

THE MONTHLY MARKET REPORT



A SNAPSHOT OF THE KEY POINTS FOR SEPTEMBER

- The RBA kept the overnight cash rate at 1.50% during the September board meeting. The rate was also left unchanged during the October board meeting.
- In fixed income, the 3 Month Bank Bill Swap Rate and the 10 Year Australian Bond Rate rose by 0.06% and 0.04%, respectively, in September.
- Spreads on Australian corporate debt rose in September, as indicated by the iTraxx Australian Index rising 4.60 points, to end the month at 104.57.
- Australian shares were relatively flat, with the All Ordinaries Index declining -0.08% and the S&P/ASX 200 Index rising 0.05%.
- Domestic listed property fell by -4.39%, underperforming the broader share market.
- Global equities recorded mixed results across regions, with Japan the worst performing market, as denoted by the TOPIX (Japan) Index declining -0.51%. The UK added 1.74%, to be the best performer, as measured by the FTSE 100 (UK) Index.
- Gold and Oil prices continued their recent uptrend, increasing by 1.04% and 7.00% respectively, in September. Iron Ore prices continued to decline, falling -4.20% in September. The overall CRB Spot Commodity Index fell by -0.19% in US Dollar terms.
- The Australian Dollar rose against most currencies in September; gaining 1.54% against the US Dollar, 0.92% against the Euro, and 2.54% versus the British Pound, indicating a further depreciation of the Pound. The Australian Dollar fell -0.45% against the Japanese Yen in September.
- The Australian Trade Weighted Index (TWI) rose by 1.11% over the month, ending September at 63.90.
- Share market volatility fell marginally both domestically (-0.20%) and in the US (-0.13%).



Oil prices continue to rise in September

Oil and natural gas stocks surged following the announcement that OPEC had agreed to curtail production for the first time in eight years, marking a significant change in policy. Oil prices were up 7.00% in September, following a 7.45% gain in August. Despite the rally, concerns have been raised about the implementation of quotas as the internal negotiations, which are expected to be tough, are scheduled to take place in November.

Interest rate-sensitive sectors such as REITs, utilities and telecommunications suffered in September. This followed a poor August, which saw REITs produce their first negative monthly return since November 2015. Nevertheless, the sector has still delivered a strong 1 year return of 20.88%.

Despite talks of a possible Fed tightening, the Federal Open Market Committee (FOMC) decided to maintain the target range for the federal funds rate at 0.25 to 0.50 percent, with the tightening now anticipated to occur later this year. While the case for a rate increase has strengthened, the Committee decided that for the time being they will wait for further evidence of continued progress, despite three FOMC members calling for a quarter-point increase.

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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 (%)	1.50	1.50	0.00	2.00	-0.50
	3 Month BBSW (%)	1.71	1.65	0.06	1.87	-0.16
	10 Year Bond Rate (%)	1.89	1.85	0.04	2.64	-0.75
iTraxx	iTraxx Australia	104.57	99.97	4.60	136.11	-31.54
Australian Shares	All Ordinaries Index	5525.10	5529.40	-0.08%	5058.60	9.22%
	S&P/ASX 200	5435.90	5433.00	0.05%	5021.60	8.25%
Property	ASX 300 Property Index	1403.00	1467.40	-4.39%	1216.70	15.31%
Regional Shares	Dow Jones Industrials (US)	18308.15	18400.88	-0.50%	16284.70	12.43%
	S&P 500 (US)	2168.27	2170.95	-0.12%	1920.03	12.93%
	FTSE 100 (UK)	6899.33	6781.51	1.74%	6061.61	13.82%
	STOXX 50 (EUR)	342.92	343.53	-0.18%	347.77	-1.39%
	TOPIX (Japan)	1322.78	1329.54	-0.51%	1411.16	-6.26%
	Hang Seng (Hong Kong)	23297.15	22976.88	1.39%	20846.30	11.76%
Commodities	US\$ Gold Price	1321.51	1307.93	1.04%	1114.34	18.59%
	US\$ Oil Price – W Texas Crude	48.24	44.70	7.92%	45.09	6.99%
	US\$ Iron Ore Price	57.00	59.50	-4.20%	55.50	2.70%
	US\$ CRB Spot Commodity Index	402.61	402.89	-0.07%	403.38	-0.19%
Exchange Rates	AUD / USD	0.7630	0.7514	1.54%	0.7010	8.84%
	AUD / EUR	0.6802	0.6740	0.92%	0.6236	9.08%
	AUD / GBP	0.5886	0.5740	2.54%	0.4623	27.32%
	AUD / JPY	77.13	77.48	-0.45%	84.05	-8.23%
TWI	Australia Trade Weighted Index \$A	63.90	63.20	1.11%	59.90	6.68%
Volatility	VIX Index %	13.29	13.42	-0.13%	24.50	-11.21%
	S&P/ASX200 Volatility Index	13.48	13.68	-0.20%	26.30	-12.82%

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	0.14	0.48	2.19	2.44	2.94	0.48	1.63
Australian Bonds	Bloomberg AusBond Composite Index	-0.23	0.93	5.69	6.21	5.97	0.93	5.95
International Bonds	Barclays Global Aggregate \$A (H)	0.07	0.83	8.22	7.34	7.02	0.83	7.57
	Barclays Global Agg Treasuries TRI \$A (H)	0.05	0.23	8.45	7.68	7.05	0.23	7.76
	Barclays Global Agg Corporate TRI \$A (H)	-0.10	2.15	10.13	7.78	8.30	2.15	9.51
Emerging Markets Debt	Barclays EM Hard Currency Agg TRI \$A (H)	0.29	3.54	15.13	8.59	9.69	3.54	13.37

SUMMARY OF STATISTICS

- Australian Cash returned 0.14% over the month, as measured by the Bloomberg AusBond Bank Bill Index.
- Australian Bonds fell -0.23% over the month, as measured by the Bloomberg AusBond Composite Index.
- International Bonds slightly outperformed their Australian counterparts, with the Barclays Global Aggregate Hedged \$A Index up by 0.07% in September. Government bonds rose 0.05% and corporate debt fell by -0.10% to be the worst performer in the asset class.
- Emerging Markets Debt gained 0.29% over the month to be the best performer in the asset class, as measured by the Barclays Emerging Market Hard Currency Aggregate Total Return Hedged \$A Index.

COMMENTARY

The RBA kept the overnight cash rate at 1.50% during the September board meeting. The board reiterated that inflation remained quite low and was expected to remain so for quite some time given subdued growth in labour costs and low cost pressures elsewhere in the world.

The RBA also indicated that low interest rates and exchange rates continued to support domestic demand and were helping the traded sector. The board noted that financial institutions were in a position to lend for worthwhile purposes. These factors were assisting the economy to make the necessary economic adjustments; however, an appreciating exchange rate could complicate this, with the Australian Dollar continuing to rise over the month.

In international news, the US unemployment rate held steady at 4.9% in August for the third consecutive month; however, the market had forecasted a fall to 4.8%. During the month it was noted that application filings for unemployment benefits had been below 300,000 for 78 weeks straight, the longest period since 1970. Such data has typically been consistent with an improving job market.

As expected the European Central Bank (ECB) left the benchmark refinancing rate unchanged at 0% in September, as well as leaving the deposit rate and lending rate at -0.4% and 0.25%, respectively. The Governing Council expects the key ECB rates to remain at these levels or lower for an extended period, and well past the horizon of the net asset purchases. The refinancing rate reached the record low of 0% in March

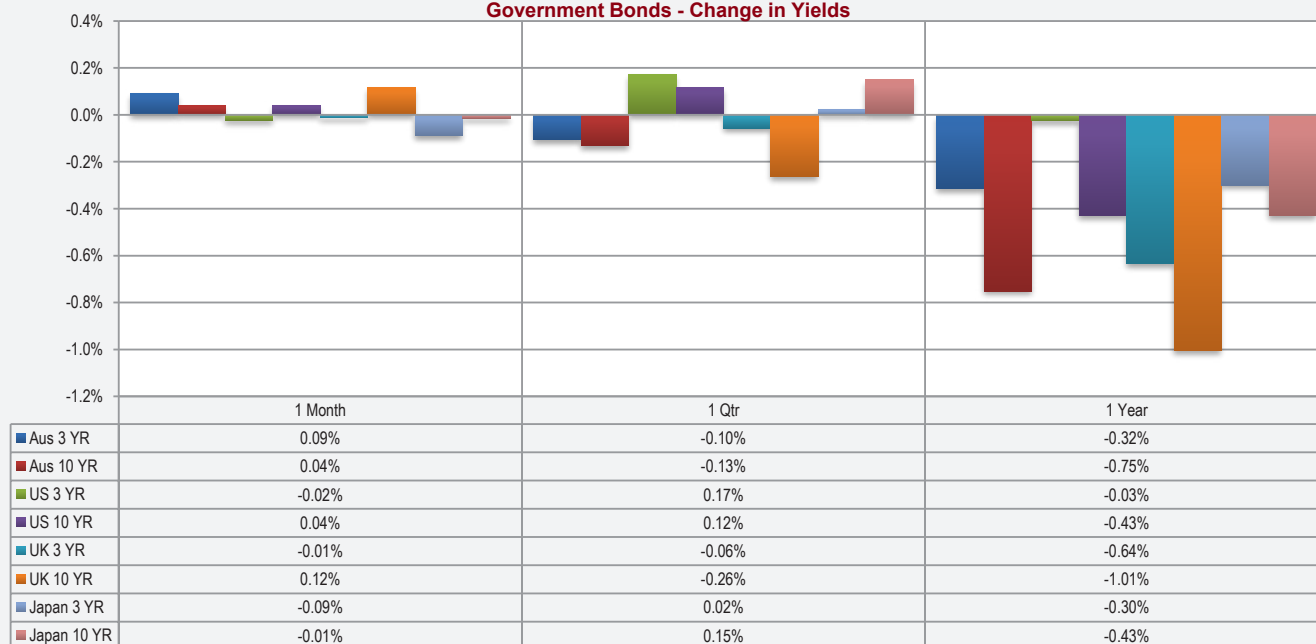
2016, with the monthly asset purchases of 80 billion Euro expected to run until the end of March 2017. The Bank of England maintained interest rates at 0.25% in September after cutting in August in an attempt to stimulate the slowing economy.

