GPS WEALTH

CARE QUARTERLY
NEWSLETTER

Australia & Global Update January 2016

WISE WORDS FROM EMMANUEL CALLIGERIS — CHAIRMAN, 'CARE INVESTMENT COMMITTEE'

Reflecting on 2015, investment market returns were strong in the first half and weak in the second, echoing substantial falls in commodity prices (iron ore, gold, and oil) and falls in bank stocks in Australia caused by an increased capital requirements imposed by APRA, the regulator. Markets have not been satisfied that adequate debt reduction has occurred since the Global Financial Crisis in 2008. A high debt world is likely to hinder economic growth and that has been reflected in lower commodity prices recently, particularly oil. . Markets became nervous that interest rates were likely to rise in the US. Indeed the US Federal Reserve raised its official interest rate from 0.25% to 0.50% in December, the first rise in 10 years. Investment returns were poor in the last quarter of the year as market participants realised that the growth rate in China would likely be lower than we have seen in the past and supply of commodities from companies like BHP and Rio and Vale in Brazil, was likely to remain elevated in order to maintain profit levels. Unfortunately, elevated supply keeps prices low, affecting higher cost producers most. High cost producers in commodities are generally small and medium sized companies that will need to dramatically cut costs to survive. Usually, labour is the first casualty. From a economy wide perspective, we have only just begun to see this play out around the world with Russia, Latin America, Canada,

> Chinese economy is transitioning from a higher growth industrialising phase to a more consumption based economy. This transition will take many years and will include periods of lower growth. However recession is not forecast and downside economic risks to growth are not increasing.
>
> - Emmanuel Calligeris
> GPS Wealth Ltd

Australia and South Africa being amongst the hardest economies hit. In order to boost growth, China devalued its currency to make its exports cheaper. However the Chinese policy makers handled the currency devaluation poorly and unnerved markets.

Today global share markets remain twitchy. Oil prices and emerging market currencies are down sharply and corporate bond rates have increased meaning that oil and energy companies have to pay more to borrow money. This will impact profitability. The decline in the Chinese stock market which sparked the recent rout has not yet stabilised. Clearly, the Chinese economy is transitioning from a higher growth industrialising phase to a more consumption based economy. This transition will take many years and will include periods of lower growth. However recession is not forecast and downside economic risks to growth are not increasing. Government stimulus measures *are* kicking in with government spending now growing at 20%, auto sales are expanding at close to 25%, capital spending is starting to increase and there is scope for additional reductions in interest rates. What happens to the currency will be especially important. A large devaluation of the Chinese currency – the Renminbi, would add renewed impetus to the deflationary pressures that policy-makers in advanced economies are hoping will ebb this year.

Highlights

- Global debt remains too high forcing a low growth world
- US Federal Reserve raised its official interest rate
- China unlikely to fall into recession but sputtering
- Europe and Japan's money printing will continue for a number more years

Why CARE?

The CARE Philosophy™ has been designed to manage two very influential considerations when investing. Firstly, it helps address the behavioural biases of investors who will typically sell when the market is low through fear and buy when the market is high through a fear of missing out.

Secondly, it takes a long term view allowing the markets adequate time to perform to our expectations. Furthermore the CARE philosophy ™ provides effective diversification matched to your risk tolerance.

CARE is designed to take the worry out of investing. That worry, sometimes accentuated by media and world events, may lead investors to make inappropriate decisions that substantially reduce their investment returns.

Remember at the heart of the CARE Philosophy™ is your Reserves Portfolio that aims to help you withstand market volatility.

The CARE Philosophy™: "Exciting life, boring money and not the other way around!"

