

ASSET CLASS PERFORMANCE: TRUMPED UP EUPHORIA

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Return Performance*

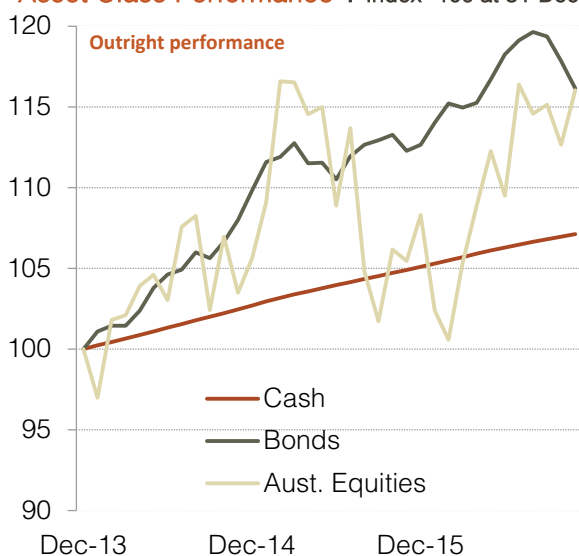
Performance Rank

	Month	3-mth	6-mth	12-mth	Month	3-mth	6-mth	12-mth
Cash	0.1%	0.4%	0.9%	2.1%	5	4	3	4
Aust. Bonds	-1.4%	-2.9%	-0.5%	3.4%	6	5	4	3
Aust. Property	0.8%	-11.1%	-5.7%	10.2%	4	6	6	1
Aust. Equities	3.0%	1.3%	3.4%	10.0%	2	3	1	2
Int. Equities*	4.2%	1.6%	1.8%	1.9%	1	2	2	5
Commodities**	1.4%	4.1%	-2.9%	0.1%	3	1	5	6
Int. Equities**	2.5%	2.0%	5.9%	4.6%				
World currencies vs \$A	1.7%	-0.4%	-3.8%	-2.6%				

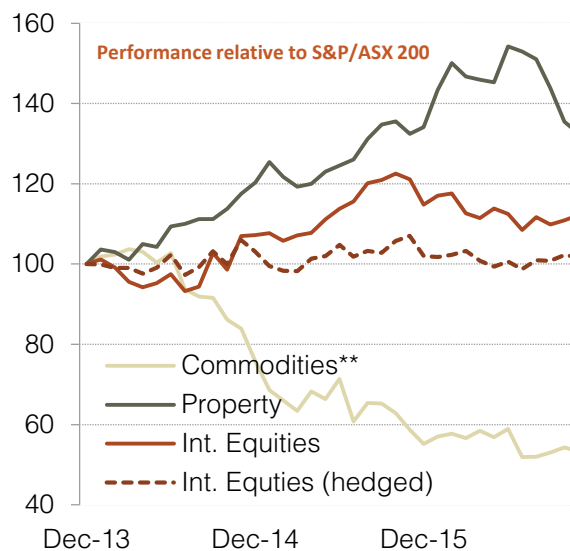
*Unhedged **Hedged Total returns for the month Source: Bloomberg

- Contrary to initial fears, global markets celebrated Donald Trump's surprise US Presidential victory in November, with focus quickly turning to his advocacy of growth-boosting fiscal stimulus – hopes of which were helped by the fact his avowed party, the Republicans, also won control of both houses of Congress. As a result, the month was dominated by “Trump trades”, with equities, bond yields and the US dollar rising, while gold reeled backward. Talk of a possible OPEC production deal, meanwhile, supported oil prices.
- Reflecting the rise in global bond yields, local fixed-interest lost ground. The rise in the US dollar also saw the \$A ease back, resulting in international equities outperforming the local market in \$A terms. Having been sold off savagely in recent months, even listed property managed to eke out a small gain in the month.
- Australian equities remained the best performing asset class over the past six months, followed by international equities. Australian property – followed by commodities – was the worst performing asset class over this period.

