

View from the hill

JUNE 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 May 2014**.

Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	0.7	2.8	16.5	10.3
Smaller companies	0.1	-2.3	6.2	-4.3
International shares (hedged)	2.1	3.0	17.2	12.2
International shares (unhedged)	1.2	-1.6	20.1	13.2
Emerging markets (unhedged)	3.0	2.9	7.4	2.8
Property - Australian listed	0.1	4.1	6.6	13.8
Property - global listed	3.3	7.0	11.6	11.5
Australian fixed interest	1.4	2.3	4.1	6.9
International fixed interest	1.1	2.3	5.6	7.6
Australian cash	0.2	0.7	2.7	3.6

Overview & Outlook

Although the Commonwealth Government Budget Statement dominated the financial press in May, it appeared to have little tangible impact on local financial markets. The moderate tightening of fiscal policy announced in the Budget was widely anticipated. The Australian share market did underperform most other markets last month. However, this is likely to have reflected falling iron ore prices rather than any Budget related impact.

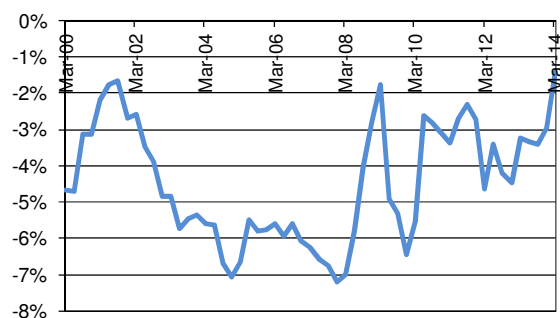
There was, however, a marked deterioration in consumer confidence following the Budget announcement. The Westpac Melbourne Institute Index of Consumer Sentiment, which measures the results of a survey into various aspects of how consumers feel about their future financial prospects, fell by 6.8% during May to 92.9 points. The average score for this Index over the longer term is 100 points. However, some changes in consumer sentiment can be very short term in nature. In 2013, for example, a post budget 7.0% decline in the Consumer Sentiment Index in May was quickly followed by a 4.7% increase in June.

In contrast to the decline in consumer sentiment, much of the recent news on the health of the local economy has been positive. National Accounts data for the March quarter showed economic growth was higher than expected. Over the 3 month period, Gross Domestic Product expanded by 1.1% and lifted the annual rate of

economic growth from 2.7% to 3.5%. Underpinning this improved growth was a significant contribution from exports, which rose in volume by 4.8% over the quarter.

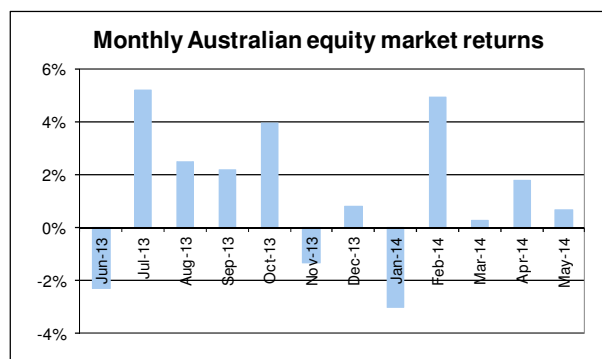
The recent jump in exports largely reflects the expansion in capacity of Australia's mining sector, which has been the beneficiary of significant investment over recent years. Although commodity price falls have seen a decline in the price received for many of Australia's exports, higher volumes are boosting actual dollar receipts. As a result, there has been a significant improvement in Australia's trade accounts over recent months. The Current Account Deficit in the March quarter dropped from \$11.7 billion to \$5.7 billion. Relative to the size of the economy, this is the lowest deficit since 1980.

Current Account Balance (% of GDP per Quarter)



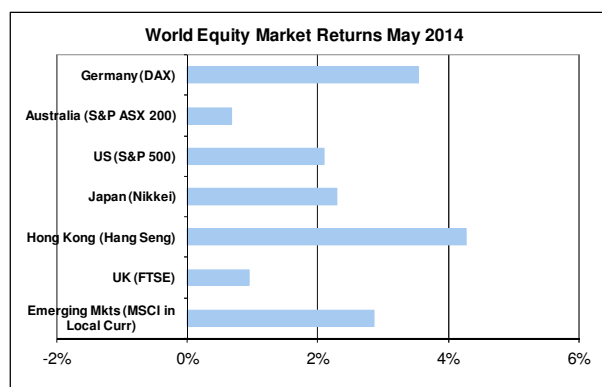
Source: Australian Bureau of Statistics.

