

Quarterly Market Review

THEMES FOR THE QUARTER

- Emerging Markets the Standout in Mixed Global Equity Returns
- Developed Markets Positive; Australia and NZ Negative
- Value Premium Positive in Emerging Markets; Negative Elsewhere
- Size Premium Positive in Developed Markets; Negative in Emerging
- Profitability Premium Positive in Developed and Emerging
- REITs and Utilities Lag Broader Equity Markets
- Negative Term, Credit Premiums in Fixed Interest



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

It was a mixed first quarter for global equity markets in 2018, with an upsurge in volatility from the very low levels of 2017 a major talking point.

Emerging markets were the standout performers, gaining more than 3% overall in the quarter, while developed markets outside Australia and New Zealand were positive on an unhedged basis.

The reversal of fortune in Australasia came after a period of outperformance, with both markets down around 3% for the quarter. Australia was dragged down by its heavyweight banking sector.

While Australia lagged the world, it nevertheless enjoyed a strong positive size premium as small cap stocks beat large. There was also a more modest size premium in other developed markets, though not in emerging markets.

The value premium was mixed, registering a positive outcome in emerging markets but negative in the Australian and other developed markets. The profitability premium was almost universally positive over the quarter.

In sectoral terms, the big losers on the Australian market were telecommunications stocks, utilities, REITs, energy and financials. Healthcare and IT stocks were among the better performers. It was a similar sectoral pattern in other developed markets, though energy and financials performed well in emerging markets.

On a country-by-country basis, European countries dominated the top developed market performers, the US was in the middle of the pack, while Australia, New Zealand and Canada were among the laggards. Brazil was the top performing emerging market, China made solid gains, while India lagged.

Real Estate Investment Trusts (REITs) were weaker in both developed and emerging markets in the first quarter, with Australia one of the worst performing markets.

In the fixed interest market in the first quarter, term and credit premiums were negative. Yield curves tended to steepen, while credit spreads widened after narrowing throughout 2017.




On currency markets, the US dollar was mixed over the quarter, falling against the Japanese yen, British pound, the euro, Swiss franc and NZ dollar, but rising against the Australian and Canadian dollars.

- *Financial headlines were dominated in the quarter by an upsurge in market volatility after a period of relative calm. Media attributed the volatility to various causes, including protectionist pressures in the US, rising bond yields and greater regulatory scrutiny of the high-flying technology sector.*
- *In late March, the US Federal Reserve, in its first meeting under its new chair Jerome Powell, raised its benchmark interest rate by another quarter of a percentage point to 1.75% and forecast at least two more hikes for 2018.*
- *In Australia, the Reserve Bank left its own benchmark cash rate unchanged for a record equalling 18th consecutive meeting at 1.5%, pointing to strengthening economic growth alongside continued low inflation.*

MARKET MOVEMENTS

Quarter End

CASH AND BONDS

	Australian Cash	0.43%
	Australian Bond Market	0.87%
	Global Bond Market	-0.09%

STOCKS

	Australia	-3.78%
	Developed Unhedged	0.79%
	Emerging Unhedged	3.41%
	REITs Unhedged	-4.04%
	Hedging Premium	-3.05%

