INVESTMENT OUTLOOK

The global economy has grown above trend in 2018 although it slowed in the second half of the year, and recent data has been consistent with a continuation of slower global growth in early 2019, particularly in the euro area and parts of Asia. Notwithstanding the slower growth in output, labour markets in the major advanced economies have remained tight and there have been ongoing signs of upward pressure on wages. However, this has not translated into materially higher inflation. Core inflation has remained below target in many economies.

In the United States, the labour market remains strong, but growth of economic activity has slowed. Job gains have been solid, and the unemployment rate has remained low. Recent indicators point to slower growth of household spending and business fixed investment in the first quarter of 2019.

In China, the authorities have announced a range of new fiscal easing measures and have also taken steps to ease financial conditions in recent months in response to concerns about slower growth in output.

Trade tensions have remained a continued source of uncertainty for the global economic outlook. The delay in tariff increases previously scheduled for March 1 has generated some optimism that tensions could ease. However, the increases in tariffs implemented in 2018 have continued to weigh on trade between the United States and China, and there have been spill over effects on some other economies including Europe. There is also the prospect of further tariff increases on automobile imports into the United States with Germany and Japan likely to be particularly affected.

U.S. and Chinese trade negotiators have made what both governments have called meaningful progress toward a trade deal, with China agreeing to substantially increase its purchases of American goods and services, to open Chinese markets wider for U.S. companies and to better protect U.S. intellectual property rights. Washington negotiators, led by U.S. Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin, and their Chinese counterparts led by Vice Premier Liu He, are aiming to close a deal by the end of April.

Some U.S. Federal Reserve officials are saying it is too soon to consider cutting U.S. interest rates, despite rising market speculation of such a move because of slowing global growth. A recent development in the bond market shows investors expect the Fed not to raise rates and increasingly anticipate officials could lower them. The development, called a yield-curve inversion, occurs when the yields on long-term Treasuries fall below those of short-term government securities, a reversal of the norm. Inverted yield curves typically have preceded recessions by one or two years, but they are not necessarily a recession indicator. Instead, the yield curve inverts when markets expect the Fed's next move will be to cut rather than raise rates. Before considering whether to lower rates, "I would need to see an inversion of some magnitude and/or some duration, and right now we do not have either," said Dallas Fed President Robert Kaplan in an interview. The recent yield-curve inversion reflects bond investors' expectations of slower-than-anticipated economic growth, Mr. Kaplan said, adding it was too soon to say whether investors would be right. "I would be careful not to over-read or overreact in any moment to what markets are saying…because they have the ability to change on a dime," he said.

In respect of Australia, housing prices have been trending lower for seventeen months and have fallen by a cumulative 7.4% since peaking in October 2017. Turnover in the housing market has fallen significantly. There continues to be considerable uncertainty around the outlook for consumer spending given the environment of declining housing prices, low growth in household income and high debt levels. Retail sales and sales of motor vehicles have fallen over recent months.

With the probability of interest cuts by the RBA increasing, the Australian dollar may weaken somewhat against the US dollar unless we see a further rally in commodity prices. It is also worthwhile noting that if there is a downturn in the Australian economy, the Australian dollar should weaken against other currencies. International assets in a portfolio should then increase in value in Australian dollar terms to neutralise the decrease in value in Australian assets.

ECONOMIC OVERVIEW

AUSTRALIAN ECONOMY

GDP growth in Australia over 2018 has been lower than anticipated and showed a markedly slower pace of growth in the second half of 2018 than in the first half (see graph below). In contrast to the slowdown in GDP growth, conditions in the labour market have continued to improve. The unemployment rate has fallen to 4.9 per cent in February, and wage growth has picked up somewhat to 2.3%.

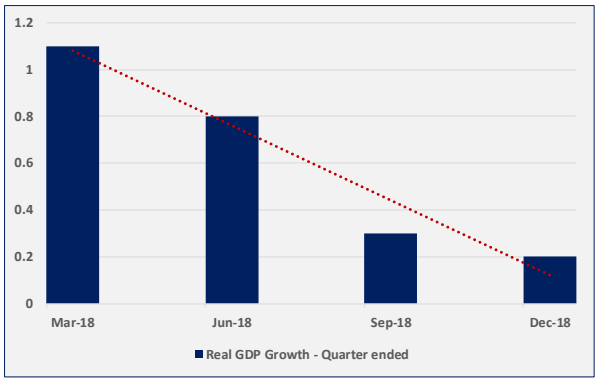
Inflation remains low and stable. The CPI rose 1.8 per cent through the year to the December quarter 2018.

