CARE QUARTERLY

NEWSLETTER

5TH AUGUST 2016

Australia & Global Update **June 2016**

Why CARE?

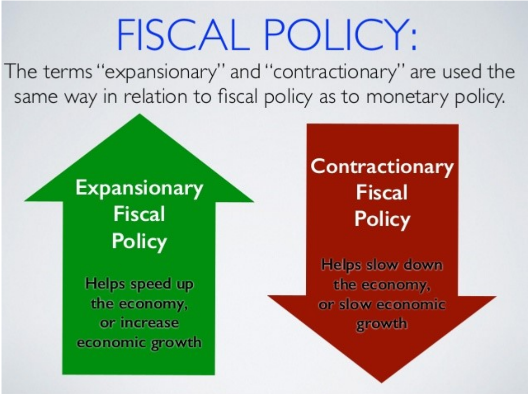
The CARE Philosophy™ has been designed to manage two very influential considerations when investing. Firstly, it helps address the behavioural biases of investors who will typically sell when the market is low through fear and buy when the market is high through a fear of missing out.

Secondly, it takes a long term view allowing the markets adequate time to perform to our expectations. Furthermore the CARE philosophy ™ provides effective diversification matched to your risk tolerance.

CARE is designed to take the worry out of investing. That worry, sometimes accentuated by media and world events, may lead investors to make inappropriate decisions that substantially reduce their investment returns.

Remember at the heart of the CARE Philosophy™ is your Reserves Portfolio that aims to help you withstand market volatility.

The CARE Philosophy™: "Exciting life, boring money and not the other way around!"



WISE WORDS FROM EMMANUEL CALLIGERIS — CHAIRMAN, 'CARE INVESTMENT COMMITTEE'

Global Overview

- Britain's surprise referendum vote to leave the European Union has unnerved the US Federal Reserve leading to no change in interest rates
- Australian interest rates to move lower
- Global share markets stronger following the fall in short and long term interest rates

Financial markets were again volatile over the quarter, caught off guard late in the period by Britain's surprise referendum vote to leave the European Union. The selloff in global stock markets, which occurred immediately following the referendum, quickly gave way to a sharp rise, first in bond prices and then in share prices as investors realised that it would take some time for Britain to actually exit. Importantly, the major reasons for the recovery in share markets has been the dramatic fall in government bond yields.

Global government bond yields melted in the wake of the Brexit vote, with German and Japanese yields falling deeper into negative territory. Today, almost 55% of total outstanding developed country bonds carry a negative yield. What this extreme risk aversion means is that investors effectively pay the government to hold their money! In Germany, this is for up to 12 years whilst in Japan its closer to 11 years. In the US, the interest rate on the 10-year government bond is just off the lowest in history near 1.5%. As investors look around for better returns, they have been drawn to shares with stable dividends, property and infrastructure assets. Prices for some investments have been bid to very high levels. Whilst it is positive for returns, it has also brought heightened risk in the short term.

Although difficult, when one puts the geopolitical issues to the side and looks at the state of the world economy, it would appear that we continue to be locked in a low growth and very low inflation environment. The key issue overhanging markets in the near term will be whether or not actions across key central banks risk conflicting with one another. If the Bank of Japan, European Central Bank and Bank of England add stimulus and perhaps increase fiscal spending while the US Federal Reserve reinforces rate hikes this year as it indicated pre the Brexit vote, the US dollar could strengthen sharply forcing the economy that is currently experiencing soft growth, to slow again reinforcing the low growth and low inflation.

The US economy grew at only 1.2% which was below the 2.5% that was expected. But the shortfall was almost entirely because of a contraction in business inventories. Excluding inventories, the economy grew at 2.4%. Consumer spending was buoyant. Consumer spending showed strength across all readings and registered a very strong 4.2%, more than double the first-quarter's 1.6%. Forward indicators of the economy including the manufacturing sector, employment, wages growth and the housing market all suggest moderate growth is likely to continue. Lower fuel prices will continue to be a tailwind for the consumer.

