EXCITING LiFE

Boring Money

.... and not the other way around

CARE QUARTERLY NEWSletter

GLOBAL OVERVIEW

- SHARE MARKETS STAGED A RECOVERY IN THE SECOND QUARTER REFLECTING SOLID ECONOMIC GROWTH
- US INTEREST RATES INCREASED TO 1.75% AND EXPECTED TO RISE FURTHER
- TRADE WARS INTENSIFIED OVER THE QUARTER, HOWEVER MARKETS MISTAKENLY HAVE BECOME COMFORTABLY NUMB

CAREphilosophy

EMMANUEL CALLIGERIS
Chairman of the CARE Investment Committee

Trade war concerns dominated the investment landscape with China vowing a tit-for-tat retaliation to US announced tariffs on her. China said it would respond with tariffs "of the same scale and strength". Importantly, Europe is also set to impose duties on U.S. imports with a range of goods attracting a 25% tariff. There will now be duties imposed on EUR 2.8 billion worth of U.S. goods including steel, aluminium goods, sweet corn peanuts and bourbon. Canada has said it will impose tariffs on $12.5 bio worth of U.S. exports from July 1. The markets remain comfortably numb understanding President Trump's art of deal making, focusing more on the Federal Reserve's actions.

The Federal Reserve raised the interest rate by 0.25% to the 1.75-2.00% range and indicated that on the strength of the economic data there would likely be a further 2 rises by the end of the year. The workforce remains solid with wages growth contained suggesting that inflation should remain under control. Employment growth was strong over the quarter particularly in professional and business services as businesses, turned to contractors as they try to keep up. In other data, inflation is steady, export growth has improved, and this against a backdrop of strong business and consumer confidence.

EMPLOYMENT GROWTH WAS STRONG OVER THE QUARTER PARTICULARLY IN PROFESSIONAL AND BUSINESS SERVICES AS BUSINESSES, TURNED TO CONTRACTORS AS THEY TRY TO KEEP UP.

China's central bank announced that it will cut bank's reserve requirement ratio for some banks by 0.50% as of 5 July. The reserve ratio is the portion of depositors' balances that banks must have on hand as cash should a customer go to a bank to withdraw money. The reserve ratio affects the money supply in a country at any given time. By reducing the amount of reserves, the Peoples Bank of China (PBoC) effectively made more money available to lend to borrowers which in turn hopes to stimulate economic growth. This is all part of monetary policy. The PBoC noted it "will continue to implement a stable and neutral monetary policy to create a suitable monetary and financial environment for high quality development and supply side structural reforms." Effectively, the Chinese economy struggles to grow without increased debt suggesting that the economy continues to

- THE AUSTRALIAN ECONOMY CONTINUES TO GROW WITH STRONGER EMPLOYMENT DATA AND LOW WAGE GROWTH SUGGESTING THAT INFLATION SHOULD REMAIN BENIGN
- AUSTRALIAN MORTGAGE INTEREST RATES UNDER PRESSURE TO RISE – OFFICIAL RESERVE BANK INTEREST RATE IS UNCHANGED
- YOUR CARE INVESTMENT COMMITTEE REBALANCED THE PORTFOLIOS TO REALIGN THEM TO THEIR LONG TERM STRATEGIC EXPOSURES AS A RESULT OF THE UNDERLYING PRICE MOVEMENTS.

lose steam. China will still record enviable growth this year, mainly due to resilient domestic demand. The main risks to the economic outlook are rising trade tensions, fears of abrupt financial deleveraging and a cooling housing market.

Following a soft patch in the first quarter of 2018, the latest economic indicators in Japan confirm that the economy strengthened in the second quarter led by exports, despite global trade tensions. The Bank of Japan's Tankan survey of business conditions for the second quarter conveyed overall positive messages. Forecasts for investment growth were stronger than expected, with large manufacturing firms anticipating a 17.9% increase in overall investment in fiscal year 2018.

