BetaShares
Exchange Traded Funds

Global
Market Review

August 2014

David Bassanese, Chief Economist

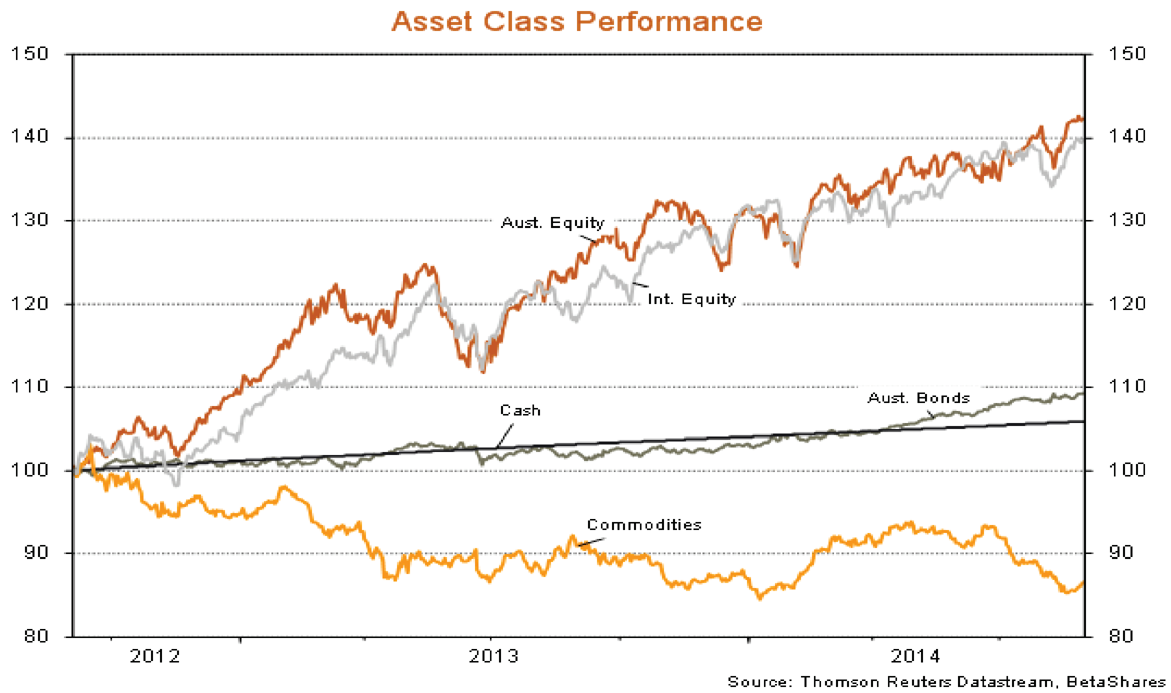
SUMMARY

Developed and emerging market equities continued to rise in August, helped by a rally in bond yields which was due to heightened expectations that global monetary conditions would remain very accommodative for some time. After a solid performance in July, however, the Australian equity market underperformed, with flat performance recorded during August - dragged down by weakness in resources stocks a contributor to which was weakening iron ore prices. Reflecting the ongoing yield chase by investors and declining bond yields, the Australian listed property sector rose further. Commodity prices continued to ease, though not as rapidly as in July, with gold prices steady.

ASSET PERFORMANCE AUGUST 2014: SUMMARY*

	Month	3-mth	12-mth
Cash	0.2%	0.7%	2.6%
Aust. Bonds	1.0%	2.1%	6.9%
Aust. Property	1.7%	10.3%	19.7%
Aust. Equities	-0.1%	3.5%	14.4%
Int. Equities	1.7%	2.2%	16.5%
Em. Markets	1.8%	6.6%	15.4%
Commodities	-1.4%	-5.2%	-4.7%

