View from the hill

JULY 2015

HILLROSS

Market update

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

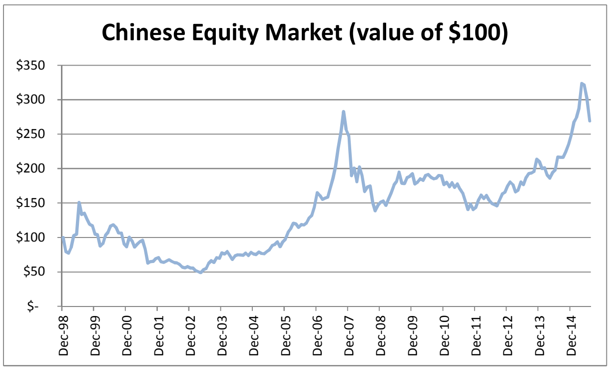
Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	-5.3	-6.6	5.7	15.1
Smaller companies	-7.8	-4.0	0.4	2.5
International shares (unhedged)	-2.7	-0.1	25.2	26.1
International shares (hedged)	-2.7	0.0	10.9	19.9
Emerging markets (unhedged)	-3.0	0.1	16.5	14.2
Property – Australian listed	-4.2	-2.4	20.3	18.4
Property – global listed	-4.3	-8.4	8.1	13.2
Australian fixed interest	-0.9	-2.0	5.6	4.8
International fixed interest	-1.1	-1.7	5.6	6.0
Australian cash	0.2	0.6	2.6	2.9

Overview & Outlook

The financial year ended on a negative note for investors with all major asset classes, except cash, falling in value over June. Despite this decline last month, major asset classes still posted healthy positive returns for the financial year as a whole.

International factors dominated investor sentiment and market direction over June. Greece was a major area of focus, with the Greek government ending the month in arrears on a €1.5 billion repayment owing to the International Monetary Fund. With the Greek banking system now closed, negotiations between Greece and its creditors are continuing. The Greek population indicated their preference, in a referendum held in early July, not to accept the conditions attached to earlier loan bailout offers from creditors.

Also creating concern for investors has been a significant sell-off on the Chinese equity market. Over the month of June and into early July, China's share market suffered sharp price falls approaching -30% for the Shanghai Composite Index. However, due to the extraordinary strength of the rally prior to this fall, the Chinese market remains around 70% above the level recorded one year ago. Chinese authorities have taken various steps in an attempt to stabilise the market, including the banning of all short-selling and the temporary suspension of trading in a large number stocks.



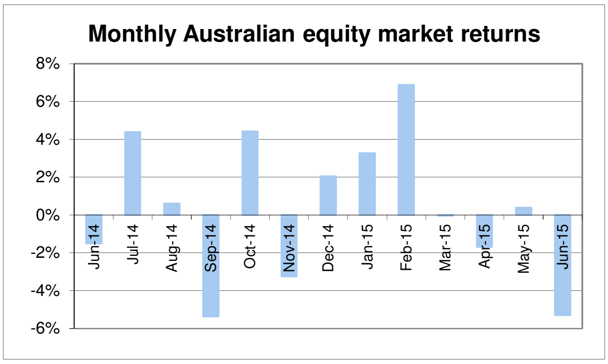
Source: MSCI China Index (USD). Up to 8th July 2015.

Although generating a considerable lift in global share market volatility, recent events in Greece and China are being driven by country specific factors. At this stage, these factors don't appear likely to have a major influence on the longer term direction of global markets. None-the-less, commodity markets have reacted negatively to the fall on the Chinese share market and this is likely to have an impact, in the short term at least, on the profitability of the Australian mining sector.

Local economic data released over the month of June was broadly in line with market expectations. Employment growth and housing construction continued to show some positive momentum. However, retail sales in May were weaker than expected, with a 0.3% rise in sales over the month following modest results in both March and April.

Share markets

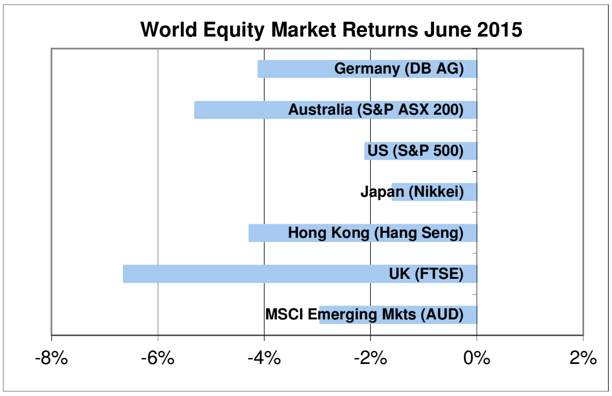
For the third time over the last 4 months, the Australian share market produced a negative return, with the S&P ASX 200 Index falling 5.3% in June. In annual terms, though, returns remain positive with the market producing a gain of 5.7% (including dividends).



