

EXCITING LiFE

Boring Money

.... and not the other way around

CARE QUARTERLY NEWSletter



GLOBAL OVERVIEW

■ FINANCIAL MARKETS HAVE BEEN ON A ROLLER COASTER RIDE OVER THE PAST 6 MONTHS. MARKET WEAKNESS WAS COMPLETELY REVERSED IN THE MARCH QUARTER OF 2019.

■ ALL ASSET MARKETS – SHARES, PROPERTY AND BONDS, HAVE REACTED TO THE LOWER FOR LONGER INTEREST RATE THEME GLOBALLY. THIS IS LIKELY TO PERSIST THROUGH TO THE END OF THE YEAR, BUT WE WOULD NOT BE SURPRISED IF WE SEE INTERMITTENT PRICE CORRECTIONS OVER THIS PERIOD.

Financial markets have been on a roller coaster ride over the past 6 months. In the last quarter of 2018, shares and corporate bond markets fell sharply. They were driven by fears that further interest rate rises in the US would lead to a marked slowdown there and this would cause a material softening in global economic growth. Markets forecast that if US interest rates were raised in accordance with the guidance from the US Central Bank (the Federal Reserve), there was a high probability of recession by the end of 2019 or early 2020. Market weakness was completely reversed in the March quarter of 2019. The bounce in share and corporate bond prices both domestically and offshore, came on the heels of the announcement by the US Federal Reserve that it was prepared to be more patient in raising interest rates given the heightened risk of a slowdown in the rest of the world. The Federal Reserve put policy on hold for the remainder of the year. Importantly, the slowly increasing inflation backdrop provided room for it to move gradually and effectively allayed fears of a recession within the next 12 months.

As was outlined in the December 2018 edition of our CARE Newsletter, economic data suggested that the US economy continued to expand but was being affected by weather and the US government shut down. Growth was expected to pick up again as these were temporary headwinds. Growth in the first quarter of 2019 was

EMMANUEL CALLIGERIS
Chairman of the CARE
Investment Committee



WE CONTINUE TO LOOK FOR SIGNS OF INFLATION BUT REMAIN HAPPILY DISAPPOINTED.

indeed stronger, posting a rise of 3.2%. Notable contributions came from higher exports and while there was some concern about underlying weakness in consumer spending and business investment, retail sales appear to have lifted in recent months and business investment remains firm. New home sales have also risen. This suggests that the market is benefiting from the Federal Reserve's about-face on interest rates. We continue to look for signs of inflation but remain happily disappointed. Inflation pressures are subdued and is an enigma considering the very low unemployment rate.

The outlook for China's economy is brighter with growth likely reaching a nadir in the last quarter of 2018. Manufacturing data firmed in the latest reading. The increase was mostly driven by new orders and output, both expanding at the fastest pace in six months. Despite improving production conditions, job creation remained soft. Export orders fell for the tenth consecutive month,



■ THE FEDERAL RESERVE PUT POLICY ON HOLD FOR THE REMAINDER OF THE YEAR. IMPORTANTLY, THE SLOWLY INCREASING INFLATION BACKDROP PROVIDED ROOM FOR IT TO MOVE GRADUALLY AND EFFECTIVELY ALLAYED FEARS OF A RECESSION WITHIN THE NEXT 12 MONTHS.

■ THE OUTLOOK FOR CHINA'S ECONOMY IS BRIGHTER WITH GROWTH LIKELY REACHING A NADIR IN THE LAST QUARTER OF 2018. MANUFACTURING DATA FIRMED IN THE LATEST READING.

■ IN AUSTRALIA UNEMPLOYMENT REMAINS LOW AND WAGES GROWTH MUTED. THE FOURTH QUARTER GROWTH READING WAS WEAK AND REINFORCED THE VIEW THAT INTEREST RATES WILL LIKELY BE CUT IN THE SECOND HALF OF 2019.

highlighting the fragility of global demand. Input prices—a reliable leading indicator for inflation—continued to recover in March on stronger domestic activity and higher commodity prices. It may well be that the worst is behind us and a moderate recovery takes hold. China's central bank pledged further support for the economy by encouraging loans and lowering borrowing costs.