The Australian fixed interest market was down -0.23% in September, however it had returned 5.69% over the prior 12-month period. The 3-year and 10-year Government bond yields gained 0.09% and 0.04%, respectively, over the month. Corporate debt spreads rose, with the iTraxx Australian Index gaining 4.60 points to finish the month at 104.57, compared to 136.11 this time last year.

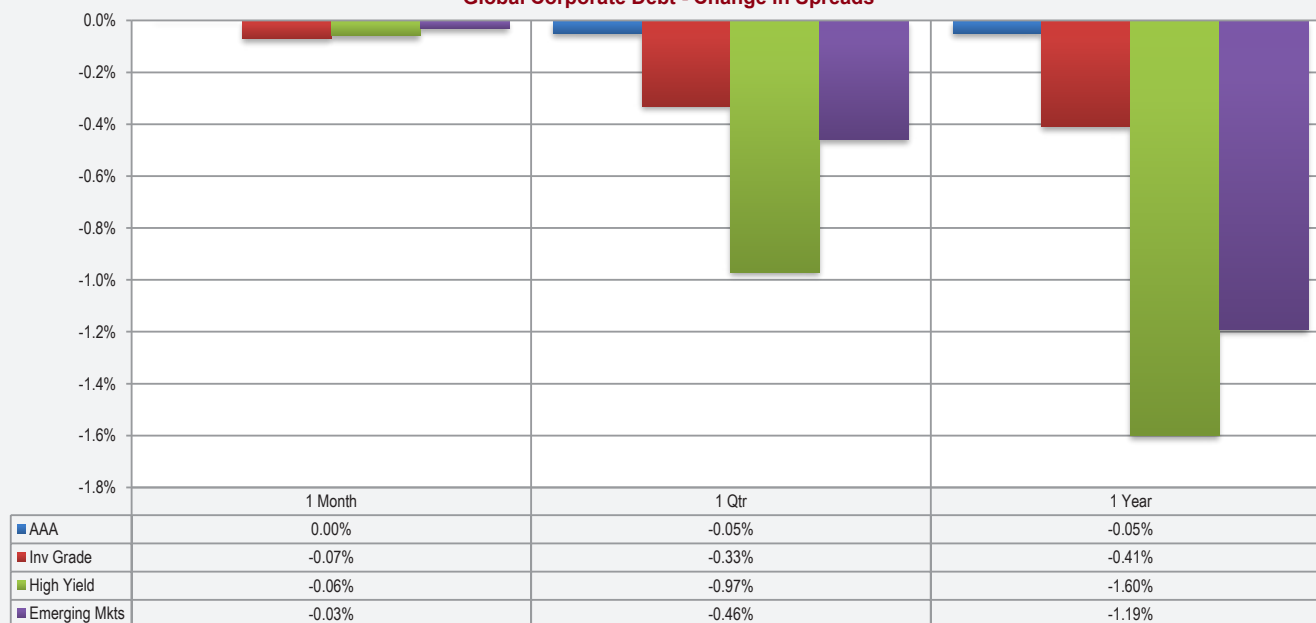
In global markets, the Barclays Global Aggregate \$A Hedged Index and Barclays Global Agg Treasuries TRI \$A Hedged Index returned 0.07% and 0.05%, respectively, over the month. Corporate debt declined by -0.10%; however, the 1-year return was still 10.13%. The yield on 10 year US and UK government bonds gained 0.04% and 0.12%, respectively.

Corporate debt spreads narrowed marginally across the risk spectrum, investment grade fell by -0.07%, resulting in the largest price gain. However, there was no change in AAA spreads in September. Emerging market debt added 0.29% return over the month to bring the 1 year return to 15.13%, as measured by the Barclays Emerging Market Hard Currency Aggregate Total Return Hedged \$A Index.

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	0.51	5.23	13.51	6.03	11.02	5.23	6.54
	S&P/ASX 50 Leaders Index	0.64	4.55	9.96	4.66	11.01	4.55	3.98
	S&P/ASX Midcap 50 Index	-1.03	7.13	27.38	15.21	14.72	7.13	17.12
	S&P/ASX Small Ordinaries Index	1.53	8.51	29.19	7.08	5.27	8.51	16.04
	S&P/ASX Emerging Companies Index	4.14	10.54	39.24	8.38	1.04	10.54	32.77
GICS Sectors	S&P/ASX 300 Materials	5.68	13.92	24.32	1.57	-0.50	13.92	33.61
	S&P/ASX 300 Industrials	-0.25	2.34	17.32	13.15	14.54	2.34	11.11
	S&P/ASX 300 Consumer Discretionary	0.28	8.70	28.71	11.45	17.99	8.70	13.50
	S&P/ASX 300 Consumer Staples	1.62	12.36	12.20	1.14	8.16	12.36	5.67
	S&P/ASX 300 Energy	0.09	2.69	5.78	-12.99	-5.14	2.69	7.22
	S&P/ASX 300 Healthcare	-0.33	3.27	25.87	19.07	25.41	3.27	12.00
	S&P/ASX 300 Information Technologies	1.46	10.23	15.94	7.76	13.45	10.23	6.21
	S&P/ASX 300 Telecommunications	-3.95	-6.39	-2.02	8.02	18.47	-6.39	-2.88
	S&P/ASX 300 Financials ex Property	0.60	5.16	6.31	4.84	15.02	5.16	-4.64
	S&P/ASX 300 Utilities	-3.24	-2.31	19.47	15.69	17.34	-2.31	10.01
	S&P/ASX 300 Property	-4.31	-1.88	20.88	17.69	19.59	-1.88	14.02

SUMMARY OF STATISTICS

- Australian shares gained 0.51% in September, as measured by the S&P/ASX 300 Accumulation Index.
- While shares were mainly positive across the market capitalisation spectrum over the month, the S&P/ASX Midcap 50 Index posted a negative return, falling -1.03%.
- The S&P/ASX Emerging Companies Index gained 4.14%, to be the best performing market segment over the month, as well as the best 1 year return of 39.24%.
- On a sector basis, Property, Telecommunications and Utilities again underperformed the broader market, down -4.31%, -3.95% and -3.24%, respectively, over the month.
- The S&P/ASX 300 Materials Index was the best performer in September, rallying 5.68%.

COMMENTARY

The Australian share market gained 0.51% in September, as measured by the S&P/ASX 300 Accumulation Index. Emerging Company stocks were the strongest performers in September with some of the best performers, Alkane Resources (64.41%), Resapp Health (47.73%) and Surfstitch Group (38.46%). Alkane Resources (ASX: ALK) saw a large gain following the start of an expansive exploration program at the Tomingley Gold project, located in central west New South Wales. Tomingley had a strong FY16, contributing \$109.1 million of revenue. Large cap stocks continued their recovery, with the S&P/ASX 50 Leaders Index returning 0.64%. This brought the 1 year to 9.96%, despite a number of negative returns in previous months earlier this year.

