GODFREYPEMBROKE

market update

OCTOBER 2015

- Global equity markets continued their sharp correction
- China economic data stabilised in September
- US economic data remains positive although impacted by USD strength
- US Federal Reserve delays decision on the commencement of normalising interest rates
- Eurozone data continues to improve albeit at a slightly slower pace in September
- RBA maintains the cash rate at 2.0% at its October meeting and remains on an accommodative policy

September market performance

Equity Markets – Price Indices	Index	At Close 30/09/2015	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5058.60	-3.1%	-4.5%
Japan	Nikkei	17388.15	-8.0%	7.5%
Hong Kong	Hang Seng	20846.30	-3.8%	-9.1%
UK	FTSE 100	6061.61	-3.0%	-8.5%
Germany	DAX	9660.44	-5.8%	2.0%
US	Dow Jones	16284.70	-1.5%	-4.4%
EMU*	Euro 100	1035.41	-4.7%	-1.4%
World**	MSCI – Ex Aus (Gross) (Hedged)	1219.49	-3.7%	-2.5%

Property – Price Index	Index	At Close 30/09/2015	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	1216.70	-0.3%	14.3%

Interest Rates	At Close 30/09/2015	At Close 31/08/2015	At Close 30/09/2014
Aust 90 day Bank Bills	2.19%	2.14%	2.71%
Australian 10 year Bonds	2.61%	2.67%	3.48%
US 90 day T Bill	-0.01%	-0.01%	0.02%
US 10 year Bonds	2.04%	2.22%	2.49%

Currency***		At Close 30/09/2015	% Change 1 Month	% Change 12 Months
US dollar	A$/US$	0.70	-0.95%	-19.75%
British pound	A$/STG	0.46	0.58%	-14.11%
Euro	A$/euro	0.63	-0.57%	-9.18%
Japanese yen	A$/yen	84.10	-2.11%	-12.38%
Trade-weighted Index		59.90	-1.64%	-13.06%

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

Global economies

Global equity markets continued their sharp decline in September. Ongoing concerns over the strength of the China economy, uncertainty created by the Federal Reserve's decision to delay raising interest rates, and increasing concerns over corporate credit issues across resources and energy sectors continued to keep markets extremely nervous.

A slowdown in world trade and the strength of the US Dollar (USD) impacted the US economy in September as surveys revealed firms delayed hiring and factory orders contracted from the previous month.

However, the US continues to deliver improving economic growth. The economic data illustrates that despite slower jobs growth in August and September, the economy remains on an improving trend.

GODFREYPEMBROKE market update

Global economies **cont…**

Although the Eurozone economic data was a little softer than the previous month, there are continued, positive signs that the economy is gaining some sustainable economic momentum. The quantitative easing continues to have a positive impact.

China's official manufacturing Purchasing Manager's Index (PMI), stabilised at 49.8 in September and the World Bank continues to see strong growth at 6.9% in 2015.

The Reserve Bank of Australia (RBA) maintained the cash rate at 2% at its October meeting and retains an accommodative policy. Expectations are increasing for further rate cuts given the macro global backdrop.

US

In the US, although economic data remains positive, some impact has been seen from the stronger USD and also from slower global economic data.

In September, US auto sales continued a strong growth momentum, increasing 16% year-on-year (yoy).

The September PMI registered 50.2%, a decrease of 0.9% from the August reading of 51.1%.

In September, the Institute for Supply Management (ISM) fell to its lowest level in more than two years under pressure from a slowdown in China and broader worries about the global economy.

The September non-farm payrolls data was lower at 142,000 compared to the August non-farm payrolls of 173,000. In 2015, job growth has averaged 198,000 per month, compared with an average monthly gain of 260,000 in 2014. The unemployment rate was steady at 5.1%. The August and July non-farm payroll data was revised down to 136,000 and 223,000 respectively.

The University of Michigan's final reading on the overall index of consumer sentiment came in at 87.2 in September, down from a final 91.9 in September.