In Australia growth remains reliant on government infrastructure spending which is likely to continue for the next few years. The RBA kept rates on hold in July and suggested that it expected solid growth in 2018 and 2019 and a consequent gradual firming of wage and inflation pressures. This is difficult to see as the consumer remains indebted and consumption is unlikely to materially increase given the low savings rate. Supporting this view, retail sales in May underwhelmed. Going forward, a further headwind for consumption growth is likely to develop as declining wealth is increasingly recognised by households as lending standards have tightened. Furthermore, the cost of money for banks has risen and this has been passed on through higher mortgage interest rates by some banks. At this point Commonwealth Bank, NAB, Westpac and ANZ have yet to move, however pressure is mounting. House prices as reported by CoreLogic, fell for the ninth consecutive month. The (reported) house price correction remains shallow and heavily concentrated in Sydney and Melbourne. However, both volumes and clearance rates have declined suggesting that true market prices would be lower if sellers were prepared to meet the market. This persistent weakness in prices and tighter financing conditions will also weigh materially on dwelling approvals and residential investment through to the end of 2019. The official cash rate which is that set by the Reserve Bank the is forecast to remain at 1.5% for the foreseeable future with a bias towards an easing if trade wars step up a notch or *mortgage* interest rates rise because of the higher rate at which banks need to borrow money.

IN AUSTRALIA GROWTH REMAINS RELIANT ON GOVERNMENT INFRASTRUCTURE SPENDING WHICH IS LIKELY TO CONTINUE FOR THE NEXT FEW YEARS. THE RBA KEPT RATES ON HOLD IN JULY AND SUGGESTED THAT IT EXPECTED SOLID GROWTH IN 2018 AND 2019 AND A CONSEQUENT GRADUAL FIRMING OF WAGE AND INFLATION PRESSURES.

Over the quarter to June 2018, the Australian share market (as represented by the ASX 200 largest companies) rebounded sharply rising by 8.47%. In comparison, the US market returned 2.93%, the Japanese market increased 3.96% whilst the Chinese stock market decreased -9.94%. Bond prices rose by 0.82% over the quarter. Thanks to stable bond prices Australian property Trusts increased 10.04% over the quarter whilst the broad emerging market world's share market decreased by -4.45%.

Following the weakness in the Australian share market earlier in the year, your CARE Investment Committee increased the exposure of the portfolios to Australian shares and away from global emerging market shares. This proved to be beneficial as Australian shares rebounded in the June

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.

quarter whilst emerging market shares were sold off as investors correctly feared that trade wars would be most detrimental to these economies. The Chinese share market was one of the hardest markets hit, falling over 20% from its highest point.

The portfolios held an investment in the Russell 2000 small companies index through BlackRock iShares (IRU.AX). This share was delisted over the quarter and replaced by IJR.ASX which also tracks the small companies index in the United States. Both investments have had similar returns over the past 5 years and we expect that this will continue. Once again, 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. The gold price has been on a slow decay as investors became optimistic about the potential continued growth of the US economy and higher US interest rates which led to a stronger US dollar.

The Enhanced Australian Shares portfolio remained defensively positioned with a high cash weighting around 20%, reflecting the manager - Joseph Palmer and Sons' views of overall valuations which remain stretched for some companies including CSL and A2 Milk. This was a drag on relative performance over the quarter and the year. Importantly, as share prices fell over the last quarter, for selective companies, the manager decreased the cash in the portfolio and added further to existing positions including funeral home operator – Invocare Ltd. Invocare announced further acquisitions recently and we have seen a further increase in the share price more recently. The portfolio maintained its exposures to Macquarie Bank, Sonic Health Care and Woodside petroleum. Despite the underperformance, the manager has stayed true to the investment process and we believe that investors will be rewarded over the medium term. The strategy looks to provide reasonable growth and good dividends over the long term.