Although China is important for the global economy, the bigger risks to global growth may be in the U.S. where corporate profits are contracting, business investment is slowing and there is limited desire by the government to increase spending. The strong dollar is slowing growth and the onset of interest rate rises is keeping the dollar elevated. While the labour market is strong, there is still very limited wage pressure and inflation remains low. This is an interesting conundrum and it is likely that the lack of inflation will make it difficult for the Federal Reserve to realize its estimated 1% increase in interest rates this year. It is highly likely that there will only be one more rate rise of 0.25% in 2016 with markets already speculating that the slated increase of 0.25% in March, will not occur.

Business survey readings across Europe and Japan are consistent with moderate growth in industrial output. In early December, the European Central Bank (ECB) announced it would extend its quantitative easing (money printing) programme. The ECB will continue to print €60 billion each month through to March 2017 – an extra six months than previously indicated. The program has also been expanded to include purchases of regional and local government debt. The move was foreshadowed by the ECB which boosted European stocks in October and November. Markets were also supported by a generally favourable economic backdrop, with consecutive positive prints of the manufacturing Index and the region's unemployment rate which reached a four-year low.

The slowdown in emerging market economic growth is broad based with Latin America facing poor growth prospects as a result of the fall in commodity prices. The last time it faced a similar episode was the late 1980's.

In Australia the Westpac/ Melbourne Institute Leading Index suggests that growth in 2016 will likely be around 2.8%. The out-of-cycle rate hikes by banks, which pass on to customers some of the cost of holding more regulatory capital, are incremental negatives for consumer spending but the decline in petrol prices is an offset to this. Overall, out of cycle interest rate rises combined with low growth and low inflation in the rest of the world, will see a bias toward easier monetary policy in Australia.

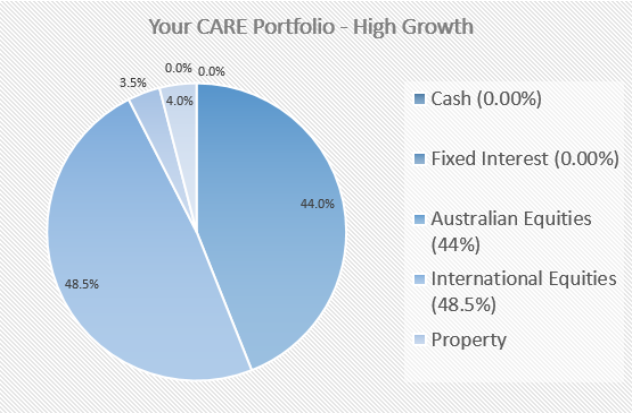
The Australian share market reacted with intensified concerns about the global economic picture outlined above. The resources and energy sectors drove the market lower led by companies such as RIO, BHP and Santos. The Banking sector also weighed on the market over the year with ANZ falling 26% and NAB falling 21%. CSL Limited rose by 27% and Macquarie Group by 23%. The property trust sector also performed well as a result of the low interest rate backdrop. Scentre Group which runs the Westfield shopping centres rose by 10% over the year. Benefiting from the China consumption story were Balckmores Limited which rose by 432% and baby formula manufacturer Bellamy's which increased by 672% over the year. A steady to lower Australian dollar will remain a positive for these companies. The price falls of some commodities and stocks seem oversold. Although the bad news will cause financial difficulties amongst the more marginal operators in each sector, the strong and low cost companies will likely look for cheap, out of favour companies in 2016. This should lead to mergers and acquisitions, which will in turn, restore confidence.

