Quarterly Update DECEMBER 2017

EXCITING LiFE

Boring Money

.... and not the other way around

CARE QUARTERLY NEWSletter

GLOBAL OVERVIEW

EMMANUEL CALLIGERIS
Chairman of the CARE Investment Committee

2017 finished on a strong note with global economic growth becoming more synchronised as the year drew to a close. The US economy grew at an annual rate of 3.2% and marked the first time since 2014 that the economy experienced growth of more than 3% for two consecutive quarters. Growth was boosted by an accumulation of unsold goods and a rebound in government investment. Growth in consumer spending, which accounts for approximately 67% of the U.S. economy, showed consumer spending accelerated in October and November and suggests that growth in the fourth quarter of 2017 should remain firm because of steady wage gains and household savings.

Although hiring cooled in December, the unemployment rate is at a 17-year low of 4.1%. The Job Openings and Labour Turnover Survey (JOLTS) showed that there are 5.308 million unemployed persons looking for work with 6 million openings, yet wages growth was moderate and has not caused inflation to rise. The JOLTS report raises the question of whether scarcity of available labour, particularly skilled labour, is holding back business expansion. Importantly the scarcity of labour should be consistent with rising wages. The absence of wage inflation, is the enigma presently. In our previous report, it was highlighted that monetary policy may be lagging the true pulse of the economy as it did in 1966-67. How long wage growth can remain subdued is still the main question

THE JOLTS REPORT RAISES THE QUESTION OF WHETHER SCARCITY OF AVAILABLE LABOUR, PARTICULARLY SKILLED LABOUR, IS HOLDING BACK BUSINESS EXPANSION. IMPORTANTLY THE SCARCITY OF LABOUR SHOULD BE CONSISTENT WITH RISING WAGES.

and we continue to monitor wage pressures closely.

The U.S. Congress approved a broad package of tax cuts which includes reducing the corporate income tax rate to 21% from 35%. We expect a modest boost from the tax cuts however note that the stimulus will come while the economy is at full employment, which raises the risk of higher inflation towards the end of the year. As a result, the Federal Reserve will continue to raise the official interest rate (called the Fed Funds rate) in 2018 from 1.5% currently to 2.25% over the course of the year.

China's economy grew by 6.9% over the year fuelled by strong export growth and higher fixed asset investment – a proxy for infrastructure and construction spending. Investment and private consumption proved

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- UNEMPLOYMENT RATE IS AT A 17-YEAR LOW OF 4.1%.
- THE U.S. CONGRESS APPROVED A BROAD PACKAGE OF TAX CUTS WHICH INCLUDES REDUCING THE CORPORATE INCOME TAX RATE TO 21% FROM 35%.
- THE UNEMPLOYMENT RATE IN GERMANY REACHED A NEW RECORD LOW OF 3.6% IN NOVEMBER. IN SPAIN, IT WAS 16.7% AND REGIONWIDE YOUTH UNEMPLOYMENT, IS 18.2%.
- AUSTRALIA COMPLETED ITS 26TH YEAR OF CONTINUOUS ECONOMIC GROWTH IN 2017. IT IS THE LONGEST EXPANSION IN THE MODERN ERA.
- LABOUR MARKET OUTCOMES IN 2018 WILL BE CRITICAL TO THE TIMING OF ANY POTENTIAL MOVE BY THE RESERVE BANK OF AUSTRALIA TO LIFT THE OFFICIAL INTEREST RATE WHICH CURRENTLY SITS AT 1.5%.

a headwind for the economy. Strong global demand propelled exports, which, boosted manufacturing activity although stricter environmental regulations and the government's intention to reduce overcapacity in certain industries continue to put a damper on investment growth. Nominal retail sales moderated slightly although the overall level remains firm. We continue to expect some further moderate slowing in the economy over 2018 on the back of slower export growth and policy aimed at reducing domestic debt.

