

Director's Perspective *by Noel Hucker*

Several key themes are playing out at present. Firstly, all asset classes delivered positive absolute returns for the month of May 2014. Overseas, the United States is broadly recovering despite March quarter growth being negative and we expect the US economy to grow over the medium term. In Europe, interest rates are at record lows which should encourage increased lending and stem any concerns over the possibility of the European economy entering a period of deflation.

Locally, commodity prices are generally lower (with Iron Ore prices currently sitting at the same price as they were in 2009 during the depths of the Global Financial Crisis). However, increased investment in the non-mining sectors and in housing seem to be offsetting the withdrawal of the mining sector and helping to ensure that the Australian economy continues to grow.



Regional Commentary

Australia

Monetary policy - the Reserve Bank of Australia (RBA) left the cash rate unchanged at 2.5% at their June 2014 meeting for the ninth consecutive month.

Retail - According to the Australian Bureau of Statistics data, Australian retail sales grew by 0.2% in April 2014. Although higher than the previous month by 0.1%, it has still not returned to the strong levels of late last year.

Employment - The Australian economy lost 4,800 jobs in May 2014. However, despite this, the unemployment rate (seasonally adjusted) remained steady at 5.8% while participation rate dropped 0.1% to 64.6%.

Growth - Falling commodity prices and reduced investment in mining in Australia has caused concern that the rate of growth within the Australian economy will begin to decrease. However, increased investment in non-mining sectors and housing have thus far offset any reduction in mining investment.

United States

Growth - The annual GDP growth rate in the US was revised down to -1.0%. This is well below the initial forecast of +0.1%. It is the first time that the US economy has contracted in three years.

Manufacturing - The ISM Manufacturing PMI rose to 55.47 in May, up from 54.9 during the previous month.

Employment - The US unemployment rate held steady at 6.3% in May after falling 0.4% in April (down from 6.7% in March). This was primarily underpinned by the creation of 217,000 jobs during the month.

Europe

Employment - The official Eurozone rate of unemployment fell slightly by 0.1% to 11.7% in April 2014 (down from 11.8% in March). It has thus fallen 0.3% in the 12 months since April 2013 (at which time it was 12.0%).

decision to drop their overnight deposit rate to -0.10% effectively charging commercial banks for holding their money at the ECB. This is an unprecedented move by a Central Bank of that size and confirms its commitment to stimulating growth within the European economy.

Manufacturing - Eurozone manufacturing slowed slightly in May with the European Manufacturing PMI Index falling to 52.2 (down from 53.4 in the previous month).

China/Japan

Manufacturing - Chinese manufacturing rose in May with the HSBC China Manufacturing PMI rising to 49.4 (up from 48.1 in April).

Inflation - Chinese annual inflation reached it's highest level in four months in May 2014. The annual rate finished the month at 2.5% (up from 1.8% during the previous month). This strong result helped to reduce concern that China was heading towards a period of deflation.

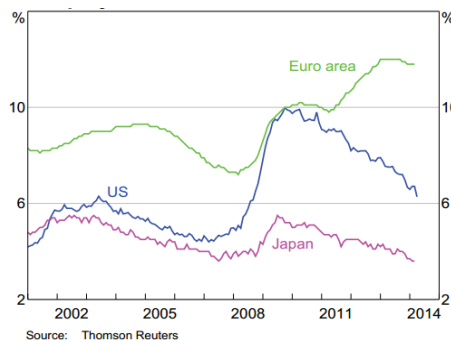
Commodity Prices

Commodity prices were generally weaker in May 2014. Gold prices fell 3.8% to finish the month at US\$1,244.66/oz. Iron Ore prices also fell, dropping 13.1% to US\$93.0 per metric tonne. The Oil price was the notable exception, finishing the month up 2.6% to \$110.53/bbl.

The Australian Share Market followed up its strong performance in April with another month of positive returns in May. The latest banking sector profits to 31 March 2014 were better than expected pointing to likely growth in share prices. Our belief is that the market is still currently at fair value based on improved profit expectations for the 2014 financial year. We expect the Australian Equity market to trade in a higher range than last year, between 5,200 and 5,800 for the remainder of 2014.

Unemployment Rate - Advanced Economies

As at 31 May 2014

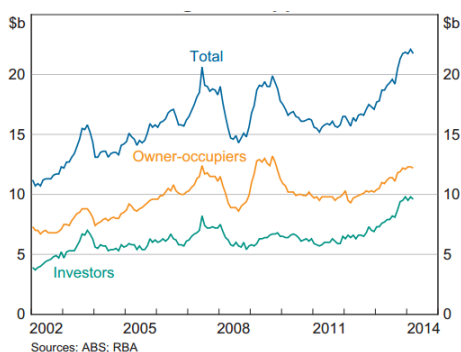


Source: RBA

Inflation - The European Central Bank (ECB) dropped rates 0.15% at their June 2014 meeting (down from 0.25% in the previous month). The ECB also took the

