



HIGHLIGHTS

"Financial markets experienced a stronger quarter."

"The US tax reform process is likely to be full of drama and may be stretched out."

"Tax cuts and increased spending whilst positive for share prices have already been reflected to some degree since Mr. Trump was elected president."

"In Australia, all eyes continued to be on the housing market where prices have increased considerably over the last year particularly in Sydney and Melbourne."

"APRA has implemented additional measures to slow the growth of interest only loans and loans with high loan to valuation ratios."

"The Australian consumer has cooled with retail sales growth only 2.7% higher over the year."

"Low wage growth and the reluctance to hire by companies is limiting the consumers ability to spend."



GLOBAL OVERVIEW

Emmanuel Calligeris - *Chairman of the CARE Investment Committee*

Financial markets experienced a stronger quarter where the obsession with US government policy, or "Trumponomics", continued to dominate share prices globally, whilst the US Central Bank (the Federal Reserve) dominated sentiment in the bond and currency markets. The Federal Reserve increased the official interest rate known as the Fed Funds Rate, as expected by 0.25% and is likely to move two more times in 2017. The Fed Funds Rate, currently at 0.75% is likely to end 2017 at 1.25%. Further interest rate rises are expected in 2018 however the pace of rises will be measured, as core inflation is running around a benign level of 2%. However, the unemployment rate is very low at just 4.5%. This low unemployment rate may lead to higher wages pressures which will feed into higher inflation. Financial markets, particularly the bond market, are watching closely for any breakout in wage growth that will lead to higher inflation necessitating a faster rate of interest rate increases. The Euro economy more broadly slowed in the second quarter as weakness in domestic demand outweighed a brighter export sector. Despite the downturn, many of the conditions that have driven the recovery remain intact and monthly data has been resilient, suggesting that a large Brexit-induced shock to growth has yet to materialize. Readings on the health of manufacturing remained positive in September and economic sentiment recorded only a mild decline in August. However, post-Brexit vote optimism is still premature as the brunt of the impact will be felt over a longer horizon.

On the manufacturing front, activity has been stronger. The new orders for manufactured goods as reported in the ISM Survey were strong and new export orders recorded the highest reading since November 2013. The employment component of the ISM registered its strongest rate since June 2011 - a very positive signal that manufacturing jobs are in demand. Importantly, the report showed

pressure in input costs at their highest reading since May 2011. If these costs are passed on, inflation will be biased higher. Overall, this report was a strong signal of activity.

The US tax reform process is likely to be full of drama and may be stretched out, adding volatility to financial markets. The congressional vote on the healthcare bill to repeal Obamacare was a litmus test on President Trump's ability to deliver on other parts of his agenda including the tax cuts and infrastructure spending. President Trump pulled the bill to overhaul the healthcare system due to lack of support by Republican members of the House of Representatives. Subsequently investors re-assessed the outlook for the share market in March, marking down the financial sector by 2.8% over the month. A tax reform and infrastructure package will likely be passed by year end. However, if a reform package proves too difficult, then the GOP will settle for straight-forward tax cuts and a modest amount of infrastructure spending. Tax cuts and increased spending will be positive for share prices which has already been reflected to some degree since Mr. Trump was elected president. At the time of writing, the first quarter profit reporting season had just commenced with Caterpillar Inc. and fast food chain – McDonalds, both beating analyst's expectations and justifying the recent rise in the share market.

The recent economic data for the euro area have been strong. The manufacturing sector lifted again in March, with the forward-looking new orders components hitting new cyclical highs. The data suggests that investment spending over the coming months will be positive. In addition, private-sector credit growth has accelerated to the fastest pace since the 2008-09 financial crisis. Unemployment has fallen in many parts of Europe and the headline inflation rate recorded 2% in February. The core rate of inflation remains close to 1%, but the signs are that it is rising.

In Japan, deflationary forces have eased although domestic demand remains weak because of weak wage rises. This year's wage negotiations resulted in manufacturing

companies offering rises that were 50% below the rises of last year.

