GODFREY PEMBROKE

market update

- Australian Federal Election set for 7 September 2013
- RBA cuts Cash Rate by 25 basis points to 2.5%
- Lower interest rates continue to bolster Australian residential property market
- US economy continues to recover

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July market performance

Equity Markets – Price Indices	Index	At Close 31/07/13	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5035.67	5.45%	17.40%
Japan	Nikkei	13668.32	-0.07%	57.20%
Hong Kong	Hang Seng	21883.66	5.19%	10.54%
UK	FTSE 100	6621.06	6.53%	17.49%
Germany	DAX	8275.97	3.98%	22.20%
US	Dow Jones	15499.54	3.96%	19.15%
EMU*	Euro 100	2458.32	4.54%	11.63%
World**	MSCI – Ex Aus (Gross)	991.77	-7.23%	13.12%
Property – Price Index	**Index**	**At Close 31/07/13**	**% Change 1 Month**	**% Change 12 Months**
Listed Trusts	S&P/ASX 300 A-REITS	1005.65	-0.73%	10.20%
Interest Rates		**At Close 31/07/13**	**At Close 31/06/13**	**At Close 29/06/12**
Aust 90 day Bank Bills		2.67%	2.81%	3.49%
Australian 10 year Bonds		3.72%	3.36%	3.04%
US 90 day T Bill		0.04%	0.03%	0.09%
US 10 year Bonds		2.58%	2.13%	1.65%
Currency* **		**At Close 31/07/13**	**% Change 1 Month**	**% Change 12 Months**
US dollar	A$/US$	0.90	-1.64%	-14.44%
British pound	A$/STG	0.59	-1.66%	-11.83%
Euro	A$/euro	0.68	-3.80%	-20.86%
Japanese yen	A$/yen	87.96	-2.94%	7.18%
Trade-weighted Index		69.40	-2.80%	-12.04%

* Top 100 European stocks trading on the FTSE ** Price Index – Source: www.msci.com
*** All foreign exchange rates rounded to two decimal places
Source: Iress Market Technology
Past performance is not a reliable indicator of future performance.

Global economies

Global economic data, although mixed in July, continued to show some positive signs of recovery across global economies.

Of the major markets last month, the US continued to show signs of recovery while the Eurozone also gave early signs of improvement. China remained challenged by the overheating in its property market and the growing need to realign its economy to be more consumer lead.

US Economy

In the second quarter of 2013, the US recorded a growth rate of 1.7%, which was largely in line with forecasts.

Last month US data continued to point to a sustainable recovery, with housing prices posting positive results across all the 20 major capital cities. Unemployment contracted to 7.4%, from 7.6% in June, and inflation remained benign at 1.8%.

These results have been further reflected in the positive momentum of the US dollar (USD) and higher bond yields over the past 12 months. However, the USD and bond yields steadied in July following comments from the Federal Reserve (The Fed) Chairman on the dialling down of quantitative easing (QE3), and the likelihood of short term interest rates remaining at current levels until 2015.

From a housing perspective, the May S&P/Case-Shiller House Prices index increased by 12.2% year-on-year for the 20 major cities. A surprising aspect of this increase has been the recent buying from the institutional market that has been seeking investment opportunities. And given the pent up demand for housing, the higher mortgage rates following recent bond rate rises are unlikely to have an immediate impact on demand.

In July, consumer confidence rose to its highest level in six years. This result was largely due to the increase in personal wealth tied to higher property values and stock portfolios, which are keeping consumer confidence elevated and consumers spending.

The July unemployment rate declined to 7.4%, with a net gain of 165,000 jobs being created. While the US unemployment rate is better than it was during the financial crisis, it's still high in comparison to the average rate seen over the past couple of decades.

While researchers are seeking reasons for the slow job market recovery, economists say fast-changing technology and a mismatch between workers' skills and employers' needs may be to blame for the slow recovery in the US job market.

Europe

Over to Europe, there have been some positive early signs of an improvement in the economy. The Flash Eurozone Manufacturing Purchasing Managers' Index (PMI) increased to 50.1 in July, up from 48.8 in June and reaching a 24-month high. Manufacturers in the Eurozone reported that new orders increased for the first time since May of 2011, and that job losses during July were the lowest since March 2012.

France, the second-biggest economy in the Eurozone, entered recession in the first quarter of 2013, but recent data is showing a steady improvement. The French retail PMI rose for the fourth month in a row in July. Additionally, the rate of growth over the last four months has been the fastest since October 2011.

Germany's retail sector recorded a third successive month of rising sales in July, the longest run of growth for a year. What's more, the rate of expansion accelerated further, to be the fastest since January 2011.

