

THE MONTHLY MARKET REPORT

Zenith
Investment Partners



A SNAPSHOT OF THE KEY POINTS FOR MAY

- The RBA cut the overnight cash rate to 1.75% from 2.00% at the May board meeting but held firm at the June meeting.
- In fixed income, the 3 Month Bank Bill Swap Rate fell by -0.10%, while the 10 Year Australian Bond Yield fell by 0.20% in May.
- Corporate debt spreads, as measured by the iTraxx Australian Index, fell to 126.09 over the month from the previous reading of 131.76.
- Australian shares rose further over the month, with the All Ordinaries Index and the S&P/ASX 200 Index increasing by 2.48% and 2.41%, respectively.
- Domestic listed property followed the broader market gain, returning 2.68% over the month.
- Regional equity markets ended higher in most regions, with the TOPIX (Japan) Index gaining 2.93% to be the best performer, and the Hang Seng (Hong Kong) Index declining by -1.20% to be the worst performer.
- Global commodity prices ended the month lower, losing -1.30%, as measured by the US\$ CRB Spot Commodity Index. Gold and Iron Ore prices were sharply lower, declining -6.04% and -20.93%, respectively, in US Dollar terms.
- The Australian Dollar fell heavily against most currencies in May, falling by -5.40% against the US Dollar, -3.20% against the Euro, -5.57% versus the British Pound and -1.90% against the Japanese Yen.
- The Australian Trade Weighted Index (TWI) fell by -3.29% over the month, ending April at 61.70.
- Share market volatility fell both domestically (-1.51%) and in the US (-1.23%).

US Fed and Dollar in Headlines Again

May was a reasonable month for most risk markets, despite the usual seasonal fears around this time of year. However, renewed US dollar strength led to weakness in most commodity markets. In particular, iron ore and gold were down -20.93% and -6.04% for the month, respectively. The exception was oil, which rose 6.93%.

As usual, central bank action and rhetoric featured extensively in May. Domestically, the RBA cut the cash rate to a new historical low of 1.75%, following weak inflation data but held firm at the June meeting. In the US, the Fed spooked markets by suggesting that rate hikes may occur sooner than the market had anticipated. This sent global equity markets down initially before recovering but had the most dramatic impact on the currency, with US dollar rising strongly against most currencies.

As a consequence of the rate cut in Australia, government bonds rallied (yields fell) across the curve. Overseas, despite the hawkish comments by the Fed, US Treasury yield were only a little higher. However, investment grade and high yield credit were largely flat as was hard currency emerging market debt.

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Data source | Thomson Reuters

MARKET INDICATORS

Market	Indicator	End of Month Value	Previous Month Value	1 Month Change in Value	12 Months Ago Value	12 Month Change in Value
Interest Rates	Overnight Cash Rate (%)	1.75	2.00	-0.25	2.00	-0.25
	3 Month BBSW (%)	1.99	2.09	-0.10	1.99	0.00
	10 Year Bond Rate (%)	2.32	2.52	-0.20	2.76	-0.44
iTraxx	iTraxx Australia	126.09	131.76	-5.67	89.15	36.94
Australian Shares	All Ordinaries Index	5447.80	5316.00	2.48%	5774.90	-5.66%
	S&P/ASX 200	5378.60	5252.20	2.41%	5777.20	-6.90%
Property	ASX 300 Property Index	1412.17	1375.37	2.68%	1284.67	9.92%
Regional Shares	Dow Jones Industrials (US)	17787.20	17773.64	0.08%	18010.68	-1.24%
	S&P 500 (US)	2096.96	2065.30	1.53%	2107.39	-0.49%
	FTSE 100 (UK)	6230.79	6241.89	-0.18%	6984.43	-10.79%
	STOXX 50 (EUR)	347.45	341.48	1.75%	399.87	-13.11%
	TOPIX (Japan)	1379.80	1340.55	2.93%	1673.65	-17.56%
Commodities	Hang Seng (Hong Kong)	20815.09	21067.05	-1.20%	27424.19	-24.10%
	US\$ Gold Price	1214.28	1292.34	-6.04%	1189.97	2.04%
	US\$ Oil Price – W Texas Crude	49.10	45.92	6.93%	60.30	-18.57%
	US\$ Iron Ore Price	51.00	64.50	-20.93%	59.00	-13.56%
	US\$ CRB Spot Commodity Index	412.21	417.65	-1.30%	424.74	-2.95%
Exchange Rates	AUD / USD	0.7242	0.7655	-5.40%	0.7663	-5.49%
	AUD / EUR	0.6506	0.6721	-3.20%	0.6998	-7.03%
	AUD / GBP	0.4936	0.5227	-5.57%	0.4998	-1.24%
	AUD / JPY	80.59	82.15	-1.90%	94.93	-15.11%
TWI	Australia Trade Weighted Index \$A	61.70	63.80	-3.29%	63.70	-3.14%
Volatility	VIX Index %	14.19	15.70	-1.51%	13.84	0.35%
	S&P/ASX200 Volatility Index	16.52	17.75	-1.23%	15.31	1.21%

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	0.59	2.27	2.53	3.15	2.07	0.97
Australian Bonds	Bloomberg AusBond Composite Index	1.17	1.30	4.65	5.41	6.57	5.62	3.60
International Bonds	Barclays Global Aggregate \$A (H)	0.57	1.81	6.07	6.41	7.37	7.22	4.62
	Barclays Global Agg Treasuries TRI \$A (H)	0.71	1.42	7.17	6.93	7.66	8.30	5.05
	Barclays Global Agg Corporate TRI \$A (H)	0.29	3.84	5.10	6.12	7.80	6.80	5.20
Emerging Markets Debt	Barclays EM Hard Currency Agg TRI \$A (H)	0.14	4.98	4.82	5.56	8.09	6.23	6.61

SUMMARY OF STATISTICS

- Australian Cash, as measured by the Bloomberg AusBond Bank Bill Index, rose 0.19% over the month.
- Australian Bonds rose over the month, by 1.17%, as measured by the Bloomberg AusBond Composite Index.
- International Bonds also rose, with the Barclays Global Aggregate Hedged \$A Index up by 0.57% in May. Government bonds were the best performers, returning 0.71%, while corporate debt gained 0.29%.
- Emerging Markets Debt gained 0.14%, as measured by the Barclays Emerging Market Hard Currency Aggregate Total Return Hedged \$A Index.

COMMENTARY

The RBA cut the overnight cash rate to a new record low of 1.75% during the May board meeting, after weaker than expected April inflation numbers. Despite citing a continued rebalancing of the domestic economy, the RBA was concerned with the weak inflation outlook, given very subdued growth in labour costs and very low cost pressures elsewhere in the world.

Despite cutting rates, the Board remained cognisant of the risks posed by low rates, stating they had taken note of “developments in the housing market, where indications are that the effects of supervisory measures are strengthening lending standards and that price pressures have tended to abate. At present, the potential risks of lower interest rates in this area are less than they were a year ago.”

The market was surprised mid-month by hawkish comments by a number of Fed officials, suggesting that a rate hike might occur sooner than expected. Although US data was a bit mixed over the month, economic indicators were broadly pointing to a recovery, with retail sales in April stronger than expected, inflation in line with expectations and the Atlanta Fed's GDPNow growth tracker estimating 2.5% annualised growth for the quarter. However, late in the month, the May US labour market report was much weaker than the market had anticipated, with payrolls growth of just 38k in May – the slowest since late 2010. Nevertheless, a drop in the labour force participation rate pushed the unemployment rate down to 4.7%.

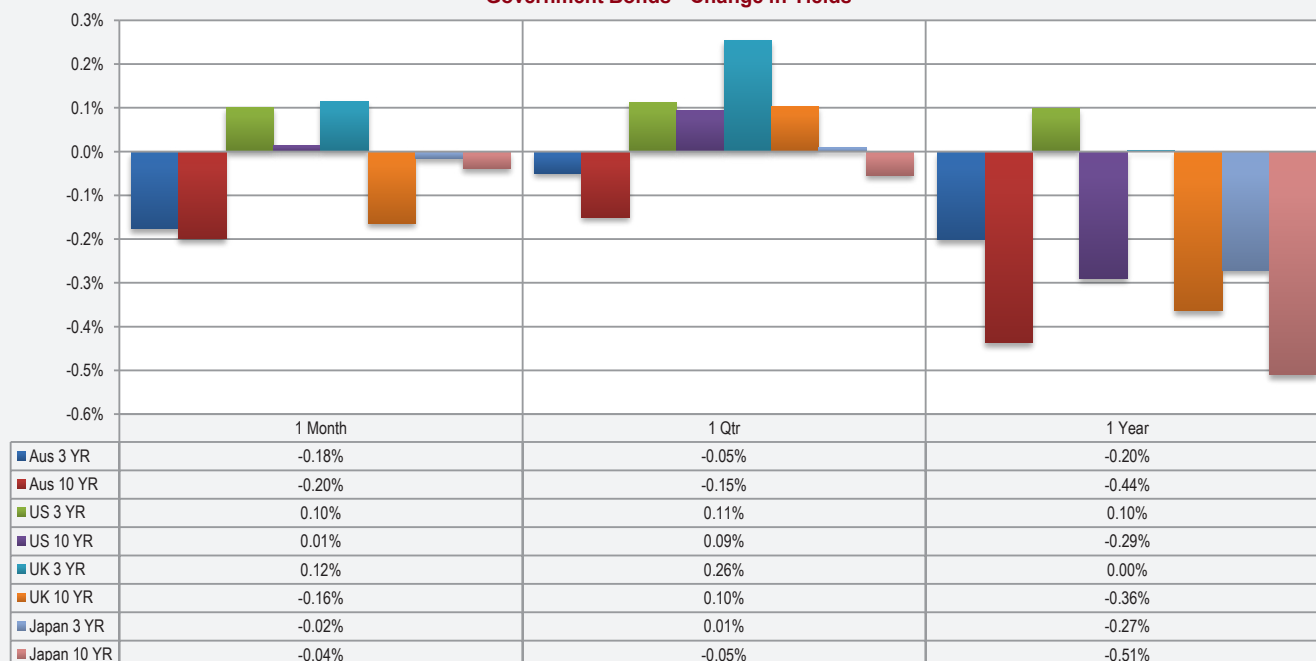
Overall, domestic and international bond returns were positive in May, gaining 1.17% and 0.57%(as measured by the Bloomberg Ausbond Composite Index and the Barclays Global Aggregate Hedged AUD Index, respectively). Global bond returns were mixed over the month, with US Treasury 3 and 10 year yields ending the month a little higher. In Australia, government bond yields fell across the curve following the RBA rate cut. Corporate debt spreads narrowed, with the iTraxx Australian Index falling by -5.67 points to finish the month at 126.09.