The Japanese economy has shown recent signs of strength on the back of stronger exports that resulted from the stronger global economy. The Bank of Japan's (BOJ) Tankan survey, an economic survey of Japanese business, showed that companies are experiencing capacity constraints, which is a sign that they may be ready to increase investment spending. This will underpin growth in the coming year. Despite the slightly more positive *companies can produce more while keeping costs stable.* Encouragingly, unemployment in the eurozone fell for the fourth consecutive month in November to 8.7%, the lowest since January 2009. Notwithstanding, the recovery in the job market is uneven. The unemployment rate in Germany reached a new record low of 3.6% in November. In Spain, it was 16.7% and regionwide youth unemployment, is 18.2%.

Australia completed its 26th year of continuous economic growth in 2017. It is the longest expansion in the modern era although at times, particularly since the GFC, it seemed more like good luck than good economic management. Irrespective, the most striking data series has been that of the labour force. The final employment report of 2017 completed a phenomenal calendar year of monthly jobs data. Over 2017 employment rose by 403 000. Annual employment growth recorded 3.3%, its strongest pace since early 2008

> A BRIGHT SPOT HAS BEEN THE FRENCH ECONOMY. PRO-BUSINESS PRESIDENT EMMANUEL MACRON, PASSED WIDE-RANGING LABOUR MARKET REFORMS WHICH HAVE IN TURN PUSHED BUSINESS AND CONSUMER CONFIDENCE TO MULTI-YEAR HIGHS.

growth outlook, inflation remains below 2%, suggesting the Bank of Japan will maintain its hyper easy interest rate policy. Financial analysts viewed the slight reduction in the BOJ's offers to buy government bonds earlier this month as a signal of future tightening and caused long-term interest rates and the yen to rise. A step toward winding down the massive monetary stimulus adopted in 2013 would align with similar moves in the United States, Europe and Britain, however it is unlikely.

The most recent GDP report from Europe showed strong growth of 2.6% in the third quarter. A bright spot has been the French economy. Pro-business President Emmanuel Macron, passed wide-ranging labour market reforms which have in turn pushed business and consumer confidence to multi-year highs. For the European economy overall, forward-looking surveys such as industrial and services confidence and purchasing managers' indices (PMIs), indicate that growth will continue in 2018. This better economic backdrop is helping to support consumer confidence and in turn, domestic demand. Company profitability has been improving also. This is partly due to better pricing power and due to operational leverage as spare capacity in the economy is utilised. *It suggests that* and more than double population growth.

Full time employment (+35hrs a week) rose by a very strong 303 000 while those in part time employment rose by 100 000. The headline unemployment rate moved a touch higher despite the strong lift in employment because more people came back to the market to look for a job. Labour market outcomes in 2018 will be critical to the timing of any potential move by the Reserve Bank of Australia to lift the Official Interest rate which currently sits at 1.5%. Wages growth has been muted to date and this has kept inflation low and interest rates on hold. It will be interesting to see if wage rise demands across the broader economy increase in 2018. In the absence of higher wages, interest rates are likely to remain on hold in Australia for 2018.

The other notable data was the Westpac Melbourne Institute index of consumer sentiment which increased in January. The above average reading bodes well for spending over the Christmas period and is also reflected in the last two stronger retail sales numbers. Recent talks of income tax cuts by the Federal Government have also buoyed consumer confidence. Some recent softness in house prices has led to an increase in the "good time to buy a dwelling index". This has now been rising since the trough in May 2017 and is reflected in stronger housing finance numbers.