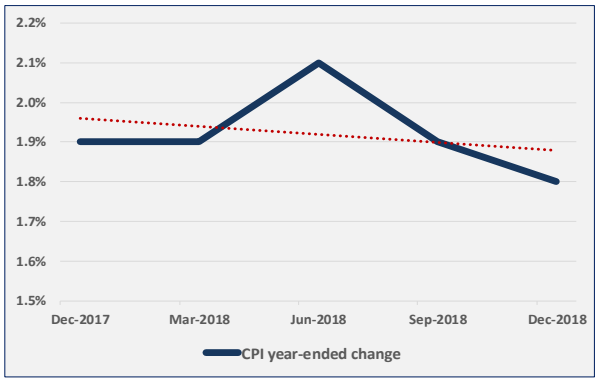
The CoreLogic national home value index was down 0.6% in March. Dwelling values were down across six of the eight capital cities, with Canberra values holding firm while Hobart values were 0.6% higher. Sydney and Melbourne values were down 0.9% and 0.8% respectively. Although the CoreLogic index trended lower in March, the actual rate of decline has been easing over the past three months. However, the scope of the downturn has become more geographically widespread.

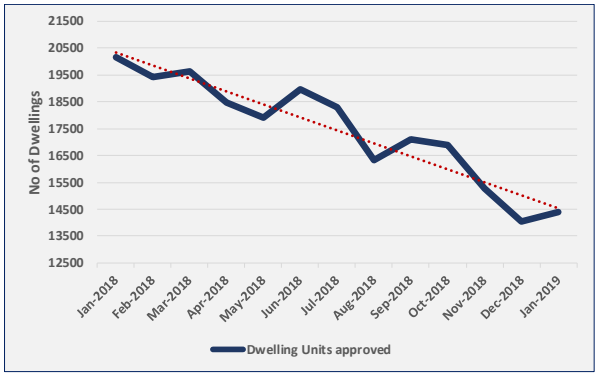
Residential building approvals declined sharply over the last 12 months and point to a marked slowing in dwelling investment in one to two years' time.

For the March quarter, the AUD strengthened 0.4% against the USD to close at 0.7087. For the 12 months to March, the AUD weakened 7.5% against the USD and weakened against all other major currencies.