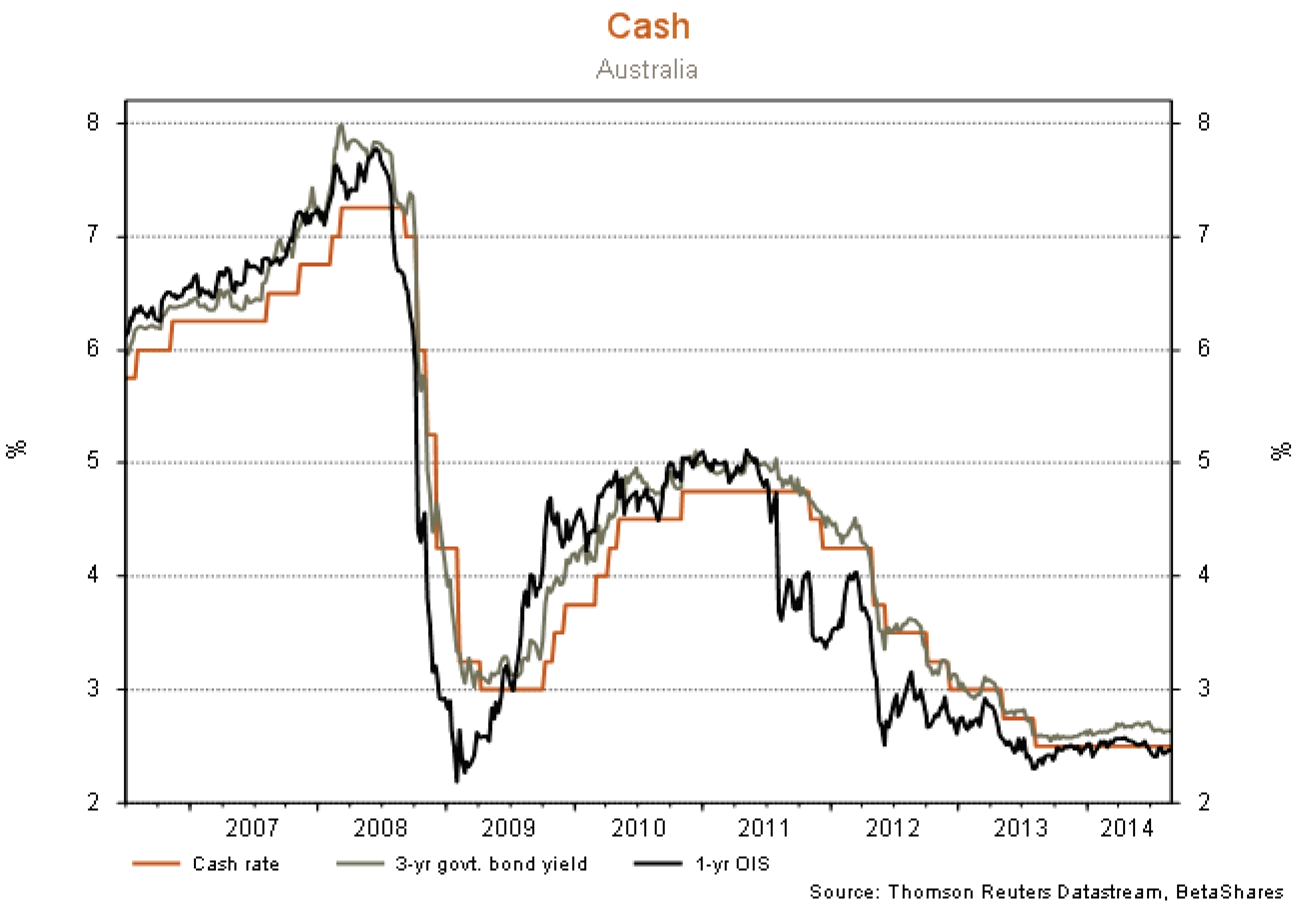
Price returns for latest month, total returns for 3 and 12 months periods.
Source: Thomson Reuters DataStream. Past performance is not an indication of future performance.



CASH

Australia's official cash rate remains exceptionally low. Mixed local economic conditions, however, continue to keep the Reserve Bank of Australia on hold, and market expectations remain for no change in the cash rate in the coming year – as evident with the one-year overnight indexed swap rate very close to the cash rate of 2.5% p.a. While there has been some recovery in household and business sentiment in recent months, both consumer and corporate spending remain cautious, fiscal policy is restrictive and mining investment is still expected to fall significantly. The unemployment rate increased in the past month to a 12-year high of 6.4%.

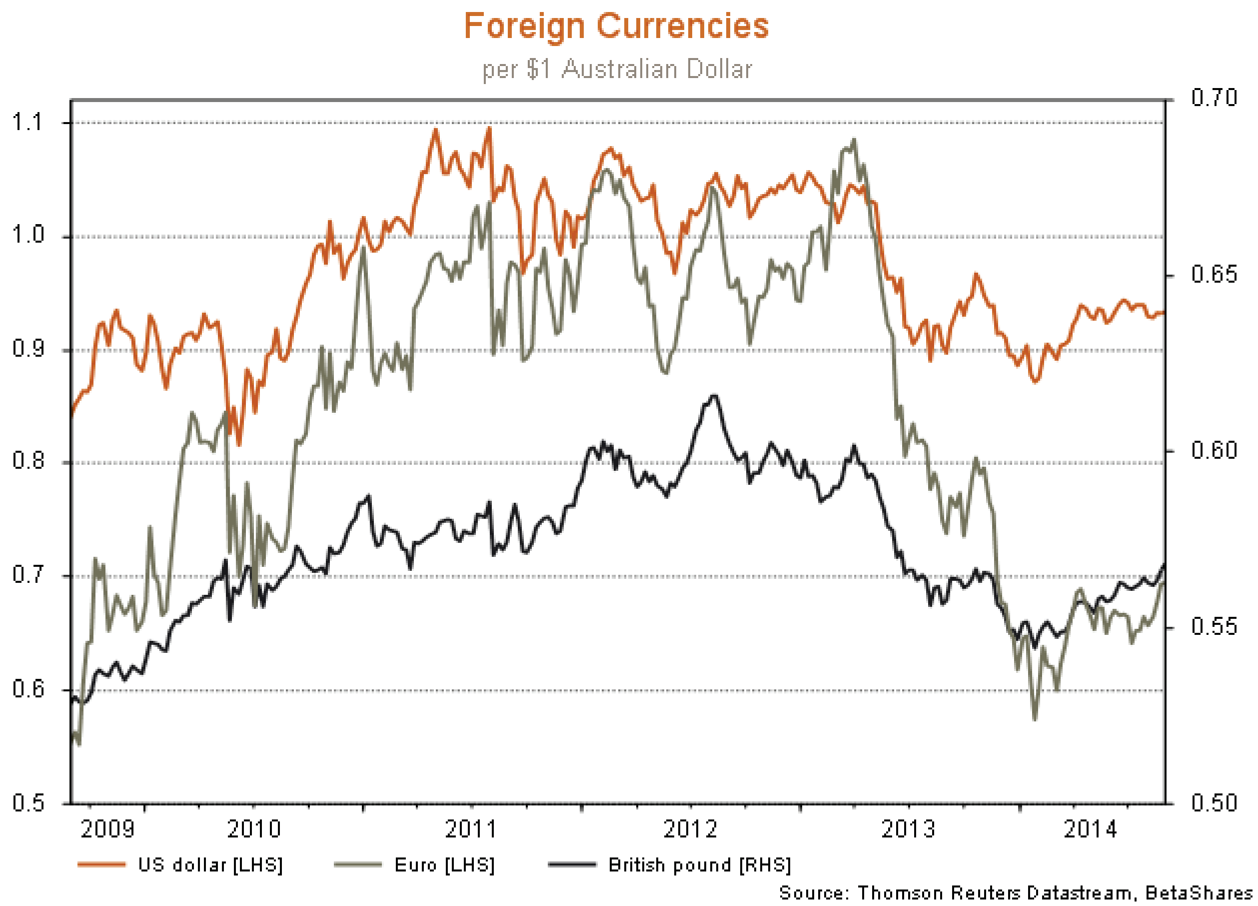
Yet at the same time, house prices are rising strongly, inflation has surprised on the upside recently, and non-mining business investment intentions have lifted modestly. The RBA seems to feel it has done all it can to support the economy through lower interest rates for now, and is counting on some lift in spending to flow though – especially when and if the A$ falls to more competitive levels.