The Enhanced International Shares portfolio returned a healthy 13.51% over the year. High dividend yield shares lagged as investors were once again lured by explosive growth companies like Facebook, Netflix, Amazon an Alphabet (Google). Facebook surged on a view that privacy issues surrounding user data wouldn't impede user and advertising growth, which showed gains in the first-quarter earnings report released in late May. Visa gained after higher consumer spending helped the payments company post higher-than-expected revenue growth of 11.5% and 30% earnings growth for the first quarter, which prompted it to boost guidance for fiscal 2018. The portfolio has a good mix of high dividend paying shares and solid growth companies through the WDIV exchange traded fund in the Enhanced International Shares portfolio. The return in the month of March was +2.9% which represented a 0.8% 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) and drug company GalaxoSmithKline.

TRADE WARS HAVE ADDED RISK TO THE GLOBAL OUTLOOK AND INVESTORS SHOULD EXPECT SLIGHTLY HIGHER VOLATILITY IN FINANCIAL MARKETS IN THE NEAR TERM AS HAS BEEN THE CASE SO FAR IN 2018.

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. Trade wars have added risk to the global outlook and investors should expect slightly higher volatility in financial markets in the near term as has been the case so far in 2018.

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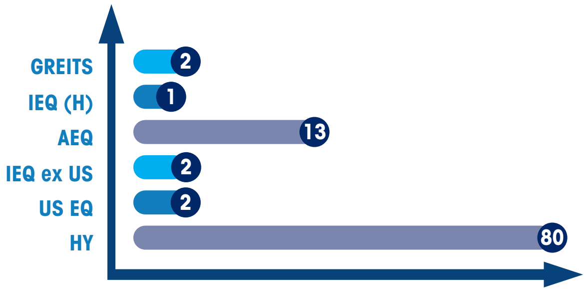
RETURNS TO THE 30TH JUNE 2018

GPS CORE PORTFOLIO RETURNS TO THE 30TH JUNE 2018

	1 year	3 Years	5 Years
CORE Conservative	4.41	4.43	4.43
CORE Moderate	6.73	5.63	6.98
CORE Balanced	8.91	6.83	8.59
CORE Growth	11.12	7.79	10.22
CORE High Growth	13.25	8.74	11.61

by CARE Investment Strategy

YOUR CARE PORTFOLIO CONSERVATIVE



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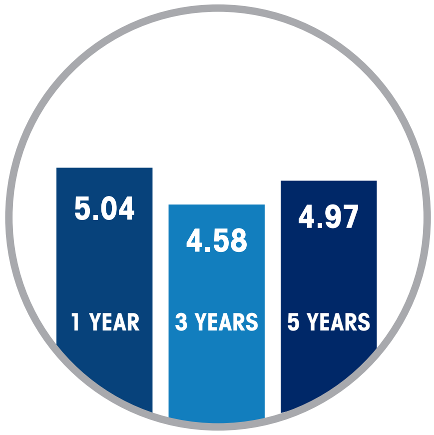
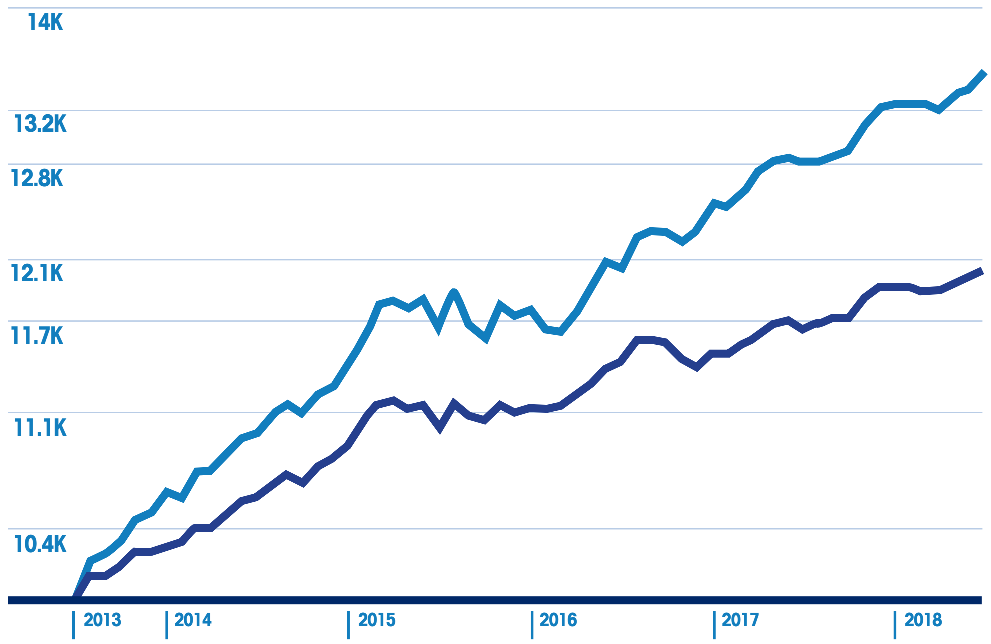


