CAREphilosophy®

March 2021

CARE QUARTERLY NEWSLETTER

EXCITING LIFE BORING MONEY

and not the other way around

The very low returns

that investors can expect to receive from bank deposits has seen a rush of money into the housing and share markets around the world and gold and commodity markets also.

After a year of

unprecedented challenges from the coronavirus and large swings in investor sentiment globally, the Australian share market continued its rise, adding 4.3% over the quarter.

With the rise in

most soft and hard commodities, we are potentially seeing the beginnings of the shift in inflation expectations.

GLOBAL OVERVIEW

Vaccine rollouts that will help to transition into a post COVID world over the course of 2021 gave investors further confidence in the first quarter of the year following a strong last quarter of 2020. The path, however, will not be smooth as evidenced by the recent second wave in India and the shutdowns across Europe as governments attempt to bring outbreaks under control. Closer to home, we saw Brisbane and Perth shut down over the quarter as local outbreaks occurred. Pleasingly, the rate of local transmission was well controlled and the cities were opened again relatively quickly. The rate of vaccination in Australia remains frustratingly slow, well behind initial government projections.

Economic growth around the world remained strong following the massive amounts of stimulus by central banks and governments globally. Australian economic data continued to demonstrate the better than expected recovery in the economy: the unemployment rate declined to 5.8% with 70 thousand new jobs created for the month of February; retail sales for February were up 5.2% year on year; and house prices continued to surge, with national dwelling prices rising 2.8% in March, and 8.2% over the past six months. The data has significantly outpaced even the most optimistic expectations.

Despite the strong economic data, the Reserve bank of Australia has shown no deviation in its rhetoric that accommodative interest rate policy will remain in place until 2024 particularly as there is some uncertainty to come, with government incentive programs expiring and the rollout of vaccines still frustratingly slow. The RBA kept its policy mix unchanged, reaffirming its 0.1% target for the cash rate and yield curve controls, as well as unchanged quantitative easing (money printing) and government bond buying programs which is predominately targeted in the 0-3 year maturity. It will be interesting to see whether the RBA decides to shift further out on the maturity spectrum in its bond buying program.

Emmanuel Calligeris

Chairman of the CARE Investment Committee

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This will be an important indicator of the RBA's expectation of the longevity of ultra-low interest rate levels.

The US economy recorded another wave of strong data that provided further evidence of the benefit of government spending and the successful, albeit gradual, containment of COVID-19. The passing of a USD1.9 trillion government spending package in the United States, that's $1,900,000,000,000 new US dollars printed to provide additional coronavirus relief to Americans, including US$1,400 direct payments and extended unemployment benefits was taken well by financial markets. Despite the enormity of the package and large debt burden to the economy, markets focussed on the solid growth potential from the stimulus package. Interestingly, this is not the end of the Biden administration's spending spree. The US government is looking to borrow a further $2-$4 trillion dollars to fund infrastructure projects that will ensure further growth in 2022 if passed.

This amount of stimulus has raised the question of whether we are likely to see higher structural inflation or whether inflation will be transitory as we come off the lower base of 2020. While the Chairman of the US Central Bank, Jerome Powell, has guided markets to believe that inflation is more likely to be transitory. We remain undecided. We acknowledge that whilst oil was less than US20 per barrel and is now US$60 per barrel, lumber prices are up 220% and supply chain constraints have been remarkably consistent across all industries over the past 6 months, the real inflation outbreak will come from rising wages. The data so far has not highlighted a problem.

Inflation concerns are reflected across many markets but perhaps the most important is the bond market as investors in bonds want to be compensated by a higher interest rate if their future purchasing power is likely to be whittled away. Interestingly, the interest rate on the US 10-year bond, moved lower having increased between December 2020 and February 2021. The Central Bank maintained the target range for the Federal Funds rate at 0 – 0.25%, suggesting that this will remain the case until maximum employment is achieved and the inflation rate exceeds 2% for some time.

China's economy bounced back after the deep slump in growth last year, propelled by stronger domestic demand and abroad and continued government support for smaller firms. GDP jumped 18.3% in the first quarter of 2021 compared to a year earlier due the shutdowns caused by the pandemic. China's rebound has been led by exports as factories race to fill overseas orders, and more recently a steady pick-up in consumption as shoppers return to restaurants, malls and car dealerships. Retail sales increased 34.2% year-on-year in March, beating a 28% gain expected and stronger than the 33.8% jump seen in the first two months of the year. Consumer price inflation is rising at only a modest pace, even as factory gate inflation hit a near three-year high suggesting that companies are absorbing the increases in costs. Authorities have become concerned about financial risks involving the country's overheated property market and have asked banks to trim their loan books this year to guard against asset bubbles. New home prices increased at the fastest pace in seven months in March, with gains spreading to more cities as red-hot demand defied government efforts to cool the market. Growth is likely to slow to 8.6% in 2021 as the government turns its attention to reining in financial risks in overheating parts of the economy.

