AUGUST 2013

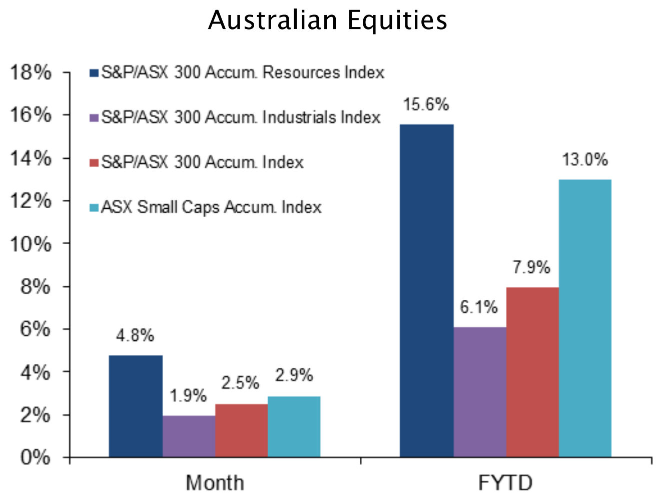
Market Overview

In August market performance was mixed in the face of burgeoning political uncertainty in Egypt and Syria, and the expectation of a likely start to tapering by the Federal Reserve in September. Both developed market fixed income and equity markets moved lower as the prospect of the Federal Reserve scaling back its bond purchasing program at its 18 September meeting pushed US Treasury yields higher. Emerging market currencies in particular were heavily sold off with significant falls recorded by the Indian Rupee and the Indonesian Rupiah. The substantial declines recorded by some currencies forced a number of policymakers to intervene in their respective foreign exchange markets. Brazil's central bank announced a USD $60 billion currency intervention program which will provide funding to the foreign exchange market until the end of 2013. This move was followed by a 50 basis point (0.5%) hike in Brazil's benchmark rate taking it to 9.0%.

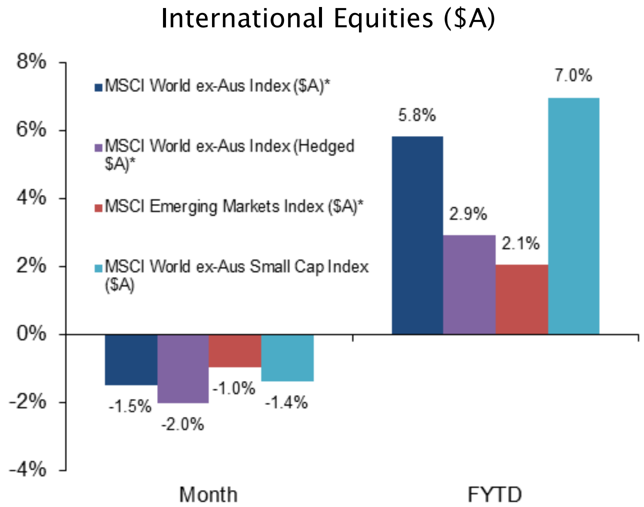
Europe continues to show signs of economic recovery with the latest PMI (Purchasing Managers' Index) data suggesting that manufacturing activity is broadening to the Euro-zone's weaker southern members. At 51.4 the Euro-zone manufacturing PMI reached a 26 month high in August with the sub-indices for both new orders and new export business accelerating. The UK economy is also continuing to surprise on the upside with a raft of data, including improving consumer confidence, sharply higher PMIs and rising mortgage approvals pointing to more robust economic growth. Moreover, second quarter GDP growth of 0.3% q/q in the Euro-zone marked the end of an 18 month recession. The upturn in growth was led by the Euro-zone's largest economies, Germany (0.7% q/q) and France (0.5% q/q), but some encouraging signs were also evident in the peripheral European economies.

While recent economic indicators out of Japan have been mixed, a solid increase in July industrial production suggests that the economy has not yet lost growth momentum. Encouragingly, core inflation is also showing signs of accelerating bringing the Bank of Japan (BOJ) closer to ending an era of deflation. In further signs that growth is stabilising in China, the official Chinese manufacturing PMI came in at 51 in August - above expectations and at the highest level reached in 16 months. The improvement was broad based led by increases in new orders and production. Additionally, new export orders also edged higher, likely driven by stronger economic growth in the US and Europe.