Global share markets enjoyed their strongest return in 8 years and finished at record highs as investors reacted favourably to the stronger and accelerating global economic growth data as outlined. The MSCI World Index increased +18.5% over the year. By country, the US S&P 500 gained +21.1% and the NASDAQ index returned +30%, underscoring the role technology stocks played in 2017. (The US share market posted positive returns in every month of calendar 2017 which is the first time this has ever happened.) The European share market as represented by the Stoxx 50 Index, increased 9.2%. Companies in this index include – Siemens, Bayer and Unilever, to name a few. Japan's Nikkei Index increased 20.9%. Companies in this index include Toyota Motor Corp, Kirin Brewery Co. and spark plug maker NGK Insulators. Emerging market shares enjoyed their best return since 2009 with the MSCI EM Index posting a return of +30.6% in 2017 in Australian dollar terms.

The S&P ASX 300 accumulation index increased 11.94% over the year. Within the top 100 Australian companies, A2 Milk rose strongly on the back of the company announcing an upbeat growth outlook Oil Search and Santos performed well on the back of the higher oil price whilst the Qantas share price fell almost 12% as the higher price of fuel will cut into profits. The Share prices of BHP, Rio Tinto and S32 all increased strongly on the back of higher commodity prices whilst interest rate sensitive stocks like APA Group underperformed the broader market as analysts forecast higher interest rates in Australia towards the end of the year. Aurizon Holdings was weak following a disappointing draft regulatory decision about applicable charges it can pass on to customers. Online real estate advertiser REA Group's share price fell as concerns around a softening residential market flooded press reports. While a crash in property prices would be bad for the company (and unlikely at this stage), a mild downturn is actually positive for REA Group. The company is more exposed to the length of time advertisements are on the website, which tends to increase in softer markets.

The CARE Conservative, Moderate, Balanced and Growth portfolios once again performed well. As was the case for the previous three quarters, the funds had little or no investment in bonds but rather were invested in short term interest rate securities where the risk of capital loss is low. The portfolios are invested in short maturity interest bearing securities managed by Realm Investment House and Kapstream. Pleasingly, both managers achieved a solid performance outcome for the portfolios. The other contributor to performance this quarter was the allocation to smaller companies. This sector of the market outperformed the broader market by almost 3% over the quarter thus enhancing returns of the CARE investment options.

after a strong profit result. Over the quarter, stocks that lagged included investments in Sanofi Aventis. Sanofi engages in the research and development, manufacturing and marketing of pharmaceutical drugs principally in the prescription market, Sanofi fell amid ongoing disputes regarding patent protections of its diabetes products and after reporting lower sales due to pressure on drug prices in the US. Other stocks that held back performance were Oracle and eBay. Oracle slid as guidance for next quarter's cloud-computing sales fell short of estimates. eBay fell when the owner of the online auction site marginally downgraded full-year earnings-per share guidance due to issues at its StubHub ticket-selling site.

THE GLOBAL ECONOMY REMAINS IN A SYNCHRONIZED UPSWING THAT SHOULD PERSIST FOR MUCH OF 2018. IN AUSTRALIA, INFLATION REMAINS LOW AND EMPLOYMENT GROWTH STRONG.

Within the CARE Enhanced International Shares Portfolio, the exposure to global shares that pay a high dividend (WDIV.AX) underperformed the broader global share market over the quarter however ended the year 9.8% higher. The fund tracks the performance of the highest dividend yielding companies within the S&P Global Broad Market Index that have followed a policy of increasing or stable dividends for at least 10 years. IG Group Holdings is one such company. IG Group Holdings plc is a United Kingdom-based company, which is engaged in online broker services in over 17 countries globally.

Magellan performed well with the portfolio rising 6.5% over the quarter and 14.3% over the year. The largest contributors to performance included Lowe's, Apple Inc and Microsoft. Lowe's is the US equivalent of Bunnings in Australia. The Lowe's share price increased after announcing higher-than-expected profit growth for the quarter and the company was likely to be a major beneficiary of lower corporate taxes because it sources all its revenue in the US. Apple rose after its higher-than-expected quarterly revenue and profit results showed iPhones remained popular and that its services and wearables businesses are performing well. Microsoft gained

Within the Care Enhanced Australian Share Portfolio, the Manager – Joseph Palmer and Sons decreased the amount of cash in the portfolio again as better opportunities for investment at reasonable prices began to appear. The manager topped up Amcor, Boral and Westfield shopping centre owner in Australia – Scentre Group and increased positions in BHP and CSL whilst marginally reducing the exposure to Westpac and Commonwealth Bank and Telstra.