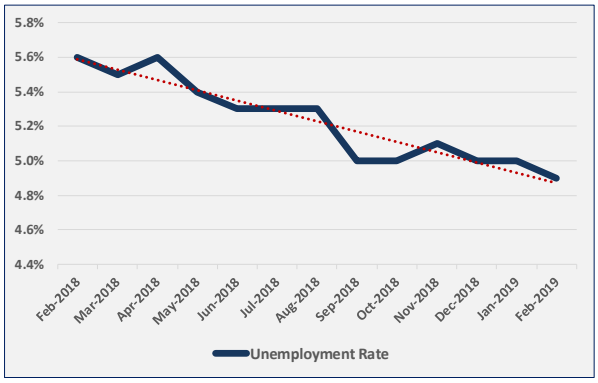
Key Australian Economic Indicators

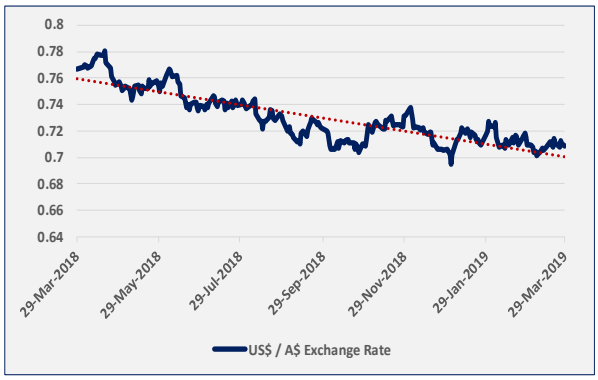






March	Change in House Prices		
	Month	Quarter	Annual
Sydney	(0.9%)	(3.2%)	(10.9%)
Melbourne	(0.8%)	(3.4%)	(9.8%)
Brisbane	(0.6%)	(1.1%)	(1.3%)
Adelaide	(0.2%)	(0.5%)	0.8%
Perth	(0.4%)	(2.9%)	(7.7%)
Hobart	0.6%	1.2%	6.0%
Darwin	(0.6%)	(3.9%)	(6.8%)
Canberra	0.0%	0.0%	3.1%
National	(0.6%)	(2.3%)	(6.9%)





UNITED STATES ECONOMY

In the United States, the labour market remains strong but the growth of economic activity has slowed. Job gains have been solid, and the unemployment rate has remained low. Recent indicators point to slower growth of household spending and business fixed investment in the first quarter of 2019.

Real gross domestic product increased at an annual rate of 2.2 percent in the fourth quarter of 2018, according to the "third" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased by 3.4 percent.

The consumer price index increased 0.2 percent in February after being unchanged in January, the U.S. Bureau of Labor Statistics reported. Over the last 12 months, the all items index increased 1.5 percent.

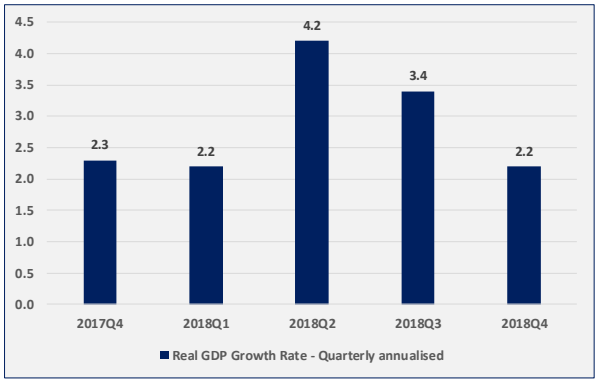
Job gains have averaged at a substantial 186,000 per month over the last 3 months and the unemployment rate declined to 3.8 percent at the end of February with the US economy at full employment.

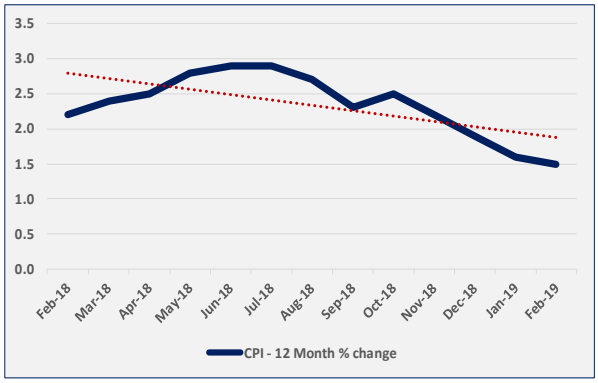
Consumer confidence declined in March, after increasing in February. Confidence has been somewhat volatile over the past few months as consumers have had to weather volatility in the financial markets and a partial government shutdown. Despite these dynamics, consumers remain confident that the economy will continue expanding in the near term.

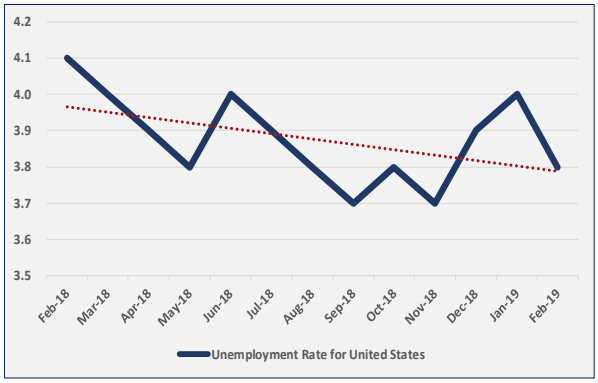
Manufacturing expanded in February, as the PMI registered 54.2 percent, a decrease of 2.4 percentage points from the January reading of 56.6 percent. In February, the NMI (non-manufacturing index) registered 59.7 percent, 3 percentage points higher than the 56.7 percent registered in January, indicating continued growth in the non-manufacturing sector for the 109th consecutive month.