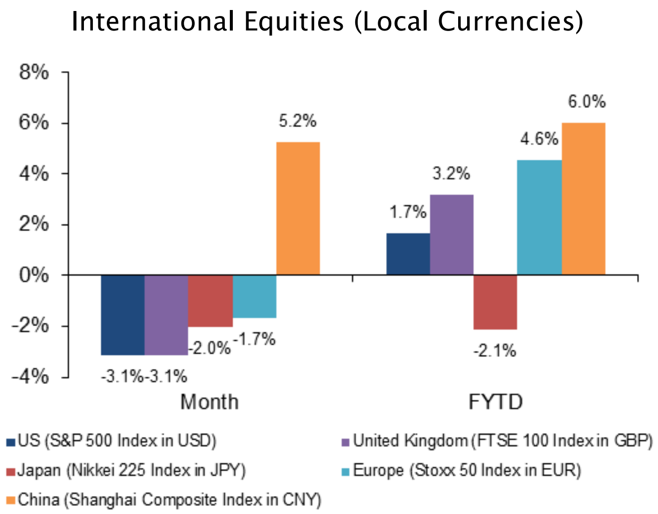
In Australia, the S&P/ASX 300 Accumulation Index finished the month 2.5% higher following a reasonable reporting season with earnings broadly close to expectations. Second quarter GDP data showed that growth (0.6% q/q) was supported by increased exports while consumer spending saw a deceleration over the last quarter with households limiting expenditure on discretionary goods and leisure. However, the latest Westpac-Melbourne Institute consumer sentiment survey which moved higher over the month from 102.1 in July to 105.7 in August indicates that the outlook for consumer spending may finally be improving. In the lead up to the Federal election the RBA left the benchmark rate unchanged at 2.5% at its September meeting, stating that the Board saw further scope for depreciation of the Australian dollar which would be expected to further assist with rebalancing growth in the economy.



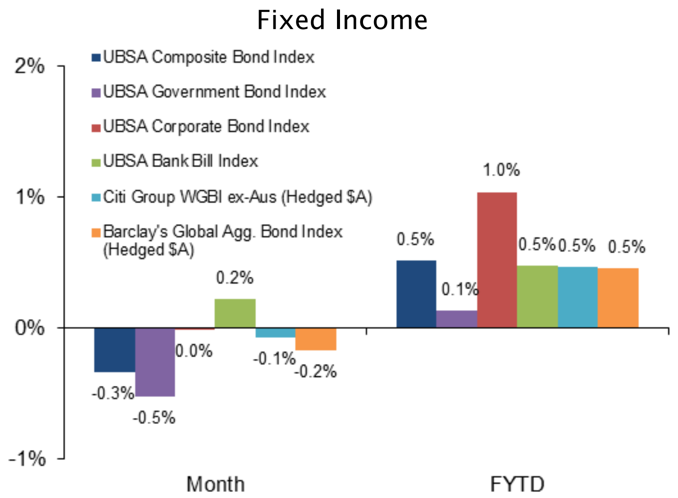
Following a reasonable reporting season Australian equities rallied in August climbing 2.5% higher and taking the financial year to date gain to 7.9%. Gains were broad based and were led by the Industrials (4.5%), Consumer Discretionary (4.4%) and Materials (3.8%) sectors. The weakest performers included the Telecommunications (-1.8%) and Financials (0.1%) sectors.



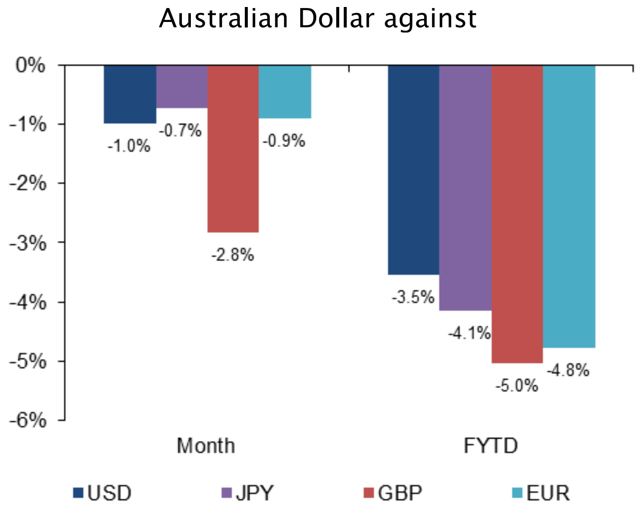
In contrast to the performance of the domestic market, international equities were lower in August while in Australian dollar terms unhedged equities continue to outperform their hedged counterparts (in the face of ongoing AUD weakness). Additionally, despite notable declines in emerging market (EM) currencies, EM equities marginally outperformed developed markets. The MSCI World-ex Australia Index's returns were dragged lower by soft performances from the US, the UK and Japan.



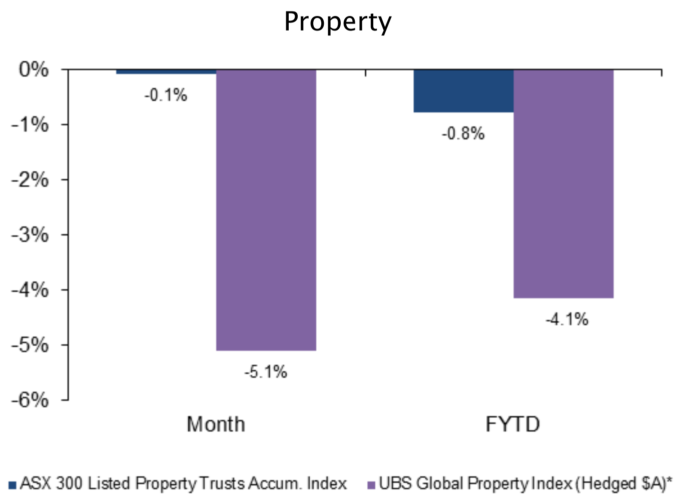
In local currency terms developed market international equities were sharply lower, led by the US and the UK which were both down 3.1% over the month. Emerging market equity performance was mixed with China rebounding strongly following more stable economic data, while a number of other Asian emerging market equities were sold off as their currencies went into free-fall.



