Investment Market Review

Quarter Ended 31 March 2016

Australian shares

The S&P/ASX 300 Accumulation Index fell 2.7% in the March quarter.

The financials sector was the worst performer, falling 7.2% as investors grew concerned over bad debt levels in the big banks due to their commodity-related exposures. The better performing sectors were industrials, rising 5.3%, materials, up 5.1% and utilities which rose 3.3%.

	1 year (%)	5 year (% pa)	10 year (% pa)
Australian shares	-9.27	5.45	4.32

Listed property trusts

The REIT sector generated a positive return of 6.4% for the March quarter.

The sector outperformed the broader market by providing stable earnings during a period of heightened volatility and weaker economic growth. Expectations that interest rates will remain lower for longer continued to support the sector.

	1 year (%)	5 year (% pa)	10 year (% pa)
Listed property trusts	11.40	15.83	2.41

International shares

The MSCI World Index in Australian dollar terms was down 5.2% in the March quarter.

International shares delivered weak performance for the March quarter as a result of headwinds facing global economies. The German DAX 30 was down 7.2% and the Nikkei 225 fell 12% but the S&P 500 posted a moderate gain of 0.8%.

China continued its extraordinary monetary easing in an attempt to boost growth. Economic fundamentals didn’t help reduce market concerns as China’s growth continued to slow while being over-reliant on credit. The economic recovery in Europe is progressing more slowly than expected and this forced the European Central Bank to increase monthly asset purchases to ¤80 billion and reduce the deposit rate to -0.4%. The US Federal Reserve maintained the US official cash rate within a range of 0.25-0.50%. This was partly due to weaker net exports and business investment and partly because of risks associated with global economic and financial developments.

	1 year (%)	5 year (% pa)	10 year (% pa)
International shares	-5.00	11.74	3.37

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Fixed interest

International bond yields declined over the quarter.

The benchmark 10 year Government bond rate in the US and Australia fell by 50 and 39 basis points to close at 1.77% and 2.49% respectively. Yields fell on the Federal Reserve's outlook on interest rate increases, which it sees as not increasing as swiftly as previously. Yields were also pushed lower as a result of higher demand for safe haven assets because of concerns over emerging markets and macroeconomic headwinds.

	1 year (%)	5 year (% pa)	10 year (% pa)
Fixed interest	1.97	6.63	6.32

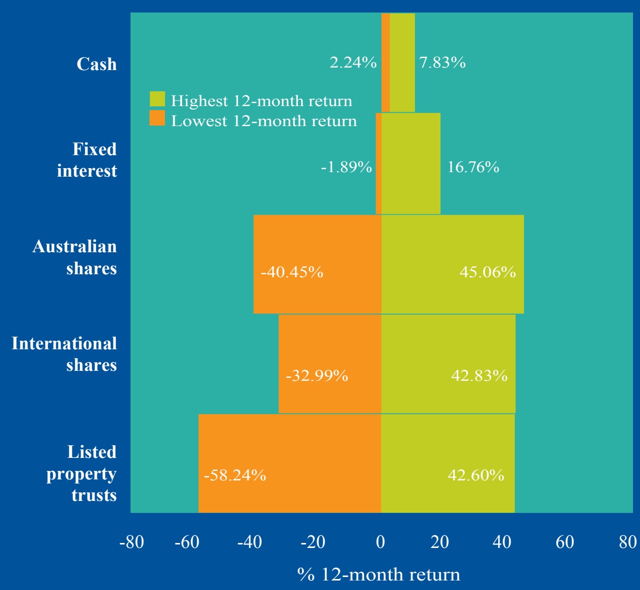
Cash

The Reserve Bank of Australia (RBA) left the main interest rate unchanged at 2.0% during the March quarter.

The RBA noted that the expansion in the non-mining parts of the economy had improved labour market conditions, however, monetary policy would need to be accommodative to help support weaker growth. Diminishing inflationary pressures and concerns over the recent strength of the Australian dollar may cause the RBA to reduce interest rates in the near future.

	1 year (%)	5 year (% pa)	10 year (% pa)
Cash	2.24	3.23	4.44

The long view



This chart displays the highest and lowest 12-month returns of the major asset classes since March 1996.*

As you can see, cash provides stability and security, having never generated a negative return over a 12-month period. The trade-off for this stability and lower risk is that cash will be unlikely to match the higher returns generated by other asset classes.

Source: Morningstar. Indices used are: Cash — AusBond Bank Bill; Fixed Interest — AusBond Composite 0+ year; Australian shares — S&P/ASX 300 Accumulation; International shares — MSCI World Accumulation Index (AUD); Listed property trusts — S&P/ASX 300 A-REIT Accumulation.

* The listed property index is only available from June 2001 and the international shares index is only available from January 1999.