The European economy remains stuck in low gear. The European Central Bank (ECB) made a series of relatively surprising announcements that saw European sovereign interest rates drop sharply and caused the euro to fall to a 20-month low against the US dollar. The President of the European Central Bank announced a new round of monetary stimulus in the form of targeted longer-term refinancing operations (TLTRO) to the banking sector. The TLTRO is a cheap loan scheme for European banks. The objective is to boost lending to the economy by banks that have become reluctant to lend to businesses and home buyers for fear that borrowers will not repay. This is the third TLTRO facility implemented by the ECB. The other two occurred in 2014 and 2016. The new facility is in the form of two-year loans instead of three and at less favourable interest rates than the 2016 programme. It underwhelmed market expectations.

The ECB also downwardly revised its 2019 GDP growth and inflation expectations of 1.1% and 1.2%, respectively, and stated that rates are likely to remain at current levels through the end of 2019 instead of "through summer 2019". The central bank's pivot comes on the back of comments detailing a "sizeable moderation in the

pace of economic expansion that will extend into the current year" as the region struggles with "geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets". The Brexit negotiations remain a source of instability.

In Australia the economy faces several cross winds including the continuation of weak housing feeding into softer consumer confidence and the federal election creating political uncertainty. There was little new data that would cause a change of the outlook for low wages growth, a continued decline in house prices and low inflation. The bigger picture remains that unemployment remains low and wages growth muted. The fourth quarter growth reading was weak and reinforced the view that interest rates will likely be cut in the second half of 2019. Buoyant exports have supported growth, counterbalancing soft domestic demand and weaker residential investment.

Over the quarter, interest rates fell in most regions of the world in response to the slower growth outlook. At one stage during the quarter the German 10-year government bond yield fell to -0.06%, the lowest level since September 2016. Investors became so risk averse that they were prepared to invest for 10 years to receive less money than they have today. This would only make sense if you believed that the economy is highly deflationary and one can defer today's purchases because they can be bought for a much cheaper price in the future. With a 1.5% inflation rate in Europe, this does not seem to make good investment sense and is why we continue to be cautious on this asset class. The realisation that the official interest rate in the US was at or near its peak saw US bond interest rates fall sharply also. It seems slightly premature that markets are so ebullient in that wage growth is running near 3.5% and could spill into higher inflation down the track particularly if growth rebounds as expected. Bond yields in Australia also fell in line with their global counterparts and the low inflation reading of just 1.3% saw markets move to expect two interest rate reductions in the second half of 2019. This would bring the official cash rate as set by the Reserve Bank of Australia to just 1%.

The Australian share market increased 10.9% over the quarter to be 12.1% higher over the year. Interest rate sensitive companies performed strongly over the quarter including property trusts and infrastructure which increased 14.4% and 13.9% respectively. This includes



such companies as Scentre Group (operator of Westfield shopping centres around Australia), Goodman Group, Transurban and Sydney Airport. These companies are within the VAS investment in the CARE portfolios. Other companies that performed well included iron ore producer Fortescue Metals (+71.33%), fund management company Magellan Financial Group (+55.88%) and the A2 Milk Company (+30.96%). Companies that weighed on performance included AMP (-13.93%), Resmed (-9.91%) and financial services company – Challenger (-9.31%). Challenger Ltd issued a profit warning largely caused by stock market volatility in the last quarter of 2019. At the time of writing the share price had fully recovered the previous weakness as a result of the market recovery.

International share prices increased by 11.2% over the quarter and 12.3% over the year. Shares in US technology companies increased strongly over the quarter with data processing firms like Mastercard and ADP as well as application software companies like Intuit and Cadence Design key drivers. Facebook surged when the company announced higher than-expected revenue for the fourth quarter of USD 16.9 billion. The result showed users and advertisers were staying with the social media company even though it has been troubled by privacy and other scandals. Microsoft rose after releasing quarterly profits that showed strong growth in cloud revenues. Amongst the poorer performing companies was Kraft Heinz. Its share price fell sharply after the packaged-goods company wrote down the value of underperforming brands by USD 15.4 billion, reported profits that fell short of expectations due to higher costs, and said it was subject to a probe by regulators.

