MARKET COMMENTARY APRIL 2014

EXECUTIVE SUMMARY

- A harsh northern hemisphere winter, Ukraine and China pessimism were key market drivers for this quarter.
- Low interest rates to remain conducive to asset inflation, albeit with overvaluation risks.
- New leadership in China is transitioning from 'quantity to quality'. Slowing inevitable.
- Base and precious metals, energy, coal stabilizing, iron ore resilient.
- Australia is transitioning from mining to an east coast economic recovery.
- Future Corporate earnings at 10-12% with growth industrial companies at high PER's, misplaced skepticism in Resource companies with smaller miners showing contrarian value.
- ASX 200 at 5,422 (11/4/14) with a forward PER of 14.9x (Goldmans) based upon 10-12% 2015 earnings growth – driven by Energy, Media, Healthcare and Diversified Financials.
- Peak has a target for the market of 5,900 by end 2014 providing a total return of 12% (capital return of 7.5% + dividend yield of 4.3% plus franking).
- Peak portfolio continue to be 'growth theme' structured across healthcare, overseas earners, financial services, mining and energy, the Asian consumer and franked yield with growth.

Global markets

The first quarter was dominated by a harsh northern hemisphere winter that impacted negatively on economic activity, rumblings in Ukraine and concern and pessimism over China. The very favourable interest rate policy settings in the developed world remain highly supportive of further growth in asset prices. Such policy is supported by structural adjustments in much of Europe (especially the periphery), in Japan and China. In the US, some of the "headwinds" of fiscal tightening are now waning, supporting growth going forward. Tapering has commenced in the US and the ECB balance sheet is contracting.

How sick is Australia's Largest Trading Partner?

In China, it should now be widely accepted that China will slow as the base gets larger. There are legitimate concerns over growing indebtedness, but when looked at in aggregate, private savings and substantial foreign exchange reserves leave us comfortable.

The new leadership regime is firmly committed to an extensive reform program, that will undoubtedly lead to periodic unplanned consequences. We are more optimistic that the necessary structural reform and economic rebalancing will be delivered with economic activity around 7% or lower.

Commodities Weak on China Concerns

Australia's largest export, ***iron ore***, experienced a volatile first quarter on the back of China concerns. An effective "buyers strike" saw prices fall from $134 to $105, before recovering to above $116. Given the increasing production levels in Australia, our expectation is for prices to gradually decline over time. Major producers are at low end of cost curve; volume increases to partially offset price declines.

While ***Copper*** was weak during the last quarter, again mainly on China concerns, there were signs that base metals are finding a floor following supply side consolidation. This was evident in nickel, aluminum, platinum and palladium. We expect continued global recovery especially in the US and Europe to be supportive for prices from these levels.

Energy prices have benefitted from the cold winter. We see substantial increases in the number of autos in the emerging world (China in particular), a strengthening in economic activity in the developed world and some supply side constraints supporting oil prices around $100. Strong growth in demand for LNG into the longer term should support LNG prices, notwithstanding the possibility of the US becoming an exporter.

Australian economy at inflection point – upside surprise

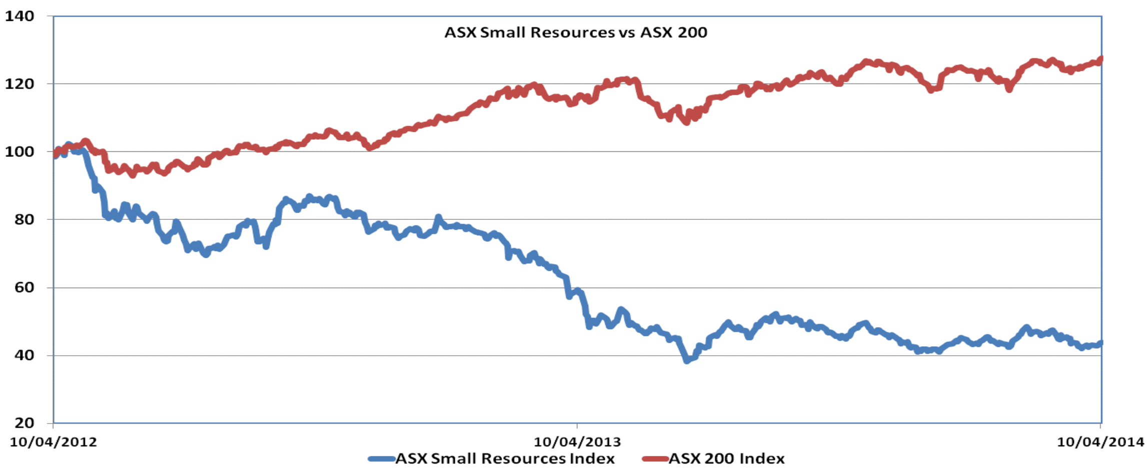
The transition from a 'mining investment driven economy' to a more conventional 'east coast driven' cycle is underway. It is clear that a strong recovery in housing construction is underway. A strong rebound in property prices is producing a positive wealth affect that is supporting a rebound in consumption at a time when income growth is very low by historical standards. The Free Trade Agreements with Japan, Korea and China in advanced stages of negotiation should be very beneficial to Australia. On balance, we are inclined to side with the RBA Governor's more positive view on the domestic prospects for the next year or so, with growth in the 2.5% to 3% region. Contrary to expectations of "a horror budget", we anticipate a medium term approach to fiscal responsibility with a substantial expansion of infrastructure projects.

The Market & Corporate Earnings outlook stable
With the ASX 200 at 5,422 and aggregate earnings growth expected to be 10-12% the 1 year forward PE is 14.9x. The growth is driven by Energy, Media, Healthcare and Diversified Financials.

Investment Paradox
Companies with strong earnings growth have moved to quite extreme valuations. Goldman Sachs recently concluded that the leading dozen high growth industrial stocks were trading at 28x prospective earnings. While a PER premium is justified for sustainable growth, we find it difficult to see great upside for these stocks from recent levels. At the other extreme are some small and mid cap stocks, especially in the mining sector where some have lost 80 to 90% of their value. Good opportunities abound for the contrarian investor.

Resource majors currently carry a "resource skepticism valuation discount". The market remains skeptical of BHP and RIO achieving their stated goals around improved operational efficiencies, free cash flow, better returns to shareholders, or any longer term improvement in commodity prices. We believe that such skepticism is too harsh.

Energy remains attractive to us. There will be substantial earnings growth from the sector over the medium term as new projects come on stream, and longer term, as domestic gas prices rise significantly. The Cooper Basin continues to provide upside surprises around conventional oil and gas with exploration opportunities.



Portfolio Management
We continue to manage portfolios around the following key themes:
Healthcare – Ramsay & CSL
Overseas earners – ANZ, Macquarie Group, Magellan, Fox & Brambles
Financial services – Perpetual & Macquarie Group (M&A)
Mining & energy – BHP, RIO, Santos & Oil Search
Emergence of the Asian consumer – Crown,
Yield plus growth – Banks & Infrastructure

Referrals are very important to us.
The best compliment is to give our name to someone that may need our portfolio service**. Thank you very much.**

We look forward to catching up with you soon to discuss your portfolio and address any change of circumstances or issues that we might be able to help you with.

Ian Wenham
Director

Richard Nicholas
Director

Andrew Martin
Director