FRONTIER ADVISORS

20 years

Monthly Markets

May 2015

Over the month of May, the UK general election, the Greek debt talks and the rally in Japanese and Chinese equities have all been topical issues. But we still would like to start our monthly market commentary with an update on the US economy, as the status of the US economic recovery and the timing of the first interest rate hike by the Fed are still at the forefront of most investors' minds.

Despite a slow start in the first quarter, the US economy seemed to regain some momentum in the second quarter. Month-to-month retail sales increased by 1.2% in May, with gains sweeping nearly all components of the retail sector. Retail sales had been very disappointing, with the reports in the first quarter and April casting doubt on the expected pick-up in second quarter GDP. But the May report is a long awaited rebound and will be a key point of discussion at the next FOMC meeting in relation to the timing of the first interest rate hike in the US.

In addition, the US employment report in May proved to be quite strong, including solid payroll growth and, very importantly, an uptick in wage growth. Non-farm payrolls rose 280,000, well above the consensus. The month-to-month increase in average hourly earnings also beat market expectations. The 0.1% increase in the headline unemployment rate was largely driven by a corresponding 0.1% increase in the labour participation rate, which is another sign of strength in the labour market.

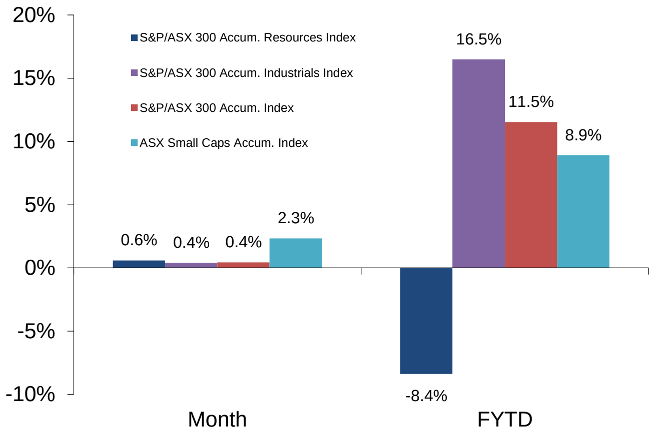
In Europe, the Greek and IMF debt negotiations drove the swings in market sentiment. The latest update is that while some progress has been made, there remains a significant gap between the reform plans of the Greek authorities and the joint requirements of the European Commission, the ECB and IMF. However, both parties aim to reach a deal to avoid a default by the Athens government or a Greek exit from the euro zone, which would likely lead to uncertainty in some other debt heavy countries, such as Italy and Spain, and significant volatility in European and global financial markets.

In China, the People's Bank of China (PBoC) cut interest rates again in May, which was the third interest rate cut in six months, in an effort to further stimulate the economy and avoid a "hard landing". The Chinese equity market has been well supported by easing monetary policy, delivering a positive return for the month and a more than 130% gain for the year to date. Recent economic updates in China are a mixed bag, with accelerating industrial production showing some stabilisation in output and lower-than-expected retail sales indicating slower consumption growth.

In Japan, the Bank of Japan (BoJ) left its policy rate and pace of quantitative easing unchanged. The BoJ said that private consumption has been resilient against the background of steady improvement in the employment and income situation. The bank's view on the domestic economy, core consumer prices, industrial production and consumer price inflation remains unchanged.

Locally, the Reserve Bank of Australia (RBA) kept the cash rate on hold at 2% at its June meeting. There was very little change in the accompanying statement to the policy announcement. The RBA reiterated that the lack of non-mining investment continues to be a "key drag" on growth. The RBA is expected to evaluate the impact of the two rate cuts this year before making any further adjustments.

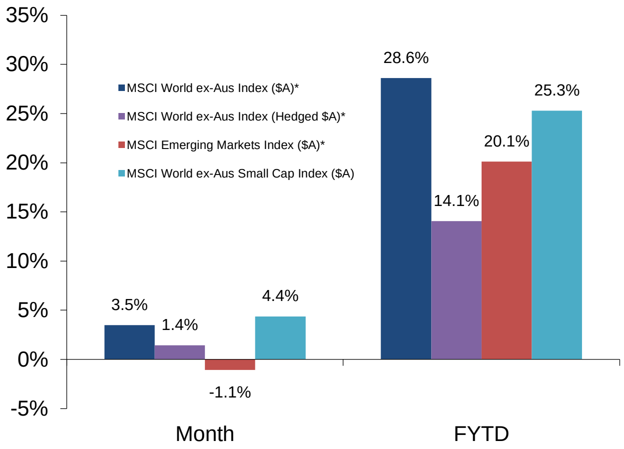
Australian equities



Domestic equities had a slightly positive return of 0.4% in May. Small Caps returned 2.3%, and both Resources and Industrials finished the month in positive territory.

