CARE QUARTERLY NEWSLETTER

EXCITING LIFE, BORING MONEY

QUARTERLY UPDATE - JANUARY 2017

HIGHLIGHTS

"US Politics dominated the investment climate in the last quarter of 2016"

"President Trump's "Making America Great Again" policy has boosted market confidence in the short term. Although scant in detail easier fiscal policy should be positive for the US dollar."

"Australian growth remains solid but unspectacular. The recent rise in commodity prices will boost Australia's income over the next year."

"Australian consumers remain cautious. The rate of spending in the economy is inconsistent and well below trend. While business conditions overall are above average, the broadening across industries seen earlier in the year has not endured."

"The CARE investment philosophy is to maintain suitable exposure in fairly priced assets such as bonds, shares and property for the long term."

"The Investment Committee prefers interest rate investments that have a very low probability of capital loss."

GLOBAL OVERVIEW

Emmanuel Calligeris - *Chairman of the CARE Investment Committee*

Financial markets experienced a roller coaster ride in the fourth quarter of 2016, ending on a stronger tone following the US presidential election. The unexpected victory of the Republicans in the US election saw markets move sharply lower before reversing losses and indeed gaining ground within 24 hours. The reason for the sharp reversal was the realization that President Trump's easier fiscal policy in the form of a lower corporate tax rate and increased infrastructure spending would be positive for business investment and employment growth. The US economy grew at 1.9% over the year ending December 2016. Markets expected growth around 2.2%. Inflation too was moderate continuing to suggest that the rate of interest rate increases will likely be gradual but upward overall. US economic growth was on a steady path before the election, however fresh fiscal spending (still a moving target and scant in details) should lift the pace of growth a notch or two.

US policy is very fluid at the moment which has boosted confidence in the short term. President Trump's "Making America Great Again" policy suggests protectionism via a border tax resulting in an increase in taxes on imported goods and a decrease in taxes paid by exporters. A potential benefit is that it would decrease the use of transfer pricing strategies that allow American corporations to avoid paying tax.

The US dollar should appreciate based on easier fiscal policy. However, whether this eventuates would depend on many factors, the most important being how global central banks (particularly China) respond to limit the US dollar's rise. If the US dollar did not rise, then the economic growth tailwind would eventually lead to higher inflation particularly as unemployment is low. This would see interest rates rise for bonds resulting in further capital losses but would be positive for share investors.

In Japan, the recent bout of policy stimulus has failed to generate meaningful growth nor Inflation. Growth ground to a virtual halt over the last 18 months and despite another fiscal stimulus package, GDP is only likely to rise by around 0.8% this year. Inflation is subdued, far below the Bank of Japan's (BoJ) 2.0% target. Oil prices may be boosting headline inflation but core inflation is hovering around zero and there is no sign of wage inflation. The BoJ undertook an assessment of monetary policy and moved to yield curve targeting, setting the 10-year interest rate to zero. Policy will remain extremely accommodative in 2017.

The Chinese economy expanded by 6.8 % year-on-year in the fourth quarter of 2016, compared to a 6.7% in the previous three quarters. We are cautious on economic prospects but more so in the back end of 2017 and into 2018. Real GDP is forecast to slow to 6.2% in 2017, and we anticipate a period of low growth in 2018-19, when we expect the authorities to take steps to tame the build-up in debt. Growth will slow materially in those years, but some recovery is likely subsequently as investment rebounds.

In Australia growth remains solid but unspectacular. Looking ahead, the income drag from falling commodity prices has ended with the surge in key bulk commodity prices (coal and iron ore). The spending drag from falling mining investment will soon be complete. What lies ahead are the benefits of rising mining production and resource exports. Rising resource exports, especially as LNG production ramps up, will add 1% to GDP growth each year for the next two years. The budding infrastructure boom will also become a more important driver of economic activity. The spike is equivalent to about 4% of GDP. Lastly, crop production looks promising for Australian income in 2017. Previous farm “booms” have added up to 0.4% to GDP growth. Over the longer term, the economy should continue to reap the benefits of rising Asian incomes. Agriculture, education, tourism, health and financial services are likely to benefit.

