CARE QUARTERLY

NEWSLETTER

3RD MAY 2016

Australia & Global Update **March 2016**

STOP PRESS!

The Reserve Bank of Australia lowered the official cash rate by 0.25% to 1.75% on the 3rd May 2016.

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!"

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

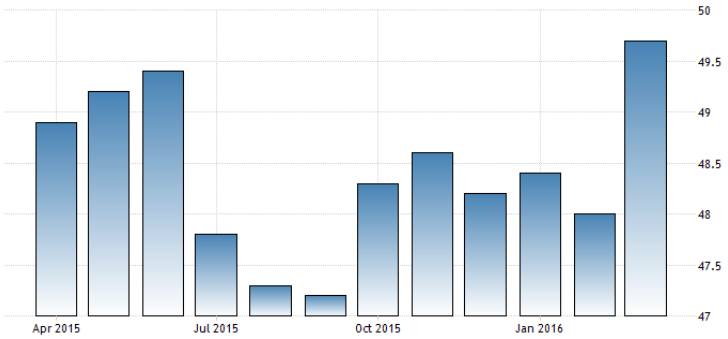
Global Overview

- Market turbulence has unnerved the US Federal Reserve and led to a deferral of its planned interest rate rise in the first quarter of 2016. High debt is still likely to drag on US growth for many years but there is enough strength to stay out of recession.
- Reflation policies in China gaining traction
- Australian interest rates likely moving lower after low inflation report
- Europe and Japan push further into negative interest rate territory
- Australian and International share markets stabilise following a bounce in energy and commodity prices

Having fallen in the first two months of the year, share markets recovered in March 2016. The recovery was due to the news of further stimulus measures from the European Central Bank and Bank of China as well as news that the Federal Reserve was wavering on its intention to raise the Official interest rate 4 times in 2016 from 0.25% to 1.25%. This was revised down to potentially two rate rises *and accords with our outlook* back in December 2016. A rebound in commodity prices and a softening USD also helped markets stabilise with Emerging Markets rising a very strong 13% in March. China's share market, fell -15% over the quarter, partly recovering from a -24% fall recorded mid-way through the quarter as investors continue to second guess the direction and strength of Chinese economic activity.

The latest growth numbers from China suggest that reflation is gaining some traction. The purchasing manager survey (PMI) is a lead indicator of economic activity. Both the manufacturing and service sectors reported broad-based rises. The manufacturing PMI shown in the graph below, recorded 49.7 in March well above market consensus. Despite remaining below 50, it was the highest reading since March 2015.

China Caixin Manufacturing PMI



Non-manufacturing activity and services also rose in March. The People's Bank of China cut its benchmark one-year lending rate by 0.25% to 4.35% in October 2015. Policymakers also decided to lower reserve requirements for banks meaning that the banks could lend more to help the slowing economy. These actions seem to be working and suggest growth is likely to have accelerated in the first quarter of the year. At the time of writing, official data showed an annual growth rate of 6.7% - in line with market expectations.

In December 2015, we did not believe that the US economy could sustain higher interest rates at the pace indicated by the US Central Bank at that time. It is unlikely that they will rise much more from here in 2016.

- Emmanuel Calligeris
GPS Wealth Ltd

The US Federal Reserve (Central Bank in the US) surprised investors by downgrading its growth and inflation outlook and said a slower pace of planned interest rate increases was likely. Despite the revision to its projected rate rises, there is still a large difference in the number of rises flagged by it and that path of interest rate rises expected by financial market participants. Given the moves in currency and equity markets in the first quarter of 2016, the Federal Reserve is more likely to take a gradual path to raising the official interest rate and move towards the market rather than the market ratchet up its tightening expectation towards the Federal Reserve.

The European Central Bank (ECB) positively surprised investors in early March with the details of the new stimulus package aimed at spurring new bank lending by pushing its key interest rate to -0.40% and announced a new series of targeted longer-term refinancing operations (TLTRO II), each with a maturity of four years, aiming to provide cheaper financing to certain investments. The ECB also announced an expansion of its monthly asset purchases program (printing money) to €80 billion.

