GODFREY PEMBROKE

market update

September 2015

- Global equity markets in sharp correction
- China's weaker economic data unsettles investors
- US economic data continues to improve
- Focus on timing of the US Federal Reserve's commencement of normalising interest rates
- Eurozone data maintains improving growth momentum from a low base
- RBA maintains the cash rate at 2.0% at its September meeting and remains on an accommodative policy

August market performance

Equity Markets – Price Indices	Index	At Close 31/08/2015	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5222.08	-8.1%	-7.2%
Japan	Nikkei	18890.48	-8.2%	22.5%
Hong Kong	Hang Seng	21670.58	-12.0%	-12.4%
UK	FTSE 100	6247.94	-6.7%	-8.4%
Germany	DAX	10259.46	-9.3%	8.3%
US	Dow Jones	16528.03	-6.6%	-3.3%
EMU*	Euro 100	1086.94	-9.0%	4.9%
World**	MSCI – Ex Aus (Gross) (Hedged)	1266.56	-6.8%	0.2%
Property – Price Index	**Index**	**At Close 31/08/2015**	**% Change 1 Month**	**% Change 12 Months**
Listed Trusts	S&P/ASX 300 A-REITS	1220.60	-4.8%	8.7%
Interest Rates		**At Close 31/08/2015**	**At Close 30/07/2015**	**At Close 31/08/2014**
Aust 90 day Bank Bills		2.14%	2.15%	2.63%
Australian 10 year Bonds		2.67%	2.76%	3.30%
US 90 day T Bill		-0.01%	0.07%	0.03%
US 10 year Bonds		2.22%	2.18%	2.34%
Currency***		**At Close 31/08/2015**	**% Change 1 Month**	**% Change 12 Months**
US dollar	A$/US$	0.71	-3.46%	-24.20%
British pound	A$/STG	0.46	-2.05%	-18.15%
Euro	A$/euro	0.63	-4.81%	-10.89%
Japanese yen	A$/yen	85.91	-5.57%	-11.58%
Trade-weighted Index		60.90	-0.81%	-15.30%

* 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 declined significantly in August. Concerns over the strength of the China economy and over a potential contagion effect resulted in sharp retracements in equity markets.

The US remains the engine room of economic momentum. Recent economic data continues to illustrate that the economy is gaining traction with improvement in manufacturing, employment, consumer confidence and housing providing a solid platform.

The Eurozone economic recovery continued, with positive signs that the economy is gaining some improved and sustainable economic momentum. The quantitative easing continues to have a positive impact.

China's official manufacturing PMI, slipped to 49.7 in August and represented the weakest data for 3 years.

The Reserve Bank of Australia (RBA) maintained the cash rate at 2% at its September meeting and retains an accommodative policy.

US

In the US, and despite the considerable volatility across global markets, economic data remains positive. US auto sales in August were the strongest in 10 years.

Although the Institute for Supply Management (ISM) services sector Index slipped to 59.0 in August, it was only marginally down from the 60.3 in July. The data remained at a level consistent with solid growth in service-providing sectors. The overall business activity index fell to 63.9 from 64.9 in July, new orders component slipped to 63.4 from 63.8, and the supplier delivery time index fell to 52.5 from 53.0.

"Global stock-market turmoil has weakened the case for raising interest rates in September", Federal Reserve Bank of New York President William C. Dudley said, cautioning it's important not to overreact to short-term developments. "At the moment, the decision to begin the normalisation process at the September Federal Open Market Committee (FOMC) meeting seems less compelling than it was a few weeks ago" Dudley stated.

The August non-farm payrolls data was 173,000 with an unemployment rate declining to 5.1%. The July non farm payroll data was revised up 30,000 from 215,000 to 245,000.

Consumer confidence improved to 101.5 in August, up from 91.0 in July.

New home sales increased by 5.4% month-on-month (mom) in July. New home sales increased in three of the report's four regions, with sales declining only in the Midwest. The July figure was a modest rebound from the weaker June report, and is in line with the average level of new home sales seen thus far in 2015.

The S&P/Case-Shiller home price index declined 0.1% in June. Prices fell in ten of twenty cities covered by the headline index. Smoothing the data, prices rose a solid 5.0% over the past year.