The S&P/ ASX 300 Accumulation index rose 4.9% over the quarter and returned 11.8% over the calendar year. Mining related companies like Rio, BHP Billiton and Fortescue Metals Group and banks benefit from the improving sentiment towards global economic growth and rising bond yields. Iron ore rose 41% and despite falling 26.8% in December, coking coal rose by 189% over the year. Higher bond yields caused a correction in property trusts and infrastructure and utilities respectively. In 2017 the US share market should benefit from lower corporate taxes however retaliation of protectionist policies could spark a trade war. Australian shares should perform well on the coat tails of the US share market. It must be realised though that share prices are not cheap in either market. Hence an expected return of mid to high single digits is likely for 2017 if companies meet their profit forecasts.

In terms of portfolio activity, the Active portfolio which sold out of its gold allocation during the third quarter, maintained this position in the fourth quarter. The funds were maintained in Cash in line with the CARE investment philosophy. The CARE Conservative, Moderate, Balanced and Growth portfolios were well positioned as part of their long term strategic allocation to the underlying asset sectors. The funds were not invested in bonds but rather in short term interest rates where the risk of capital loss is low. With bond markets around the world falling in price, the CARE portfolios were able to avoid these losses. Also the exposure to smaller companies boosted performance, particularly in the US where the proposed corporate tax cuts by the new Trump government are likely to benefit small companies.

Within the CARE Enhanced International Shares Portfolio, the exposure to global shares that pay a high dividend (WDIV.AX) performed particularly well. Williams Companies Inc. is one such company. It operates natural gas pipelines throughout the United States. The share price increased by over 100% in 2016. The Magellan portfolio increased by 6% over the quarter. Whilst solid, the return was slightly below the benchmark. During the period, investments in Wells Fargo, Microsoft, Apple and Target were among the largest contributors to performance. The main detractors from performance were eBay, CVS Health and drug company Novartis. eBay's share price declined following the release of its latest earnings result, despite being ahead of consensus expectations.

Within the Care Enhanced Australian Share Portfolio, trading was light until the end of the quarter. ANZ Bank, CBA, BHP, Westpac and Woodside all performed well in the December quarter, whilst some of the shares that did well in the previous year, such as CSL, Sonic, Ramsay and Wesfarmers were relative laggards. At the end of the quarter following a substantial increase in the market, the portfolio manager – Joseph Palmer and Sons, progressively began trimming positions and raising Cash in the portfolio. The manager remains ready to redeploy the funds in the event of a fall back in share prices.

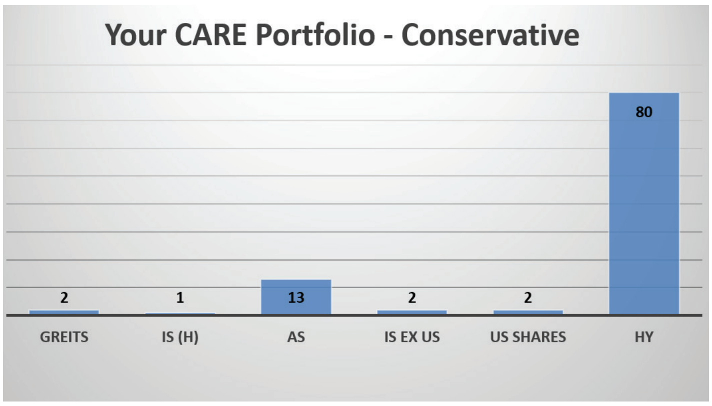
"The CARE Portfolios have produced pleasing results in the year ending December 2016. The Portfolios maintained their exposures over the course of the quarter with small companies aiding performance."