The CARE Investment Committee rebalanced the portfolios over the quarter by decreasing Australian Shares (VAS) having purchased them in early December at lower prices and increased the portfolio's exposure to international emerging market shares (IEM) and international developed market shares outside the US (VEU). We had sold out of US small company shares (IJR) in the Active portfolio in the June quarter of 2018. US small company share prices fell by over 25%. We used the market weakness to



THE CARE INVESTMENT COMMITTEE REBALANCED THE PORTFOLIOS OVER THE QUARTER BY DECREASING AUSTRALIAN SHARES (VAS) HAVING PURCHASED THEM IN EARLY DECEMBER AT LOWER PRICES AND INCREASED THE PORTFOLIO'S EXPOSURE TO INTERNATIONAL EMERGING MARKET SHARES (IEM) AND INTERNATIONAL DEVELOPED MARKET SHARES OUTSIDE THE US (VEU).

rebalance back into the market in this quarter. The Committee assessed that valuations had been restored and it was time to step back into the market. We remained invested in all other asset classes within the Active portfolio including gold. These rebalances are in line with the CARE Investment Philosophy that it is good practice to move back to the long-term strategic asset allocation of the portfolio when short term asset prices deviate from their long term expected returns.

Within the Enhanced International shares portfolio, Magellan performed well returning 20.3% over the year. This represented an outperformance of 8% above the index. The WDIV index which seeks to invest in high dividend yielding companies globally returned 8.56% over the year. The income produced by this investment was 7.60% over the year consistent with its methodology. The largest holding is Swedish fashion retailer H&M and Klépierre - a French real estate investment trust and Europe's second-biggest publicly traded mall operator.

The Enhanced Australian Shares portfolio also performed well producing an excess return above the S&P / ASX 200 index of 1.8% over the year. Most stocks participated in the market recovery. Most notably BHP, InvoCare and Santos rose significantly in the quarter. The manager – Joseph Palmer and Sons increased bank stocks pre-Christmas but reduce holdings more recently as prices increased on the view that the outlook for bank profits remains subdued. Most corporations reported their half year results in February, which were generally pleasing despite the lacklustre economic environment and absence of inflation. Dividends were surprisingly strong, as many companies chose to increase payout ratios, citing strong balance sheets, and in some cases clearing excess franking credits ahead of possible policy changes. Over the quarter, the manager added the shares of NAB to the portfolio in early January 2019 and reduced the amount of cash to 15% from 20%. This excess cash has proven to be a drag on performance in the quarter but is in line with the manager's investment philosophy. The strategy looks to provide reasonable growth and good dividends over the long term.

All asset markets – shares, property and bonds, have reacted to the lower for longer interest rate theme globally. This is likely to persist through to the end of the year, but we would not be surprised if we see intermittent price corrections over this period. We maintain the view that investing requires a rational approach and an appropriate investment time horizon. Financial markets will become obsessed over monetary policy settings, recession fears, trade wars and geopolitics. Opportunities will avail themselves to increase investment at good valuations such as that presented in the last quarter of 2018. Recession could occur at some point but only if interest rates become restrictive. The economic indicators in the US are still firm and do not suggest that the interest rate settings in the US are likely to cause recession in the near term. The same is true for Australia. Employment growth is strong and the official interest rate set by the Reserve Bank of Australia is low and shows no sign of rising any time soon, government spending is strong and investment intentions are also firm.

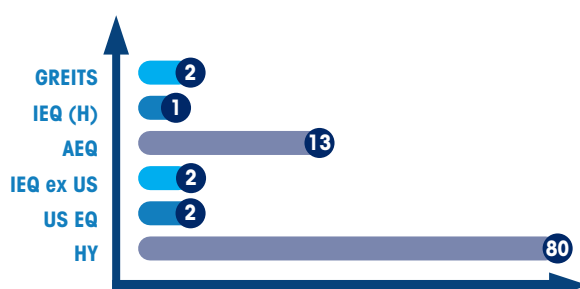
RETURNS TO THE 31ST MARCH 2019

by CARE
Investment
Strategy

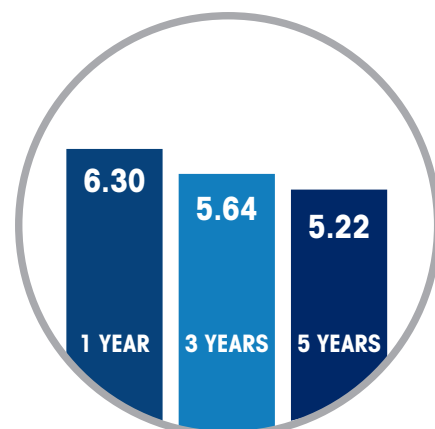
GPS CORE PORTFOLIO RETURNS TO THE 31ST MARCH 2019