The S&P/Case-Shiller U.S. National Home Price Index, covering all nine U.S. census divisions, recorded a slightly higher yoy gain with a 4.7% annual increase in July versus a 4.5% increase in June. The 10-City Composite was virtually unchanged from last month, rising 4.5% yoy. The 20-City Composite had higher yoy gains, with an increase of 5.0%.

The US 2015 corporate earnings growth remains steady at 0.7% (revenues at -2.4%), while the 2016 estimated earnings growth remains steady at 10% (revenue growth at 5.5%).

The current 12 month forward Price Earnings (P/E) ratio is 15.2 times. This is above the 5 year average of 13.9 times, and the 10 year average of 14.1 times.

Europe

Over to the Eurozone, the September composite PMI came in at 53.6, down from 54.3 in August. Although the rate of growth has eased to a four month low, the Eurozone continues to have solid gains in output and new orders and growth continues to support job creation.

The increase in business activity was underpinned by growth in new orders, with the pace of expansion in new work accelerating slightly in September. With backlogs of work also rising at the second-fastest rate in over four years and business optimism still positive, the expansion in services output is likely to continue in coming months.

The broad-based expansion of business activity across the Eurozone service sector encouraged further job creation during September. Employment rose for the eleventh consecutive month, with increases seen in Germany, Spain and Ireland. The rate of jobs growth in

GODFREY PEMBROKE market update

Europe cont…

Germany improved to the fastest since December 2011.

German service providers reported a continuation of output growth in September, despite the pace of expansion slowing slightly since August. New orders and employment both rose at stronger rates and business order books accumulated at a robust rate.

In Germany, the rate of job creation was the sharpest since the end of 2011, with 19% of surveyed companies adding to their payrolls.

Manufacturing PMI in the United Kingdom was marginally lower at 51.50 in September, down from 51.60 in August of 2015. The Markit/CIPS service sector PMI fell to 53.3 in September from 55.6 in August, indicating that growth in the UK service sector slowed to its lowest rate in nearly 2.5 years.

China

In China, the official PMI steadied at 49.8 in September, up from 49.7 in August. The services PMI for September came in at 53.4, unchanged from August. The data continues to illustrate that manufacturing data remains subdued but the services sector has held up better than the heavy manufacturing sector.

Although the Chinese stock market was down again in September, the rate of decline slowed to 4.8%, significantly lower than the double digit declines in each of the months of July and August.

Following the People's Bank of China's (PBoC) August devaluation of the yuan against the US Dollar (USD), and interest rate cuts, the recent decision by the US Federal Reserve to delay the commencement of the road to interest rate normalisation will also be of some short term assistance to the China Central Bank.

The 2% August inflation number was higher than the July number of 1.6% and the June data at 1.4%. The higher inflation data in August related to increased food prices that were up 3% compared to the non-food prices that were up 1%. However, inflation remains well below the PBoC target of 3%.

The benchmark interest rate has been cut five times since November 2014, but still remains at 4.6%. The PBoC retains considerable monetary policy flexibility in order to manage the economic slowdown and transition the broad economy.

Asia region

Over to Japan, the Markit / Nikkei services PMI fell to 50.9 in September from 51.7 in August reflecting largely weaker export growth and specifically the slower growth in China.

The Markit/Nikkei Japan services PMI fell to 51.4 in September, from 53.7 in August, 51.2 in July, and 51.8 in June.

Consumer prices in Japan increased by 0.2% yoy in August, the same pace as in the previous month.

The unemployment rate in Japan was 3.4% in August, up from 3.3% in July but lower than the 3.5% a year earlier.

Given the low inflation data against a 2% target, it is expected that the Bank of Japan (BoJ) will commence further easing policies later this year.

In India, the Manufacturing PMI fell to a seven-month low at 51.20 in September from 52.30 in August.

Consumer prices in India increased 3.66% yoy in August, slowing slightly from a revised 3.69% rise in July. The inflation rate fell to a fresh record low in August, staying below the Central Bank's 6% target rate.

Australia

Back home, the RBA kept the cash rate at 2.0% at its early October meeting.

The RBA continues to focus on the ongoing data but retains an accommodative policy.

