March 2022

CARE QUARTERLY NEWSLETTER

EXCITING LIFE BORING MONEY

and not the other way around

Interest rates should begin to climb to more normal levels after the election however it is also plausible that the Reserve Bank moves in May

Central banks worldwide have been responding to inflationary pressures for months, and the Reserve Bank of Australia joined the chorus following the Bank's Board meeting.

Volatility remains high as markets balance the risks of recession due to higher interest rates aimed at curbing higher inflation around the world.

GLOBAL OVERVIEW

Following the 0.25% increase in the US official cash rate – the Federal Funds rate, strong US economic data and higher energy and commodity prices fuelling higher inflation concerns, investors were scrambling to increase their forecasts for both official interest rates and bond yields throughout the world in the first quarter of 2022. Central banks worldwide have been responding to inflationary pressures for months, and the Reserve Bank of Australia joined the chorus following the Bank's Board meeting.

The Federal Reserve signalled an aggressive pathway for the next six meetings, indicating it expects to increase interest rates at each meeting. In all, the primary rate in the US is expected to increase by 2.5% from the current level of 0.25%-0.50%. The adjustment to monetary policy follows sustained increases in inflation and wages. US inflation has hit a 40-year high, however seems to be approaching the peak. Energy prices rose 11%, led by petrol, while food prices increased 1% over the period. Stripping these out saw core inflation rise by 6.5% over the year. Unfortunately, the descent will be long and slow given lingering supply chain issues, significant tightness in the labour market and ongoing ability for companies to pass on higher prices.

The labour market in the US remains strong. While firms are desperate to hire, they also don't want to lose their skilled labour. This effort to retain staff is further incentivising companies to pay their workers more with average hourly earnings rising 5.6% over the year. Pay gains are spread across all industries and companies big and small. The National Federation of Independent Business (NFIB) survey showed a net 47% of small businesses having job openings they couldn't fill. The NFIB reported 49% of small businesses raised worker pay in the past three months with 28% expecting to raise

Emmanuel Calligeris

Chairman of the CARE Investment Committee

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wages further in coming months. Although it raises costs, firms have been able to pass some of this on to their customers.

Across the Atlantic, the European Central Bank confirmed and strengthened its rhetoric for the normalisation path in monetary policy in the coming months. The pace of the reduction of net asset purchases remains unchanged at €40bn per month in April, €30bn in May and €20bn in June, however the announcement to end net asset purchases in the third quarter was slightly firmer than at the last meeting. It appears that it would now require a severe recession or a sharp drop in headline inflation forecasts for the ECB not to stop net asset purchases over the summer. The Bank will likely continue with its very gradual normalisation and an end to the era of negative interest rates before the end of the year. The emphasis is on the word "gradual."

China enjoyed moderate growth in the first quarter with the damage from lockdowns mainly visible in consumption. GDP grew 4.8% over the year which is reasonable considering that China recorded growth of 18.3% year-on-year in the first quarter of last year. Consumer spending was affected by travel restrictions within China during the Beijing Winter Olympics and travel restrictions in March as Shenzhen and Shanghai started lockdowns during the month. Further impacts from lockdowns are imminent, not only because there has been a delay in the delivery of daily necessities, but also because they add uncertainty to services and factory operations that have already impacted the labour market. The surveyed jobless rate rose to 5.8% in March from 5.5% in February. For factories, the problem of lockdown comes from slow delivery services and port disruptions. Shanghai is responding to the damage of the latest lockdown on the city's economic growth and has delivered a plan to lift its lockdown restrictions. However, the plan still lacks a timetable. Analysts estimate that a full month of lockdown will lead to a 6% loss of GDP for Shanghai and a 2% loss of GDP for the whole of China. This loss will increase if the lockdown lasts longer which seems highly probable.