Housing Loan Approvals - Australia

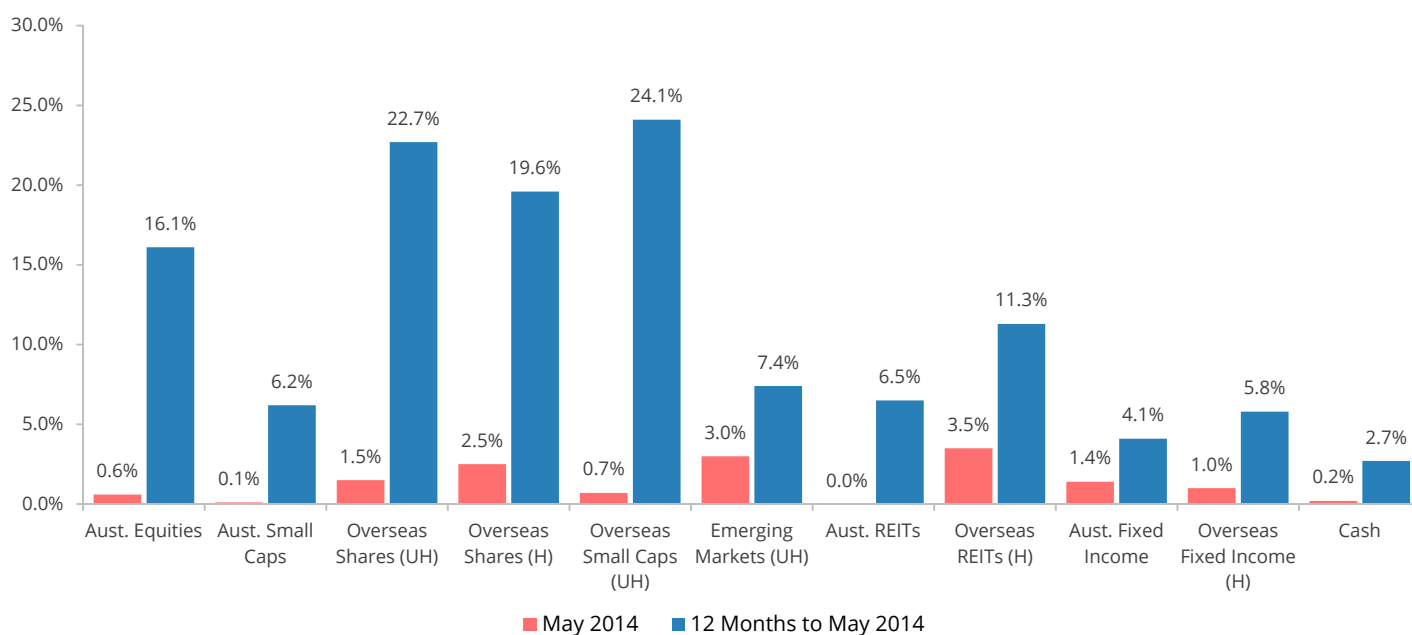
As at 31 May 2014



Source: RBA

Asset Class Returns for Selected Market Indicators

As at 31 May 2014



Source: Thomson Financial Datastream; MSCI data provided 'as is'. Prepared by Harvest Financial Group.

Selected Market Indicators Commentary

For the Month Ended 31 May 2014

Australian Shares

The Australian share market was up in May returning +0.6% with positive returns being recorded across the market capitalisation spectrum.

The best performing sectors for the month of May 2014 were Healthcare (+2.7%), Utilities (+2.7%) and Energy (+2.9%). The weakest performing sectors for the month were Materials (-2.9%) and Consumer Discretionary (-0.9%).

Global Shares

Global share markets were also positive in May 2014 with the MSCI World (ex. Australia) Index rising +1.5% on an un-hedged basis after investors drew confidence from the ECB's decision to drop rates and support economic growth.

The strongest performing global sectors for the month were IT (+3.0%) and Consumer Discretionary (+2.2%), while The weakest sectors were Materials (0.0%) Energy (+0.4%).

Markets in the U.S. were generally positive with the S&P 500 Composite Index (+2.4%),

The NASDAQ (+3.1%) and the Dow Jones Industrial Average (+1.2%) all up for the month.

European Markets followed the global trend and were generally up in May. Investors continued to show confidence in European markets on the back of the decision by the ECB to support economic growth by dropping its headline rates to 0.15% and its overnight deposit rates to -0.1%. These decisions helped to curb concern that Europe was heading for period of deflation. Markets in the UK (+1.4%), France (+2.3%) and Germany (+3.5%) all recorded positive returns for the month.

Asian markets were also up in May with markets in India (+10.4%) being the strongest performing while the Chinese Shanghai Composite Index (+0.6%) and the Japanese Topix (+3.4%) also made positive returns.

Property

Domestic Real Estate Investment Trusts (REITs) were flat in May 2014 while Global REITs performed well, returning +3.5% on a fully hedged basis.

Fixed Interest (Bonds)

Global sovereign bond yields were down in May with 10 year bond yields falling in the UK (-10bps to 2.57%), the US (-19bps to 2.46%) and Germany (-16bps to 1.31%).

Australian bond yields were also down in May with 10 year bond yields falling (-29bps to 3.66%), while Australian 5 year bond yields fell (-22 bps to 3.11%).

Australian Dollar

The Australian dollar generally appreciated against most other major currencies in May. The A\$ rose against the US\$, finishing the month at US\$0.931. The A\$ also appreciated against the Euro (+1.8%), the Japanese Yen (+0.4%) and the Pound Sterling (+0.8%).

GENERAL ADVICE WARNING

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