Plan B Seminar

Presented by
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Global Banks – Credit withdrawn – Bad Debt - Housing

Bank : Market Cap

- **Market Value as of January 20th 2009, $Bn**
- **Market Value as of Q2 2007, $Bn**
Biggest Money Printing of All Time

(Fed expansion of monetary base)
Bond Outflows

Bond Fund Exodus of $144+ Billion is Worst Ever!

Source: ICI
Capital Flows

Source: World Bank
The Fragile Five

Currency turmoil

- Indonesia
- India
- Brazil
- South Africa
- Turkey

Source: FactSet
Annual Returns and Intra Year Declines
Forecast Earnings per Share
Forward P/E Ratios

Sources: MSCI; Thomson Reuters
Australian Exports

*Source: DFAT/ABS*
Average Lending Rates in China
US Economic Growth

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Growth Rate</th>
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<tbody>
<tr>
<td>Q4 2011</td>
<td>4.9%</td>
</tr>
<tr>
<td>Q1 2012</td>
<td>3.7%</td>
</tr>
<tr>
<td>Q2 2012</td>
<td>1.2%</td>
</tr>
<tr>
<td>Q3 2012</td>
<td>2.8%</td>
</tr>
<tr>
<td>Q4 2012</td>
<td>0.1%</td>
</tr>
<tr>
<td>Q1 2013</td>
<td>1.1%</td>
</tr>
<tr>
<td>Q2 2013</td>
<td>2.5%</td>
</tr>
<tr>
<td>Q3 2013</td>
<td>4.1%</td>
</tr>
<tr>
<td>Q4 2013</td>
<td>3.2%</td>
</tr>
</tbody>
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Note: GDP % Quarterly change, seasonally adjusted at annual rates. Source: Bureau of Economic Analysis.
Unemployment US/Australia
Domestic Datapoints

Household Finances
Per cent of household disposable income

<table>
<thead>
<tr>
<th>Debt</th>
<th>Interest paid</th>
</tr>
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<tbody>
<tr>
<td>1993</td>
<td>1993</td>
</tr>
<tr>
<td>2003</td>
<td>2003</td>
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<tr>
<td>2013</td>
<td>2013</td>
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<tr>
<td>2014</td>
<td>2014</td>
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</tbody>
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Household sector excludes unincorporated enterprises; disposable income is after tax and before the deduction of interest payments.
Sources: ABS, RBA

Housing Prices

Sydney
Perth
Melbourne
Canberra
Brisbane
Australia
Adelaide
Regional

Housing Loan Approvals

Total
Repeat-buyer owner-occupiers
Investors
First home buyers

Sources: RBA, RP Data-Rismark
The consumer balance sheet remains relatively healthy, with savings ratio remaining above 10% and cost of servicing household debt has reduced (driven by lower interest rates). Recent resurgence in property prices should see further improvement in consumer confidence. However given the expectation of below trend economic growth, unemployment rate is expected to trend up and wage growth is likely to be muted.
Australian Growth

Transitioning from a resources capex driven to other growth drivers: housing recovery (likely due to historically low interest rates and pent up demand), manufacturing (unlikely due to uncompetitiveness), infrastructure (likely given new federal government’s increased funding promise), business sector (remains cautious), tourism (potentially with lower Australian dollar). Australian GDP growth is expected to remain below trend during transition years.
Macro Overview...

**Global Growth.** Trending up, driven largely by developed market economies (US, Japan and UK). Emerging markets’ growth under some pressure from capital outflows but long term drivers remain in place (e.g. improving middle class consumption). China growth has moderated but remains above 7%. Chinese government continues to implement its reform agenda in order to put the country on a more sustainable growth path.
The S&P/ASX200 delivered total shareholder return of **20.2% in 2013**, which included capital gains of 14.8%.

Performance was driven by Banks, which contributed more than half of the annual return.

Outside the Banks, Telstra and Wesfarmers were the other most notable contributors to performance

Best performing ASX200 companies over the 2013 were: Slater & Gordon (+131%), JB Hi-Fi (+114%), REA Group (+112%) and Kathmandu (+111%).

Worst performing ASX200 companies were: Silver Lake Resources (-83%), Resolute Mining (-66%), Newcrest Mining (-64%), Evolution Mining (-63%)

Large caps outperformed small caps in 2013 by 21%. Small resources fared the worst, declining 43%.
US Employment Growth Slowing

WORLD ECONOMIC OUTLOOK UPDATE JANUARY 2014

UPSIDE
- Strengthened global activity during second half of 2013
- Euro area moving from recession to recovery
- Higher export demand in emerging markets
- U.S. budget deal to boost final demand in 2014

TO ENSURE GROWTH, IMF RECOMMENDS:
- Advanced economies:
  - avoid premature monetary policy tightening
  - repair balance sheets
  - implement structural reforms to boost growth
- Emerging market and developing economies:
  - manage vulnerabilities from capital flow volatility
  - safeguard financial stability after rapid credit growth
  - implement structural reforms to boost growth

RISKS
- Possible deflation in advanced economies
- Weak domestic demand in emerging markets
- Stagnation in euro area
- Capital flow volatility to some emerging markets

GROWTH

INTERNATIONAL MONETARY FUND

www.IMF.org #WEO
Index Returns

As of Date: 31/12/2013

- S&P/ASX 300 A-REIT TR: 7.3%
- S&P/ASX 300 TR: 19.7%
- UBS Bank 0+ Yr TR AUD: 2.9%
- UBS Composite 0+ Yr TR AUD: 2.0%
- MSCI World Ex Australia NR AUD: 48.0%

Source: Morningstar Direct
All Ord annual performance distribution since 1901…where 2013 sits…

Source: Global Financial Data, IRESS, Morgan Stanley Research
Conclusion

Market Valuations towards the high side
Low returns from bonds
Retain a balanced portfolio
Average returns circa 6%

Risks
Earnings growth
China
Unwinding Stimulus