In Australia the Reserve Bank minutes surprised financial market analysts with the Board's decision to abandon its "patient" approach to monetary policy. The key phrase of the minutes was "...These developments have brought forward the likely timing of the first increase in interest rates". Exactly how soon will depend on the other key remark in that paragraph. "Over coming months, important additional evidence will be available on both inflation and the evolution of labour costs". There is no doubt that the inflation number will remain well above the RBA's 2-3% target range. The evidence both internationally and from local survey evidence is that it will increase further. On the issue of labour costs, the much tighter labour market points to a stronger lift in wages growth in 2023 with a peak of 4% now expected by the consensus. How less patient the RBA Board is likely to be, should be viewed in context of the looming election campaign ending May. By waiting until the election is decided, the RBA will avoid being accused of political sabotage. Hence markets believe that June seem to be the likely timing. Three consecutive 0.25% increases to August will see the 2020 Covid emergency cuts unwound and in an overall context the level of interest rates still low. Given that inflation is likely to remain elevated, the RBA should resume increasing the Official Cash rate towards the end of 2022 and into 2023. At this stage its too early to predict the peak.

Despite investor's rush to increase bond yield forecasts and the peak in the official cash rate, the Australian share market as represented by VAS in the Core portfolio, pushed higher over the quarter driven by a strong performance in the commodity complex and the subsequent boost to the energy sector. BHP, Rio Tinto and energy companies Woodside Petroleum and Santos all recorded strong gains over the quarter. Energy companies performed strongly as global energy shortages remain, exacerbated by the war in Ukraine and its ramifications for Russian oil and gas exports. After falling in January and February technology company share prices increased in March. Despite the bounce, the share price of companies including Wisetech, Computershare and Xero were all negative over the quarter. Banks were also strong, as the prospect of higher bond yields is seen as supportive of margins. Although there is still a question about the degree to which this tailwind is competed away. Nevertheless, the combination of strength in banks and miners, the two largest segments of the Australian index, was enough to drive outperformance versus international share markets.

International share markets decreased by over 8% over the quarter however have still returned a very respectable 11.6% over the year and 12.9% over 5 years. The US makes up over 50% of the global market and whilst energy companies including Chevron Corp (+36%), Exxon Mobil (+30%) and Conoco Philips (+36%) all enjoyed strong share price increases on the back of higher gas and oil prices, technology companies including Meta Platforms, Apple, Microsoft and Alphabet all ended lower. Meta Platforms, the owner of Facebook, fell after quarterly figures disappointed investors. Meta also said that Facebook's daily active users had dropped for the first time in its 18-year history – a sign that the company is maturing. Lowes, a company similar to Bunnings, fell by 34% over the quarter. The retailer enjoyed fantastic growth through most of the pandemic. This makes it hard to achieve even higher growth again in 2022 when lockdowns were lifted. Whilst growth was strong in the latest quarter, management's guidance for 2022, was weak. Management expects sales growth to be only "slightly positive" this year and warned that the supply chain is still jammed, and inflation is ballooning adding the uncertainty.

The European Central Bank warned it would tighten monetary policy in response to higher inflation even though the Russian invasions of Ukraine raised prospects of a eurozone recession. The same thematic played out in Europe, where Energy and utility companies like Total Energies increased and consumer discretionary companies including Louis Vuitton and textile and apparel distributor Hermes International declined over the period. These investments are held within the developed market international share investments in the CARE portfolio including VTS, IOO, VEU and WXHG. The Chinese stock market declined

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The Investment Committee's
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14.5% after covid-19 infections prompted lockdowns. Investors speculated that sanctions against its ally Russia could spread to China.

The Investment Committee rebalanced the portfolios throughout the quarter. In the Core portfolio, as prices for DJRE and VAS increased, these were sold and rebalanced towards IEM, Realm Investment Management and Kapstream. The Investment Committee's strategy to invest in short dated fixed interest (Realm and Kapstream) where the capital fluctuation is low, worked well relative to bond market returns broadly. The Australian bond market returned almost -6% over the quarter and just over -5.5% over the year whilst the return of Realm and Kapstream was -0.70% and -0.52% respectively over the quarter and 1.58% and -0.32% over the year. This is a large outperformance and a position that aided returns greatly relative to similar investments in the market.

Within the Enhanced International Shares portfolio, Insync and Hyperion performed poorly whilst WDIV outperformed by 2%. The WDIV investment holds companies that pay a larger portion of their profits as dividends. The market has tended to penalise these companies for their perceived lack of growth however, as technology companies were sold off, the WDIV investment performed strongly. Hyperion underperformed the benchmark. The manager's largest holding, Tesla, came under selling pressure after the electric car manufacturer reported that it couldn't satisfy the strong demand for its vehicles. Hyperion, however, remains true to label in terms of holding quality companies with strong growth prospects including Microsoft, PayPal and luxury goods brand Hermes International. Insync follows a similar strategy and the manager's investment process has been leading them towards companies including: Apple, Bookings.com and Nintendo.

