MONTHLY MARKETS

FRONTIER ADVISORS

JANUARY 2013

Market Overview

January was a month in which it seemed each of the major hurdles were dealt with one by one, at least for now. After the partial resolution of the fiscal cliff early in the New Year, US lawmakers continued the theme of temporary measures by extending the debt ceiling with conditionality to May ahead of further negotiations for a more lasting solution. US earnings season has nearly concluded, with results broadly in line with historical averages, while further evidence of China's soft landing emerged with the release of Q4 2012 real GDP growth figures. Global equity and bond markets responded as expected. Stock indices across the world generally recorded strong gains, highly rated sovereign yields also edged higher while those in peripheral European nations continued their march downwards. Despite the positives, markets reminded everyone it is hardly smooth sailing ahead. European equities gave up some of their gains later in the month as corruption allegations against the Spanish Prime Minister gained traction and support for Silvio Berlusconi in Italian pre-election polls jumped.

Despite the late hiccup, European markets profited from the generally more bullish sentiment, with the Euro continuing to strengthen against the US dollar. Economic indicators remain precarious. The latest reading in an index of industrial production for the Eurozone showed a 3.7% decline in November 2012 compared with a year earlier – the biggest fall since November 2009. Unemployment remains at a stubbornly high level of 11.7%. Positively, the Eurozone Composite PMI, a survey of activity in the manufacturing and services sectors, increased in January over the previous month although it remains in a contractionary state. Importantly however, a forward looking survey conducted by ZEW, a leading German economic research institution, recorded an unexpected and substantial jump in analysts' economic expectations for the Eurozone.

In Asia, a number of Chinese data releases presented yet further evidence that policymakers seem to have successfully engineered a "soft landing" scenario. The culmination of which was a rebound in annual real GDP growth in the December 2012 quarter of 7.9% - up from 7.4% in the previous quarter. In Japan, the eagerly anticipated statement of monetary policy from the Bank of Japan underwhelmed markets, with the details behind a 2.0% inflation target and open-ended stimulus program neither matching expectations nor the headlines. Despite this, the Yen continued its downward slide for the rest of the month in anticipation of further policy action, while the Nikkei recorded another strong month of returns.

In Australia, the RBA decided to keep interest rates on hold in their first meeting of 2013 in early February. The Board cited the need for more time before assessing the full impact of previous interest rate cuts, and the reduction of significant downside risk to the global macro-economy. With inflation running at an annual rate of 2.2% in the December 2012 quarter, the RBA retains the freedom for further easing. As for our markets, they continued with the "risk on" theme seen elsewhere this month. The Australian sovereign yield curve steepened, with the 10 year yield finishing January at its highest level since May 2012. The ASX 200 recorded 10 consecutive days of gains before finishing the month poised to break the 5000 mark.

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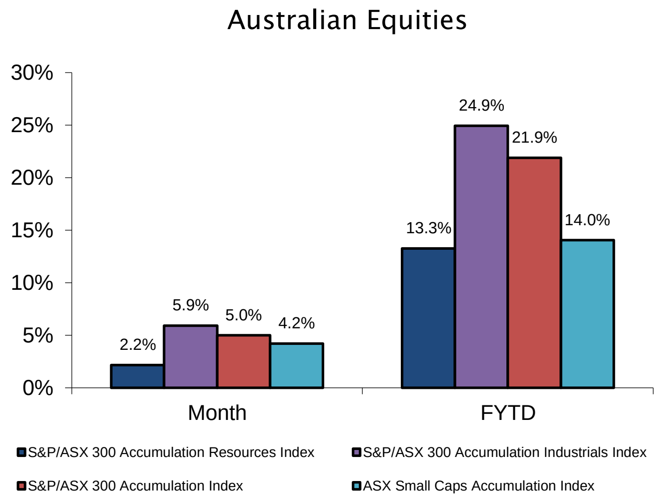
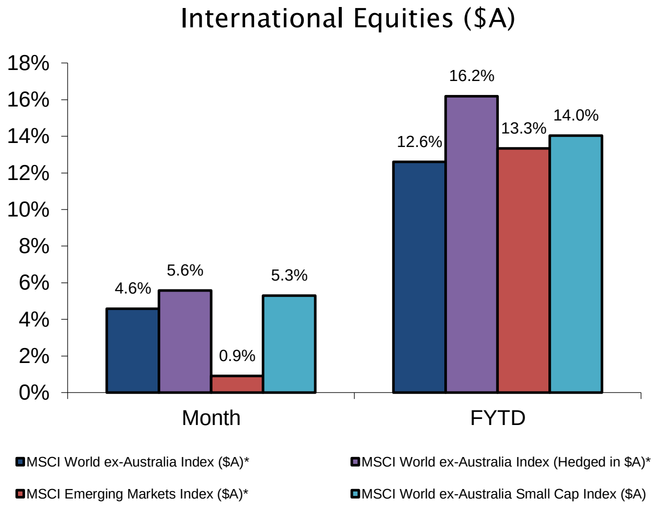