In Europe, the recovery continues to gain pace as businesses indicate improved hiring plans for the months ahead, especially in manufacturing. This provides further upside to the recovery prospects of however real employment recovery is unlikely before labour productivity recovers to pre-crisis levels. With furlough schemes still in place, that moment is still a while away.

After a year of unprecedented challenges from the coronavirus (COVID-19) spread around the world and large swings in investor sentiment globally, the Australian share market continued its rise, adding 4.3% over the quarter to be 37.5% higher over the year. This was captured in the Vanguard Australian Share (VAS) exchange traded fund. Once again, the banks did a lot of the heavy lifting led by Westpac and ANZ. Other stocks to perform well over the quarter included Telstra, Dominos Pizza and Tabcorp. Companies whose share price did not perform well include A2 Milk and AGL and construction group Cimic whose share price declined following a disappointing profit report. International share markets ended the quarter 6.3% higher in Australian dollar terms to be 23.5% higher over the year. The US share market in particular had a buoyant year, with both the S&P 500 (the index of the 500 largest companies) and the technology heavy Nasdaq 100 reaching a new all-time high. Global property trusts, represented by DJRE in the CARE portfolios, increased by 8.4% over the quarter whilst the Australian property trust sector returned -0.6%. The Australian bond market decreased -3.2% and international bonds decreased -2.5% over the quarter.

The CARE Investment Committee took the opportunity to rebalance the portfolios over the quarter as price fluctuations afforded the opportunity. Australian shares and global smaller companies in which the CARE portfolios gain exposure through VAS and IJR, were sold at the margin and the proceeds invested into the Realm High Income Fund. As many of our clients may be aware, the fixed income exposure within the portfolios is through Kapstream and Realm where the strategy is to take minimal interest rate exposure and hence protect capital as best as possible. Despite the fall in fixed interest prices over the quarter, both Realm and Kapstream were able to produce positive returns over the quarter and the year. The Active portfolio was also rebalanced into Gold and out of IJR, VAS and Emerging market companies (IEM), as we saw weakness in the gold price. Remaining disciplined to rebalancing is important and a key benefit of the CARE Investment Philosophy.

As mentioned last quarter there was a large rotation into companies that generally benefit from strength in the economy. These more cyclical companies are found in the WDIV investment which performed well again following the poor performance as a result of the world economy falling into an abrupt recession due to the pandemic. Companies that performed well include Canadian internet, television and mobile services provider Shaw Communications which received a takeover bid by Rogers Communications also of Canada. The Shaw Communications share price increased 52% over the quarter. US accounting firm H&R Block also performed well, increasing 41% over the quarter. Red Electrica Corporation, a company that maintains and operates Spain's electricity transmission grid, saw a 10% decrease in its share price. The enhanced international share portfolio gained 7.07% over the quarter with WDIV increasing almost 11%. The Magellan fund disappointed over the quarter and the year. The largest detractors were the investments in Netflix, PepsiCo and SAP. Netflix lost 3.5% as risk-taking investors rotated from streaming to legacy media

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companies. PepsiCo fell 3.8% as further restrictions on out-of-home activity were implemented, especially in Europe. SAP declined 2.6% as investors baulked at its shift to a cloud-based subscription model (rather than relying on selling licenses). Holding a large amount of Cash as the markets rallied and not owning Apple also dragged on the manager's performance.

The enhanced Australian Shares portfolio performed in line with the S&P/ASX 200 index over the quarter despite being defensively positioned in Cash. The Cash holding of circa 18% dragged on performance, however the manager's investment into Boral, Spark Infrastructure, Santos and Macquarie Bank were all positive for performance this quarter, whilst AGL Limited, CSL and Aurizon dragged on performance. AGL's management has been trying to split the company into a coal powered generation business that analysts believe would carry too much debt. Such a deal would have little appeal to new investors. CSL has performed very well on the back of strong demand for its blood plasma products however market analysts expect this growth will moderate in 2021 and this outlook has weighed on the company's valuation. Macquarie Group extended its strong performance following its profit upgrade in late February where it stated it now expects its 2021 result to be higher by 5-10% on last year. The main driver of this upgrade was a better than expected result from its commodities and global markets business due to an extreme winter in North America that boosted client demand for its physical gas and power supply business.