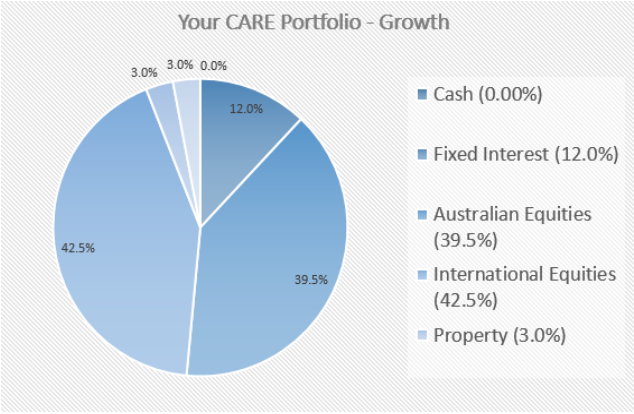
The CARE Enhanced Australian shares portfolio purchased Macquarie Group and Cube Holdings over the quarter and sold out of South 32 before its recent price fall. Qube Holdings is Australia's largest integrated provider of import and export logistics services. The Ports and Bulk division has diversified operations from Port Hedland in Western Australia where the company stockpiles and loads iron ore for export markets, through to Port Kembla where it handles motor vehicles, heavy machinery and project cargoes. Both Macquarie Group and Qube Logistics have attractive valuations and show reasonable profit growth prospects.

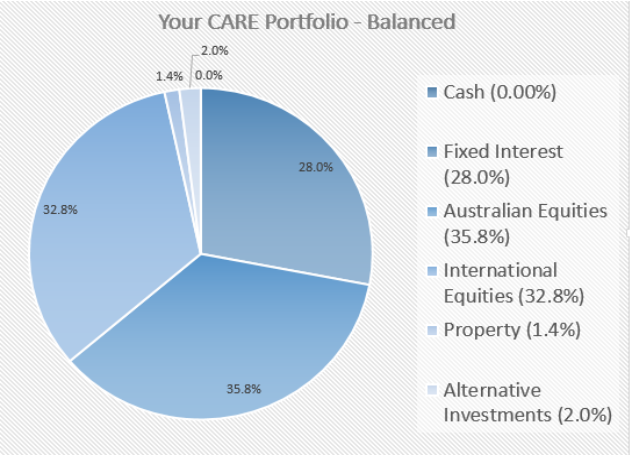
The CARE Enhanced International Shares Portfolio performed well as a result of the performance of the Magellan Global Fund which owns companies like Microsoft Corporation, the credit card company Visa Incorporated and Intel Corporation. Microsoft was the top contributor for the manager with the share price benefitting from its latest quarterly earnings result which came in ahead of consensus expectation. The result reflected continued success in execution across key business lines, with particularly strong performance within its Intelligent Cloud business which offset weaker revenues from Personal Computing products. The result contributed to the share price rising to a 15-year high. Detracting from returns this quarter were positions in Yum! Brands and IBM. Yum! Brands owns KFC, Pizza Hut and Taco Bell. The company's share price experienced a quarter decline following the release of its quarterly profit result which was below consensus estimates. This was due to a sharp deterioration in trading at its Pizza Hut Casual Dining chain, which took investors by surprise. It added to concerns about its exposure to China's slowing economic growth.

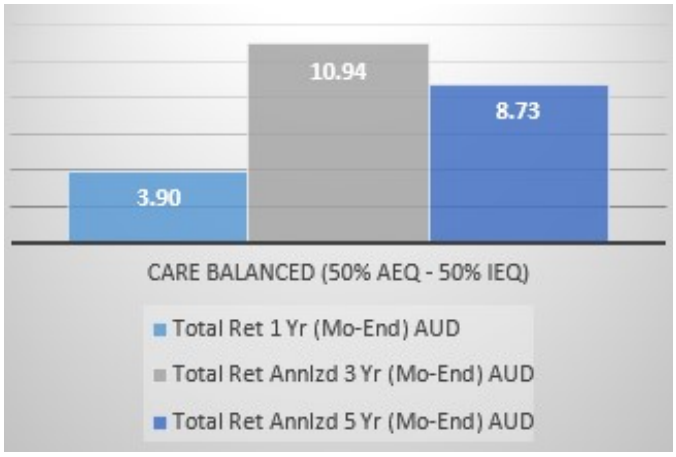
Despite share market returns abating bond market and property returns remain positive as economies continue to grow slowly and inflation remains low. A well-diversified portfolio benefits from exposure to both bonds and cash for the short term and shares and property for the long term.