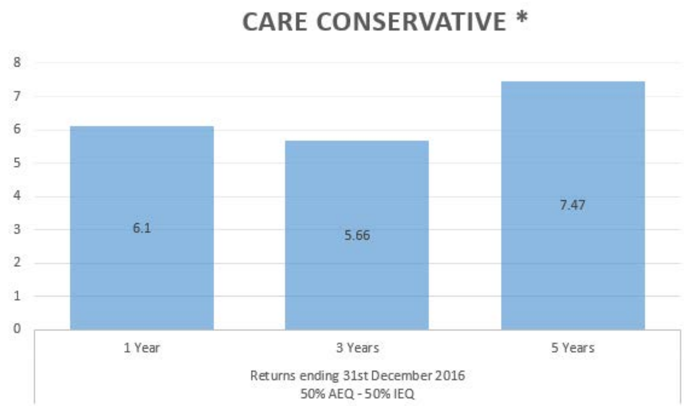
Stronger growth and higher inflation expectations will likely see the US Federal Reserve raise the official interest rate 3 times in 2017, markets are expecting 2 rate rises. Much will depend on fiscal policy and to some extent the politics between the US central bank and the Trump Administration. Outside of the United States, growth remains fairly lacklustre but importantly is positive and inflation remains controlled if not slightly lower than central bank targets. In Australia, rates should be on hold but an easing bias will continue in 2017. With the transition from mining to housing investment largely over, it will be difficult for Australian growth to be much above 2.5% this year. This slow growth outlook should likely see the unemployment rate begin to rise. There is a possibility that higher unemployment loops back into the housing market via a rise in mortgage defaults. This risk scenario looks to be increasing towards the end of 2017 and into 2018. Even without a rise in mortgage defaults leading to the easing of policy, inflation is likely to continue to run below target for an extended period and will be no obstacle to a move by the Reserve Bank.

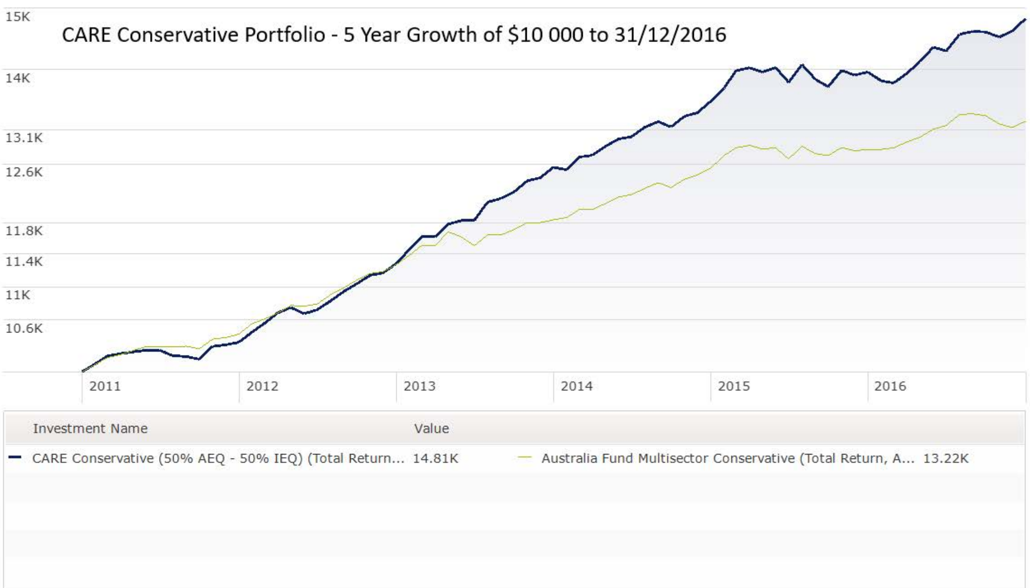
Underlying world growth will remain lacklustre beyond a near-term bounce due to ongoing public and private sector deleveraging around the world. Debt-servicing costs are not onerous in most cases thanks to depressed interest rates, but the still-elevated level of debt is thwarting the effectiveness of policy stimulus.

RETURNS TO THE 31ST DECEMBER 2016 BY CARE INVESTMENT STRATEGY

**The Legend which explains the acronyms is on page 6.*







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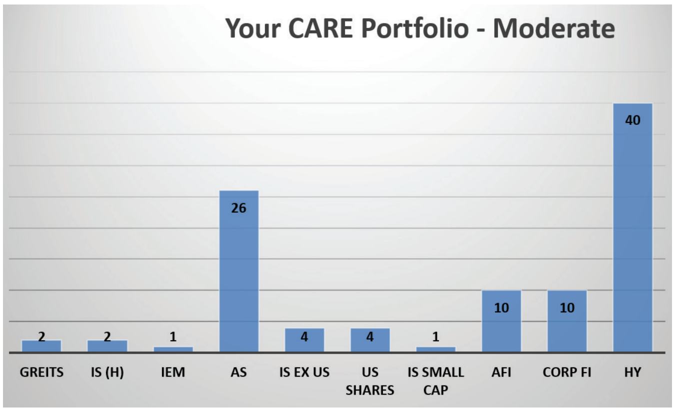

