GODFREY PEMBROKE

market update

- Global economies continue to gain traction – expecting more synchronised global growth in 2014.
- RBA remains on an easing bias – lower Interest rate environment in Australia set to continue through 2014.
- Australian residential housing shows further upward momentum albeit at a more moderate rate.
- Sydney residential housing auctions at record levels – but credit growth remains subdued.

What's inside?

November market performance

Equity Markets – Price Indices	Index	At Close 30/11/13	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5420.28	3.88%	19.51%
Japan	Nikkei	14327.94	-0.88%	60.48%
Hong Kong	Hang Seng	23206.37	1.52%	7.23%
UK	FTSE 100	6731.43	4.17%	16.41%
Germany	DAX	9033.92	5.11%	24.42%
US	Dow Jones	15545.75	2.75%	18.70%
EMU*	Euro 100	2627.78	3.59%	16.49%
World**	MSCI – Ex Aus (Gross)	1003.01	3.86%	25.28%
Property – Price Index	**Index**	**At Close 30/11/13**	**% Change 1 Month**	**% Change 12 Months**
Listed Trusts	S&P/ASX 300 A-REITS	1029.77	2.64%	7.38%
Interest Rates		**At Close 30/11/13**	**At Close 31/10/13**	**At Close 30/11/12**
Aust 90 day Bank Bills		2.60%	2.60%	3.17%
Australian 10 year Bonds		4.22%	4.03%	3.22%
US 90 day T Bill		0.10%	0.09%	0.13%
US 10 year Bonds		2.79%	2.56%	1.62%
Currency* **		**At Close 30/11/13**	**% Change 1 Month**	**% Change 12 Months**
US dollar	A$/US$	0.91	-3.98%	-12.65%
British pound	A$/STG	0.55	-5.69%	-14.56%
Euro	A$/euro	0.70	-2.96%	-16.55%
Japanese yen	A$/yen	93.30	-0.20%	8.47%
Trade-weighted Index		69.80	-3.06%	-9.59%

* Top 100 European stocks trading on the FTSE
** Price Index – **Source:** 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

In global economies last month, manufacturing data continued to show signs of improvement, although Europe was a little mixed, while still recovering.

The improved data out of the US has been accompanied by continued traction of the Japanese economy. Although the Eurozone recovery remains mixed, Germany continued to provide a source of further economic improvement.

China has stabilised and has announced initiatives that are expected to help in the rebalancing of the economy.

Despite some mixed economic data out of Europe, the improving global growth outlook is looking to become more synchronised in 2014.

US

In November, the overwhelming focus in the US was on the timing of the Federal Reserve's (The Fed) commencement of the QE3 dial down. However, Janet Yellen, the new Federal Reserve Chairperson elect, has expressed concerns over the ongoing high level of unemployment, as well as the low inflation level. It's expected that Yellen will closely follow the strategy adopted by Ben Bernanke, the outgoing Chairman.

Given this relative weak data, and the Fed's strategy being based on data dependency, the commencement of QE3 dialling down is unlikely to occur until well into 2014.

From a housing perspective, the September S&P/Case-Shiller House Prices index continued to grow, albeit at a slower rate, up 0.7%. This provided a 13.3% year-on-year (yoy) increase for the

20 major cities. Although the data indicated a slowdown from the June quarter, it nevertheless shows a continued recovery in housing. The higher mortgage rates, the recent Government shutdown, and the higher house prices have likely tempered demand.

The uncertainty over the Government shutdown was also reflected in the sharp drop off in November consumer confidence data. What's more, further ambiguity over the short term solution to the debt ceiling deadlines is likely to continue into January/ February 2014 when the debt ceiling issue requires resolution.

The November unemployment rate declined to 7.0% (from 7.3% in October), with a net gain of 203,000 jobs created. While the US unemployment rate has been gradually improving, the pace of improvement continues to be a point of concern and remains a key focus for the Fed.

The US inflation rate continues to be subdued, with the October Consumer Price Index (CPI) coming in at 1.0% on an annual basis, with core inflation at 1.7%. The incoming Fed Chairperson has indicated her concern over the low inflation data; and together with a number of Fed members are more concerned with deflation rather than inflation at this stage of the cycle.

Europe

Over to Europe, November manufacturing data was a little mixed, with Germany continuing to show encouraging improvement, while France was a little slower. Overall, Eurozone manufacturing data expanded at a slightly slower rate than October.

Germany's PMI manufacturing and services data rose to its highest level since January 2013, and represents the seventh consecutive monthly expansion.

This modest improvement in Eurozone data is consistent with the European Central Bank's (ECB) decision to lower interest rates to a record low.