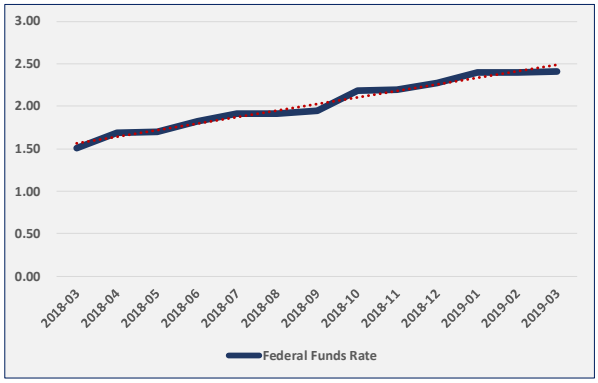
At its March meeting, the U.S. Federal Reserve decided to maintain the target range for the federal funds rate at 2.25% to 2.50%. The U.S. Fed now expects to not raise the rate for the remainder of 2019, and only once in 2020.

Key United States Economic Indicators









EUROPEAN ECONOMY

The last year has seen a loss of growth momentum in the euro area, which has extended into 2019. Real GDP increased by 0.2%, quarter on quarter, in the fourth quarter of 2018, following growth of 0.1% in the third quarter. Incoming data continues to be weak, in particular in the manufacturing sector.

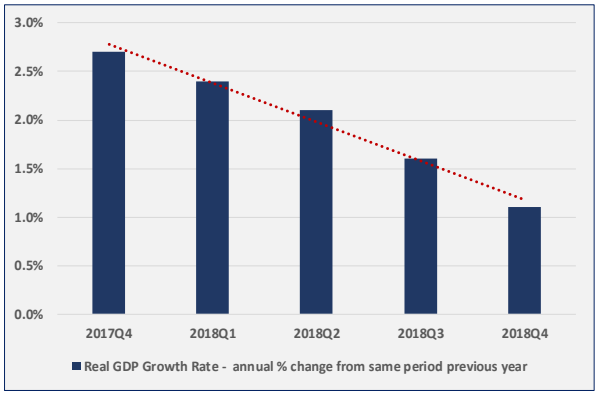
This assessment is broadly reflected in the European Central Bank's March 2019 macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 1.1% in 2019, 1.6% in 2020 and 1.5% in

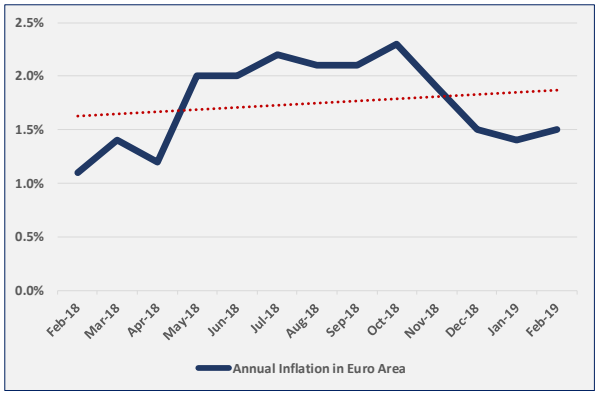
2021. Compared with the December 2018 ECB projections, the outlook for real GDP growth has been revised down substantially in 2019 and slightly in 2020. The risks surrounding the growth outlook are still tilted to the downside.

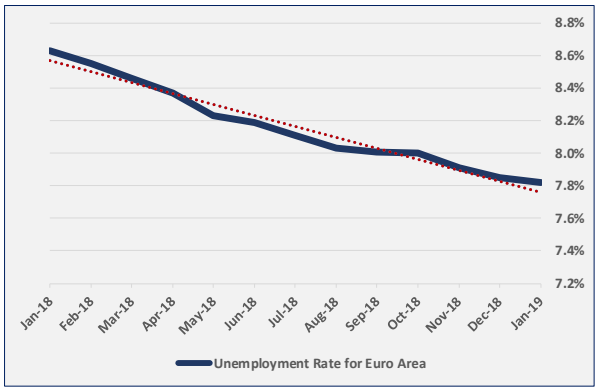
Euro area annual inflation is expected to be 1.2% in 2019, 1.5% in 2020 and 1.6% in 2021.