As mentioned in our last quarterly update, the actions of central banks and governments are the driving force behind markets. The very low returns that investors can expect to receive from bank deposits has seen a rush of money into the housing and share markets around the world and gold and commodity markets also. This is likely to be the status quo for quite a few years to come. Low interest rates, the cumulative effect of past policy stimulus measures, the low level of energy prices, and high household savings rates in the U.S., China, and Europe (which indicate pent-up spending power) point to a sustained global economic recovery. To date, some countries have recovered by more than the most optimistic forecasts as economic policymakers throughout the world want to cushion any economic slippage and support a full recovery in employment. However, all this stimulus is coming at a cost. Government debt around the world is so large that it is difficult to see just how it will be paid back. Raising taxes or cutting costs does not seem politically feasible. Defaulting on debt would collapse currencies and so inflating out of the current situation seems the most viable solution. With the rise in most soft and hard commodities, we are potentially seeing the beginnings of the shift in inflation expectations. Whilst it is likely to be the end game, the timing is very difficult to accurately forecast. In coming months inflation will push higher by virtue of a very low base, however it is difficult to see that it will be the start of structurally higher inflation before 2024-2025.

RETURNS

31st MARCH 2021

By CARE Investment Strategy

LEGEND

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

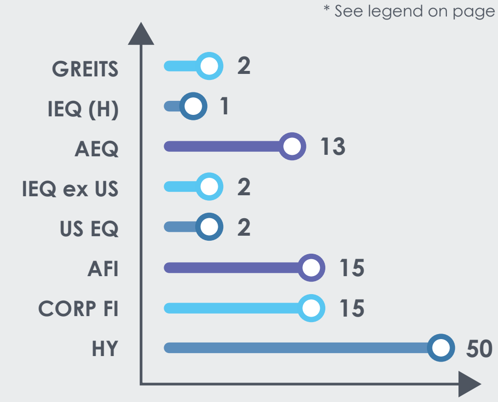
* Returns are based on model portfolio, benchmark allocation & assumes investment over 1, 3 & 5 years ending March 2021. The E (enhanced) component is assumed to be 50% Australian Equities & 50% International Equities. Past Performance is not indicative of future performance.
* The CARE portfolio Returns 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.

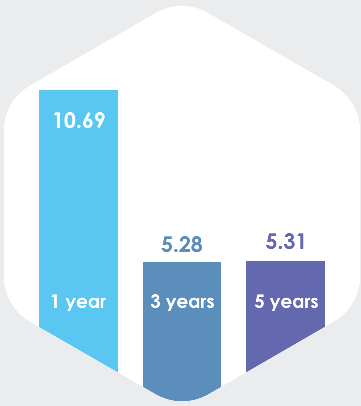
CORE PORTFOLIO RETURNS TO THE 31st MARCH 2021

	1 Month	3 Months	6 Months	1 year	3 years	5 years
CORE Conservative	1.03	0.49	3.67	9.64	4.94	4.95
CORE Moderate	1.62	1.73	7.25	15.66	6.26	6.51
CORE Balanced	2.35	3.36	11.42	22.60	7.60	8.17
CORE Growth	3.04	4.63	14.95	28.74	8.73	9.47
CORE High Growth	3.62	5.80	18.74	35.74	9.80	10.73