> World growth remains low and inflation non-threatening.
> Interest rates will remain low and the search for yield will persist that will drive share and property markets in the short term.
>
> - Emmanuel Calligeris
> GPS Wealth Ltd

The developed world has suffered a lack of fiscal stimulus over the last few years (many more in the case of Japan) as governments tried to prove their austerity credentials and balance budgets. This was poor policy in the face of stagnating lower and middle class wages and high levels of household debt. The Brexit vote highlighted the anger of the electorate and is likely to be the first of many a voter backlash around the world. As a consequence, fiscal policy is likely to ease considerably (governments will increase spending) over the next 18 months. This will ultimately reduce the need for such low bond yields and leads us to maintain investment in defensive bond holdings through Realm Investment House and Kapstream in the CARE portfolios. These managers run interest rate strategies that minimise the risk of capital loss.

In China, policy reflation efforts have stabilised the growth of the economy and underpinned stability in commodity prices. Falling interest rates and a depreciating Renminbi should further assist the industrial sector, the weaker link in the overall growth picture. China's inventory destocking cycle has likely run its course and the rebuilding of stocks by companies will add to growth over the course of 2016.

The Reserve Bank of Australia once again reduced the official interest rate to an historic low of 1.5%. As mentioned in the last CARE Quarterly Update this was an expected outcome and there is a high probability that interest rates will fall further. This is because of the influence that Japanese and European (bond) interest rates are likely to have on Australian interest rates. The starting point of such low bond yields in Japan and Europe as outlined above, poses a heightened risk of loss to those investors that currently hold these securities, particularly if fiscal spending increases there as expected. There will likely be a rotation to other bond markets that offer reduced risk of which Australia will likely be a beneficiary. As foreign capital enters the country, the Australian dollar will likely appreciate prompting the Reserve Bank to ease further. This should be positive for the share market and particularly those companies that have sustainable dividends.

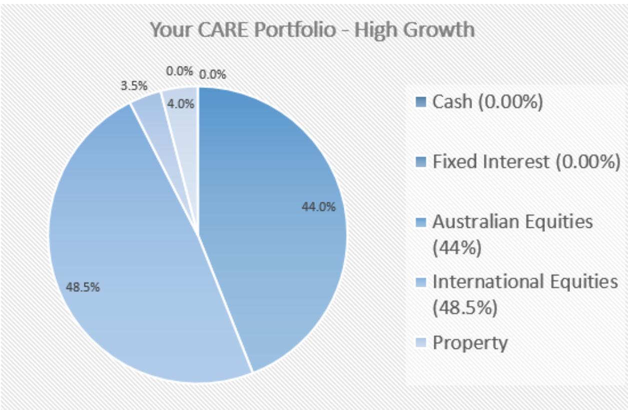
The CARE philosophy is to maintain suitable exposure in fairly priced assets such as bonds, shares and property for the long term. If an asset class becomes cheap or expensive, portfolios will be rebalanced at the margin, to take advantage of market mispricing. This was certainly the case when the Australian share market fell earlier in 2016. The portfolio's exposure to Australian shares which fell as a result of the fall in the market was topped up to take advantage of cheaper valuations.

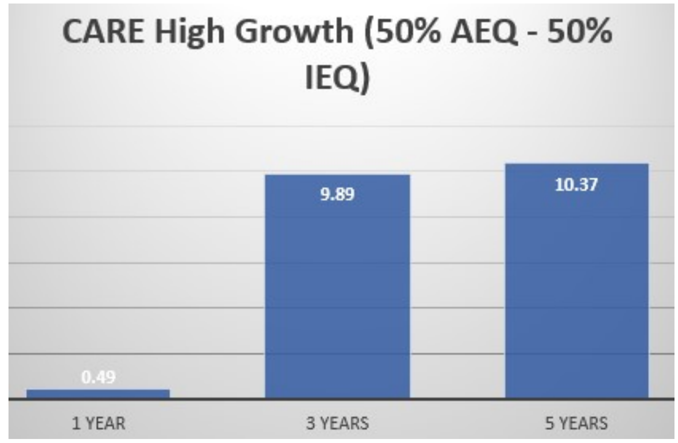
When the result of the Brexit vote was announced, market valuations were assessed by the Investment Committee to be fair. No action was taken for the portfolio. The sharp bounce back in share markets vindicated the assessment of valuation and the maintenance of portfolio exposures. As prices rise, we will monitor exposure with a view to rebalance the portfolios back to benchmark.