Financial conditions remain growth-friendly and subdued inflation is allowing central banks to proceed cautiously in respect to monetary policy settings. The is forecasting that there will be three interest rate rises in the US which should serve to slow growth in 2019. The global economy remains in a synchronized upswing that should persist for much of 2018. In Australia, inflation remains low and employment growth strong. However, household debt is high and a further decline in building construction is likely to result in disappointing growth numbers and ensure that the cash rate remains on hold for most of 2018 with a slight bias downward. The silver lining for the economy may be strength in investment conditions and ongoing infrastructure works as budgeted by both state and federal governments.

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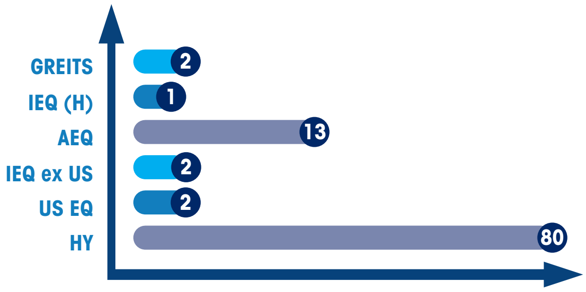
RETURNS TO THE 31ST DECEMBER 2017

by CARE Investment Strategy

GPS CORE PORTFOLIO RETURNS TO THE 31ST DECEMBER 2017

	1 year	3 Years	5 Years
CORE Conservative	5.52	4.86	6.15
CORE Moderate	7.11	5.96	7.52
CORE Balanced	9.65	7.50	9.82
CORE Growth	10.91	8.65	11.55
CORE High Growth	12.88	9.86	13.21

YOUR CARE PORTFOLIO CONSERVATIVE



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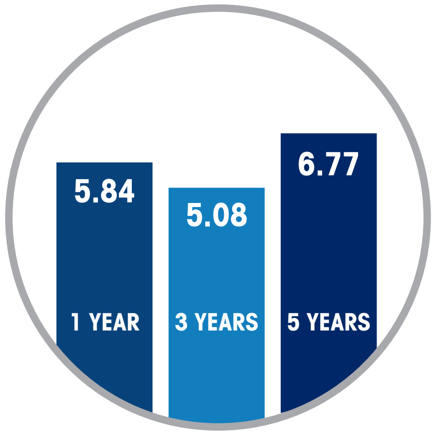
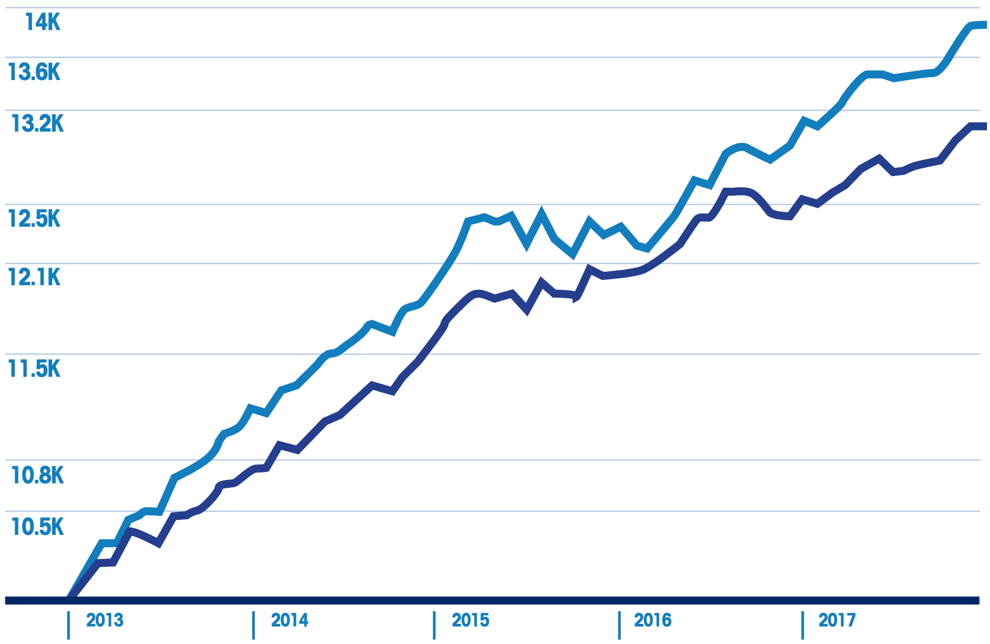