Share markets



Source: S&P ASX 200 Index

All major share markets moved higher during May as the confidence over the continuation of improved global economic growth once again encouraged investors. The Australian market did underperform, however, with the S&P ASX 200 Index rising by just 0.7%. Weakness in the iron ore price, which hit a 20 month low at around \$US 92 per tonne, held back the local market. Resource stocks were 1.3% lower as a result; whereas industrial shares increased 1.1% over the month.



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

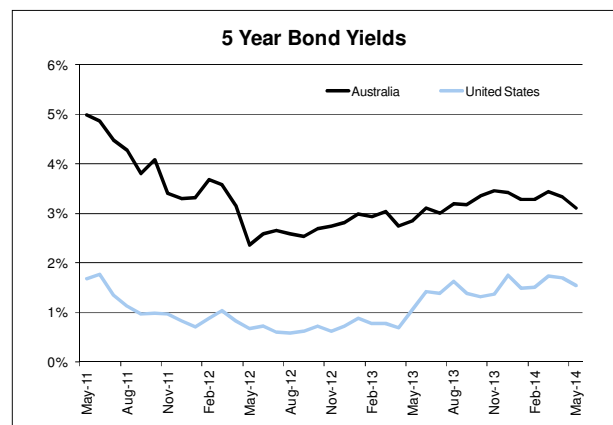
Australians with hedged international share investments received an average return of 2.1% last month. With the \$A rising (from US 92.9 cents to US 93.2 cents) investors with unhedged investments experienced a lower growth of 1.2%.

European markets performed very well over May with firming expectations of looser monetary policy being put in place by the European central bank. The German DAX was 3.5% higher with an increase of 2.0% recorded in France. The U.S. market also advanced, hitting new record highs with a 2.1% return.

It was also a more promising month for emerging markets. The MSCI Emerging Market Index rose 2.9% in local currency terms (or 3.0% if measured in Australian dollars). Although lower commodity prices resulted in some weakness in South American markets, there was a strong bounce back in Russia and some Eastern European markets as investors appeared less concerned over the ongoing crisis in Ukraine.

Interest rates

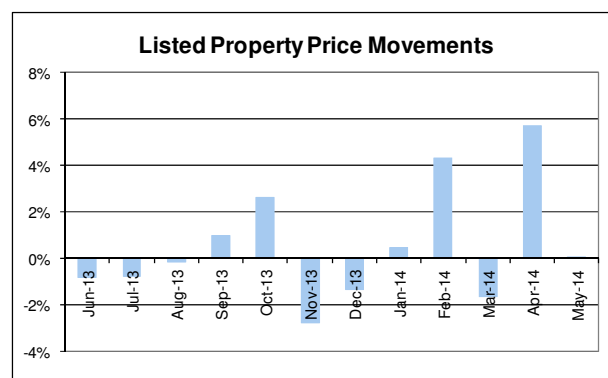
For the 9th consecutive month, Australian overnight cash interest rates remained unchanged in May with the Reserve Bank continuing to target 2.5%. Longer term yields, however, drifted lower as the lack of inflation across the Northern Hemisphere provided bond investors with confidence that the low interest rate regime would be continued. The Australian 5-year Government bond yield decreased from 3.33% to 3.11% during the month. There was a similar trend in the United States, where the 5-year yield fell from 1.69% to 1.54%.



Source: Reserve Bank of Australia. US Federal Reserve.

Property

Following a particularly strong 5.7% increase in April, Australian listed property consolidated with a flat result over May. Global listed property, however, continued to surge ahead with a 3.3% increase in May bringing the quarterly gain to a healthy 7%.



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

Australian Bureau of Statistics data for residential house prices showed that prices continued to increase across Australia during the March quarter - with the exception of Canberra, where prices dropped 0.1%. Sydney continued to record the highest rate of increase with a quarterly rise of 2.3% bringing the annual gain to 15.7%. Across all capital cities, the average gain in house prices was 1.7% for the quarter and 10.9% for the year.

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