The Enhanced Australian shares portfolio returned 5.99% for the quarter outperforming the ASX 200 index by a strong 3.75%. The manager successfully invested in a number of takeover companies including AGL, CIMIC, and Sydney Airport whilst the exposure to BHP, Woodside and fruit and vegetable producer Costa Group helped performance over the quarter. There was a lot of portfolio activity over the quarter. With the proceeds from the CIMIC takeover, the manager increased the portfolio weighting in Sonic Healthcare. Sonic shares pulled back materially from the $46 level (irrational exuberance?) they hit last December. As COVID testing dissipates, and with RAT tests now replacing most of the

the demand for Sonic's PCR testing, demand will drop significantly from here on. However, the huge cash flows generated over the past two years has left Sonic's balance sheet in a very strong position to make strategic acquisitions. CBA and Macquarie performed well however Amcor was one of two stocks that performed poorly as it was weighed down by the strength in the AUD along with general concerns around cost price inflation with resin prices rising.

Volatility remains high as markets balance the risks of recession due to higher interest rates aimed at curbing higher inflation around the world. It is too early to predict whether the coming tightening cycle will result in a hard landing (recession) where growth assets bear a lot of pain. For now, we expect a soft economic.

RETURNS

31ST MARCH 2022

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

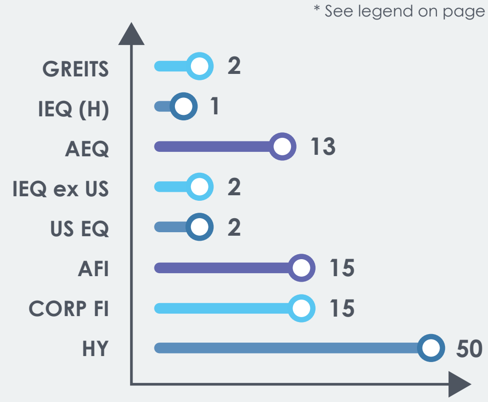
* Returns are based on model portfolio, benchmark allocation & assumes investment over 1, 3 & 5 years ending December 2021. The E (enhanced) component is assumed to be 50% Australian Equities & 50% International Equities. Past Performance is not indicative of future performance.
* The CARE portfolio 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 2022

	1 Month	3 Months	6 Months	1 year	3 years	5 years
CORE Conservative	0.20	-1.79	-1.42	1.94	3.77	3.97
CORE Moderate	1.35	-1.69	-0.69	4.33	5.52	5.44
CORE Balanced	2.55	-1.50	0.36	7.25	7.59	7.05
CORE Growth	3.14	-2.31	0.19	8.69	8.74	8.26
CORE High Growth	4.08	-2.66	0.32	10.26	9.94	9.40

