GODFREYPEMBROKE

market update

March 2016

- Global equity markets continued to correct through February but stage an early March recovery
- Oil prices staged a strong recovery from mid-February – up 37%
- China economic data continued to consolidate and targets 6.5% minimum growth
- US economic data continued to improve
- Marginally weaker Eurozone economic data heightens the likelihood of further quantitative easing
- Australian non mining sector continues a solid recovery – improved Q4 GDP
- RBA retains cash rate at 2.0%

February market performance

Equity Markets – Price Indices	Index	At Close 29/02/2016	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	4947.95	-2.1%	-16.1%
Japan	Nikkei	16026.76	-8.5%	-14.7%
Hong Kong	Hang Seng	19111.93	-2.9%	-23.0%
UK	FTSE 100	6097.09	0.2%	-12.2%
Germany	DAX	9495.40	-3.1%	-16.7%
US	Dow Jones	16516.50	0.3%	-8.9%
EMU*	Euro 100	992.07	-3.2%	-16.6%
World**	MSCI – Ex Aus (Gross) (Hedged)	1199.11	-1.7%	-11.3%

Property – Price Index	Index	At Close 29/02/2016	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	1306.49	2.0%	1.4%

Interest Rates	At Close 29/02/2016	At Close 31/01/2016	At Close 28/02/2015
Aust 90 day Bank Bills	2.28%	2.28%	2.31%
Australian 10 year Bonds	2.40%	2.58%	2.47%
US 90 day T Bill	0.32%	0.32%	0.01%
US 10 year Bonds	1.74%	1.92%	1.99%

Currency***		At Close 29/02/2016	% Change 1 Month	% Change 12 Months
US dollar	A$/US$	0.71	0.98%	-8.75%
British pound	A$/STG	0.51	2.78%	1.19%
Euro	A$/euro	0.66	0.56%	-5.80%
Japanese yen	A$/yen	80.62	-5.86%	-13.84%
Trade-weighted Index		61.40	-0.16%	-4.21%

* 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.

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Global economies

Global equity markets continued the December/January pullback with a further correction in February. However, late February/early March has seen improved global equity markets as oil prices staged a recovery and global corporate credit risk declined across the high yield energy and commodity company bond markets.

Oil prices recovered on the basis that the Organisation of Petroleum Exporting

Countries (OPEC) and non-OPEC producers are in talks to cap production. The oil price rebound also improved as US oil production declined and US oil rig count was sharply lower.

US economic data continued to show resilience and improvement, with strong job creation.

Despite weaker Eurozone economic data in February, the likelihood has increased that the European Central Bank (ECB) will initiate additional quantitative easing (QE).

China economic data was marginally weaker in February, and appears to be stabilising, The Government has announced a 6.5%-7% growth range target in 2016 and a desire, if necessary, to continue to stimulate the economy.

Australian business credit growth has continued to improve in February while the investor housing loan market has declined.

The RBA kept the cash rate at 2.0%.

US

February US economic data indicates that the economy is continuing to expand.

The improved US economic data has been exemplified by the strong February payrolls data and the resilience behind the Institute of Supply Management (ISM) data.

The February ISM manufacturing index was higher at 49.5, compared to 48.2 in January. The production index was higher at 52.8 compared to 50.2 in January. New orders were steady at 51.5 in January, and 48.8 in December. The non-manufacturing composite index was marginally down to 53.4 from 53.5

The Federal Reserve's closely watched Personal Consumption Expenditures (PCE) headline data for January was 1.25% up strongly from the revised 0.68% in December. Interestingly, the core PCE (excluding Food and Energy) came in at 1.67%, up from the December's 1.46%. The core increase is the largest month-on-month (mom) rise since January 2012. Core year-on-year (yoy) data is the highest since February 2013.

Non-farm payrolls increased by 242,000 in February and provided sufficient evidence that the feared slowdown is not evident in the employment data. December and January data were revised up by 30,000 job creations. Unemployment remained at 4.9%.

Oil prices recovered on the basis of talk from OPEC and non-OPEC producers that they are in talks to cap production. The oil price rebound also improved as US oil production declined to 9.05 million barrels per day (down 5% yoy) and US oil rig count declined to 392 (down 57% yoy).

Although global oil inventory levels remain high, the prospect of prices below $US40 per barrel will result in considerable production declines over the next 12 months with the prospect that the global supply/demand will balance in 2017.

Earnings outlook for the S&P500 companies is dictated largely by the outlook for the Energy Sector. This in turn depends on the average oil price through 2016 and 2017. The recent declines in the earnings per share (EPS) for the S&P500 companies are due to the lower oil price assumptions but as the past month has shown predicting oil prices at the moment is extremely challenging.

Earnings growth excluding the Energy Sector is 3% - 4% over a 12 month forecast period. Including the Energy Sector, the forecast earnings growth is close to flat.

The internal NAB oil price forecasts see oil prices rising to US$40 per barrel over the next 12 months.

