, despite the recent improvement in indicators of household and business sentiment, it is too soon to judge whether this improvement will be sustained. Overall the tone of the statement was more dovish than expected with the Board highlighting that the level of the Australian dollar continues to be uncomfortably high. The residential construction industry is continuing to show signs of an upturn in activity with building approvals for September printing significantly above the expected monthly result. Leading the gain was a 32% lift in private apartment approvals. Other domestic macro data was also more upbeat with a pick-up in both business and consumer confidence and solid retail sales data for the month of September. However, the latest labour force data was weak with both full time employment and the participation rate coming in below consensus expectations.



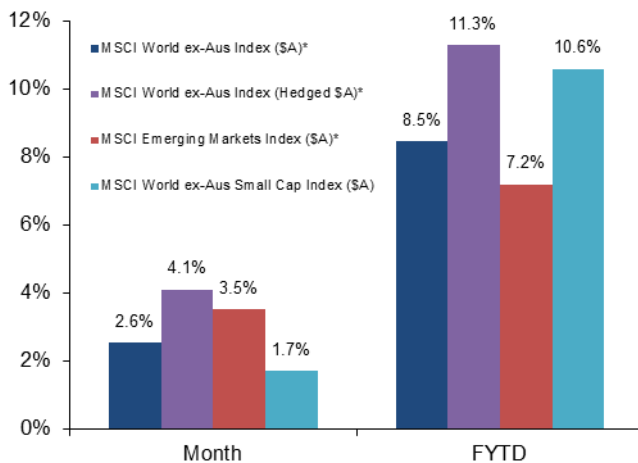
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**Australian Equities**



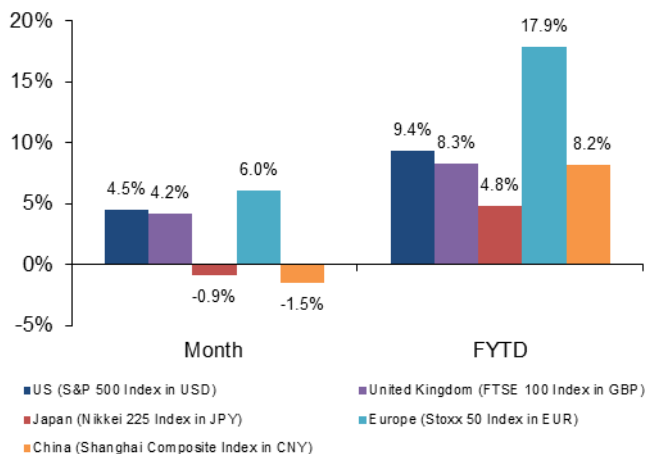
Australian equities had a solid month in October with all sectors finishing the month higher. Gains were led by the Financials (+5.5%), Health Care (+4.5%) and Telecommunications (+4.2%) sectors, however the Materials sector also performed strongly taking the financial year to date return for the S&P/ASX 300 Accumulation Resources Index to 20.3%. The Energy (0.2%) and Utilities (1.1%) sectors recorded the weakest gains over the month.

**International Equities (\$A)**



Unhedged international equities underperformed their hedged counterparts as the Australian dollar continued to rise over the month. Hedged international equity performance was also strong (+4.1%) relative to the Australian market (+3.9%). Gains in developed markets were led by the US and the UK. Emerging market equities also posted strong returns, led by South Korea, Brazil and India.

**International Equities (Local Currencies)**

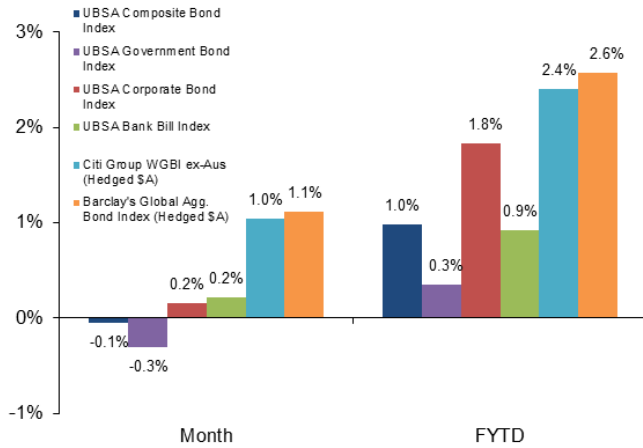


In local currency terms, developed market equities recorded strong performance over the month. In Europe, Spain (+7.9%) and Germany led the gains (+5.1%), while Japanese equities lagged following strong September performance. Emerging market equities benefited from US dollar weakness, however, China was a clear exception with a -1.5% fall over the month.



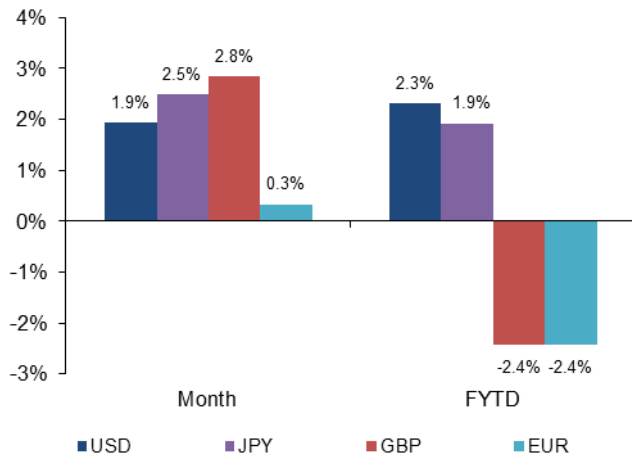
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Fixed Income