50% AEQ – 50% IEQ

CARE CONSERVATIVE STRATEGY

Growth of $10,000 over 5 years to 30 June 2018



INVESTMENT NAME	VALUE
CARE Conservative (50% AEQ - 50% IEQ) (Total Return, AUD13.5K)	Australia Fund Multisector Conservative (Total Return, AUD 12.05K)

Source Morningstar Direct

LEGEND

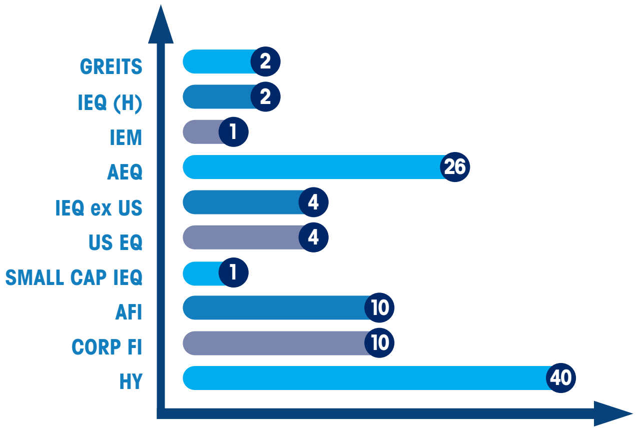
- International Real Estate .... GREITS
- International Shares (Hedged) .... IEQ (H)
- Australian Shares .... AEQ
- International Shares (ex-USA) .... IEQ ex US
- International Shares USA .... US EQ
- High Income .... HY
- International Emerging Market Shares .... IEM
- International Small Companies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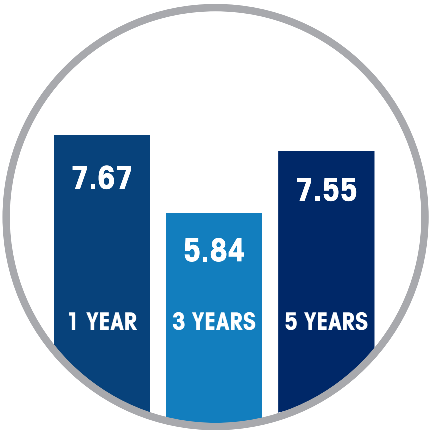
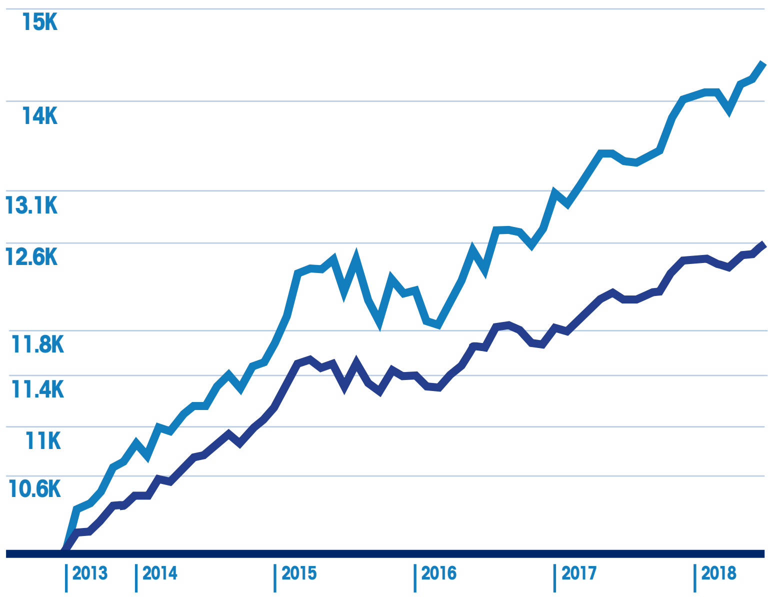