The current 12 month forward Price Earnings (P/E) ratio for the S&P500 index is 16.1 times. This was based on an EPS of $124 and S&P500 at 1993. Excluding the Energy Sector from the EPS growth of the S&P500 data, the PE ratio is closer to 15.4 times.

Europe

Over to the Eurozone, the February manufacturing Purchasing Managers Index (PMI) was a little weaker than January's data.

The Markit manufacturing PMI index was down at 51.2 in February, from 52.3 in January.

Unemployment across the Eurozone declined to 10.3% from 10.4% in January.

Consumer prices in the Eurozone decreased 0.2% yoy in February. This follows the 0.3% rise in January. The inflation rate was negative for the first time in five months. However, the core inflation rate excluding prices of energy, food, alcohol and tobacco slowed to 0.7% in February compared to 1% in January. Oil price decline is largely responsible for the low inflation.

China

In China, the manufacturing PMI declined to 49.0 in February compared to 49.4 in January. The production index was 50.2 down from 51.4 in January.

The non-manufacturing PMI index was 52.7 in February down from 53.5 in January.

The People's Bank of China (PBoC) has cut the reserve requirement ratio (the amount of cash China's banks are required to hold) in order to continue to stimulate the economy. The PBoC cut the ratio by 0.5%, lowering the reserve ratio requirement to 17%. This is the fifth time since February 2015.

The National People's Congress announced a 6.5% - 7% economic growth range target for 2016. The economic growth was 6.9% in 2015.

The Chinese Government also announced the intension to keep the annual growth rate at a minimum of 6.5% through to 2020. It maintains the intensity to continue to do the necessary stimulus to continue the forecast growth rates.

The Government also announced a number of supportive growth measures including investments in infrastructure and an emphasis on innovation. China will invest US$2.5 trillion in road construction and US$1.2 trillion in new railways. Other capital investments include 20 water

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conservation projects and additional projects that include hydropower and nuclear power.

Asia region

In Japan, the February Markit Nikkei manufacturing PMI came in at 50.1, compared to 50.2 in January.

The Nikkei services PMI was 51.2 compared to 52.4 in February.

Japan's consumer prices were flat yoy in January. This followed a 0.2% yoy rise in December. Excluding food and energy, prices increased by 0.7%.

The Indian Nikkei Manufacturing PMI was 51.1, unchanged from a month earlier.

India consumer prices were up 5.69% yoy in January and marginally higher than December's 5.61%. Food inflation increased to 6.85% from 6.4% in December.

Australia

Back home, the Reserve Bank of Australia (RBA) retained the cash rate at 2% at its March meeting. The RBA indicated that it's seeking to monitor the sustainability of the improvement in the labour market. The RBA also indicated global volatility will have an ongoing impact on global and domestic demand.

The Q4 GDP was stronger than expected at 0.6% quarter-on-quarter (qoq) following growth of 1.1% qoq in Q3. Growth in 2015 was 3%. Interestingly household consumption was particularly strong at 0.8% and the household savings rate dropped to 7.6%, the lowest since prior to the Global Financial Crisis (GFC).

The recovery in Q4 across the non-mining sector was particularly impressive. The labour intensive services such as real estate, IT, financial services, health, public administration were all better with significantly improved business conditions.

RBA total credit growth increased 0.5% mom to 6.5% yoy. Business credit growth also grew by 0.5% in January and 6.2% yoy.

The Australian Prudential Regulation Authority (APRA) policies, whereby banks cap investor lending at 10%, pushed annual growth down to 7.9% in January. Banks have also been increasing lending standards.

Owner occupied housing picked up to 6.5% with total housing credit slowed to 7.5%.

Retail sales growth improved in January, up 0.3% compared to zero growth in December. Interestingly Western Australia retail sales have not grown over the past three months, largely related to the deteriorating mining and energy capital investment. Interestingly, Queensland retailing has stabilised with an increase of 0.3% mom for each of the past four months.

Non-Mining led growth, specifically related to tourism, is continuing and is expected to fill the mining capital investment drop off.

The CoreLogic RP property data survey for the week ended 6 March 2016 indicated that clearance rates had fallen to 68.1%, compared to 74.5% for the same period one year ago. The 12 month growth in the 5 capital cities home values was up 7.8%, with Melbourne up 11.1% and Sydney up 9.6%.

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EQUITY MARKETS

- The China Shanghai Composite Index was down 1.8% in February
- The German DAX Index was down 3.1%
- The broader Euro 100 was down 3.2%
- The Japanese Nikkei Index was down 8.5%
- The US Dow Jones Equity Index was up 0.3% in February
- Australian S&P/ASX All Ordinaries Index ended the month down 2.1%

Australian equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 Acc.	-13.45%	2.88%	4.61%	10.26%
	S&P/ASX 50 Acc.	-16.04%	2.41%	5.16%	10.24%
	S&P/ASX Small Ordinaries Acc.	-3.56%	-1.41%	-3.17%	7.76%

The Australian equity market has been impacted by the global sell off. The S&P/ASX All Ordinaries was down 2.1% in February.

The S&P/ASX All Ordinaries Index on a 12 month basis was down 16.1%.