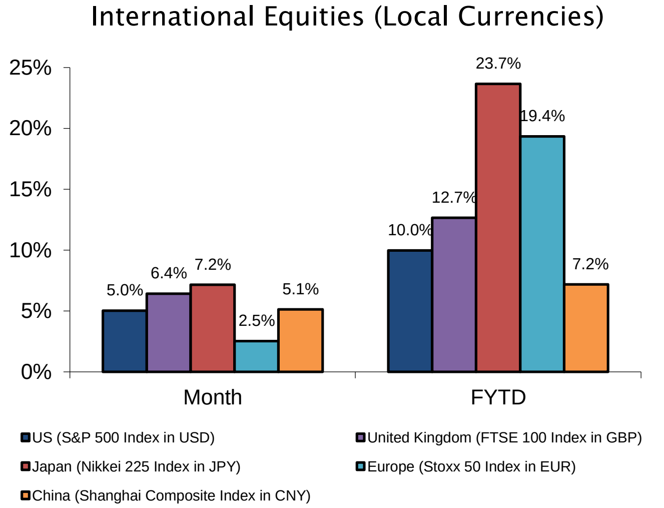
Australian equities recorded their best month in a year, returning 5.0% in January. All sectors gained ground, although IT (+14.7%) and Consumer Discretionary (+8.6%) were the standouts. On the other end, Materials (+1.5%), Utilities (+2.6%) and Health Care (3.1%) were the laggards.

For the financial year to date, Australian equities have returned 21.9%, with IT (+37.5%), Health Care (+30.6%) and Telecommunications (+29.2%) the the leading sectors.

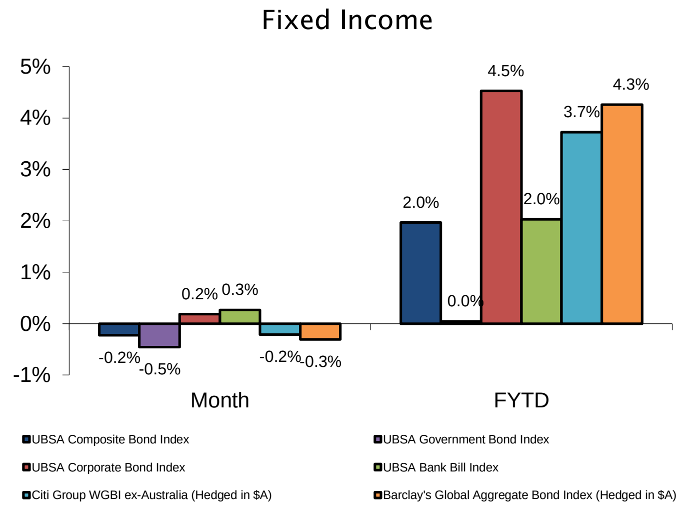


International developed equity markets also performed strongly in January, slightly outperforming the Australian market in hedged $A terms (+5.6%). Nearly all developed markets experienced positive returns, although the United States, Japan and the UK were the biggest contributors.