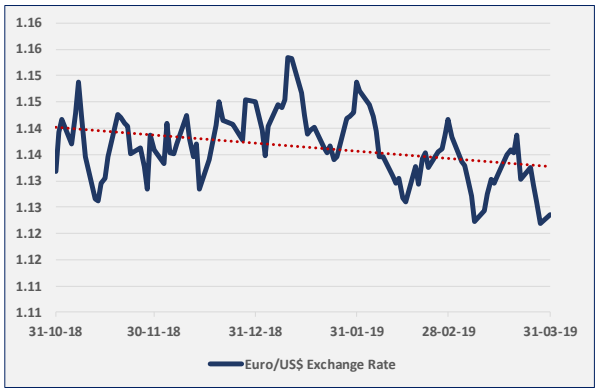
At its March meeting, the ECB decided to keep the key ECB interest rates unchanged and expects them to remain at their present levels at least through to the end of 2019. The ECB intends to continue reinvesting the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time.

Key Euro Area Economic Indicators







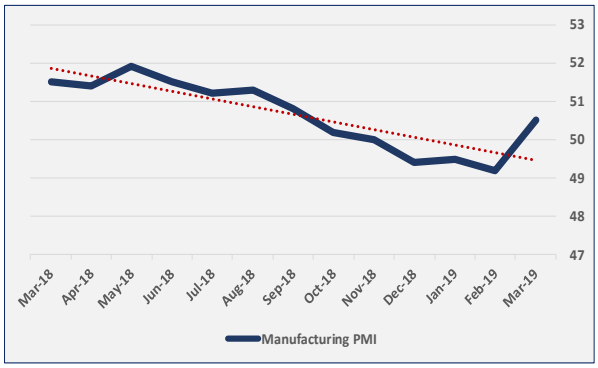


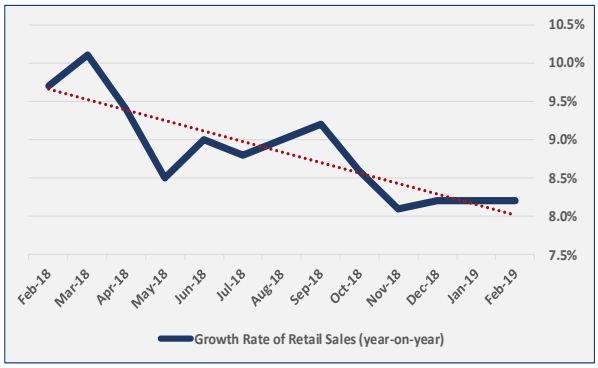
CHINESE ECONOMY

In China, the authorities announced a range of new fiscal easing measures and have also taken steps to ease financial conditions in recent months in response to concerns about slower growth in output in the second half of 2018. An official gauge of activity in China's important manufacturing sector rebounded strongly in March, suggesting that Beijing's support policies are gaining traction.

Slowing growth in China and ongoing trade tensions has led to lower growth in global trade, and continued to be a source of uncertainty for the outlook for global growth.

Key Chinese Economic Indicators





FINANCIAL MARKETS OVERVIEW

Equity Markets

Equity markets captured their biggest quarterly gains in nearly a decade, lifted by views that central banks would hold interest rates at low levels as global economic growth slows. Major indexes have now recouped almost all of the losses they suffered in the final months of 2018, when fears about an economic downturn sent markets around the world declining. The markets' turnaround has helped improved investors' appetite for what many believe could be one of the biggest years ever for IPOs. On the last trading day of the quarter, shares of ride-hailing firm Lyft Inc. rose 8.7% in their debut.

The S&P 500 added 13.1% for the quarter, its best showing since 2009. The Nasdaq Composite rose 16.5% and Australia's ASX200 increased by 9.5%. The MSCI Europe rose 10.0% while China's Shanghai Composite added 23.9%.