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

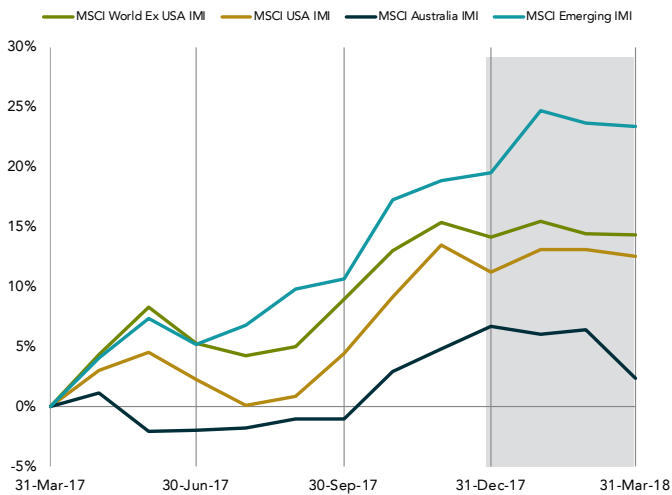


FIGURE 2
INVESTMENT CLIMATE AUSTRALIAN SECTORS

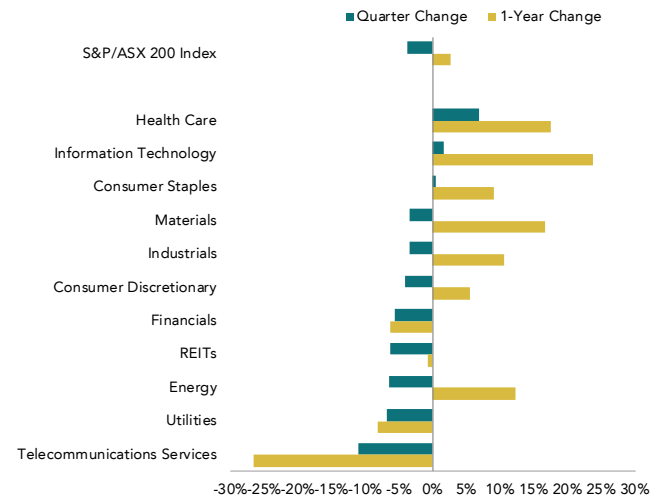


FIGURE 3
INVESTMENT CLIMATE GLOBAL CURRENCY

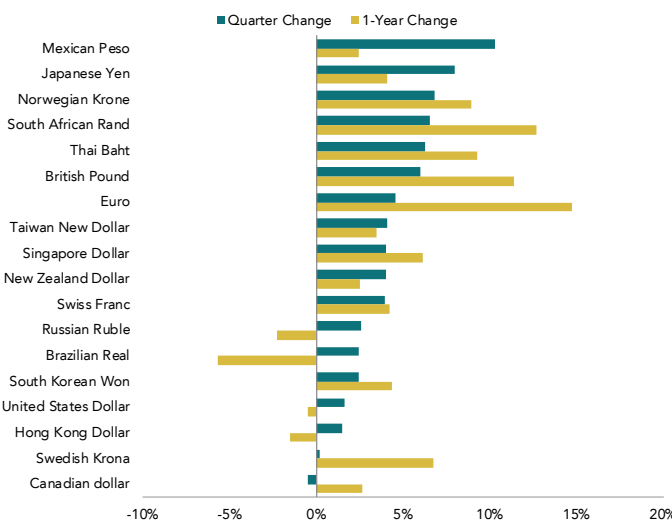


FIGURE 4
INVESTMENT CLIMATE FIXED INTEREST

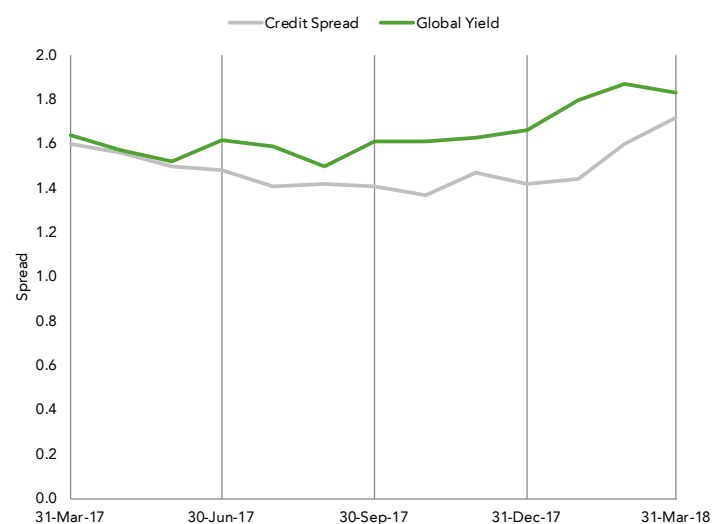


Fig 1. Performance is shown in AUD and is based on the MSCI World ex USA IMI Index (net div.), MSCI USA IMI Index (net div.), MSCI Australia IMI Index (net div.), and MSCI Emerging Markets IMI Index (net div.). Past performance is not indicative of future results. MSCI data copyright MSCI 2018, all rights 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.

