

View from the hill

APRIL 2014

HILLROSS

Market update

The table below provides details of the movement in average investment returns from various asset classes for the period up to 31 March 2014.

| Asset class (% change) | 1 month | 3 months | 1 year | 3 years (%pa) |
|---------------------------------|---------|----------|--------|------------------|
| Australian shares | 0.3 | 2.1 | 13.5 | 8.5 |
| Smaller companies | -1.2 | 0.9 | -1.5 | -5.3 |
| International shares (hedged) | 0.4 | 1.5 | 21.5 | 14.2 |
| International shares (unhedged) | -3.4 | -2.4 | 34.7 | 14.5 |
| Emerging markets (unhedged) | -0.5 | -3.9 | 10.9 | 0.7 |
| Property - Australian listed | -1.6 | 3.1 | 5.0 | 11.7 |
| Property - global listed | 0.0 | 7.3 | 4.2 | 11.4 |
| Australian fixed interest | 0.0 | 1.5 | 3.3 | 6.7 |
| International fixed interest | 0.3 | 2.8 | 3.4 | 7.8 |
| Australian cash | 0.2 | 0.6 | 2.8 | 3.7 |

Overview & Outlook

It was a flat month on financial markets over March with little movement on share markets and mild increases in bond yields being recorded. For many Australian investors, the biggest impact on portfolios came via the negative effect of a rising Australian dollar on their overseas holdings. The \$A jumped from U.S. 89.5 cents to U.S. 92.2 cents over the course of the month.

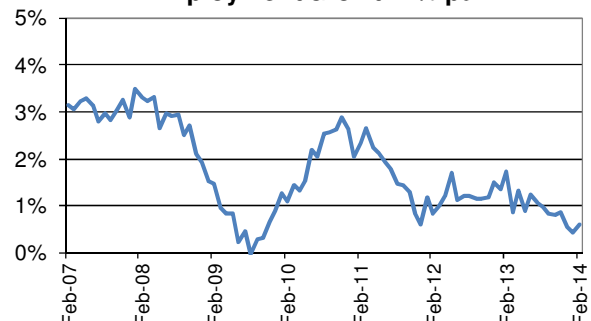
The strength of the Australian currency over March was unrelated to commodity prices, which were generally weaker. Further softening in the growth outlook for China contributed to falling iron ore and base metal prices. Oil was also 1% lower over the month.

Having more influence on the local currency last month appeared to be comments from the Governor of the Reserve Bank, Mr. Stevens, who suggested that Australian *"economic growth will continue, and may strengthen a little later this year and pick up further during 2015."* These comments may have been interpreted by foreign exchange markets as implying there was now very little likelihood of any further cash rate reductions and if growth did pick up interest rates would be forced to rise. This view on interest rates would increase the attractiveness and demand for \$A denominated investments.

The relatively positive view on the growth outlook expressed by the Reserve Bank Governor was backed

up by labour force data for the month of February, which showed a sharp improvement in employment growth. Over the month, the number of workers employed rose by 47,300, the highest monthly increase since March 2012. Despite the increase in employment, the unemployment rate remained unchanged at 6.0%, with rising workforce participation soaking up the employment that was created over the month. None-the-less, the employment data was considerably more promising than the subdued job growth numbers recorded for most of the past year.

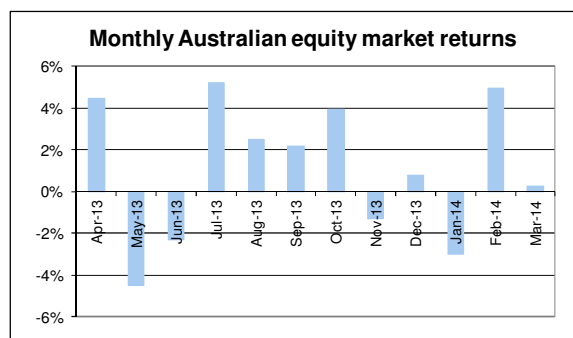
Employment Growth - % pa



Source: Australian Bureau of Statistics.