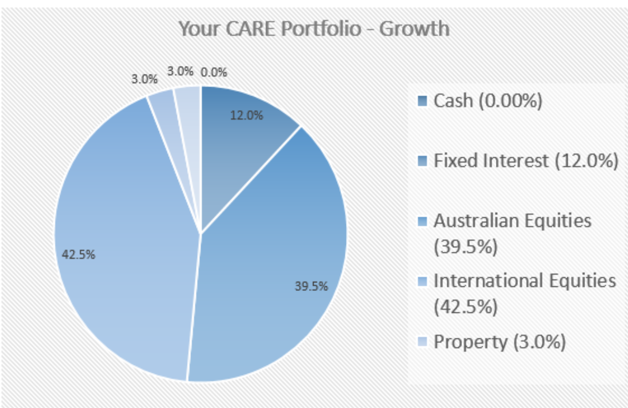
Within Australian Shares, all sectors posted positive returns with the exception of the Consumer Staples sector over the June quarter. Consumer Staples were weighed down by the announcement of a $ 2 billion impairment charge by Wesfarmers in May and ongoing weakness in Woolworths. The Resource sector rebounded as commodity prices appeared to stabilise although there remains little in the way of any meaningful news regarding any supply-demand rebalancing or improved global growth projections. Iron ore recovered from May’s heavy sell off, to finish the quarter 4% higher, whilst the oil price continued its rebound from the near US$30 per barrel level seen earlier in the year. The Healthcare sector also had a strong quarter gaining +10% as the weaker AUD benefitted those companies with strong offshore earnings profiles, such as CSL, Sonic and Ramsay Healthcare.

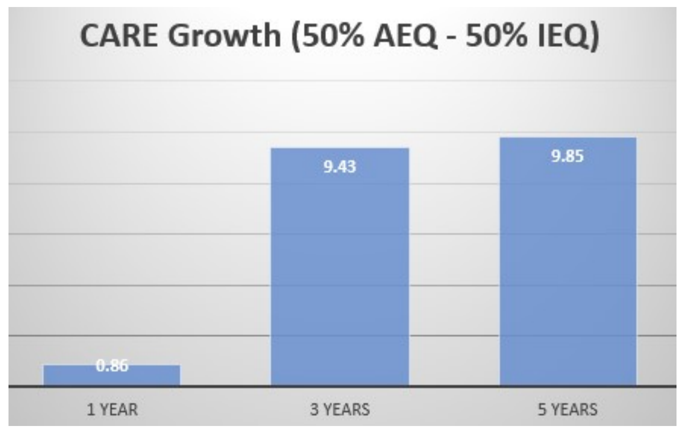
Within the international shares sector, British stocks fell as did companies with significant British businesses. By way of example Lloyds Banking Group was a significantly affected by the Brexit outcome. Apple fell following the release of quarterly results. Revenue, earnings and guidance for the next quarter came in below market expectations. Apple's recent year-on-year sales trends have been weak relative to the prior period when the company experienced the highly successful iPhone 6/6+ launch. Lowe's, (a home improvement retailer in the US) delivered strong gains following the release of its profit result. Home improvement retailers have enjoyed rising sales on the back of buoyant conditions in the US housing market. It is likely that the uncertainty resulting from the Brexit vote has put on hold any tightening of monetary policy in the short term, resulting in interest rates remaining lower for longer.

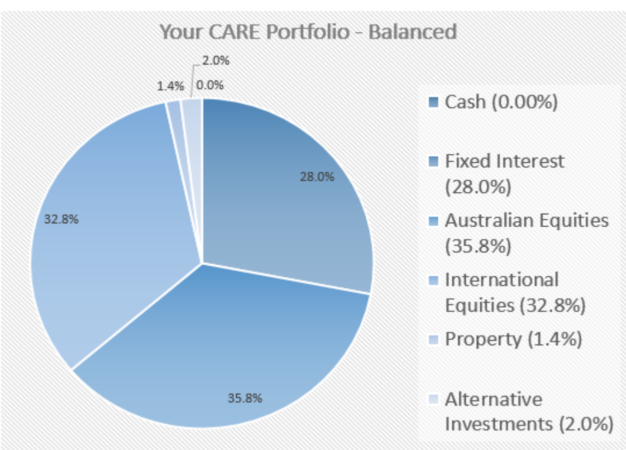
Performance of Key Portfolios — June 2016