	1 year	3 Years	5 Years
CORE Conservative	5.48	5.10	4.83
CORE Moderate	6.58	6.75	5.91
CORE Balanced	7.30	8.41	6.94
CORE Growth	8.65	9.91	8.25
CORE High Growth	9.78	11.33	9.23

YOUR CARE PORTFOLIO CONSERVATIVE



See legend on page 4



50% AEQ – 50% IEQ

LEGEND

International Real Estate	GREITS
International Shares (Hedged)	IEQ (H)
Australian Shares	AEQ
International Shares (ex-USA)	IEQ ex US
International Shares USA	US EQ
High Income	HY
International Emerging Market Shares	IEM
International Small Companies Shares	Small Cap IEQ
Australian Fixed Interest	EFI
Australian Corporate Fixed Interest	Corp FI

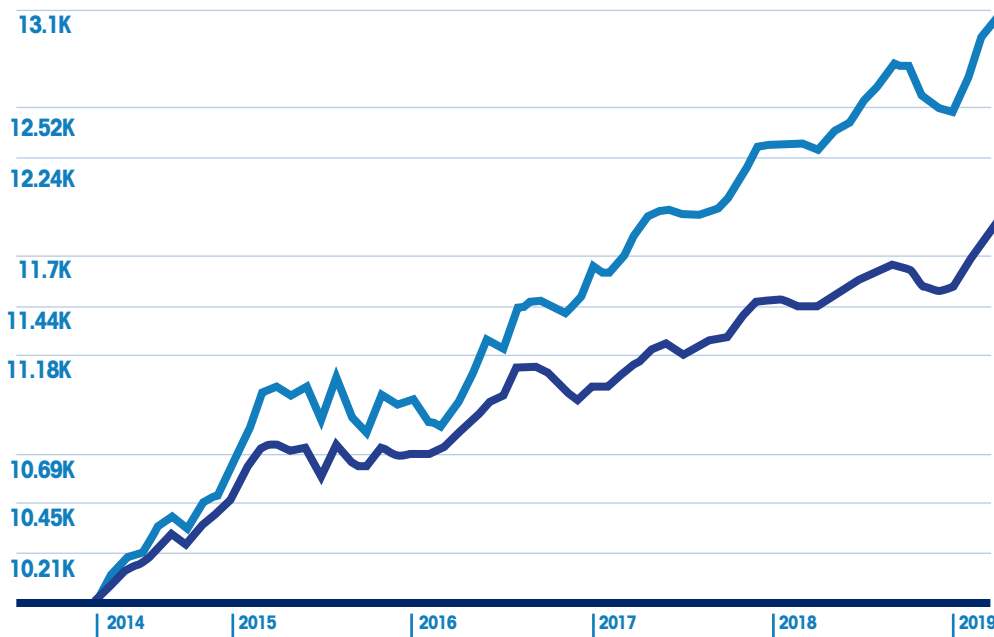
* Returns are based on model portfolio, benchmark allocation & assumes investment over 1, 3 & 5 years ending 31st March 2019. The E (enhanced) component is assumed to be 50% Australian Equities & 50% International Equities. Past Performance is not indicative of future performance.

* The CARE portfolio Returns are before tax, Adviser fee, and Platform Fees however net of CARE Investment Committee Fee.

* Returns are based on: C, A & E only – RESERVES is not factored into the return series.

CARE CONSERVATIVE STRATEGY

Growth of \$10,000 over 5 years to 31 March 2019



INVESTMENT NAME

VALUE

CARE Conservative (50% AEQ - 50% IEQ) (Total Return, AUD13.07K)

Australia Fund Multisector Conservative (Total Return, AUD 11.9K)

