EXCITING LiFE

Boring Money

.... and not the other way around

CARE QUARTERLY NEWSletter

- SHARE MARKETS WERE WEAK IN THE FIRST QUARTER OF 2018
- US INTEREST RATES INCREASED TO 1.75%
- US AND WORLD GROWTH IS STILL ROBUST
- US THREAT TO IMPOSE TARIFF QUOTAS ON CHINESE STEEL AND ALUMINIUM EXPORTS SPARK FEARS OF RETALIATION

GLOBAL OVERVIEW

EMMANUEL CALLIGERIS
Chairman of the CARE Investment Committee

The start of 2018 has been a difficult one for financial markets. Financial markets are forward looking and from time to time become either too optimistic or too pessimistic about the future. Investors drive valuations of shares, property and fixed interest (bonds) to reflect that optimism or pessimism either about the overall economy or the profit growth of an individual company or value of a property. At the beginning of January investors were ebullient. They had driven share and property prices higher around the world over the past five years to reflect synchronised growth, low inflation, low interest rates and a world that endorsed free trade. This however, came to an abrupt halt in late January and continued in February on the announcement by the US President to introduce tariffs (taxes) on Chinese steel and aluminium exports. Fears of retaliation by the Chinese on American goods escalated as investors drew parallels with the events of the 1930's, where protectionist policies such as the increase in tariffs plunged the world back into deep recession. Investor exuberance faded quickly in February and March compounded by the reassessment of the level of US interest rates following the release of employment data and wage growth over the year. Higher wage growth sparked fears of higher inflation which will drive interest rates higher. The market feared that this would be a lot higher. We do not believe so.

IT IS IMPORTANT TO RECALL THAT FINANCIAL MARKETS ARE NOT THE ECONOMY AND VICE VERSA. DESPITE THE FINANCIAL MARKET VOLATILITY, GLOBAL ECONOMIC GROWTH CONTINUES TO LOOK REASONABLE ALBEIT WITH SIGNS THAT IT IS PEAKING.

The volatility was compounded by growing tensions in Syria and the nuclear agreement between the US and Iran. The tensions saw the price of oil rise. Mining stocks came under significant pressure though as iron ore and base metal prices (copper, lead, nickel and zinc) fell on the trade war fears. This affected the share price of Australian mining companies including BHP, Rio Tinto and Fortescue Metals.

It is important to recall that financial markets are not the economy and vice versa. Despite the financial market volatility, global economic growth continues to look reasonable albeit with signs that it is peaking. In the US, economic growth was revised to 2.9% from 2.5% in the fourth quarter. This is a solid outcome.

CAREphilosophy

- THE AUSTRALIAN ECONOMY CONTINUES TO MUDDLE ALONG WITH STRONGER EMPLOYMENT DATA AND LOW WAGE GROWTH SUGGESTING THAT INFLATION SHOULD REMAIN BENIGN
- YOUR CARE INVESTMENT COMMITTEE REBALANCED THE PORTFOLIOS TO REALIGN THEM TO THEIR LONG TERM STRATEGIC EXPOSURES AS A RESULT OF THE UNDERLYING PRICE MOVEMENTS.

In Europe, economic data suggests that the growth backdrop remains firm, although the political scene has become more turbulent following the Italian election result. Italy's vote resulted in a fragmented parliament, with no party winning enough seats to form a majority and anti-establishment parties gained over half of parliamentary seats. The result has rendered the outlook for much-needed structural economic reforms there as bleak. In Germany, despite some slowing in industrial production and retail sales, other economic data points to sustained economic momentum. The European Central Bank (ECB) remains on track to cut its money printing programme in the first half of the year again suggesting it is more comfortable that the region will experience sustained, albeit low growth.

As highlighted in our past newsletters, the Chinese economy was likely to decelerate in 2018 and 2019 before reaccelerating in 2020. This forecast remains on track. President Xi has cemented his power base and there has been a shift toward accelerated reform. China's main issue continues to be around high corporate debt, the poor quality of some lending and the complex and opaque nature of some parts of the financial system. Structural reforms are positive for long-term growth but are negative in the short term.