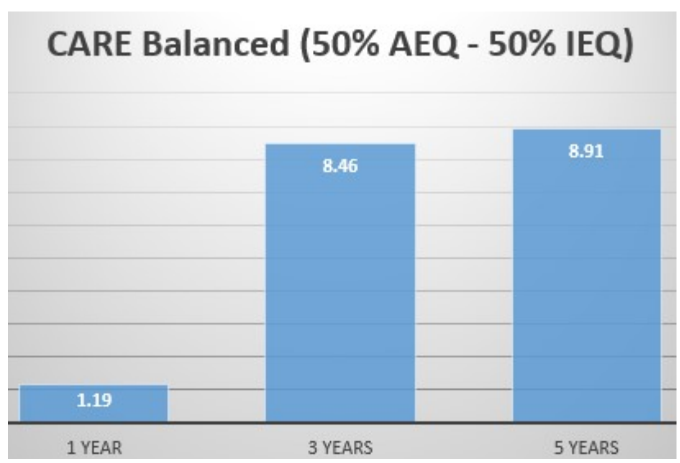




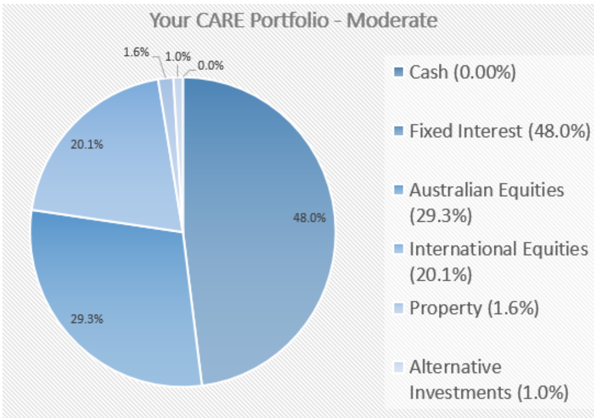


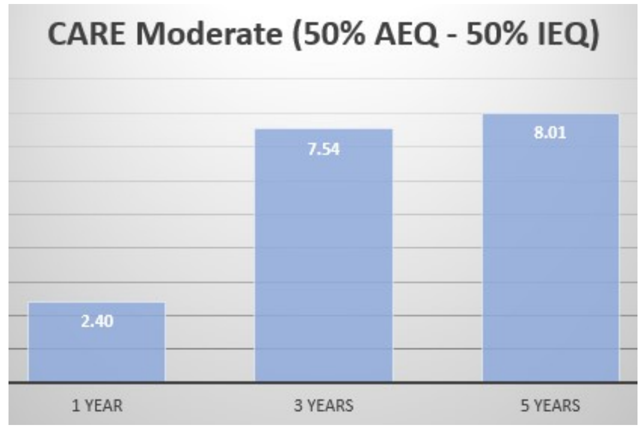


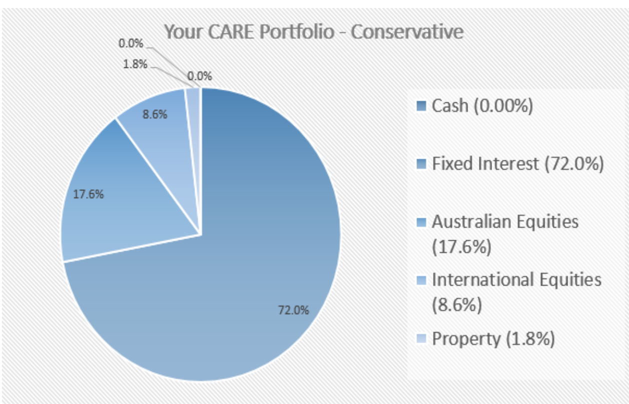


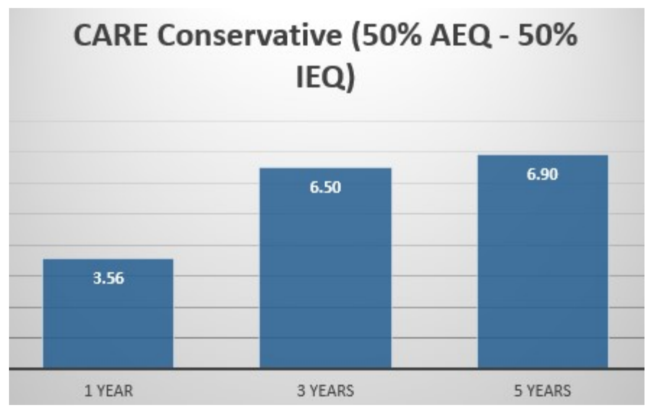


***Returns are based on model portfolio, benchmark allocation & assumes investment over 1 , 3 & 5 years ending 30th June 2016. The E (enhanced) component is assumed to be 50% Australian Equities & 50% International Equities. Past Performance is not indicative of future performance.**