50% AEQ – 50% IEQ

CARE MODERATE STRATEGY

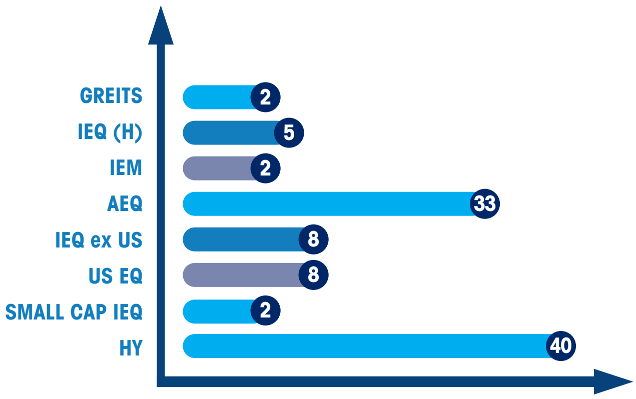
Growth of $10,000 over 5 years to 30 June 2018



INVESTMENT NAME	VALUE
CARE Moderate (50% AEQ - 50% IEQ) (Total Return, AUD 14.42K)	Australia Fund Multisector Moderate (Total Return, AUD 12.58K)

Source Morningstar Direct

YOUR CARE PORTFOLIO BALANCED



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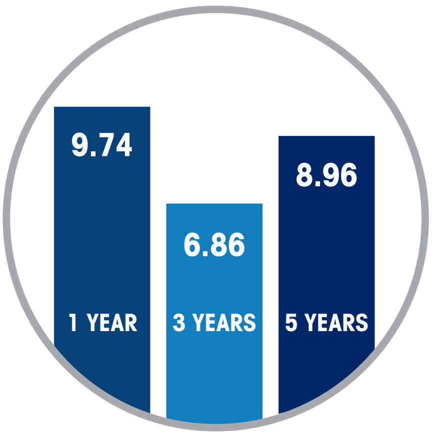
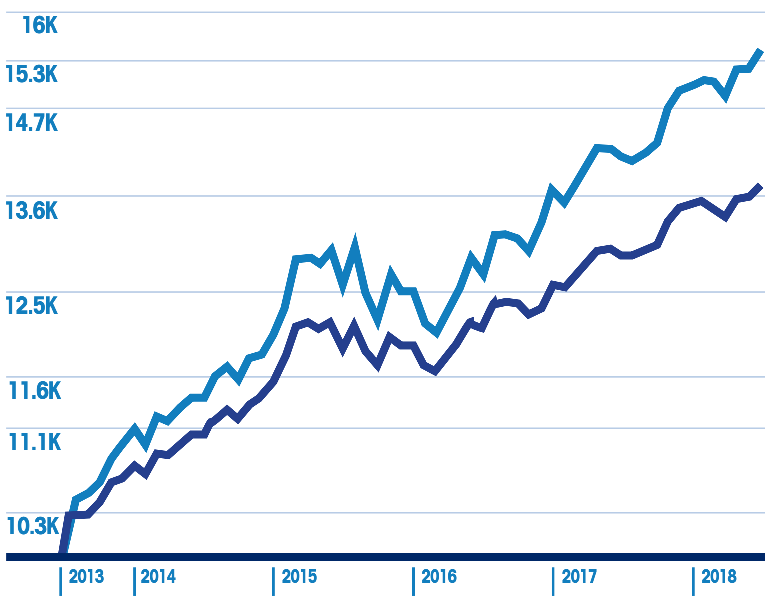