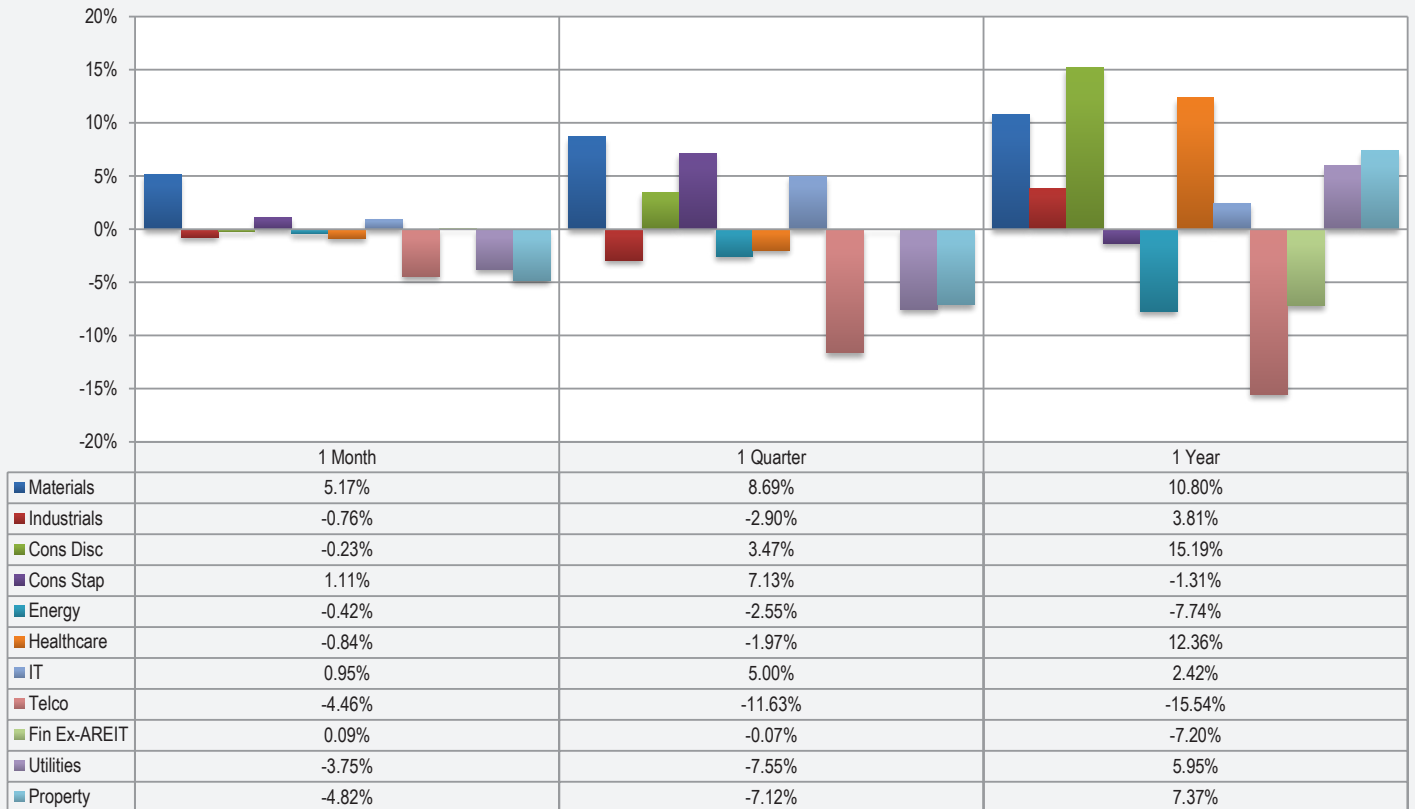
On the economic front, consumer confidence continued to rise, reaching 101.4 in September. On the business front, manufacturing activity was back up to 49.80 in September, mainly influenced by activity in the food and beverages sub-sector. This followed the reading of 46.90 in August, the lowest reading since June 2015.

On a sector basis, Property was the worst performing sector, declining by -4.31% over the month. Charter Hall Group (ASX: CHC) tumbled -12.65% in September as the Gandel Group offloaded its stake. This represented the heaviest fall in the property group's valuation in 5 years. The Telecommunications sector also performed poorly, down -3.95%, with TPG Telecom Ltd (ASX:TPM) tumbling -29.29% in a response to a weaker-than-expected outlook statement.

The Materials sector gained 5.68%, to be the best performing sector in September, bringing the Calendar Year-To-Date return to 33.61%. Some positive performance occurred late in the month following the jump in the oil price post OPEC's decision to curtail production. Alexium International Group (ASX: AJX), a company specialising in innovative and environmentally friendly chemical solutions, gained 29% over the month. They disclosed four new purchase orders worth annual revenue of US\$3 million, placed by leading international manufacturers in the transportation, bedding, and carpet industries. There is a fast growing movement in these industries to move away from outdated flame retardants that are now being phased out or banned, to employ safer more environmentally friendly alternatives, such as Alexium products.

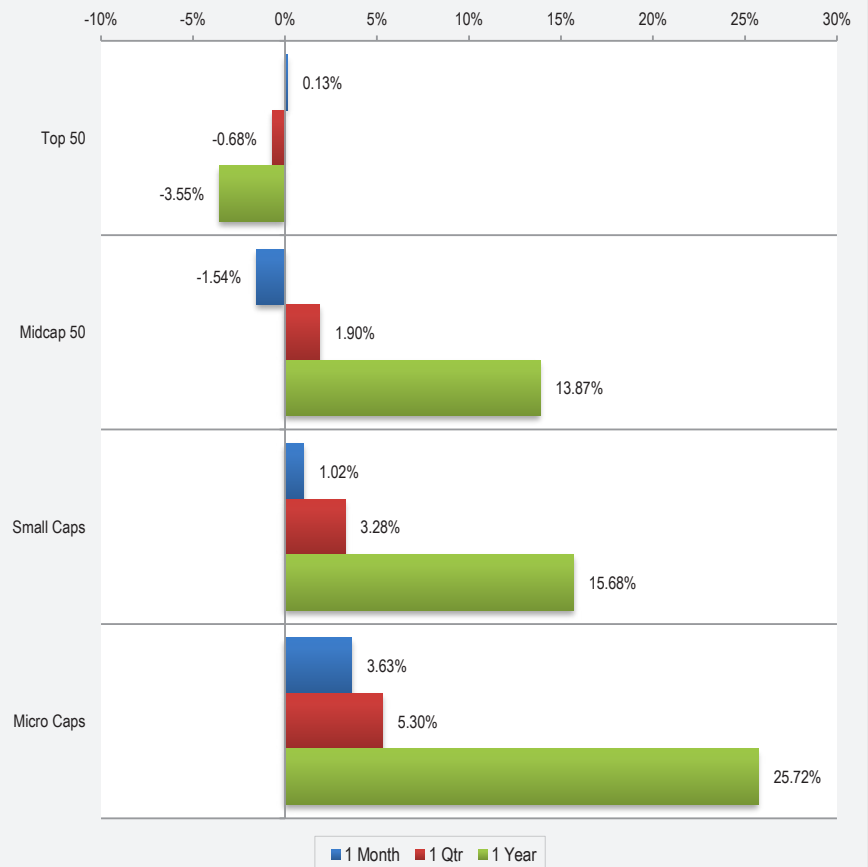
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GICs Sector Performance Relative to ASX 300 Accumulation Index



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

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 -	MSCI World Ex-Au (\$A)	-1.32	1.95	1.95	13.41	17.30	1.95	0.22
Unhedged	MSCI World (\$A)	-1.27	2.04	2.19	13.16	17.09	2.04	0.35
	MSCI Small Cap World (\$A)	-0.32	4.35	4.93	13.51	18.97	4.35	4.30
	MSCI AC World (\$A)	-1.19	2.46	2.74	12.44	16.05	2.46	1.35
International Shares -	MSCI World ex-Au	0.18	4.75	10.45	8.23	13.47	4.75	3.98
Local Currency	MSCI World	0.20	4.76	10.50	8.13	13.39	4.76	4.03
	MSCI World Small Cap	1.50	7.24	14.34	6.18	13.42	7.24	9.70
	MSCI AC World	0.61	5.30	11.96	5.17	10.63	5.30	6.60
Regional Shares -	MSCI North America	0.13	4.03	14.25	10.07	14.90	4.03	7.62
Local Currency	MSCI Asia	0.43	8.07	4.52	4.59	10.17	8.07	-1.83
	MSCI AC Asia ex-Japan	1.25	8.80	13.74	4.90	7.87	8.80	10.05
	MSCI China	2.52	13.90	13.04	3.91	8.17	13.90	8.66
	MSCI Europe	0.42	5.65	6.95	5.77	11.02	5.65	1.69
	MSCI Emerging Markets	0.44	7.59	12.96	4.34	6.95	7.59	11.30
	MSCI India	-1.49	4.48	7.66	13.49	11.96	4.48	7.81
	MSCI Japan	-0.53	7.20	-5.19	4.42	13.38	7.20	-13.68
Global Gold Shares in \$A	FTSE Gold Mines	2.24	-8.75	86.93	11.05	-9.14	-8.75	87.61
Global Resources in \$A	HSBC Global Mining	6.07	6.85	33.53	-1.56	-4.40	6.85	52.83

SUMMARY OF STATISTICS

- International shares, as measured by the MSCI World ex-Australia Local Currency Index, were marginally up by 0.18% in September. The unhedged equivalent underperformed, down -1.32%, as the Australian dollar rose against most major currencies over the month.
- On a regional basis, India underperformed most other regions, falling -1.49% in September.
- Chinese equities were the best performers again this month, gaining 2.52% in September.
- Resource stocks returned 7.23%, with gold miners gaining 2.24% in September following the tumble of -16.37% in August.