The Australian economy continues to muddle along with stronger employment data and low wage growth suggesting that inflation should remain benign. Consumer spending growth – a large component of the overall economy, will continue to be challenged due to the large amount of debt in the hands of the private sector be it on their mortgage and/or credit card. This is unlikely to change any time soon. There has been little data released to suggest that the economy is likely to step up a gear in the second half of 2018 from the slightly below par growth levels currently being registered. Indeed, the housing market continues to soften and the rise in US interest rates means the cost of borrowing for our major banks has risen as our banks have borrowed in US dollars to fund lending for Australian property purchases. This has affected their share price with the four major Australian banks (CBA, ANZ, NAB and Westpac) losing between 17%-21% over the past year. If the cost is passed on to borrowers, it may exacerbate the weakness in the housing market. If it does, it could see the Reserve Bank of Australia adopt a bias to reduce the official interest rate again depending on how inflation is trending at the time. The four banks make up approximately 25% of the total Australian share market and this has affected overall investment returns.

CONSUMER SPENDING GROWTH – A LARGE COMPONENT OF THE OVERALL ECONOMY, WILL CONTINUE TO BE CHALLENGED DUE TO THE LARGE AMOUNT OF DEBT IN THE HANDS OF THE PRIVATE SECTOR BE IT ON THEIR MORTGAGE AND/OR CREDIT CARD.

Over the quarter to March 2018, the Australian share market (as represented by the ASX 200 largest companies) returned

-3.9%. In comparison, the US market returned -1.0%, the Japanese market increased 2.82% whilst the Chinese stock market increased by 2.9%. Bond prices fell in January however recovered by the end of March to produce a return of 0.82% for the quarter. Lower bond prices (higher interest rates) fed into the global property market. Global property was sold off heavily in February and did not completely recover in March. The return for the quarter was -3.25% despite the return recording a positive 4.1% for the month of March.

Over the quarter, your CARE Investment Committee rebalanced the portfolios to realign them to their long term strategic exposures as a result of the underlying price movements. International emerging market shares performed extremely strongly over the year, producing a return of almost 28%. These companies in China, India and Korea just to name a few, are contained in the international emerging markets IEM exchange traded fund and include names like Samsung Electronics and Alibaba Group. Small companies in the US also performed well over the same period because the decrease in the company tax rate stood to benefit them substantially. The universe of 2000 US small companies is tracked by the Russell 2000 Index and replicated by the IRU exchange traded fund in the portfolios. Lastly, large company shares around the world which include China's internet search engine company - Tencent Holdings Ltd, Royal Dutch Shell PLC, Nestle SA, Apple Inc and Amazon.com Inc performed well for Australian investors. These companies are held within the VEU and VTS exchange traded funds in the portfolios. IEM, IRU, VEU and VTS were trimmed and the proceeds invested into Australian shares (VAS) and Global Listed Property (DJRE).

The Active portfolio held its exposures to all five sectors. Once again, due to the relative price movements, there was a small amount of reweighting into GOLD and Australian Shares from emerging market shares (IEM) and small company shares (IJR).

The Enhanced Australian Shares portfolio has been defensively positioned over the year with a high cash weighting that was as high as 30%, reflecting the manager - Joseph Palmer and Sons' views of overall market valuations. This was a drag on performance until the last 2 months where the manager's strategy was rewarded. Despite the outperformance in the past two months, the return over the year was 0.46% versus the market index of 2.54%. The manager holds between 12 and 20 positions from a universe of the largest 100 Australian companies as these pay a relatively stable dividend. As share prices fell over the last quarter, the manager decreased the cash in the portfolio to 20% and added funeral home operator – Invocare Ltd. to the portfolio. The rest of the reduction in cash was invested into companies already held in the portfolio including Macquarie Bank, Sonic Health Care and Woodside petroleum. The manager also held Santos which received a takeover bid ($6.50 per share - 30% premium to its last traded price) from US owned, Harbour Energy. The manager has stayed true to the investment process and we believe that investors will be rewarded over the medium term.