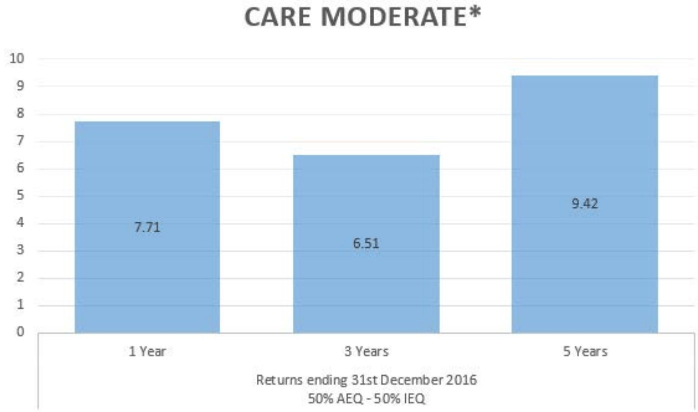

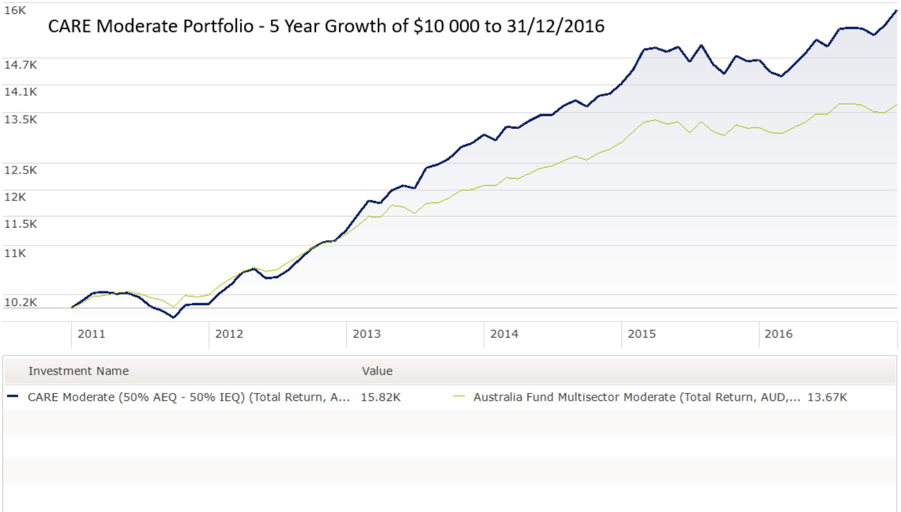

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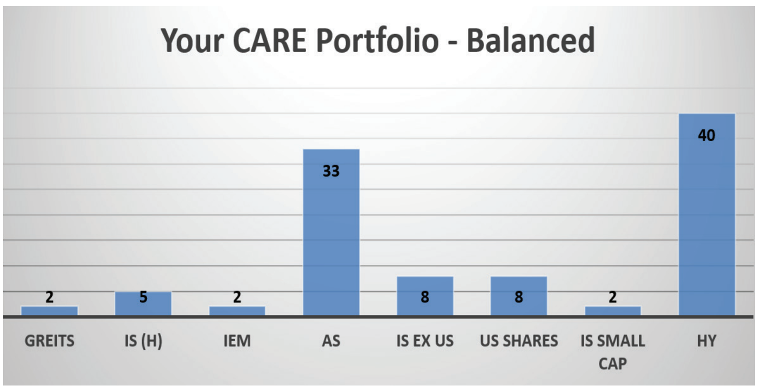

