MONTHLY MARKETS

FRONTIER ADVISORS

MAY 2013

Market Overview

May provided a glimpse into how global capital markets may react to the withdrawal of central bank intervention. Under questioning before the Joint Economic Committee, Federal Reserve Chairman Ben Bernanke said the Fed could slow the pace of its asset purchase program in the next few meetings, if the economic data is sufficiently strong. Markets reacted sharply to the comment. Global equities, which had been steadily climbing prior to Bernanke's testimony, reversed direction with the Nikkei dropping 7% in its biggest single day's fall since the 2011 earthquake and tsunami disaster. Global bond yields also sold off although sovereign yields were already on an upward trajectory.

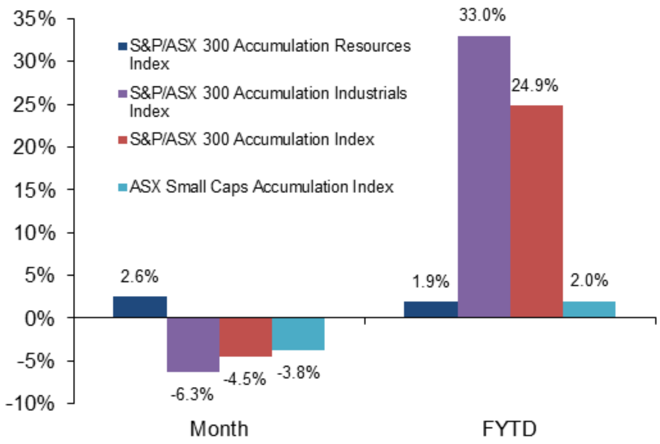
The economic data in the US continues to broadly improve. The unemployment rate fell 0.1% to 7.6% for April on the back of better than expected non-farm payrolls and strong upward revisions for previous months. The housing market also continues to recover. The Case-Shiller Home Price Index for 20 cities increased by 10.9% y/y, the fastest pace of growth in seven years. Strong new home sales coupled with limited existing stock has also driven robust housing starts and building permits numbers. The positive momentum also appears to be spreading to the household sector with the consumer confidence surveys from the Conference Board and the University of Michigan reaching five and six year highs, respectively. On the downside, manufacturing activity appears to be weakening at the margin with the ISM Manufacturing Index missing expectations and dropping below 50 to 49.0 for May, while a range of regional manufacturing Fed surveys also disappointed during the month.

In Europe, little seems to have changed. For the EU as a whole, the seasonally adjusted unemployment rate reached another record high, this time at 12.2%. As usual this masks a wide variance within the currency bloc with German unemployment at 5.4% in comparison to Spain's 26.8%. PMIs and sentiment measures also continue to show little sign of improvement. Positively though, inflation across the region remains subdued with the harmonised reading come in at 1.4% y/y for April.

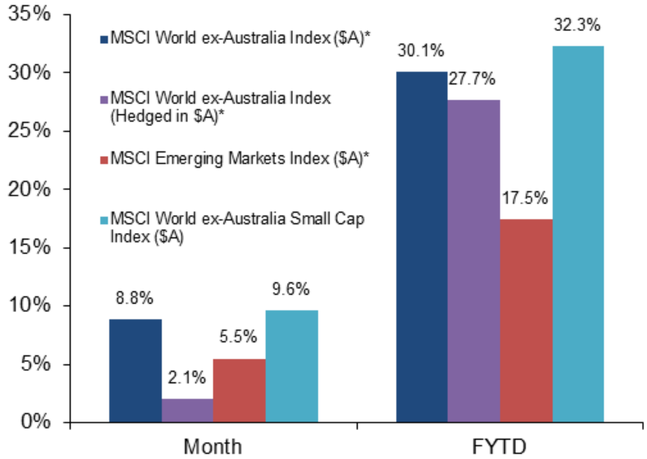
Developments in Japan reiterated the challenges policymakers face with high volatility in government bond yields triggering market circuit breakers on numerous occasions during the month. The highlight in the data was the preliminary 0.9% q/q growth in Q1 GDP, the best out of all the G7 economies. Meanwhile in China, a range of important indicators such as consumer price inflation, industrial production and total social financing all broadly met expectations. Clouding the picture though, the HSBC and official manufacturing PMIs diverged with the former suggesting activity in the sector had swung to contraction, while the latter beat expectations to suggest a slight acceleration.

In Australia, the main news was the depreciation of the dollar, which fell seven US cents over the course of the month. In its June monthly Board meeting, the RBA kept rates on hold. In making its decision, the Board noted that despite the fall in the dollar, it remains high relative to the recent decline in export prices. Earlier in the month, unemployment unexpectedly fell to 5.5% as nearly 40,000 more jobs than expected were created.