THE FOUR BANKS MAKE UP APPROXIMATELY 25% OF THE TOTAL AUSTRALIAN SHARE MARKET AND THIS HAS AFFECTED OVERALL INVESTMENT RETURNS.

The Enhanced International Shares portfolio returned a healthy 11.64% over the year. High dividend yield shares lagged as investors were lured by explosive growth companies like Facebook, Netflix, Amazon an Alphabet (Google). Valuations however, became too optimistic. In Early February, labour data in the US showed that wages had risen by almost 3% over the year and when the Central Bank raised the official interest rate to 1.75% the market became unnerved. It is in such times that investors turn to companies that pay high and rising dividends. The portfolio is exposed to these companies through the WDIV exchange traded fund in the Enhanced International Shares portfolio. The return in the month of March was +1.31% which represented a 1.91% out performance of the broader global share market. Within the WDIV investment, the companies that performed well were EDP-Energias de Portugal SA (one of Europe's major electricity providers) which increased by 14.91%, Fortum Oyj (an energy company) +5.28% and drug company GalaxoSmithKline +10.3%. At the other end of the spectrum, L brands Inc, the owner of Victoria's Secret, Bath and Body Works and Henri Bendel fell sharply (-20%) over the month as analysts cut their profit projections. L brands has a dividend yield of 6.77%.

Despite a further increase in US interest rates, financial conditions *still* remain growth-friendly and subdued inflation is allowing (all) central banks to proceed cautiously in respect to interest rate settings. These will remain sufficiently low to allow economic growth to continue in the near term.

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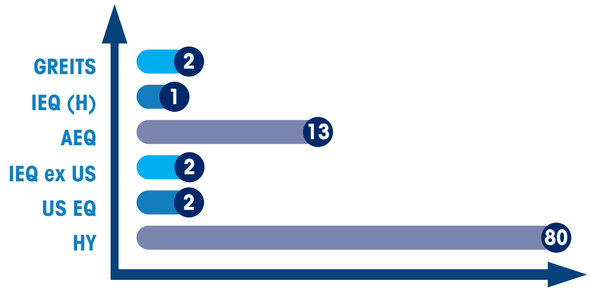
RETURNS TO THE 31ST MARCH 2018

by CARE Investment Strategy

GPS CORE PORTFOLIO RETURNS TO THE 31ST MARCH 2018

	1 year	3 Years	5 Years
CORE Conservative	3.10	3.37	5.28
CORE Moderate	4.08	4.02	6.63
CORE Balanced	5.64	4.94	8.56
CORE Growth	6.39	5.21	9.90
CORE High Growth	7.34	5.62	11.17

