

THE MONTHLY MARKET REPORT



A SNAPSHOT OF THE KEY POINTS FOR May

The RBA cut the overnight cash rate by 0.25% during the May board meeting. The rate was kept at 2.00% in June.

The 3 Month Bank Bill Swap Rate was marginally down by -0.01% in May while the 10 Year Australian Bond Rate increased by 0.10%.

Australian Shares had an overall positive month, with the All Ordinaries Index increasing by 0.02%.

AREITs had a strong month, gaining 2.73% in May.

Global equities posted positive results in most regions, with the TOPIX Japan Index rising 5.08% to be the strongest performer.

Chinese shares fell by -2.52% in May following a strong rally in the previous month.

Commodity prices rose by 0.85% over the month, measured by the US\$ CRB Spot Commodity Price Index. Gold, Oil and Iron Ore prices increased by 0.79%, 1.12% and 1.72% respectively.

The Australian Dollar depreciated against most major currencies in May. In particular, it fell by -3.98% against the US Dollar, -2.78% versus the Euro and -3.48% over the British Pound. The AUD recorded a 0.29% gain over the Japanese Yen, indicating a further fall in the Yen.

The Australian Trade Weighted Index (TWI) fell by -2.45% over the month, indicating a decrease in Australia's international competitiveness.

The share market volatility fell both domestically and abroad, with the S&P/ASX 200 Volatility Index and the US VIX Volatility Index decreasing by -0.71% and -2.78% respectively.



The May rate cut and federal budget enhanced domestic confidence

Business and consumer confidence both rose in May, following an interest rate cut by the RBA and the federal budget announcement for 2015. Bond market returns were subdued over the month. Australian bonds were broadly flat after a late month rally, outperforming global bonds which recorded losses.

Both domestic and global equity markets rose for the month, with unhedged global equities particularly assisted by a weakening Australian Dollar. The Healthcare and Information Technology sectors were strong in both markets over the month while Energy underperformed. In Australia, small caps were winners in May however many major banks continued to underperform.

Bei Cao
Analyst

MARKET INDICATORS

Market	Indicator	End of Month Price	Previous Month Price	1 Month Change in Price	12 Months Ago Price	12 Month Change in Price
Interest Rates	Overnight Cash Rate (%)	2.00	2.25	-0.25	2.50	-0.50
	3 Month BBSW (%)	2.13	2.14	-0.01	2.77	-0.64
	10 Year Bond Rate (%)	2.76	2.66	0.10	3.68	-0.92
Australian Shares	All Ordinaries Index	5774.90	5773.70	0.02%	5473.80	5.50%
	S&P/ASX 200	5777.20	5790.00	-0.22%	5492.50	5.18%
Property	ASX 300 Property Index	1284.67	1250.59	2.73%	1046.24	22.79%
Regional Shares	Dow Jones Industrials (US)	18010.68	17840.52	0.95%	16717.17	7.74%
	S&P 500 (US)	2107.39	2085.51	1.05%	1923.57	9.56%
	FTSE 100 (UK)	6984.43	6960.63	0.34%	6844.51	2.04%
	STOXX 50 (EUR)	399.87	395.79	1.03%	344.24	16.16%
	TOPIX (Japan)	1673.65	1592.79	5.08%	1201.41	39.31%
	Hang Seng (Hong Kong)	27424.19	28133.00	-2.52%	23081.65	18.81%
Commodities	US\$ Gold Price	1189.97	1180.69	0.79%	1244.66	-4.39%
	US\$ Oil Price – W Texas Crude	60.30	59.63	1.12%	102.71	-41.29%
	US\$ Iron Ore Price	59.00	58.00	1.72%	93.00	-36.56%
	US\$ CRB Spot Commodity Index	424.74	421.15	0.85%	497.99	-14.71%
Exchange Rates	AUD / USD	0.77	0.80	-3.98%	0.93	-17.77%
	AUD / EUR	0.70	0.72	-2.78%	0.69	2.13%
	AUD / GBP	0.50	0.52	-3.48%	0.56	-10.25%
	AUD / JPY	94.93	94.66	0.29%	94.66	0.29%
TWI	Australia Trade Weighted Index \$A	63.70	65.30	-2.45%	71.50	-10.91%
iTraxx	iTraxx Australia	89.15	87.79	1.55%	85.58	4.16%
Volatility	VIX Index %	13.84	14.55	-0.71%	11.40	2.44%
	S&P/ASX200 Volatility Index	15.31	18.08	-2.78%	11.05	4.26%

CASH, FIXED INCOME & CREDIT

Zenith Benchmarks	Index	1 Mth	1 Qtr	1 Yr (p.a.)	3 Yr (p.a.)	5 Yr (p.a.)	Fin YTD	Cal YTD
Australian Cash	Bloomberg AusBond Bank Bill	0.19	0.58	2.65	2.89	3.69	2.41	1.04
Australian Bonds	Bloomberg AusBond Composite Index	0.02	-0.33	7.47	5.08	6.93	6.60	1.55
International Bonds	Barclays Global Aggregate \$A (H)	-0.65	-0.23	6.92	6.27	7.68	6.34	1.53
	Barclays Global Agg Treasuries TRI \$A (H)	-0.78	-0.33	7.63	6.17	7.46	7.01	1.32
	Barclays Global Agg Corporate TRI \$A (H)	-0.66	-0.58	5.90	7.47	9.00	5.48	1.72
Emerging Markets Debt	Barclays EM Hard Currency Agg TRI \$A (H)	-0.17	2.42	4.68	8.49	10.63	3.70	4.69