COMMENTARY

Global equities were flat in September (+0.18%), as the Federal Open Market Committee (FOMC) decided to maintain the target range for the federal funds rate at 0.25 to 0.50 percent. While the case for an increase in the federal funds rate had strengthened, it was decided that for the time being the Committee would wait for further evidence of continued progress, despite three FOMC members calling for a quarter-point increase.

Consumer sentiment in the US rose to 91.2 in September, the highest reading in three months and better than market expectations of 90, following a reading of 89.8 in August. On the business side, manufacturing activities fell again during the month, with the Markit US Manufacturing PMI falling by 0.5 to 51.5 points. The reading is the weakest in three months as outputs and new orders expanded at a slower pace, while new export sales dropped for the first time in four months. However, with the reading above the neutral level of 50, it still indicates expansion in manufacturing activities. Overall, the MSCI North America Local Currency Index rose by 0.13% for the month.

China was once again the best performing region, adding 2.52% in September. There have been ongoing positive developments as MSCI continue to monitor China's mainland stock market for potential inclusion in MSCI global indexes. The announcement of the stock trading link between Hong Kong and Shenzhen has seen the Hang Seng Index rally the most in Asia this quarter, up almost 12% over the last quarter, its best performance since 2009.

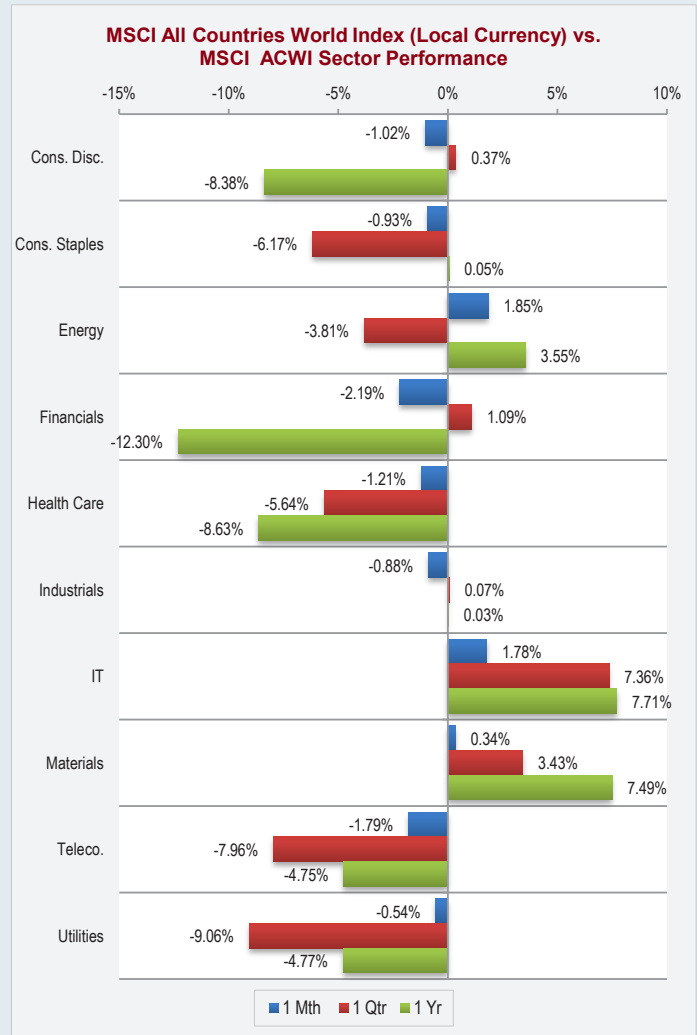
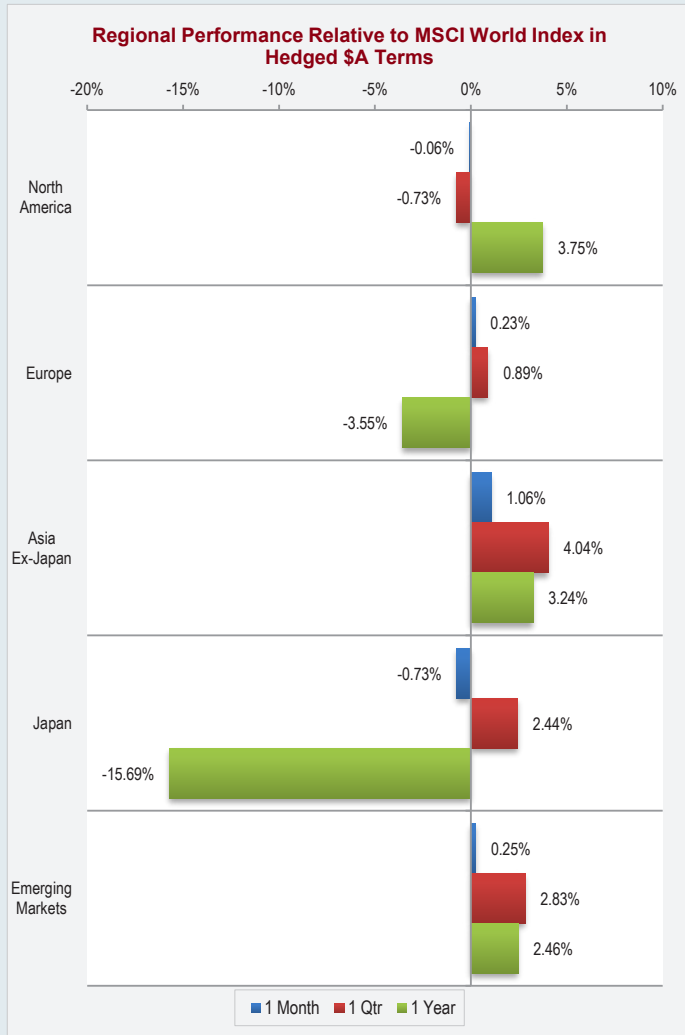
Manufacturing PMI in China held steady at 50.4 in September, in line with consensus as output rose. However, new orders eased and employment fell marginally compared to the prior month. Consumer confidence in China fell by 1.2 to 105.6 points in September.

From a sector perspective, the best returns came from the Energy sector, up 2.47% in September, bringing the one year return to 15.50%. Resource shares continued their gains from earlier in the year, despite a poor performance last month, with the HSBC Mining Hedged \$A Index up 7.23% in September. Gold share prices were up 2.24% over the month as measured by the FTSE Gold Mines \$A Hedged Index, maintaining the position as the best performer over the past year with a 1 year return of 86.93%. However, in early October the price of gold took a steep fall.

Global equities were flat in September (+0.18%), as the Federal Open Market Committee (FOMC) decided to maintain the target range for the federal funds rate at 0.25 to 0.50 percent.

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	1.54	2.75	8.84	-6.41	-4.85	2.75	4.43
	AUD / EUR	0.92	1.54	9.08	-0.48	-1.17	1.54	1.80
	AUD / GBP	2.54	6.07	27.32	0.72	-1.25	6.07	19.42
	AUD / JPY	-0.45	1.18	-8.23	-5.41	0.59	1.18	-12.33

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	-0.41	5.67	3.58	6.37	14.86	5.67	-1.91
Local Currency	MSCI ACWI Consumer Staples Index	-0.32	-0.87	12.01	8.94	11.70	-0.87	5.66
	MSCI ACWI Energy Index	2.47	1.49	15.50	-4.88	0.82	1.49	15.63
	MSCI ACWI Financials Index	-1.57	6.39	-0.35	2.08	9.49	6.39	-4.27
	MSCI ACWI Health Care Index	-0.60	-0.33	3.33	10.62	15.79	-0.33	-3.75
	MSCI ACWI Industrials Index	-0.27	5.37	11.99	5.60	12.00	5.37	5.29
	MSCI ACWI IT Index	2.39	12.66	19.67	13.82	15.33	12.66	10.38
	MSCI ACWI Materials Index	0.95	8.73	19.45	0.55	1.90	8.73	14.76
	MSCI ACWI Teleco. Services Index	-1.17	-2.66	7.21	3.79	6.09	-2.66	2.74
	MSCI ACWI Utilities Index	0.07	-3.75	7.19	5.24	4.54	-3.75	5.90

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	-4.31	-1.88	20.88	17.69	19.59	-1.88	14.02
	FTSE E/N Australia	-4.30	-2.10	19.72	16.81	18.85	-2.10	13.42
Global Listed Prop. \$A (H)	FTSE E/N GLOBAL HGD A\$	-1.16	1.52	15.04	12.77	17.12	1.52	9.28
Global Listed Prop. \$A	FTSE E/N GLOBAL A	-2.53	-0.74	6.84	15.31	17.95	-0.74	5.56
	FTSE E/N North America	-3.52	-3.68	9.68	21.05	20.53	-3.68	6.47
	FTSE E/N Euro Zone	-2.90	3.62	6.37	18.17	18.36	3.62	8.75
	FTSE E/N UK	-4.28	-0.74	-29.53	9.05	15.98	-0.74	-23.78
	FTSE E/N Developed Asia	-0.50	2.00	7.95	8.18	15.87	2.00	9.08
	FTSE E/N Japan	-0.52	-2.82	-0.32	2.01	14.31	-2.82	3.02
Australian Listed Infra.	S&P/ASX 300 Utilities	-3.24	-2.31	19.47	15.69	17.34	-2.31	10.01
Global Listed Infra. \$A (H)	S&P Global Infrastructure	1.51	2.72	15.01	12.58	14.43	2.72	16.20

SUMMARY OF STATISTICS

- Australian listed property fell by -4.31% in September, as measured by the S&P/ASX 300 Property Index.
- GREITs also fell, with the FTSE EPRA NAREIT Developed Hedged \$A Index declining by -1.16% over the month.
- All regions performed poorly, with the best performing region Developed Asia, falling -0.50% in September.
- After being the best performing region last month, the UK suffered a -4.28% loss in September to be the worst performing region.
- Australian listed infrastructure fell by -3.24% over the month, underperforming its international counterpart which gained 1.51% in hedged AUD terms.

