



Market Commentary

March Quarter 2014

During the first quarter of 2014 economic conditions continued to improve across most major developed markets, and this was broadly supportive of growth assets throughout the period. However, investor sentiment was adversely affected when Russian troops annexed the Crimean peninsula following the ousting of Ukrainian President Viktor Yanukovich. It was also weakened by concerns related to the Chinese shadow banking system and the impact of a “clean-up” on growth rates. The response by investors so far indicates a degree of confidence in the Chinese authorities’ ability to correct these imbalances. Comments from the new US Federal Reserve Chair Janet Yellen also unsettled markets late in the quarter by hinting that official interest rates may rise sooner than the market was expecting.

A leading measure for world share market performance, the MSCI World ex-Australia Index (hedged into \$A), rose 1.6% over the quarter. The rise of the Australian Dollar against most major currencies resulted in a lower return of -2.3% (in \$A) on an unhedged basis. Across developed markets the strongest performing country in local currency terms was Greece, and the US equity market underperformed the broader global Index. Emerging markets produced a negative absolute return. From a global sector perspective, Health Care and Utilities were the strongest performers, while Telecoms and Consumer Discretionary were the weakest.

The local share market as measured by the S&P/ASX300 Accumulation Index (2.0%) outperformed hedged global equities as the weaker Australian Dollar evident in the second half of 2013 assisted exports and began to flow through to company earnings. Mid cap stocks were the strongest performers in the Australian market, while small cap stocks underperformed. From a sector perspective, IT was the strongest performer, and Materials and Consumer Staples stocks produced negative absolute returns.

Longer dated global bond yields fell over the quarter, however, shorter dated yields finished flat as Yellen’s comments led the market to price in a faster normalisation of the US policy interest rate. The net result of these forces were flatter shaped yield curves and a marginally positive return for global bonds. Investment grade credit outperformed government bonds due to higher yields, while inflation-linked bonds also outperformed due to their longer maturity dates.

Shorter dated Australian bond yields rose toward the end of the quarter as the market priced a lower probability of future cuts to the Australian Cash Rate, while longer dated bond yields in Australia moved in line with global yields.

The Australian Dollar (AUD) appreciated 3.6% against the US Dollar over the quarter as the re-pricing of Australian interest rates made it relatively more attractive. The US Dollar weakened against most other major currencies as investors scaled back expectations on how quickly conditions in the US will normalise.

Market Performance – March 2014	Performance %	
	3 months	12 months
Australian Shares (S&P/ASX 300 Accumulation)	2.0	13.0
International Shares (MSCI World ex-Australia) unhedged	-2.3	35.0
International Shares (MSCI World ex-Australia) hedged	1.6	22.2
Unlisted Property (Mercer Unlisted Property Funds Index (Pre Tax))	2.0	8.8
Listed Property Trusts (S&P/ASX 300 Property Trusts Accumulation)	3.0	5.0
Australian Bonds (UBS Composite Index)	1.5	3.3
Global Bonds (Barclays Global Aggregate (Hedged))	2.7	3.8
Cash (UBS Bank Bills)	0.6	2.8
Appreciation of \$A against \$US	3.6	-11.1

**Estimate as at 15/04/2014*

Against this backdrop, returns from all six NTGPASS options were positive over the March quarter. Longer term returns are very strong, as outlined in the table below:

Returns to 25 March 2014

Option	Quarter	FYTD	1 Year	3 Years (%pa)
Managed Cash	0.52%	1.63%	2.28%	3.11%
Conservative	0.90%	5.58%	7.16%	6.45%
Cautious	1.14%	7.87%	9.79%	7.69%
Growth	1.10%	11.06%	13.56%	9.03%
Assertive	1.06%	12.28%	15.31%	9.49%
Aggressive	0.99%	14.22%	17.65%	10.06%

Note that returns from pension options will be slightly different due to tax and allocation differences. If you have not made an investment choice, the default superannuation account investment option is the Growth Option (there is no default option for pension accounts). Please refer to the NTGPASS website for more details.

Issued by JANA Investment Advisers Pty Ltd (ABN 97 006 717 568) (AFSL 230693).

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