SUMMARY OF STATISTICS

- Australian Cash rose by 0.19% over the month, as measured by the Bloomberg AusBond Bank Bill Index, taking its one year return to 2.65%.
- Although the Australian Bond market was reasonably flat in May, the Bloomberg AusBond Composite Index added 0.02% to outperform its global counterparts.
- International Bonds fell by -0.65%, as measured by the Barclays Global Aggregate Hedged \$A Index. Within the Global Fixed Income space, government bonds fell by -0.78% over the month to underperform corporate debt by -0.12%.
- Emerging Markets Debt also had a negative month, with the Barclays Emerging Market Hard Currency Aggregate Total Return Hedged AUD Index decreasing by -0.17%.

COMMENTARY

The RBA cut the overnight cash rate to a record low of 2.00% during its May meeting. The rate was kept on hold in June. The Australia Federal Budget that was announced on the 12th of May targeted helping small businesses and working families. Business and consumer confidence both rose over the month and the Australia Manufacturing PMI Index increased to the highest level over the past year to 52.29, with a figure well above the neutral level of 50 indicating a strong expansion.

The record low levels of interest rates continued to support household consumption, typically in the property market. The Australian Dollar was lower following the RBA's rate cut announcement. The latest data shows that resource exports grew firmly in the March quarter and the labour market has been strong in recent months.

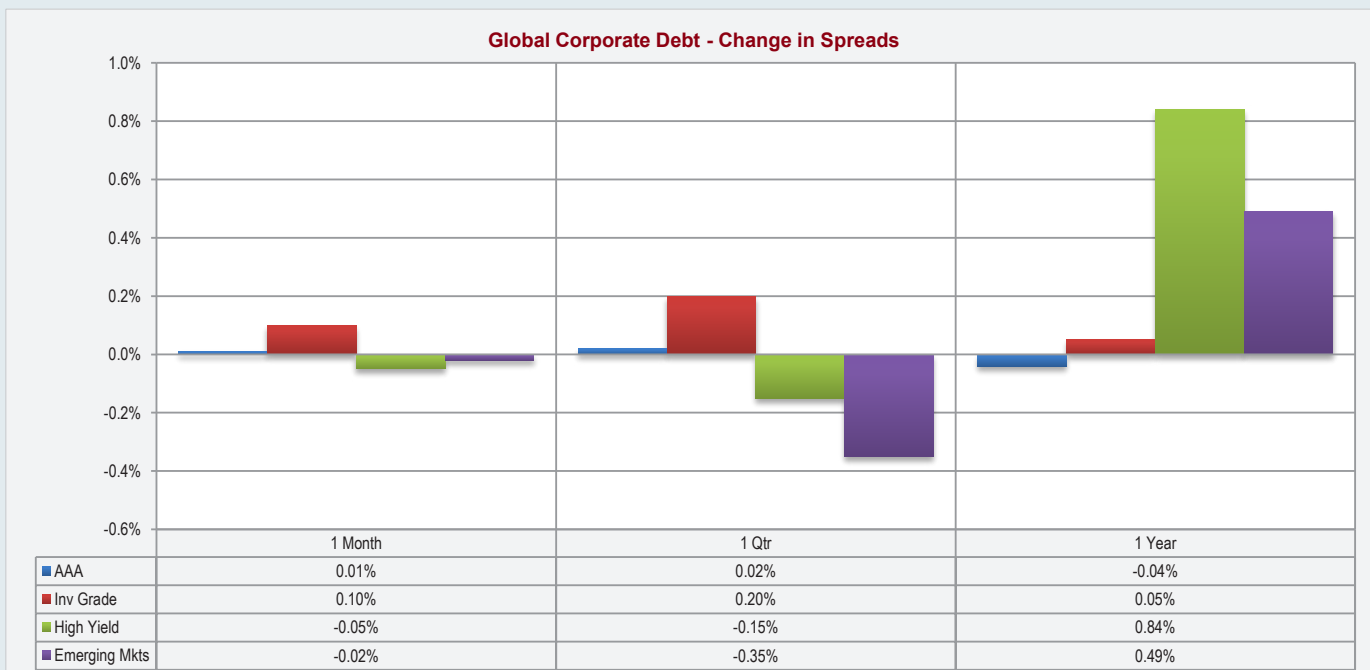
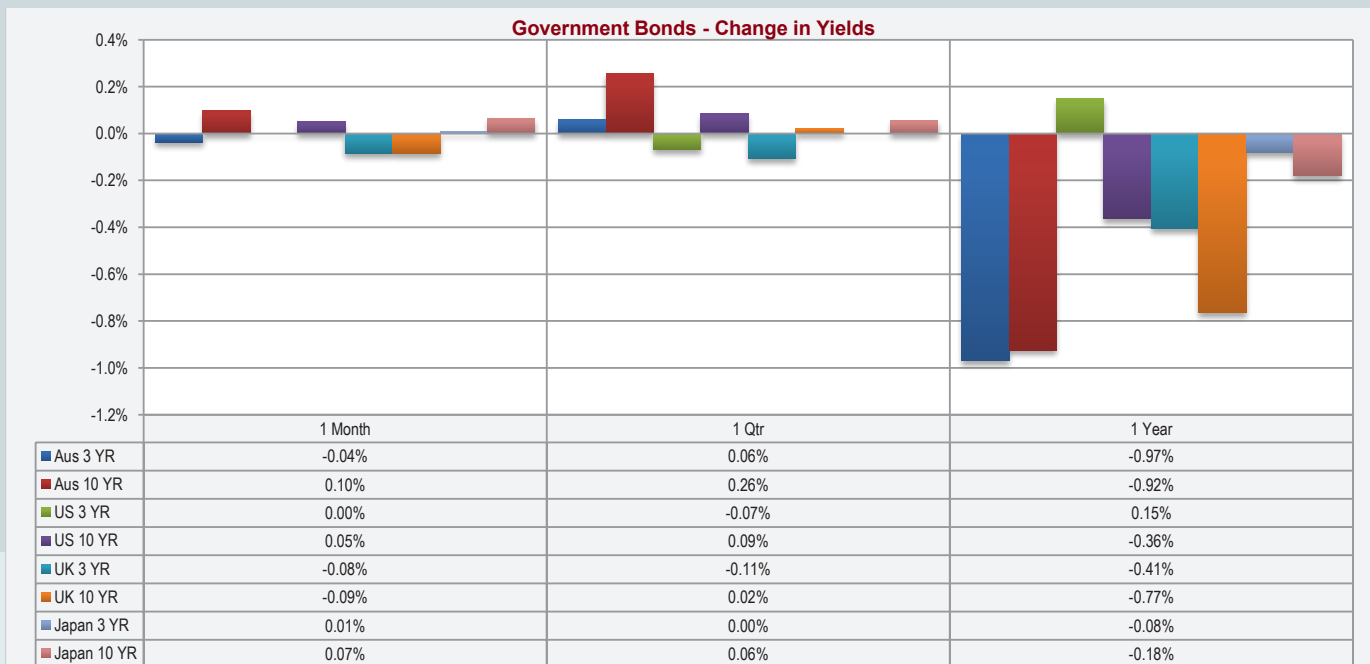
The Australian Bond Market rose by 0.02% over the month, as measured by the Bloomberg AusBond Composite Index. The 3 Year Government Bond Yields fell by -0.04% in May, while the 10 Year Government Bond Yields rose by 0.10%. The iTraxx Australian Index measuring corporate debt spreads expanded by 1.55% over the month, following a large fall in the previous month.