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



*\$A, total gross returns **\$US



Source: Betashares, S&P, MSCI, Bloomberg

Asset Class Tactical Views: December 2016

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

*Unhedged **Hedged

OUTLOOK

- The surprise election of Donald Trump to the US Presidency potentially marks a sea change in the global investment outlook. Much now depends on the degree to which Trump pursues many of the policies he advocated during the long and bitter election campaign. His promises of fiscal stimulus are clearly negative for bond yields and supportive of the US dollar. But Trump's likely impact on equities is mixed overall, as while fiscal stimulus *might* boost US economic growth and corporate earnings, the associated upward pressure on bond yields is a challenge for already elevated price-to-earnings valuations. At this stage, we don't view Trump's election as a signal to upgrade our risk exposure overall, and thus remain defensive in our positioning.
- Another risk factor is Trump's less investor friendly protectionist international trade policies, and uncertainty in how he'll deal with the globe's myriad of geo-political issues. A worst case scenario is a tit-for-tat trade war with China, though the hope is that both sides will avoid what would appear to be mutually-assured economic destruction.
- Either way, the near-term effect of the market enthusiasm for Trump – together with ongoing solid US employment data - is that it now appears to us all but certain that the US Federal Reserve will raise rates at the December policy meeting. My base case is at least two further US rate hikes in 2017.
- In Australia, meanwhile, the standout feature in recent times has been the rise and rise in coal and iron ore prices. But while there's been some fundamental support for firmer commodity prices this year, a degree of speculative excess appears to have crept into pricing in recent months – and some pullback in prices seems likely in coming months. What's more, partial indicators suggest third quarter economic growth was quite weak – if not negative – and employment growth has also slowed. This suggests the bias on local rates remains to the downside, and there appears to be a good chance the Reserve Bank will feel the need to cut rates again by May, if inflation fails to lift in the next two CPI inflation reports.
- Our decision in recent months to underweight listed property and bonds has been timely. Heading into the final month of the year our broad asset class views remains unchanged. We remain underweight growth assets (including commodities) in general relative to defensive assets. Among defensive assets, we remain underweight bonds. And among growth assets, the prospect of further weakness in the \$A and higher bond yields leads to our continued overweight position on international equities (on an unhedged basis) and underweight to listed property.

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 All-Country World Index, unhedged \$A terms; **Commodities:** S&P GSCI Light Energy Index, \$US terms

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BetaShares is a member of the Mirae Asset Global Investments Group, one of Asia's largest asset management firms. Mirae currently manages approximately of US\$100B.

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SERIES	FUND NAME	ASX TICKER	EXPOSURE
CASH & FIXED INCOME	Australian High Interest Cash ETF	AAA	Australian Cash
CURRENCY	U.S. Dollar ETF	USD	U.S. Dollars
	Euro ETF	EEU	Euro
	British Pound ETF	POU	British Pounds
COMMODITIES	Gold Bullion ETF - Currency Hedged	QAU	Gold Bullion (US\$)
	Crude Oil Index ETF - Currency Hedged (synthetic)	OOO	S&P GSCI Crude Oil Index
	Commodities Basket ETF - Currency Hedged (synthetic)	QCB	S&P GSCI Index (Light Energy)
	Agriculture ETF - Currency Hedged (synthetic)	QAG	S&P Agriculture Enhanced Select Index
AUSTRALIAN EQUITY	FTSE RAFI Australia 200 ETF	QOZ	Largest 200 Australian companies by economic size
	S&P/ASX 200 Financials Sector ETF	QFN	Financials Sector excluding A-REITS
	S&P/ASX 200 Resources Sector ETF	QRE	Resources Sector
	Australian Ex-20 Portfolio Diversifier ETF	EX20	Australian shares ranked 21-200 by market cap
EQUITY INCOME	Australian Dividend Harvester Fund (managed fund)	HVST	Large cap Australian Shares + monthly distributions + risk management strategy
	Equity Yield Maximiser Fund (managed fund)	YMAX	S&P/ASX 20 + equity income strategy
GEARED	Geared Australian Equity Fund (hedge fund)	GEAR	Geared exposure to diversified portfolio of Australian equities
	Geared U.S. Equity Fund - Currency Hedged (hedge fund)	GGUS	Geared exposure to a diversified portfolio of U.S. equities
INTERNATIONAL	FTSE RAFI U.S. 1000 ETF	QUS	Largest 1000 US companies by economic size
	Nasdaq 100 ETF	NDQ	Nasdaq 100 Index
	S&P 500 Yield Maximiser Fund (managed fund)	UMAX	S&P 500 + equity income strategy
	Global Energy Companies ETF - Currency Hedged	FUEL	Largest global energy companies
	Global Gold Miners ETF - Currency Hedged	MNRS	Largest global gold mining companies
	Global Healthcare ETF - Currency Hedged	DRUG	Largest global healthcare companies
	Global Agriculture Companies ETF - Currency Hedged	FOOD	Largest global agriculture companies
	Global Banks ETF - Currency Hedged	BNKS	Largest global banking companies
	Global Cybersecurity ETF	HACK	Largest global cybersecurity companies
	WisdomTree Europe ETF - Currency Hedged	HEUR	Largest dividend paying European companies
	WisdomTree Japan ETF - Currency Hedged	HJPN	Largest dividend paying Japanese companies
MANAGED RISK	Managed Risk Australian Share Fund (managed fund)	AUST	Largest 200 shares by market capitalisation + risk management strategy
	Managed Risk Global Share Fund (managed fund)	WRLD	At least 1500 of the largest companies by market capitalisation on global exchanges + risk management strategy
SHORT	Australian Equities Bear Hedge Fund	BEAR	Short Australian equities
	Australian Equities Strong Bear Hedge Fund	BBOZ	Magnified Short Australian equities (2x-2.75x short)
	U.S. Equities Strong Bear Hedge Fund - Currency Hedged	BBUS	Magnified Short U.S. equities (2x-2.75x short)
ACTIVE	AMP Capital Dynamic Markets Fund (Hedge Fund)	DMKT	Active dynamic asset allocation - total return
	AMP Capital Global Property Securities Fund (Unhedged) (Managed Fund)	RENT	Actively managed portfolio of global property securities
	AMP Capital Global Infrastructure Securities Fund (Unhedged) (Managed Fund)	GLIN	Actively managed portfolio of global infrastructure securities