Although the mining sector continues to be under pressure, the non-mining sector continues to show further signs of improvement.

Manufacturing PMI in Australia increased to 52.10 in September from 51.70 in August of 2015.

Retail Sales in Australia increased 4.30% yoy in August.

RBA credit growth in August increased to 6.3% yoy, from 6.1% yoy in July. Housing credit growth remained steady at 0.6% month-on-month (mom) and was up 7.5% yoy.

Business credit growth was up 0.5% in August, down from 0.6% in July, and is running at 5.3% yoy, up from 3.2% yoy in August 2014. Although it has been a slow recovery when compared to other cycles, the improvement in business credit is trending upwards. Although the monthly data remains mixed, it is an encouraging sign and one that is commensurate with improved jobs growth and benefits from a weaker AUD.

Australian house price growth was up 0.6% mom in September (period ended 27 September 2015). The data reflects a tapering in the housing market largely due to investor bank loan impositions. The CoreLogic RP September data saw stronger house price growth in Melbourne (up 2.0% mom) and Brisbane (up 0.8% mom). On a yoy basis, Sydney was up 17.1%, while Melbourne was up 14.3%. Combined, capital cities were up 11.4% yoy in September.

However, apart from Sydney and Melbourne, annual growth rates across the other capital cities remain subdued. Perth was down 1.0% yoy. Weighted average auction clearance rates were at 71.3% in the week ended 27 September.

GODFREY PEMBROKE market update

EQUITY MARKETS

- The MSCI World ex Aus (Gross) (Hedged) Index was down 3.7% in September
- The China Shanghai Composite Index was down 4.8% in September
- The German DAX Index was down 5.8%
- The broader Euro 100 was down 4.7%
- The Japanese Nikkei Index was down 8.0%
- The US Dow Jones Equity Index was down 1.5% in September
- Australian S&P/ASX All Ordinaries Index ended the month down 3.1%

Australian equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 Acc.	-0.66%	9.09%	6.29%	5.78%
	S&P/ASX 50 Acc.	-1.58%	9.54%	7.14%	6.59%
	S&P/ASX Small Ordinaries Acc.	-4.90%	-1.22%	-2.54%	-0.05%

The sharp decline in global equity markets continued in September. Both the S&P/ASX 300 Index and S&P/ASX 300 Accumulation Index were down 3.5% and 2.9% respectively in September. The 12 month negative return on the S&P/ASX 300 Index was 5.1%, while the 12 month negative return on the S&P/ASX 300 Accumulation Index was 0.7%.

The S&P/ASX 300 Industrials Index was down 2.4%, while the S&P/ASX 300 Industrials Accumulation Index was down 2.0% in September. The 12 month S&P/ASX 300 Industrials Accumulation Index was up 6.1%.

The broader S&P/ASX All Ordinaries Index was down 3.1% in September, and on a 12 month basis was down 4.5%.

The large market caps represented by the S&P/ASX 50 Index, again performed poorly, down 3.8% in September, and over 12 months this index was down 6.2%. The S&P/ASX 50 Accumulation Index was down 3.2% in September, and over the 12 months ending on 30 September 2015 was down 1.6%.

The weaker China economic data impacted the Energy and Materials sectors, down 12% and 4.8% respectively. Only two sectors were higher - the Information Technology sector was the best performer, up 6.1%, while the Industrial sector was up 2.1%.

Sector	1 Month	3 Months	1 Year
Energy	-12.0%	-24.1%	-39.7%
Materials	-4.8%	-10.9%	-14.4%
Industrial	2.1%	3.6%	18.9%
Consumer Discretionary	-1.0%	1.1%	4.4%
Consumer Staples	-1.5%	1.5%	-9.0%
Health Care	-3.5%	-0.7%	17.2%
Financials (ex Property)	-3.3%	-9.6%	0.6%
Info Tech	6.1%	-1.3%	1.8%
Telcos	-1.9%	-5.1%	13.3%
Utilities	-2.9%	1.8%	16.5%
Property	-0.3%	1.1%	20.1%