In Australia, all eyes continued to be on the housing market. The Core Logic data showed a relentless rise in the price of housing in Sydney and Melbourne and once again reignited the debate as to whether there is a house price bubble in these two cities. Indeed, it has become more of an issue following the out of cycle mortgage interest rate rises by the banks in March. It prompted APRA to implement additional measures to slow the growth of interest only loans and loans with high loan to valuation ratios. The RBA weighed in on these changes in its Statement accompanying the no change monetary policy announcement during the month. The RBA welcomed the changes to bank lending policies as it has become increasingly concerned about the rising level of household debt relative to incomes and the potential threat to financial stability.

On the data front in Australia, retail trade was a modest 2.7% higher over the year. Retail sales growth has been lacklustre due to the poor growth in household income. Wages and jobs growth is running at around the inflation rate of 1.5% pa limiting spending power for households. On a positive note, the trade balance surprised to the upside with another large \$3.5bn surplus. Higher commodity prices over the year and rising export volumes are keeping the trade balance firmly in the black. A current account surplus is likely. This is a positive for nominal GDP, company profits and government revenue.

The S&P/ ASX 300 Accumulation index rose 4.7% over the quarter and returned 20.2% over the year ending March 2017. Amongst the largest 100 companies, Bluescope Steel (32%), CSL (25%), AGL (19%) were amongst the best performers. CSL's share price rise was driven by a substantial upgrade to profit guidance in January with the company saying that it was well positioned to gain market share through its ability to supply expanding product volumes to meet the growing demand for a range of plasma derived therapies. The company's long dated



"Share markets were stronger again in the first quarter of 2017 providing investors with solid growth and income. The CARE portfolios benefit from a low exposure to global bonds, where returns were low."

commitment to new product development and extension of both geographic as well as new treatment indications sees the business positioned with multiple highly prospective product launches and extensions over the next 1-2 years. In addition, a slightly stronger result for the Flu business helped to appease earlier anxiety as management also reaffirmed the Seqirus Flu Business was on track for FY18 breakeven guidance. Share price falls were recorded for Brambles (-25%), Primary Health Care (13%) and JB Hi Fi (-12%). Brambles provided a half year trading update which stated revenue growth had been 5% with underlying profits up 3%. The company guided to flat underlying profits for the full year and cited a weaker outlook in the US CHEP pallet business – with lower net wins affecting sales growth.

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, share markets tended to rise and fall in tandem, thus the asset class exposures in the portfolios generally remained steady over the quarter. Share exposure relative to enhanced cash was slightly diluted but not by enough to trigger a rebalance of the portfolios by the CARE Investment Committee. 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 or at best providing very low returns, 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) underperformed the broader global share market over the quarter however ended the year 10.57% higher. The fund tracks the performance of the highest dividend yielding companies within the S&P Global Broad Market Index that have followed a policy of increasing or stable dividends for at least 10 years. Waddell & Reed, a US investment and financial planning company is the largest holding and the portfolio also invests in Aberdeen Asset

Management, Carillion (a British multinational facilities management and construction services company) and Tupperware Brands Corp as its major holdings. Magellan performed well with the portfolio rising 1.4% over the quarter and 10.4% over the year. The largest contributors to performance were the investments in Apple, Facebook and Lowe's (the US equivalent of Bunnings Warehouse). Apple rose 24.5% over the quarter on a better-than-expected first-quarter update that showed iPhone popularity remains high as the installed base is growing at double-digit rates and the company is seeing record numbers of people switching from Android devices. Facebook increased 23.5% after fourth-quarter revenue exceeded expectations with 51% growth. Facebook's users and engagement is growing and this is being successfully monetised via advertising revenue, particularly via mobile. Lowe's climbed 16.1% after fourth-quarter results saw strong comparable store growth of 5%, driven by buoyant housing and home-improvement spending. Target, the second largest retailer in the US behind Walmart, declined almost 27% over the quarter whilst Qualcomm slid 11.3% after Apple joined those launching legal action against the company based on claims of unfair royalty practices regarding its baseband chips.