Source: S&P ASX 200 Index

Falling commodity prices weighed heavily on the Australian market, with the resource sector dropping 9.0% over the month. Resource stocks are now 16.6% lower than they were one year ago. After being sold off heavily in the previous month, the finance sector performed better than the general market over June, with losses in the sector restricted to 2.9%.

Smaller companies continued to underperform, with the Small Ordinaries Index dropping 7.8%. Again it was resources recording the largest losses with small resource companies experiencing an average price decline of 11.3% to be 24.8% lower for the year.



Source: Index as shown.

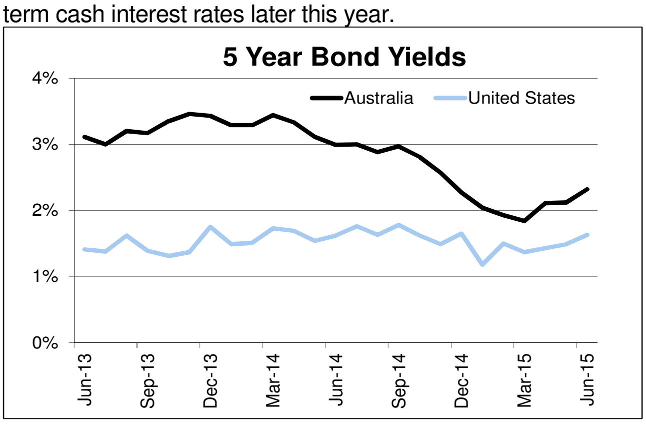
All major overseas markets also posted falls last month. Concerns over the lack of a solution to the Greek debt crisis led European markets lower. Declines were consistent across most European markets with the majority in the 4% to 5% range; although the drop in the U.K.'s FTSE Index was slightly greater at 6.6%.

Being more distant from the events in Europe, both the U.S. and Japanese markets performed better than the global average. The U.S. S&P 500 Index was 2.1% lower, with the Japanese Nikkei down by just 1.6%.

The sell-off on Chinese markets impacted negatively on the results for the MSCI Emerging Market Index (down 3.0%) and Hong Kong's Hang Seng Index, which was 4.3% lower. The MSCI China Index fell by 5.6% in the month of June with smaller losses being recorded across other emerging Asian markets.

Interest rates

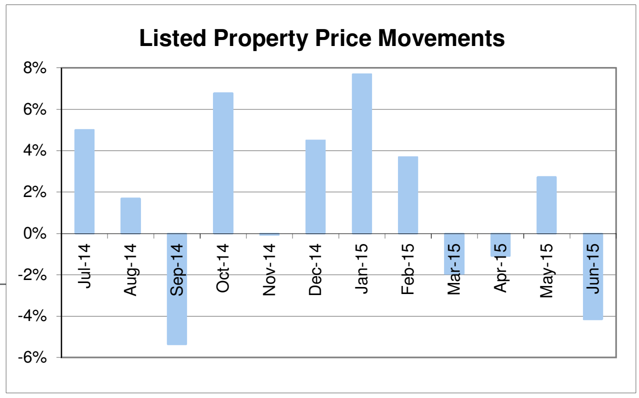
The Reserve Bank held cash interest rates steady over June. Longer term yields, however, resumed an upward path. The U.S. 5-year Government bond yield rose from 1.49% to 1.63%, with the Australian equivalent rising from 2.12% to 2.32%. With bond yields rising, negative returns were recorded for fixed interest investors. Money markets remain focused on the stance of the U.S. Federal Reserve, which is still expected to raise short term cash interest rates later this year.



Source: Reserve Bank of Australia. US Federal Reserve.

Property

Listed property followed the general equity market lower over June. Locally, the sector finished the month down 4.2%, with a similar return recorded on global listed property markets. Despite the fall in June, annual results remain impressive, with Australian listed property providing a 20% return.



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

Residential property prices continue to push higher. Australian Bureau of Statistics data for the March quarter showed an increase of 1.6% across Australia's capital cities. The annual rate of growth in prices is now 6.9%, with Sydney positing the strongest gain of 13.1%.