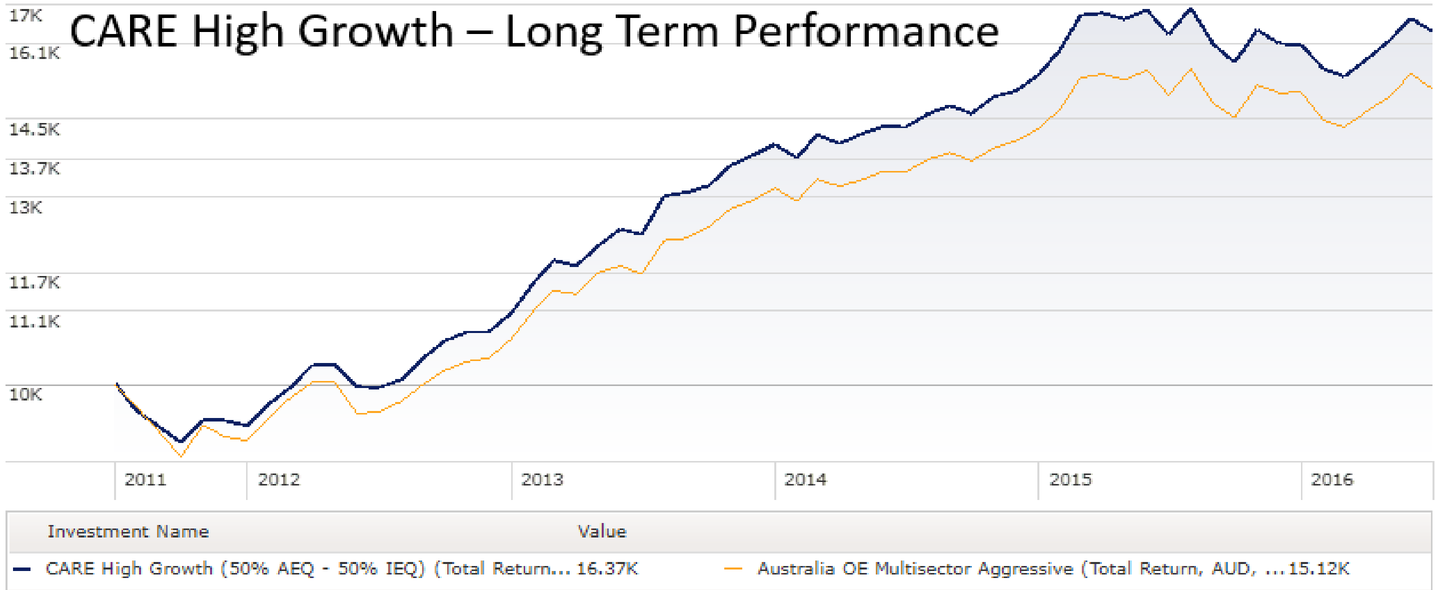


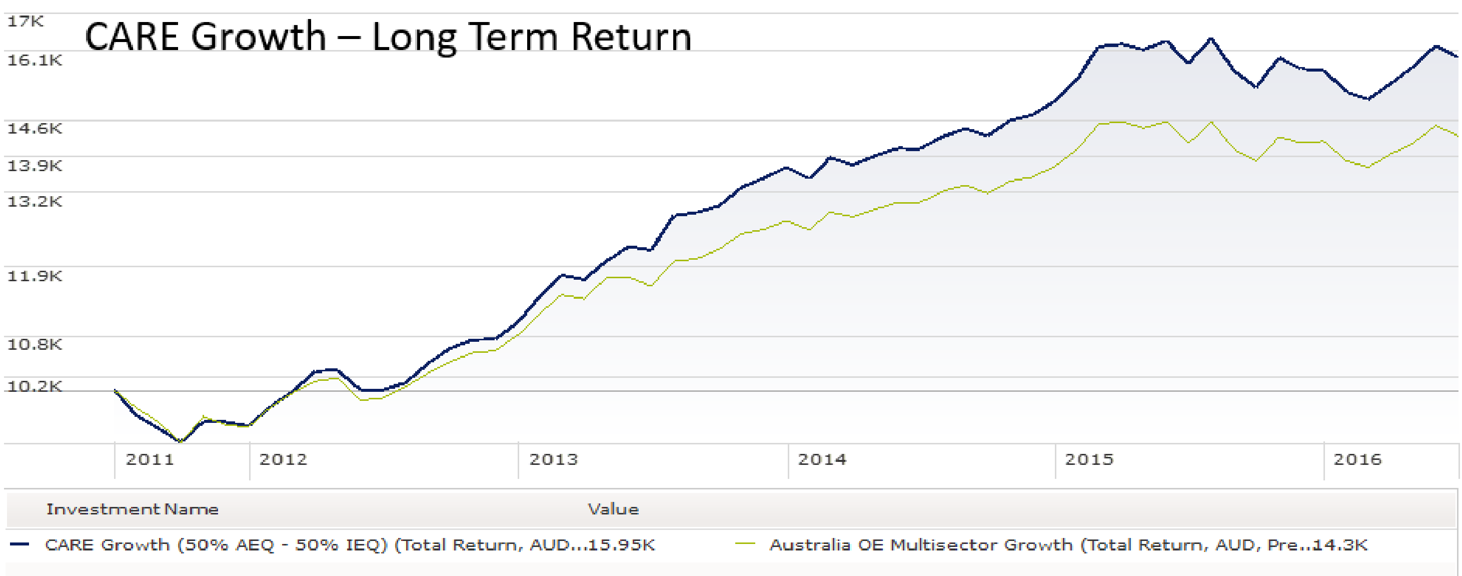




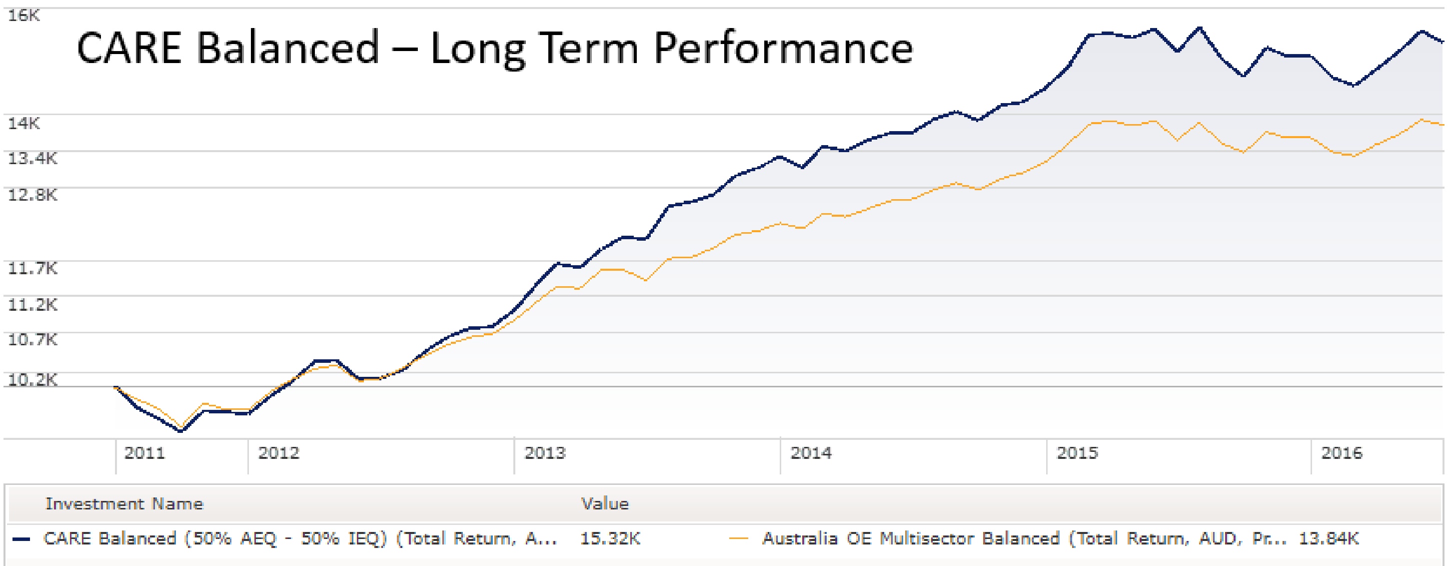
GPS CORE PORTFOLIOS

GPS CORE Portfolios	1 year	3 years	5 years
GPS CORE High Growth	0.45	10.33	10.19
GPS CORE Growth	1.14	9.37	9.32
GPS CORE Balanced	1.60	7.99	8.07
GPS CORE Moderate	3.00	6.95	7.16
GPS CORE Conservative	4.04	6.04	6.23