Similar to what occurred in Australia, government debt outperformed corporate bonds, with the Barclays Global Aggregate Corporate

Hedged Total Return AUD Index rising by 0.29% over the month. Corporate debt spreads rose slightly in investment grade while narrowing slightly in high yield and emerging market debt spreads -0.09% and -0.02%, respectively, over the month. Corporate issuance was particularly prominent in the Euro area, as issuers looked to take advantage on the ECB corporate buying program, which is scheduled to begin in early June.

Emerging market debt rose slightly by 0.14% over the month, as measured by the Barclays Emerging Market Hard Currency Aggregate Total Return Hedged \$A Index. EM fixed income assets were broadly supported by the continued uptrend in oil prices but weighed down by hawkish comments by the Fed and renewed US Dollar strength.

Government Bonds - Change in Yields



Global Corporate Debt - Change in Spreads



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	3.14	11.68	-2.10	7.71	7.30	3.41	3.78
	S&P/ASX 50 Leaders Index	2.64	11.12	-4.66	6.72	7.68	0.00	2.13
	S&P/ASX Midcap 50 Index	5.72	14.28	10.05	15.52	9.45	20.30	11.72
	S&P/ASX Small Ordinaries Index	4.09	13.12	6.93	6.94	0.21	15.94	8.36
	S&P/ASX Emerging Companies Index	1.25	14.25	16.56	7.12	-6.27	23.15	13.97
GICS Sectors	S&P/ASX 300 Materials	-3.01	17.57	-11.37	-1.53	-7.46	-3.32	16.59
	S&P/ASX 300 Industrials	2.56	6.47	10.60	16.06	11.24	19.92	9.66
	S&P/ASX 300 Consumer Discretionary	5.64	9.16	6.83	12.96	12.48	19.93	4.60
	S&P/ASX 300 Consumer Staples	-0.89	3.16	-2.57	0.24	6.28	5.63	-2.01
	S&P/ASX 300 Energy	-1.61	12.25	-27.25	-11.47	-10.55	-21.17	5.26
	S&P/ASX 300 Healthcare	9.39	13.44	16.85	21.58	22.24	24.11	11.22
	S&P/ASX 300 Information Technologies	7.05	15.99	5.60	7.31	9.06	12.36	4.28
	S&P/ASX 300 Telecommunications	4.96	10.41	-0.73	13.91	22.03	0.62	5.10
	S&P/ASX 300 Financials ex Property	5.18	13.82	-5.65	8.90	12.49	-2.79	-3.60
	S&P/ASX 300 Utilities	3.54	4.55	10.63	15.59	16.76	17.81	6.61
	S&P/ASX 300 Property	2.68	8.15	15.58	16.76	17.02	20.36	12.25

SUMMARY OF STATISTICS

- Australian shares continued their strong run in May, with the S&P/ASX 300 Accumulation Index increasing by 3.14%.
- While stocks across the capitalisation spectrum experienced recoveries over the month, midcaps were the best performers, gaining 5.72%, as measured by the S&P/ASX Midcap 50 Index. Following their strong run during the month, midcap stocks were virtually on par with microcaps, in terms of calendar year returns.
- On a sector basis, while 8 out of 11 GICS Indexes reported gains. Following a strong April, the Materials sector was the worst performing area of the market, declining by -3.01% over the month.
- Despite a strong recovery over the month and quarter, up 5.18% and 13.82%, respectively, Financials (ex-Property), were still down -5.65% over the year.
- The best performing sectors in May were the Healthcare and Information Technologies sectors, advancing 9.39% and 7.05%, respectively.

COMMENTARY

The Australian share market rose further over the month, with the overall S&P/ASX 300 Accumulation Index gaining 3.14%. Despite relative outperformance during the month, large cap stocks continue to lag their small and micro-cap counterparts over the past year, with the divergence between the respective indices still a healthy 9.03% and 17.66%.

On the economic front, consumer confidence jumped 8.5 percent to 103.2 index points, compared to a 4.0 percent drop in April. On the business side, manufacturing activities decreased again in May to 51 following a softer figure in April; this was lowest reading since November 2015 surge over the previous month.

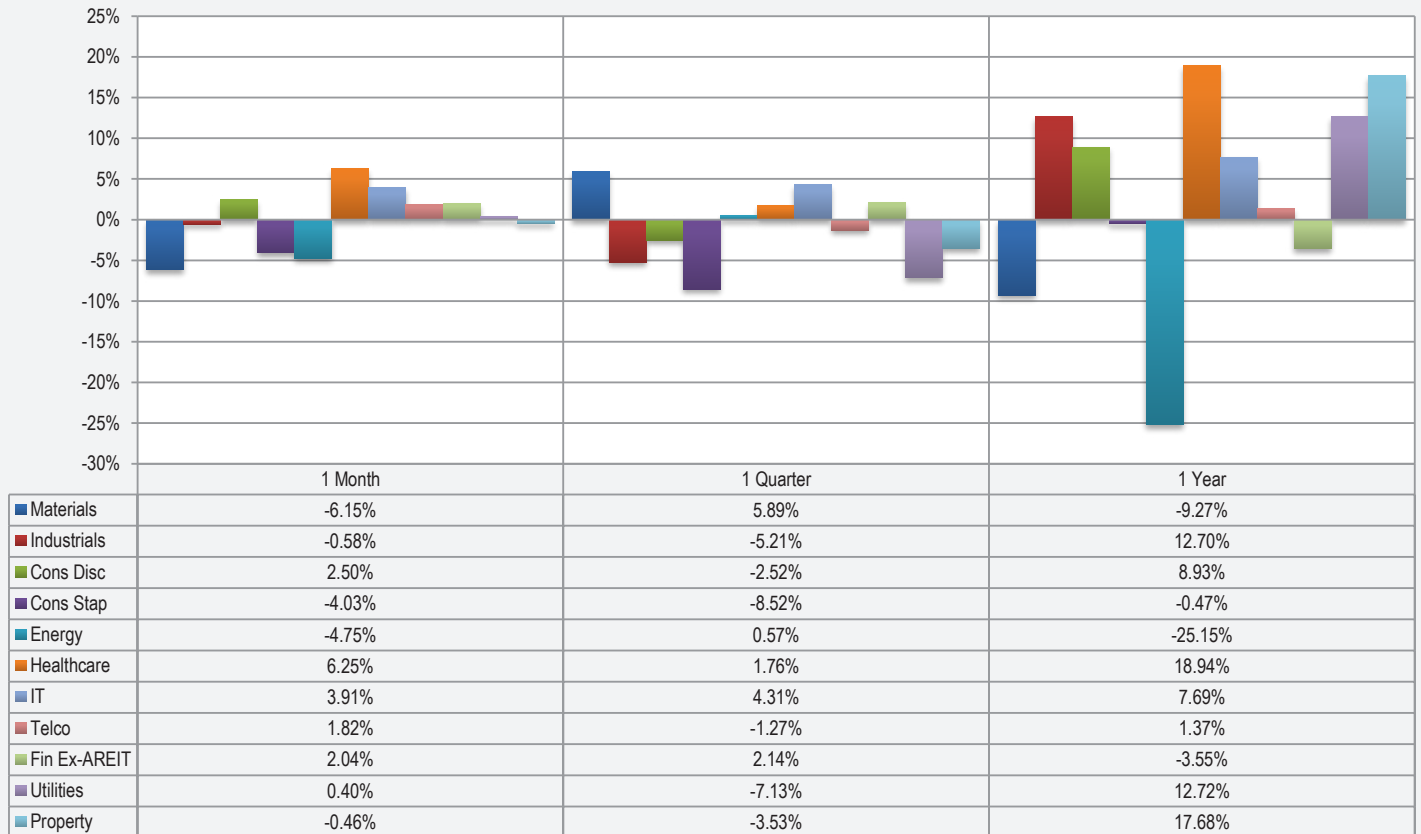
The Materials sector suffered a pullback in May, having enjoyed a surge in recent months on the back of recovering commodity prices. However, underlying performance of the sector was more nuanced than suggested by the top-line figure. In line with commodity prices, among the worst performers were iron ore producers, with Rio Tinto Ltd (ASX: RIO) and Fortescue Metals Group Ltd (ASX: FMG), down -13.31% and -12.61%, over the month. However, gold producers generally fared well, with St Barbara the top gold performer, returning 13.36% for the month.