Source Morningstar Direct



Vanguard



MAGELLAN
EXPERTS IN GLOBAL INVESTING



ALM
INVESTMENT HOUSE



Russell
Investments



Joseph Palmer & Sons
EST. 1872

STATE STREET
GLOBAL ADVISORS
SPDR

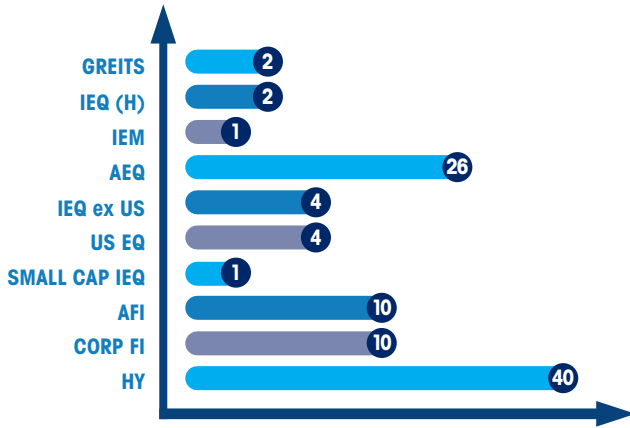


BetaShares
Exchange Traded Funds

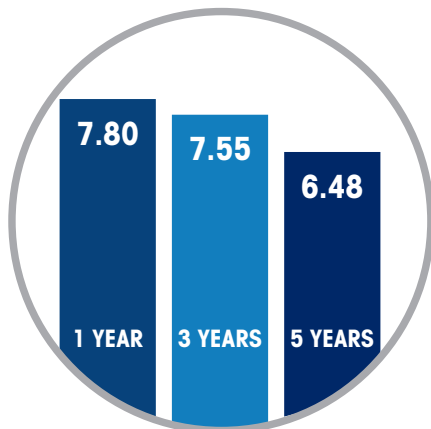
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Kapstream
— JANUS HENDERSON —

YOUR CARE PORTFOLIO MODERATE



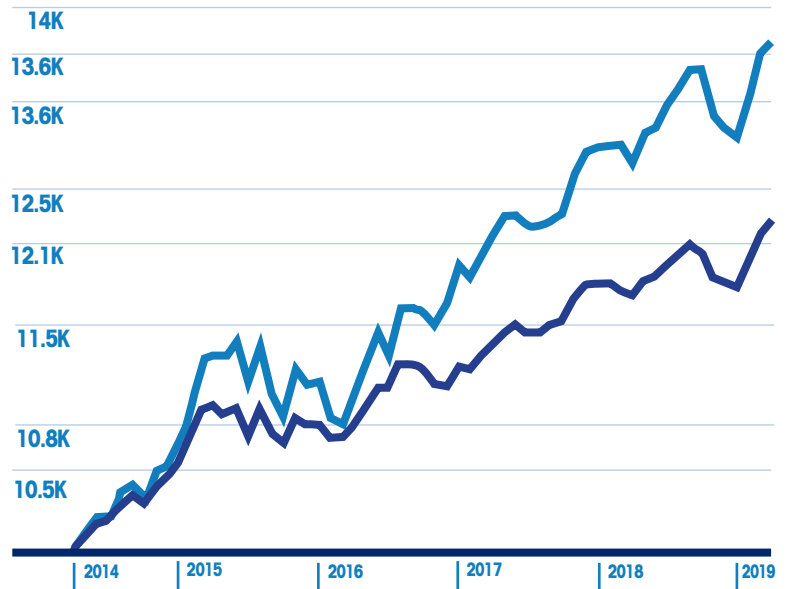
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50% AEQ – 50% IEQ

CARE MODERATE STRATEGY

Growth of \$10,000 over 5 years to 31 March 2019



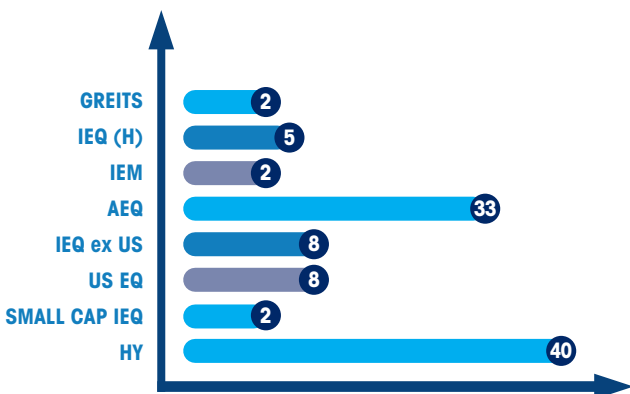
INVESTMENT NAME

VALUE

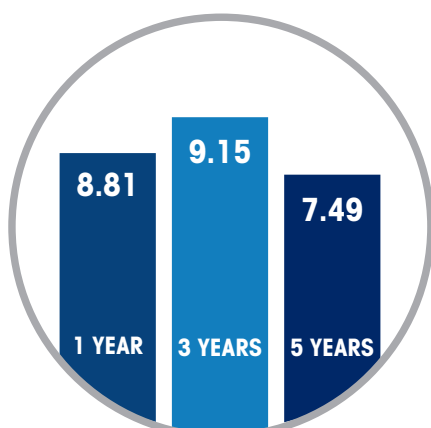
CARE Moderate (50% AEQ - 50% IEQ) (Total Return, AUD 13.71K) Australia Fund Multisector Moderate (Total Return, AUD 12.28K)