YOUR CARE PORTFOLIO CONSERVATIVE

* See legend on page 5

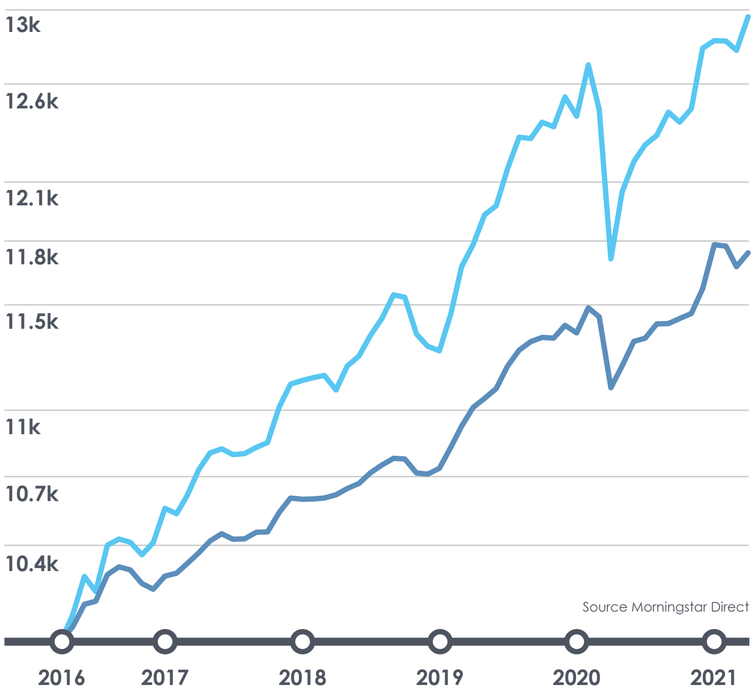




50% AEQ – 50% IEQ

CARE CONSERVATIVE STRATEGY

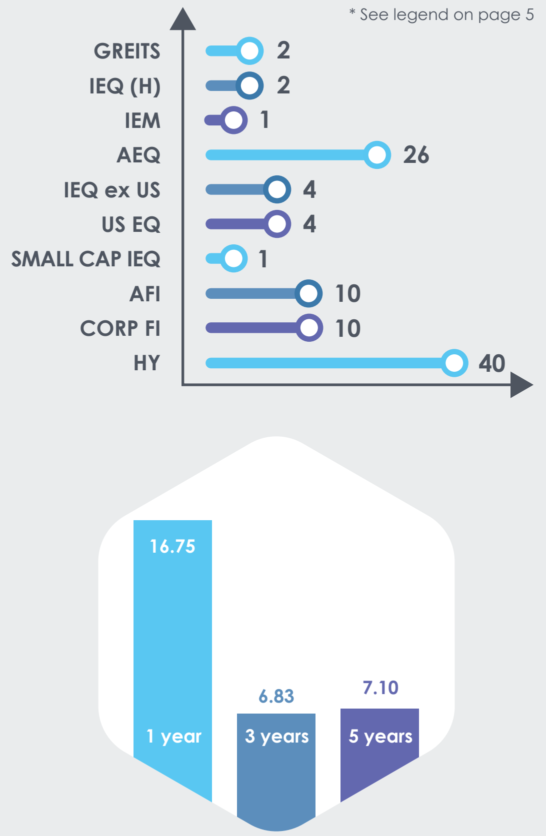
Growth of $10,000 over 5 years to 31 March 2021