The Healthcare sector was the best performer over the past month, gaining 9.39%. A weaker Australian dollar helped offshore earners like Fisher & Paykel Healthcare (ASX: FPH) and Cochlear (ASX: COH), which were up 18.23% and 11.70%, respectively.

The Consumer Discretionary and Financials ex-Property sectors also fared well in May, gaining 5.64% and 5.18%, respectively. Both these sectors gained from the cut in cash rate, with Consumer Discretionary recovering some lost ground from April. The best performing stock in the sector was Slater and Gordon Ltd (SGH), which was up an impressive 55% for the month. In Financials, the performance of the big banks was more divergent than in April, with ANZ and CBA gaining, 4.99% and 4.79%, respectively, while NAB was essentially flat and WBC fell -1.13%.

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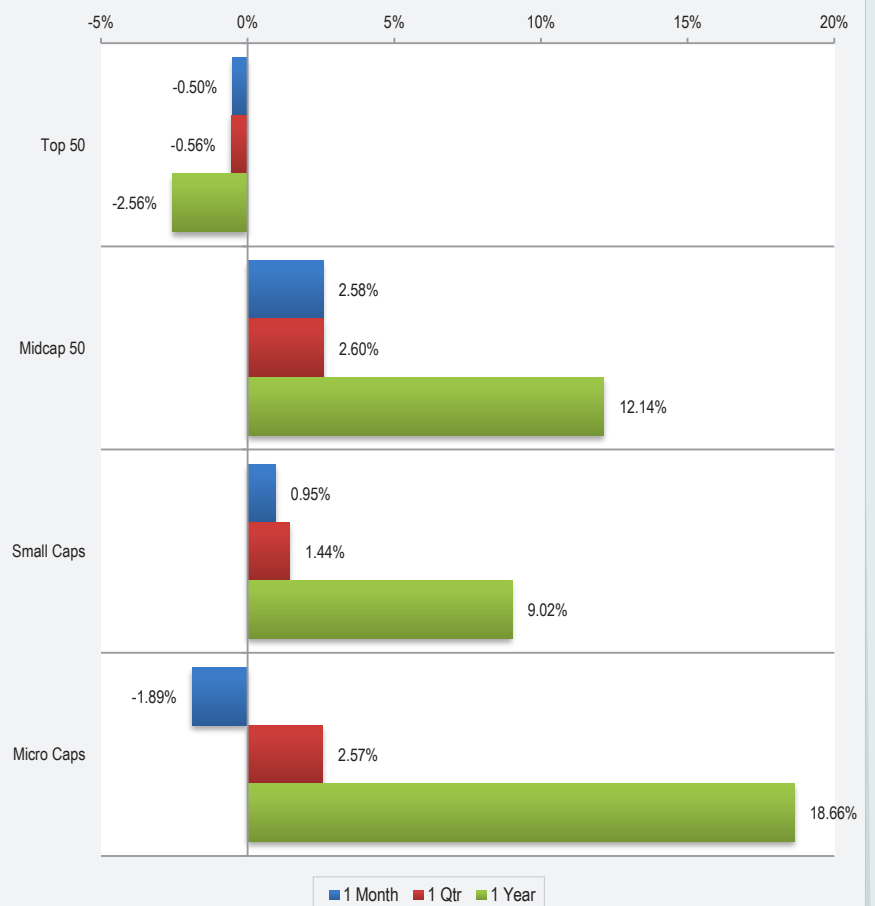
GICs Sector Performance Relative to ASX 300 Accumulation Index



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

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

Large, Mid And Small Cap Performance Relative to 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 -	MSCI World Ex-Au (\$A)	6.02	7.45	1.62	17.20	15.33	4.40	2.21
Unhedged	MSCI World (\$A)	5.93	7.55	1.47	16.88	15.07	4.31	2.23
	MSCI Small Cap World (\$A)	6.60	10.71	2.70	18.03	15.34	4.08	4.72
	MSCI AC World (\$A)	5.47	7.60	-0.07	15.50	13.61	2.76	2.28
International Shares -	MSCI World ex-Au	1.73	7.94	-4.29	8.33	8.78	-1.45	0.55
Local Currency	MSCI World	1.76	8.04	-4.27	8.29	8.73	-1.37	0.62
	MSCI World Small Cap	1.20	12.28	-2.80	7.50	6.78	-1.90	4.27
	MSCI AC World	0.13	9.13	-5.42	5.20	5.17	-3.14	1.85
Regional Shares -	MSCI North America	1.70	9.17	-0.01	9.98	10.14	2.03	3.27
Local Currency	MSCI Asia	1.41	7.08	-16.25	4.19	5.83	-13.43	-5.51
	MSCI AC Asia ex-Japan	0.34	7.39	-14.45	1.55	1.32	-11.43	-0.41
	MSCI China	-0.63	10.74	-28.31	0.56	-1.49	-24.05	-5.51
	MSCI Europe	1.77	5.32	-8.68	5.48	5.72	-3.89	-1.75
	MSCI Emerging Markets	-0.81	7.37	-11.20	1.37	1.31	-9.15	1.83
	MSCI India	3.35	13.82	-2.55	10.50	7.97	-2.55	1.51
	MSCI Japan	2.58	6.57	-17.99	7.47	11.78	-15.38	-10.75
Global Gold Shares in \$A	FTSE Gold Mines	-6.79	16.21	32.08	3.10	-9.98	45.67	72.20
Global Resources in \$A	HSBC Global Mining	-8.50	16.44	-17.41	-5.89	-11.32	-10.24	30.48

SUMMARY OF STATISTICS

- International shares, as measured by the MSCI World ex-Australia Local Currency Index, rose by 1.73% in May. The unhedged equivalent fared far better, rising by 5.93%, due to a decrease in the Australian dollar over the month.
- On a market capitalisation basis, small caps underperformed, adding 1.20%, as measured by the MSCI World Small Cap Local Currency Index.
- Regional global equity indices were broadly positive, with the exception of China and Emerging Markets, which declined by -0.63% and -0.81%, respectively. These two regions were weighed down by hawkish comments from the US Fed about potential rate rises sooner than expected and renewed US dollar strength.
- India and Japan were the best performing regions, adding 3.35% and 2.58% for the month.
- Resource shares followed waning commodity prices, with the HSBC Mining Hedged \$A Index falling by -8.50%. Gold stocks, as measured by the FTSE Gold Mines \$A Index, also fell over the month, by 6.79%. This corresponds with the fall in the gold price in US dollar terms.

COMMENTARY

Global equities fared well in May, with the MSCI World ex-Australia Local Currency Index up by 1.73%. This is despite the general fears around this time every year, which have led to the adage "Sell in May and go away".

Major equity markets around the globe seemed largely unfazed by a number of major news stories and impending events, including potential rate hikes by the US Fed, the US presidential election and the UK's potential exit from the Eurozone (coined as "Brexit"). After falling in the immediate aftermath of Fed comments that rate hikes might occur sooner than anticipated by the market, US and European shares regained lost ground as participants digested the information and become more confident in the US and Chinese growth story.

In the US, Donald Trump was confirmed as the Republican candidate for the November election, with Hilary Clinton increasingly looking like the nominated Democrat candidate. Brexit was increasingly in the news as the date of the referendum drew closer (23rd June), with the polls favouring a "remain" outcome. However, the odds have remained fairly tight with potential ramifications for exit quite negative for the UK as hinted by US President Obama in April when he commented that the UK would be "at the back of the queue" for trade deals if they exited.