YOUR CARE PORTFOLIO CONSERVATIVE



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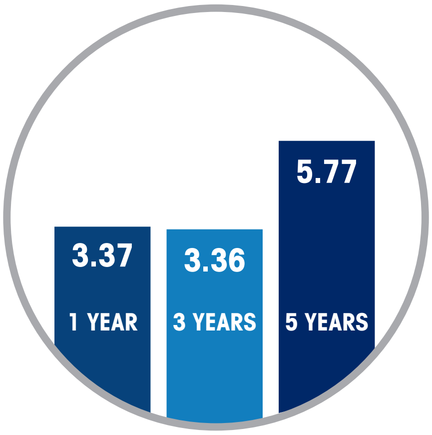
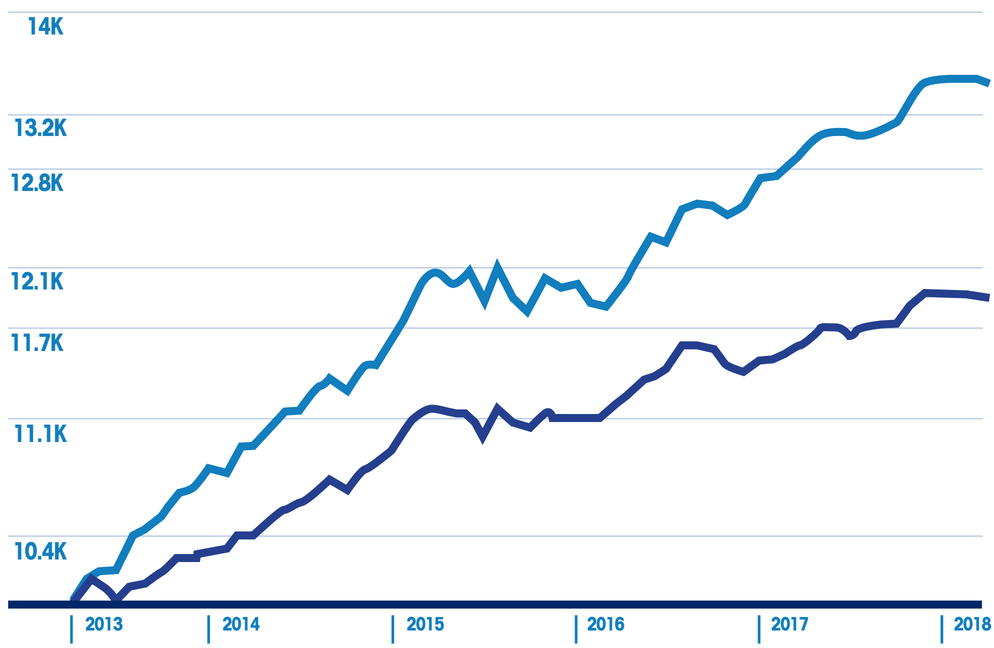


50% AEQ – 50% IEQ

CARE CONSERVATIVE STRATEGY

Growth of $10,000 over 5 years to 31 March 2018



INVESTMENT NAME VALUE

CARE Conservative (50% AEQ - 50% IEQ) (Total Return 13.45K)

Australia Fund Multisector Conservative (Total Return, AUD 11.92K)

Source Morningstar Direct

LEGEND

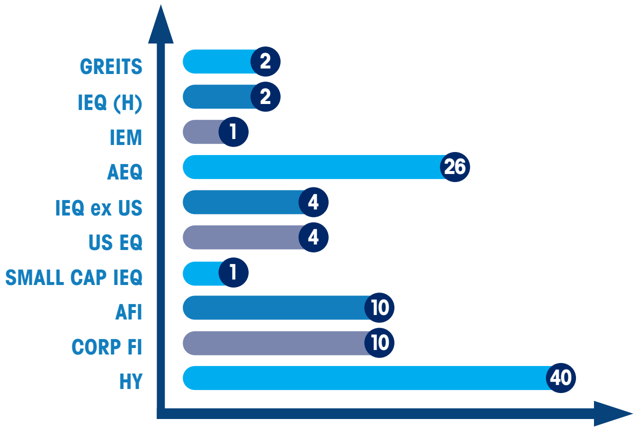
- International Real Estate .... GREITS
- International Shares (Hedged) .... IEQ (H)
- Australian Shares .... AEQ
- International Shares (ex-USA) .... IEQ ex US
- International Shares USA .... US EQ
- High Income .... HY
- International Emerging Market Shares .... IEM
- International Small Companies 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 31st March 2018. 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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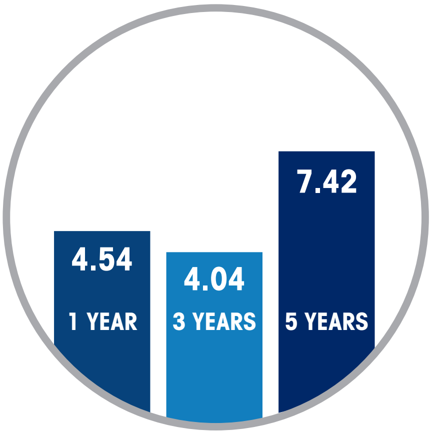
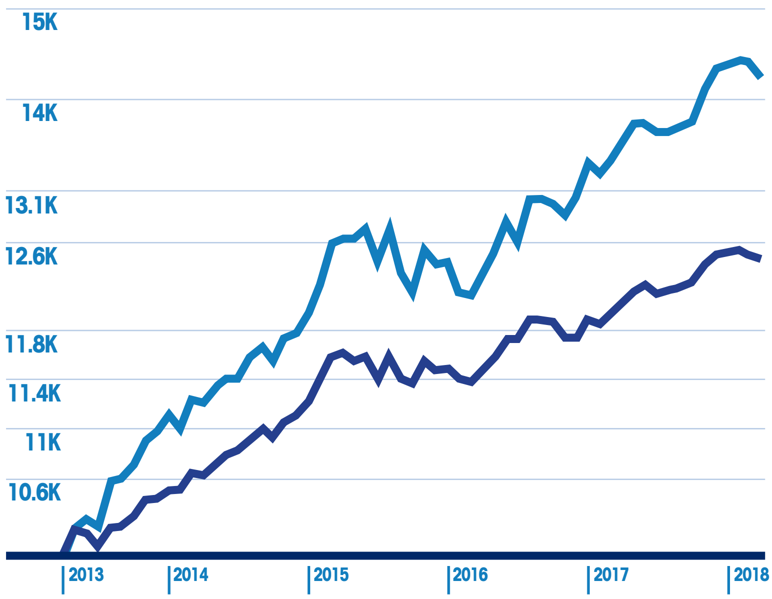