The 1 month and 12 month return on the S&P/ASX 300 Accumulation Index was down 1.72% and down 13.5% respectively.

The S&P/ASX 300 Industrials Accumulation Index was down 2.96% in February and for the 12 months was down 9.53%

In contrast to January, the defensive sectors gave way to the risk trade with Materials and Industrial sectors the standout performer relative to the defensive sectors. These sectors were up 9.15, 5.8% and 2.8% respectively.

Interestingly, oil prices have rallied strongly since mid-February together with other commodities such as iron ore and copper. As indicated last month, oil prices have been the key driver of equity market performance over the past 6 months.

The Financials (ex Property), Information Technology and Telecommunication sectors were the worst performers, down 7.0%, 5.5% and 5.5% respectively.

Sector	1 Month	3 Months	1 Year
Energy	0.3%	-13.2%	-33.5%
Materials	9.1%	0.5%	-25.5%
Industrial	5.8%	2.5%	12.2%
Consumer Discretionary	-1.6%	1.8%	-0.1%
Consumer Staples	-4.8%	1.8%	-8.3%
Health Care	0.6%	-1.4%	4.0%
Financials (ex Property)	-7.0%	-12.2%	-20.8%
Info Tech	-5.5%	-6.7%	-4.7%
Telcos	-5.5%	-0.7%	-11.0%
Utilities	1.2%	5.1%	9.5%
Property	2.8%	8.0%	6.6%

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BIG MOVERS THIS MONTH

Going up

⇑	Materials	9.1%
⇑	Industrials	5.8%
⇑	Property	2.8%

Going down

⇓	Financials (ex Property)	-7.0%
⇓	Information Technology	-5.5%
⇓	Telcos	-5.5%

Global Equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Aus (Gross) in	-1.51%	19.99%	13.55%	12.11%
	MSCI World Ex Aus (Gross) in	-9.04%	8.77%	7.70%	14.14%
	MSCI World Small Cap ($A)	-2.24%	19.33%	13.13%	15.26%
Emerging	MSCI Emerging Mkts Free	-14.36%	-0.70%	0.91%	10.36%
	MSCI AC Far East Free (ex Japan)	-15.75%	-1.27%	1.03%	0.11%

The sharp correction in the global equity markets in December and January continued through February.

However, a rebound in commodity prices, specifically oil and iron ore prices have seen a sharp rally in global equity markets in late February/early March. This has coincided with continued Central Bank accommodative monetary policy and specifically the China PBoC, indicating they will continue to support GDP growth in the 6.5% - 7% range in 2016.

The Shanghai Composite Index was down 1.8% in February and for the 12 months, has declined 18.8%.

The Euro 100 was down 3.2% in February, while the German DAX Index was down 3.1%.

The Japanese Nikkei was down 8.5% in February.

It was a challenging year for global equity markets. Over the 12 months ended 29 February 2016, the MSCI (Ex Aust Gross Hedged) was down 11.3%. The Dow Jones index was down 8.9% and was the best performer in the Market Update universe.

On the other hand, the underperformers over the 12 month period ended 29 February 2016, were the Hong Kong Hang Seng Index and the Euro 100 Index, down 23.0% and 16.6% respectively.

Property

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 A-REIT Acc	6.56%	14.31%	14.81%	17.20%
Global	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	-5.50%	8.67%	10.52%	21.01%

The S&P/ASX 300 A-REIT Accumulation Index was up 2.8% in February and 6.96% over the 12 months to 29 February 2016. The S&P/ASX 300 A-REIT Index was up 1.98% in February and up 1.98% over the 1 year period ended 29 February 2016.

Over 1, 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 down 5.5% over a 1 year period.

Fixed Interest

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr	2.96%	5.39%	6.82%	6.14%
	Australian 90 Day Bank Bill	2.22%	2.54%	3.17%	3.46%
Global	BarCap Global Aggregate Index	10.51%	12.63%	8.81%	2.03%
	BarCap Global Agg. Index Hedged	4.36%	6.05%	7.62%	8.07%

In February, the US 10 year bond yields were down 9.7% and closed the month at 1.74%.

Australian 10 year bond yields were down 6.94%, and closed the month at 2.49%.

Over a 12 month period, the unhedged global bonds index returned 10.5%, outperforming Australian bonds which returned 2.96%. The hedged global bonds index posted a strong one year gain of 4.36%.

Australian dollar

In January, the Trade-weighted Index was down 0.16% mom, but also down 4.21% during the 12 month period ending 29 February 2016.

The AUD was up 0.98% against the USD in February, to finish the month at 71 US cents. On a 12 month basis, the AUD declined 8.75% against the USD.

The AUD was up 0.56% against the Euro in February. On a 12 month basis, the AUD was down 5.8% against the Euro.

Against the Japanese Yen, the AUD was down 5.86% in February. On a 12 month basis, the AUD was down 13.8% against the Yen.

Against the British Pound, the AUD was up 2.78% in February. On a 12 month basis, the AUD was up 1.19% relative to the British Pound.