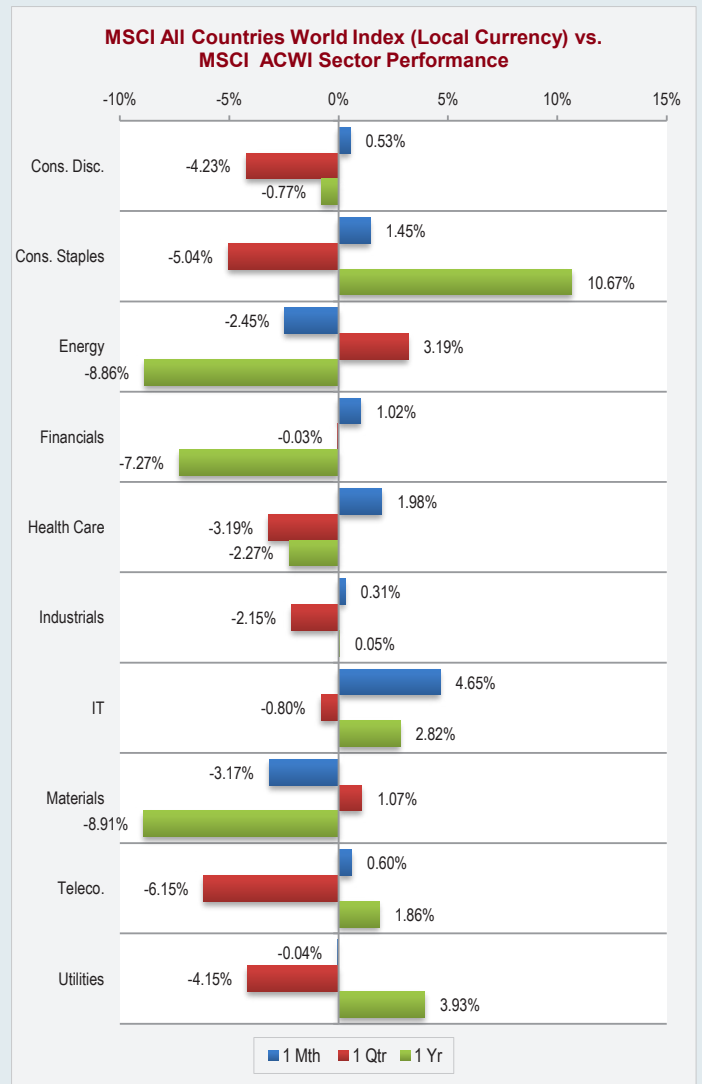
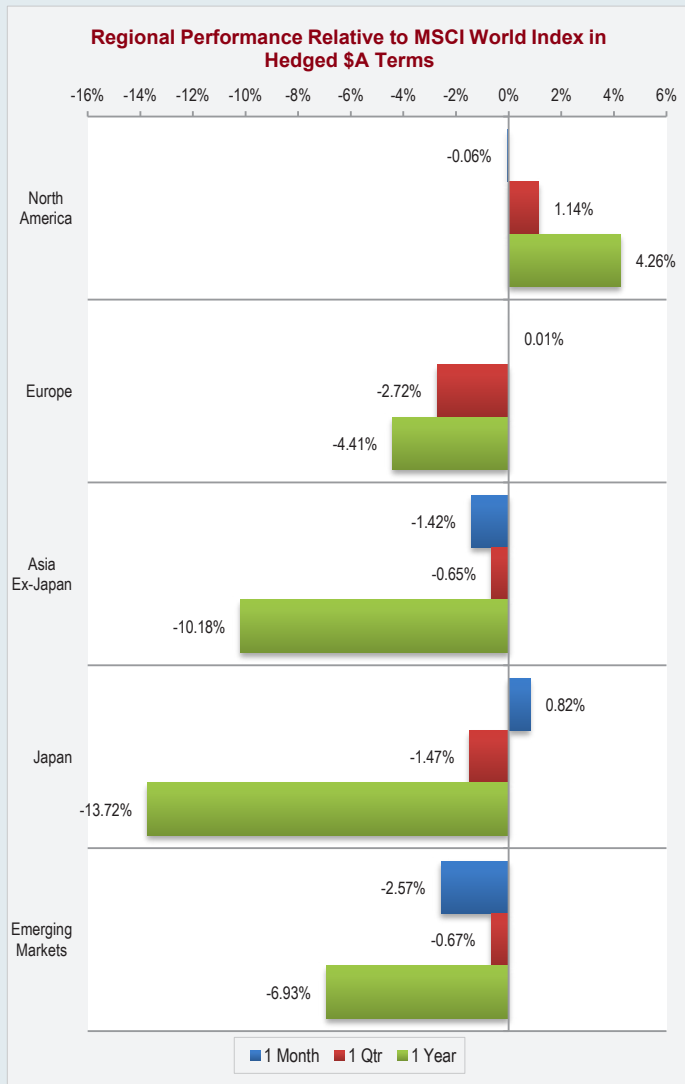
One of the biggest influences on global markets came from the renewed strength of the US Dollar following the Fed comments. In particular, this lifted Japanese equities and helped the local market to be one of the best performing regional markets.

Given the fall in bulk and base commodity prices, the materials were the worst performing sector in May, as reflected by MSCI ACWI Materials Index. After strong run in recent months, gold also fell, with the FTSE Gold Mines \$A Index declining 6.79% in May. Despite the fall, gold shares were still up 32.08% for the past year.

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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	-5.40	1.43	-5.49	-9.12	-7.53	-5.70	-0.88
	AUD / EUR	-3.20	-0.37	-7.03	-4.21	-2.67	-5.24	-2.63
	AUD / GBP	-5.57	-4.08	-1.24	-8.01	-5.29	1.04	0.14
	AUD / JPY	-1.90	-0.21	-15.11	-6.10	-1.55	-14.19	-8.40

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	0.66	4.91	-6.19	8.48	10.73	-4.48	-3.16
Local Currency	MSCI ACWI Consumer Staples Index	1.58	4.09	5.25	7.70	9.66	8.44	3.10
	MSCI ACWI Energy Index	-2.33	12.32	-14.28	-6.32	-4.97	-10.63	8.79
	MSCI ACWI Financials Index	1.15	9.10	-12.69	2.34	3.83	-10.68	-4.86
	MSCI ACWI Health Care Index	2.11	5.94	-7.69	11.66	13.21	-5.99	-3.99
	MSCI ACWI Industrials Index	0.44	6.98	-5.37	6.29	5.82	-1.79	1.85
	MSCI ACWI IT Index	4.78	8.33	-2.61	11.46	10.10	1.86	0.39
	MSCI ACWI Materials Index	-3.04	10.20	-14.34	-2.02	-4.85	-9.84	5.69
	MSCI ACWI Teleco. Services Index	0.73	2.98	-3.56	5.82	4.34	-1.82	3.39
	MSCI ACWI Utilities Index	0.09	4.98	-1.49	4.99	2.81	5.19	5.35

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	2.68	8.15	15.58	16.76	17.02	20.36	12.25
	FTSE E/N Australia	2.60	7.89	13.83	16.13	16.46	19.36	12.24
Global Listed Prop. \$A (H)	FTSE E/N GLOBAL HGD A\$	1.54	8.59	5.15	10.77	11.73	9.84	4.38
Global Listed Prop. \$A	FTSE E/N GLOBAL A	4.89	8.00	7.96	15.56	14.87	12.87	5.24
	FTSE E/N North America	7.31	8.19	16.03	19.90	18.18	21.68	6.26
	FTSE E/N Euro Zone	5.92	10.93	18.53	19.80	13.26	23.46	8.68
	FTSE E/N UK	6.32	12.62	-3.94	21.74	17.01	-1.70	-4.36
	FTSE E/N Developed Asia	1.19	5.82	-0.98	10.03	12.29	3.28	6.30
	FTSE E/N Japan	0.50	2.73	4.41	10.33	16.17	9.14	8.04
Australian Listed Infra.	S&P/ASX 300 Utilities	3.54	4.55	10.63	15.59	16.76	17.81	6.61
Global Listed Infra. \$A (H)	S&P Global Infrastructure	1.49	9.12	-2.03	11.99	11.02	3.09	9.86

SUMMARY OF STATISTICS

- Australian listed property gained 2.68% in April, as measured by the S&P/ASX 300 Property Index.
- GREITs underperformed AREITs, with the FTSE EPRA NAREIT Developed Hedged \$A Index rising by 1.54% over the month.
- After taking currency into consideration (rising USD over the month), North America was the best performing region, gaining 7.31%.
- Japan underperformed most other regions, rising by 0.50% over the month.
- Australian listed infrastructure rose by 3.54% over the month, while its international counterpart gained 1.49% in hedged AUD terms.

COMMENTARY

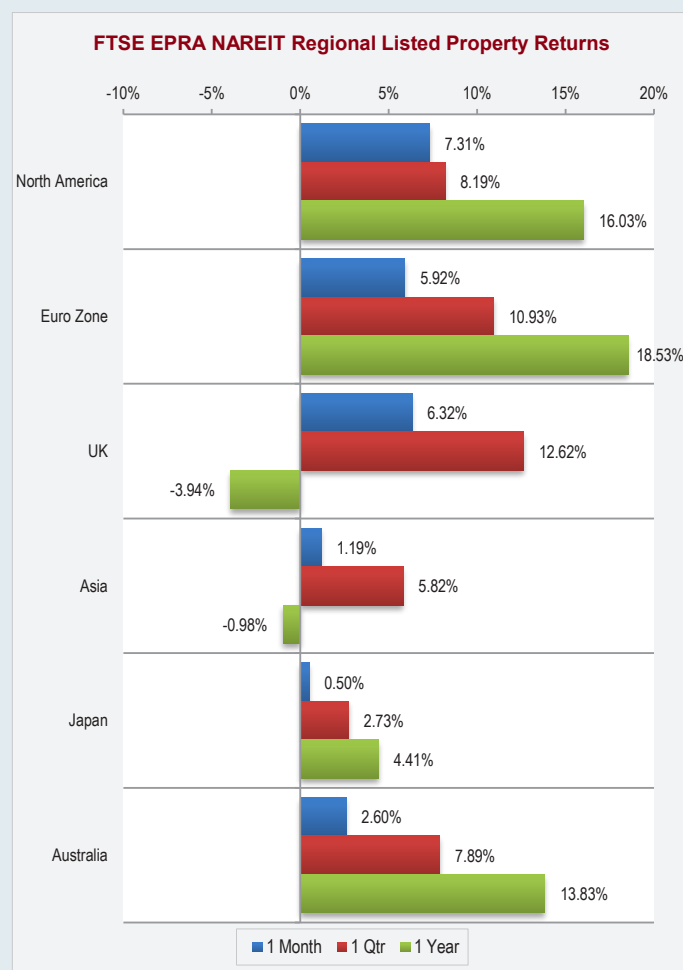
AREITs rose by 2.68% in May, while GREITs (in hedged AUD) rose by 1.54%. Over the past year, AREITs have outperformed GREITs by 10.33%.