Emerging markets also saw a positive month, although the gains were much smaller at +0.9% in unhedged $A terms. China led the way while South Korea detracted the most from the index.

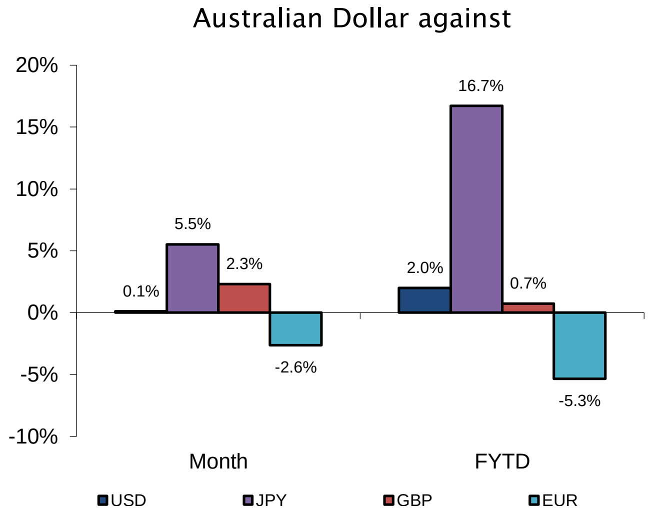


Global equity markets began 2013 strongly. China added 5.1% as a series of reassuring economic data points were released. The Nikkei 225 continued with its stellar run adding 7.2% and closing above 11,000 for the first time in nearly three years as the Yen continues to weaken. The S&P 500 broke a psychological barrier – briefly closing above the 1500 mark and finishing the month up 5.0%. The UK (+6.4%) and continental Europe (+2.5%) also performed solidly as global risk sentiment shifted into more bullish territory.

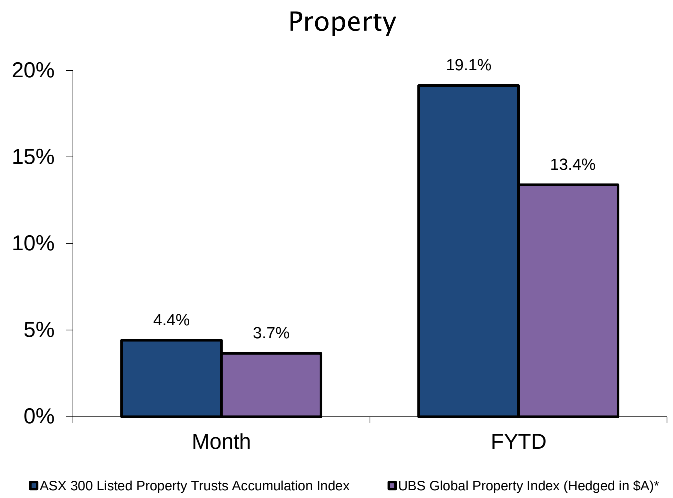


In January, Australian intermediate and long dated yields increased, causing the yield curve to steepen. These moves drove losses in Australian bonds with the UBSA Composite Bond Index and UBSA Government Bond Index returning -0.2% and -0.5% respectively.

In line with a more "risk on" mentality, international bond yields also increased, with the Citi and Barclay's global bond benchmarks experiencing slight losses.



The Australian dollar had a mixed month. It was broadly flat against the US dollar (+0.1%), while losing ground against the Euro (-2.6%) as markets continued to price in a less dire outcome in the region. Gains were made against the British pound (+2.3%) and the Japanese Yen (+5.5%) as markets continued to bet the Bank of Japan will take more aggressive easing measures to stimulate the economy.



Although the ASX 300 Property Accumulation Index underperformed the broader market, the sector continued its positive run by adding 4.4% in January. The sector is now up 19.1% for the financial year to date.