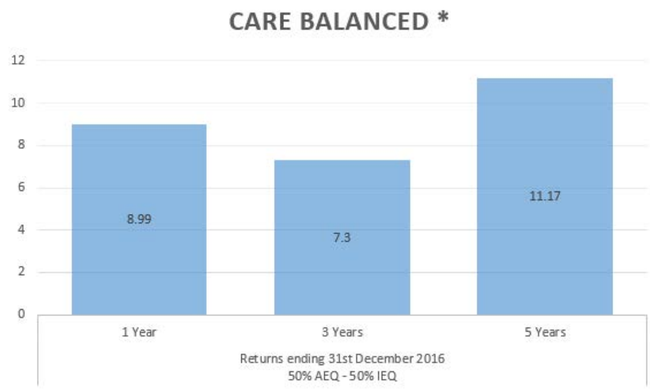

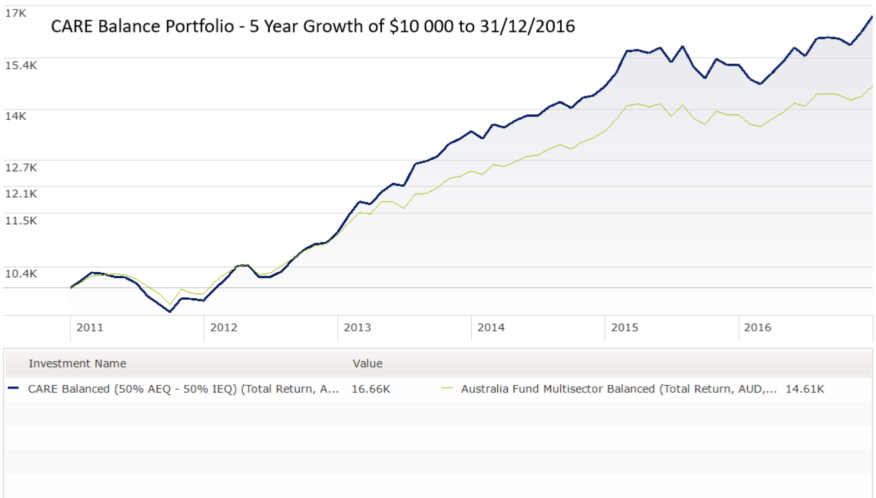

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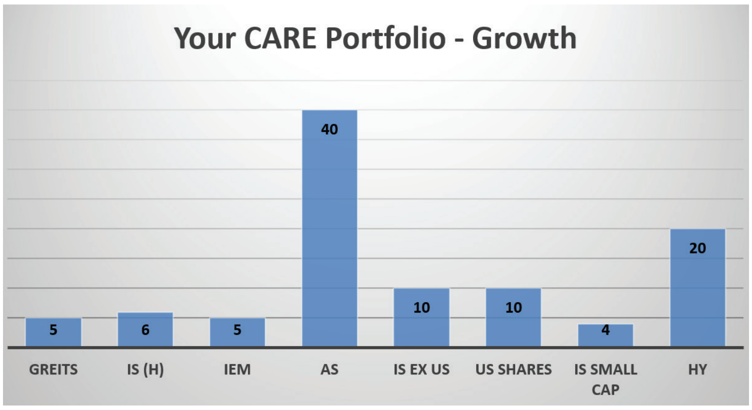