In Australia, Hotel Property Investments (ASX:HPI) and Astro Japan Property Investments (ASX: AJA) were the best performing names, gaining 13.45% and 11.11%, respectively for the month. The AJA rise follows the completion of the sale of an office property, FT Nihombashi, from its portfolio at 7.8% premium to the most recent assessed book value.

Global listed property rose in all regions to varying degrees. After taking currency into consideration, North America rose by 7.31% to be the the best performing region over the month. Japan was the worst performer, rising by 0.50%, as measured by the FTSE EPRA NAREIT Developed Japan Index.

Australian listed infrastructure outperformed its global counterparts by 2.05% in April. Notwithstanding this, over the past year, the S&P/ASX 300 Utilities Index has gained 10.63%, outperforming the S&P Global Infrastructure Hedged AUD Index which has fallen by -2.03%.

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



ASSET CLASS VALUATIONS

The following sections provide some shorter term valuation considerations for the larger asset classes. Please note, that this section is designed to provide some short term market information for discussion, not to necessarily drive short term investment decisions. Zenith maintains that the use of well-constructed, diversified portfolios based on a medium to long term investment timeframe (10 year forecasts) together with using flexible active strategies and select alternatives strategies as tactical asset allocation overlay solutions, produce the optimum risk/return benefit for the majority of Australian investors. We also believe that timing the market based on short term valuations can be dilutionary to returns in most instances.

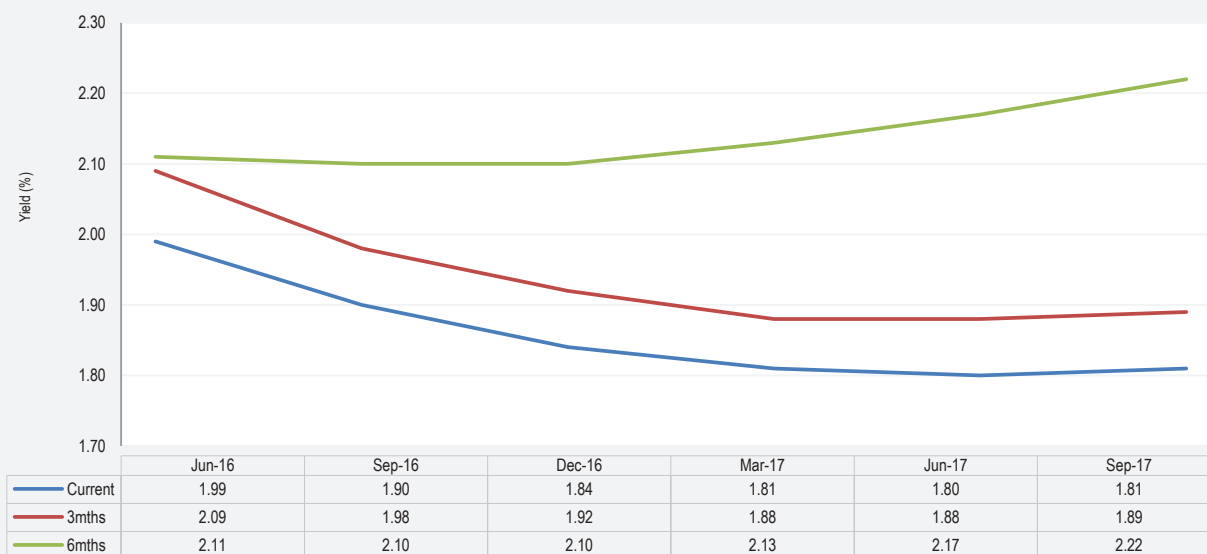
Sector	Absolute Valuation	Relative Valuation (vs Cash)	Momentum
Australian Bonds	Expensive	Moderately Expensive	Positive
Global Bonds	Expensive	Fair Value	Positive
Global Investment Corp Debt	-	Fair Value	Positive
Global High Yield	-	Fair Value	
Australian Equities	Moderately Expensive	Fair Value	Negative
Australian Small Caps	Expensive	Fair Value	Positive
Global Equities	Fair Value	Fair Value	Negative
Emerging Markets	Fair Value	Fair Value	Negative
Australian REITs	Moderately Expensive	Fair Value	Positive
Global REITs	Expensive	Moderately Expensive	Positive

The methodology underpinning the above table is as follows:

- The absolute valuation for each sector is based on the quarter end value of the relevant sector index (Price/Earnings for equities and Running Yields for bonds) relative to each sector's long term historical average. If the valuation lies within a half a standard deviation (+/-) of the long term average, the sector has been listed as Fair Value. If the valuation is between a half and one standard deviation (+/-) from the long term average, the sector has been listed as Moderately Expensive or Moderately Cheap, depending on the direction. If the valuation is more or less than one standard deviation from its long term average we list the valuation as Expensive or Cheap, depending on the direction.
- The relative valuation for each sector is based on the premium above cash (1 year forward) of the quarter end value of the relevant sector index (1 year forward Earnings Yields for listed equities, Running Yields for bonds). We then compare this relative to each sector's long term expected risk premium above cash using Zenith's long term assumptions. If the valuation is between a 25% and 50% from our long term risk premium expectation, the sector has been listed as Moderately Expensive or Moderately Cheap, depending on the direction. If the valuation is more or less 50% from its long term average we list the valuation as Expensive or Cheap, depending on the direction.
- The Momentum reference is based on the 12 month performance of the sector less the returns of cash over the same period. There is strong evidence that time series relative strength (momentum) is significant and persistent. Across a range of asset classes, the sign of the trailing 12-month return (positive or negative) can be indicative of future returns (positive or negative) over the next 12 month period. Relative strength measures help to address any non-valuation (i.e. macro) based concerns in markets, which can remain "cheap" or "expensive" for long periods of time. As a result, we believe investors should be cognisant of both momentum and valuation based metrics.