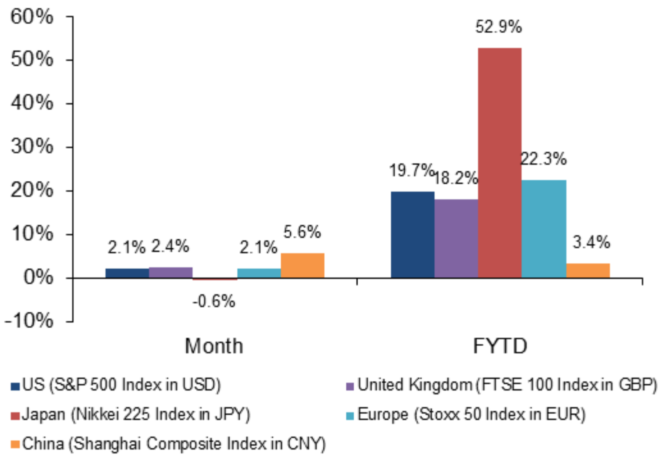
Australian Equities



International Equities ($A)



International Equities (Local Currencies)

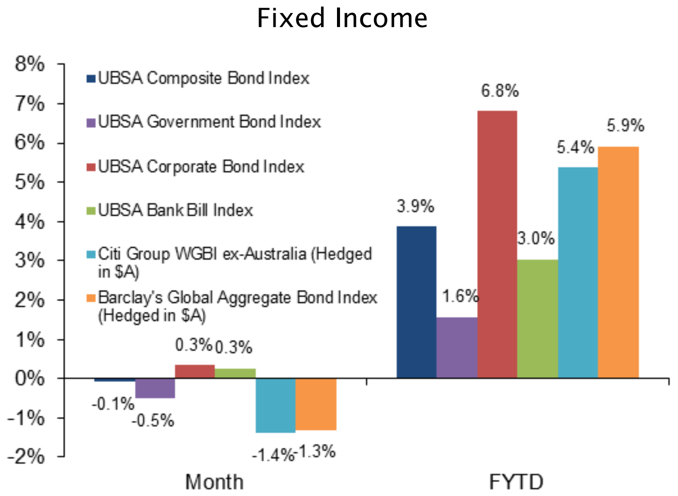


Australian equities lost ground in May, most of which occurred following Fed Chairman Bernanke's comments during his Joint Economic Committee questioning. In contrast to recent history, the resources sector and small caps outperformed the broader market. Apart from Materials, other leading sectors were Information Technology (+5.1%) and Energy (+2.8%), while the Financials (-8.7%) and Consumer Staples (-8.4%) sectors suffered the heaviest losses.

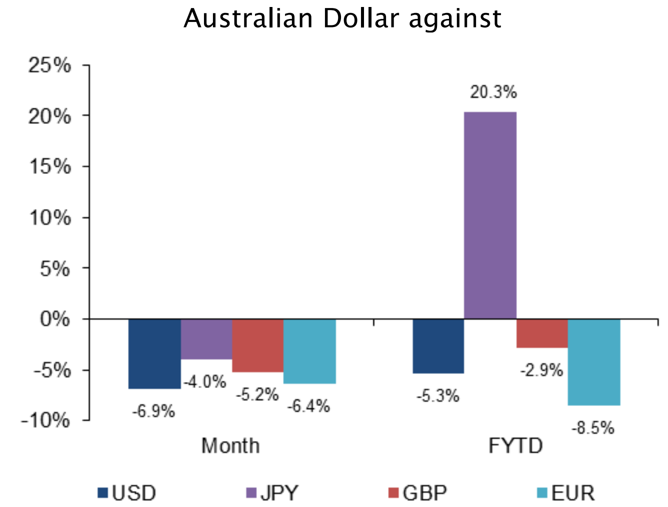
Mainly because of the weakness in the Australian dollar, international equities in AUD terms experienced strong gains with the US, UK, Canada and Germany leading the way. Japanese equities finished the month in the red although they were up by more than 10% at one stage.

Emerging market equities were also up for the month in unhedged AUD terms, although this was largely due to the currency impact of a weakening Australian dollar.

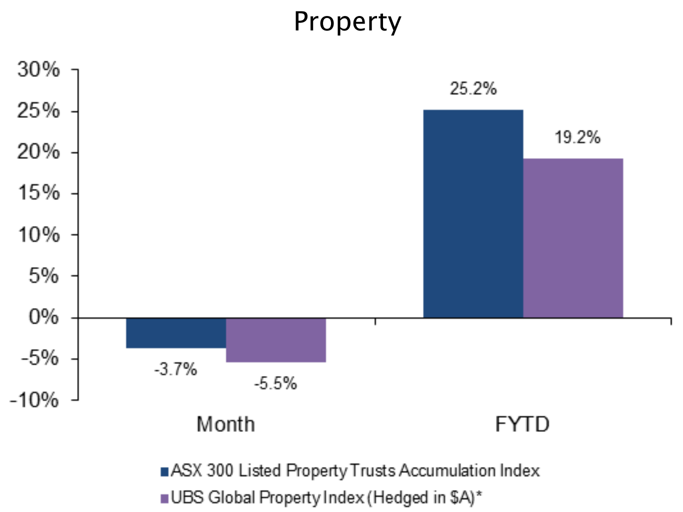
In local currency terms, the gains in international equities were much less impressive. Chinese equities, led by the Information Technology sector (+14.1%), rallied hard to swing the year to date performance into positive territory. Elsewhere, the S&P 500 recorded a succession of all time record highs while the Nikkei managed multi year highs before weakening later in the month.



