

ASSET CLASS PERFORMANCE: RISK MARKETS SINK AGAIN



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Return Performance

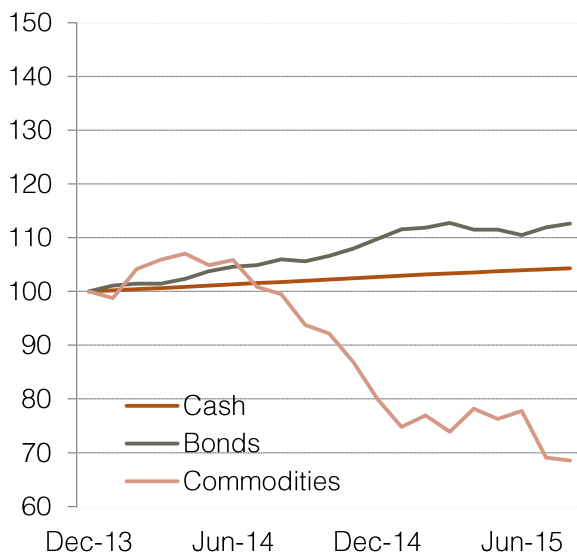
Performance Rank

	Month	3-mth	6-mth	12-mth	Month	3-mth	6-mth	12-mth
Cash	0.2%	0.5%	1.1%	2.5%	2	3	2	5
Aust. Bonds	0.6%	1.0%	0.7%	6.3%	1	2	4	4
Aust. Property	-4.9%	-2.8%	-3.1%	14.4%	5	4	5	3
Aust. Equities	-8.6%	-8.5%	-9.4%	-1.6%	7	6	6	6
US Equities*	-3.7%	1.1%	3.9%	31.9%	4	1	1	1
Non-US Equities*	-5.1%	-3.5%	1.0%	16.3%	4	1	1	1
Commodities**	-0.8%	-10.2%	-10.9%	-31.1%	3	7	7	7

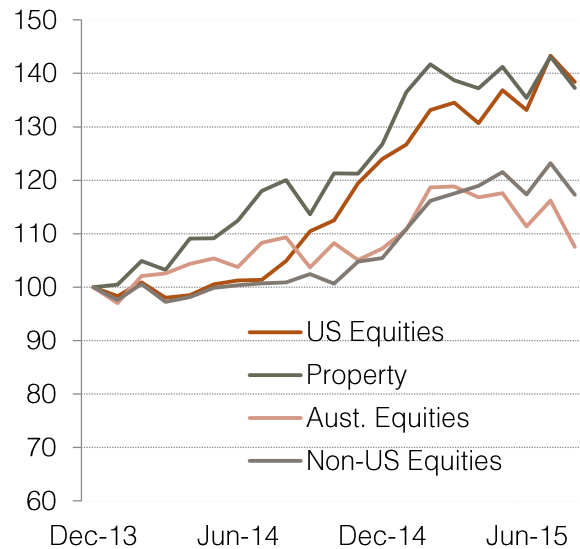
*Unhedged **Hedged Price returns for the month, total gross returns otherwise. Source: Bloomberg

- August was another volatile month for investors. After July's relief rally - following the apparent resolution of Greek debt concerns - investors were unnerved again last month by renewed fears over China and simmering concerns over when the US Federal Reserve will begin raising interest rates. The fact equity prices-to-earnings valuations in many markets had become stretched did not help.
- The Australian market underperformed US and non-US equity markets last month in both hedged and unhedged terms, while property stocks outperformed the local market. The \$A sank lower last month which partly offset the losses on global equity markets in unhedged \$A terms.
- Notwithstanding a modest lift in gold and oil prices (although oil experienced significant volatility intra-month), overall commodities were also softer during August due to further weakness in agricultural prices. Bonds were the best performing asset class last month, and Australian equities the worst. Over the past year, international (unhedged) equities have been the best performer, with commodities the worst.

Asset Class Performance*: Index=100 at 31-Dec-13



*Total Gross Returns



Source: Betashares, S&P, MSCI, Bloomberg

MARKET OUTLOOK

Asset Class Tactical Views -September 2015

	Underweight	Neutral	Overweight
Cash			✓
Aust. Bonds	✓		
Equities		✓	
<i>Aust. Property</i>		✓	
<i>Aust. Equities</i>	✓		
<i>US Equities*</i>			✓
<i>Non-US Equities*</i>			✓
Commodities**	✓		

*Unhedged **Hedged

Note: These are the author's tactical views and are subject to change. Not a recommendation to adopt any investment strategy.