YOUR CARE PORTFOLIO CONSERVATIVE

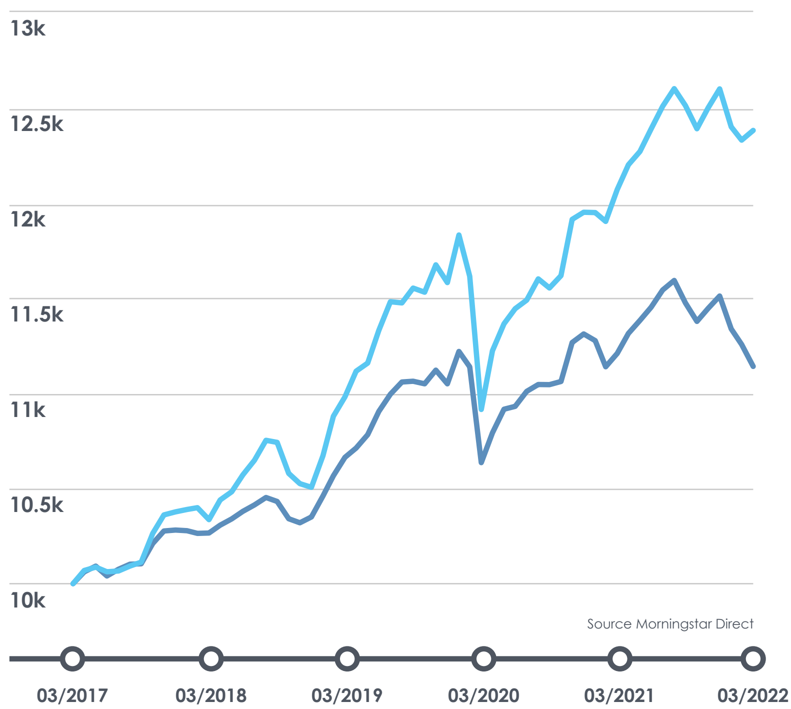
* See legend on page 5



50% AEQ – 50% IEQ

CARE CONSERVATIVE STRATEGY

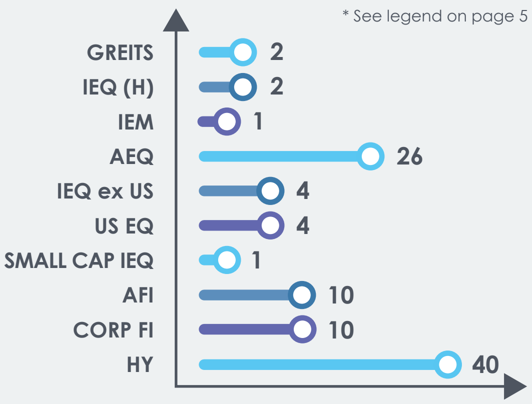
Growth of $10,000 over 5 years to 31 March 2022



CARE Conservative (50%AEQ - 50%IEQ) — Total Return AUD 12.38K

Multisector Conservative Investor — Total Return AUD 11.15K

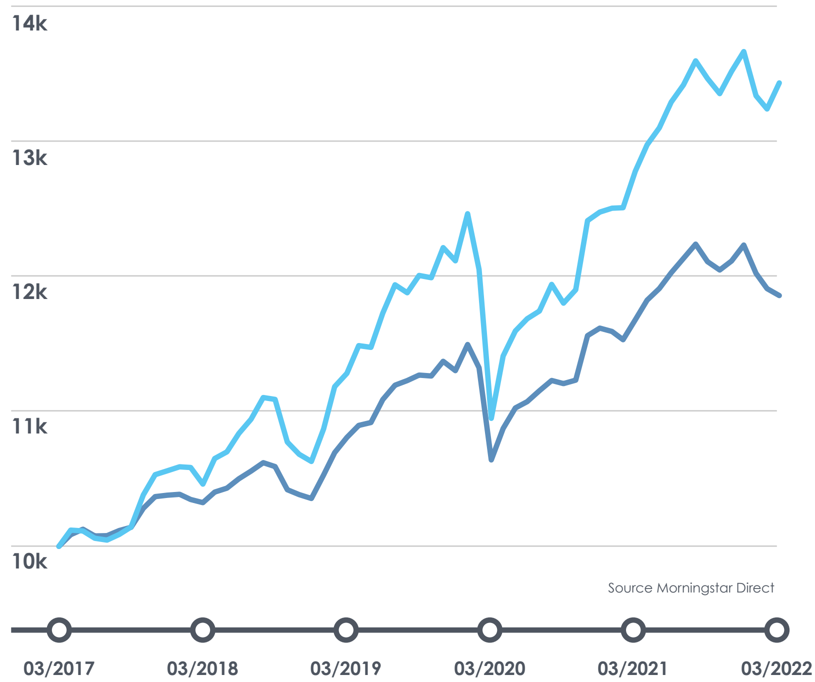
YOUR CARE PORTFOLIO MODERATE



50% AEQ – 50% IEQ

CARE MODERATE STRATEGY

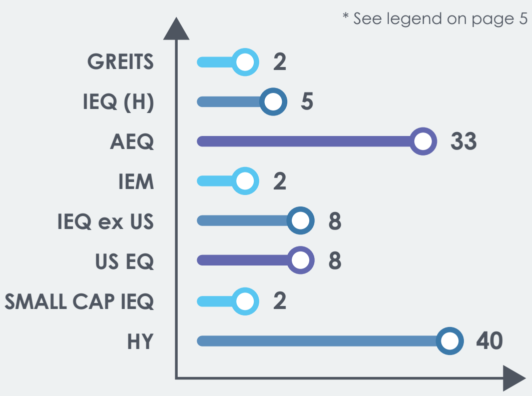
Growth of $10,000 over 5 years to 31 March 2022