Bassanese's Outlook: My core view remains that official interest rates will remain on hold this year, and will not be raised until H2' 2015. That said, the near-term risk on rates remains to the downside – if official rates go anywhere this year it should be down, rather than up. Cash returns for the coming year look like being not much more than 2.5%.

FOREIGN CURRENCIES

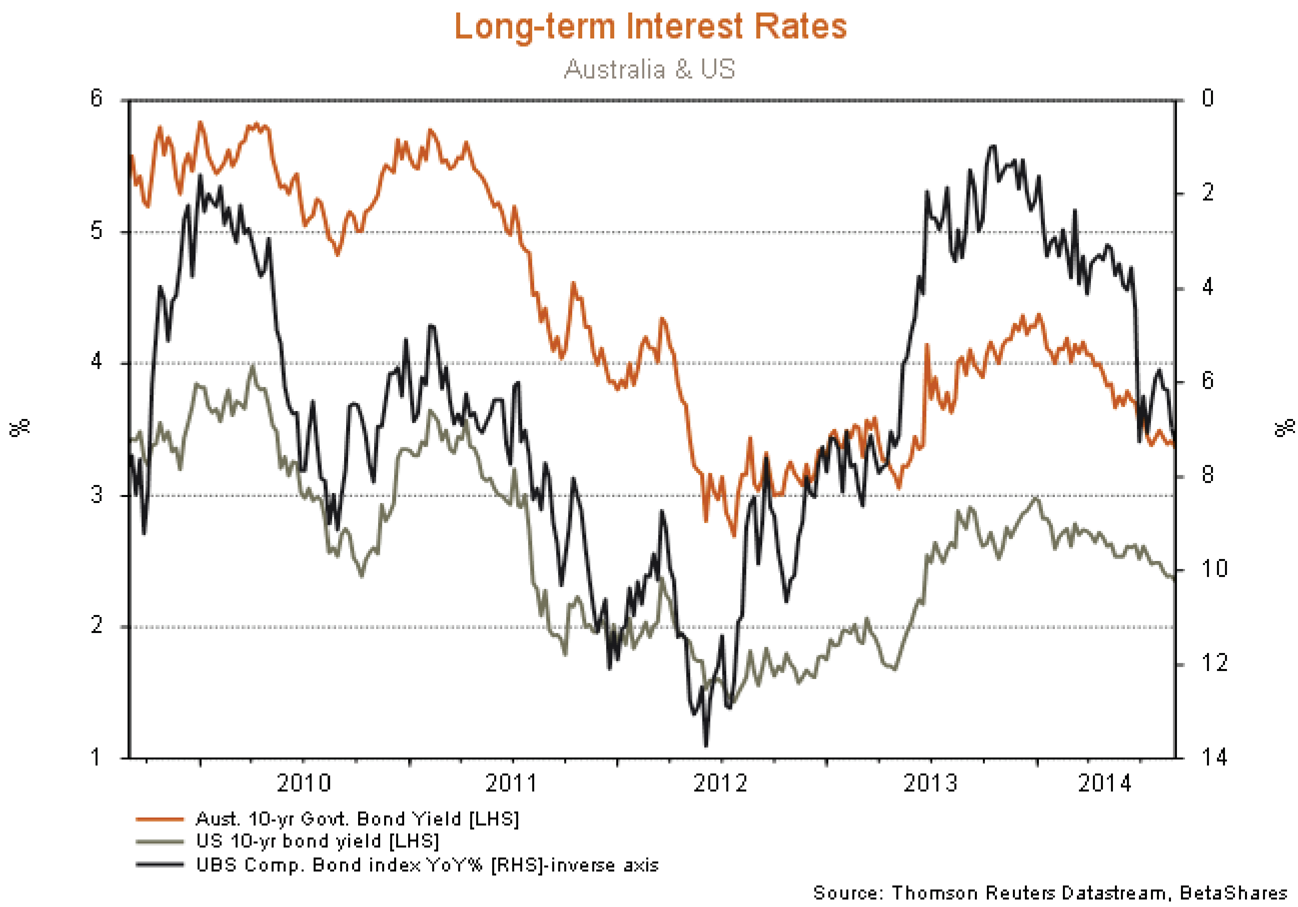
In the main, foreign currencies remain relatively cheap against the Australian dollar - especially given recent notable declines in spot iron ore prices, with the A$ supported by still attractive interest rates by global standards. Indeed, the A$ rose slightly further over the past month, especially against the Euro due to mounting speculation that the ECB will soon increase monetary stimulus. The A$'s strengthening bias against the British pound so far this year also continues.