CAREphilosophy

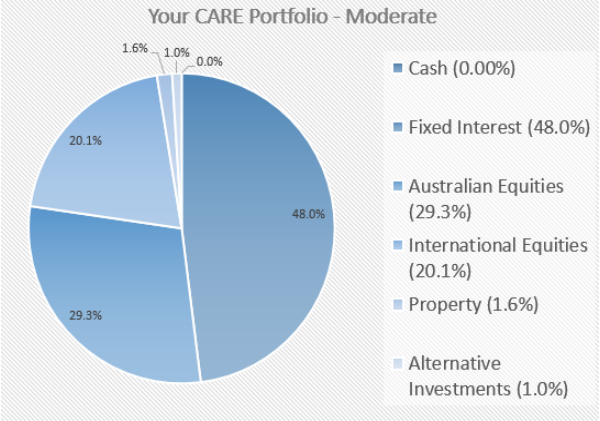


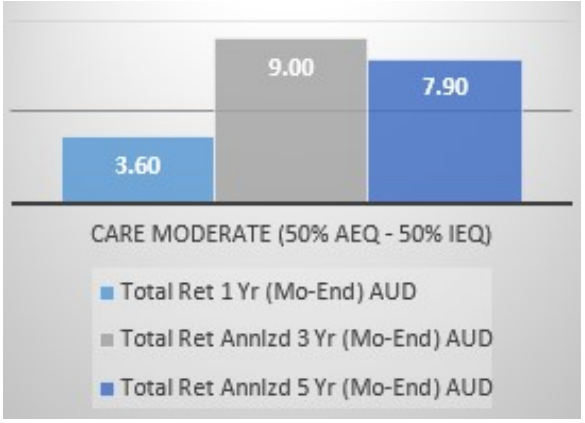


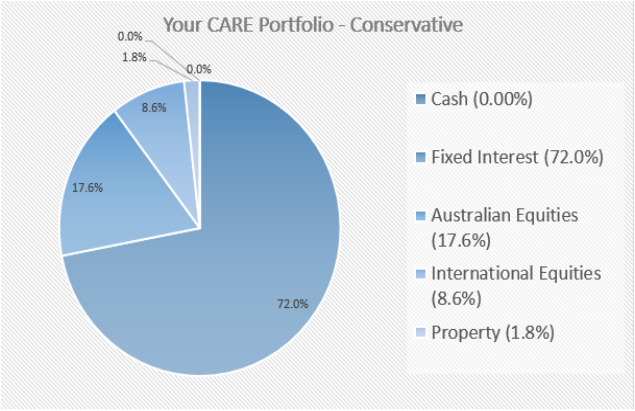


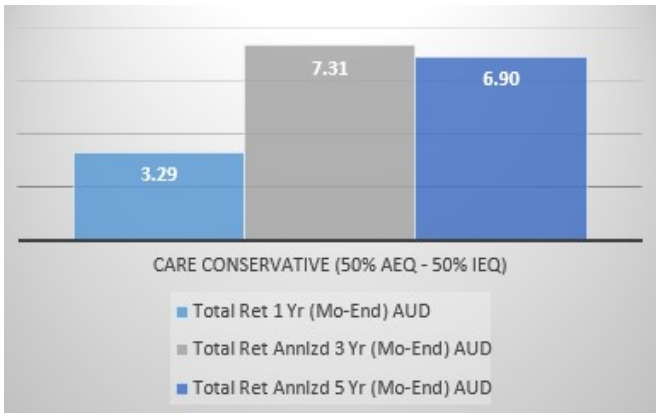


***Returns are based on model portfolio, benchmark allocation & assumes investment over 1 , 3 & 5 years ending 30th September 2015. The E (enhanced) component is assumed to be 50% Australian Equities & 50% International Equities. Past Performance is not indicative of future performance.**