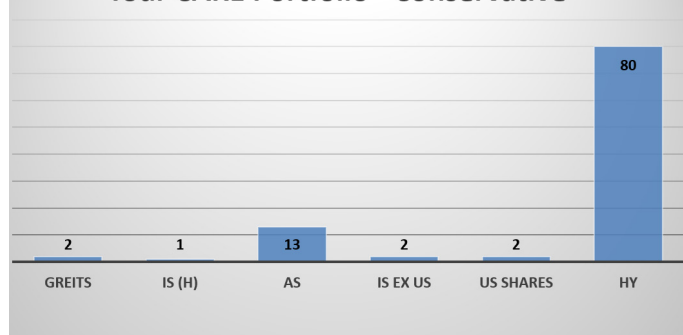
Within the Care Enhanced Australian Share Portfolio, the Manager - Joseph Palmer and Sons has increased the amount of cash in the portfolio. Shares in Goodman Group, the strongly performing industrial property company, were sold thereby exiting the last of the property related investments in the portfolio. CSL, Spotless, Wesfarmers, Westpac and Woolworths all performed well in the March quarter, whilst BHP Billiton, Brambles, Santos and Telstra made negative contributions. The manager remains ready to redeploy the cash it has raised from share sales on a fall back in share prices.

We continue to expect the US Federal Reserve will raise the official interest rate 2 times in 2017. 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, it seems that most remain preoccupied with rising house prices in the Sydney and Melbourne more so due to the out of cycle rate rises as a consequence of rising funding costs from stronger world growth. CoreLogic's March home value index showed an 18.9% rise in Sydney prices over the past year, including a 5% rise over the first three months of 2017 alone. Melbourne had a 15.9% annual price rise, while Canberra and Hobart also had double-digit yearly gains. Interest rates in Australia, should be on hold but an easing bias will continue in 2017.

