

ASSET CLASS PERFORMANCE: LISTED PROPERTY FADES

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Return Performance*

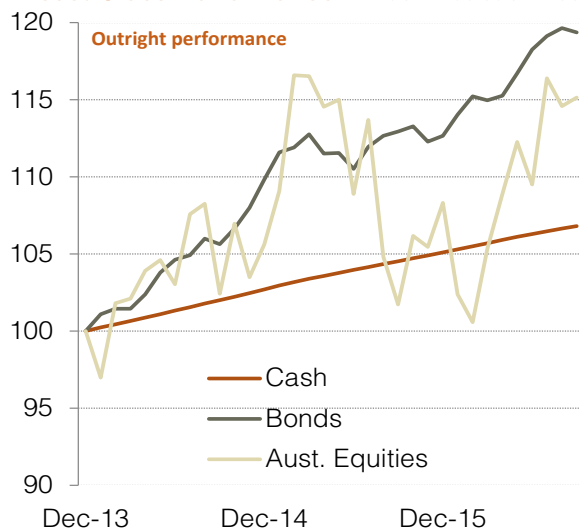
Performance Rank

	Month	3-mth	6-mth	12-mth	Month	3-mth	6-mth	12-mth
Cash	0.1%	0.5%	1.0%	2.2%	3	4	6	5
Aust. Bonds	-0.2%	0.9%	3.8%	5.7%	4	3	4	3
Aust. Property	-4.3%	-1.9%	7.1%	20.8%	6	5	2	1
Aust. Equities	0.5%	5.1%	9.3%	13.2%	2	1	1	2
Int. Equities*	-1.2%	2.6%	6.6%	2.8%	5	2	3	4
Commodities**	2.5%	-5.4%	2.3%	-8.0%	1	6	5	6
Int. Equities**	0.3%	5.3%	6.6%	11.0%				
World currencies vs \$A	-1.5%	-2.5%	0.0%	-7.4%				

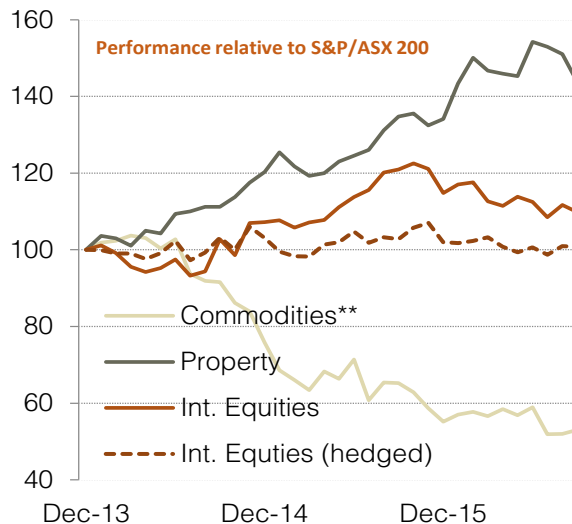
*Unhedged **Hedged Total returns for the month Source: Bloomberg

- Global equity markets inch cautiously ahead in September, somewhat heartened by the fact that the United States Federal Reserve baulked at raising interest rates at its key meeting. That said, growing fear of Fed tightening saw equity market “bond proxies”, such as listed property underperform. Commodity prices, by contrast, lifted – helped by a rebound in oil prices on speculation that Opec might agree to production cuts (which it eventually did). Emerging markets fared a little better than developed markets.
- Australian equities marginally outperformed global equities on a currency hedged basis, helped by strength in the material sector especially – which in turn reflected optimism around commodity prices and the mining sector. Local equity outperformance was stronger in \$A terms due to strength in the \$A. The local bond market weakened slightly, as reduced RBA rate cut expectations saw local bond yields rise modestly.
- Listed property remains the best performing asset class over the past 12 months, while commodities remain the worst.

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



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



Source: Betashares, S&P,MSCI, Bloomberg

MARKET VIEW: UNDERWEIGHT BONDS

Asset Class Tactical Views: October 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

- Although the Fed did not raise interest rates in September, continued generally solid US economic data has markets concerned that US rates will rise by the December meeting. At the same time, US earnings growth expectations continue to ease, while equity market outright price-to-earnings valuations remain high. Concerns over European banks were another source of concern late in the month and into early October.
- What's more, another new development in recent days has been the decision by the United Kingdom to press on with its formal exit from the European Union, with Prime Minister Theresa May seemingly prepared to risk some market access limitations in a bid to retain greater controls over immigration. This is yet a new unhelpful source of uncertainty for already troubled European markets in particular.
- Closer to home, expectations of another local interest rate cut has eased of late in the face of generally upbeat economic data. Our **base case view is that the Reserve Bank of Australia will not cut interest rates in November unless the upcoming September quarter consumer price index result is much lower than generally expected.** We now see local rates on hold for the foreseeable future.
- Our decision to move back to neutral with regard to listed property last month was supported by the asset classes' subsequent weakness in September. Due to the growing prospect of a resumption of Fed tightening and our view of no further rate cuts anytime soon in Australia, **we are now adopting an underweight view with regard to bonds (versus cash) and an underweight with regard to listed property.**
- That said, due to weak earnings and high valuations, we remain underweight growth assets (including commodities) in general relative to defensive assets. The prospect of further weakness in the \$A also leads to our continued overweight of international equities versus local equities on an unhedged basis.

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



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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 in excess of US\$90B.

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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
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