The best performing sectors for the month were Industrials and IT. Consumer Staples was the worst performer (-2.1%), driven by the weaker outlook for the major supermarket operators.

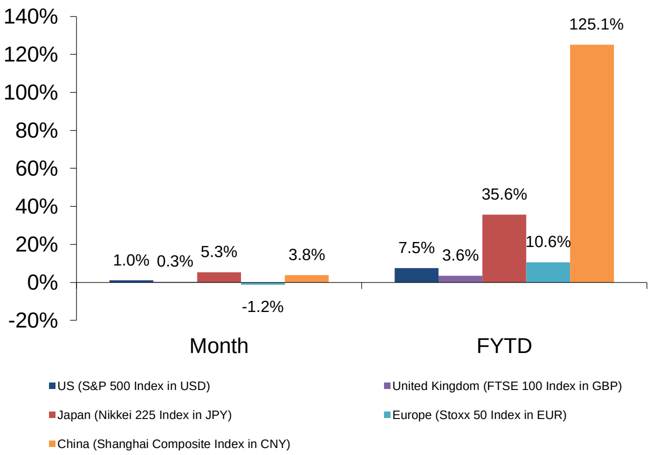
International equities ($A)



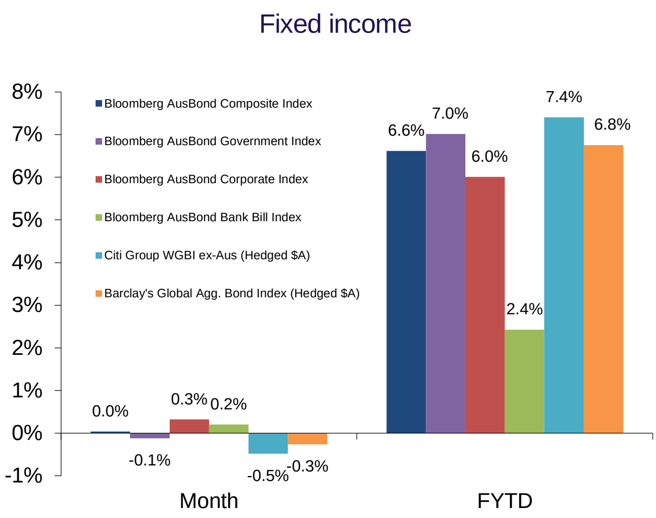
Hedged developed market equities underperformed their unhedged counterpart over the month as the Australian dollar depreciated against the other major currencies. Emerging markets equities ended the month with a negative return of -1.1%.

US and Japanese equities were the main positive contributors to performance for developed markets.

International equities (local currencies)

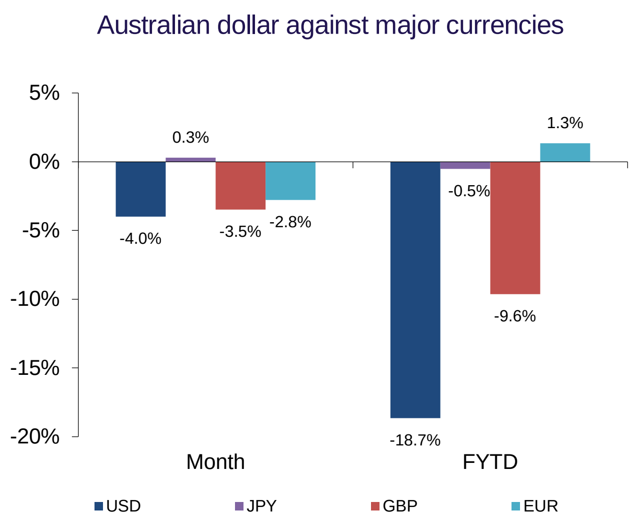


Chinese equities (measured in local currency) continued their positive momentum in May, despite a sell-off in the last two trading days of the month. The bull run of Chinese equities was supported by further stimulatory policies from the PBoC, which cut the benchmark interest rate by 25bp again in May. Japanese stocks also stood out, as the Nikkei 225 index finished the month with 12 consecutive daily gains and reached their highest point in 15 years.



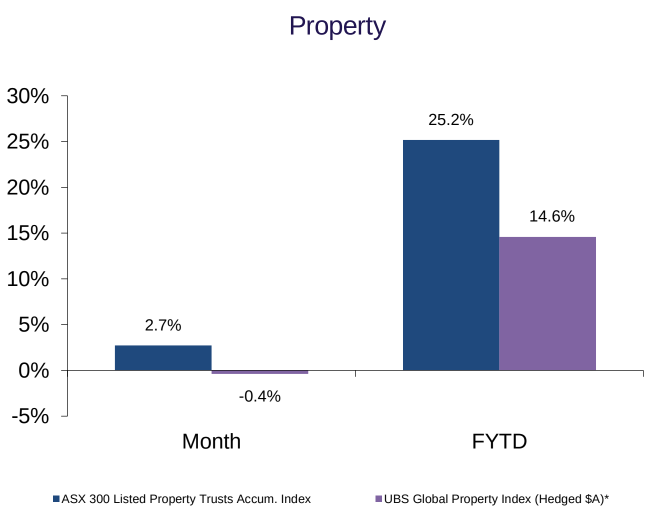
The Australian fixed interest market was flat in May.

