NEWSLETTER

Financial Markets – March Quarter 2017 Review

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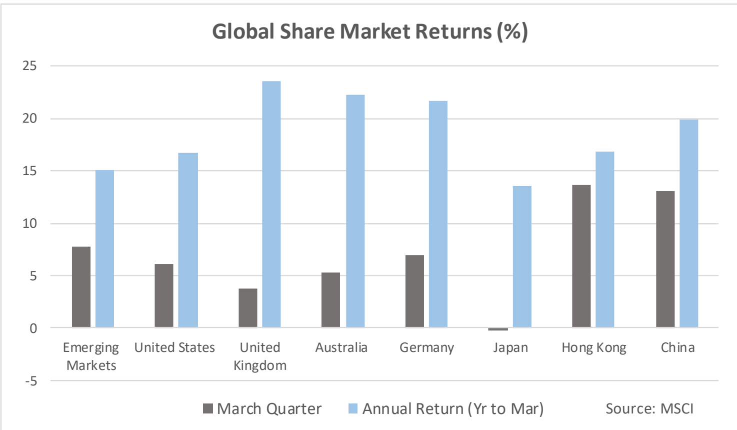
The March quarter was again favourable for investors, with most major asset classes posting positive returns. A favourable global economic backdrop continued to support an optimistic investor mood. In summary, the March quarter produced the following:

- Equity markets continued to push higher, both globally and domestically
- Global economic growth indicators remained generally positive
- Interest rates steadied following the December quarter increase
- The $A strengthened against most major currencies

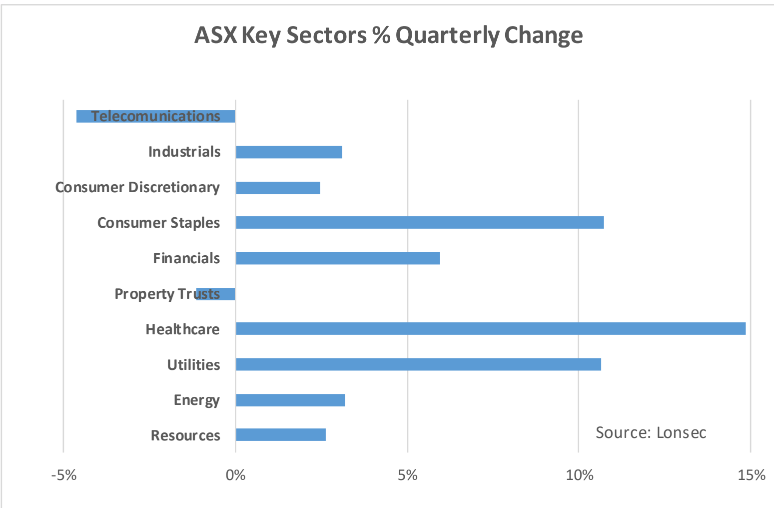
The positive momentum on global share markets that followed the Republican's U.S. election victory in November continued well into March quarter. Once again, the U.S. share market hit record highs, as expectations of tax cuts and a government spending stimulus remained firm. The Trump administration's failure to gain sufficient support to have the Affordable Care Act approved did little to dent the confidence of equity markets. Over the March quarter, the U.S. share market gained 6.1% and is now ahead 16.7% on an annual basis. Indicative of the general optimism currently prevailing in the U.S., was the release of the U.S. Conference's Board Consumer Confidence Index, which surged in March, rising from 116.1 points to 125.6. This is the highest level of confidence measured in the U.S. since December 2000.



Healthy gains were also recorded across Europe, with share markets in the United Kingdom (up 3.8%), Germany (up 6.9%) and France (up 5.8%) all rising strongly. These solid results in Europe were achieved despite the political environment being potentially destabilised by the forthcoming French elections and the recent formal notification from the U.K of their intention to leave the European Union under Article 50 of the EU treaty. Japan was an exception to the general trend last quarter, with a small 0.2% fall recorded on its share market. Elsewhere in Asia, there were much stronger

performances with China and Hong Kong moving higher by 13.1% and 13.7% respectively. The gains on the Chinese market contributed to an overall 7.8% increase in the MSCI Emerging Markets Index. The fact that emerging markets bounced back strongly last quarter despite a rise in the United States cash interest rate, suggests a tempering of earlier fears that higher U.S. yields would create a flight of capital out of emerging economies.

Following a decline in the December quarter, the Australian currency recovered strongly over the 3 months to March. Against the $US, the $A rose from 72.4 cents to 76.4 cents, and is now at almost the same level recorded 12 months earlier. Against several other currencies, however, the $A has appreciated over the past year, being some 5.8% higher against the Euro and some 14.8% higher against the British Pound. Rising commodity prices have provided key support for the $A, as well as generating a burgeoning trade surplus for the Australian economy. The Reserve Bank's Commodity Price Index has increased a substantial 50% over the year to the end of March.



Despite the ongoing strength of commodity prices, resource stocks underperformed the average on the local share market. In contrast to the December quarter, the more defensively positioned utilities, healthcare and consumer staples sectors led the Australian market higher over the March quarter. Both telecommunications and property trusts moved against the general market trend by posting negative returns. In addition to the positive lead from overseas, the generally favourable profit reporting season added to investor confidence last quarter. Of those companies within the ASX 200 Index reporting profit, some 45% beat market expectations of earnings results, with 33% missing expectations. This was the most favourable ratio of companies exceeding expectations since the Global Financial Crisis.

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Financial Markets – December Quarter 2016 Review

As was the case in the December quarter, smaller companies under-performed their larger counterparts. Smaller companies posted an average gain for the quarter of 2.8%, with small resource stocks contributing to the underperformance with an average decline of 1.2%. There was considerable disparity in price movements across smaller stocks, with the quarter being characterised by large market reactions to earnings results.

After a relatively sharp increase in the December quarter, longer term interest rates stabilised in the March quarter. The 10-year government bond yield in the United States fell from 2.45% to 2.40% over the course of the quarter.

Asset Class	Mar Qtr % Return
Australian Equities	4.8%
Global Equities - Unhedged	0.9%
Global Equities - Hedged	5.7%
Australian Listed Property	-0.1%
Global Listed Property	0.2%
Global Listed Infrastructure	7.2%
Australian Fixed Interest	1.2%
Global Fixed Interest	0.7%
Cash	0.4%

In Australia, the equivalent yield declined by a similar small margin, falling from 2.76% to 2.70%. The slightly lower longer term interest rates occurred despite the announcement of a cash interest rate increase by the U.S. Federal Reserve following its March meeting. The 0.25% increase in the Federal Fund Rate to 1.0% follows the previous increase of 0.25% announced after the December 2016 meeting.

Portfolio Positioning

Our portfolios continued to benefit from their asset allocation positioning with underweight exposures to fixed interest and property reducing the impact of low and negative returns from these sectors. Given the continued escalation of equity markets into more expensive valuation ranges, a more defensive equity position is being considered.

Important Information

The following indexes are used to report asset class performance and calculate the benchmark returns for this model portfolio: ASX S&P 200 Index, MSCI World Index ex Australia net AUD TR (composite of 50% hedged and 50% unhedged), FTSE EPRA/NAREIT Developed REITs Index Net TRI AUD Hedged, Bloomberg AusBond Composite 0 Yr Index, Barclays Global Aggregate ($A Hedged), Bloomberg AusBond Bank Bill Index, S&P ASX 300 A-REIT (Sector) TR Index AUD, S&P Global Infrastructure NR Index (AUD Hedged).

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