


Quarterly Market Commentary as at 30 June 2014*

Market Indices	Returns as at 30 June 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	0.9	3.0	17.4	10.4	11.2	9.0
International Shares						
MSCI All Countries World Net Index (AUD)	3.1	0.6	19.2	15.0	10.8	4.2
Australian Fixed Interest						
UBS Australian Composite Bond Index 0+ Yr	3.1	4.6	6.1	7.8	7.6	6.5
International Fixed Interest						
Citigroup World Government Bond Index ex Australia AUD Hedged	2.4	5.2	7.4	7.8	7.6	7.7
Property						
S&P/ASX 200 A-REIT Accumulation Index	9.3	12.7	11.1	15.3	14.3	2.3
Cash						
UBS Australian Bank Bill Index	0.7	1.3	2.7	3.6	3.9	5.0
Currency						
Australian Dollar (\$A/\$US)	1.8	5.5	3.1	-4.1	3.1	3.1

Financial markets commentary:

The Reserve Bank of Australia (RBA) held the cash rate steady at 2.5% at its June 2014 meeting keeping the benchmark interest rate at the same level since August 2013. There was no change to the Board's neutral policy guidance and signal that there is likely to be "a period of stability in interest rates" to foster sustainable economic growth. The RBA continues to see moderate growth in consumer demand and strong expansion in housing construction. The economic data released during the quarter was generally positive with Australia's Q1 2014 GDP increasing by 1.1% and the GDP growth forecast being lifted by 0.25% to 3% p.a. for the June 2014 quarter.

In May 2014, Australia's 2014/15 Commonwealth Budget was released with an estimated deficit of \$29.8 billion, or 1.8% of GDP which is an improvement on the \$49.9 billion, 3.1% of GDP, deficit estimated for 2013/14. The impact on the economy from the fiscal contraction in the Budget is around 0.5% for both 2014/15 and 2015/16. While this is not insignificant, it is unlikely to be enough to alter the RBA's views on monetary policy. In this environment, the Australian dollar (AUD) appreciated by 1.8%, reaching a high of \$US0.943 on 30 June 2014.

The Australian share market edged 0.9% higher during the quarter as measured by the S&P/ASX 200 Accumulation Index. It was a mixed quarter for Australian Shares. The Index increased by 1.8% and 0.7% in April and May 2014 respectively reaching a six year high in May before declining towards the end of the quarter. The Financial Year ending 30 June 2014 (FY14) was another good year for the domestic share market with the Index adding 17.4%.

As widely expected, the US Federal Open Market Committee (FOMC) continued with further tapering in the Quantitative Easing bond purchase program during the quarter taking the monthly purchases down to \$US35 billion. In Europe, the European Central Bank (ECB) cut all three of its key interest rates in June. The ECB lowered its main refinancing rate from 0.25% to 0.15% and in a historic move lowered its deposit rate into negative territory at -0.1%. The Marginal Lending Facility rate was lowered to 0.4% from 0.75%. It is unlikely any further rate cuts will occur with ECB President Mario Draghi saying that rates are now at the lower bound.

The MSCI World Developed Markets Index increased by 3.1% in AUD terms for the quarter with record low volatility in the global developed markets. The MSCI Global Emerging Markets Index increased by 4.7% in AUD terms thanks to easing tensions in the Ukraine, low volatility globally and stabilizing economic data from China. For FY14 the MSCI Developed index returned 19.2% in AUD terms while the Emerging Markets Index increased by 10.8% over the year.

In Australia, the interest rate on the benchmark 10 year Commonwealth Government Securities (CGS) decreased by 0.54% to 3.54% while the short term 2 year CGS rate decreased by 0.24% to 2.54% during the quarter. In this environment, the UBS Australian Bank Bill Index returned 0.67% for the quarter and 2.70% for FY14.

*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.