50% AEQ – 50% IEQ

CARE MODERATE STRATEGY

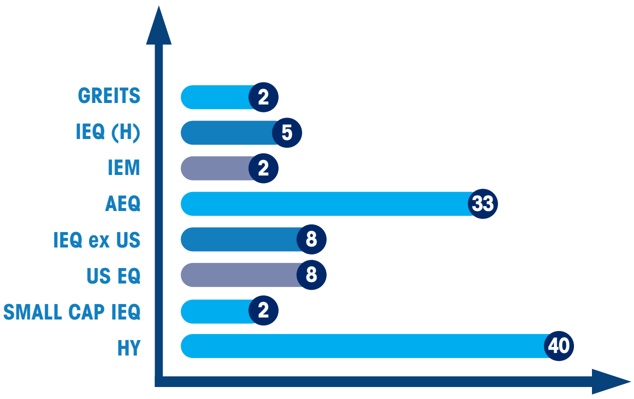
Growth of $10,000 over 5 years to 31 March 2018



INVESTMENT NAME	VALUE	
CARE Moderate (50% AEQ - 50% IEQ) (Total Return A	14.23K	Australia Fund Multisector Moderate (Total Return, AUD 12.45K)

Source Morningstar Direct

YOUR CARE PORTFOLIO BALANCED



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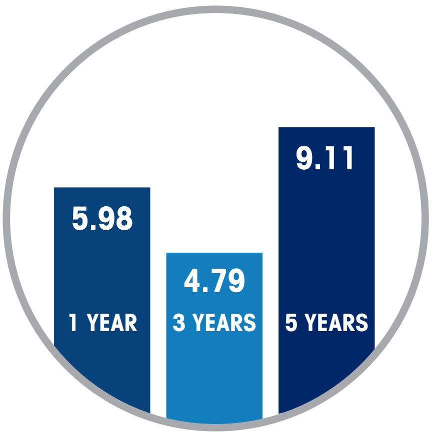
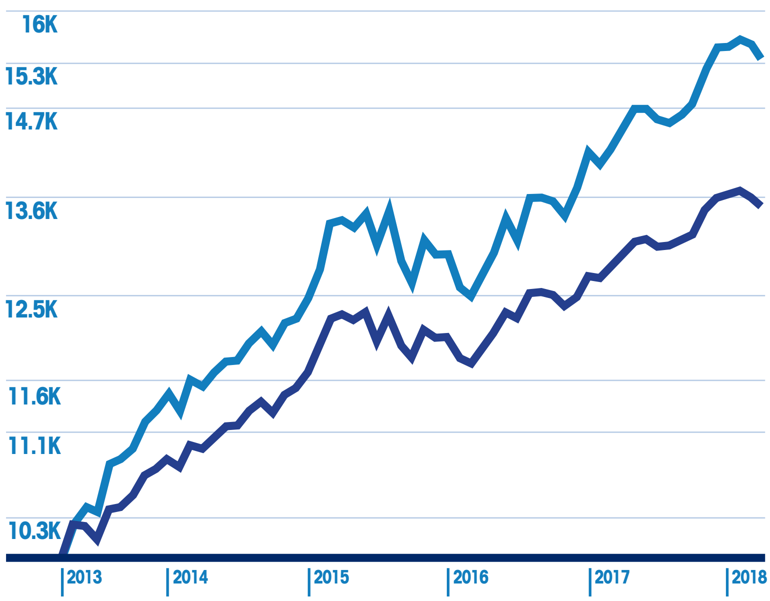