50% AEQ – 50% IEQ

CARE BALANCED STRATEGY

Growth of $10,000 over 5 years to 30 June 2018



INVESTMENT NAME	VALUE
CARE Moderate (50% AEQ - 50% IEQ) (Total Return, AUD 15.4K)	Australia Fund Multisector Moderate (Total Return, AUD 13.74K)

Source Morningstar Direct

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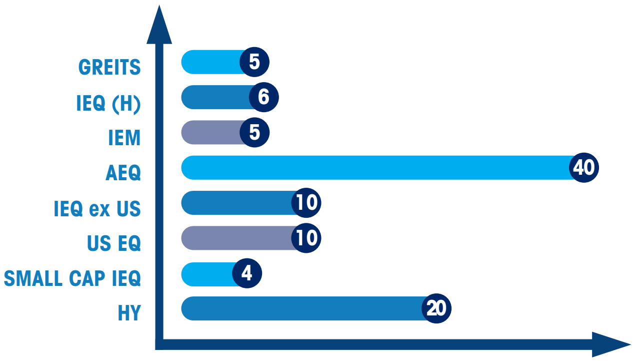
YOUR CARE PORTFOLIO GROWTH



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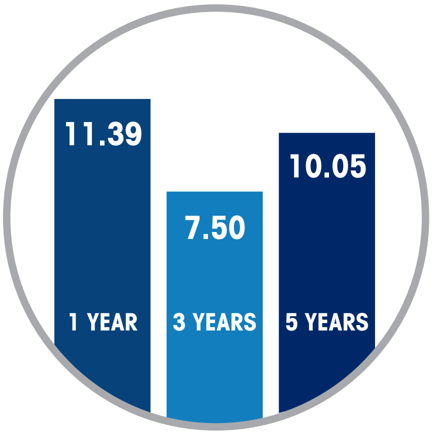
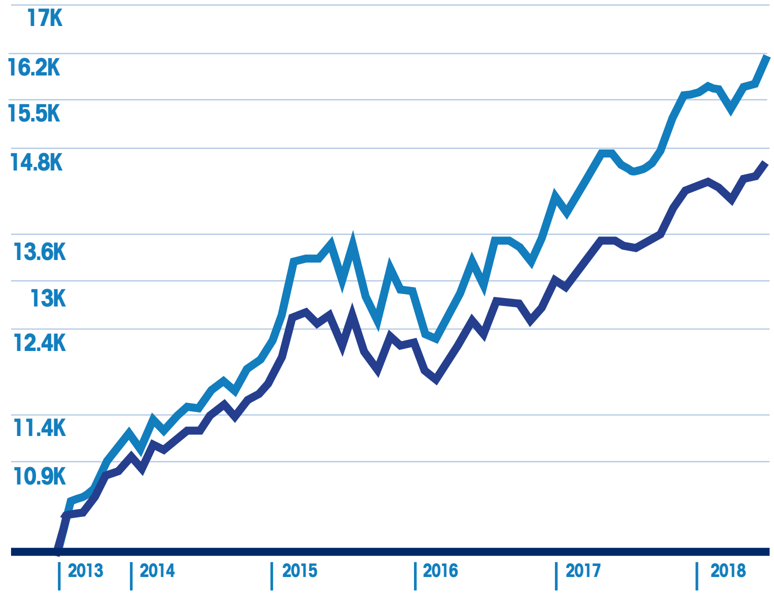