In global news, the US released strong jobs data over the month and business confidence increased to 52.8 in May from 51.50 in April. The Manufacturing PMI Index stayed above the neutral level of 50 in the US, the Eurozone and China over the month. The People's Bank of China cut its benchmark lending rates by 0.25% to 5.1% in May, trying to release some pressure from the slow economic growth and declining property prices.

The International Fixed Income market remained in negative territory in May, with the Barclays Global Aggregate Hedged

\$A Index falling by -0.65%. Government bonds were the worst performers, with the Barclays Global Aggregate Treasuries Total Returns Hedged AUD Index falling by -0.66% over the month. Government Bond Yields rose in many economies with the 10 Year US and Japan Government Bond Yields rising 0.05% and 0.07% respectively. Germany saw a large sell off in May with the 10 Year Government Bond Yields soaring 0.12% over the month. The UK was relatively less affected.

Riskier debt outperformed safe bonds over the month, with the High Yield and Emerging Markets corporate debt spreads both tightening by -0.05% and -0.02% respectively. However the Barclays Emerging Markets Hard Currency Aggregated Hedged AUD Index still posted a loss of -0.17% for the month.



AUSTRALIAN SHARES

Zenith Benchmarks	Index	1 Mth	1 Qtr	1 Yr (p.a.)	3 Yr (p.a.)	5 Yr (p.a.)	Fin YTD	Cal YTD
Market Capitalisation	S&P/ASX 300 Index	0.43	-1.28	9.92	17.02	10.06	11.53	8.95
	S&P/ASX 50 Leaders Index	-0.01	-2.13	9.00	18.31	10.85	10.68	8.19
	S&P/ASX Midcap 50 Index	2.32	3.01	19.65	17.60	9.98	21.00	13.01
	S&P/ASX Small Ordinaries Index	2.35	2.03	7.70	3.56	2.22	8.91	11.64
	S&P/ASX Emerging Companies Index	2.43	4.63	2.92	-8.89	-3.24	1.84	9.50
GICS Sectors	S&P/ASX 300 Materials	2.27	-1.18	0.22	1.69	-1.35	1.66	11.52
	S&P/ASX 300 Industrials	5.41	7.99	21.94	16.47	11.30	25.22	15.66
	S&P/ASX 300 Consumer Discretionary	1.82	2.10	14.29	22.03	10.46	16.33	16.25
	S&P/ASX 300 Consumer Staples	-2.10	-2.94	-6.68	11.09	9.19	-2.30	1.58
	S&P/ASX 300 Energy	0.18	2.53	-14.81	0.38	-1.78	-13.74	4.65
	S&P/ASX 300 Healthcare	2.60	0.95	32.76	30.23	20.75	37.16	10.61
	S&P/ASX 300 Information Technologies	4.00	4.71	8.87	18.20	5.44	10.64	10.49
	S&P/ASX 300 Telecommunications	-0.16	-0.99	24.16	28.65	25.26	27.54	7.73
	S&P/ASX 300 Financials ex Property	-1.66	-4.42	10.51	25.66	14.89	11.76	6.95
	S&P/ASX 300 Utilities	1.73	3.46	23.37	17.76	17.58	22.04	18.33
	S&P/ASX 300 Property	2.73	-0.28	29.36	21.62	14.93	25.19	11.09