The US S & P 500 corporate earnings growth remains steady at 1.1% (revenues to -1.7%), while the 2016 estimated earnings growth remains steady at 10.4% (revenue growth at 5.7%).

The current 12 month forward Price Earnings (P/E) ratio is 15.3 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 final estimate of the Euro area August composite Purchasing Manager's Index (PMI) came in at 54.3. There was a substantial positive revision to the German PMI, matched by an equally negative French revision. Both the Spanish and the Italian composite PMI surprised to the upside.

The Euro area composite PMI is now at its highest level since mid-2011 and is indicative of growth of about +0.5%qoq.

The UK Services PMI fell 1.8pt in August to 55.6. The components were also weak, with business falling 0.7pt to 51.5 and incoming new business contracting by 2.4pt to 56.2. In a weak release, it was somewhat more positive to observe business expectations fall only marginally, from 70.9 to 70.7 and remain at a high level. The employment component rose 0.4pt to 54.2 after having fallen for five consecutive months.

The UK Composite PMI fell to 55.1 in August. The manufacturing PMI also declined from 51.9 to 51.5. The construction PMI, which is not included in the official composite PMI, edged up from 57.1 to 57.3 on the month.

Importantly, the uncertainty in China economic growth has important implications for Germany. In 2007, the Chinese market accounted for just 3.1% of German exports but that figure rose to 6.6% in 2014. Growth in China made it Germany's fourth biggest export market in 2014.

China

In China, the official PMI, slipped to 49.7 in August – the weakest level since August 2012 – down from 50 in July. This followed the continued actions from the People's Bank of China (PBoC) to further stimulate the economy through interest rate cuts.

Although the Chinese stock market had another significant decline (-13.3%), the pullback has brought the equity market back to a level where market volatility is likely to have less of an impact on investor psychology.

China's PBoC has devalued the yuan against the US Dollar (USD). The USD has appreciated over the past year in anticipation of the US raising interest rates. The yuan, loosely pegged to the USD, has also moved higher. With the prospect of higher US interest rates and a higher USD, the PBoC has moved to provide more competitiveness to the Chinese economy.

China is seeking to have the yuan included in the International Monetary Fund (IMF) basket of special drawing rights (SDR) reserve currencies. Its currency controls have been a stumbling block in gaining admittance to the select group of the US dollar, the euro, the pound and the yen.

The inflation data continues to be subdued – the July inflation number remains subdued at 1.6%, up from the June inflation number of 1.4%. Inflation remains well below the PBoC target inflation number of 3%.

The benchmark interest rate was cut 25bp to 4.6% in August, the fifth cut since November 2014. This continues to provide considerable opportunity for the PBoC to cut interest rates further, in order to meet the current economic growth objectives of hitting around 7% in 2015.

Asia region

Over to Japan, the manufacturing PMI increased to 51.7 in August, up from 51.2 in July. The Markit/Nikkei Japan services PMI increased to 53.7 in August from 51.2 in July, and from 51.8 in June.

This follows Japan's economy contracting by 1.6% year-on-year (yoy) in Q2, impacted by weaker exports and consumer spending. Annualized real Gross Domestic Product (GDP) growth in Q1 2015 was 4.5%, revised up from 3.9%

Capital spending by Japanese firms rose 5.6% from a year earlier producing the ninth straight yoy quarterly gain, indicating a continued recovery in business investment.

Japan's factory output contracted a worse than expected -0.6% mom in July, owing to lacklustre domestic demand and as a slowdown in China weighed on exports. In June, industrial production rose 1.1% from May.

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.

Over to India, the economy has been insulated from the turmoil in emerging markets, largely because it does not export to the same degree as other Asian countries. For years, growth in India has been fuelled more by domestic demand – not, as in China, by export manufacturing goods.

India's resilient consumer spending is an advantage as demand decelerates almost everywhere else. Inflation, once a stubborn drain on households' incomes, has eased.

As indicated in July, the International Monetary Fund (IMF) expects the Indian economy to more than double in size within the 10 year period finishing in 2019. According to NAB Economics, India's growth is expected to come in at 7.8% in calendar year (CY) 2015 and 8% in CY2016, compared to China's forecasted growth of 7.1% in 2015 and 6.9% in 2016.

Australia

Back home, the RBA kept the cash rate at 2.0% at its early August meeting. The RBA continues to focus on the ongoing data but retains an accommodative policy.