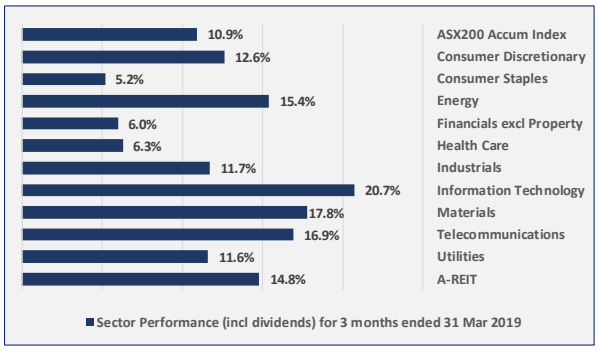
Index Performance*	3 Months	6 Months	12 Months	FYTD
ASX 200	9.5%	(0.4%)	7.3%	(0.2%)
S&P 500	13.1%	(2.7%)	7.3%	4.3%
Nasdaq Composite	16.5%	(3.9%)	9.4%	2.9%
FTSE 100	8.2%	(3.1%)	3.2%	(4.7%)
DAX	9.2%	(5.9%)	(4.7%)	(6.3%)
MSCI Europe	10.0%	(4.3%)	(6.6%)	(4.0%)
Nikkei 225	6.0%	(12.1%)	(1.2%)	(4.9%)
Shanghai Composite	23.9%	9.5%	(2.5%)	8.5%
A-REIT	13.9%	9.8%	20.3%	11.2%

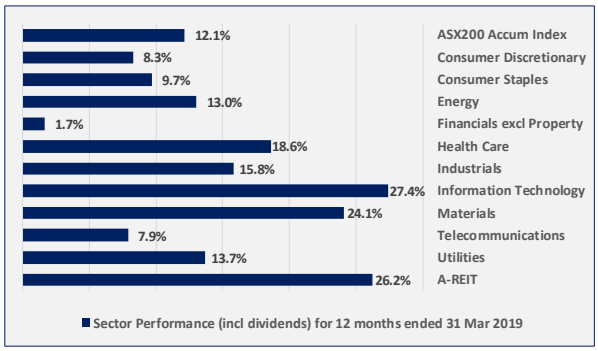
** Excluding impact of currency movements*

The ASX 200 Accumulation Index (including dividends) rose 10.9% for the quarter and increased 12.1% for the 12 months ended March. The A-REIT Accumulation Index added 14.8% for the quarter and rose 26.2% for the 12 months.

Returns including Dividends	3 Months	6 Months	12 Months	FYTD
ASX 200 Accumulation Index	10.9%	1.8%	12.1%	3.3%
A-REIT Accumulation Index	14.8%	12.6%	26.2%	14.7%

For the March quarter, all sectors of the ASX 200 Accumulation Index increased. The Information Technology sector was the best performer, increasing 20.2% (including distributions). The Consumer Staples sector was the worst performer rising 5.2%. Over the 12 months ended 31 March, all sectors posted positive returns. The Information Technology sector was the best performer returning 27.4% including dividends, and the Financial sector was the worst performer returning 1.7%.



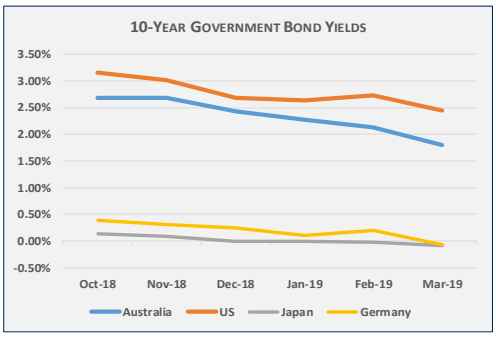


Mid-cap companies underperformed against Large-cap companies in the quarter, and Small-cap companies outperformed. Small and Mid-cap companies underperformed against Large-cap over the 12 months ended 31 March.