SUMMARY OF STATISTICS

- Australian shares rose by 0.43% over the month, as measured by the ASX 300 Accumulation Index.
- On a market capitalisation basis, large cap stocks were the worst performers, with the ASX 50 Leaders Index declining by -0.01% for the month.
- Mid, small and micro caps all contributed to the positive return in the domestic equity market over the month, increasing 2.32%, 2.35% and 2.43% respectively.
- On a sector basis, Industrials and Information Technologies gained 5.41% and 4.00% respectively to be the strongest performers in May.
- Consumer Staples and Financials (ex-Property) were the worst sectors over the month, declining by -2.10% and -1.66% respectively.

Mid and smaller sized companies drove the positive domestic share market in May while large cap stocks continued to underperform.

COMMENTARY

Mid and smaller sized companies drove the positive domestic share market in May while large cap stocks continued to underperform. Many major financial institutions were affected by APRA's potential tougher capital requirement rules, and as a result the S&P/ASX 50 Leaders Index fell marginally to underperform the Small Ordinaries Index by 2.36%.

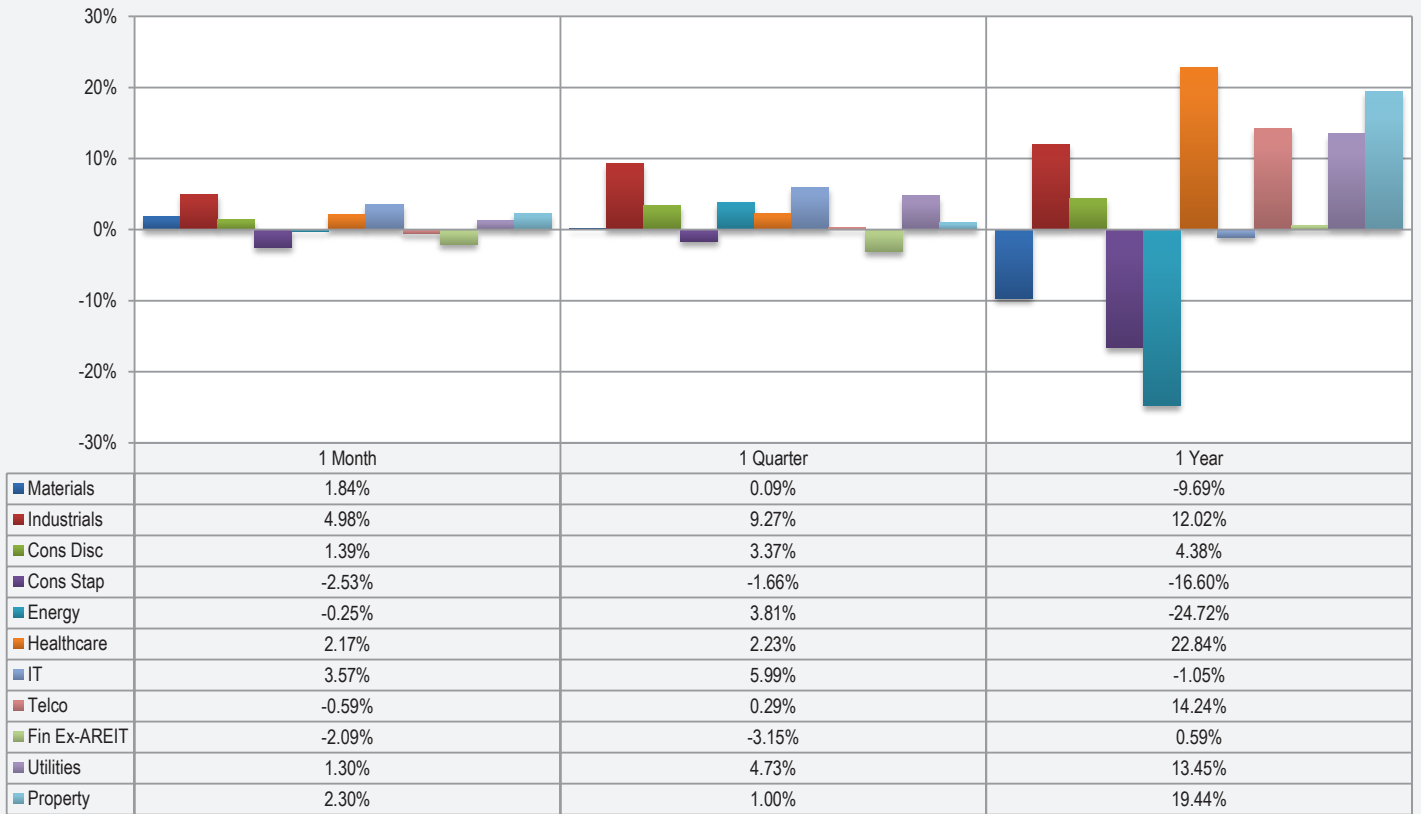
The Westpac Consumer Confidence Index rose to 102.4 in May from 95.30 in April and Business Confidence increased to 7 in May from 3 in the previous month, reported by the National Australia Bank. Domestic manufacturing activities expanded significantly over the month, with the Australia Manufacturing PMI Index growing by 4.29 points to 52.29, the first reading above the neutral level of 50 in the past six months. The recent rise in commodity prices continued to promote growth in many of our export related industries

The ASX 300 Industrials Index was the strongest sector, rising 5.41% for the month. UGL Ltd led gains (+36.87%) in this sector, with its plan to cut 200 full time jobs by next month which could save the company 33 million dollars annually. Laboratory testing company ALS Ltd gained 19.77% over the month and the Deutsche Bank maintained its buy rating on this stock stating a positive outlook for this company. CIMIC Group Ltd, previously known as Leighton Holdings, increased by 15.65% with a more efficient operating structure and stronger balance sheet following recent divestment activities.