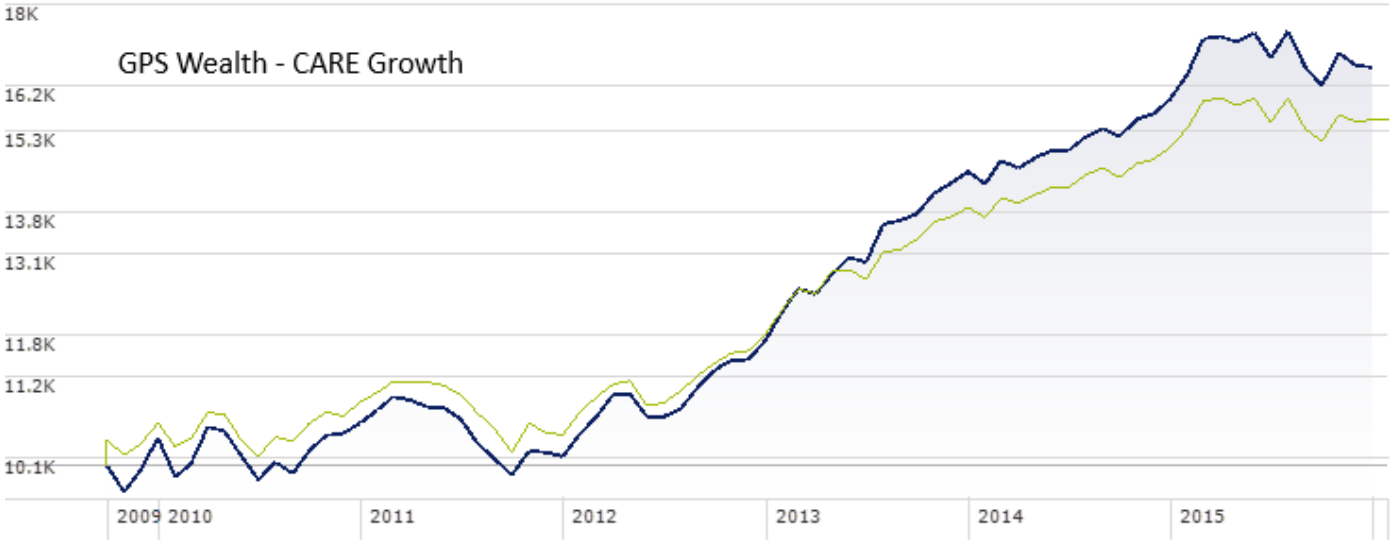


GPS CORE PORTFOLIOS

GPS CORE Portfolios	1 year	3 years	5 years
GPS CORE Balanced	4.10	10.19	8.05
GPS CORE Conservative	3.15	6.43	6.29
GPS CORE Growth	4.58	12.16	9.04
GPS CORE High Growth	4.70	13.70	9.70
GPS CORE Moderate	3.57	7.92	7.17