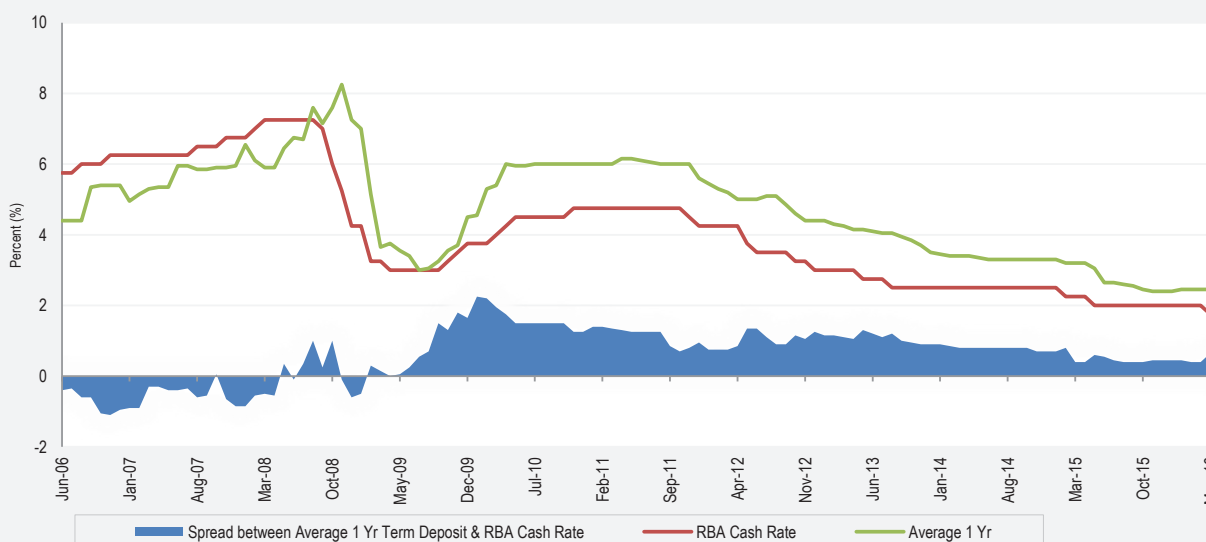
CASH

Australian 90 Day Bank Bill Futures Pricing



Source: Thomson Reuters

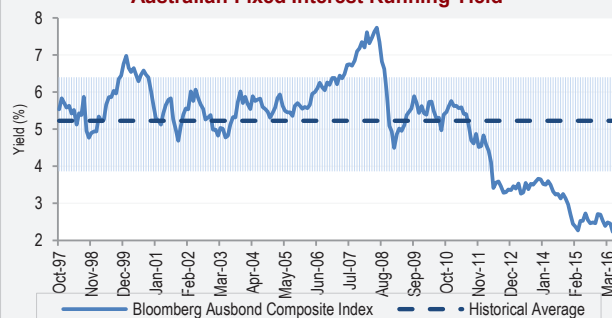
Term Deposit vs RBA Cash Rate



Source: Thomson Reuters

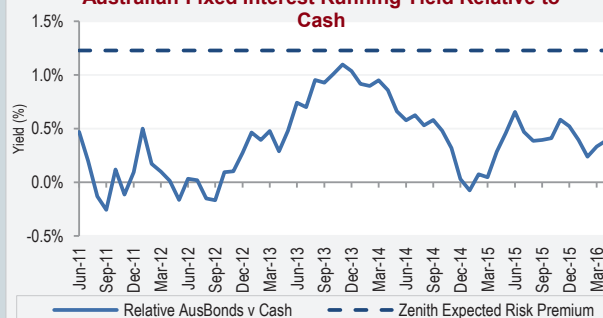
FIXED INTEREST

Australian Fixed Interest Running Yield



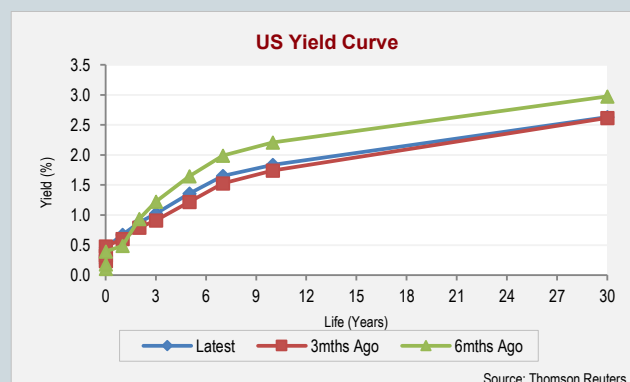
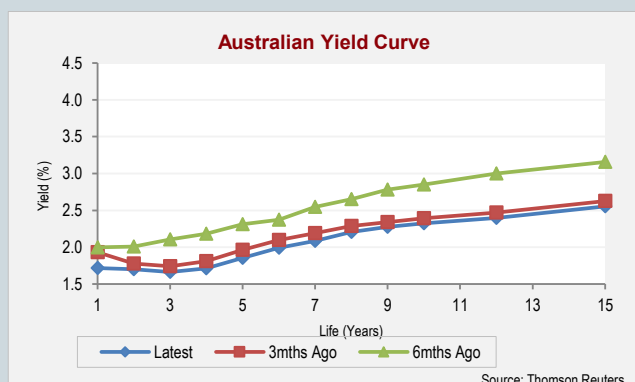
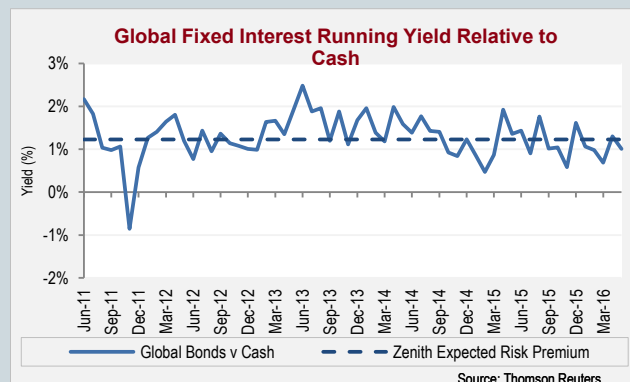
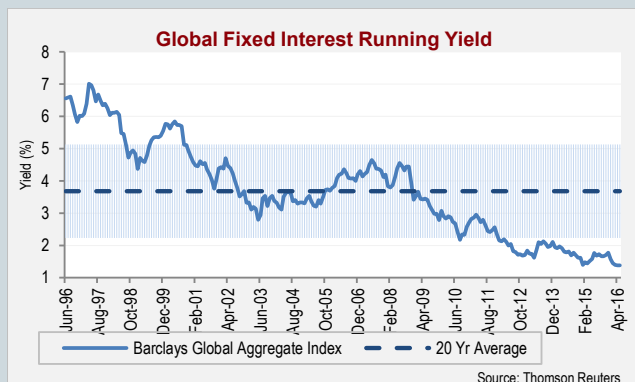
Source: Thomson Reuters

Australian Fixed Interest Running Yield Relative to Cash

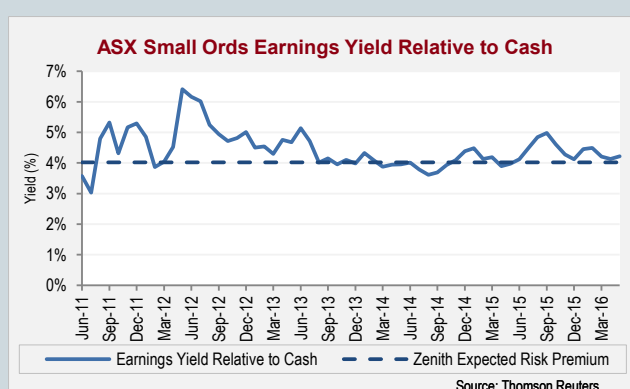
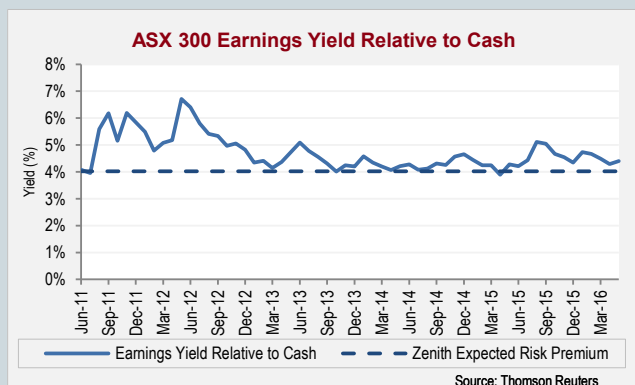
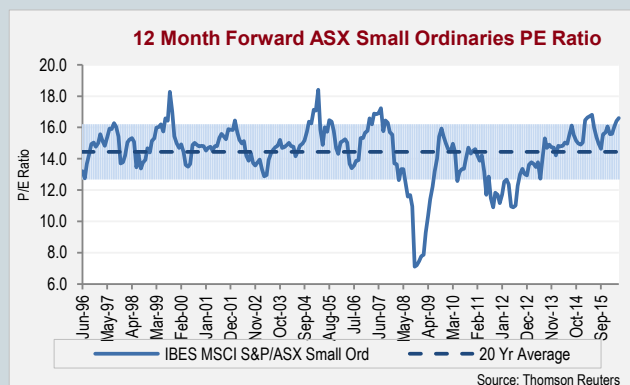
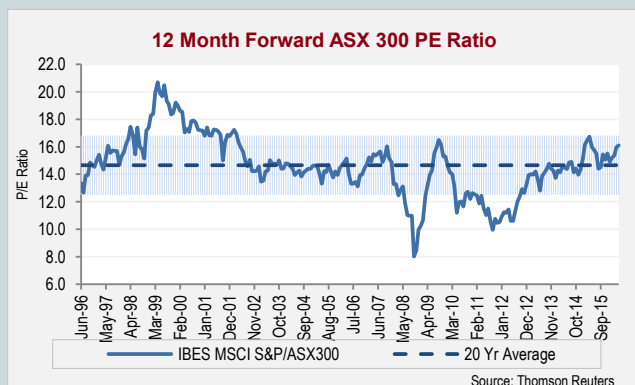