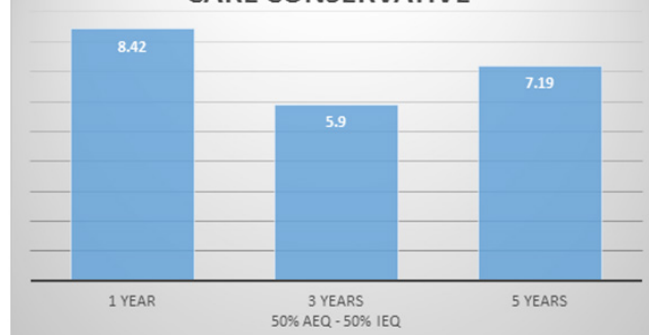
RETURNS TO THE 31ST MARCH 2017 BY CARE INVESTMENT STRATEGY

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

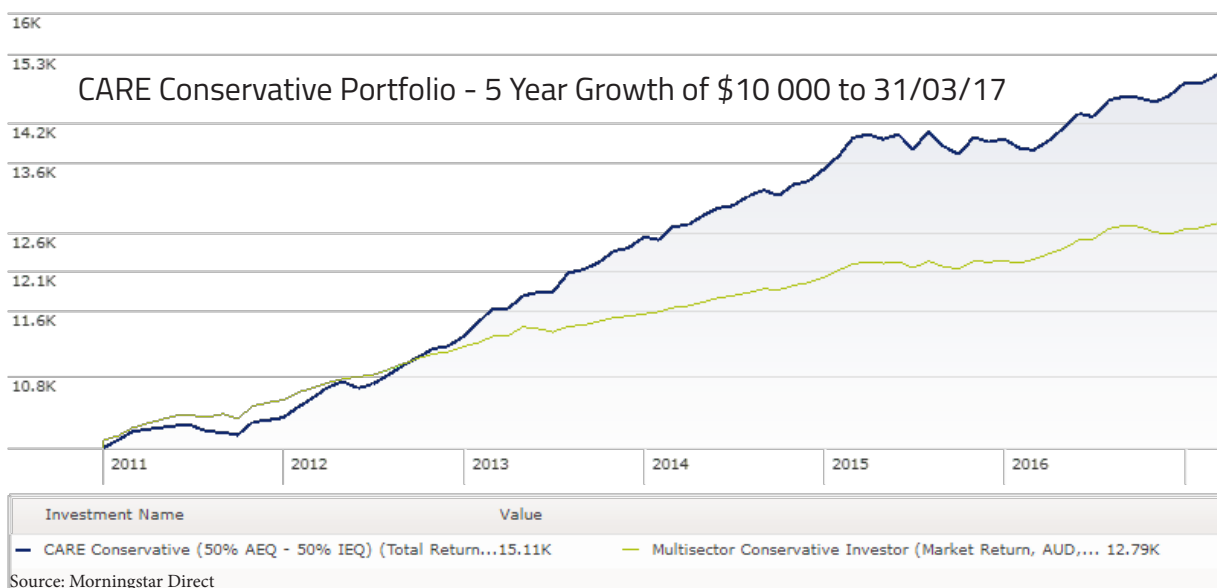
Your CARE Portfolio - Conservative



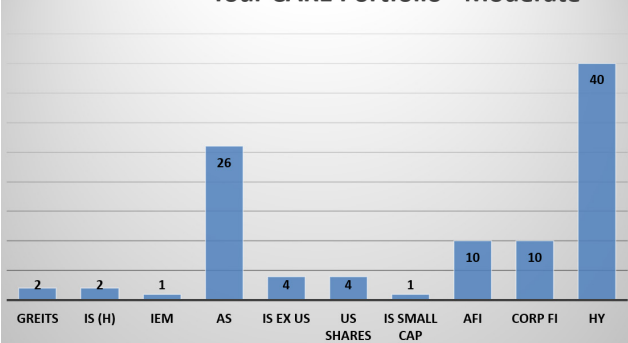
CARE CONSERVATIVE*



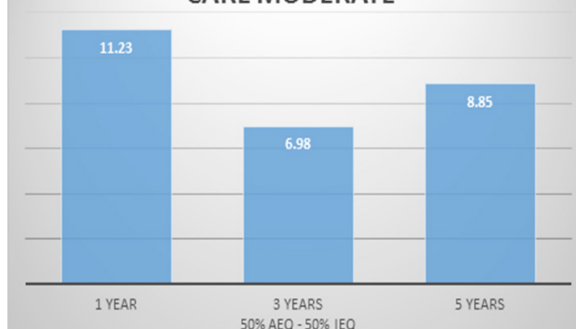
CARE Conservative Portfolio - 5 Year Growth of \$10 000 to 31/03/17