Bassanese's Outlook: My view remains that the A$ is near the top of its likely range over the next year or so – especially against the US dollar - and there is more downside than upside risk. My year-end target for the A$ is US89c, with a move to US86c by end-2015. A break below US92c support would be indicative that the A$'s downtrend since the highs of recent years has resumed. That said, with economic conditions in Europe weaker than those in the United States, the A$ may well strengthen further against the Euro and British pound over the next few months.

AUSTRALIAN BONDS

Long-term bond yields remain very low, and the easing bias evident through much of this year continues. The yield on Australian 10-yr Commonwealth bonds fell to 3.36%p.a. from 3.44%p.a. over the month, supported by a further modest decline in US bond yields. Falling yields are part of the global yield chase, and reflect both persistent low global inflation and signals from central banks that they remain in no hurry to raise short-term interest rates. Heightened expectations of further policy easing in Europe have helped reduce yields over the past month. The bond rally has allowed year-on-year gains in the UBS composite bond to pick up from less than 2% p.a. at the start of the year to 7% p.a. by end-August.



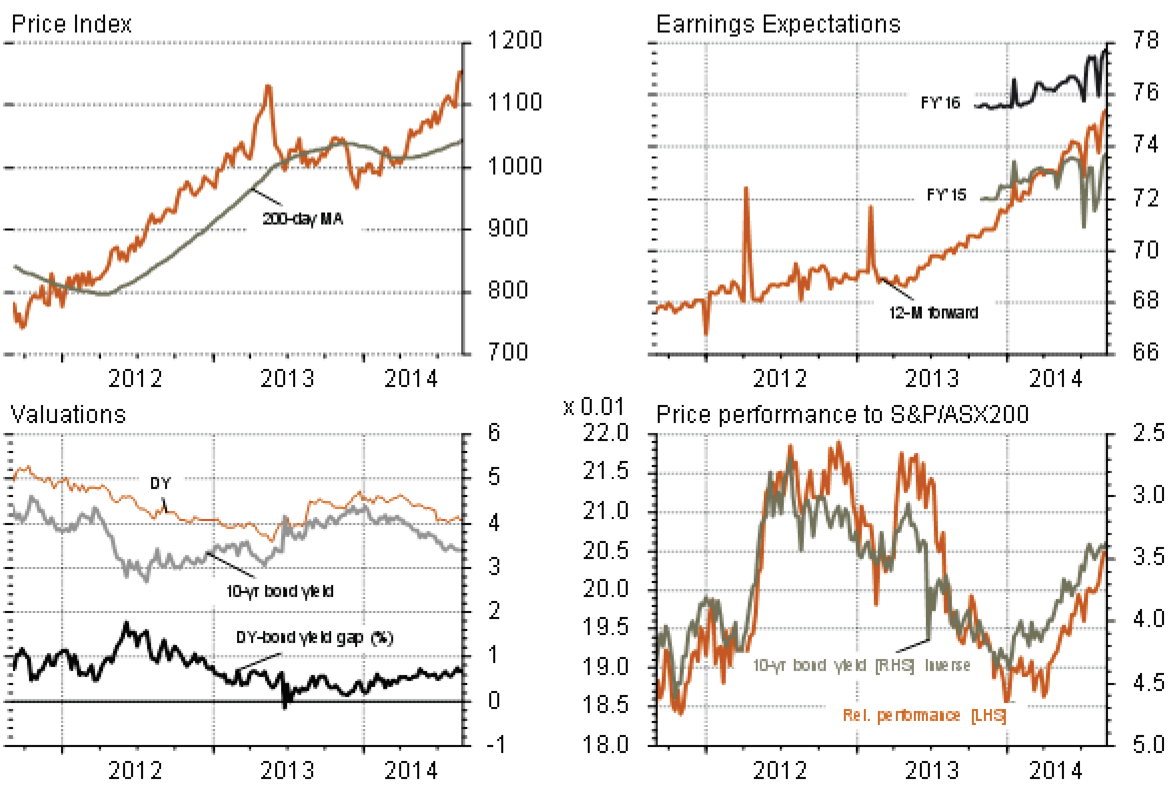
Bassanese's Outlook: Despite the recent rally lower in bond yields, I remain negative on the medium-term bond market outlook given my confidence in America's economic recovery and prospective US monetary tightening. Unless the RBA moves to an easing policy bias again, I don't anticipate a further significant bond rally, and see local 10-year bond yields heading back to at least 4% p.a. by year end. All up, that would suggest only muted fixed income returns over the coming year of less than 3%

LISTED PROPERTY

Listed property continues to benefit from the "yield chase" across the Australian equity market and the reduction in bond yields through this year. Being more defensive in character, earnings expectations are also holding up relatively well given our weak economy, with the uplift in residential construction and land values helping.