50% AEQ – 50% IEQ

CARE GROWTH STRATEGY

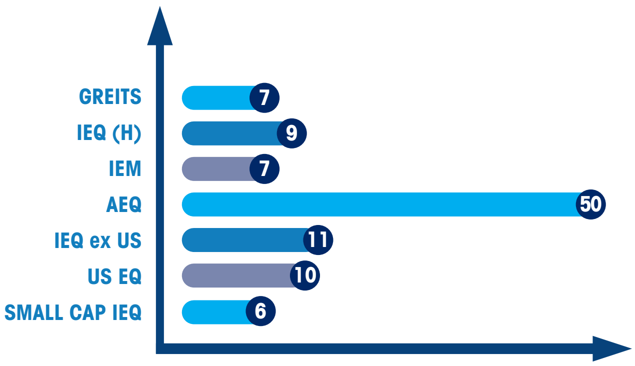
Growth of $10,000 over 5 years to 30 June 2018



INVESTMENT NAME	VALUE
CARE Growth (50% AEQ - 50% IEQ) (Total Return, AUD 16.19K)	Australia Fund Multisector Growth (Total Return, AUD, P ..14.58K)

Source Morningstar Direct

YOUR CARE PORTFOLIO HIGH GROWTH



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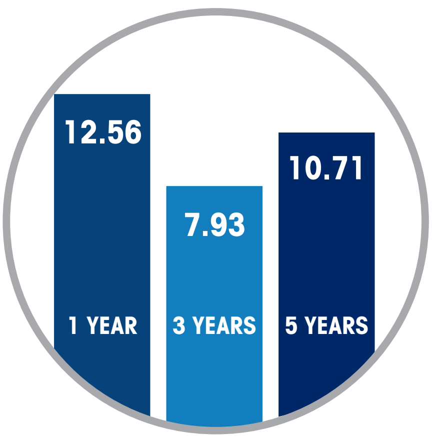
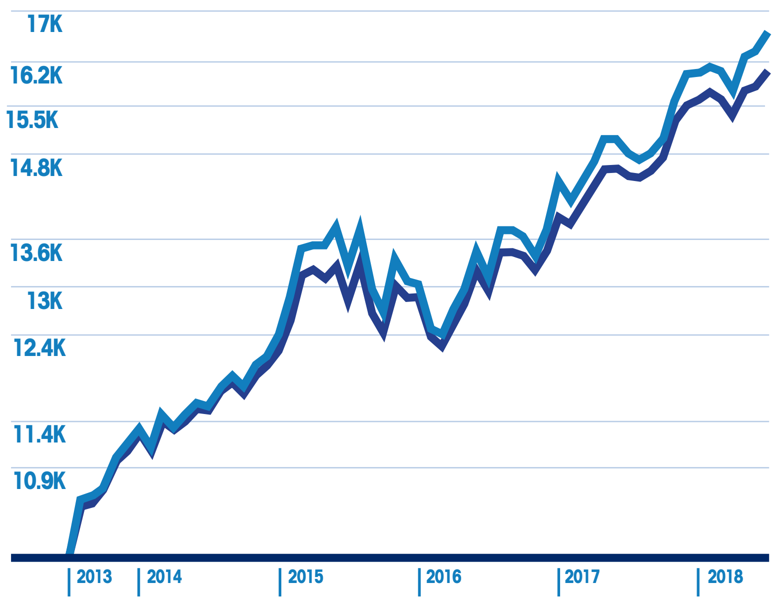


50% AEQ – 50% IEQ

CARE HIGH GROWTH STRATEGY

Growth of $10,000 over 5 years to 30 June 2018



INVESTMENT NAME	VALUE
CARE High Growth (50% AEQ - 50% IEQ) (Total Return A..16.68K)	Australia Multisector Aggressive (Total Return, AU.. 16.07K)

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

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