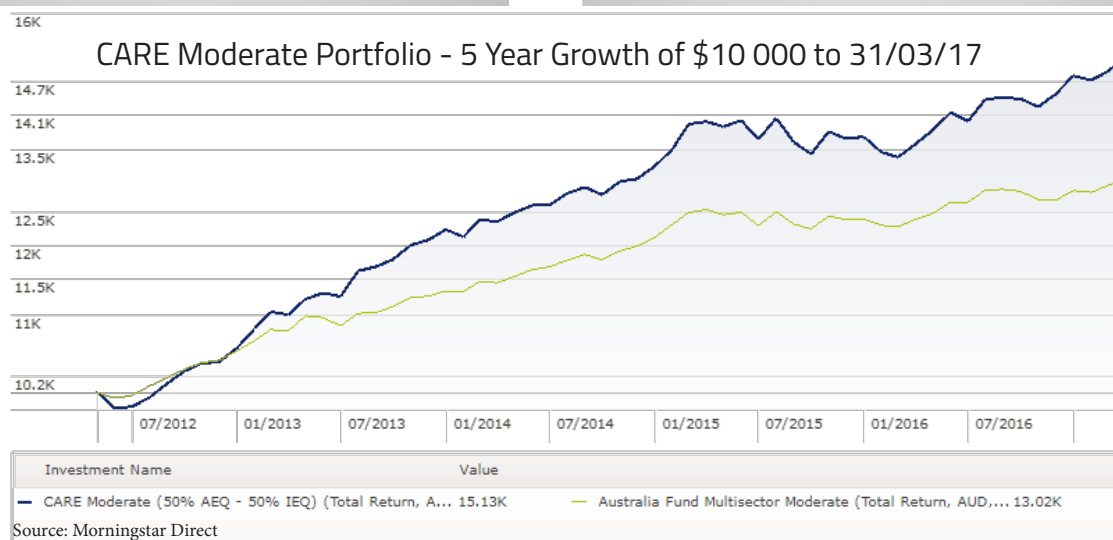
Your CARE Portfolio - Moderate



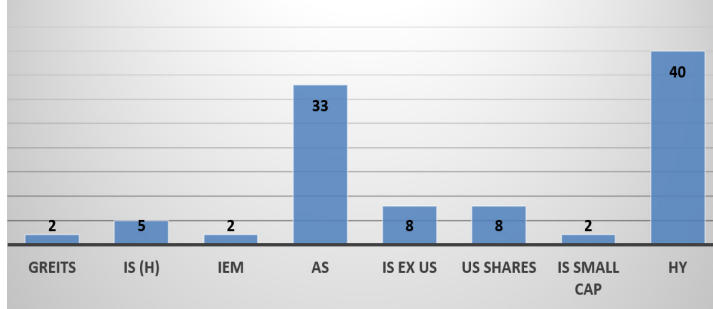
CARE MODERATE*



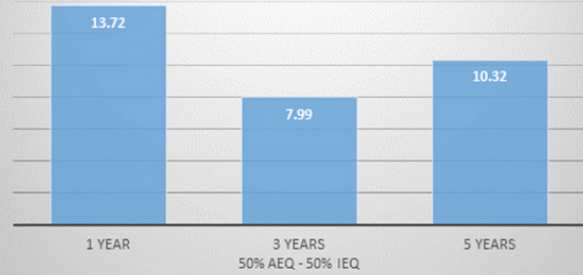
CARE Moderate Portfolio - 5 Year Growth of \$10 000 to 31/03/17