The defensive sector Consumer Staples underperformed, reporting a loss of -2.10% over the month. Australian Agricultural Co Ltd (-13.93%), Fonterra Co-operative Group Ltd (-13.85%) and Bega Cheese Ltd (-6.26%) were the biggest decliners in this industry. Consumer Staples tend to do well during economic downturns as people would buy necessities no matter what. However when markets are growing, this sector tend to underperform.

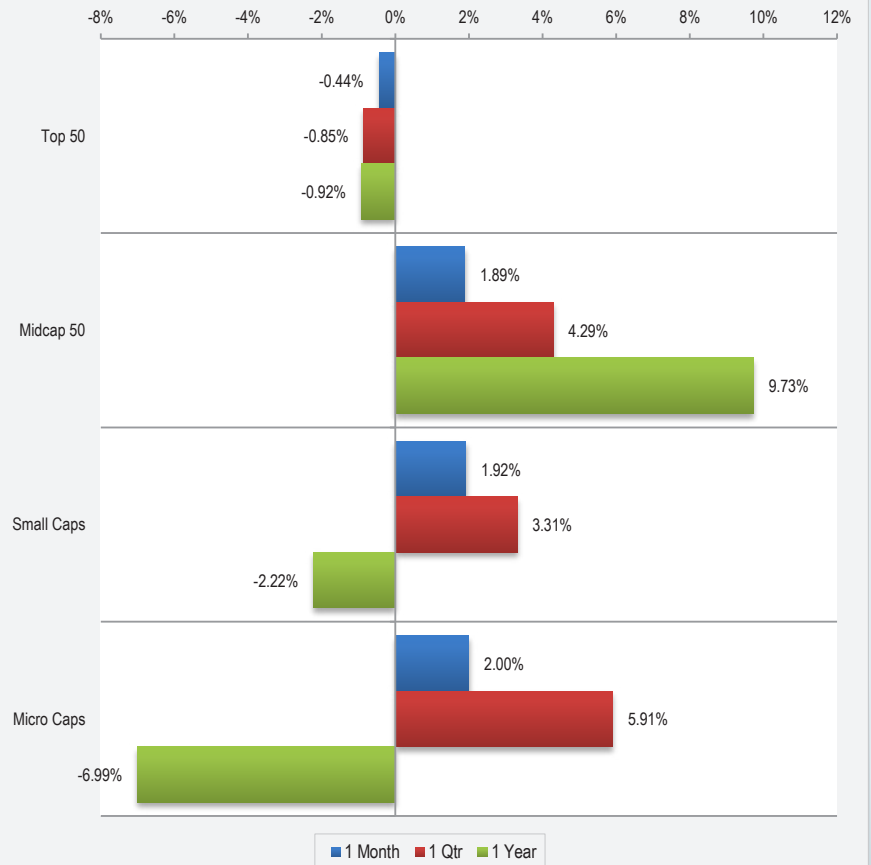
The combination of surging bond yields (longer dated) and speculation surrounding the APRA's tougher capital requirement rules continued to drag on the financial sector's performance over the month. The largest detractor in May was Westpac, which tumbled by -7.76%. The other three big banks were also among the worst performers over the month with CBA, NAB and ANZ falling by -6.05%, -4.61% and -1.95% respectively.

GICs Sector Performance Relative to ASX 300 Accumulation Index



This chart shows GICs Sector performance relative to the ASX 300 Index, over the past 1 month, 1 quarter and 1 year time periods.

Large, Mid And Small Cap Performance Relative to ASX 300 Accumulation Index



This chart shows market capitalisation segmental performance relative to the S&P/ASX 300 Accumulation Index.