Although the sector's price-to-earnings ratio is now above its 10-year average, as with many decent yielding asset classes, low interest rates continue to encourage a bidding down in distribution yields. Valuations – both outright and relative to interest rates – are getting close to, but still not as rich as they were when the market corrected in early 2013.

S&P/ASX 200 A-REITs



Source: Thomson Reuters Datastream, BetaShares

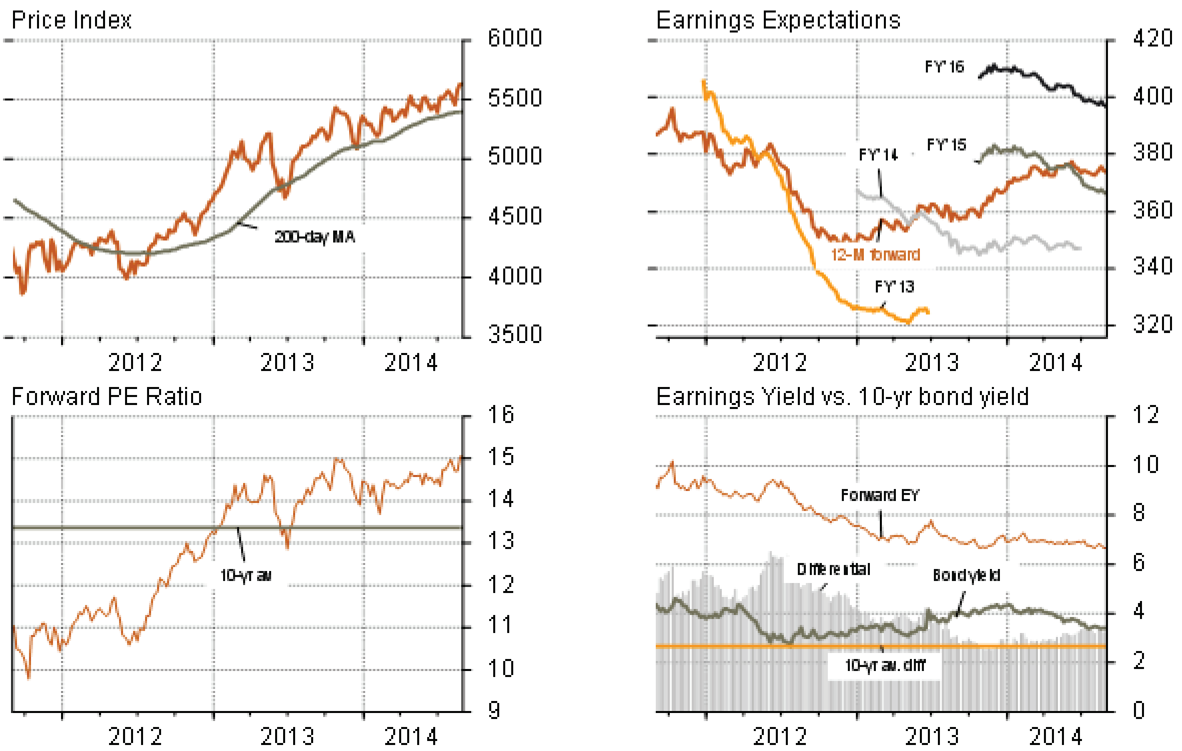
Bassanese's Outlook: With valuations not yet at "flashing red" levels, the outlook for listed property remains closely tied to that of interest rates and investor appetite for the "yield chase". The sector is at risk of underperformance once my expected rise in bond yields begins in earnest.

AUSTRALIAN EQUITIES

Australian equities are becoming expensive in outright price-to-earnings terms, but remain closer to "fair-value" against bonds given the current low yield environment. The market was flat in August, recovering late in the month on the back of a reasonable earnings reporting season after geo-political and commodity price related concerns initially hurt prices. Although earnings results generally met expectations, this followed earnings downgrades in earlier months, and earnings growth expectations are likely to remain under downward pressure due to subdued private spending and falling commodity prices. That said, low interest rates and corporate capital market management initiatives – share buybacks and dividend increases - are supporting the market.