50% AEQ – 50% IEQ

CARE CONSERVATIVE STRATEGY

Growth of $10,000 over 5 years to 31 December 2017



INVESTMENT NAME VALUE

CARE Conservative (50% AEQ - 50% IEQ) (Total Return A 13.9K)

Morningstar Aus Msec Conservative (Market Return, AUD 13.08K)

Source Morningstar Direct

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

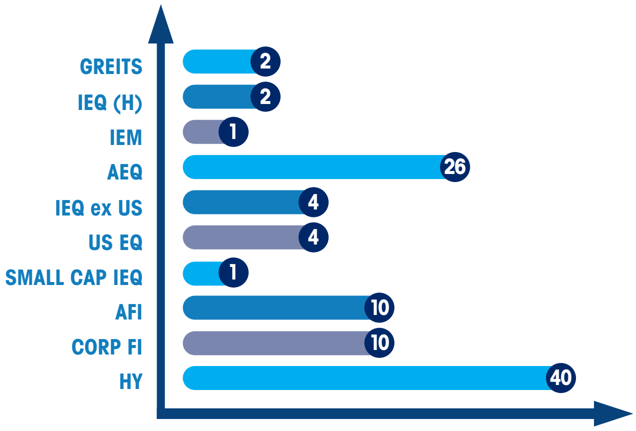
Australian Corporate Fixed Interest .... Corp FI

* Returns are based on model portfolio, benchmark allocation & assumes investment over 1 , 3 & 5 years ending 30th September 2017. 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.

YOUR CARE PORTFOLIO MODERATE



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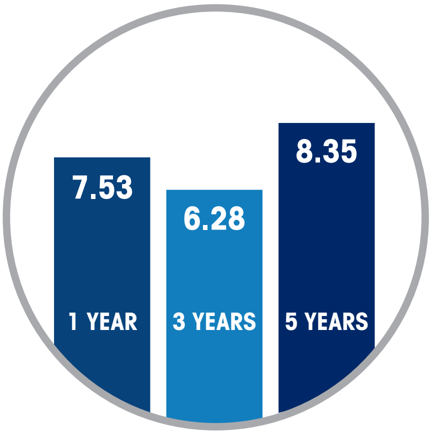
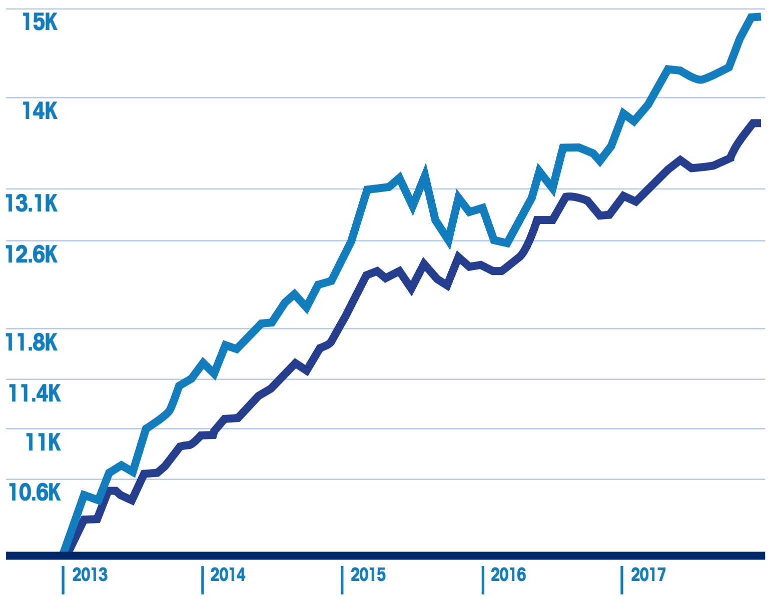