INTERNATIONAL SHARES

Zenith Benchmarks	Index	1 Mth	1 Qtr	1 Yr (p.a.)	3 Yr (p.a.)	5 Yr (p.a.)	Fin YTD	Cal YTD
International Shares - Unhedged	MSCI World Ex-Au (\$A)	3.49	3.53	29.16	27.00	15.07	28.60	12.45
	MSCI World (\$A)	3.40	3.37	28.52	26.71	14.92	28.05	12.34
	MSCI Small Cap World (\$A)	4.53	4.90	29.59	27.92	16.11	26.47	14.33
	MSCI AC World (\$A)	2.91	3.46	27.77	25.27	13.82	27.18	12.40
International Shares - Local Currency	MSCI World ex-Au	1.30	2.00	13.38	19.91	13.63	11.73	7.27
	MSCI World	1.27	1.88	13.24	19.84	13.50	11.70	7.30
	MSCI World Small Cap	1.44	2.59	6.58	18.21	14.01	2.56	6.94
	MSCI AC World	-0.13	1.18	5.08	15.76	11.76	3.14	5.14
Regional Shares - Local Currency	MSCI North America	1.08	0.52	11.01	18.53	15.18	8.60	3.40
	MSCI Asia	1.42	7.66	26.52	22.36	11.81	22.37	14.35
	MSCI AC Asia ex-Japan	-1.65	5.17	14.97	12.89	9.02	12.48	9.90
	MSCI China	-3.70	15.00	36.20	17.86	8.87	32.06	21.43
	MSCI Europe	0.76	2.40	11.53	19.17	10.94	12.59	12.87
	MSCI Emerging Markets	-2.51	3.17	11.29	10.24	7.32	8.69	8.07
	MSCI India	3.40	-4.80	15.70	19.57	10.11	9.33	2.48
	MSCI Japan	5.05	10.55	41.44	35.03	15.69	34.99	19.65
Global Gold Shares in \$A	FTSE Gold Mines	-0.51	-6.20	5.23	-17.93	-16.47	-6.55	15.25
Global Resources in \$A	HSBC Global Mining	-1.90	-3.96	-2.62	-2.34	-6.27	-5.85	6.04

SUMMARY OF STATISTICS

- The MSCI World ex-Australia Local Currency Index gained 1.30% in May, while the unhedged equivalent in AUD outperformed, adding 3.49% due to the falling Australian Dollar over the month.
- Chinese shares fell by -3.70% in May, following a strong rally in the previous month (+16.65%). Many neighbouring countries were affected, with the MSCI All Country Asia ex-Japan Local Currency Index decreasing by -1.65% over the month.
- One exception in the region was India, adding 3.40% in May largely recovering the losses reported in the previous month.
- Most developed regions reported positive return, with MSCI Japan Local Currency Index increasing by 5.05% to be the strongest performer.
- Global resources lost -1.90% as measured by the HSBC Global Mining Hedged AUD Index. Gold shares fell by -0.51% in hedged AUD terms.

Some markets saw major corrections over the month with China going from being the strongest performer in the previous month to be the biggest underperformer in May whilst India went from the bottom to the top.

COMMENTARY

Some markets saw major corrections over the month with China going from being the strongest performer in the previous month to be the biggest underperformer in May whilst India went from the bottom to the top. The energy sector also reversed its previous month's position, from a strong return of 7.56% in April to significantly underperform other sectors in May, falling by -5.12%. Overall global equities in local currency terms increased by 1.30% for the month.

China gave back some of the previous month's gains in May, with the MSCI China Local Currency Index decreasing by -3.70%. Notwithstanding this, Chinese shares have returned 36.20% over the past year to be one of the best performers. The services sector purchasing manager index, manufacturing activities and retail sales have all risen over the month. The lowered inflation rate, easing monetary policy and investors' preference for shares over real estate in the country continued to draw investments into the Chinese share market. However the slower GDP growth and declining property prices added some uncertainties in this economy.