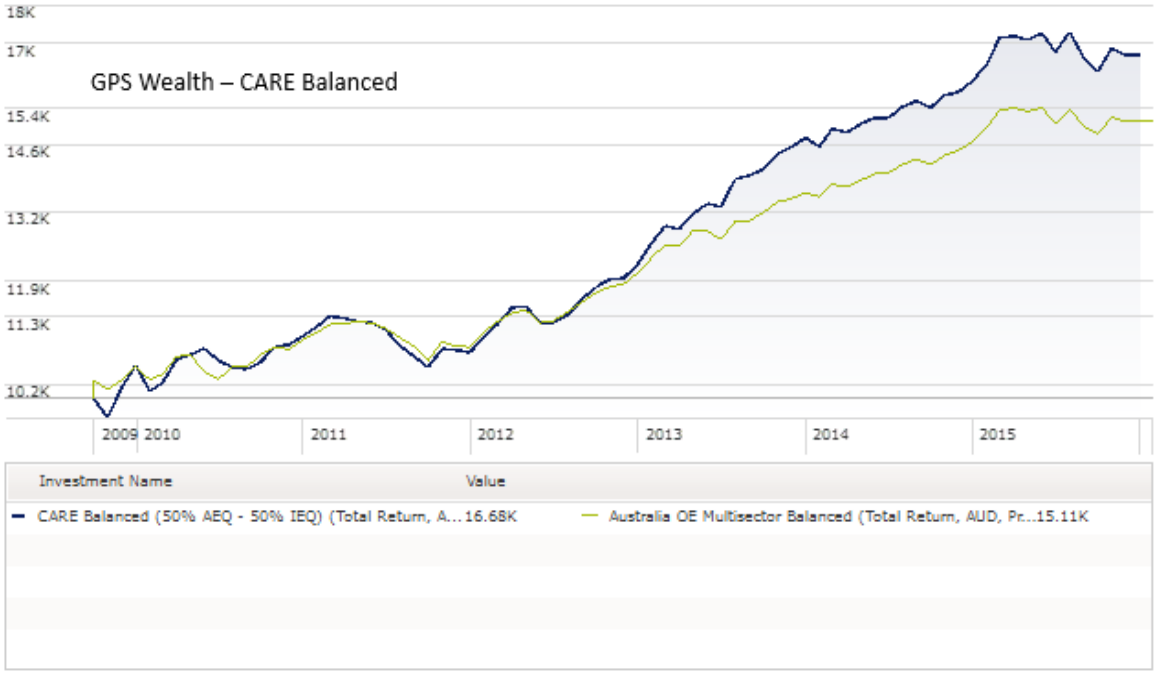
Investment Name	Value
CARE High Growth (50% AEQ - 50% IEQ) (Total Return..	17.49K
Australia OE Multisector Aggressive (Total Return, AUD,	16.46K