China

The recent global uncertainties and weakening domestic demand in China have seen the Organisation for Economic Co-operation and Development (OECD) cut its forecast for 2013 economic growth to 7.8% from 8.5%.

The Chinese economy grew 7.5% year-on-year in the June quarter, in line with expectations, but down from the forecast 7.7 %. While this was the second straight quarter of slowing growth, the slowdown may not be as severe as some had feared. However, there remains considerable uncertainty about the outlook for the world's second biggest economy.

The government's official growth target for 2013 is 7.5%, and while this is impressive by world standards it would be the slowest pace seen in China for the last 23 years.

China's manufacturing sector activity slowed further in July, with new factory orders deteriorating at a faster than expected pace. The so-called "flash" version of HSBC's Chinese manufacturing Purchasing Managers' Index dropped to 47.7 in July, down from 48.2 in June and at an 11-month low. However, this was in contrast to the official Government July PMI that showed a positive increase to above 50.

Asian region

Over in the East, Japan recorded its first fall in industrial production in five months, largely reflected by manufacturers trying to avoid inventory build-up. However, manufacturers have forecast a brisk pick-up in July.

In employment news, Japan recorded its best levels of unemployment and job availability since 2008, with the unemployment rate falling to 3.9% in July. These figures bode particularly well for private spending Prime Minister Abe has sought to trigger by increasing economic activity through aggressive monetary and fiscal stimulus.

The Yen marginally appreciated against the USD through July and appreciated 2.9% against the Australia dollar (AUD).

Australia

In domestic news, the two top stories have been the announcement of the 2013 Federal Election, which will be held on 7 September, and the latest rate cut by the Reserve Bank of Australia (RBA) that saw interest rates lowered by 25 basis points to 2.5%.

In other news, the minutes from the RBA's July meeting indicate that although committed work in mining investment was likely to remain at relatively high levels for some quarters, it may have already peaked—with employment levels declining. The concern remains in the ability of the non-mining business investment to fill this anticipated decline in mining capital expenditure. At the moment, non-mining investment appears modest, although the recent decline in the AUD should provide support to the economy.

Residential property continued to be a key talking point last month, with most of Australia's major capital cities experiencing above average clearance rates. It's clear from these results that consumer confidence is improving, alongside the considerable pent up demand for housing. According to RP Data, capital city home values have increased on average by 5.6% in 2013—with Sydney being the standout with an increase of 6.7%.

While the residential housing market has improved over the last quarter, these results are inconsistent with the weaker building approvals data (-6.9%) for June.

Australian inflation data remains in the middle of the RBA target range of 2%—3%, and was 2.4% for the financial year ending June 2013.

Unemployment increased to 5.7% in July, up from 5.6% in June, and is anticipated to remain in an uptrend given the declining employment levels in the mining sector and the sluggish non-mining sector.

In a speech to the Ahika Foundation, the RBA Governor talked down economic growth prospects. He anticipated that household savings rates were likely to remain high, and that consumption was unlikely to immediately replace the slowdown in the mining sector. However, he did indicate that mining exports were likely to remain elevated for an extended period but alongside lower employment levels across that sector.

GODFREY PEMBROKE market update

Equity markets

With a benign FY2013 corporate reporting season ahead, the Australian equity markets continued to move back above 5000, with better prospects expected in FY2014.

US corporate earnings held up well in July, with better prospects expected through the second half of 2013.

Although the Japanese Nikkei was volatile through the month it reached near recent highs by the end of July.

Australian equities

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 Acc.	23.18%	8.53%	4.76%	4.24%
	S&P/ASX 50 Acc.	25.82%	10.00%	6.28%	5.28%
	S&P/ASX Small Ordinaries Acc.	4.16%	-0.59%	-2.79%	-0.83%

The Australian market continued to trend higher in July, with the S&P/ASX 300 Accumulation Index posting a very strong performance of 5.3%, following a negative June.

The S&P/ASX All Ordinaries Index was also higher in July, with a 5.5% rise. Over the rolling 12 month period to 31 July 2013 the index has returned 17.4%.

For the 12 months to 31 July 2013, the S&P/ASX 300 Accumulation Index posted strong gains of 23.2%, while the large market caps, comprising the S&P/ASX 50 Accumulation Index, performed even better returning 25.8%.

There was a strong shift across the Australian market sectors, from the traditionally defensive yield based sectors to the Materials, Energy and Consumer Discretionary sectors.

The resources-based Materials and Energy sectors have been serious underperformers over the past 12 months. However, in July, they posted strong relative gains, returning 9.5% and 6.4% respectively.

