

Quarterly Market Review

THEMES FOR THE QUARTER

- Solid Returns in Australia, NZ & Other Developed Equity Markets
- Energy, Healthcare & IT Among Top Sectors; Telecoms & Financials Worst
- In Reversal of Previous Quarter, Emerging Markets Performed Poorly
- Australian Size & Value Premiums Negative for Quarter; Positive for Year
- Global Value Premium Negative for Quarter & Year; Size Positive for Quarter
- Longer Bonds Lagged Shorter in Quarter; But Outperformed for Year
- AUD Fell Versus USD in Quarter; But Gained Vs NZD, Euro and GBP



Click on each tab below for more information about the last quarter.

[Global Markets Summary](#)[World Indices Wrap Up](#)[Dimensional Strategies](#)

NOTE: This account of economic and market themes in the last quarter is intended as a tool for advisors for talking about the general market environment of the past quarter, not as an explanation for our trusts' performance over this period.

GLOBAL MARKETS SUMMARY

The Australian, New Zealand and other developed equity markets performed strongly in the second quarter of 2018, although in a reversal of the previous quarter emerging markets bucked the trend.

Australia was one of the best performing developed markets, despite weakness in heavyweight financial stocks and Telstra. Energy was one of the standout sectors locally and globally, supported by healthcare, consumer staples and IT. In developed markets, listed property was also a notable positive performer.

Having led global market gains in the first quarter, emerging markets reversed course in the second quarter amid global trade tensions. While there were modest gains in India and China, there were heavier losses in most countries, led by Brazil and Turkey.

The value premium was negative for the quarter in the Australian, developed and emerging markets, but over the year was positive in Australia. The size premium was positive in developed markets over the quarter, but negative in Australia.

A theme for the quarter was a broad-based appreciation of the US dollar. In mid-June, citing an improving economy, the Federal Reserve raised its benchmark lending rate for the second time this year and upgraded its forecast for four increases in total for 2018.

In fixed interest markets, yields rose modestly in the US, but in the other major markets longer yields declined. Shorter bonds outperformed longer bonds over the quarter, but lagged their longer counterparts over the full year.




The Australian Dollar weakened against the US dollar over the quarter, but made gains against the Euro, UK Pound and New Zealand Dollar.

- *Financial headlines in the quarter were dominated by escalating trade tensions as the Trump administration threatened to raise tariffs against Chinese imports.*
- *The World Trade Organisation warned that continued escalation in protectionist measures by the major economies posed a serious threat to growth and recovery in all countries.*
- *International diplomacy was also a major media focus with the historic summit held in Singapore in June between US President Donald Trump and North Korean President Kim Jong Un.*
- *In Australia, the financial media focused on ongoing repercussions from the Hayne Royal Commission into the financial services industry.*






MARKET MOVEMENTS

Quarter End

CASH AND BONDS

	Australian Cash	0.49%
	Australian Bond Market	0.82%
	Global Bond Market	0.15%

STOCKS

	Australia	8.36%
	Developed Unhedged	5.53%
	Emerging Unhedged	-4.45%
	REITs Unhedged	10.69%
	Hedging Premium	-1.91%

Performance is shown in AUD. Past performance is not indicative of future results. Australian Cash – Bloomberg AusBond Bank Bill Index, Australian Bonds – Bloomberg AusBond Composite 0+ Yr Index, Global Bonds – Bloomberg Barclays Global Aggregate Bond Index (hedged to AUD), Australian Stocks – S&P/ASX 300 Index (Total Return), Developed Stocks – MSCI World ex Australia Index (net div., AUD), Emerging Stocks – MSCI Emerging Markets Index (net div., AUD), REIT Stocks – S&P Developed REIT Index (net div., AUD), Hedging Premium – MSCI World ex Australia Index (net div., hedged to AUD) minus MSCI World ex Australia Index (net div., AUD).

Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

GLOBAL MARKETS SUMMARY (CONT'D)

FIGURE 1
INVESTMENT CLIMATE GLOBAL EQUITIES

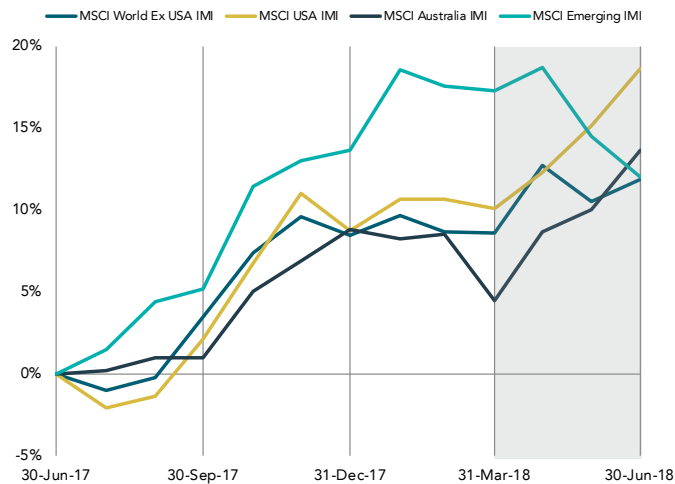


FIGURE 2
INVESTMENT CLIMATE AUSTRALIAN SECTORS

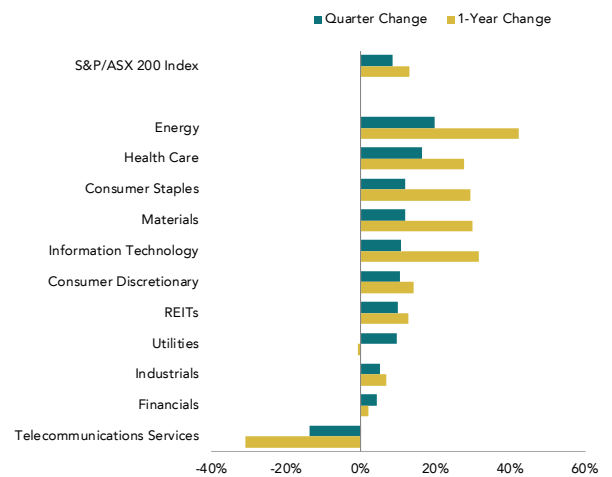


FIGURE 3
INVESTMENT CLIMATE GLOBAL CURRENCY

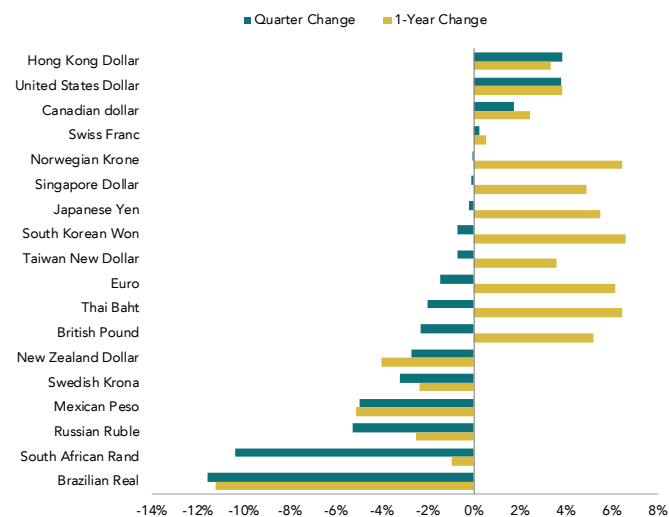


FIGURE 4
INVESTMENT CLIMATE FIXED INTEREST

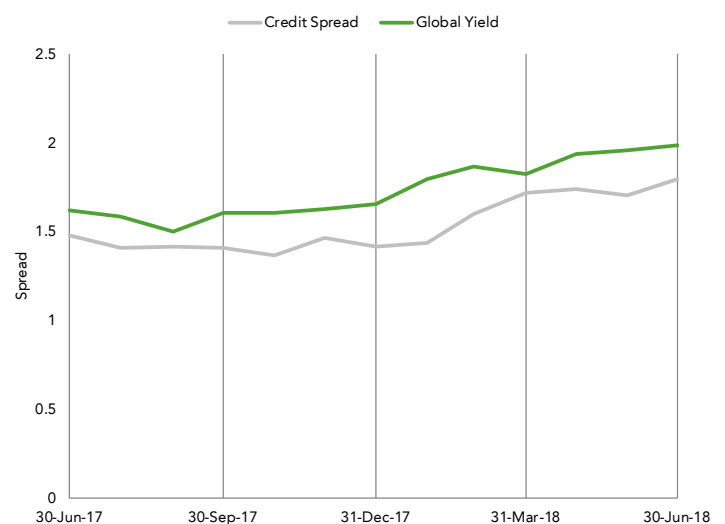


Fig 1. Performance is shown in AUD and is based on the MSCI World ex USA IMI Index (net div.), MSCI USA IMI Index (net div.), MSCI Australia IMI Index (net div.), and MSCI Emerging Markets IMI Index (net div.). Past performance is not indicative of future results. MSCI data copyright MSCI 2018, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Fig 2. Performance is shown in AUD and is based on the S&P/ASX 200 Index. Past performance is not indicative of future results. S&P/ASX data copyright 2018 S&P Dow Jones Indices LLC, a division of S&P Global, all rights reserved.. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Fig 3. Performance is shown in AUD. Currency data provided by WM/Reuters. Past performance is not indicative of future results.

