Quarterly Market Commentary as at 31 December 2014*

Market Indices	Returns as at 31 December 2014					
	3 mth (%)	6 mth (%)	1 yr (%)	3 yr (% p.a.)	5 yr (% p.a.)	10 yr (% p.a.)
Australian Shares						
S&P/ASX 200 Accumulation Index	3.1	2.5	5.6	15.1	6.8	7.6
International Shares						
MSCI All Countries World Net Index (AUD)	7.4	13.1	13.9	23.0	11.3	5.6
Australian Fixed Interest						
Bloomberg AusBond Composite 0+ Yr Index	4.0	5.0	9.8	6.4	7.3	6.5
International Fixed Interest						
Citigroup World Government Bond Index ex Australia AUD Hedged	3.4	5.6	11.2	7.3	8.1	7.6
Property						
S&P/ASX 200 A-REIT Accumulation Index	11.5	12.7	27.0	21.9	12.2	2.0
Cash						
Bloomberg AusBond Bank Bill Index	0.7	1.4	2.7	3.2	3.8	4.9
Currency						
Australian Dollar ($AU/$US)	-6.5	-13.3	-8.5	-7.2	-1.9	0.4

Financial markets commentary:

The Reserve Bank of Australia (RBA) held the cash rate steady at 2.5% at its December 2014 meeting keeping the benchmark interest rate at the same level since August 2013, the 16th consecutive month. There has been very little change in the RBA's assessment of the global and domestic backdrop in recent months, if there has been a change it is the view that the Australian dollar (AUD) remains overvalued despite recent falls. The AUD continued its weakness in the December quarter decreasing 6.5% to $US0.818 by the end of the quarter. Falling commodity prices and a weaker growth trajectory are part of the story, but US dollar strength is the main tail wind behind these falls. Over the 2014 calendar year the Australian dollar fell 8.5% against the US dollar.

The Australian Share Market rose by 3.1% during the quarter as measured by the S&P/ASX 200 Accumulation Index. It was a mixed quarter for Australian shares with the index rising by 4.4% and 2.1% in October and December 2014 respectively, while the index was down 3.3% during November 2014. Stocks which are sensitive to declining bond yields and a weaker Australian dollar tended to be the best performers. Healthcare, Telecommunications and REITs outperformed. On the negative side, Energy and Materials stocks again lost ground due to volatility in commodity prices and an uncertain demand outlook.

The Federal Open Market Committee (FOMC) of the US Federal Reserve completed the 'tapering' of its Quantitative Easing (QE3) bond purchase program at its October 2014 meeting, with a final tapering of $US15bn. In terms of the economy, the Fed noted that "economic activity is expanding at a moderate pace". In Europe, the European Central Bank (ECB) left its key interest rates unchanged at 0.05% over the December quarter, disappointing some expectations of further unconventional policy action. Largely centred on Greece, Europe was the main source of financial market volatility in December. Investors reacted severely as the Greek parliament failed to choose a President in three separate votes.

Global developed equity markets had mixed results. Downgrades to global growth forecasts for 2014 and 2015 dominated early in the quarter. The markets performed better in November buoyed by the expansion in the Bank of Japan's qualitative and quantitative easing (QQE) program and further signs of the European Central Bank heading towards larger stimulus initiatives. Concerns over possible exit of Greece from the European Union and declining oil prices saw the markets perform weaker in December. The MSCI World Developed Markets Index rose 0.4% in US dollar terms and 7.4% in AUD terms over the December quarter. The MSCI EM Index gained 2.1% in AUD terms over the same period.

The rates on the 10-year benchmark Commonwealth Government Securities (CGS) declined by 74 basis points to finish the quarter at 2.74%. Yields were driven lower as the markets began to factor in rate cuts by the RBA, accompanied by lower iron ore prices. The Bloomberg AusBond Bank Bill Index returned 0.7% for the quarter.

*Source: This commentary has been prepared by The Colonial Mutual Life Assurance Society Limited ABN 12 004 021 809 AFSL 235035 (CMLA) and is general information only.