S&P/ASX 200

Australian Equity Index

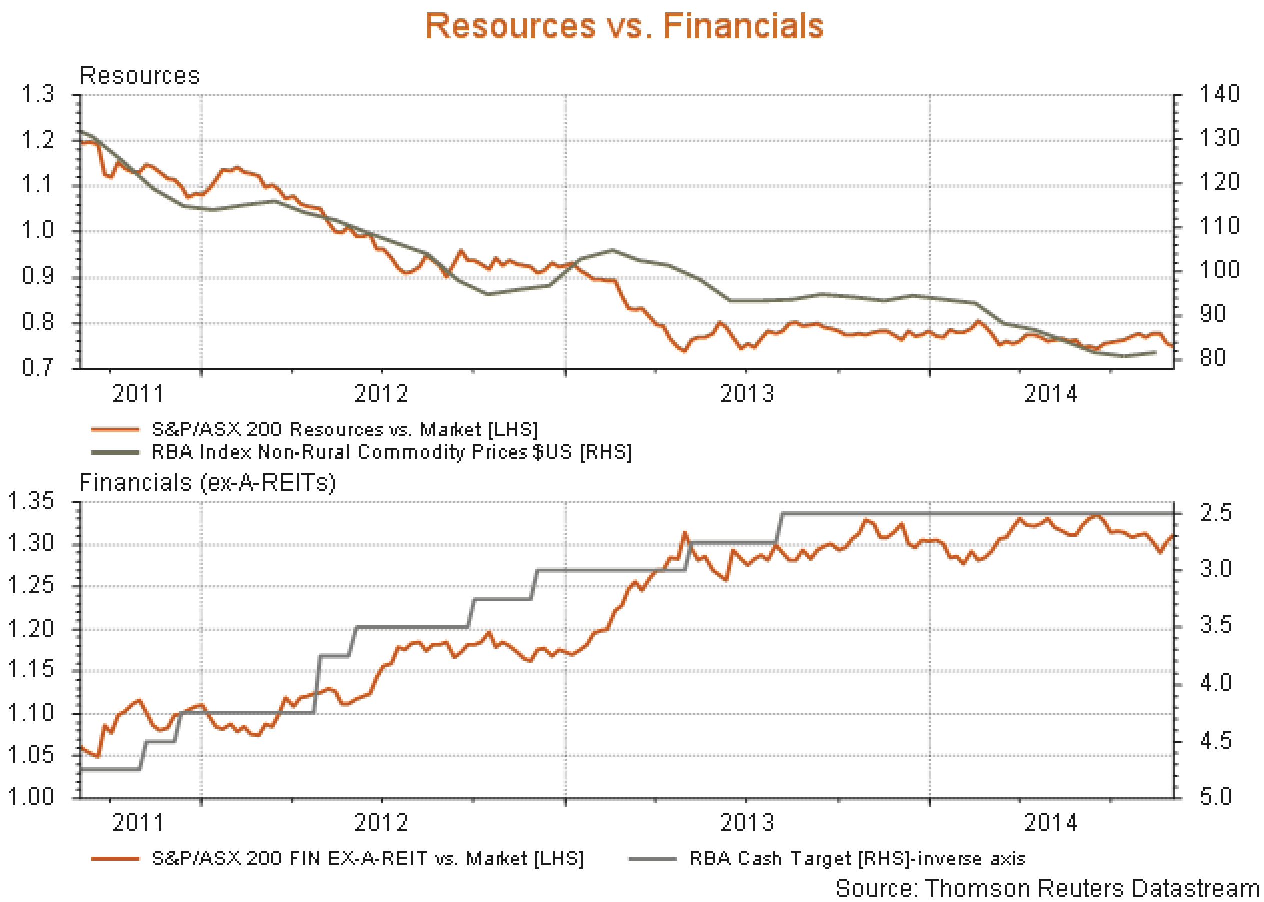


Source: Thomson Reuters Datastream, BetaShares

Bassanese's Outlook: While valuations are not especially cheap and earnings are under pressure, the market's dividends yield still remains attractive in a low interest-rate environment. I anticipate the moderate uptrend in prices to continue, underpinned by steady local official interest rates for at least another six months to one year. Downside risks include a further major slump in commodity prices or an increase in bond yields.

RESOURCES VS. FINANCIALS SECTOR

After strong outperformance by financials over resources until early 2013, relative performance between the two major sectors of the Australian equity market has since been choppy. Steady local interest rates over the past year have halted financial sector outperformance, while resources are being held back by the weak commodity price environment. Financials outperformed resources in August as bond yields and iron ore prices both fell.



Bassanese's Outlook: I remain neutral on the nearer-term financials versus resources outlook, though financials should continue to outperform on a total return basis due to higher expected dividend yields. Further out, a period of resource sector outperformance is likely once official interest rates increase and the A$ drops as anticipated – most likely by early-mid 2015.

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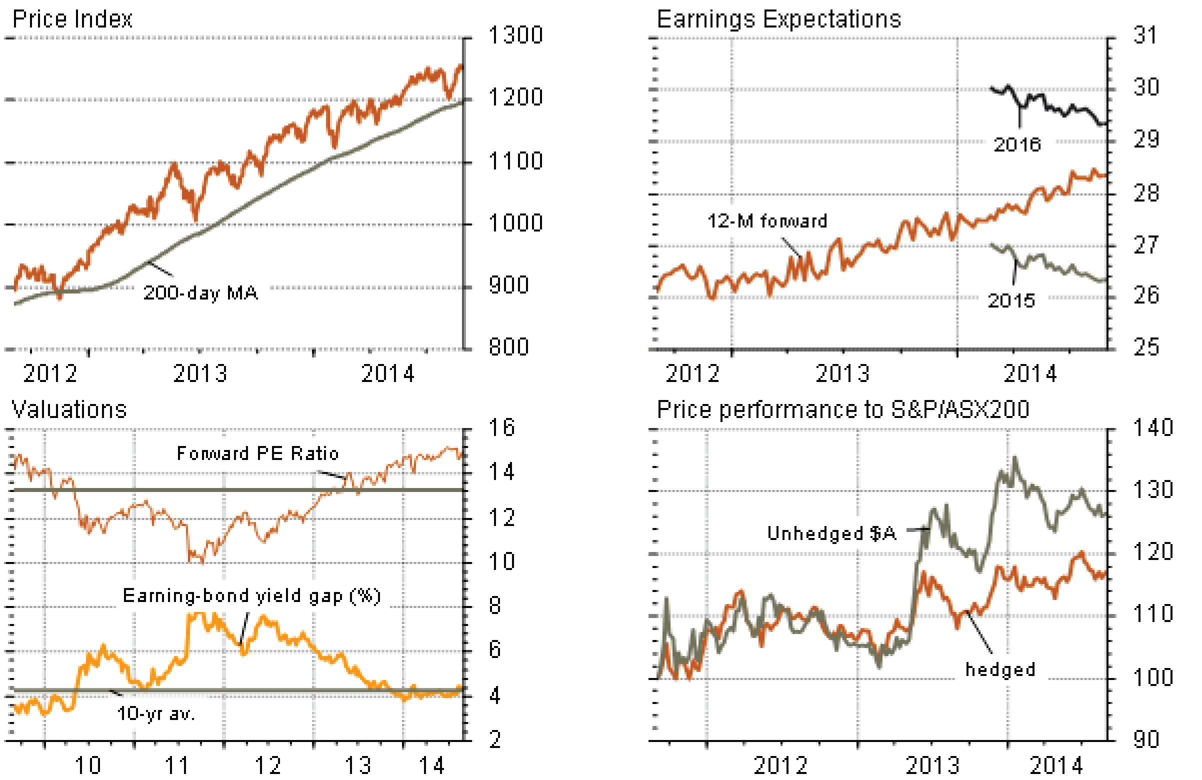
INTERNATIONAL EQUITIES