Fig 4. Credit Spread is defined as Bloomberg Barclays Global Aggregate Corporate Yield to Worst minus Bloomberg Barclays Global Aggregate Treasuries Yield to Worst. Global Yield is defined as Bloomberg Barclays Global Aggregate Yield to Worst. Past performance is not indicative of future results. Data provided by Bloomberg. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

SECOND QUARTER AS AT 30 JUNE 2018
WORLD INDICES WRAP UP
FIXED INTEREST

	QTR	1 Year
Bloomberg AusBond Bank Bill Index	0.49%	1.78%
Bloomberg AusBond Composite 0+ Yr Index	0.82%	3.09%
Bloomberg Barclays Global Aggregate Bond Index (hedged to AUD)	0.15%	1.85%

AUSTRALIAN EQUITIES

	QTR	1 Year
S&P/ASX 300 Index (Total Return)	8.36%	13.24%
S&P/ASX Small Ordinaries Index (Total Return)	7.67%	24.25%
S&P Australia BMI Value Index (gross div., AUD)	8.74%	11.91%
S&P Australia BMI Growth Index (gross div.)	9.14%	17.06%

GLOBAL EQUITIES

	QTR	1 Year
MSCI World ex Australia Index (net div., AUD)	5.53%	15.39%
MSCI World ex Australia Index (net div., hedged to AUD)	3.62%	11.48%
Hedging Premium	-1.91%	-3.92%
MSCI World ex Australia Small Cap Index (net div., AUD)	7.22%	19.19%
MSCI World ex Australia Value Index (net div., AUD)	3.61%	9.81%
MSCI Emerging Markets Index (net div., AUD)	-4.45%	12.33%