Index Returns including Dividends	3 Months	12 Months
ASX200 Accum Index	10.9%	12.1%
ASX20 Accum Index	9.9%	14.2%
MidCap50 Accum Index	9.8%	4.0%
Small Ords Accum Index	12.6%	5.8%

Bond Markets

Rallying government bonds posted another quarter of gains after fresh data showed inflation firmed less than economists had expected at the start of the year. The combination of a dovish Fed and tame inflation has helped U.S. government bond prices rise throughout the year.



The yield on the benchmark 10-year Treasury, used as a reference for everything from mortgages to student debt in the U.S., settled at 2.416% at the end of the quarter, well below 2.684%, where it ended 2018. Yields fall as bond prices rise.

As yields have fallen, traders have increased bets that the Fed will have to keep rates at low levels. Federal-funds futures showed that at the end of the quarter, the market was not pricing in any chance of a rate increase by the end of the year, according to CME Group. That is a stark shift from the end of last year, when futures pointed to expectations of around two rate increases.

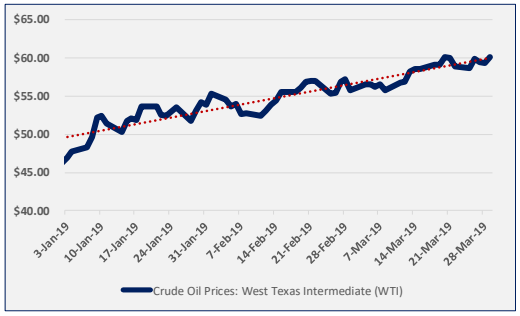
Currency Markets

The Australian dollar strengthened 0.4% against the U.S. dollar and 2.1% against the Euro during the quarter but weakened against the Chinese yuan and British pound. The Australian dollar declined 7.5% against the U.S. dollar during the last 12 months but strengthened 1.5% against the Euro.

Currencies	FX Rate				Change		
	31-Mar-19	31-Dec-18	30-Jun-17	31-Mar-18	3 Month	FYTD	12 Month
A$/US$	0.7087	0.7058	0.7692	0.7665	0.4%	(7.9%)	(7.5%)
A$/Euro	0.6310	0.6178	0.6730	0.6217	2.1%	(6.2%)	1.5%
A$/CNY	4.7659	4.8548	5.2067	4.8246	(1.8%)	(8.5%)	(1.2%)
A$/JPY	78.49	77.93	86.16	81.61	0.7%	(8.9%)	(3.8%)
A$/GBP	0.5422	0.5563	0.5913	0.5444	(2.5%)	(8.3%)	(0.4%)

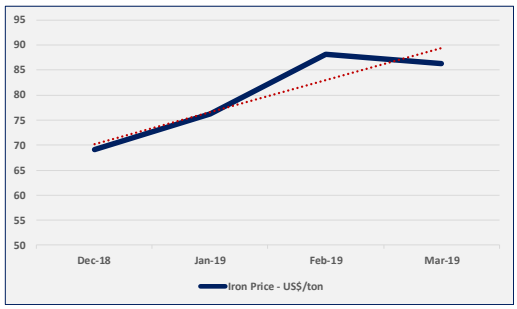
Commodity Markets

U.S. oil is off to the best start to a year since 2002 amid efforts by major exporters to curb supply and by central banks to ease global-growth fears.



Oil prices rose 32% in the first quarter, bouncing back after hitting their lowest level in 18 months on Christmas Eve. U.S. crude futures finished the quarter at $60.14 a barrel, their highest level since early November. Brent crude, the global benchmark, rebounded 27% to $68.39 during the period.

Much of the market's recovery has been attributed to aggressive output cuts from the OPEC and its allies. Saudi Arabia, the de facto head of the coalition, and other oil-producing nations led by Russia struck a deal in December to withhold 1.2 million barrels of daily production from global markets.



Iron ore also had a good quarter with the iron ore price increasing about 25% to US$86.37 per ton. The sharp increase was driven by supply shortages caused by the mine disaster in Brazil in January. The collapse of a waste dam at Vale's Corrego do Feijao mine in the south-eastern state of Minas Gerais killed around 300 people. Resources analysts at UBS said the closure of Vale mines and waste dams in the wake of the disaster had taken nearly 93 million tonnes of iron ore out the market.