MONTHLY MARKETS

FRONTIER ADVISORS

DECEMBER 2013

Market Overview

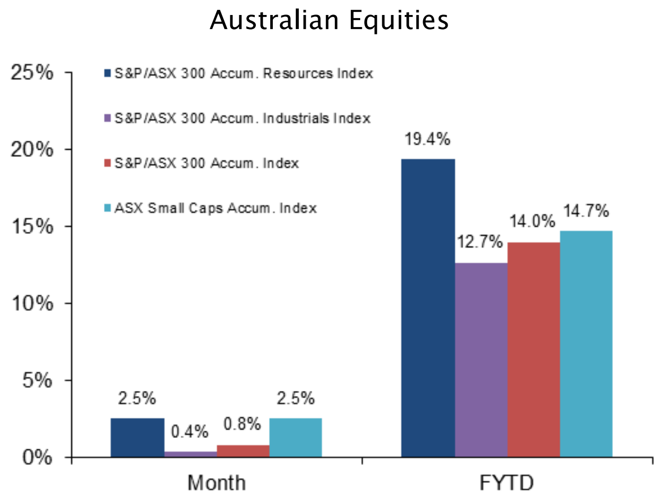
The US Federal Open Market Committee (FOMC) surprised the market in December with its announcement to begin scaling back the value of its monthly purchases of Treasury and Mortgage-Backed Securities (MBS). The decision was reached based on the FOMC's view of improving economic conditions in the US, particularly employment conditions. Beginning in January 2014, the FOMC will add to its holdings of MBS at a pace of $35 billion rather than $40 billion per month and add to its holdings of longer-term Treasury securities at a pace of $40 billion rather than $45 billion per month. Furthermore, the US Federal Reserve has continued to reiterate that future changes to its securities purchasing program will still be dependent on economic data and that tapering does not equate to a tightening of monetary policy as part of its forward guidance to markets.

US data over the month were generally positive with 203,000 net new jobs being added in November. In turn, the unemployment rate fell to 7.0% and the labour force participation rate also marginally improved. Additionally, manufacturing activity was positive as the ISM manufacturing index rose to a two and a half year high. Inflation remains below the US Federal Reserve's 2% target with the core Personal Consumption Expenditure (PCE) deflator, one type of inflation measure, at 1.1% over the last 12 months.

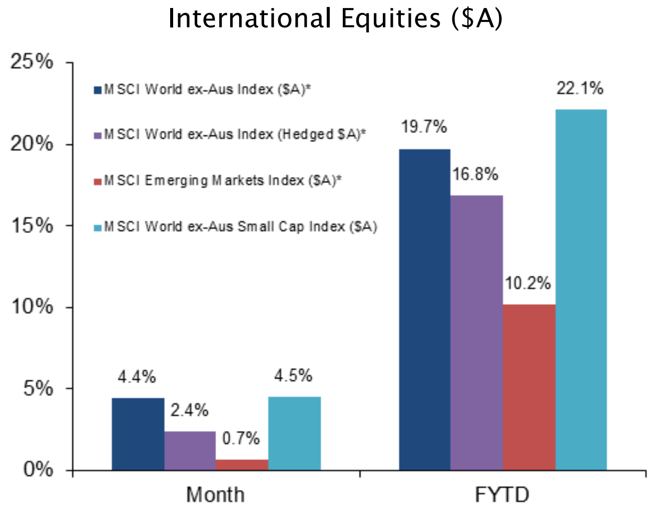
In China, manufacturing activity exceeded market expectations by remaining unchanged from last month, which was an 18 month high. Separately, year on year growth in Chinese retail sales accelerated reflecting on China's transition towards a more consumption driven economy. Meanwhile, the Chinese seven-day repurchase rate, a measure for liquidity in the financial system, increased to a six month high during the month forcing the People's Bank of China (PBOC) to inject liquidity into the market.

Signs of a recovery continued in Europe as the Markit Eurozone Composite Purchasing Manager Index (PMI) rose from October. However, on closer inspection, it can be observed that the recovery is mixed between countries with Germany leading the region at a 29 month high in terms of output growth while Italy and France fell below the 50 points threshold that represents expansion.