COMMENTARY

REITs again posted poor returns in September, both domestically and globally. AREITs fell a significant -4.31% over the month and GREITs (in hedged AUD) fell -1.16%. Notwithstanding this, over the past year both AREITs and GREITs remain strong performers, gaining 20.88% and 15.04%, respectively.

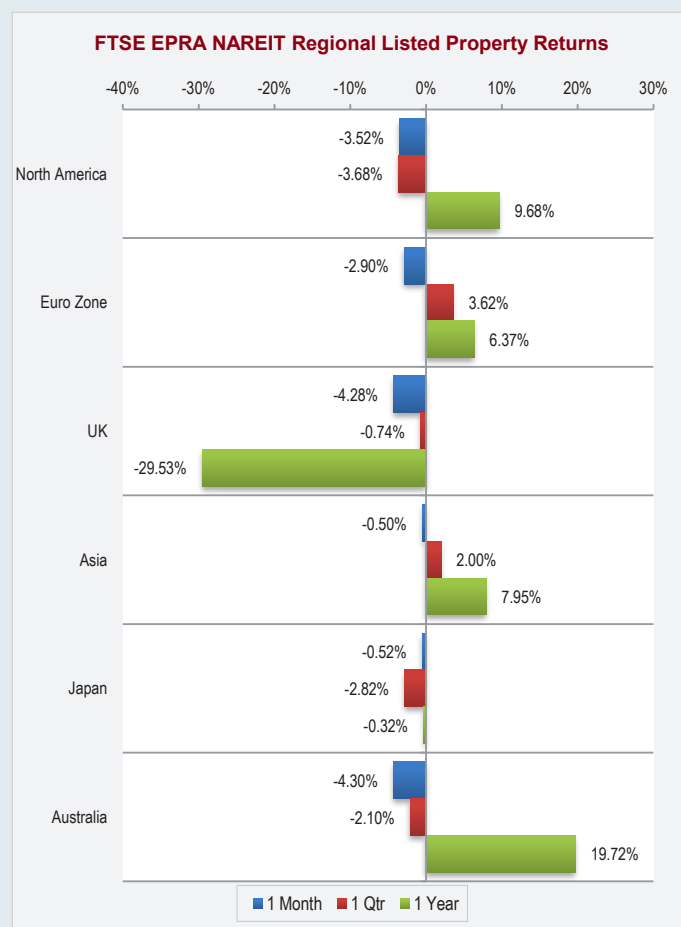
In Australia, the main contributors to REITs overall negative performance in September were Charter Hall Group (ASX:CHC) and again Gateway Lifestyle (ASX:GTY), falling -12.65% and -8.55%, respectively.

The property firm CHC tumbled -12.65% as the Gandel Group offloaded 19.2% of Charter Hall's shares to third party investors, to focus on the Chadstone Shopping Mall \$660 million redevelopment and Vicinity Centre Re Ltd (ASX:VCX). Retirement village operator GTY fell -8.55%, hitting a new 52-week low in September, disappointing the market with its full year results and subdued outlook for FY17. However, operating in a growing segment of the retirement market, some view this as only short term pain.

Global listed property reported losses among all regions, with the UK suffering the worst loss of -4.28%, while Developed Asia's -0.50% drop was the best performer for September.

Australian listed infrastructure underperformed its global counterparts, by -4.75% in September. However, over the past year the S&P/ASX 300 Utilities Index has gained 19.4% outperforming the S&P Global Infrastructure Hedged AUD by 4.46%.

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.

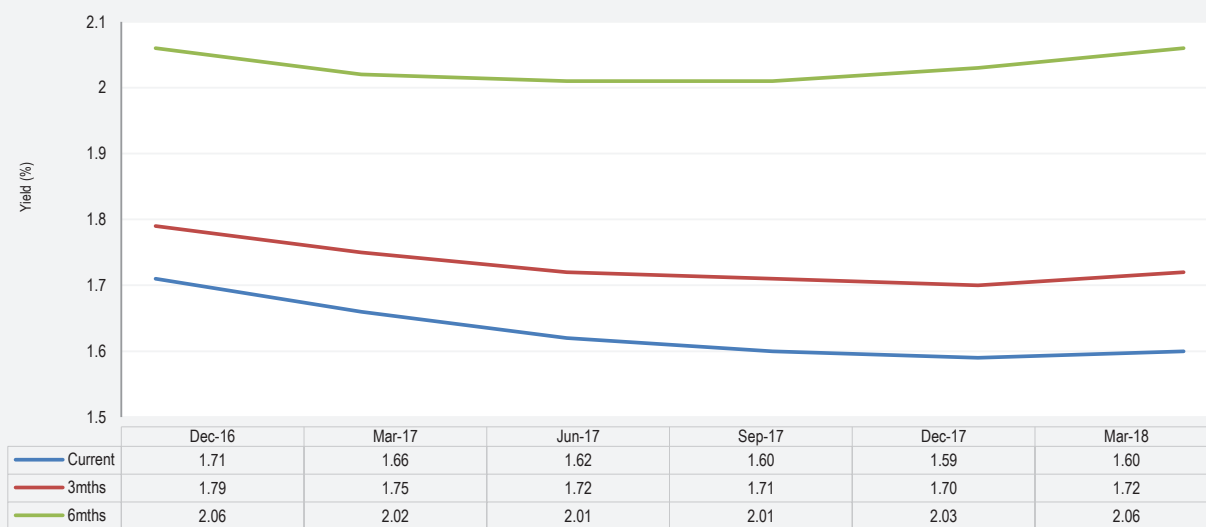
Sector	Absolute Valuation	Relative Valuation (vs Cash)	Momentum
Australian Bonds	Expensive	Expensive	Positive
Global Bonds	Expensive	Expensive	Positive
Global Investment Corp Debt	-	Fair Value	Positive
Global High Yield	-	Fair Value	
Australian Equities	Moderately Expensive	Fair Value	Positive
Australian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