REAL ESTATE

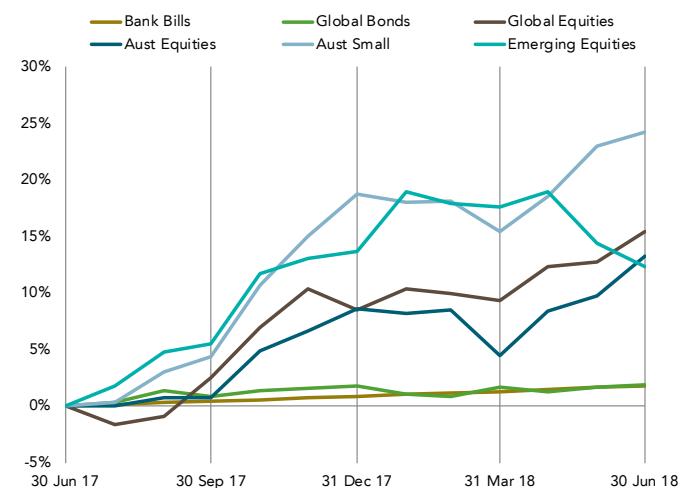
	QTR	1 Year
S&P/ASX 300 A-REIT Index (Total Return)	9.82%	13.20%
S&P Developed REIT Index (net div., AUD)	10.69%	8.44%

WORLD MARKETS

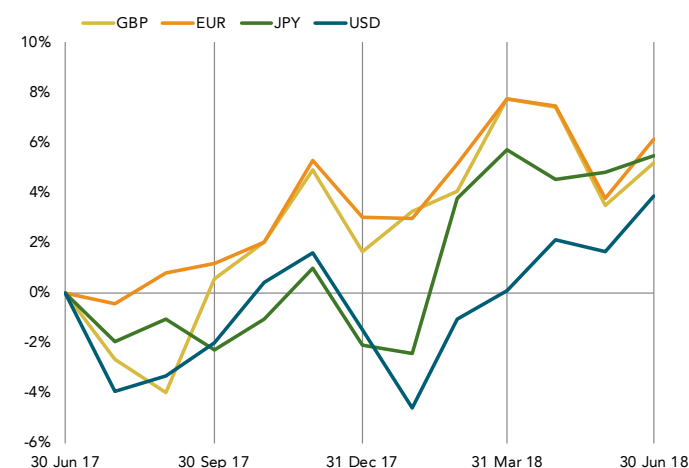
	QTR	1 Year
S&P 500 Index	7.38%	18.74%
MSCI United Kingdom Index (net div.)	6.88%	14.22%
MSCI Europe ex UK Index (net div.)	0.84%	7.46%
Japan Nikkei 225 Average Index (price-only)	3.63%	17.25%
Shanghai Stock Exchange Composite Index	-11.41%	-5.25%

CURRENCIES (RELATIVE TO AUD)

	QTR	1 Year
British Pound	-2.34%	5.20%
Euro	-1.47%	6.15%
Japanese Yen	-0.22%	5.47%
United States Dollar	3.78%	3.86%

MARKET RETURNS


Source: Bank Bills – Bloomberg AusBond Bank Bill Index, Global Bonds – Bloomberg Barclays Global Aggregate Bond Index (hedged to AUD), Global Equities – MSCI World ex Australia Index (net div., AUD), Aust Equities – S&P/ASX 300 Index (Total Return), Aust Small – S&P/ASX Small Ordinaries Index (Total Return), Emerging Equities – MSCI Emerging Markets Index (net div., AUD).

CURRENCY RETURNS (Relative to AUD)


DIMENSIONAL STRATEGIES

FIXED INTEREST	QTR	1 Year
Short Term Fixed Interest Trust	0.52%	1.63%
Two-Year Diversified Fixed Int. Trust AUD Class	0.43%	0.85%
Five-Year Diversified Fixed Int. Trust AUD Class	0.59%	0.98%
Global Bond Trust AUD Class	0.56%	1.88%
AUSTRALIAN EQUITIES	QTR	1 Year
Australian Large Company Trust	8.01%	11.85%
Australian Value Trust	9.35%	16.65%
Australian Small Company Trust	5.00%	15.76%
Australian Core Equity Trust	7.78%	15.65%
Australian Core Imputation Trust	6.29%	10.74%
GLOBAL EQUITIES	QTR	1 Year
Global Large Company Trust	5.10%	15.63%
Global Value Trust	2.70%	13.79%
Global Small Company Trust	6.15%	17.25%
Global Core Equity Trust Unhedged Class	4.92%	14.85%
Global Core Equity Trust AUD Hedged Class	3.12%	10.20%
Global Sustainability Trust Unhedged Class	5.26%	15.54%
Global Sustainability Trust AUD Hedged Class	3.28%	10.70%
Emerging Markets Trust	-4.97%	10.06%
GLOBAL REAL ESTATE	QTR	1 Year
Global Real Estate Trust Unhedged Class	9.06%	9.53%
WORLD ALLOCATION	QTR	1 Year
World Allocation 50/50 Trust	2.77%	7.27%
World Allocation 70/30 Trust	3.66%	9.74%
World Equity Trust	5.01%	13.31%