50% AEQ – 50% IEQ

CARE BALANCED STRATEGY

Growth of $10,000 over 5 years to 31 March 2018



INVESTMENT NAME	VALUE	
CARE Balanced (50% AEQ - 50% IEQ) (Total Return A	15.34K	Australia Fund Multisector Balanced (Total Return, 13.5K)

Source Morningstar Direct

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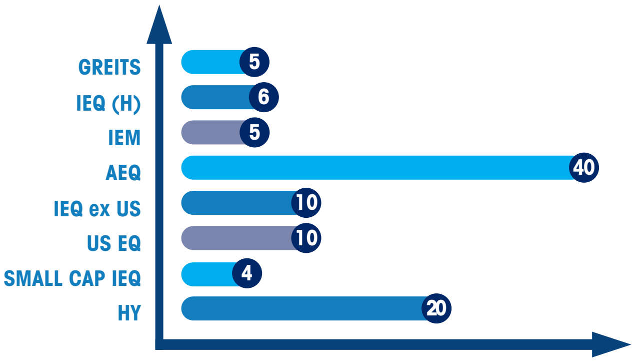
YOUR CARE PORTFOLIO GROWTH



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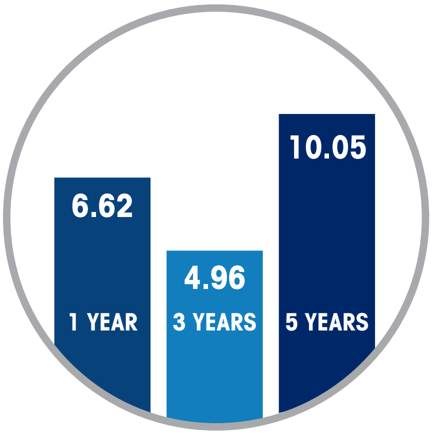
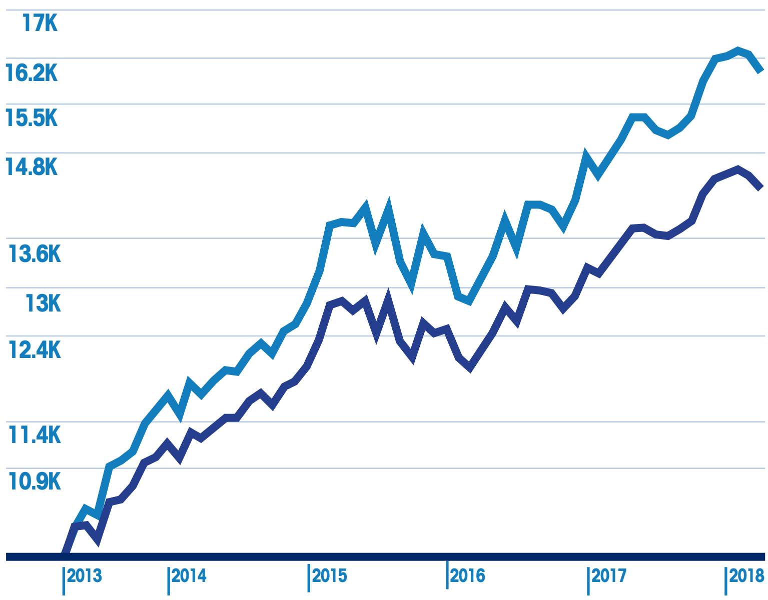