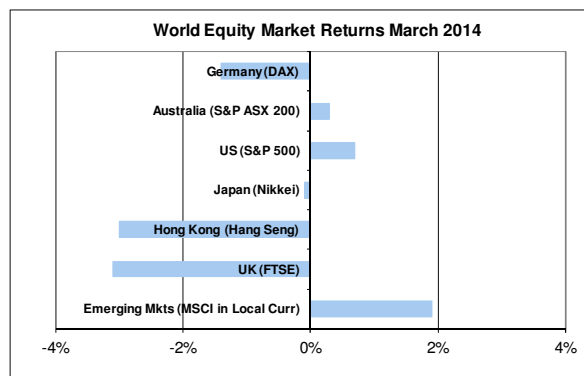
Also supporting a slightly more positive outlook for domestic economic growth were new housing approval and retail sales figures for the month of February. In both cases, recent increases in activity levels were largely maintained over the month.

Share markets



Source: S&P ASX 200 Index

Following the impressive bounce back over February, there was little growth in any of the major developed share markets during March. After taking into account dividend payments, the local market crept into positive territory with the S&P ASX 200 Index rising 0.3%. The U.S. S&P 500 Index also recorded an increase of less than 1%, with small negative movements being experienced across much of Europe as well as in Japan. At least some of the subdued mood of markets over March can be attributed to the crisis in Ukraine.



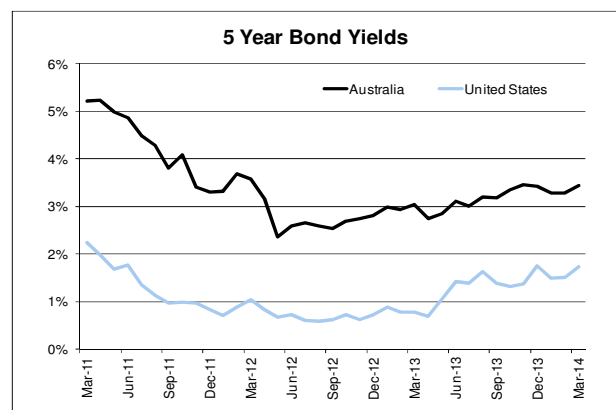
Source: Index as shown on chart. Returns in local currency of index

Average returns for Australians with hedged international share investments over March were very close to the local market return at 0.4%. However, the strong rise in the \$A (more than 3% against the \$US) pushed down the value of any unhedged overseas investment. The MSCI World Index for unhedged investments from Australia declined by 3.4% during March.

Emerging markets outperformed developed markets over March. The MSCI Emerging Market Index rose 1.9% in local currency terms (or -0.5% if measured in Australian dollars). There was a particularly strong bounce back on some South American markets although growth concerns held back the Chinese market. Eastern European markets also performed poorly with the crisis in Ukraine impacting on investor confidence.

Interest rates

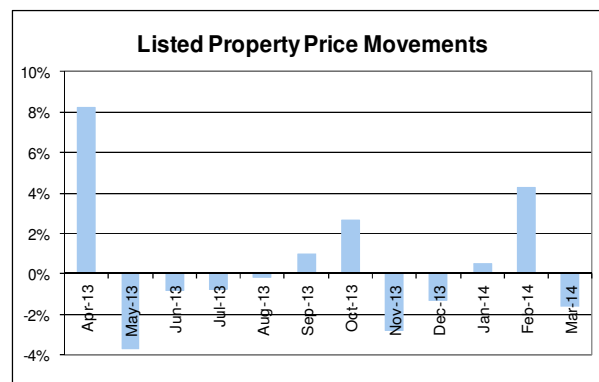
Australian overnight cash interest rates have remained unchanged with the Reserve Bank continuing to target 2.5%. Bond yields did, however, drift higher over March. This possibly reflected a slightly improved economic growth outlook. The Australian 5-year Government bond yield increased from 3.29% to 3.44% during the month. There was a similar trend in the United States, where the 5-year yield rose from 1.51% to 1.73%.



Source: Reserve Bank of Australia. US Federal Reserve.

Property

Australian listed property lost some of the gains made in February with the sector declining by 1.6% over March. Concerns over office vacancy levels have held back support for some property trusts over recent months, with industrial property attracting stronger support. Global listed property was largely unchanged in value over March.



Source: S&P ASX 200 A-REIT Acc Index.

Support for Australian residential property continues to remain strong with price growth and auction clearance rates remaining high. Of the capital cities, the Australian Bureau of Statistics Price Series suggests that Sydney (up 13.8%) had the highest rate of increase in price over 2013, followed by Perth (up 8.7%) and Melbourne (up 7.9%).