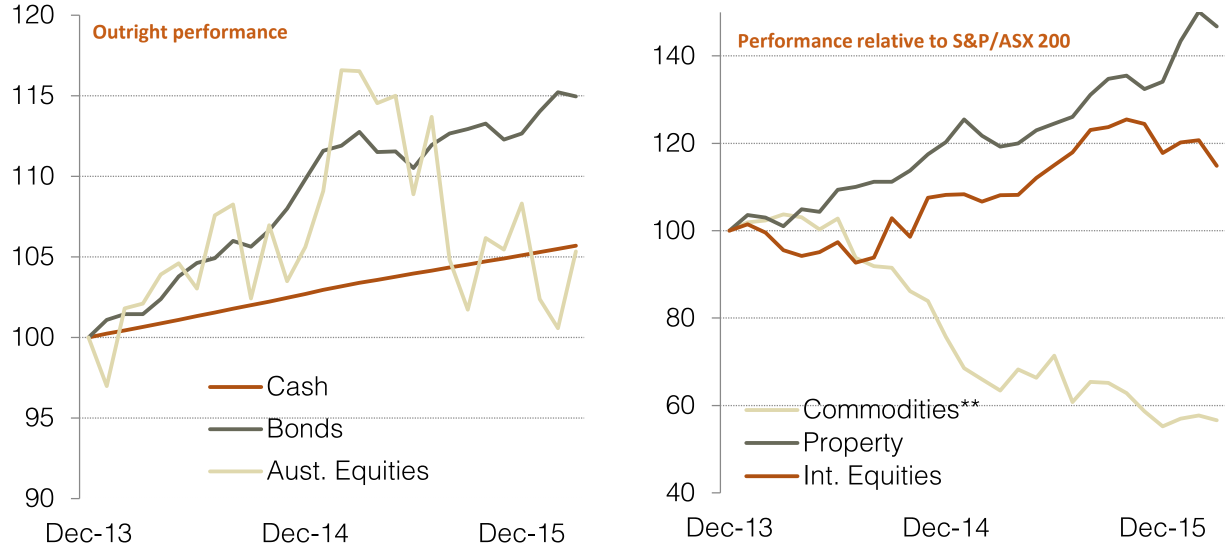
ASSET CLASS PERFORMANCE: THE FED RALLY CONTINUES

DAVID BASSANESE, CHIEF ECONOMIST

Return Performance*	Month	3-mth	6-mth	12-mth	Performance Rank Month	3-mth	6-mth	12-mth
Cash	0.2%	0.6%	1.1%	2.2%	4	3	4	2
Aust. Bonds	-0.2%	2.1%	1.8%	2.0%	5	2	3	3
Aust. Property	2.4%	6.4%	12.8%	11.3%	3	1	1	1
Aust. Equities	4.7%	-2.7%	3.6%	-9.6%	1	5	2	5
Int. Equities*	-0.4%	-5.1%	-3.9%	-4.0%	6	6	5	4
Commodities**	2.7%	-0.2%	-10.0%	-19.3%	2	4	6	6
Int. Equities**	5.5%	-1.8%	4.1%	-4.5%				
World currencies vs $A	-5.5%	-3.4%	-7.6%	0.5%				

- Global equity markets continued to rally through March thanks to confirmation from a very cautious US Federal Reserve that it's not about to raise interest rates again anytime soon. A weaker $US dollar – again primarily caused by the Fed – also helped lift commodity prices. Unlike in September last year - when the Fed cited global growth concerns as a reason to baulk at raising rates - global markets are now jubilantly celebrating the Fed's hesitancy.
- Unhedged global equities would have been the best performing of the six major asset classes in March were it not for strength in the Australian dollar, which lifted by 7.2% against the US dollar. In unhedged $A terms, international equities were down 0.4% in March, and have underperformed Australian equities in recent months due to a strong rebound in the Australian dollar.
- Australian equities were the best performing asset class in March, followed by commodities and local listed property. A modest lift in bond yields saw fixed-income returns fall marginally. Over the past year, Australian property remains the best performing asset class, followed by Australian cash and then Australian bonds, with commodities remaining the worst.

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



*$A, total gross returns **$US

Source: Betashares, S&P,MSCI, Bloomberg

2016 MARKET OUTLOOK: STAYING DEFENSIVE

Asset Class Tactical Views: April 2016

	Underweight	Neutral	Overweight
Growth vs. Defensive			
Aust. Equities vs. Bonds	✓		
Defensive			
Cash vs. Bonds		✓	
Growth			
Aust. Property vs. Aust. Equities			✓
Int. Equities vs. Aust. Equities*			✓
*Commodities** vs. Aust. Equities*	✓		

*Unhedged *Hedged

- A very cautious United States Federal Reserve has been the major driver of global markets in recent months. The Fed's "dovishness" – or hesitancy about raising interest rates despite America's ongoing economic recovery – has supported equity returns relative to bonds, and helped push up the Australian dollar. As a result, these developments have run counter to some of our core tactical asset allocation views.
- That said, we retain a cautious view of equity markets and the Australian dollar – especially at current levels – as we believe that not much has changed in the global outlook apart from the Fed's surprising degree of lingering caution.
- Indeed, the US labour market remains firm, and there has already been a smattering of higher than expected US wage and consumer price inflation reports. Contrary to market pricing, there still seems a very good chance the Fed will relent and raise interest rates by June – which will likely require some market adjustment.
- At the same time, flat earnings but rising equity prices has resulted in price-to-earnings equity valuations pushing further into expensive territory. The US S&P 500's price-to-forward earnings ratio ended March at 16.9, compared to a long-run average of 14.5, and a level of 17.4 when the market peaked earlier last year. Even without a stronger US dollar, the US earnings outlook remains challenged by a tightening labour market, vulnerably high profit margins, and only modest top-line revenue growth.
- We also view the recent rebound in commodity prices as largely driven by Fed-related $US weakness – and hence unsustainable once the Fed begins raising rates again and the $US firms. Indeed, cracks are already appearing in the apparent agreement among oil producers to freeze supply, and China's underlying demand for iron ore continues to soften at the same time as global supply expands.
- We accordingly leave our asset allocation preferences unchanged again this month, with an underweight to growth assets relative to bonds and, within equity markets, an overweight to the defensive property sector and an overweight to unhedged international equities due to our negative view on the Australian dollar.

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; **International Equities:** MSCI World (developed market) Index, unhedged $A terms; **Commodities:** S&P GSCI Light Energy Index, $US terms

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%
	Largest 200 Australian companies by market cap. with risk management overlay	Managed Risk Australian Share Fund (managed fund)	AUST	0.49%
	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 Australian Equities	Geared Australian Equity 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	NASADAQ 100 ETF	NDQ	0.48%
	Geared exposure to US Equities	Geared US Equity Fund -Currency Hedged (hedge fund)	GGUS	0.80%
	Short US Equities	US Equities Strong Bear Hedge Fund - Currency Hedged	BBUS	1.38%
	Largest 1,500 global companies by market cap with risk management overlay	Managed Risk Global Share Fund (managed fund)	WRLD	0.54%
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.

ABOUT BETASHARES

BetaShares Capital Ltd ("BetaShares") is a leading manager of exchange traded products ("ETPs") which are traded on the Australian Securities Exchange. BetaShares offers a range of ETPs which cover Australian and international equities, cash, currencies, commodities and alternative strategies. BetaShares currently has approximately $2.6 billion in assets under management.

BetaShares is a member of the Mirae Asset Global Investments Group, one of Asia's largest asset management firms. Mirae currently manages in excess of US$75B.