The Property and Consumer Staples sectors were the worst performing sectors in July, down -0.73% and 1.1% respectively.

Sector	1 Mth	3 Mths	1 Yr
Energy	6.4%	2.2%	10.4%
Materials	9.5%	0.3%	0.1%
Industrial	1.7%	-5.4%	16.0%
Consumer Discretionary	5.7%	1.3%	38.3%
Consumer Staples	1.1%	-8.2%	23.7%
Health Care	4.5%	5.3%	42.2%
Financials (ex Property)	6.3%	-2.2%	37.8%
Info Tech	1.4%	-1.3%	28.9%
Telcos	4.5%	0.4%	34.6%
Utilities	2.8%	-4.4%	12.0%
Property	-0.7%	-5.3%	16.6%

Global equities

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Global	MSCI World Ex Aus Acc. ($A)	22.86%	11.62%	4.61%	3.84%
	MSCI World Index Hedged ($A)	43.77%	10.64%	3.86%	-0.96%
	MSCI World Small Cap ($A)	33.30%	15.43%	8.67%	4.85%
Emerging	MSCI Emerging Mkts Free	19.55%	1.30%	1.50%	3.11%
	MSCI AC Far East Free (ex Japan)	27.11%	5.99%	5.51%	4.76%

The MSCI World (ex-Australia) Accumulation Index was up 4.6% in July, and continued its positive run for the year, up 22.9%.

The US Dow Jones reached another all-time high in July as indications of a recovering US economy continue to gain traction. The index posted a 4% gain in July despite the increased volatility in global markets resulting from the Fed's comments.

The broader S&P500 index also posted a positive gain of 5%, and maintained the impressive 12 month returns to end July at 22.2%.

The Nikkei has been a standout performer over the past 12 months, returning 57.2% to 31 July. While the index was only marginally down 0.07% in July, the result didn't accurately reflect the volatility seen throughout the month.

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market update

Big movers this month

↑ Materials 9.5%

↓ Property -0.73%

Property

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 A-REIT Acc	16.63%	12.68%	1.17%	-3.23%
Global	UBS Global Investors Index	26.98%	13.29%	5.20%	-0.30%

In July, the S&P/ASX 300 A-REIT Accumulation Index posted a -0.7% decline, a stabilisation from the recent declines in the property sector. For the three months to 31 July, the S&P/ASX 300 A-REIT Accumulation Index was down -5.3%.

On a 12 month rolling basis, property continues to underperform compared to the ASX 300 Accumulation Index as investors continue to be attracted to more cyclical sectors. The S&P/ASX 300 A-REIT Accumulation Index is up 16.6% on a 12 month basis, while the ASX 300 Accumulation Index rose 23.2%.

On a one month and one, three and seven year time horizon, global property has outperformed the Australian listed property sector, largely reflecting the improving recovery in the US property market.

Fixed Interest

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	UBS Composite 0 + Years	3.27%	7.04%	7.63%	6.82%
	Australian 90 Day Bank Bill	3.08%	4.10%	4.17%	4.96%
Global	BarCap Global Aggregate Index	14.81%	3.13%	4.89%	2.45%
	BarCap Global Ag,. Index Hedged	3.57%	7.48%	8.76%	8.28%

Global bond yields stabilised in July after the Fed restated its intentions on the QE3 dialling down. US 10 year bond yields were only marginally higher at 2.58%, while Australian 10 year bond yields were steady at 3.7%.

Australian bonds were subdued in July with the UBS Composite Bond All Maturities Index marginally higher posting a 0.86% gain.

In comparison, global bonds were influenced by currency movements that largely determined relative performance. In July hedged global bonds, as measured by the Barclays Global Aggregate Index Hedged, posted a 0.63% gain, while the unhedged equivalent returned 3.28%.

In a 12 month basis, Australian bonds returned 3.27%, but underperformed relative to the unhedged global bonds that were up 14.8%. Hedged global bonds were higher returning 3.57%.

Australian dollar (AUD)

In July, the Australian Dollar (AUD) fell -1.6% against the USD to finish the month at USD 90cents. The recent interest rate cuts are anticipated to place further downward pressure on the AUD through 2013 and 2014. Against the USD the AUD is down -14.4% for the 12 months.

The AUD was also down -2.9% against the Japanese Yen, but has had a strong appreciation over the 12 months to 31 July, up 7.2% to ¥88.

Against the Euro, the AUD was also down -3.8% in July, but is down -20.9% for the 12 month period. The AUD finished the month at €0.7.

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