50% AEQ – 50% IEQ

CARE MODERATE STRATEGY

Growth of $10,000 over 5 years to 31 December 2017

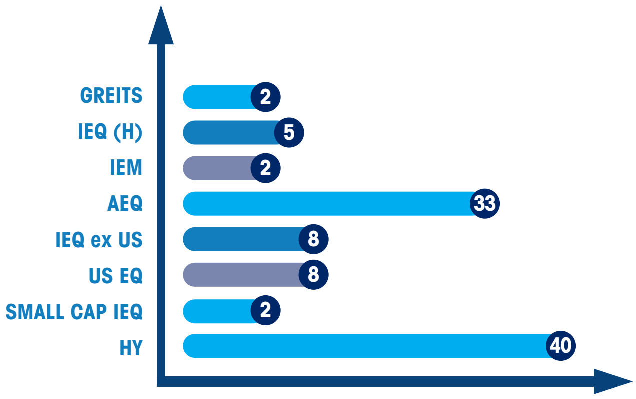


INVESTMENT NAME	VALUE
CARE Moderate (50% AEQ - 50% IEQ) (Total Return A	14.96K

Morningstar Aus Msec Moderate TR AUD (Market Return, AUD 13.79K)

Source Morningstar Direct

YOUR CARE PORTFOLIO BALANCED



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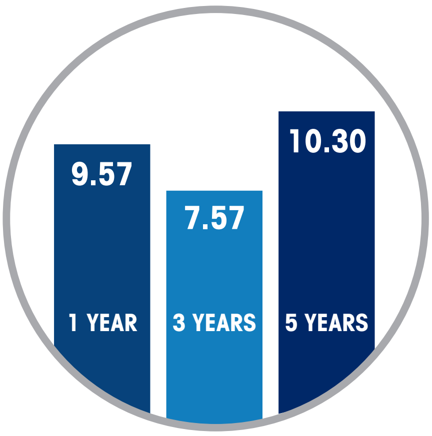
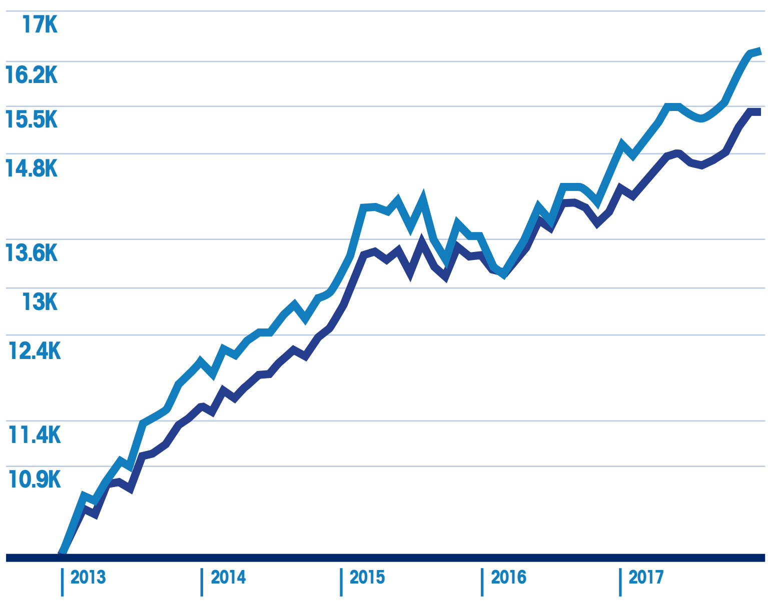