FIRST QUARTER AS AT 31 MARCH 2018
WORLD INDICES WRAP UP
FIXED INTEREST

	QTR	1 Year
Bloomberg AusBond Bank Bill Index	0.43%	1.73%
Bloomberg AusBond Composite 0+ Yr Index	0.87%	3.28%
Bloomberg Barclays Global Aggregate Bond Index (hedged to AUD)	-0.09%	2.89%

AUSTRALIAN EQUITIES

	QTR	1 Year
S&P/ASX 300 Index (Total Return)	-3.78%	2.86%
S&P/ASX Small Ordinaries Index (Total Return)	-2.79%	14.99%
S&P Australia BMI Value Index (gross div., AUD)	-5.38%	-1.26%
S&P Australia BMI Growth Index (gross div.)	-2.16%	8.05%

GLOBAL EQUITIES

	QTR	1 Year
MSCI World ex Australia Index (net div., AUD)	0.79%	13.31%
MSCI World ex Australia Index (net div., hedged to AUD)	-2.26%	10.98%
Hedging Premium	-3.05%	-2.33%
MSCI World ex Australia Small Cap Index (net div., AUD)	1.51%	15.34%
MSCI World ex Australia Value Index (net div., AUD)	-1.15%	8.60%
MSCI Emerging Markets Index (net div., AUD)	3.41%	24.25%

REAL ESTATE

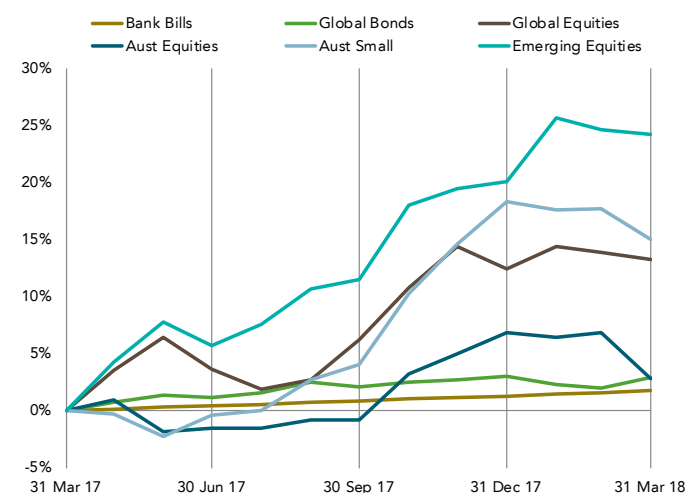
	QTR	1 Year
S&P/ASX 300 A-REIT Index (Total Return)	-6.19%	-0.07%
S&P Developed REIT Index (net div., AUD)	-4.04%	-1.01%

WORLD MARKETS

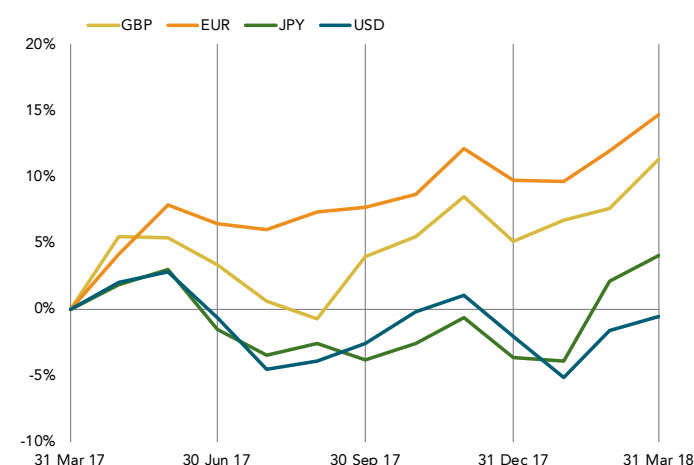
	QTR	1 Year
S&P 500 Index	1.19%	13.37%
MSCI United Kingdom Index (net div.)	-1.99%	11.30%
MSCI Europe ex UK Index (net div.)	0.70%	14.88%
Japan Nikkei 225 Average Index (price-only)	1.79%	18.23%
Shanghai Stock Exchange Composite Index	1.13%	7.13%