- Market developments during August were not favourable for our overall risk-seeking preference for equities over bonds, though supportive of our overweight view on global equities relative to local shares and our underweight view with regard to commodities.
- Our base case view is that **recent global market volatility is unlikely to prevent the Federal Reserve raising interest rates later this month** – particularly given ongoing strength in U.S economic data. By contrast, the bias on local interest rates remains to the downside as **persistent weak economic growth is likely to push the unemployment rate higher**. Corporate profits in both Australia and globally remain sluggish.
- Accordingly, with outright PE valuations still above-average and the US Federal Reserve likely to raise interest rates at their September meeting, we have scaled back our overall view on equities this month from overweight to neutral. Notwithstanding the recent market pull back, history suggests further equity market weakness is likely in the early stages of a new Fed tightening cycle. That said, with global inflation low and the economic recovery still on track, **we remain positive on the medium-term global equity outlook and feel an underweight equity view is not warranted**.
- Due to further likely weakness in commodity prices and the \$A, we also retain an underweight view with regard to Australian equities relative to global stocks, and an underweight view on commodities. With bonds yields also likely to rise from low levels, we also remain underweight bonds – counter balanced with an overweight to cash.

BetaShares Product Offerings across Asset Class Types

Asset Class	Investment Exposure	BetaShares Fund	ASX Ticker	MER(%)
Australian Cash	Australian Cash	Australian High Interest Cash ETF	AAA	0.18%
Foreign Currencies	U.S. Dollars	U.S. Dollar ETF	USD	0.45%



	Euro	Euro ETF	EEU	0.45%
	British Pounds	British Pound ETF	POU	0.45%
Australian Equities	Largest 200 Australian companies by fundamental weight	FTSE RAFI Australia 200 ETF	QOZ	0.40%
	Financials Sector excluding A-REITS	S&P/ASX 200 Financials Sector ETF	QFN	0.39%
	Resources Sector	S&P/ASX 200 Resources Sector ETF	QRE	0.39%
	S&P/ASX 20 + Equity Income strategy	Equity Yield Maximiser Fund (managed fund)	YMAX	0.79%
	S&P/ASX 50 + Dividend Income strategy	Australian Dividend Harvester Fund (managed fund)	HVST	0.90%
	Geared exposure to diversified portfolio of Australian Equities	Geared Australian Equity Fund (hedge fund)	GEAR	0.80%
	Short Australian Equities	Australian Equities Bear Hedge Fund	BEAR	1.38%
	Short Australian Equities	Australian Equities Strong Bear Hedge Fund	BBOZ	1.38%
International Equities	US S&P 500 Index + Equity Income Strategy	S&P 500 Yield Maximiser Fund (managed fund)	UMAX	0.79%
	Largest 1000 US companies by fundamental weight	FTSE RAFI US 1000 ETF	QUS	0.40%
	Largest 100 Nasdaq companies by market-cap weight	NASDAQ 100 ETF	NDQ	0.48%
	Geared exposure to US Equities	Geared U.S. Equity Fund - Currency Hedged (hedge fund)	GGUS	0.80%
	Short US Equities	U.S. Equities Strong Bear Hedge Fund - Currency Hedged	BBUS	1.38%
Commodities	Gold Bullion (US\$)	Gold Bullion ETF - Currency Hedged	QAU	0.59%
	S&P GSCI Crude Oil Index	Crude Oil Index ETF – Currency Hedged (synthetic)	OOO	0.69%
	S&P GSCI Index (Light Energy)	Commodities Basket ETF – Currency Hedged (synthetic)	QCB	0.69%
	S&P Agriculture Enhanced Select Index	Agriculture ETF – Currency Hedged (synthetic)	QAG	0.69%

Other costs may apply. Please refer to relevant PDS for more information.

ASSET BENCHMARKS

Cash: UBS Bank Bill Index; **Australian Equities:** S&P/ASX 200 Index; **Australia Bonds:** Bloomberg Composite Bond Index; **Australian Property:** S&P/ASX 200 A-REITs; **US Equities:** S&P 500, unhedged \$A terms; **Non-US Equities:** MSCI All World ex-US (investable index), unhedged \$A terms; **Commodities:** S&P GSCI Light Energy Index, \$US terms

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