50% AEQ – 50% IEQ

CARE BALANCED STRATEGY

Growth of $10,000 over 5 years to 31 December 2017

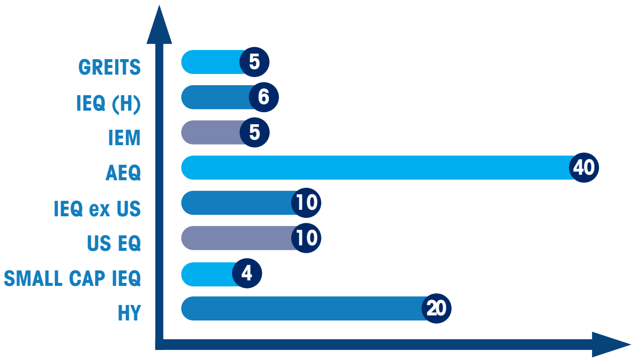


INVESTMENT NAME	VALUE
CARE Balanced (50% AEQ - 50% IEQ) (Total Return A	16.36K

Morningstar Aus Msec Balanced TR AUD (Market Return, 15.41K)

Source Morningstar Direct

YOUR CARE PORTFOLIO GROWTH



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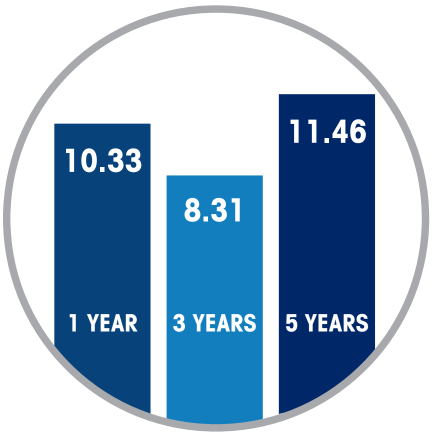
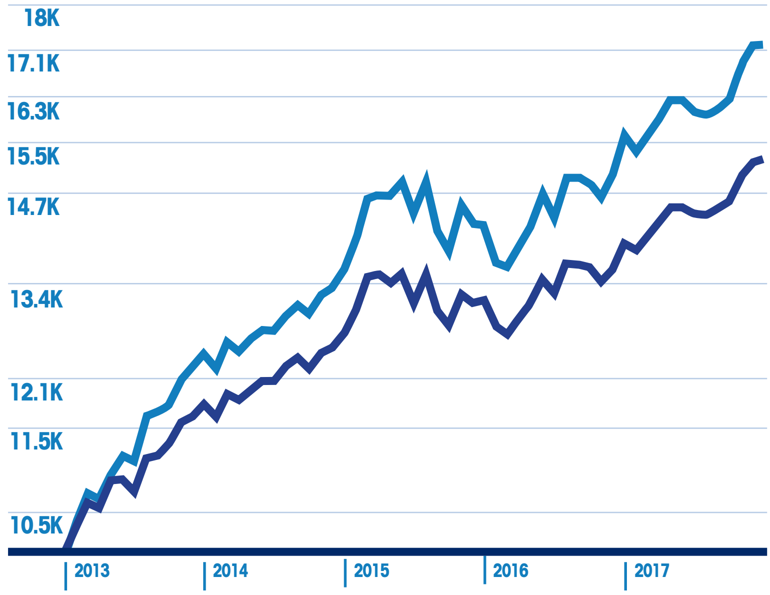