International bonds (hedged) delivered a small negative return, which was largely driven by the rise in sovereign bond yields in the US and Europe.



The Australian dollar (AUD) depreciated against the US dollar (USD), British Pound (GBP) and Euro (EUR), and appreciated marginally against the Japanese Yen (JPY).

The depreciation of the AUD is likely driven by weak economic data locally, especially lower-than-expected private sector capital expenditure for Q1 2015 and the on-going expectation that the US and the UK will start raising interest rates later this year or early next year.



Australian listed property rose by 2.7% in May, and international listed property (hedged) ended May with a small negative return.

Over the financial year to date, the domestic and international listed property sectors have been buoyant as investors are chasing yielding assets such as listed property in the low interest rate environment.

31-May-2015	Index value	Month	3 months	FYTD	1 year
Australian equities					
S&P/ASX 300 Accum. Index	50,585	0.4%	-1.3%	11.5%	9.9%
S&P/ASX 300 Accum. Industrials Index	102,889	0.4%	-1.2%	16.5%	14.9%
S&P/ASX 300 Accum. Resources Index	19,637	0.6%	-1.6%	-8.4%	-9.9%
ASX Small Caps Accum. Index	5,803	2.3%	2.0%	8.9%	7.7%
International equities					
MSCI World ex-Aus Index ($A)*	7,015	3.5%	3.5%	28.6%	29.2%
MSCI World ex-Aus Index (Hedged $A)*	1,288	1.4%	2.5%	14.1%	16.0%
MSCI Emerging Markets Index ($A)*	554	-1.1%	4.2%	20.1%	21.6%
MSCI World ex-Aus Small Cap Index ($A)	447	4.4%	4.4%	25.3%	28.3%
US (S&P 500 Index in USD)	2,107	1.0%	0.1%	7.5%	9.6%
United Kingdom (FTSE 100 Index in GBP)	6,984	0.3%	0.5%	3.6%	2.0%
Japan (Nikkei 225 Index in JPY)	20,563	5.3%	9.4%	35.6%	40.5%
Europe (Stoxx 50 Index in EUR)	3,571	-1.2%	-0.8%	10.6%	10.1%
China (Shanghai Composite Index in CNY)	4,612	3.8%	39.3%	125.1%	126.2%
AUD versus …					
USD	0.77	-4.0%	-1.7%	-18.7%	-17.8%
JPY	94.93	0.3%	2.3%	-0.5%	0.3%
GBP	0.50	-3.5%	-1.0%	-9.6%	-10.3%
EUR	0.70	-2.8%	0.7%	1.3%	2.1%
Property					
ASX 300 Listed Property Trusts Accum. Index	37,869	2.7%	-0.3%	25.2%	29.3%
UBS Global Property Index (Hedged $A)*	2,146	-0.4%	-2.9%	14.6%	15.8%
Australian Fixed Interest					
Bloomberg AusBond Composite Index	8,476	0.0%	-0.3%	6.6%	7.5%
Bloomberg AusBond Government Index	8,840	-0.1%	-0.8%	7.0%	8.0%
Bloomberg AusBond Corporate Index	8,611	0.3%	0.4%	6.0%	6.7%
Bloomberg AusBond Bank Bill Index	8,260	0.2%	0.6%	2.4%	2.6%
Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged $A)	-	-0.5%	-0.1%	7.4%	8.1%
Barclay's Global Agg. Bond Index (Hedged $A)	-	-0.3%	0.2%	6.8%	7.3%
Oil and Commodities					
Crude Oil ($/bbl)	60	1.1%	21.2%	-42.8%	-41.3%
Copper Spot ($/tonne)	6,005	-5.6%	1.4%	-14.7%	-13.2%
Gold Spot ($/ounce)	1,190	0.5%	-2.0%	-10.2%	-4.7%

Fixed income (yields) as at …	**31-May-15**	**30-Apr-15**	**28-Feb-15**	**30-Jun-14**	**31-May-15**
Australia Bank Bill	2.13	2.24	2.32	2.68	2.69
Australia 10 Year Government Bond	2.73	2.65	2.46	3.54	3.66
US 10 Year Government Bond	2.12	2.03	1.99	2.53	2.48
UK 10 Year Government Bond	1.81	1.83	1.80	2.67	2.57
Germany 10 Year Government Bond	0.49	0.37	0.33	1.25	1.36
Japan 10 Year Government Bond	0.39	0.34	0.34	0.57	0.58

* Net dividends reinvested