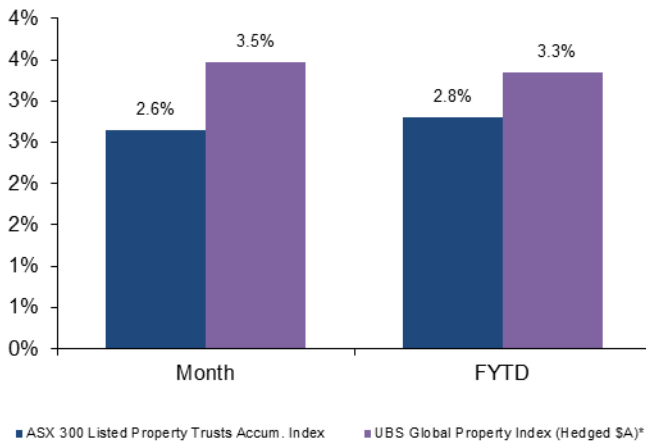
Global bond indices outperformed local bonds as international government bond yields declined moderately over the month. In contrast, Australian bond yields moved back above 4.0%, resulting in modest falls in domestic bond indices.

Australian Dollar against



The Australian dollar had another strong month due to a number of factors including improved growth data out of China and higher than expected domestic Q3 inflation. Against the USD, the currency was also supported by market expectations of tapering likely being delayed to 2014. Our dollar recorded gains against all other major currencies, with the largest upward move against the British pound.

Property



Australian listed property trusts recorded strong performance in October; however, they underperformed overseas listed property trusts. Overseas listed property trusts had another month of solid performance as markets revised their expectations around the timing of Fed tapering.

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## Frontier Capital Markets Report as at 31 Oct 2013

31-Oct-13	Index Value	Month	3 Months	FYTD	1 Year
<b>Australian Equities</b>					
S&P/ASX 300 Accum. Index	44,331	3.9%	8.9%	14.6%	24.8%
S&P/ASX 300 Accum. Industrials Index	85,342	4.3%	8.8%	13.2%	32.6%
S&P/ASX 300 Accum. Resources Index	21,937	2.5%	9.1%	20.3%	1.9%
ASX Small Caps Accum. Index	5,560	2.7%	7.5%	18.0%	2.8%
<b>International Equities</b>					
MSCI World ex-Aus Index (\$A)*	4,914	2.6%	1.0%	8.5%	38.2%
MSCI World ex-Aus Index (Hedged \$A)*	1,008	4.1%	6.0%	11.3%	30.8%
MSCI Emerging Markets Index (\$A)*	446	3.5%	4.0%	7.2%	16.7%
MSCI World ex-Aus Small Cap Index (\$A)	323	1.7%	1.9%	10.6%	44.0%
US (S&P 500 Index in USD)	1,757	4.5%	4.2%	9.4%	24.4%
United Kingdom (FTSE 100 Index in GBP)	6,731	4.2%	1.7%	8.3%	16.4%
Japan (Nikkei 225 Index in JPY)	14,328	-0.9%	4.8%	4.8%	60.5%
Europe (Stoxx 50 Index in EUR)	3,068	6.0%	10.8%	17.9%	22.5%
China (Shanghai Composite Index in CNY)	2,142	-1.5%	7.4%	8.2%	3.5%
<b>AUD Versus...</b>					
USD	0.95	1.9%	5.0%	2.3%	-8.6%
JPY	93.40	2.5%	5.6%	1.9%	13.0%
GBP	0.59	2.8%	-0.2%	-2.4%	-8.2%
EUR	0.69	0.3%	1.6%	-2.4%	-13.5%
<b>Property</b>					
ASX 300 Listed Property Trusts Accum. Index	27,997	2.6%	3.5%	2.8%	13.4%
UBS Global Property Index (Hedged \$A)*	1,680	3.5%	2.3%	3.3%	13.9%
<b>Australian Fixed Interest</b>					
UBSA Composite Bond Index	7,567	-0.1%	0.1%	1.0%	1.7%
UBSA Government Bond Index	7,894	-0.3%	-0.3%	0.3%	0.0%
UBSA Corporate Bond Index	7,754	0.2%	0.8%	1.8%	4.5%
UBSA Bank Bill Index	7,926	0.2%	0.7%	0.9%	3.0%
<b>Global Fixed Interest</b>					
Citi Group WGBI ex-Aus (Hedged \$A)	-	1.0%	1.8%	2.4%	4.2%
Barday's Global Agg. Bond Index (Hedged \$A)	-	1.1%	1.9%	2.6%	3.7%
<b>Oil and Commodities</b>					
Crude Oil (\$/bbl)	96	-5.8%	-8.2%	-0.2%	11.8%
Copper Spot (\$/tonne)	7,242	-0.7%	5.4%	7.6%	-6.7%
Gold Spot (\$/ounce)	1,324	-0.2%	0.8%	8.0%	-23.5%
<b>Fixed Income (Yields) as at ...</b>					
	31-Oct-13	30-Sep-13	31-Jul-13	30-Jun-13	31-Oct-12
Australia Bank Bill	2.58	2.56	2.64	2.79	3.12
Australia 10 Year Government Bond	4.02	3.81	3.73	3.76	3.13
US 10 Year Government Bond	2.55	2.61	2.58	2.49	1.69
UK 10 Year Government Bond	2.62	2.72	2.36	2.44	1.85
Germany 10 Year Government Bond	1.67	1.78	1.67	1.73	1.46
Japan 10 Year Government Bond	0.60	0.69	0.80	0.85	0.78

\* Net Dividends reinvested