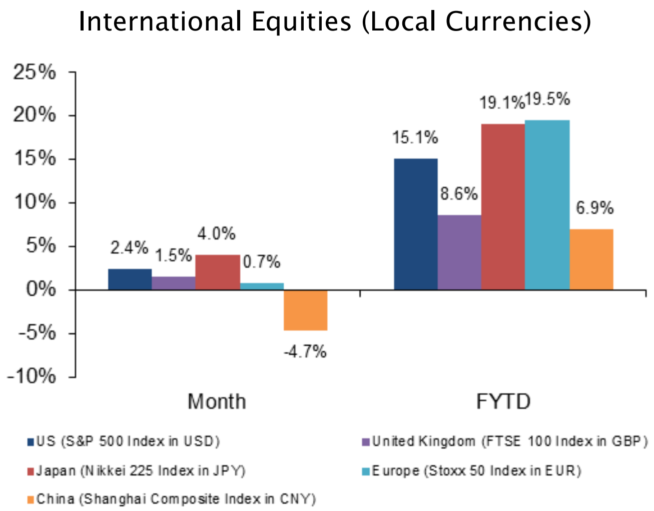
Domestically, the RBA left the cash rate unchanged at 2.5% in December. Subsequently, the minutes of the monthly monetary policy meeting revealed that the RBA retains its easing bias and continue to believe that the Australian dollar remained "uncomfortably high" for achieving a balanced economy. Despite the RBA seeing no reason to lower the key official interest rate, local news flow for the month was mostly negative with the Australian unemployment rate marginally rising to 5.8%, the ANZ monthly job survey falling, and business and consumer confidence weakening. The AIG Manufacturing PMI also fell below its 50 points expansion level.



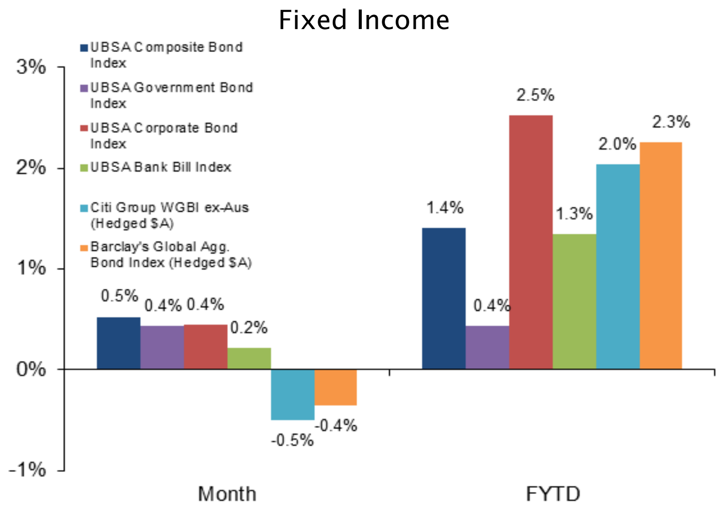
Australian equities ended the month and financial year to date in positive territory. Additionally, small caps significantly outperformed large caps over the month. The majority of sectors delivered positive returns over the month with the exception of Financials (-1.3%). The top performing sector in December was Telecommunication at 4.3%.



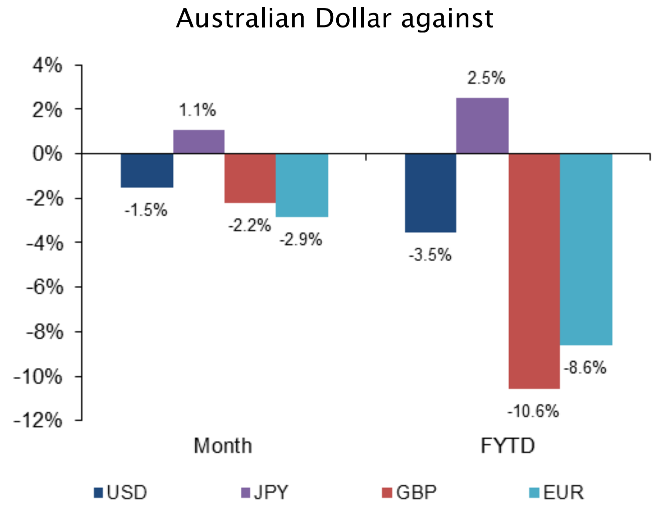
The trend of developed market equities outperforming emerging market equities continued in December leading to a significant outperformance for the financial year. The US, Japan and UK were the main drivers of performance for developed markets. In emerging markets, South Africa and Taiwan were the main performance contributors while China was the standout detractor. Unhedged international equities outperformed its hedged counterpart as the Australian dollar depreciated.



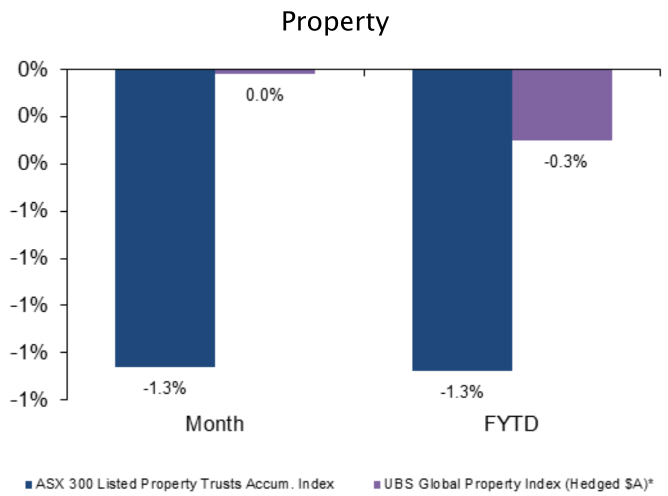
In local currency terms, Japanese equities were the top performer in December as "Abenomics" continued. On the other hand, Chinese equities were the clear underperformer as fear of a liquidity cash crunch took hold during the month. Over the year, European equities were the best performer.