China

Manufacturing growth slowed in November as new export orders were a little softer, although the data was the second highest in the past seven months.

Chinese industrial business profits increased 15.1% yoy in October, slowing from 18.4% in September.

Some important announcements from the Chinese Government took place in November—including a change to the One Child policy which was viewed favourably by investors.

China's economic data showed further encouraging signs last month, easing concerns of a hard landing for the economy. This most recent batch of economic indicators provide further evidence that China's economy is stabilising, supported by improved foreign demand and a shift in policy stance.

Also, Chinese inflation accelerated slightly to 3.2% in October led by higher food prices. However this is still below the Government target inflation rate of 3.5%.

In the third quarter, China's economic growth accelerated to 7.8% from 7.5% in the previous quarter.

NAB Economics has maintained its forecast of 7.5% growth for 2013, decelerating to 7.2% in 2014 and 7% in 2015. Regarding the monetary policy outlook, it's expected the Central Bank will continue ensuring adequate liquidity for domestic banks, while maintaining tighter overall monetary conditions to discourage speculative investment and rapid credit growth.

Asia region

Over in the East, Japan's economic data gained solid traction in November. Manufacturing conditions improved at the fastest pace in seven years, with growth in new export orders hitting a 42 month high. The lower exchange rate is also stimulating export demand.

This economic improvement is giving strong support to Prime Minister Abe's strategy of reinvigorating the economy through the quantitative easing and infrastructure spend.

Consistent with the improved manufacturing data, Japanese inflation after years of deflation rose to a five-year high. Factory output increased for a second consecutive month in October, suggesting that government and central bank efforts to revive the world's third-largest economy were bearing fruit. The latest consumer price inflation numbers were the highest reading since the country slipped into deflation 15 years ago.

The Yen was lower against the US dollar (USD) through November (-3.7%) but declined 19.9% yoy. The Yen was steady against the Australian dollar (AUD) in November and was 7.6% lower yoy.

Australia

On the home front, the Reserve Bank of Australia (RBA) has indicated its desire to have a lower AUD and if necessary will intervene in the currency. This transparency has seen the AUD trade down to the USD90 – USD91 level.

Credit growth in October grew at a softer than expected 0.3% despite a mild acceleration in mortgage credit. But the other elements of credit growth remain very contained, reflecting a very cautious attitude to leverage despite historically low lending rates. Overall credit growth remains moderate with the RBA likely to retain its monetary policy easing bias.

Job creation in Australia's economy remained sluggish, with a big fall in full-time jobs during October—this was only partially offset by an increase in part-time positions. Unemployment was steady at 5.7%.

Residential property continued to boast record transaction volumes and further modest price increases. According to RP Data for the 2013 calendar year to 24 November 2013, the average house price increased 8.6% across the major capital cities. However, Sydney, Perth and Melbourne continued to record strong prices growth, up 13.6%, 7.7% and 6.9% respectively. However, there has been a considerable slowing of the price increases in November.

The Capital Expenditure Survey of business investment was better than expected and came in at 3.6% (in real terms). Mining investment, although having seemingly passed its peak, held up better than expected, while the near-term outlook for other industries is also improving. This data is consistent with the recent improved business confidence surveys.

However, the real indicator for the direction and severity of the mining investment capital expenditure declines will be seen when the December quarter data is released in February 2014. However, there are encouraging signs in the Q3/2013 data relating to building and construction activity.

GODFREY PEMBROKE market update

Equity markets

Australian equity markets were lower in November.

Japanese Nikkei was up strongly following improvements in economic conditions.

Eurozone equity markets were mixed with Germany up strongly but with France flat.

The China Shanghai Index was up strongly intra-month, reflecting reform announcements.

Australian equities

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 Acc.	22.66%	9.50%	12.12%	4.18%
	S&P/ASX 50 Acc.	25.65%	11.66%	12.83%	5.37%
	S&P/ASX Small Ordinaries Acc.	-0.10%	-4.62%	8.48%	-2.18%

The Australian market was lower in November, with the S&P/ASX 300 Accumulation Index down 1.47%, following a strong performance movement in October.

The S&P/ASX All Ordinaries Index was also down in November, with a 1.47% decline. Over the rolling 12 month period to 30 November the index has returned 22.64%.

For the 12 months to 30 November, the S&P/ASX 300 Accumulation Index posted strong gains of 22.66%, while the large market caps, comprising the S&P/ASX 50 Accumulation Index, performed even better returning 25.65%.

November was a challenging month with positive sector performances difficult to find. Healthcare was the only sector in the black, returning 0.4%.