Both global and domestic government bond yields moved higher over the month as the market continued to price-in likely imminent QE tapering by the Federal Reserve. As a result overseas and Australian fixed income investments closed the month marginally weaker.



The Australian dollar continued its slide against all major currencies in August despite a solid rise in metal prices. The weakness in the AUD/USD seems largely to have been driven by speculation around the timing of the Fed's tapering decision. Meanwhile, the British Pound moved higher as upbeat economic data continued to support demand for sterling.



Australian listed property trusts recorded marginal declines in August, falling 0.1%. In contrast, global property trusts fell sharply in the face of higher long term bond yields and ongoing geopolitical tensions in the Mideast.

Frontier Capital Markets Report as at 30 Aug 2013

30-Aug-13	Index Value	Month	3 Months	FYTD	1 Year
Australian Equities					
S&P/ASX 300 Accum. Index	41,750	2.5%	5.3%	7.9%	23.6%
S&P/ASX 300 Accum. Industrials Index	79,958	1.9%	5.7%	6.1%	29.3%
S&P/ASX 300 Accum. Resources Index	21,074	4.8%	3.9%	15.6%	6.2%
ASX Small Caps Accum. Index	5,322	2.9%	4.9%	13.0%	4.1%
International Equities					
MSCI World ex-Aus Index ($A)*	4,795	-1.5%	8.3%	5.8%	36.9%
MSCI World ex-Aus Index (Hedged $A)*	933	-2.0%	0.4%	2.9%	23.6%
MSCI Emerging Markets Index ($A)*	425	-1.0%	0.1%	2.1%	16.7%
MSCI World ex-Aus Small Cap Index ($A)	313	-1.4%	9.7%	7.0%	42.3%
US (S&P 500 Index in USD)	1,633	-3.1%	0.1%	1.7%	16.1%
United Kingdom (FTSE 100 Index in GBP)	6,413	-3.1%	-2.6%	3.2%	12.3%
Japan (Nikkei 225 Index in JPY)	13,389	-2.0%	-2.8%	-2.1%	51.5%
Europe (Stoxx 50 Index in EUR)	2,721	-1.7%	-1.7%	4.6%	11.5%
China (Shanghai Composite Index in CNY)	2,098	5.2%	-8.8%	6.0%	2.5%
AUD Versus...					
USD	0.89	-1.0%	-7.3%	-3.5%	-13.1%
JPY	87.84	-0.7%	-9.8%	-4.1%	8.7%
GBP	0.58	-2.8%	-9.1%	-5.0%	-11.7%
EUR	0.68	-0.9%	-8.7%	-4.8%	-18.0%
Property					
ASX 300 Listed Property Trusts Accum. Index	27,024	-0.1%	-1.7%	-0.8%	16.7%
UBS Global Property Index (Hedged $A)*	1,558	-5.1%	-6.6%	-4.1%	7.2%
Australian Fixed Interest					
UBSA Composite Bond Index	7,533	-0.3%	-0.5%	0.5%	2.3%
UBSA Government Bond Index	7,877	-0.5%	-1.1%	0.1%	0.1%
UBSA Corporate Bond Index	7,694	0.0%	0.4%	1.0%	5.7%
UBSA Bank Bill Index	7,891	0.2%	0.7%	0.5%	3.2%
Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged $A)	-	-0.1%	-0.4%	0.5%	3.2%
Barclay's Global Agg. Bond Index (Hedged $A)	-	-0.2%	-0.8%	0.5%	2.8%
Oil and Commodities					
Crude Oil ($/bbl)	108	2.5%	17.0%	11.5%	11.6%
Copper Spot ($/tonne)	7,078	3.0%	-2.8%	5.1%	-7.0%
Gold Spot ($/ounce)	1,396	6.3%	0.1%	13.9%	-17.9%

Fixed Income (Yields) as at ...	30-Aug-13	31-Jul-13	31-May-13	30-Jun-13	31-Aug-12
Australia Bank Bill	2.56	2.64	2.78	2.79	3.57
Australia 10 Year Government Bond	3.90	3.73	3.36	3.76	3.09
US 10 Year Government Bond	2.78	2.58	2.13	2.49	1.55
UK 10 Year Government Bond	2.77	2.36	2.00	2.44	1.46
Germany 10 Year Government Bond	1.86	1.67	1.51	1.73	1.33
Japan 10 Year Government Bond	0.72	0.80	0.86	0.85	0.80

* Net Dividends reinvested