CURRENCIES (RELATIVE TO AUD)

	QTR	1 Year
British Pound	5.96%	11.37%
Euro	4.57%	14.71%
Japanese Yen	7.98%	4.06%
United States Dollar	1.59%	-0.53%

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	0.36%	1.57%
Two-Year Diversified Fixed Int. Trust AUD Class	-0.02%	0.94%
Five-Year Diversified Fixed Int. Trust AUD Class	-0.37%	1.19%
Global Bond Trust AUD Class	-0.58%	2.19%
AUSTRALIAN EQUITIES	QTR	1 Year
Australian Large Company Trust	-3.84%	2.10%
Australian Value Trust	-5.31%	2.19%
Australian Small Company Trust	-2.40%	10.38%
Australian Core Equity Trust	-3.82%	5.42%
Australian Core Imputation Trust	-4.56%	1.61%
GLOBAL EQUITIES	QTR	1 Year
Global Large Company Trust	0.81%	14.44%
Global Value Trust	0.10%	13.88%
Global Small Company Trust	1.22%	14.47%
Global Core Equity Trust Unhedged Class	0.33%	13.35%
Global Core Equity Trust AUD Hedged Class	-3.10%	10.02%
Global Sustainability Trust Unhedged Class	0.82%	14.25%
Global Sustainability Trust AUD Hedged Class	-2.62%	10.84%
Emerging Markets Trust	3.62%	17.96%
GLOBAL REAL ESTATE	QTR	1 Year
Global Real Estate Trust Unhedged Class	-3.20%	1.09%
WORLD ALLOCATION	QTR	1 Year
World Allocation 50/50 Trust	-1.18%	5.37%
World Allocation 70/30 Trust	-1.54%	6.97%
World Equity Trust	-2.03%	9.17%

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 Australian Core and Australian Large equity strategies performed broadly in line with the overall market in the first quarter. While the negative value premium weighed on Core, this was offset by positive size and profitability premiums.

Not surprisingly, given the negative value premium, the Australian Value Trust underperformed the S&P/ASX 300 index in the quarter, although again this was offset a little by contributions from small caps, more profitable companies and the exclusion of REITs.

The emphasis on profitability also helped the Australian Small Company Trust outperform the S&P/ASX Small Ordinaries index over the quarter, with an additional contribution from the REITs exclusion.

The poor performance of Australian bank stocks, a major source of franking yield, weighed on the Australian Core Imputation Trust.

GLOBAL EQUITIES

With the value premium also negative in other developed markets, the Global Core Trust lagged its benchmark slightly, though its emphasis on profitability helped it deliver results in line with the broad market over the full year.

The Global Sustainability Trust performed in line with its benchmark over the quarter, but outperformed over the year helped by its systematic emphasis on profitability, alongside its underweight of energy stocks.

The star performer of Dimensional's global equity strategies was the Emerging Markets Trust, which outperformed the MSCI Emerging Markets index thanks to its focus on value stocks in China, Brazil and South Africa.

FIXED INTEREST

In fixed interest markets, term and credit premiums were both negative.

In pursuit of the term premium on offer, Dimensional's fixed income strategies generally had longer duration than cash. As a result, the negative term premium in the past quarter, particularly in US bonds, detracted from performance versus cash.

After a period of relatively tight credit spreads, yields between corporate and sovereign bonds widened. As a result, the credit premium was negative over the first quarter, though remained slightly positive over the year.

FIRST QUARTER AS AT 31 MARCH 2018

FIXED INTEREST (CONT'D)

As a result, strategies employing variable credit faced some headwinds. The Two-Year Diversified Trust returned just two basis points for the quarter. However, the primary performance driver was the negative term premium.

The Global Bond Trust, which is similar to the global bond market, underperformed its benchmark mainly due to its overweight to USD corporates.

PROPERTY

Listed real estate markets were weak globally in the March quarter, with Australian REITs among the worst performers.

Still, the Global Real Estate Trust outperformed its composite benchmark, mainly due to country-specific exposures in emerging market REITs.

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