INVESTMENT NEWSLETTER

May 2015

Director's Comment

Inbam **Devadason**

The May 2015 Federal Budget was announced last week. It was Treasurer Joe Hockey's second budget as Treasurer. The Budget has generally been well received and has put forward some key initiatives to assist small business, families with childcare needs and older Australians with a modest amount of assets. To be implemented the budget will require bipartisan support. Overall we expect this budget to enhance business and consumer confidence, which are key drivers of future economic growth and assist business planning. In this month's newsletter we focus on economic and investment risk that can affect the outlook for investment returns.

Is the next financial crisis around the corner?

We are now over seven years on from the Global Financial Crisis in late 2007, where many share markets dropped in value from top to bottom by more than 50%. An average business cycle is usually around seven to ten years long, however it can vary in length. As interest rates around the world are still very low at present, we would expect the current business cycle to be a long one and potentially longer than the average.

To get a feel for the risk of another potential financial crisis it is important to look at the current risks globally and how they are expected to be managed. Risks around the world include:

China

The risk for China is that property prices drop by more than 15-20%, resulting in a flood of forced property sales, bank losses, property development company collapses, a downturn in property construction and a significant slowing of growth in China. These risks are being mitigated by the Chinese Government reducing interest rates and lowering the bank reserve requirements. In addition, the Chinese generally borrow less than 50% of the property value so that lowers the risk that forced sales will cause a drop in house prices.

Europe

In the event there is a European recession or Government bond yields increase by 1-2% in a short period of time there will be increased risk of debt default, a credit crisis and larger budget deficits. These risks are already being addressed by proactive measures from the European Central Bank by employing quantitive easing to devalue the Euro and to keep bond rates down.

Japan

There is a risk that the recession in Japan will be prolonged or Government debt levels will be perceived by the market as too high (they are already over 200% of GDP). This could lead to a higher risk of debt default, a credit crisis and larger budget deficits. Similar to Europe, Japan's Central Bank is using quantitive easing to devalue the Yen and keep bond rates down. As interest rates in Japan are effectively 0% there is currently no pressure on the servicing of debt.

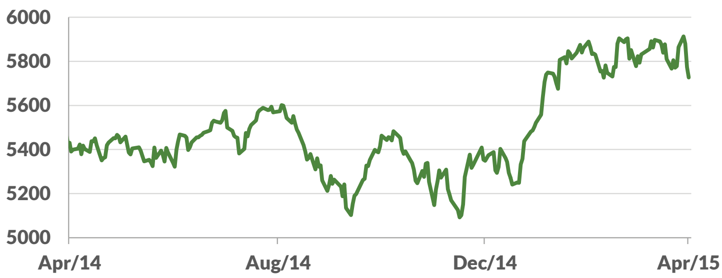
US

There is a risk that growth in the US market could slow significantly in the second half of 2015 on the back of a higher US dollar and the commencement of interest rate increases. This risk can be managed by a gradual rise in interest rates so that growth remains strong.

Overall, our view on global markets is that whilst global growth is slowing it is still intact in the US and China. We recognise that risks do exist, however, they are currently being managed well as Governments and central banks are taking appropriate measures at this point in time.

S&P / ASX 300 Index

1 year price history to 30 April 2015



Key Global Economic Indicators

Global sharemarkets

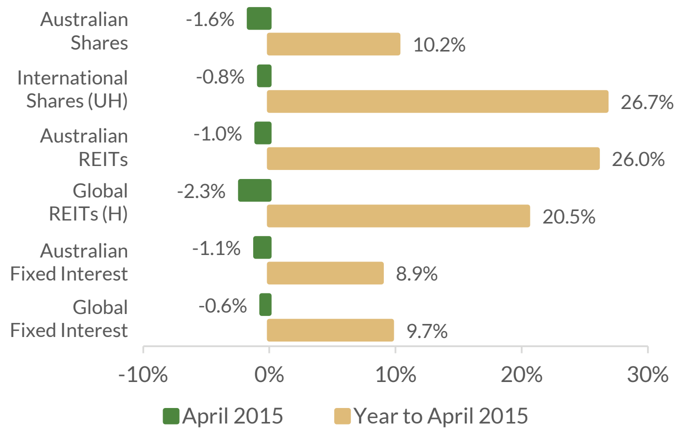
as at 30 April 2015

Sharemarkets *(in local currrency)*	1 mth *(%)*	3 mths *(%)*	1 yr *(%)*	3 yrs *(% pa)*	5 yrs *(% pa)*
Australia (S&P ASX 300)	-1.6	5.1	10.2	14.2	8.3
Germany (DAX)	-4.3	7.1	19.3	19.2	13.3
Emerging Markets (MSCI Acc.)	4.3	8.1	26.6	13.2	6.5
United Kingdom (FTSE 100)	3.2	4.5	6.4	10.6	8.4
United States (S&P 500)	1.0	5.1	13.0	16.7	14.3

Australian markets were down for the second consecutive month in April on the back of further reductions in 2015 and 2016 GDP growth forecasts. Global equities also fell slightly overall in April on an unhedged basis driven primarily by softening growth in the US and continuing concern over the Greek debt crisis in Europe.

Selected sector returns

to 30 April 2015



Economic growth (GDP)

GDP *(annual rate %)*	Data as at	Current *(%)*	1 year ago *(%)*
World (IMF/OECD)	31 Dec 2014	3.3	2.9
Australia	31 Dec 2014	2.5	2.2
China	31 Mar 2015	7.0	7.4
European Union	31 Mar 2015	1.0	1.1
United States	31 Mar 2015	3.0	1.9

The Australian economy

As at 30 April 2015

Annual inflation rate

1.3% pa

A$1 =

- $0.788
- ¥4.892
- £0.513
- €0.703
- ¥94.38

Australian cash rate

2.00%

Indicative 1 yr term deposit rate

2.60% pa*

* Source: Average of 4 major banks, Apr 2015

Our best home loan rates from

4.13%

Economic Growth (GDP)

2.5% pa

Average price of all Residential dwellings*

$572,000

*includes houses, apartments and units.

Unemployment rate

JOB OFFERS

6.2%

11.7 million people employed

Australian population = 23.6 million

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