On a 12 month basis Consumer Discretionary returned an exceptional 41.6%, while Financials (ex Property), Healthcare and Telecommunications were up 40.80%, 26.80% and 25.40% respectively.

Energy, Industrial and Telecommunication sectors were the worst performing sectors in November, returning -6.00%, -3.36% and -2.55% respectively.

Sector	1 Mth	3 Mths	1 Yr
Energy	-6.0%	-4.1%	10.9%
Materials	-0.4%	5.0%	1.6%
Industrial	-3.36%	3.66%	19.64%
Consumer Discretionary	-0.87%	4.53%	41.61%
Consumer Staples	-1.84%	0.08%	17.51%
Health Care	0.41%	2.33%	26.77%
Financials (ex Property)	-0.74%	8.95%	40.79%
Info Tech	-0.47%	4.19%	21.52%
Telcos	-2.55%	3.26%	25.35%
Utilities	-2.12%	-0.56%	11.14%
Property	-2.27%	0.77%	11.75%

Global equities

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Global	MSCI World Ex Aus Acc. ($A)	26.08%	12.21%	14.19%	3.67%
	MSCI World Index Hedged ($A)	43.64%	12.75%	4.44%	-0.77%
	MSCI World Small Cap ($A)	36.49%	15.14%	20.70%	5.52%
Emerging	MSCI Emerging Mkts Free	18.34%	2.33%	9.21%	3.21%
	MSCI AC Far East Free (ex Japan)	24.36%	6.55%	11.63%	5.10%

The MSCI World (ex-Australia) Accumulation Index was up 2.0% in November, and continued its positive run for the year, up 26.06%.

The US Dow Jones Index reached another all-time high in November as indications of a recovering US economy continue to gain traction. The index posted a 3.0% gain in November as economic data emerged that the US Government shutdown only had a modest impact on the economy. In the 12 months to 30 November, the index returned 23.5%.

The broader S&P500 index also posted a positive gain of 2.4% in November, and maintained the impressive 12 month return of 27.4% for the year.

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Big movers this month

↑ Healthcare 0.4%

↓ Energy -6.0%

Australian dollar (AUD)

In November, the Australian Dollar (AUD) fell 4.0% against the USD to finish the month at USD 93.25 cents. A combination of the low interest rate environment, the weak non-mining sector and the anticipated strength of the USD, should see the AUD weaken through 2014. Against the USD the AUD is down -12.7% for the 12 months.

In November, the AUD was flat (0.2%) against the Japanese Yen, and has had a strong appreciation over the 12 months to 30 November, up 8.5% to ¥93.3.

Against the Euro, the AUD declined 3.0% in November, and is down -16.6% for the 12 month period. The AUD finished the month at €0.69.

The Nikkei has been a standout performer over the past 12 months, returning 65.3% to 30 November. The index was up 8.0% in November.

Property

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 A-REIT Acc	11.75%	12.85%	6.72%	-4.63%
Global	UBS Global Investors Index	19.80%	11.94%	9.96%	-2.20%

In November, the S&P/ASX 300 A-REIT Accumulation Index was down -2.73%, a correction from the recent strong gains across the property sector in October. For the three months to 30 November the S&P/ASX 300 A-REIT Accumulation Index was up marginally at 0.8%.

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 11.8% on a 12 month basis, while the ASX 300 Accumulation Index rose 22.7%.

On a one month basis global property has outperformed the Australian listed property sector, largely reflecting the improving recovery in the US property market.

Global property has also outperformed the Australian listed property sector on a five and seven year basis. However, on a three year basis Australian property has marginally outperformed global property.

Fixed Interest

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	UBS Composite 0 + Years	1.64%	6.77%	5.86%	6.56%
	Australian 90 Day Bank Bill	2.82%	3.85%	3.92%	4.78%
Global	BarCap Global Aggregate Index	11.49%	4.71%	-1.60%	2.57%
	BarCap Global Ag,. Index Hedged	2.99%	7.54%	8.53%	7.95%

Global bond yields edged higher in November after better than expected US economic data. US 10 year bond yields were marginally higher at 2.79%, rising from 2.56%. Australian 10 year bond yields were marginally higher at 4.22%, up from 4.03%.

Australian bonds were reasonably steady in November with the UBS Composite Bond All Maturities Index marginally higher posting a 10bp loss.

In comparison, global bonds were influenced by currency movements that largely determined relative performance. In November hedged global bonds, as measured by the Barclays Global Aggregate Index Hedged, posted a 0.05% gain, while the unhedged equivalent returned 2.8%.

On a 12 month basis, Australian bonds returned 1.6%, but underperformed relative to the unhedged global bonds that were up 11.2%. Hedged global bonds were higher returning 3.0%.