GODFREY PEMBROKE market update

BIG MOVERS THIS MONTH

Going up

⇑ Information Technology 6.1%

⇑ Industrials 2.1%

Going down

⇓ Energy -12.0%

⇓ Materials -4.8%

⇓ Healthcare -3.5%

Global Equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Aus (Gross) (Unhedged)	-0.19%	12.58%	10.77%	7.92%
	MSCI World $A Hedged (Gross)	-0.71%	12.07%	10.47%	6.89%
	MSCI World Small Cap ($A)	22.94%	26.09%	17.29%	11.75%
Emerging	MSCI Emerging Mkts Free	-6.79%	2.45%	2.09%	6.20%
	MSCI AC Far East Free (ex Japan)	-7.06%	2.42%	2.15%	0.07%

There was a continuation of the confluence of negative events through September. The weaker China economic data, the continued volatility in the China equity market and the uncertainty created by the Federal Reserve's delay in raising the cash rate created a negative environment for global equity markets.

Following the sharp falls in July and August, down 14.3% and 13.5% respectively, the China Shanghai Composite Index was again down 4.8% in September.

The Euro 100 was down 4.7% in September, while the German DAX market was down 5.8%.

The Japanese Nikkei was down 8.0% in September, and follows the 12% decline in August.

The US markets were also impacted, with the S&P 500 down 2.6%.

Over the 12 months ending 30 September 2015, the Nikkei Index was the best performer. Despite the recent sharp sell-off in the Shanghai Composite Index, the China market remains the best performer in the Market Update universe over the 12 month period. The Shanghai Composite Index, the Nikkei and the German DAX were up 29.1%, 22.5% and 2.0% respectively. On the other hand, the underperformers over the 12 month period were the Hong Kong Hang Seng Index, the UK FTSE Index and the Australian All Ordinaries, down 9.1%, 8.5% and 4.5% respectively.

Property

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 A-REIT Acc	20.08%	16.21%	13.64%	4.85%
Global	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	10.77%	13.12%	12.79%	8.95%

The S&P/ASX 300 A-REIT Index was down 0.32% in September, while the 12 month return was 14.3%. The S&P/ASX 300 A-REIT Accumulation Index's was down 0.28% in September.

Over 12 months, the Australian listed property market, as measured by the S&P/ASX 300 A-REIT Accumulation Index, was up 14.3%, which significantly outperformed the ASX 300 Accumulation Index which was down 3.3%.

Over 1 and 3 and 5 years, the A-REITs outperformed global REITs, while Global REITs outperformed A-REITs over the 7 year period. Global property, as represented by the FTSE EPRA/NAREIT Index, was up 10.7% over a 1 year period.

GODFREY PEMBROKE market update

Fixed Interest

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr	6.91%	4.89%	6.64%	6.80%
	Australian 90 Day Bank Bill	2.38%	2.65%	3.39%	3.59%
Global	BarCap Global Aggregate Index	20.54%	12.17%	7.50%	5.01%
	BarCap Global Agg. Index Hedged	5.72%	5.64%	6.94%	8.22%

In September, the US 10 year bond yields were down 8.0%, and closed the month at 2.04%. Australian 10 year bond yields were down 2.2%, and closed the month at 2.61%.

Over a 12 month period, the unhedged global bonds index returned 20.54%, outperforming Australian bonds which returned 6.91%.The hedged global bonds index posted a strong 1 year gain of 5.72%.

Australian dollar

In September, the Trade-weighted Index was down 1.6%, and also down 13.1% during the 12 month period ending 30 September 2015.

The AUD was down 1.0% against the USD in September, to finish the month at 70 US cents. On a 12 month basis, the AUD declined 19.8% against the USD.

The AUD declined against the Euro, down 0.6% in September. On a 12 month basis, the AUD was down 9.2% against the Euro.

Against the Japanese Yen, the AUD was down 2.1% in September. On a 12 month basis, the AUD was down 12.4% against the Yen.

Against the British Pound, the AUD was up 0.6% in September. On a 12 month basis, the AUD was down 14.1% relative to the British Pound.