Market update

The table below provides details of the movement in average investment returns from various asset classes for the period up to **30 April 2015.**

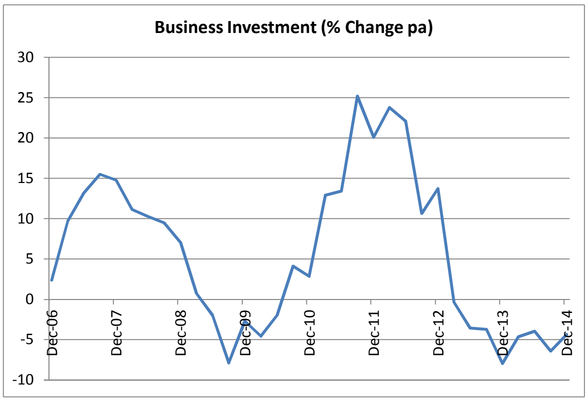
Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	-1.7	5.0	10.2	14.6
Smaller companies	1.7	8.1	5.3	-0.9
International shares (unhedged)	-0.8	5.3	26.7	24.8
International shares (hedged)	1.3	7.2	17.4	19.8
Emerging markets (unhedged)	4.3	8.1	26.6	13.3
Property - Australian listed	-1.1	0.4	26.0	20.1
Property - global listed	-3.3	-4.0	19.4	15.6
Australian fixed interest	-1.1	-0.1	8.9	6.2
International fixed interest	-0.4	0.0	8.9	7.0
Australian cash	0.2	0.6	2.6	2.9

Overview & Outlook

April saw some reversal of the recent dominant trends on financial markets, with commodity prices bouncing off recent lows and longer term interest rates moving higher. This reflected a slightly more optimistic outlook for global economic growth, which has been underpinned by ongoing positive economic data from the U.S. and recent policy support announcements in Europe and China.

Increased confidence in the growth outlook would normally be accompanied by rising share markets. Whilst this was the case for several overseas markets in April, the Australian share market recorded its second consecutive decline last month. The local market was dragged down by its heavy exposure to banks. Concerns over proposed regulatory changes that would require banks to hold larger amounts of capital resulted in a pull-back in bank share prices from recent highs. April's results highlight the overall sensitivity of the Australian market to the fortunes of the banking sector.

Notwithstanding some recent improvement in the outlook for global growth, and some recent healthy activity levels across Australian residential construction and retail spending, the potential for growth in the Australian economy continues to be held back by low growth in business investment. The chart below shows that business investment spending has been in decline over the past year.

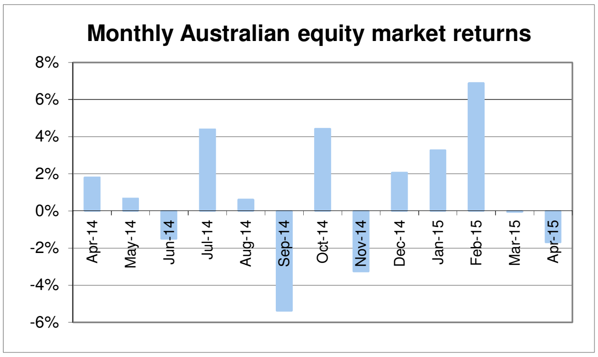


Source: Australian Bureau of Statistics 5206.

The negative growth experienced in business investment (i.e. spending by firms on items that can be used for future production e.g. machinery) is symptomatic of the non-mining industry not increasing expenditure sufficiently to offset the decline from the mining boom. Given that business investment spending is required to build capacity for future production, the current decline in investment spending places a constraint on future economic growth. This was no doubt an important consideration when the Reserve Bank cut interest rates to a record low of 2% in early May. In announcing the change in monetary policy, the central bank suggested that *" the key drag on private demand is likely to be weakness in business capital expenditure in both the mining and non-mining sectors over the coming year."*