50% AEQ – 50% IEQ

CARE GROWTH STRATEGY

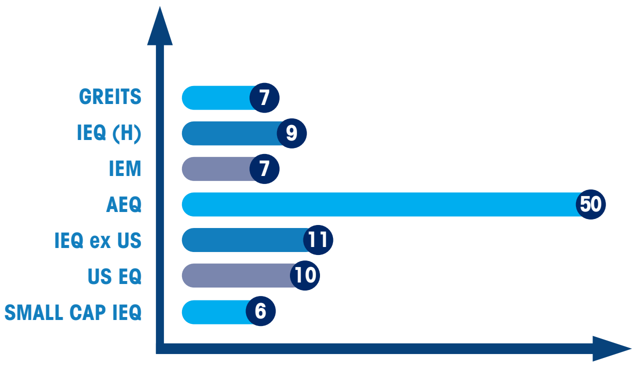
Growth of $10,000 over 5 years to 31 March 2018



INVESTMENT NAME	VALUE
CARE Growth (50% AEQ - 50% IEQ) (Total Return AUD 15.99K)	Australia Fund Multisector Growth (Total Return, AUD, P 14.3K)

Source Morningstar Direct

YOUR CARE PORTFOLIO HIGH GROWTH



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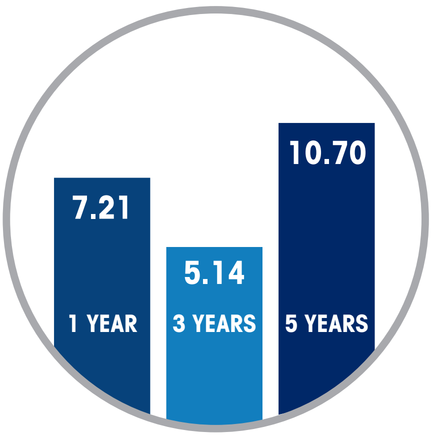
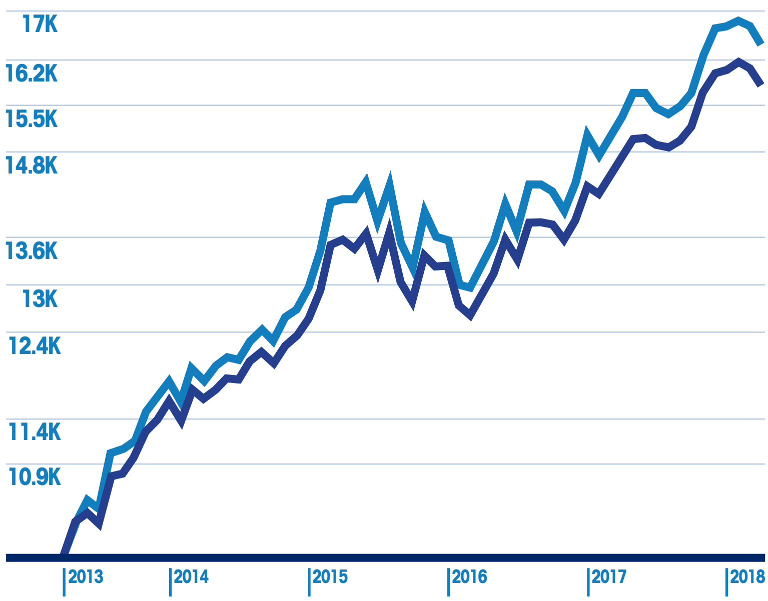


50% AEQ – 50% IEQ

CARE HIGH GROWTH STRATEGY

Growth of $10,000 over 5 years to 31 March 2018



INVESTMENT NAME	VALUE
CARE High Growth (50% AEQ - 50% IEQ) (Total Return 16.44K)	Australia Multisector Aggressive (Market Return, AUD 15.8K)

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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