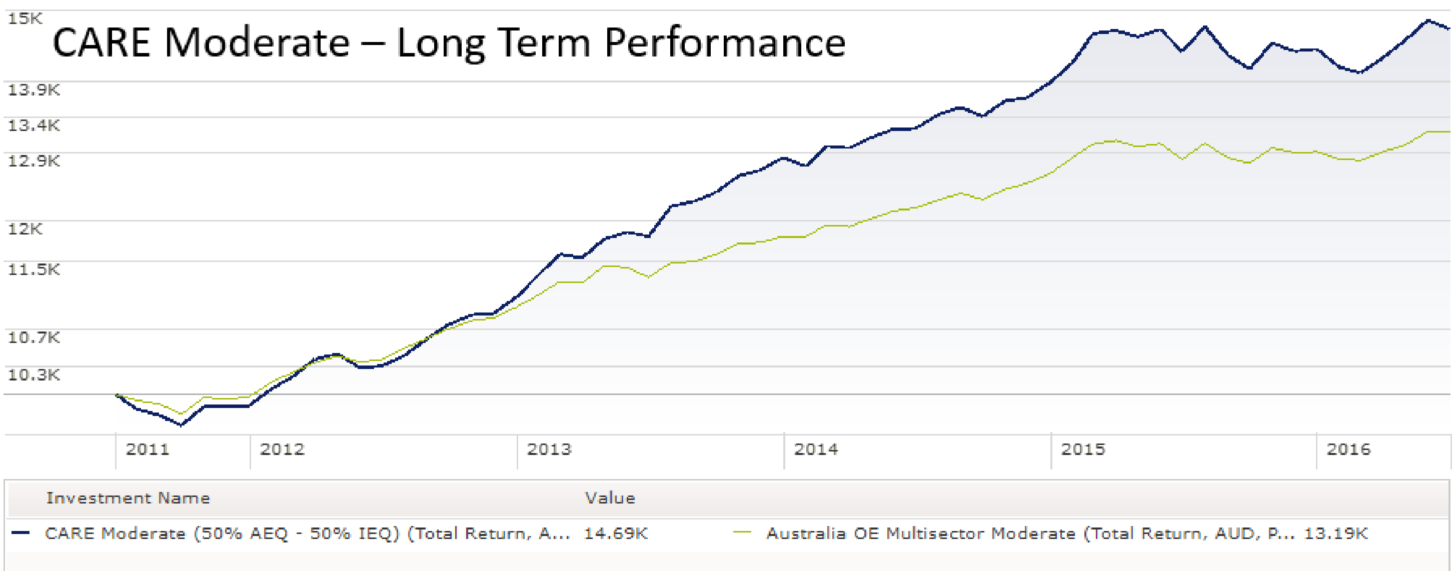

CARE High Growth – Long Term Performance
17K
16.1K
14.5K
13.7K
13K
11.7K
11.1K
10K
2011
2012
2013
2014
2015
2016
Investment Name
Value
CARE High Growth (50% AEQ - 50% IEQ) (Total Return... 16.37K
Australia OE Multisector Aggressive (Total Return, AUD, ...15.12K


CARE Growth – Long Term Return
17K
16.1K
14.6K
13.9K
13.2K
11.9K
10.8K
10.2K
2011
2012
2013
2014
2015
2016
Investment Name
Value
CARE Growth (50% AEQ - 50% IEQ) (Total Return, AUD...15.95K
Australia OE Multisector Growth (Total Return, AUD, Pre..14.3K

CARE Balanced – Long Term Performance



CARE Moderate – Long Term Performance



CARE Conservative – Long Term Performance