Share markets

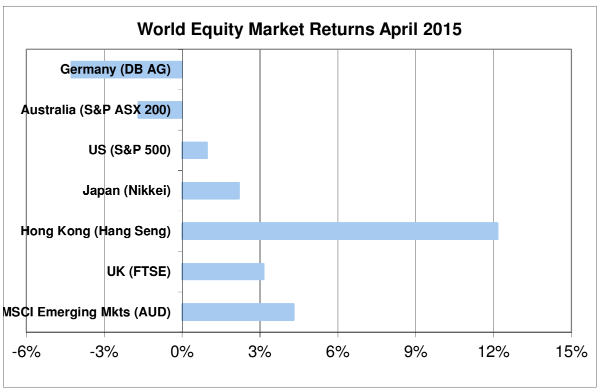
Trends were mixed on share markets over April as local factors tended to heavy influence the direction of major markets. In Australia, a recovery in the price of iron ore saw the value of key mining stocks rise from cyclical lows, with the resource sector gaining 4.3% over the month. However, this pick-up in mining stocks was insufficient to offset the decline in finance stocks, which averaged a fall of 4.7%. A major influence on banking sector share prices last month was the focus on regulatory change that would require banks to hold more share capital. The Chairman of the Australian Prudential Regulation Authority, Mr. Byres, suggested that some changes may be possible “sooner rather than later”. Overall, the Australian S&P ASX 200 Index finished the month 1.7% lower, but remains 10.2% ahead on an annual basis.



Source: S&P ASX 200 Index

Returns on overseas share markets were slightly positive last month with Australian investors with hedged international shares receiving an average gain of 1.3%. However, a rise in the Australian dollar (from U.S. 76.3 to U.S. 79.8 cents) led to losses on unhedged investments, with a 0.8% decline recorded in the value of overseas share investments in $A terms.

The increase on the U.S. market was close to the global average with the S&P 500 Index reaching new highs with a 1.0% gain last month. European markets were weaker, however, with some renewed concerns emerging over the lack of agreement on the repayment arrangements for Greek government debt.

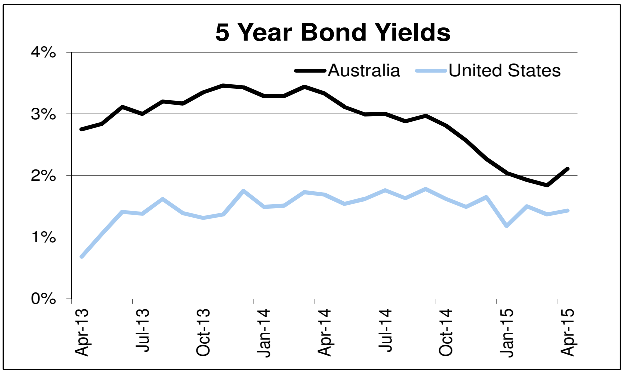


Source: Index as shown.

Emerging and Asian markets were the strongest performers over April. Gains in China (up 16.6%) and Hong Kong (up 12.2%) continued the strong rally recorded in this region, as investors have responded positively to expansionary policy initiated by Chinese authorities. Japan also recorded a solid result with the Nikkei Index advancing 1.6% to bring the annual gain to an impressive 36.5%.

Interest rates

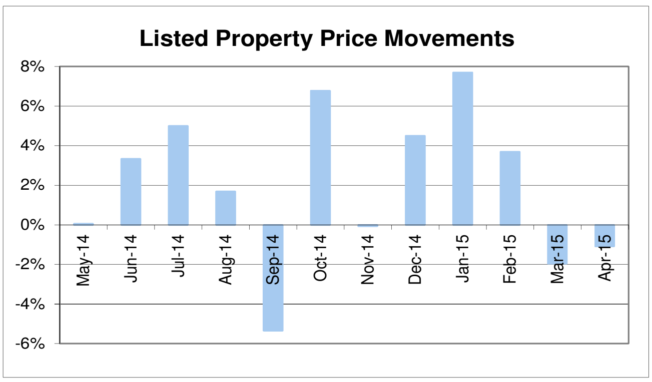
Following its Board meeting in early May, the Reserve Bank lowered the overnight cash interest rate to a record low of 2.0%. This change was widely anticipated by financial markets and follows the 0.25% reduction announced in February. In contrast to the lower short term cash rate, bond yields have been on the rise over recent weeks. During April, the Australian 5-year Government bond yield rose from 1.84% to 2.11%. The increase in overseas yields was less significant, with the equivalent 5-year yield in the U.S. rising by 0.06% to 1.43%.



Source: Reserve Bank of Australia. US Federal Reserve.

Property

Consistent with the decline in equities last month, the listed property sector recorded a fall of 1.1% over April. There was an even greater fall on global markets with the UBS Global Investors Listed Property Index dropping 3.3%. Rising bond yields may have been at least partially responsible for the declines in listed property prices, with higher interest rates making property yields less attractive in relative terms.



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