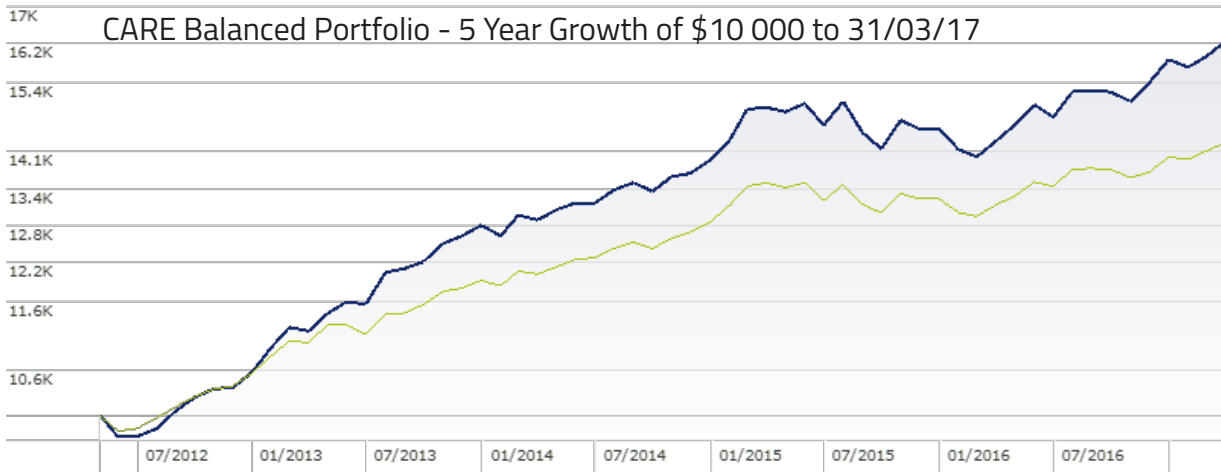
Your CARE Portfolio - Balanced



CARE BALANCED*

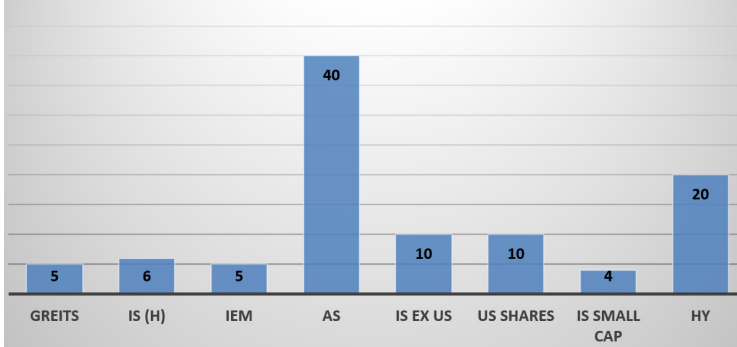


CARE Balanced Portfolio - 5 Year Growth of \$10 000 to 31/03/17

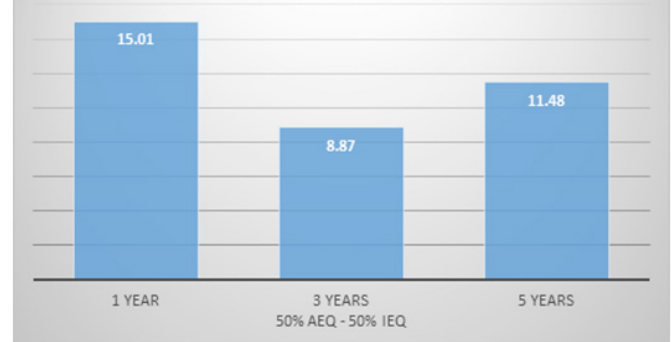


Source: Morningstar Direct

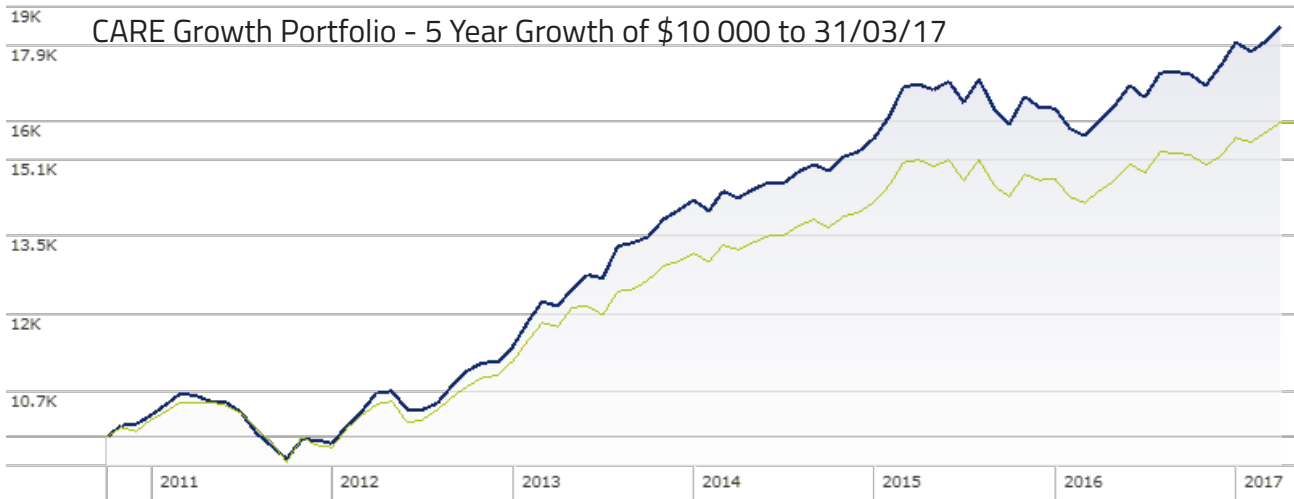
Your CARE Portfolio - Growth



CARE GROWTH*

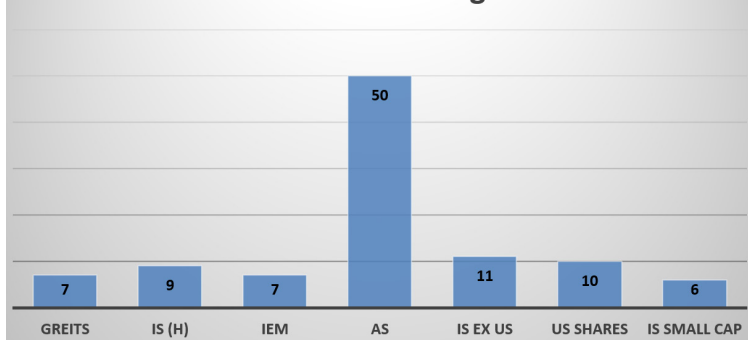


CARE Growth Portfolio - 5 Year Growth of \$10 000 to 31/03/17

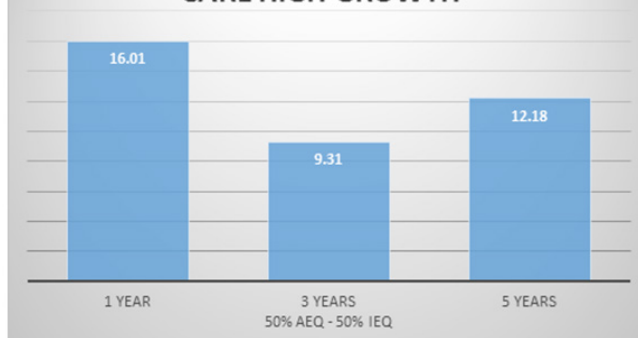


Source: Morningstar Direct

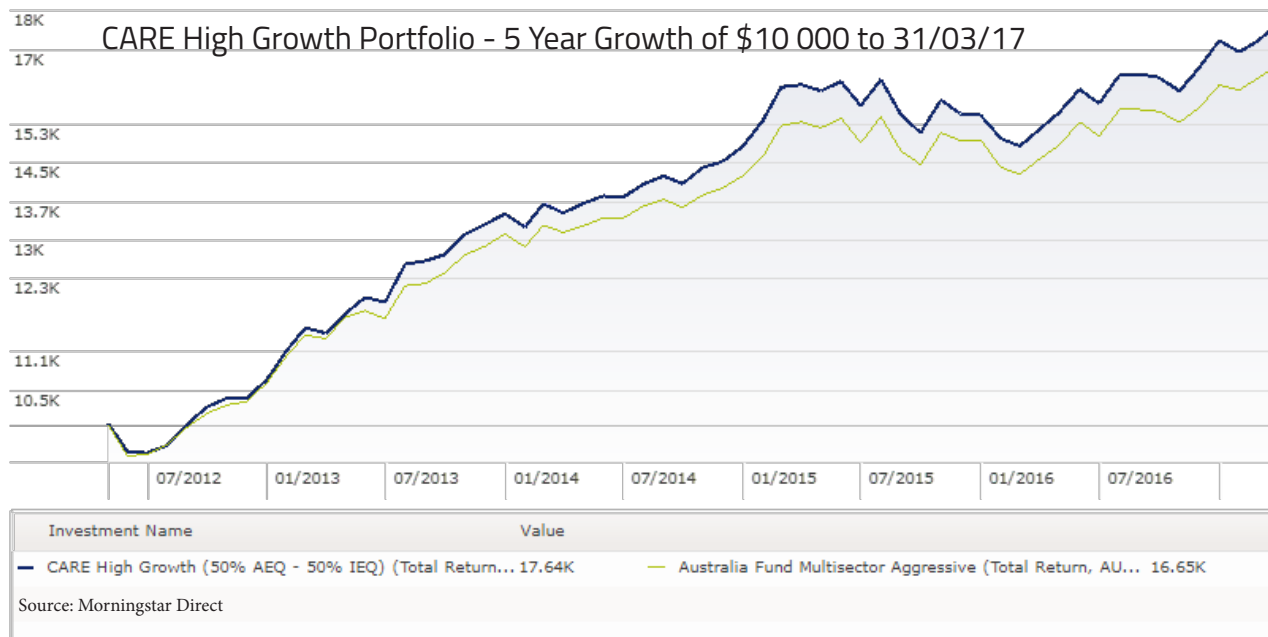
Your CARE Portfolio - High Growth



CARE HIGH GROWTH*



CARE High Growth Portfolio - 5 Year Growth of \$10 000 to 31/03/17



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 March 2017. 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 MARCH 2017

GPS CORE Portfolios	1 year	3 years	5 years
CORE Conservative	7.93	5.55	6.50
CORE Moderate	10.64	6.50	8.04
CORE Balanced	13.70	7.61	9.74
CORE Growth	15.75	8.87	11.49
CORE High Growth	18.08	9.78	12.99

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GAME of money®

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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