50% AEQ – 50% IEQ

CARE GROWTH STRATEGY

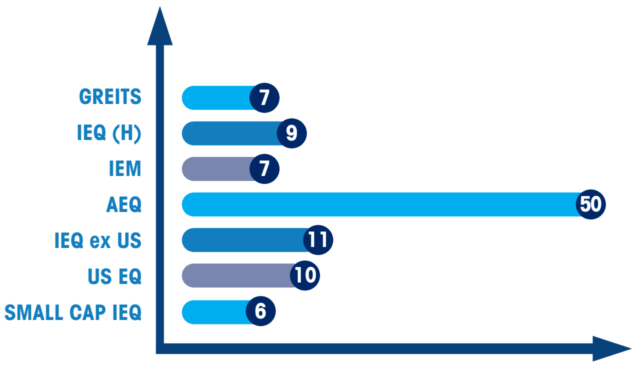
Growth of $10,000 over 5 years to 31 December 2017



INVESTMENT NAME	VALUE
CARE Growth (50% AEQ - 50% IEQ) (Total Return AUD 17.24K)	Australia Fund Multisector Growth (Total Return, AUD, P 15.25K)

Source Morningstar Direct

YOUR CARE PORTFOLIO HIGH GROWTH



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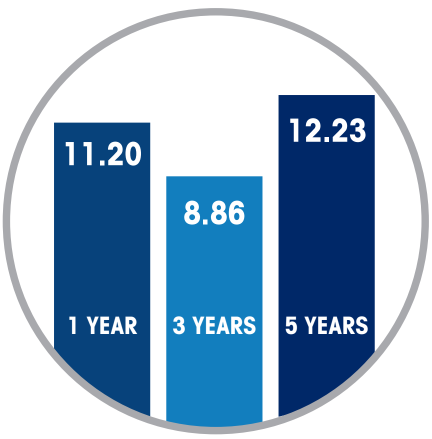
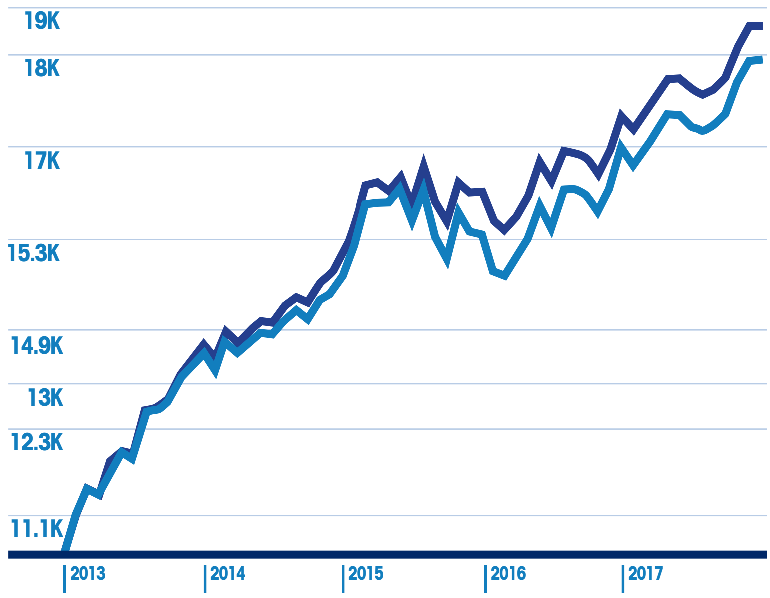


50% AEQ – 50% IEQ

CARE HIGH GROWTH STRATEGY

Growth of $10,000 over 5 years to 31 December 2017



INVESTMENT NAME	VALUE
CARE High Growth (50% AEQ - 50% IEQ) (Total Return 17.86K)	Morningstar Aus Msec Aggressive TR AUD (Market Return,18.56K)

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, delevoped 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.

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