CARE Conservative (50%AEQ - 50%IEQ) — Total Return AUD 12.96K

Multisector Conservative Investor — Total Return AUD 11.75K

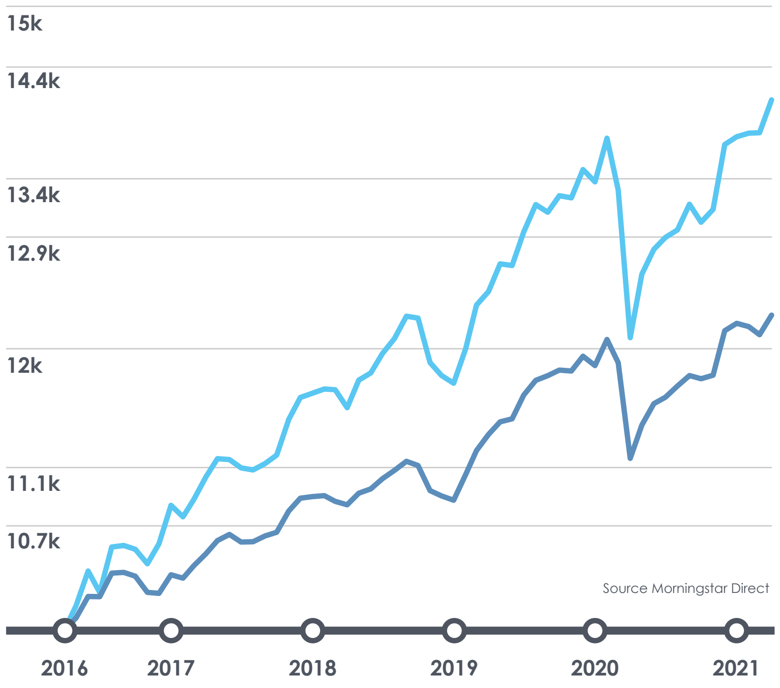
YOUR CARE PORTFOLIO MODERATE



50% AEQ – 50% IEQ

CARE MODERATE STRATEGY

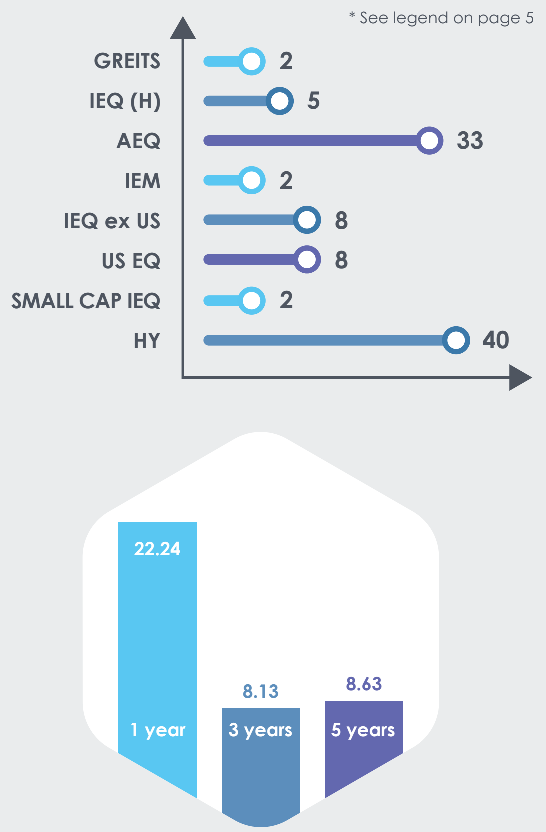
Growth of $10,000 over 5 years to 31 March 2021



CARE Moderate (50%AEQ - 50%IEQ) Total Return AUD 14.1K

Multisector Moderate Investor Total Return AUD 12.26K

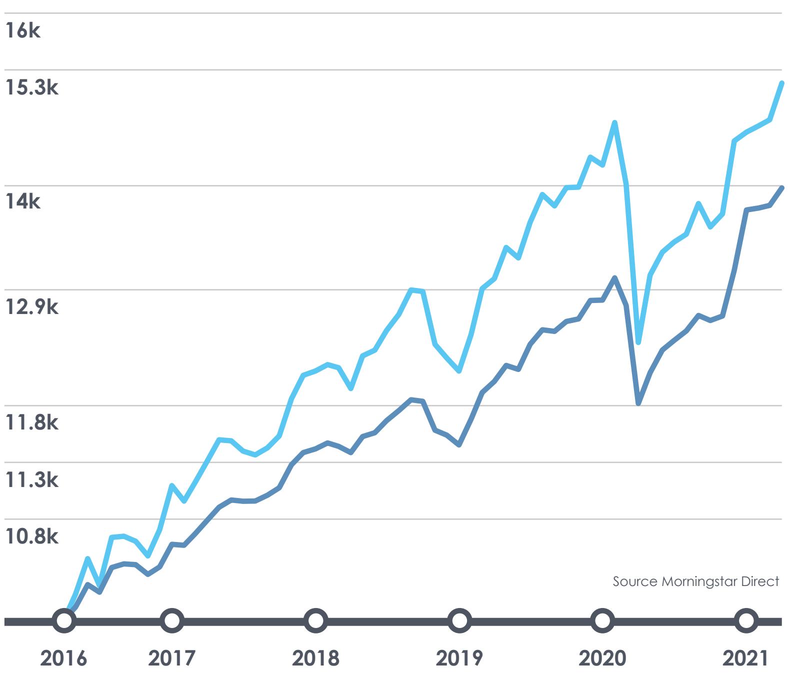
YOUR CARE PORTFOLIO BALANCED



50% AEQ – 50% IEQ

CARE BALANCED STRATEGY

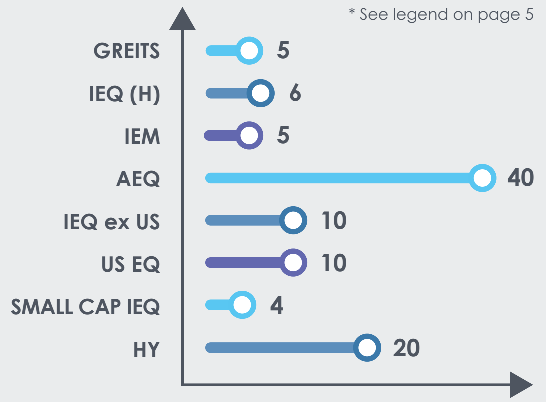
Growth of $10,000 over 5 years to 31 March 2021