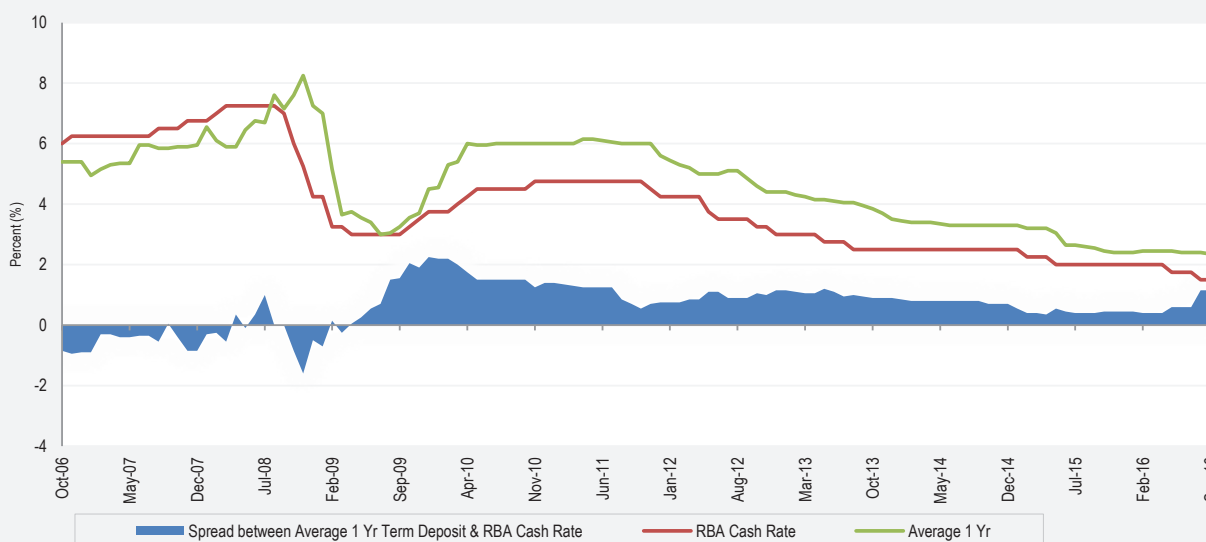
CASH

Australian 90 Day Bank Bill Futures Pricing



Source: Thomson Reuters

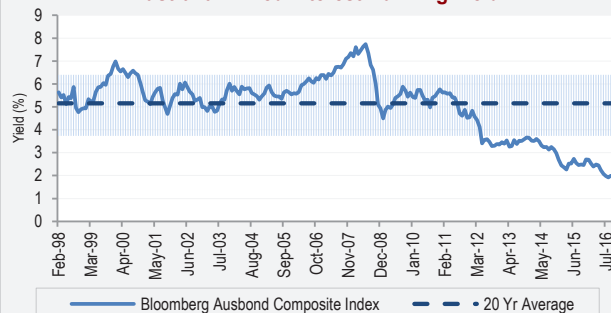
Term Deposit vs RBA Cash Rate



Source: Thomson Reuters

FIXED INTEREST

Australian Fixed Interest Running Yield



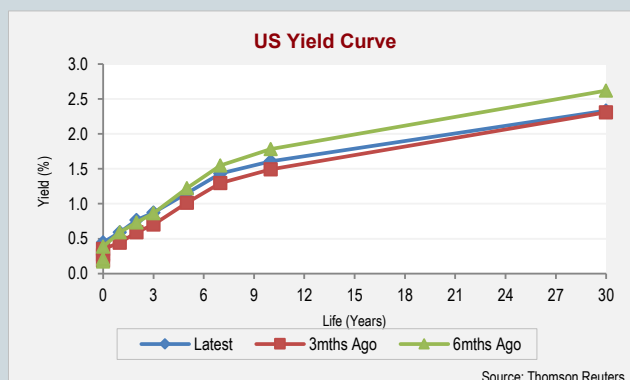
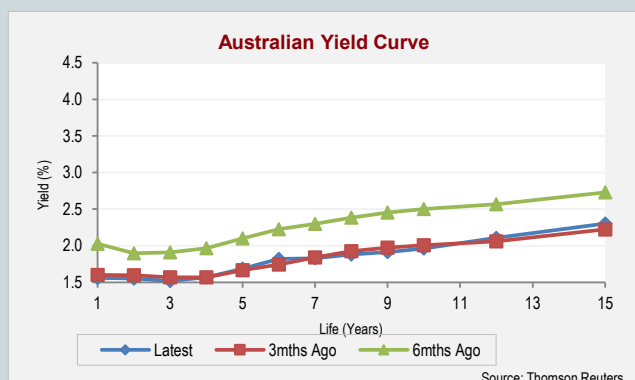
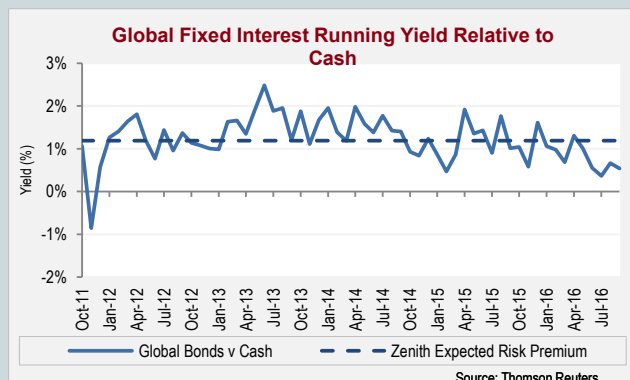
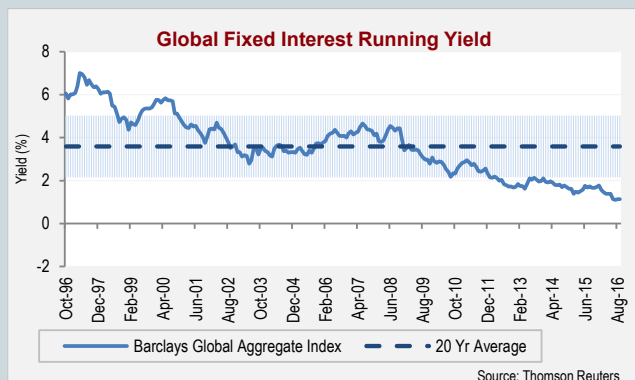
Source: Thomson Reuter

Australian Fixed Interest Running Yield Relative to Cash

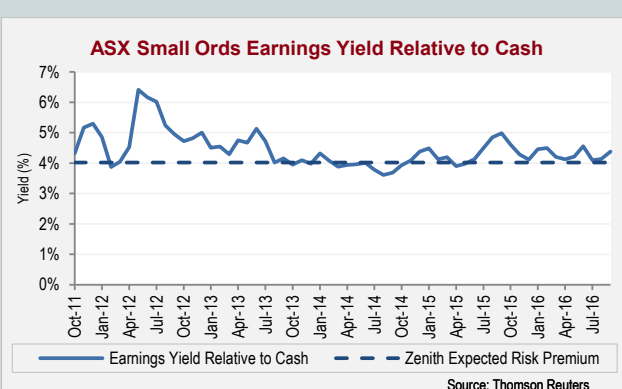
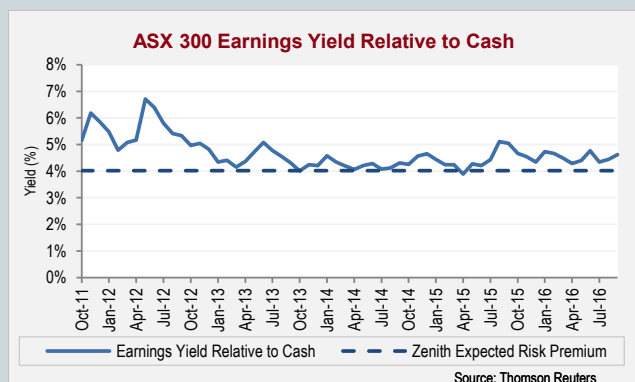
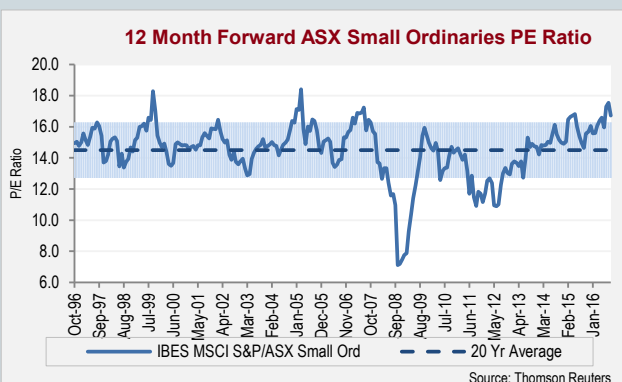
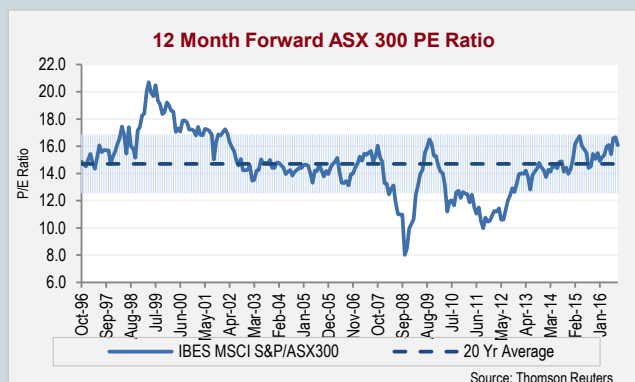