Manufacturing PMI in Australia increased to 51.7 in August from 50.4 in July 2015.

RBA credit growth in July increased to 6.1% yoy, from 5.9% yoy in June. Housing credit growth remained steady at 0.6% mom and was up 7.4% yoy. Steady housing credit growth was represented by a consistent owner – occupied credit growth at 5.5% yoy. Investor housing credit growth slowed but is still running above the 10.0% yoy target set by APRA.

Investor housing credit rose 0.6% in July which is its slowest monthly pace since October 2013. It appears some of the measures introduced by a number of banks to slow investor related lending growth are impacting investor behaviour.

Business credit growth was up 0.7% in July and is running at 4.8% yoy. A pickup in business credit is required for a lift in non mining business investment. One month's numbers don't make a trend, but it's an encouraging sign and one that is commensurate with some decent jobs growth and also the weaker AUD. However, business credit growth is still running well below housing credit growth and is low by historic standards.

Australian house price growth remained steady in August (up 0.3% mom). The CoreLogic RP July data saw stronger house price growth in Sydney (up 1.0% mom) and Adelaide (up 0.8% mom). On a yoy basis, Sydney was up 17.5%, while Melbourne was up 10.5%. Combined, capital cities are up 10.4% yoy in August. However, apart from Sydney and Melbourne, annual growth rates across the other capital cities remain relatively subdued. Perth was down 2.0% yoy but down 1.7% in August. Auction clearance rates were at 75.4% in August.

Retail trade dipped 0.1%. The headline was something of a disappointment; coming in the wake of weaker than expected consumer spending result in the GDP report.

Household goods retailing is currently benefiting from high levels of new dwelling fit outs, but in July it was down 1.9% (after June's increase of 2.4%). The more discretionary spending store types fared better in July. Department stores were up 1.3% after a flat first half while specialty clothing and footwear stores rose 2.9%, more than countering the 2.3% aggregate decline since May and June. This is encouraging but not yet definitive evidence of an underlying lift in discretionary spending.

Variability in Australia's growth outcomes by quarter indicates an economy undergoing significant structural change as it attempts to transition away from mining investment led growth.

Real GDP expanded by just 0.2% in Q2, following an unrevised solid 0.9% increase in Q1. Year ended growth running at 2.0%, the slowest since Q3 2013.

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Equity markets

- The MSCI World ex Aus (Gross) (Hedged) Index was down 6.8% in August
- The China Shanghai Composite Index was down 13.3% in August
- The German DAX Index was down 9.3%
- The broader Euro 100 was down 9.0%
- The Japanese Nikkei Index was down 8.2%
- The US Dow Jones Equity Index was down 6.6% in August
- Australian S&P/ASX All Ordinaries Index ended the month down 8.1%

Australian equities

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 Acc.	-3.23%	10.95%	7.91%	4.64%
	S&P/ASX 50 Acc.	-3.68%	11.48%	8.76%	5.61%
	S&P/ASX Small Ordinaries Acc.	-9.62%	0.38%	-0.72%	-2.27%

The sharp decline in global equity markets also impacted the Australian share market. Both the S&P/ASX 300 Index and S&P/ASX 300 Accumulation Index were down 8.9% and 8.0% respectively in August. The 12 month negative return on the S&P/ASX 300 Index was 7.8%, while the 12 month negative return on the S&P/ASX 300 Accumulation Index was -3.3%.

The S&P/ASX 300 Industrials Index was down 9.0%, while the S&P/ASX 300 Industrials Accumulation Index was also down 8.0% in August. The 12 month S&P/ASX 300 Industrials Accumulation Index was up 2.8%.

The broader S&P/ASX All Ordinaries Index was down 8.1% in August, and on a 12 month basis this was down 7.2%.

The large market caps represented by the S&P/ASX 50 Index, was down 9.7% in August, and over 12 months this index was down 8.5%. The S&P/ASX 50 Accumulation Index was down 8.7% in August, and over the 12 months ending on 31 August 2015 was down 3.7%.

The sharp sell down was expressed through the various sector indices. The Utilities sector was the best performer, down 0.4%, while Energy was the worst performer, down 13.8%.