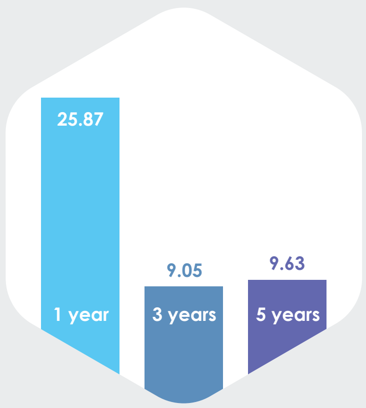


CARE Balanced (50%AEQ - 50%IEQ) Total Return AUD 15.14K

Multisector Balanced Investor Total Return AUD 13.96K

YOUR CARE PORTFOLIO GROWTH





50% AEQ – 50% IEQ

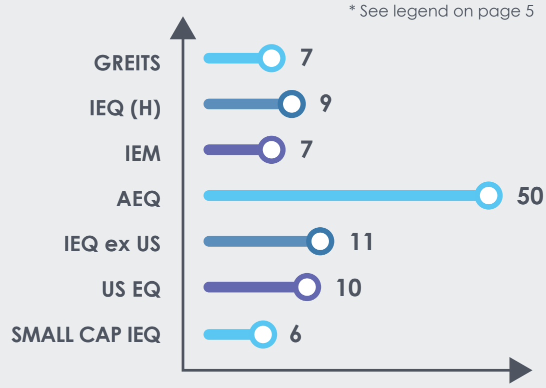
CARE GROWTH STRATEGY

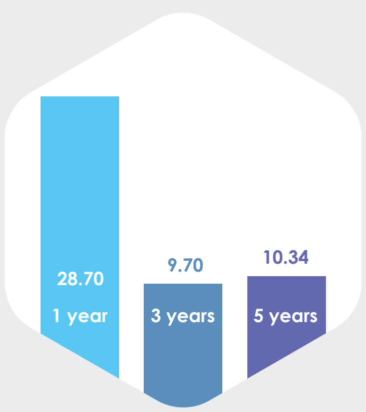
Growth of $10,000 over 5 years to 31 March 2021

CARE Growth (50%AEQ - 50%IEQ) Total Return AUD 15.85K

Multisector Growth Investor Total Return AUD 14.29K

YOUR CARE PORTFOLIO HIGH GROWTH

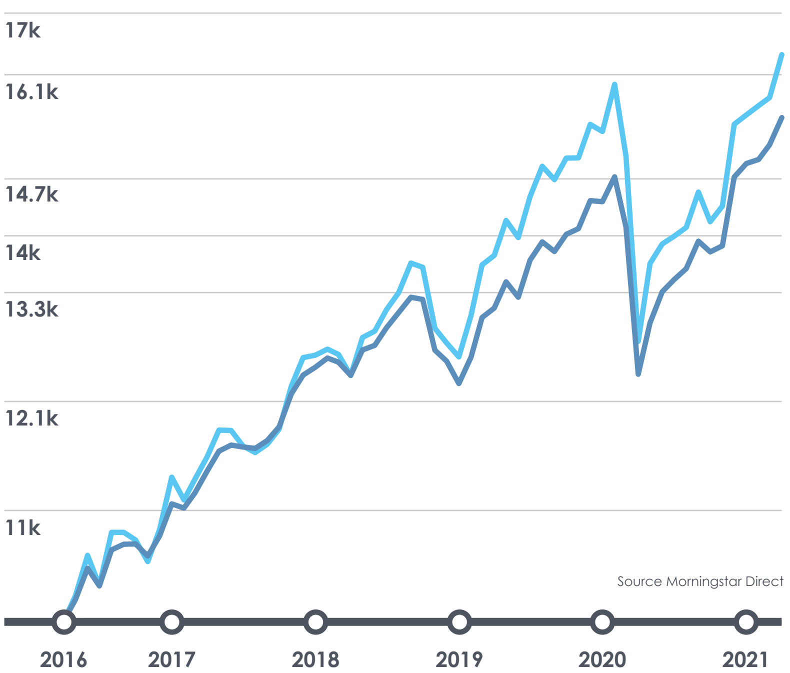




50% AEQ – 50% IEQ

CARE HIGH GROWTH STRATEGY

Growth of $10,000 over 5 years to 31 March 2021



CARE High Growth (50%AEQ - 50%IEQ) Total Return AUD 16.38K

Multisector High Growth Investor Total Return AUD 15.5K

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.

BLUE CHIP
Wealth Management

Blue Chip Wealth Management Pty Ltd

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