Helped by low global interest rates and moderate economic recovery – led by the United States – global equities continued to grind higher last month. Outright valuations are getting rich, but are still fair relative to bond yields. Earnings growth expectations remain bullish, but there have been downward revisions though this year. After outperforming through 2013, relative performance against the Australia market has been choppier this year as valuations and earnings performance have become more closely aligned.

World MSCI



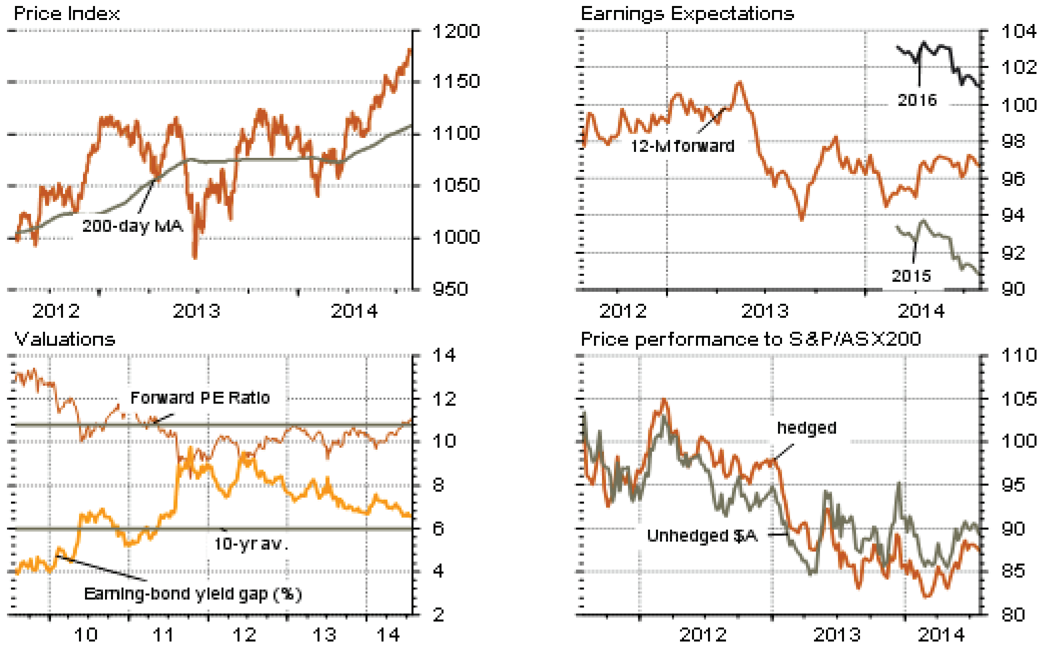
Source: Thomson Reuters Datastream, BetaShares

Bassanese's Outlook: Provided global inflation remains low, the likely eventual increase in bond yields should be moderate enough to not threaten the global market rally – especially as yields should only rise provided global economic growth continues to improve. I still favour global outperformance against the Australian market, in both hedged and unhedged terms – with outperformance in unhedged terms likely to be stronger due to expected A$ weakness. That said, after a strong run, global equities appear in need of a pull back – which may come if stronger US economic growth leads to fears of earlier than anticipated Fed tightening.

EMERGING MARKETS

After some market worries earlier this year, emerging market stocks continued to recover strongly last month – helped by easing US bond yields and reduced fears of imminent Fed policy tightening. The price to earnings valuation has recovered to around its long-run average. Underpinned by still bullish earnings expectations, forward earnings continue to rise. Though risks remain in several countries, fears of sudden capital flight from these countries have eased.