CARE Moderate (50%AEQ - 50%IEQ) Total Return AUD 13.43K

Multisector Moderate Investor Total Return AUD 11.85K

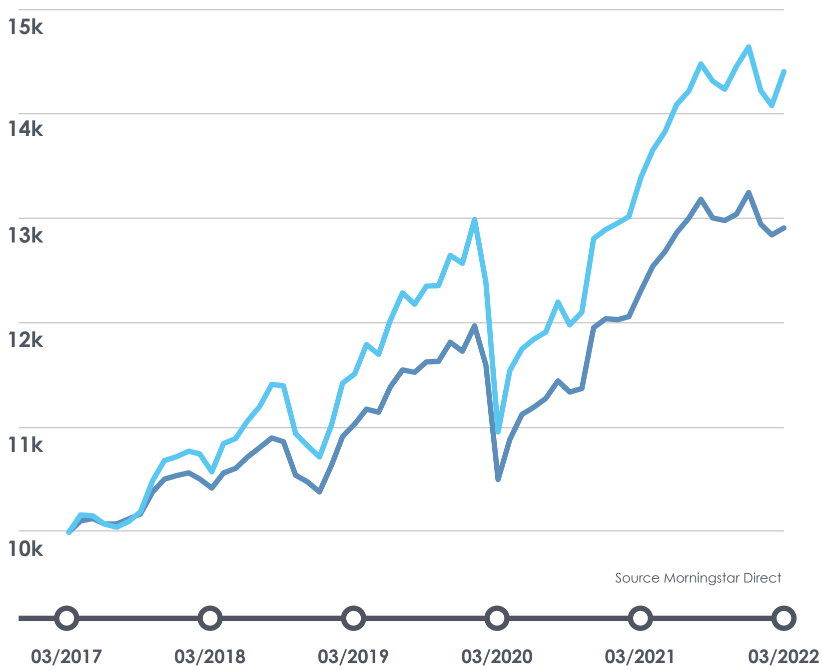
YOUR CARE PORTFOLIO BALANCED



50% AEQ – 50% IEQ

CARE BALANCED STRATEGY

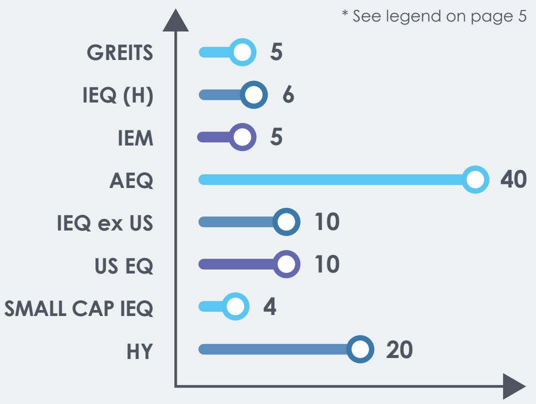
Growth of $10,000 over 5 years to 31 March 2022