Source: Thomson Reuters

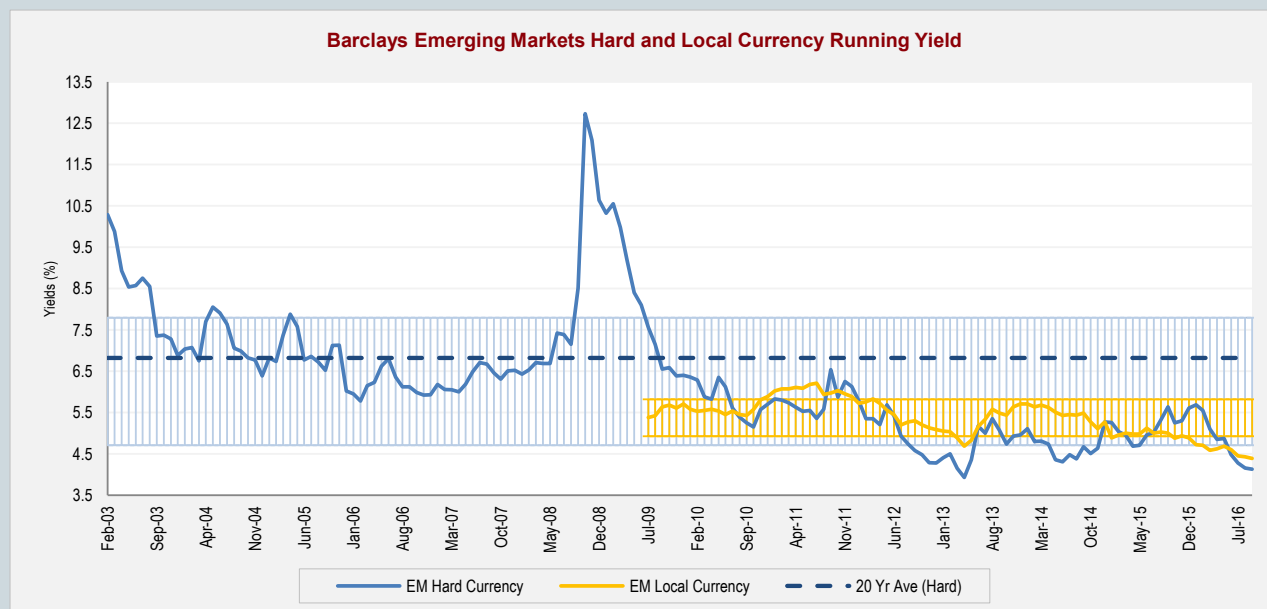
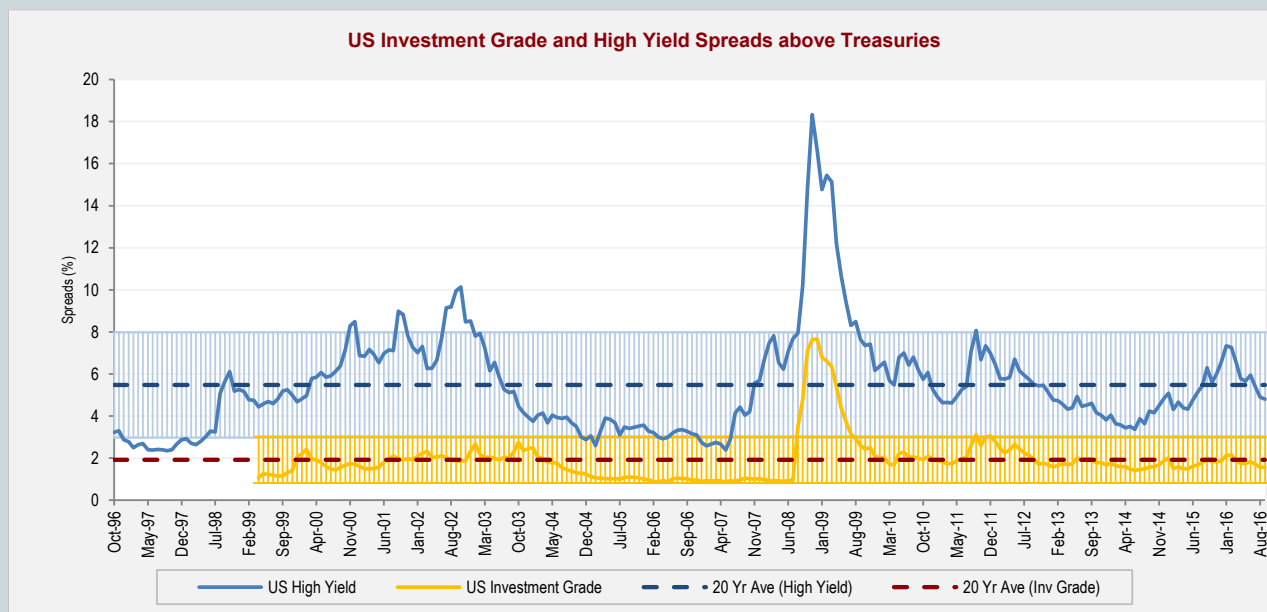
FIXED INTEREST (CONT.)



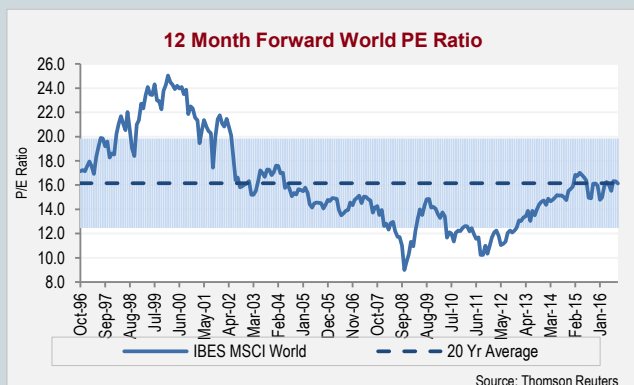
AUSTRALIAN EQUITIES



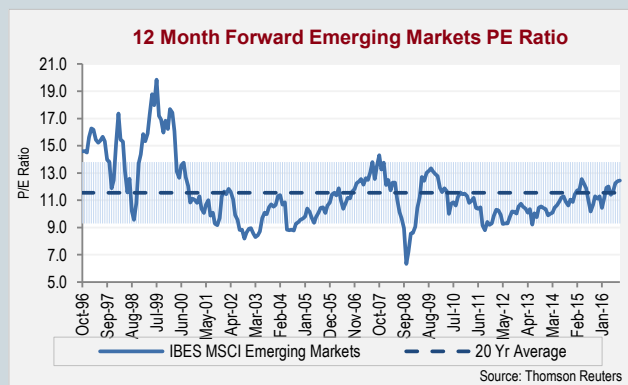
CORPORATE DEBT



INTERNATIONAL SHARES



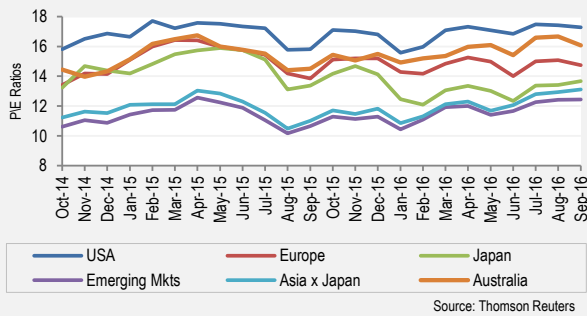
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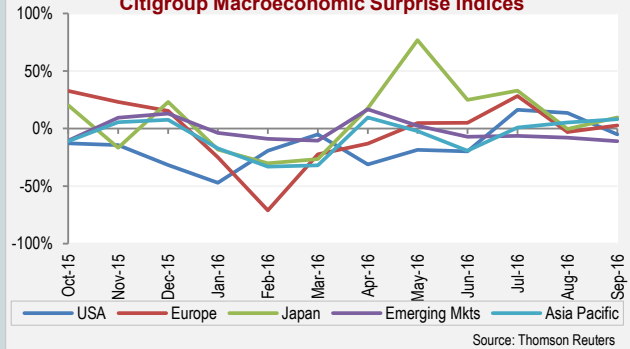
Source: Thomson Reuters

INTERNATIONAL SHARES (CONT)

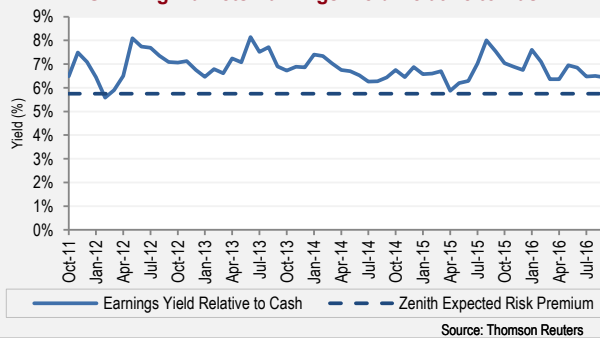
Regional Equity 12 Month Forward PE Valuations



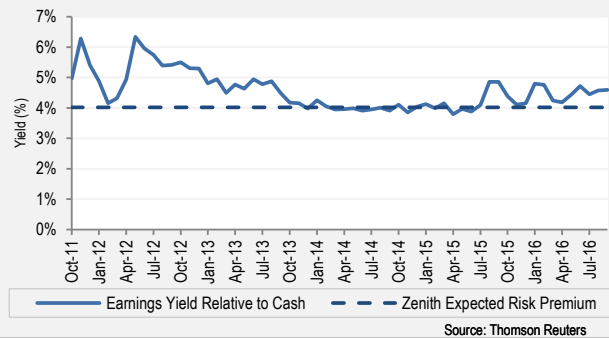
Citigroup Macroeconomic Surprise Indices