Sector	1 Mth	3 Mths	1 Yr
Energy	-13.8%	-20.4%	-35.4%
Materials	-5.1%	-14.2%	-15.8%
Industrial	-4.6%	-6.5%	10.5%
Consumer Discretionary	-3.9%	-9.0%	1.3%
Consumer Staples	-4.1%	-4.9%	-10.8%
Health Care	-6.0%	-3.1%	21.3%
Financials (ex Property)	-10.6%	-9.3%	-2.7%
Info Tech	-11.5%	-12.6%	-7.7%
Telcos	-8.3%	-4.5%	11.0%
Utilities	-0.4%	-1.6%	17.0%
Property	-4.0%	-2.6%	14.2%

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Big movers this month

Going up

No sectors were up

Going down

- Energy –13.8%
- Information Technology –11.5%
- Financials (ex. Property) –10.6%

Global Equities

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Global	MSCI World Ex Aus (Gross) (Unhedged)	2.60%	14.76%	13.10%	6.72%
	MSCI World $A Hedged (Gross)	1.96%	14.28%	12.75%	5.59%
	MSCI World Small Cap ($A)	28.33%	28.73%	18.68%	11.42%
Emerging	MSCI Emerging Mkts Free	-9.21%	4.48%	3.98%	4.47%
	MSCI AC Far East Free (ex Japan)	-10.07%	4.61%	4.11%	0.05%

The weaker China economic data in combination with the volatility in the China equity market resulted in a sharp sell-off in global equity markets.

Following the sharp fall in July, down 14.3%, the China Shanghai Composite Index was again down 13.3% in August.

The Euro 100 was down 9% in August, while the German DAX market was down 9.3%.

The Japanese Nikkei was down 12.0% in August.

The US markets were also impacted, with the S&P 500 down 6.5%.

Over the 12 months ending 31 August 2015, the best performers were across some Asian markets, while Germany also performed well. The China market, despite the recent sharp sell-off, was the best performer over the 12 month period. The Shanghai Composite Index, the Nikkei and the German DAX were up 36.9%, 22.5% and 8.3% respectively. On the other hand, the underperformers over the 12 month period were the Nikkei Index, down 12.4%, the UK FTSE Index, down 8.3% and the Australian All Ordinaries, down 7.2%.

Property

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 A-REIT Acc	14.24%	16.78%	13.51%	3.98%
Global	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	4.21%	13.06%	13.99%	7.30%

The S&P/ASX 300 A-REIT Index was down 4.95% in August, while the 12 month return was 8.37%. The S&P/ASX 300 A-REIT Accumulation Index's was down 4.1% in August. The S&P/ASX300 AREIT Accumulation Index performed better compared to the broader Australian market, as measured by the All Ordinaries Accumulation Index which was down 7.3% in August.

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 ASX300 Accumulation Index which was down 3.3%.

Over 1 and 3 years, the A-REITs outperformed global REITs, which was the opposite over the 5 and 7 year periods. Global property, as represented by the FTSE EPRA/NAREIT Index, was up 4.21% over a 1 year period.

Fixed Interest

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	Bloomberg AusBond Composite 0+ Yr	6.29%	5.15%	6.39%	6.96%
	Australian 90 Day Bank Bill	2.42%	2.69%	3.44%	3.65%
Global	BarCap Global Aggregate Index	23.43%	11.85%	5.89%	5.76%
	BarCap Global Agg. Index Hedged	4.81%	5.61%	6.82%	8.01%

In August, the US 10 year bond yields were up 1.8%, and closed the month at 2.22%. Australian 10 year bond yields were down 0.36%, and closed the month at 2.67%.

Over a 12 month period, the unhedged global bonds index returned 25.43%, outperforming Australian bonds which returned 6.29%.The hedged global bonds index posted a strong 1 year gain of 4.81%.

Australian dollar

In August, the Trade-weighted Index was down 0.8%, and also down 15.3% during the 12 month period ending 31 August 2015.

The AUD was down 3.46% against the USD in August, to finish the month at 71 US cents. On a 12 month basis, the AUD declined 24.2% against the USD.

The AUD declined against the Euro, down 4.8% in August. On a 12 month basis, the AUD was down 10.9% against the Euro.

Against the Japanese Yen, the AUD was down 5.6% in August. On a 12 month basis, the AUD was down 11.6% against the Yen.

Against the British Pound, the AUD was down 2.05% in August. On a 12 month basis, the AUD was down 18.2% relative to the British Pound.