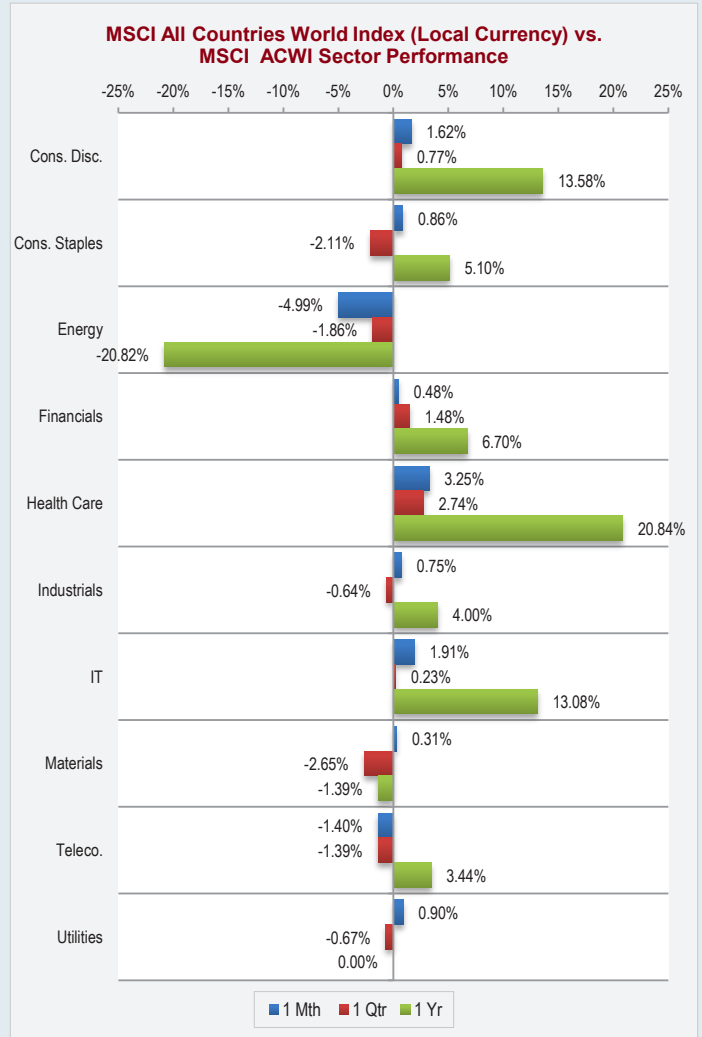
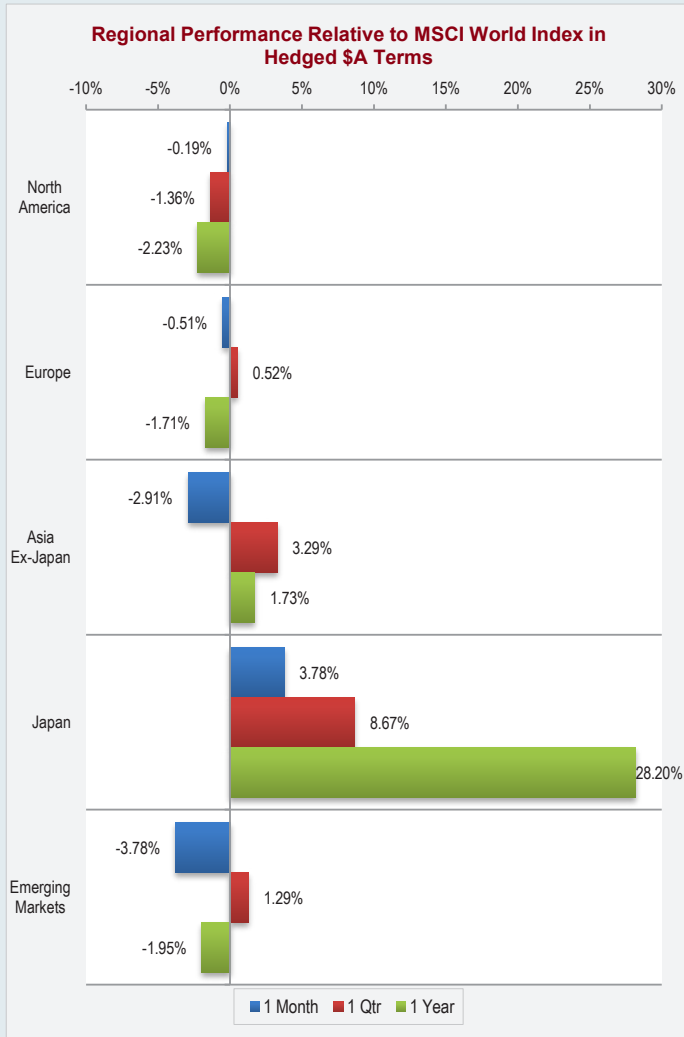
Indian shares increased by 3.40% over the month to offset some of the losses from the previous month. The Indian Manufacturing PMI Index rose by 1.30 points to 52.60, with a reading above the neutral level of 50 indicating an expansion. Although there is still some work to be done, the reform oriented Narendra Modi government has shown some positive results over the past year.

Many advanced economies reported positive returns in May, with North America and Europe increasing by 1.08% and 0.76% respectively. Japan led gains in May, with the MSCI Japan Local Currency Index rising 5.05% in the past month to take its past year gain to 41.44%. The depreciating Yen and improving manufacturing data promoted further growth in the economy.

On a sector basis, energy fell by -5.12% over the month to be the worst performer while Health Care and Information Technology were back in demand, gaining 3.12% and 1.78% respectively for the month.

Zenith Benchmarks	Index	1 Mth	1 Qtr	1 Yr (p.a.)	3 Yr (p.a.)	5 Yr (p.a.)	Fin YTD	Cal YTD
Currency Spot Rates	AUD / USD	-3.98	-1.66	-17.77	-7.64	-2.03	-18.65	-6.57
	AUD / EUR	-2.78	0.69	2.13	-3.75	0.28	1.33	3.74
	AUD / GBP	-3.48	-0.97	-10.25	-7.34	-3.18	-9.64	-5.18
	AUD / JPY	0.29	2.26	0.29	7.40	4.08	-0.52	-3.17

Investors should note that investments in any international assets are subject to the risk of currency fluctuations. If a foreign investment is unhedged, the gain / loss from the relevant currency pair should be deducted from the return of the asset to calculate the approximate return of the investment.



Zenith Benchmarks	Index	1 Mth	1 Qtr	1 Yr (p.a.)	3 Yr (p.a.)	5 Yr (p.a.)	Fin YTD	Cal YTD
Industry Sectors -	MSCI ACWI Consumer Discretionary Index	1.49	1.95	18.66	22.46	16.60	16.92	9.39
Local Currency	MSCI ACWI Consumer Staples Index	0.73	-0.93	10.18	13.22	12.00	10.71	4.85
	MSCI ACWI Energy Index	-5.12	-0.69	-15.74	3.18	2.82	-19.09	0.79
	MSCI ACWI Financials Index	0.35	2.65	11.78	19.30	8.07	11.51	5.67
	MSCI ACWI Health Care Index	3.12	3.91	25.92	26.60	19.02	23.45	11.42
	MSCI ACWI Industrials Index	0.62	0.53	9.08	17.48	10.97	8.73	5.87
	MSCI ACWI IT Index	1.78	1.40	18.16	18.45	13.78	15.32	6.40
	MSCI ACWI Materials Index	0.18	-1.48	3.69	5.77	1.86	1.80	7.53
	MSCI ACWI Teleco. Services Index	-1.53	-0.22	8.52	11.84	8.53	9.31	7.12
	MSCI ACWI Utilities Index	0.77	0.51	5.08	8.67	3.79	2.31	-0.48