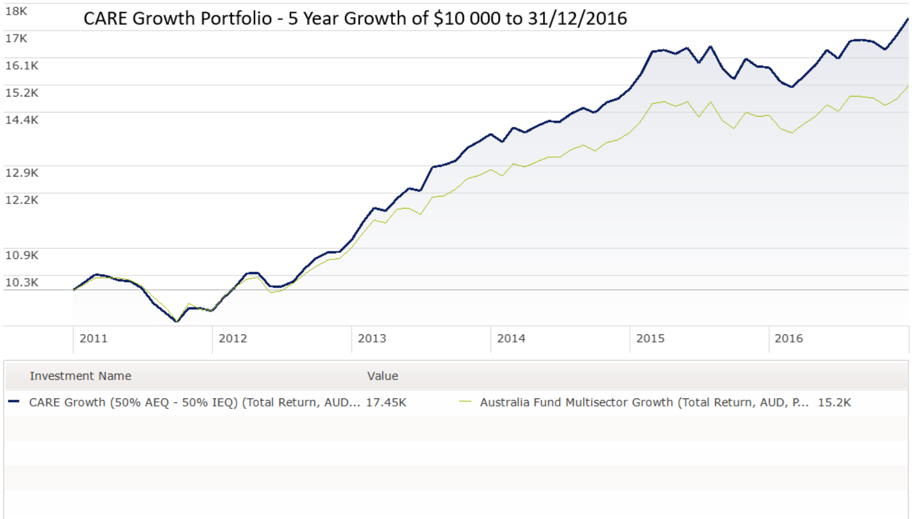

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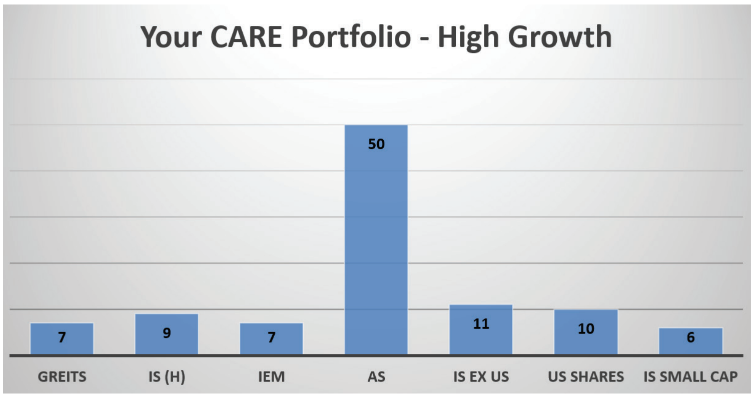

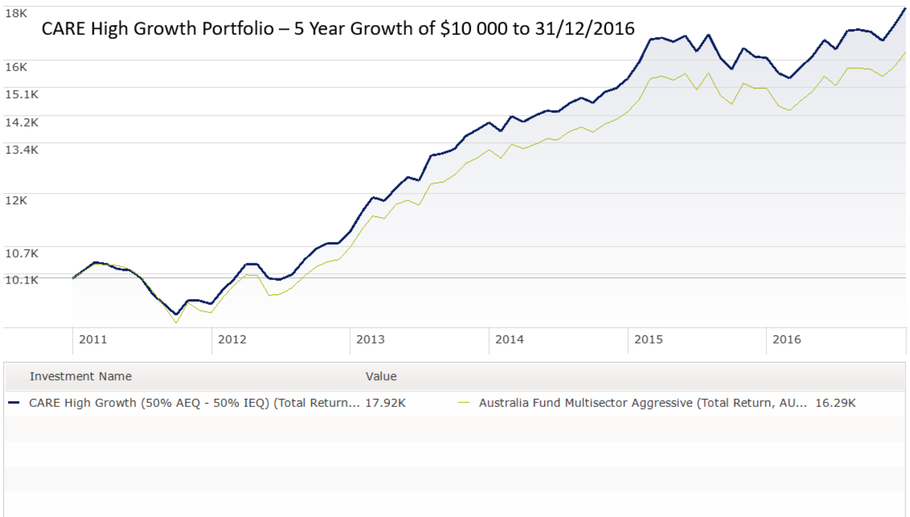

Source: Morningstar Direct

Legend

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

*Returns are based on model portfolio, benchmark allocation & assumes investment over 1 , 3 & 5 years ending 31st December 2016. 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.

GPS CORE PORTFOLIO RETURNS TO THE 31ST DECEMBER 2016

GPS CORE Portfolios	1 year	3 years	5 years
CORE Conservative	5.70	5.30	6.66
CORE Moderate	7.24	6.08	8.45
CORE Balanced	8.76	7.00	10.46
CORE Growth	9.96	8.02	12.56
CORE High Growth	11.20	8.71	14.37

Meet the CARE Investment Committee

Emmanuel Calligeris

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

Rob Invented the CARE Investment Philosophy over the last 15 years and successfully managed $100m in clients' funds during the GFC.

Grahame Evans

Grahame is the Risk and Compliance member of the CARE Investment Committee. Grahame brings over 35 years of financial planning industry experience.

Dr. Mark Brimble

Mark Brimble 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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