Australian fixed interest securities outperformed their international counterpart as yields fell slightly for Australian fixed interest in the intermediate portion of the yield curve while yields rose overseas. However, over the financial year to date, international fixed interest continued to outperform Australia.



The Australian dollar depreciated against most of the major currencies over the month and financial year with the exception of the Japanese Yen as a result of "Abenomics" and quantitative easing by the Bank of Japan.



Australian listed property trusts underperformed their international counterparts over the month. The negative performance of Australian listed property trusts has resulted in negative return for the financial year to date.

Frontier Capital Markets Report as at 31 Dec 2013

31-Dec-13	Index Value	Month	3 Months	FYTD	1 Year
Australian Equities					
S&P/ASX 300 Accum. Index	44,089	0.8%	3.4%	14.0%	19.7%
S&P/ASX 300 Accum. Industrials Index	84,926	0.4%	3.8%	12.7%	26.7%
S&P/ASX 300 Accum. Resources Index	21,770	2.5%	1.7%	19.4%	-1.4%
ASX Small Caps Accum. Index	5,403	2.5%	-0.2%	14.7%	-0.8%
International Equities					
MSCI World ex-Aus Index ($A)*	5,424	4.4%	13.2%	19.7%	48.0%
MSCI World ex-Aus Index (Hedged $A)*	1,059	2.4%	9.3%	16.8%	32.3%
MSCI Emerging Markets Index ($A)*	459	0.7%	6.4%	10.2%	13.0%
MSCI World ex-Aus Small Cap Index ($A)	357	4.5%	12.3%	22.1%	53.1%
US (S&P 500 Index in USD)	1,848	2.4%	9.9%	15.1%	29.6%
United Kingdom (FTSE 100 Index in GBP)	6,749	1.5%	4.4%	8.6%	14.4%
Japan (Nikkei 225 Index in JPY)	16,291	4.0%	12.7%	19.1%	56.7%
Europe (Stoxx 50 Index in EUR)	3,109	0.7%	7.5%	19.5%	17.9%
China (Shanghai Composite Index in CNY)	2,116	-4.7%	-2.7%	6.9%	-6.7%
AUD Versus...					
USD	0.89	-1.5%	-3.9%	-3.5%	-13.8%
JPY	93.95	1.1%	3.1%	2.5%	5.0%
GBP	0.54	-2.2%	-5.7%	-10.6%	-15.5%
EUR	0.65	-2.9%	-6.0%	-8.6%	-17.6%
Property					
ASX 300 Listed Property Trusts Accum. Index	26,888	-1.3%	-1.4%	-1.3%	7.3%
UBS Global Property Index (Hedged $A)*	1,621	0.0%	-0.2%	-0.3%	5.8%
Australian Fixed Interest					
UBSA Composite Bond Index	7,600	0.5%	0.4%	1.4%	2.0%
UBSA Government Bond Index	7,901	0.4%	-0.2%	0.4%	0.3%
UBSA Corporate Bond Index	7,806	0.4%	0.8%	2.5%	4.3%
UBSA Bank Bill Index	7,960	0.2%	0.6%	1.3%	2.9%
Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged $A)	-	-0.5%	0.7%	2.0%	2.6%
Barclay's Global Agg. Bond Index (Hedged $A)	-	-0.4%	0.8%	2.3%	2.3%
Oil and Commodities					
Crude Oil ($/bbl)	98	6.1%	-3.8%	1.9%	7.2%
Copper Spot ($/tonne)	7,376	4.6%	1.2%	9.6%	-6.7%
Gold Spot ($/ounce)	1,202	-3.8%	-9.4%	-2.0%	-28.8%

Fixed Income (Yields) as at …	31-Dec-13	30-Nov-13	30-Sep-13	30-Jun-13	31-Dec-12
Australia Bank Bill	2.60	2.58	2.56	2.79	3.04
Australia 10 Year Government Bond	4.24	4.22	3.81	3.76	3.27
US 10 Year Government Bond	3.03	2.74	2.61	2.49	1.76
UK 10 Year Government Bond	3.02	2.77	2.72	2.44	1.83
Germany 10 Year Government Bond	1.93	1.69	1.78	1.73	1.32
Japan 10 Year Government Bond	0.74	0.61	0.69	0.85	0.79

* Net Dividends reinvested