Performance is shown in AUD and is net of fees. Past performance is not indicative of future results. Dimensional does not guarantee the performance of any fund or strategy referred to, the repayment of capital, or particular rates of return.

DIMENSIONAL TRUSTS OVERVIEW
AUSTRALIAN EQUITIES

The standout performer in the June quarter among Dimensional's local equity strategies was the Australian Value Trust, which overcame a negative value premium to beat its benchmark by nearly a percentage point.

The main driver of this outperformance was the Trust's positioning within more profitable value companies.

Over the full year, the Australian Value Trust beat its benchmark by nearly three and half percentage points, helped by positive relative price and size premiums and its emphasis on profitability.

The Australian Core Trust delivered a solid quarterly return of 7.78%, although this fell short of its benchmark due to negative size and relative price premiums. Over the full year, however, it was buoyed by a strong positive size premium and eclipsed the S&P/ASX 300 index by nearly two and a half percentage points.

In the Australian Small Company Trust, an overweight to mid-caps due to the focus on profitability hurt relative performance, although in absolute terms, the quarterly and annual returns of 5.00% and nearly 16% respectively were solid.

As mentioned, Telstra and the major banks, popular sources of franking credits, were among the market's worst performers. This weighed on the Australian Core Imputation Trust, which lagged its benchmark by about two percentage points.

GLOBAL EQUITIES

With the value premium negative in most other developed markets, the Global Core Trust lagged its benchmark slightly, though its absolute returns of close to 5% for the quarter and 15% for the year were solid.

The negative value premium also explains most of the underperformance of the Global Value Trust, with an additional drag from its exclusion by design of Real Estate Investment Trusts which outperformed the broader equity market.

The REIT exclusion, alongside a mid-cap emphasis, also hurt relative performance for the quarter of the Global Large Trust, though this vehicle slightly outperformed its benchmark over the full year thanks partly to its high profitability focus.

The Global Sustainability Trust overcame its underweight of strong performing energy stocks, together with its emphasis on low relative price and mid-cap stocks, to a post a solid quarterly gain, only slightly lagging its benchmark.

SECOND QUARTER AS AT 30 JUNE 2018

FIXED INTEREST

It was a mixed quarter for fixed interest investors. Yields rose in the dominant US market. In other major markets, however, longer yields declined. Credit spreads widened over the quarter.

Of our strategies, the standout was the Global Bond Trust, which beat its benchmark by about 40 basis points due mainly to an underweight to US dollar-denominated bonds and overweight to higher quality Euro-denominated bonds.

Exposure to Euro bonds also helped the Five-Year Diversified Fixed Interest Trust in relative terms over the quarter, though it lagged over the year due to USD exposure.

Both the Short-Term Fixed Interest Trust and Two-Year Diversified Fixed Interest Trust delivered close to market performance over the quarter, although lagged over the year due to their USD exposures.

Depending on the specific strategy, our portfolios tended to reduce exposure to the US market over the quarter, and increase exposure to other markets, specifically Canada, the Eurozone and Sweden.

PROPERTY

Listed real estate markets were strong in Australian and developed markets over the June quarter, reversing a poor performance in the March quarter.

The Global Real Estate Trust delivered a solid quarterly gain of more than 9%, though lagged its benchmark by about one and a half percentage points due to its positioning in specialty REITs and its exposure to emerging markets.

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