Source Morningstar Direct

YOUR CARE PORTFOLIO BALANCED



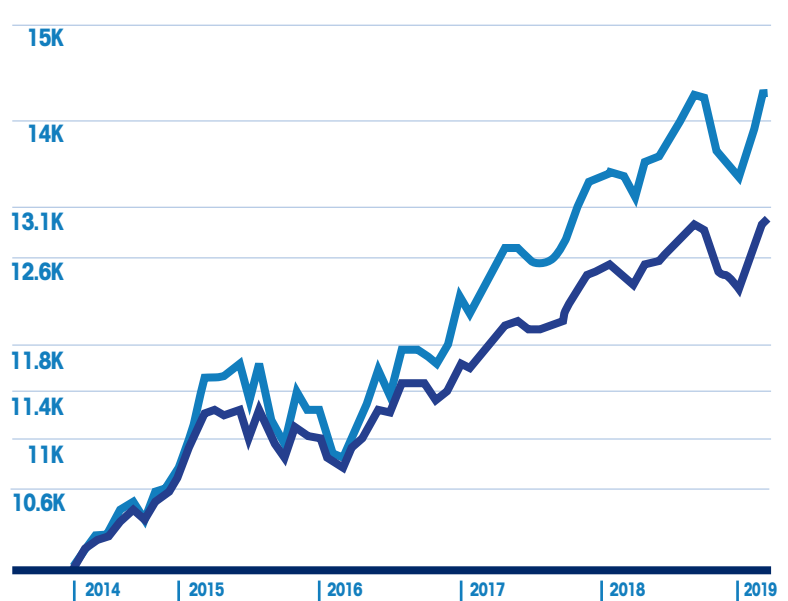
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50% AEQ – 50% IEQ

CARE BALANCED STRATEGY

Growth of \$10,000 over 5 years to 31 March 2019



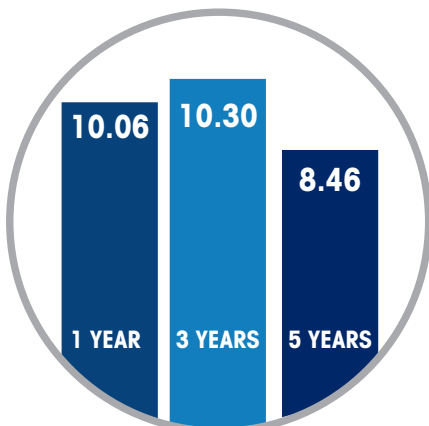
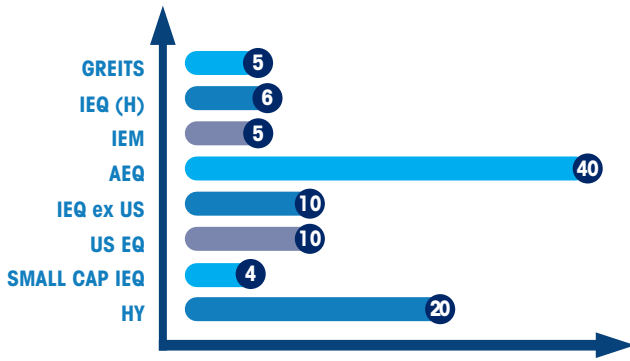
INVESTMENT NAME

VALUE

CARE Balanced (50% AEQ - 50% IEQ) (Total Return, AUD 14.38K) Australia Fund Multisector Balanced (Market Return, AUD 13.08K)