Source: Thomson Reuters

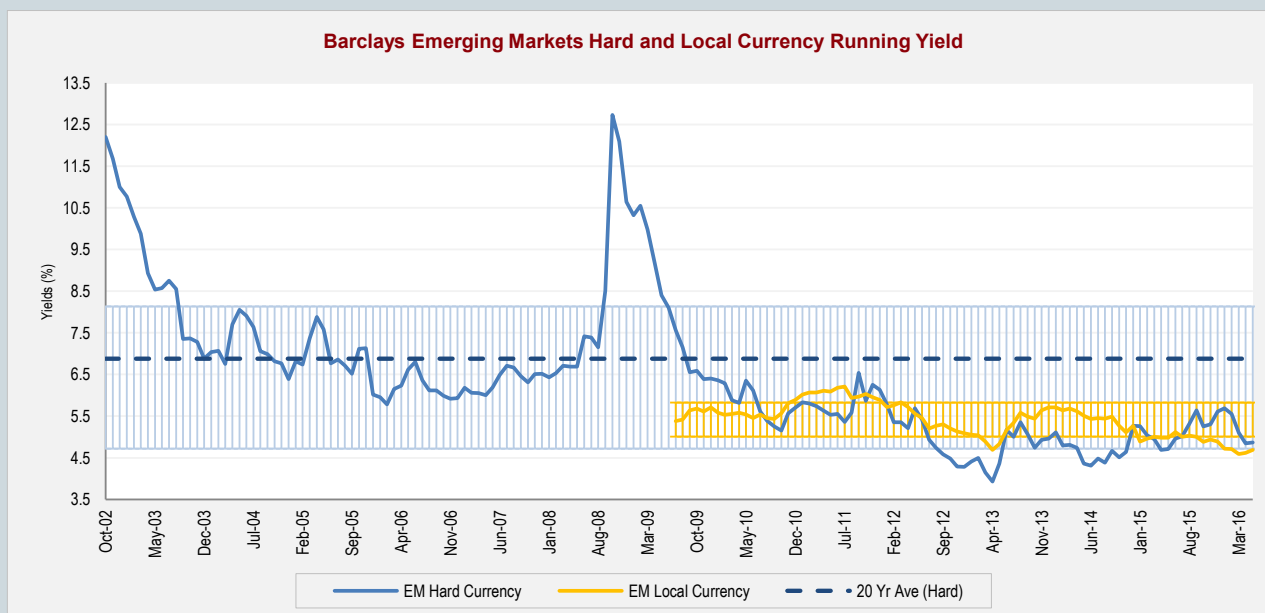
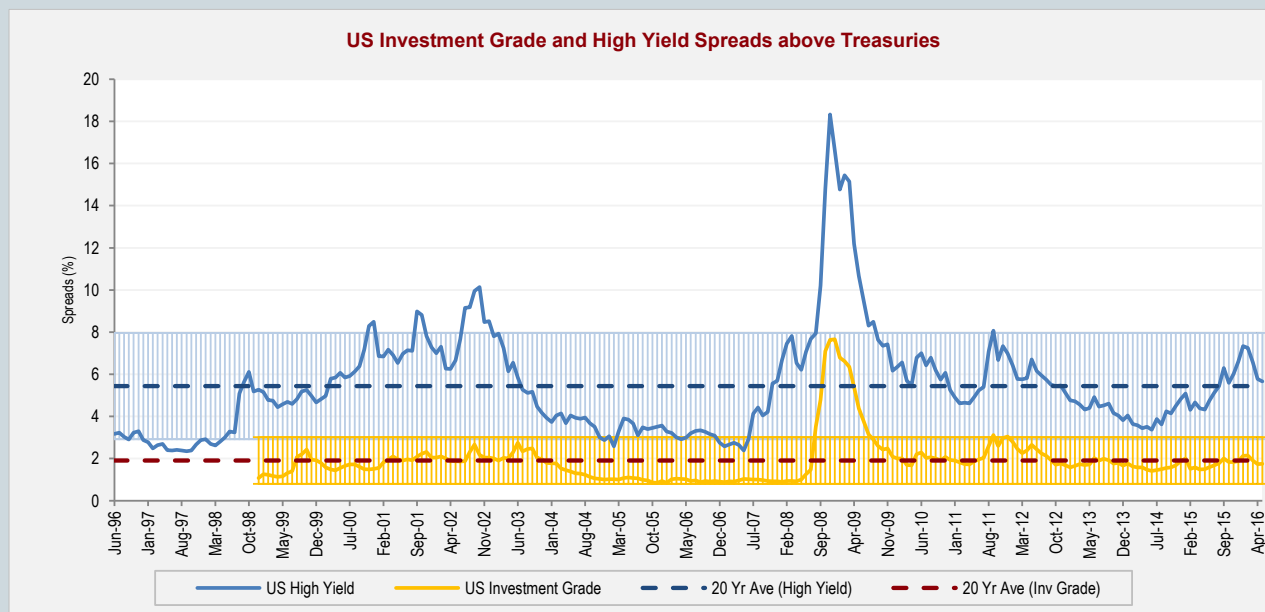
FIXED INTEREST (CONT.)



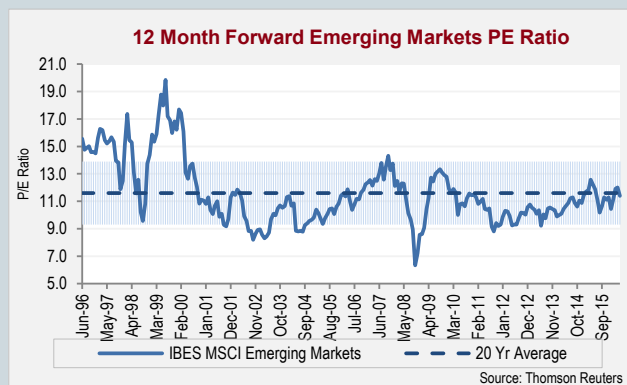
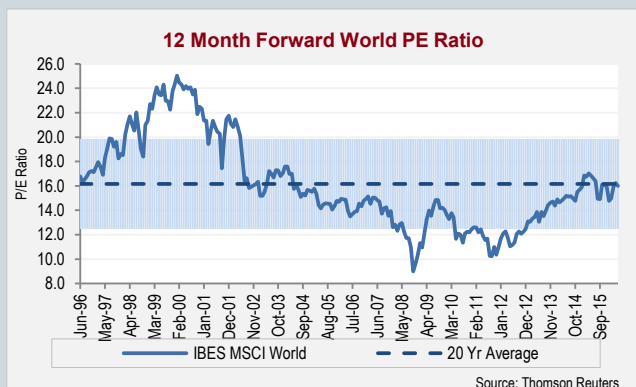
AUSTRALIAN EQUITIES



CORPORATE DEBT

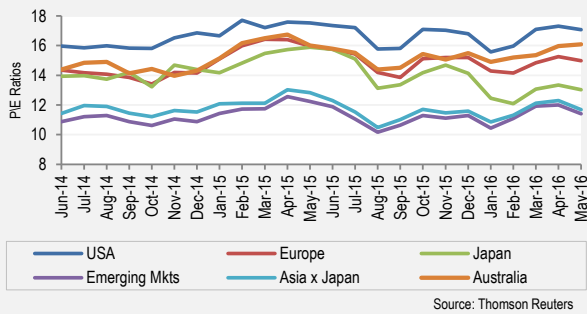


INTERNATIONAL SHARES

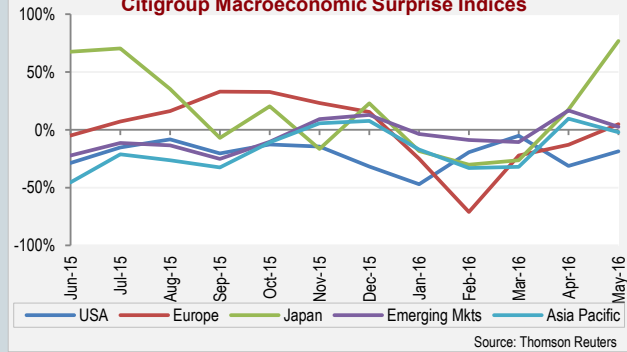


INTERNATIONAL SHARES (CONT)

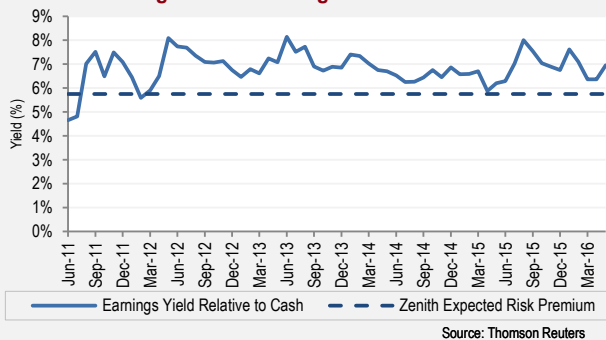
Regional Equity 12 Month Forward PE Valuations



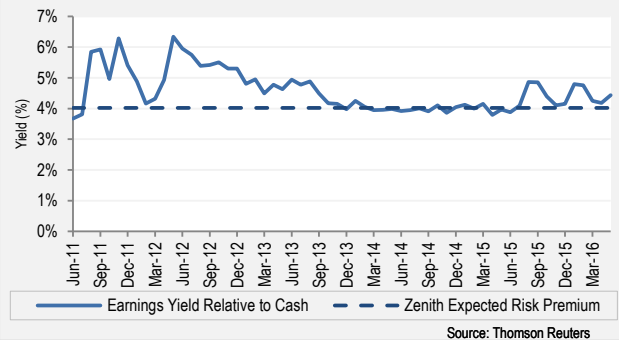
Citigroup Macroeconomic Surprise Indices