The international property sector, as measured by the UBS Global Property Index in hedged $A terms, also had an impressive month (+3.7%) despite underperforming relative to its Australian equivalent.

Frontier Capital Markets Report as at 31 Jan 2013

31-Jan-13	Index Value	Month	3 Months	FYTD	1 Year
Australian Equities					
S&P/ASX 300 Accumulation Index	38,675	5.0%	8.9%	21.9%	19.6%
S&P/ASX 300 Accumulation Industrials Index	71,009	5.9%	10.3%	24.9%	31.8%
S&P/ASX 300 Accumulation Resources Index	22,549	2.2%	4.8%	13.3%	-7.6%
ASX Small Caps Accumulation Index	5,674	4.2%	5.0%	14.0%	3.1%
International Equities					
MSCI World ex-Australia Index ($A)*	3,832	4.6%	7.8%	12.6%	18.0%
MSCI World ex-Australia Index (Hedged in $A)*	845	5.6%	9.6%	16.2%	19.9%
MSCI Emerging Markets Index ($A)*	410	0.9%	7.1%	13.3%	9.7%
MSCI World ex-Australia Small Cap Index ($A)	246	5.3%	9.4%	14.0%	16.4%
US (S&P 500 Index in USD)	1,498	5.0%	6.1%	10.0%	14.1%
United Kingdom (FTSE 100 Index in GBP)	6,277	6.4%	8.5%	12.7%	10.5%
Japan (Nikkei 225 Index in JPY)	11,139	7.2%	24.8%	23.7%	26.5%
Europe (Stoxx 50 Index in EUR)	2,703	2.5%	8.0%	19.4%	11.8%
China (Shanghai Composite Index in CNY)	2,385	5.1%	15.3%	7.2%	4.0%
AUD Versus...					
USD	1.04	0.1%	0.2%	2.0%	-2.3%
JPY	94.40	5.5%	14.2%	16.7%	16.5%
GBP	0.66	2.3%	1.9%	0.7%	-2.7%
EUR	0.77	-2.6%	-4.3%	-5.3%	-5.0%
Property					
ASX 300 Listed Property Trusts Accumulation Index	26,170	4.4%	6.0%	19.1%	31.5%
UBS Global Property Index (Hedged in $A)*	1,588	3.7%	7.6%	13.4%	23.8%
Australian Fixed Interest					
UBSA Composite Bond Index	7,435	-0.2%	0.0%	2.0%	7.3%
UBSA Government Bond Index	7,843	-0.5%	-0.6%	0.0%	4.9%
UBSA Corporate Bond Index	7,497	0.2%	1.0%	4.5%	9.3%
UBSA Bank Bill Index	7,759	0.3%	0.8%	2.0%	3.8%
Global Fixed Interest					
Citi Group WGBI ex-Australia (Hedged in $A)	1,792	-0.2%	1.0%	3.7%	7.0%
Barclay's Global Aggregate Bond Index (Hedged in $A)	-	-0.3%	0.8%	4.3%	7.9%
Oil and Commodities					
Crude Oil ($/bbl)	97	6.2%	13.0%	14.7%	-1.0%
Copper Spot ($/tonne)	8,128	2.8%	4.8%	5.7%	-2.1%
Gold Spot ($/ounce)	1,662	-1.0%	-3.6%	3.1%	-5.3%

Fixed Income (Yields) as at ...	31-Jan-13	31-Dec-12	31-Oct-12	30-Jun-12	31-Jan-12
Australia Bank Bill	2.93	3.04	3.12	3.53	4.31
Australia 10 Year Government Bond	3.45	3.27	3.13	3.04	3.72
US 10 Year Government Bond	1.98	1.76	1.69	1.64	1.80
UK 10 Year Government Bond	2.10	1.83	1.85	1.73	1.97
Germany 10 Year Government Bond	1.68	1.32	1.46	1.58	1.79
Japan 10 Year Government Bond	0.75	0.79	0.78	0.84	0.97

* Net Dividends reinvested