MSCI Emg Markets Earnings Yield Relative to Cash

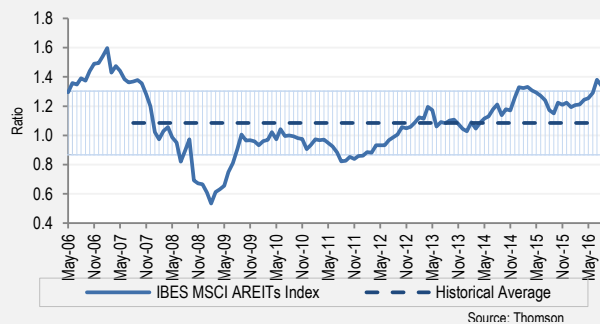


MSCI World Earnings Yield Relative to Cash

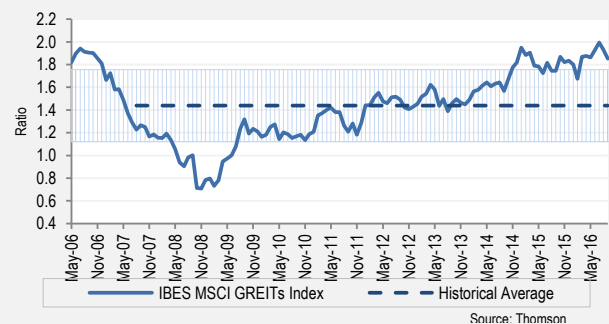


LISTED PROPERTY & INFRASTRUCTURE

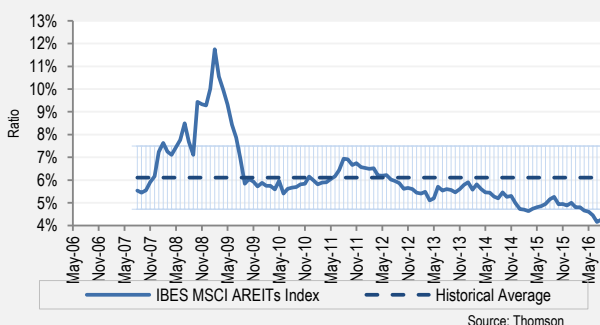
12 Month Forward AREIT Price to Book Value



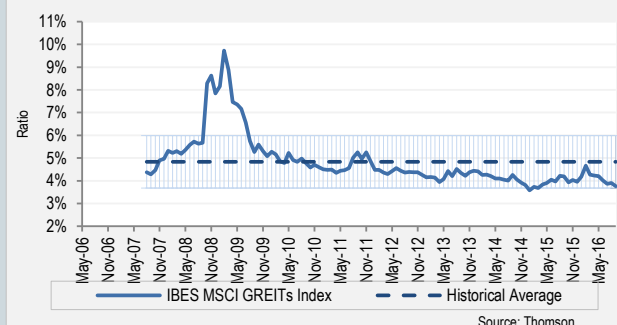
12 Month Forward GREIT Price to Book Value



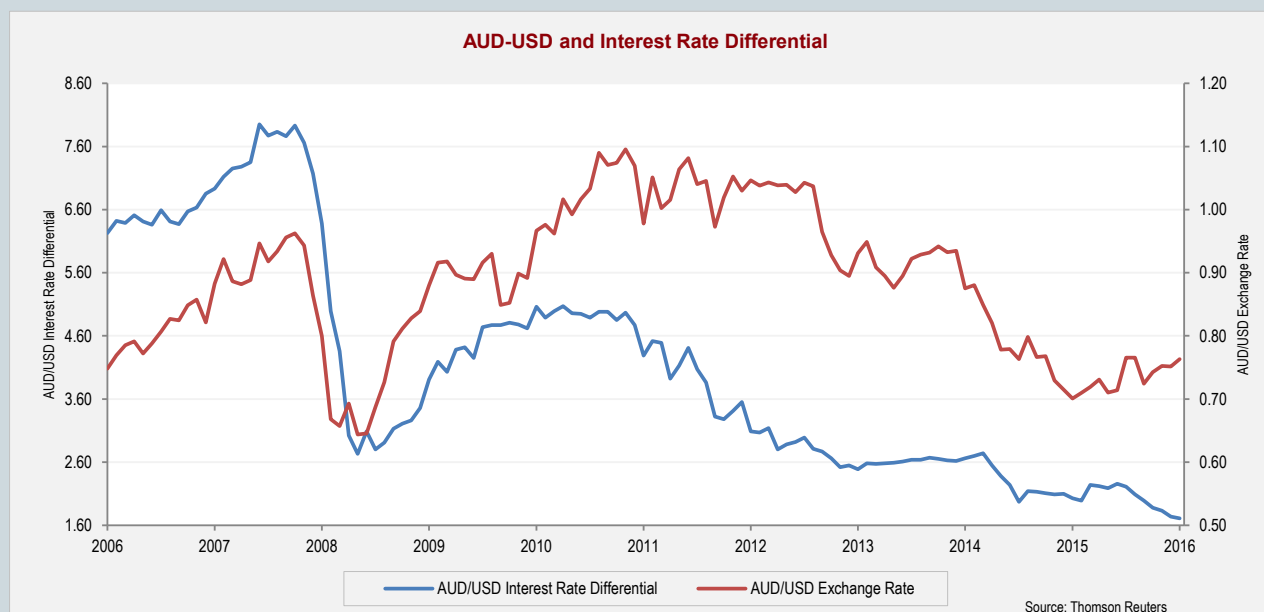
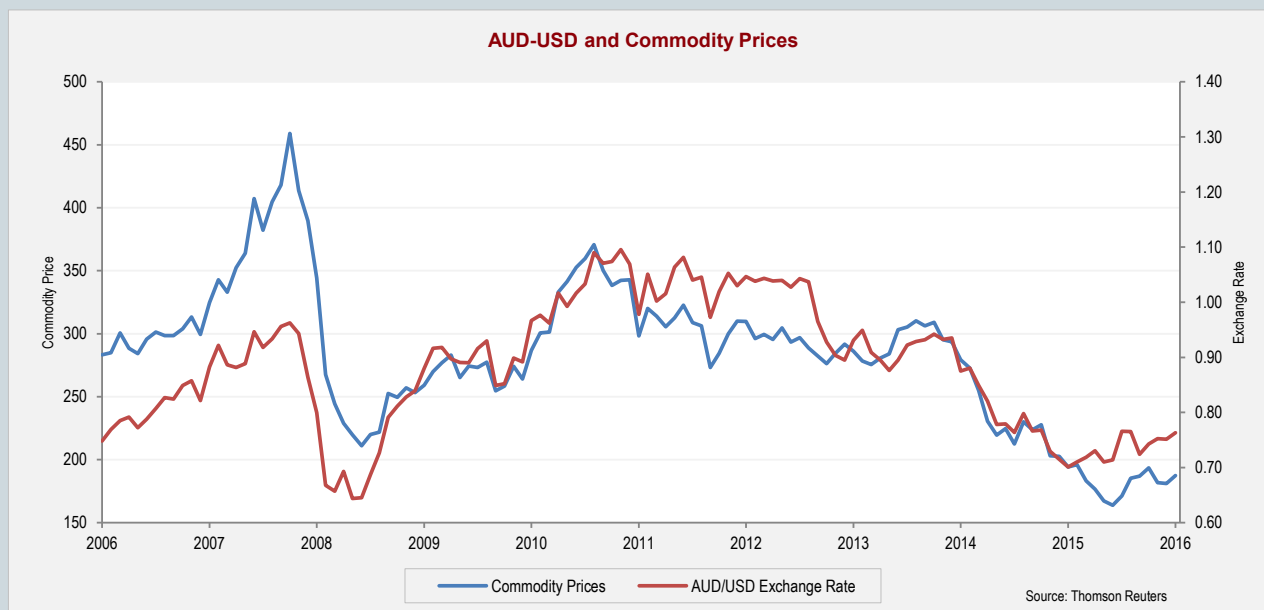
12 Month Forward AREIT Dividend Yield



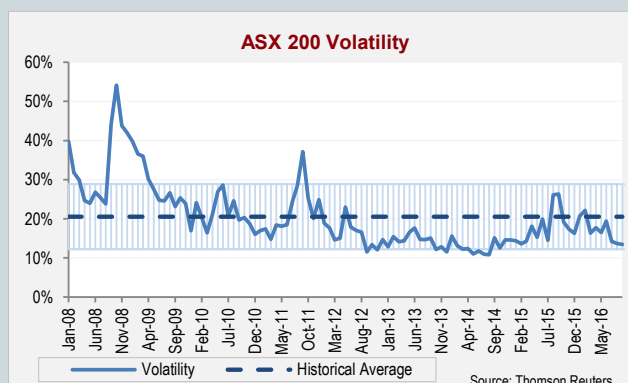
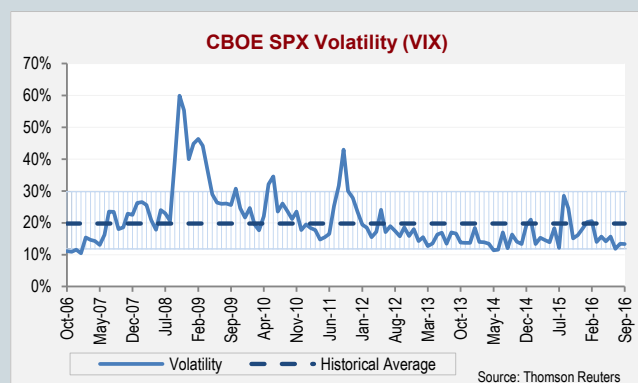
12 Month Forward GREIT Dividend Yield



AUSTRALIAN DOLLAR



VOLATILITY / FINANCIAL STRESS INDEX



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