CARE Balanced (50%AEQ - 50%IEQ) Total Return AUD 14.40K

Multisector Balanced Investor Total Return AUD 12.90K

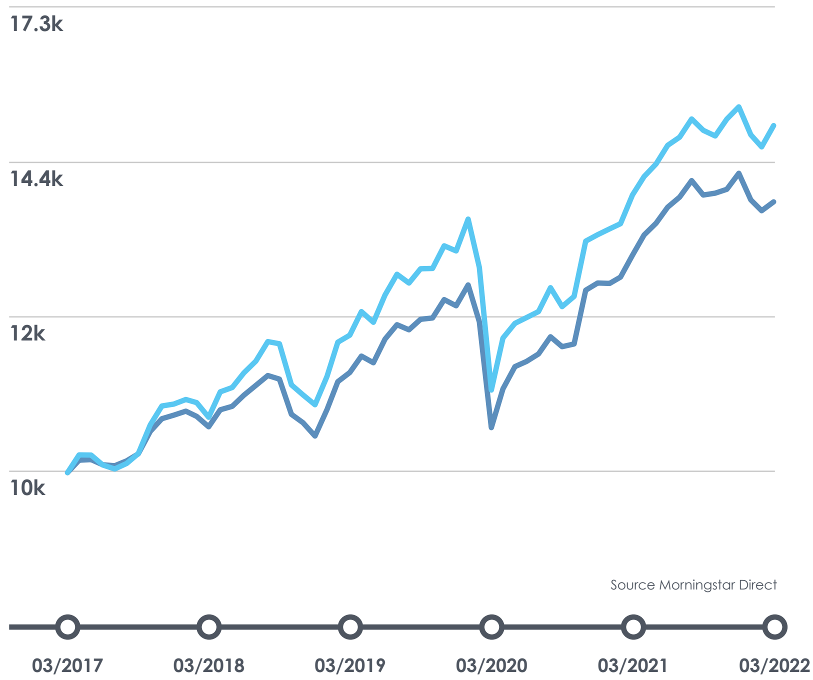
YOUR CARE PORTFOLIO GROWTH



50% AEQ – 50% IEQ

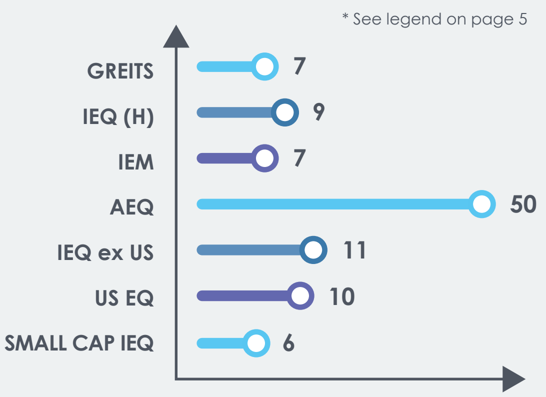
CARE GROWTH STRATEGY

Growth of $10,000 over 5 years to 30 March 2022



CARE Growth (50%AEQ - 50%IEQ)	Total Return AUD 15.04K
Multisector Growth Investor	Total Return AUD 13.75K

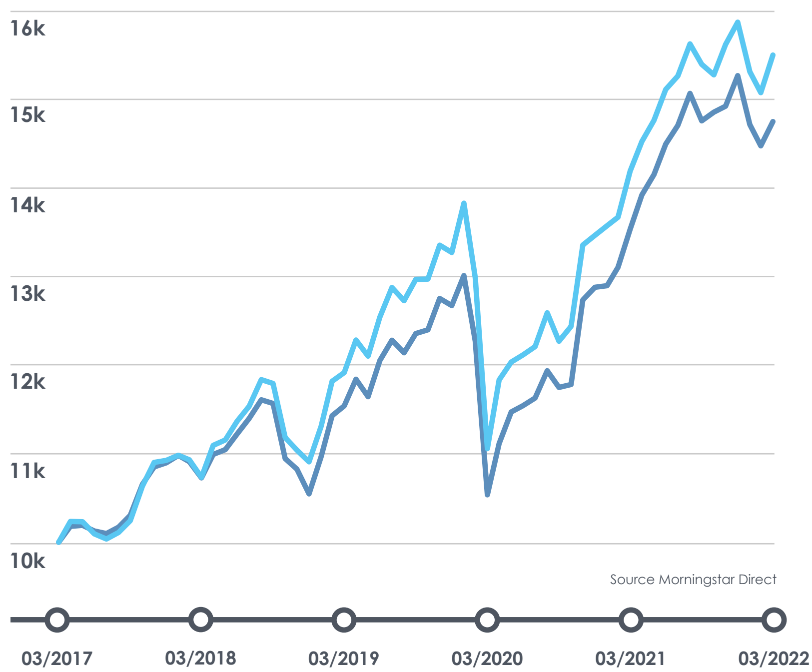
YOUR CARE PORTFOLIO HIGH GROWTH



50% AEQ – 50% IEQ

CARE HIGH GROWTH STRATEGY

Growth of $10,000 over 5 years to 30 March 2022



CARE High Growth (50%AEQ - 50%IEQ)	Total Return AUD 15.51K
Multisector High Growth Investor	Total Return AUD 14.76K

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.

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