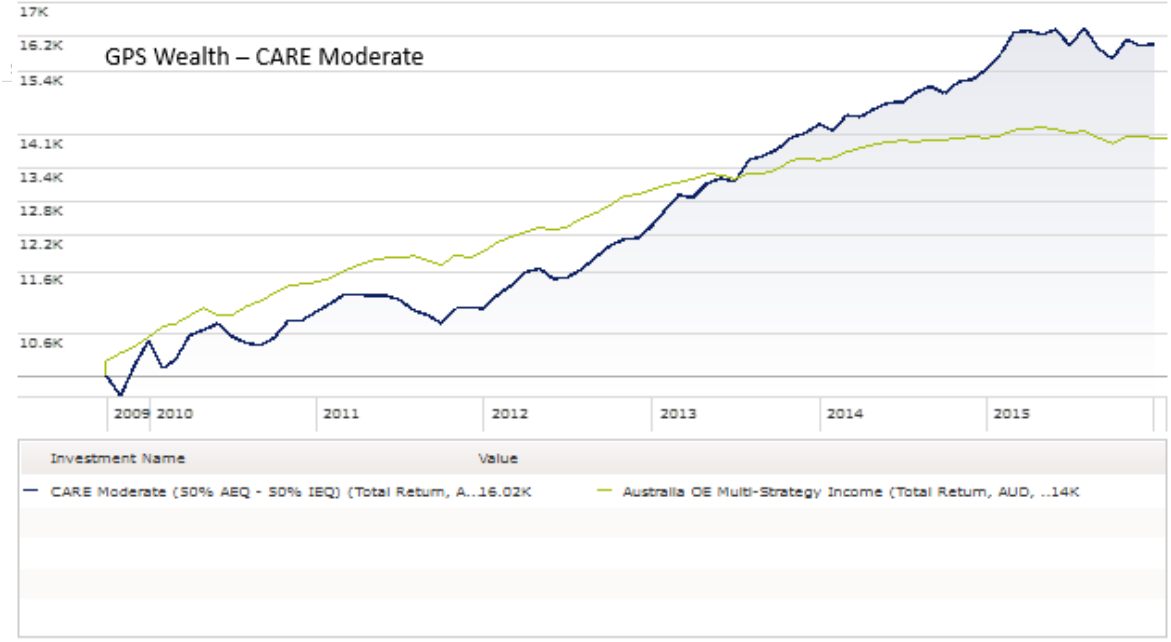
Source: Morningstar Direct

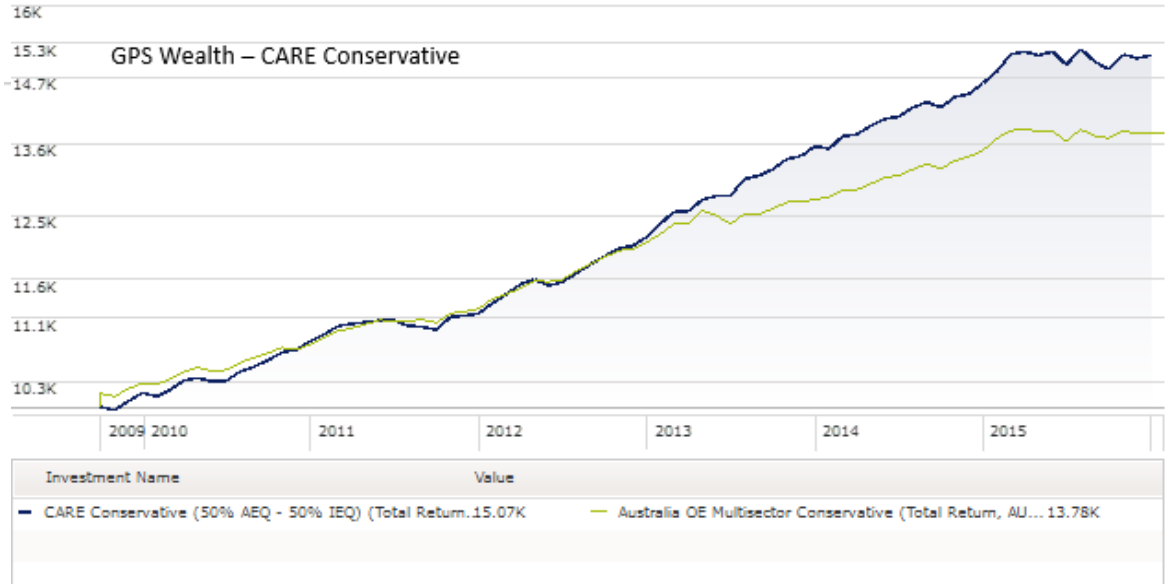


Investment Name	Value
CARE Growth (50% AEQ - 50% IEQ) (Total Return, AUD...	16.59K
Australia OE Multisector Growth (Total Return, AUD, Pre...	15.52K

Source: Morningstar Direct


GPS Wealth – CARE Balanced
18K
17K
15.4K
14.6K
13.2K
11.9K
11.3K
10.2K
2009
2010
2011
2012
2013
2014
2015
Investment Name
Value
CARE Balanced (50% AEQ - 50% IEQ) (Total Return, A...16.68K
Australia OE Multisector Balanced (Total Return, AUD, Pr...15.11K


GPS Wealth – CARE Moderate
17K
16.2K
15.4K
14.1K
13.4K
12.8K
12.2K
11.6K
10.6K
2009
2010
2011
2012
2013
2014
2015
Investment Name
Value
CARE Moderate (50% AEQ - 50% IEQ) (Total Return, A...16.02K
Australia OE Multi-Strategy Income (Total Return, AUD, ..14K


GPS Wealth – CARE Conservative
16K
15.3K
14.7K
13.6K
12.5K
11.6K
11.1K
10.3K
2009
2010
2011
2012
2013
2014
2015
Investment Name
Value
CARE Conservative (50% AEQ - 50% IEQ) (Total Return..15.07K
Australia OE Multisector Conservative (Total Return, AU... 13.78K