MSCI Emg Markets Earnings Yield Relative to Cash

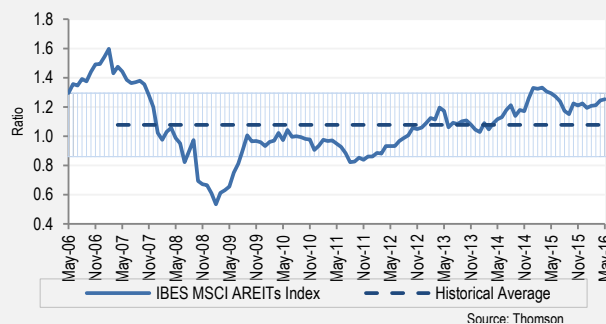


MSCI World Earnings Yield Relative to Cash

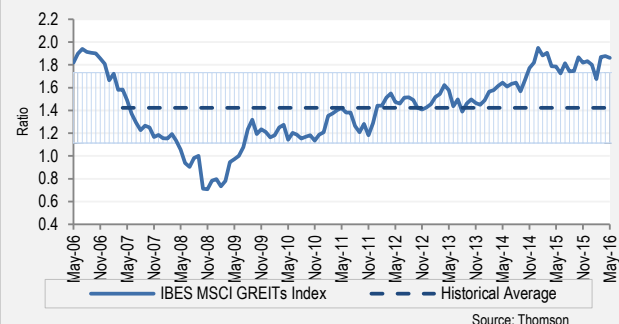


LISTED PROPERTY & INFRASTRUCTURE

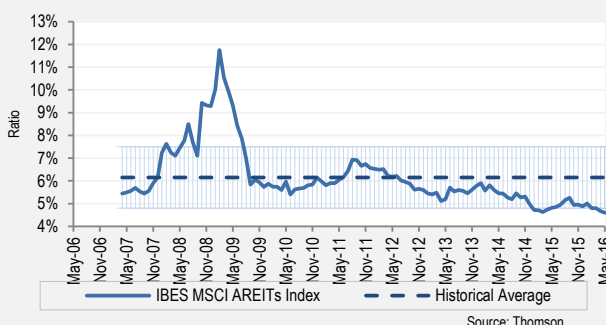
12 Month Forward AREIT Price to Book Value



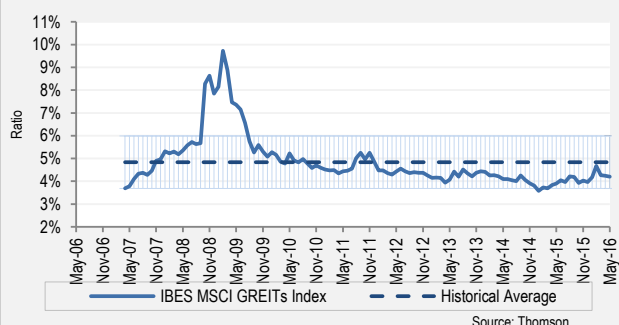
12 Month Forward GREIT Price to Book Value



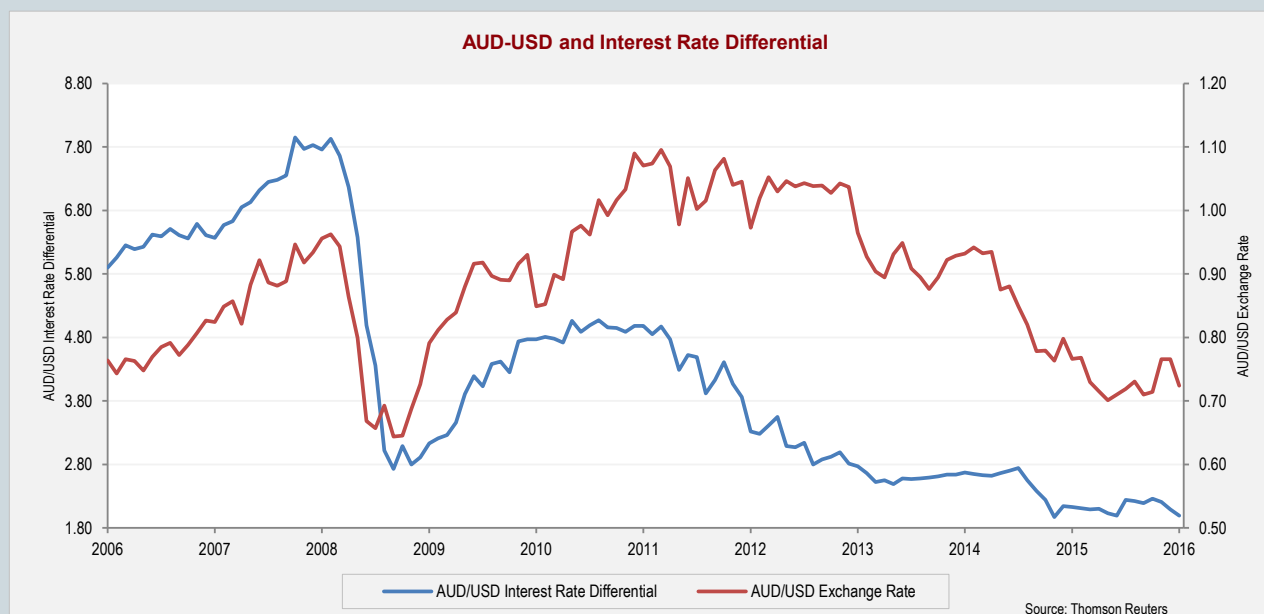
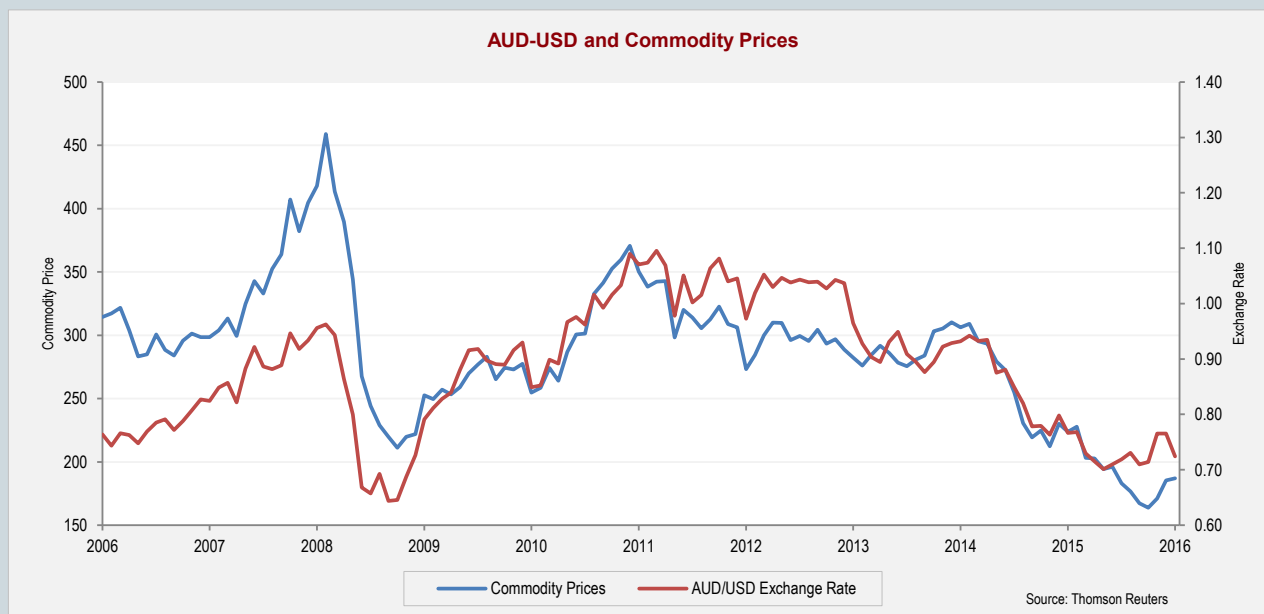
12 Month Forward AREIT Dividend Yield



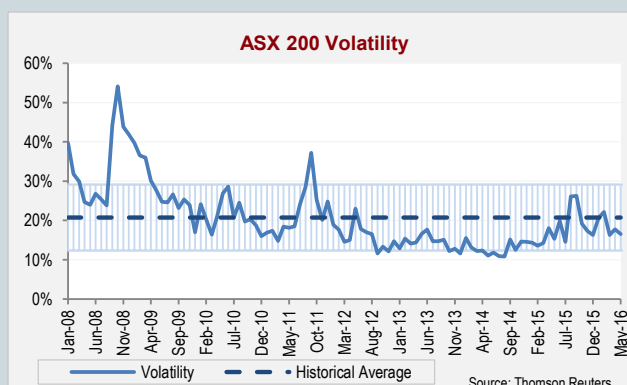
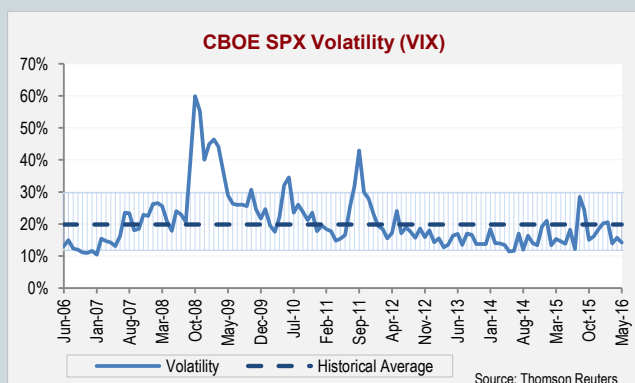
12 Month Forward GREIT Dividend Yield



AUSTRALIAN DOLLAR



VOLATILITY / FINANCIAL STRESS INDEX



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