Source Morningstar Direct

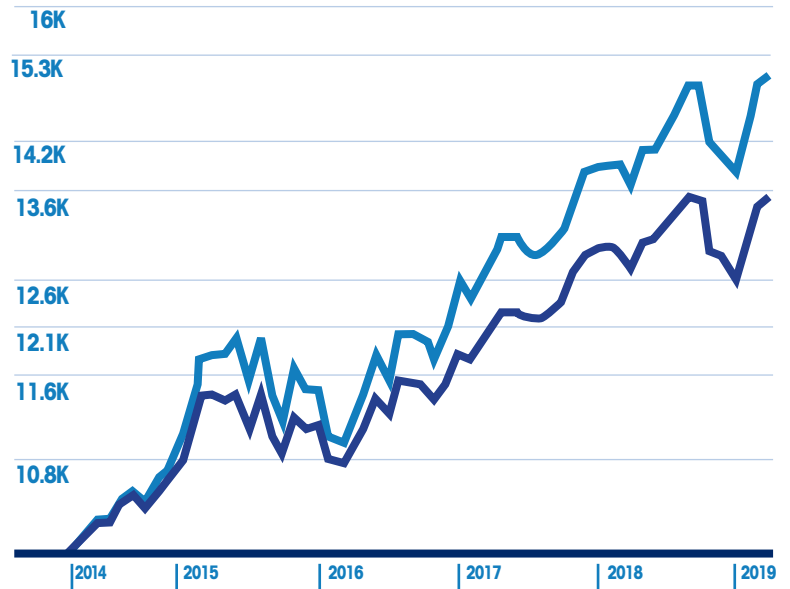
YOUR CARE PORTFOLIO GROWTH



50% AEQ – 50% IEQ

CARE GROWTH STRATEGY

Growth of \$10,000 over 5 years to 31 March 2019



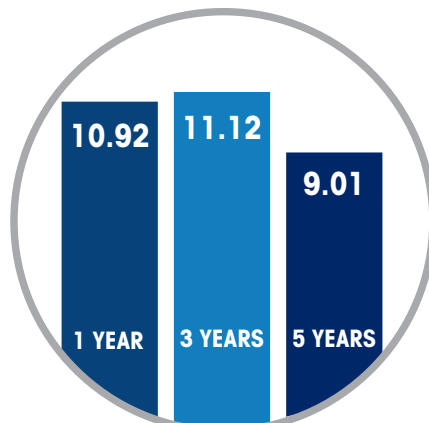
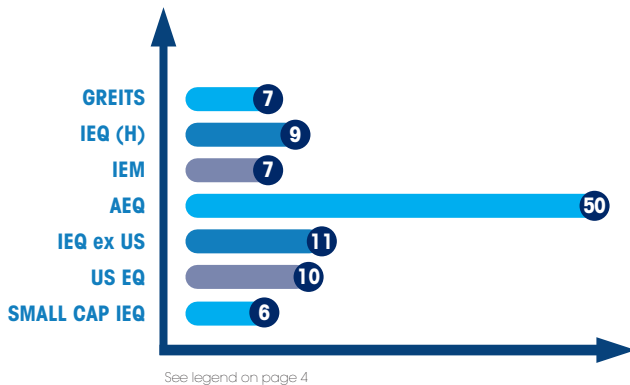
INVESTMENT NAME

VALUE

CARE Growth (50% AEQ - 50% IEQ) (Total Return, AUD 15.05K) Australia Fund Multisector Growth (Total Return, AUD, P..13.59K)

Source Morningstar Direct

YOUR CARE PORTFOLIO HIGH GROWTH



50% AEQ – 50% IEQ

CARE HIGH GROWTH STRATEGY

Growth of \$10,000 over 5 years to 31 March 2019



INVESTMENT NAME

VALUE

CARE High Growth (50% AEQ - 50% IEQ) (Total Return A..15.44K) Australia Fund Multisector Aggressive (Total Return, AU.. 14.63K)

Source Morningstar Direct



Meet the CARE Investment Committee

Emmanuel Calligeris BEC MBus (Finance)

Emmanuel is Chairman of the CARE Investment Committee. Emmanuel holds a degree in economics and previously had 20 years' experience as Chief Investment Officer for OnePath Investments (the investment arm of ANZ Bank) and was responsible for \$13 Billion of funds under management.



Rob McGregor SIA (Aff) ADFP

Rob was a founder of GPS Wealth, developed the CARE Investment Philosophy over the last 15 years and successfully managed \$100m in clients' funds during the GFC.



Grahame Evans GAICD DipSM MBA

Grahame is the Risk and Compliance member of the CARE Investment Committee. Grahame brings over 35 years of financial service industry experience.



Dr. Mark Brimble BCom(Hons) PhD CPA FFin

Mark is an independent member of the CARE Investment Committee. Mark holds a doctorate in capital markets and is keenly interested in investor behaviour.



GPS Wealth Head Office

Level 15, 115 Pitt Street
Sydney NSW 2000

Phone. **+61 2 8074 8599**

AFSL 254 544 | Australian Credit Licence 254 544
ABN 17 005 482 726

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