MSCI Emerging Markets



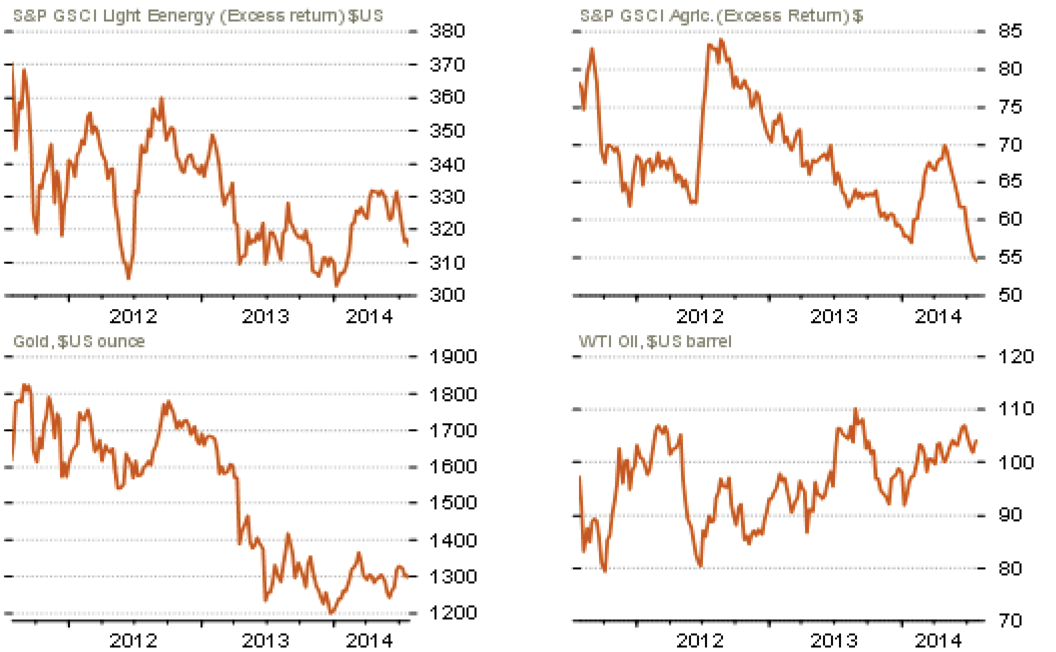
Source: Thomson Reuters Datastream, BetaShares

Bassanese's Outlook: My core view is that emerging markets should continue to benefit from the broader global equity market upswing, but due to greater country risks and greater commodity exposure in countries such as Brazil, Russia and South Africa – I prefer developed markets exposure over emerging markets. Relative valuations are also less compelling than in mid-2013.

COMMODITIES

Commodity prices eased further last month, though at a slower rate. The broad S&P GSCI Light Energy index surged in line with agricultural prices earlier this year – due to poor US growing conditions – only to then retrace as US weather improved and bumper harvests were anticipated. Recently announced Russian food import restrictions have not helped. Oil prices, however, have been grinding higher – thanks in part to rising geo-political risks, while gold prices are trying to find a bottom after the large sell-off through 2012 and 2013.

Commodities



Source: Thomson Reuters Datastream, BetaShares

***Bassanese's Outlook:** Modest global economic growth, low inflation, a gradually strengthening US dollar and rising supply in some markets continue to temper the overall commodity price outlook. While the long-term agricultural price outlook remains positive - due to rising Asian living standards - good US supply conditions are a near-term headwind.*

Despite recent declines, gold prices remain at high real levels underpinned by lingering investor support. However, in the absence of higher global inflation even the recent upsurge in geo-political tension has not boosted gold prices all that much – and prices may struggle to return to a strong uptrend. As has been evident in recent years, however, commodities - such as oil and gold – continue to offer useful hedges against a more severe outbreak of geo-political instability or global inflation.

BetaShares Exchange Traded Funds

ASSET PERFORMANCE AUGUST 2014: DETAILED REVIEW*

	Month	3-mth	12-mth
Cash	0.2%	0.7%	2.6%
US Dollar	-0.3%	-0.3%	-4.3%
Aust. Bonds	1.0%	2.1%	6.9%
Aust. Property	1.7%	10.3%	19.7%
Aust. Equities	-0.1%	3.5%	14.4%
Financials	-0.2%	3.1%	18.2%
Resources	-2.9%	2.4%	6.6%
Int. Equities	2.4%	3.4%	21.5%
-unhedged	1.7%	2.2%	16.5%
Em. Markets	1.8%	7.4%	18.4%
-unhedged	1.8%	6.6%	15.4%
Commodities	-1.4%	-5.2%	-4.7%
Agric.	-0.8%	-15.8%	-15.0%
Gold	0.1%	3.5%	-7.8%
Oil	-0.4%	-4.8%	-9.4%

Price returns for latest month, total returns for 3 and 12 months periods.
Source: Thomson Reuters DataStream. Past performance is not an indication of future performance.

*ASSET BENCHMARKS

Cash: UBS Bank Bill Index
US Dollar: spot US dollar exchange rate vs. A$
Australia bonds: UBS Composite Bond Index
Australian property: S&P/ASX 200 A-REITs
Australian equities: S&P/ASX 200 Index
Financials: S&P/ASX 200 Financials (ex A-REITs)
Resources: S&P/ASX 200 Resources
International equities: MSCI World (developed market) Equity Index, local currency & unhedged $A terms
Emerging markets: MSCI Emerging Markets Equity Index, local currency & unhedged $A terms
Commodities: S&P GSCI Light Energy Index, $US terms
Agriculture: S&P GSCI Agricultural (excess return) Index, $US
Gold: spot gold bullion price/ounce, $US
Oil: West Texas Intermediate, price per barrel, $US.

BETASHARES PRODUCT OFFERINGS ACROSS ASSET CLASSES

Asset Class	Investment Exposure	BetaShares Fund	ASX Ticker	MER(%pa)
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%
	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%
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 the relevant PDS for more information.

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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$60B, including over US$8B in ETFs.

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