Fixed income investments experienced a difficult month in which the yields on both safe haven and riskier government bonds increased. The yield on Japanese government bonds increased sharply as market participants struggled to reconcile the BoJ's desire to keep rates low while targeting higher inflation expectations. In the US, the steepening of the yield curve is consistent with a more positive economic outlook, with the 10 year yield now above 2%.



The Australian dollar suffered falls against all major currencies in May. Most of the losses began after the surprise decision by the RBA to cut rates earlier in the month. Better US economic data also seemed to focus attention on weaknesses in the Australian economy, further driving down the value of our dollar. Towards the end of the month, concerns over an earlier-than-expected tapering in the Fed's QE program weighed on sentiment.



Listed property trusts suffered significant losses in May, although those in Australia were less impacted in comparison to global peers. The losses in this high yielding sector of the market are consistent with the broad weakness of defensive sectors for the month.

Australian listed property trusts continue to outperform their global counterparts for the financial year to date.

Frontier Capital Markets Report as at 31 May 2013

31-May-13	Index Value	Month	3 Months	FYTD	1 Year
Australian Equities					
S&P/ASX 300 Accumulation Index	39,630	-4.5%	-2.7%	24.9%	25.6%
S&P/ASX 300 Accumulation Industrials Index	75,612	-6.3%	-0.4%	33.0%	36.3%
S&P/ASX 300 Accumulation Resources Index	20,286	2.6%	-10.4%	1.9%	-2.8%
ASX Small Caps Accumulation Index	5,073	-3.8%	-11.3%	2.0%	-2.9%
International Equities					
MSCI World ex-Australia Index ($A)*	4,428	8.8%	13.4%	30.1%	29.3%
MSCI World ex-Australia Index (Hedged in $A)*	929	2.1%	8.2%	27.7%	33.4%
MSCI Emerging Markets Index ($A)*	425	5.5%	3.0%	17.5%	15.4%
MSCI World ex-Australia Small Cap Index ($A)	285	9.6%	13.1%	32.3%	29.6%
US (S&P 500 Index in USD)	1,631	2.1%	7.7%	19.7%	24.5%
United Kingdom (FTSE 100 Index in GBP)	6,583	2.4%	3.5%	18.2%	23.7%
Japan (Nikkei 225 Index in JPY)	13,775	-0.6%	19.2%	52.9%	61.2%
Europe (Stoxx 50 Index in EUR)	2,770	2.1%	5.2%	22.3%	30.7%
China (Shanghai Composite Index in CNY)	2,301	5.6%	-2.7%	3.4%	-3.0%
AUD Versus...					
USD	0.96	-6.9%	-6.1%	-5.3%	-0.8%
JPY	97.34	-4.0%	2.7%	20.3%	27.0%
GBP	0.63	-5.2%	-6.4%	-2.9%	0.9%
EUR	0.74	-6.4%	-5.3%	-8.5%	-5.7%
Property					
ASX 300 Listed Property Trusts Accumulation Index	27,502	-3.7%	1.5%	25.2%	30.6%
UBS Global Property Index (Hedged in $A)*	1,669	-5.5%	3.2%	19.2%	25.2%
Australian Fixed Interest					
UBSA Composite Bond Index	7,573	-0.1%	1.3%	3.9%	3.7%
UBSA Government Bond Index	7,963	-0.5%	0.9%	1.6%	1.0%
UBSA Corporate Bond Index	7,661	0.3%	1.6%	6.8%	6.9%
UBSA Bank Bill Index	7,836	0.3%	0.8%	3.0%	3.3%
Global Fixed Interest					
Citi Group WGBI ex-Australia (Hedged in $A)	-	-1.4%	0.8%	5.4%	5.3%
Barclay's Global Aggregate Bond Index (Hedged in $A)	-	-1.2%	0.8%	6.0%	6.2%
Oil and Commodities					
Crude Oil ($/bbl)	92	-1.6%	-0.1%	8.3%	6.3%
Copper Spot ($/tonne)	7,281	3.7%	-6.5%	-5.3%	-2.1%
Gold Spot ($/ounce)	1,393	-5.5%	-11.9%	-13.8%	-11.7%

Fixed Income (Yields) as at …	31-May-13	30-Apr-13	28-Feb-13	30-Jun-12	31-May-12
Australia Bank Bill	2.78	2.90	2.94	3.53	3.37
Australia 10 Year Government Bond	3.36	3.09	3.35	3.04	2.92
US 10 Year Government Bond	2.13	1.67	1.88	1.64	1.56
UK 10 Year Government Bond	2.00	1.69	1.97	1.73	1.57
Germany 10 Year Government Bond	1.51	1.22	1.45	1.58	1.20
Japan 10 Year Government Bond	0.86	0.61	0.66	0.84	0.82

* Net Dividends reinvested