PROPERTY & INFRASTRUCTURE

Zenith Benchmarks	Index	1 Mth	1 Qtr	1 Yr (p.a.)	3 Yr (p.a.)	5 Yr (p.a.)	Fin YTD	Cal YTD
Australian Listed Property	S&P/ASX 300 Property	2.73	-0.28	29.36	21.62	14.93	25.19	11.09
	FTSE E/N Australia	3.11	-0.31	29.57	21.19	14.72	25.36	11.12
Global Listed Prop. \$A (H)	FTSE E/N GLOBAL HGD A\$	-0.24	-1.68	16.11	19.08	16.42	14.81	4.42
Global Listed Prop. \$A	FTSE E/N GLOBAL A	1.12	0.16	29.28	22.15	14.13	29.67	9.20
	FTSE E/N North America	2.28	-2.44	32.11	20.57	15.72	32.40	4.89
	FTSE E/N Euro Zone	-2.57	-6.59	17.68	26.19	14.66	15.88	8.70
	FTSE E/N UK	5.10	4.79	36.76	36.70	22.05	39.64	18.73
	FTSE E/N Developed Asia	1.14	3.18	24.66	22.78	12.35	24.31	12.00
	FTSE E/N Japan	-0.08	1.63	13.50	25.08	13.92	11.93	9.25
Australian Listed Infra.	S&P/ASX 300 Utilities	1.73	3.46	23.37	17.76	17.58	22.04	18.33
Global Listed Infra. \$A (H)	S&P Global Infrastructure	-0.13	3.41	16.20	20.13	16.40	12.46	6.94
Global EM Listed Infra - \$A (H)	UBS EM Infra. & Utilities	-1.62	3.62	16.47	11.77	3.96	11.82	10.63

SUMMARY OF STATISTICS

- Australian listed property increased by 2.73% in May, as measured by the ASX 300 Property Index.
- GREITs continued to underperform AREITs in May, with the FTSE EPRA NAREIT Developed Total Return \$A Hedged Index falling by -0.24%. The unhedged equivalent gained 1.12% due to the stronger dollar.
- The Euro Zone significantly lagged behind in the property market over the month, declining by -2.57%. The UK however outperformed, gaining 5.10%.
- Domestic listed infrastructure added 1.73% in May while their global counterparts fell by -0.13%.

COMMENTARY

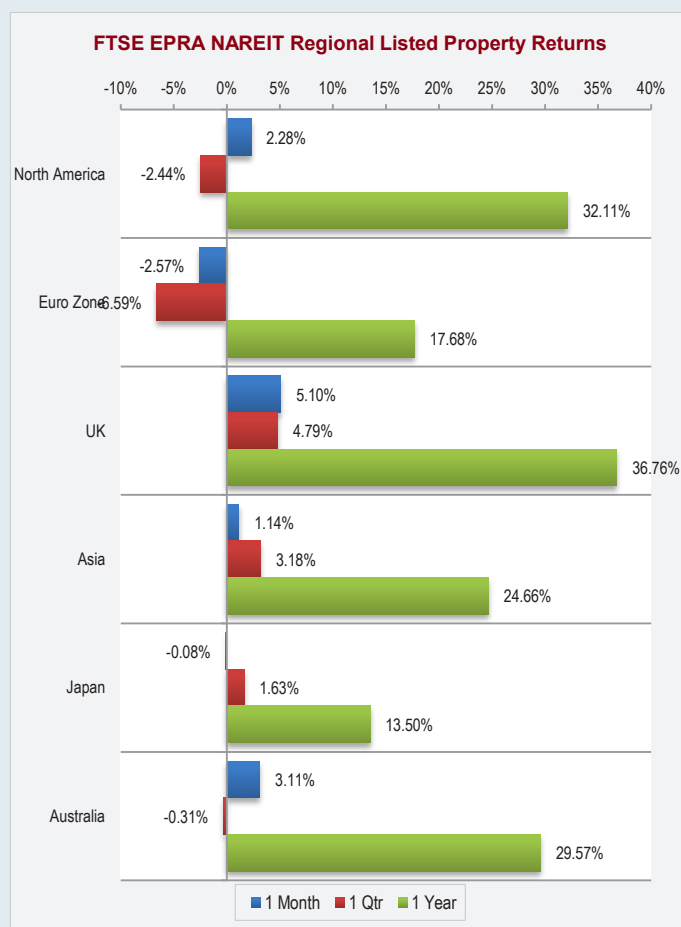
AREITs outperformed GREITs over the month, with the ASX 300 Property Index gaining 2.73% while the FTSE EPRA NAREIT Developed Total Return \$A Hedged Index fell by -0.24%.

Dexus Property Group and BWP Trust were leaders in the Australian Property Market, returning 8.68% and 7.47% respectively for the month. The office and industrial specialist Dexus cashed in some of their suburban office assets in recent months and also benefited from many major cities' surging property prices.

Euro Zone listed property declined by -2.57% over the month to be the worst performing region in May. Properties in Japan also underperformed, falling by -0.08%. REITs in the UK had a relatively strong month, gaining 5.10%.

Domestic listed infrastructure outperformed its global counterparts by 1.86% over the month. The UBS Emerging Markets Infrastructure and Utilities Index lost by -1.62% over the month.

This chart shows Regional performance relative to the FTSE EPRA/NAREIT Index over 1 month, 1 quarter and 1 year time periods.



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Data source | Thomson Reuters

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