In Japan the inflation rate excluding food and energy rose in February to be 0.8% higher over the year. Moreover, the Tokyo inflation measure surprised with a rise of 0.6% over the year. This is a positive sign as the Japanese economy hardly grew in the last three quarters and there is a strong chance that the economy contracted in the first quarter of 2016 meaning that the risk of deflation was high. It is very difficult to control deflation as it saps investment and consumption two key parts of economic growth for any economy. Hence the slightly positive reading on inflation is encouraging in that things were not as bad as market participants previously thought. Industrial production is likely to have contracted by 1.5% or more in the first quarter of this year. Retail sales (which show consumption trends) have also been stagnant.

In Australia employment data suggests that the economy is transitioning from mining to services. Non-manufacturing employment increased 355.5k in 2015, the biggest year-on-year increase on record. This offset a 59.7k drop in manufacturing and mining. The latest job vacancies data point to a further decline in the unemployment rate, however lack of investment by companies suggests a less rosy picture in the longer term. The trade deficit disappointed, widening by $254million to $3.41bn, from a revised $3.16bn for January. Export earnings declining by 1.2% as a result of weakness in rural prices and gold, outweighing the bounce in iron ore prices. The decline points to the risk that exports are less supportive for first quarter economic growth. As outlined in previous months, a large risk remains the housing market. The household debt-to-disposable income ratio hit a fresh record high last year.

The Australian share market was no exception to the global volatility, ending the quarter 2.6% lower. Resource stocks bounced, benefiting from a rebound in commodity prices, particularly in iron ore whilst the Real Estate Investment Trusts, Industrials and Utilities sectors finished the quarter on a stronger note as a result of an encouraging profit reporting season. Banks were the main drag on the index falling -12% over the quarter weighed down by increasing concerns over their bad and doubtful debt profiles after ANZ increased its provisions and Westpac made comments about the possibility of increased provisions on some of its corporate loans. In company news, BHP and RIO abandoned their progressive dividend policies as earnings continue to come under pressure from depressed commodity prices. TPG beat earnings expectation and offered some upbeat guidance ($770-$775m) – about 2-3% ahead of market expectations following their acquisition of iiNett. Relative to term deposits, the Australian share market looks fairly priced. However low interest rates have caused all asset prices to rise as the search for income intensifies.

CARE Australian Shares

Within the CARE Enhanced Australian Shares portfolio, Santos (+12%), Brambles (+6.11%), real estate companies Goodman Group (6.38%) and Stockland (4.15%) and Sonic Healthcare (7.05%) all performed well. ANZ Bank, (-16%) and Macquarie Group (-20.15%) detracted from performance over the quarter. The CARE Enhanced Australian Shares portfolio outperformed the market index by 0.45% over the quarter. The portfolio continues to focus on financially strong companies with stable dividends.

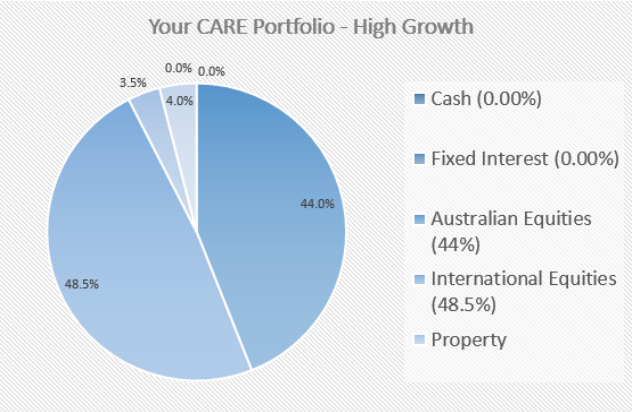
Within the CARE International Shares portfolio, the share price of YUM! Brands, the global operator of KFC, Pizza Hut and Taco Bell rose as sentiment on China's outlook improved and risks associated with the forthcoming separation into two companies abated. The company's valuation is still attractive. The company is on track to finalise the separation of its China business, by which time it should complete its return of capital which is expected to be a positive for shareholders.

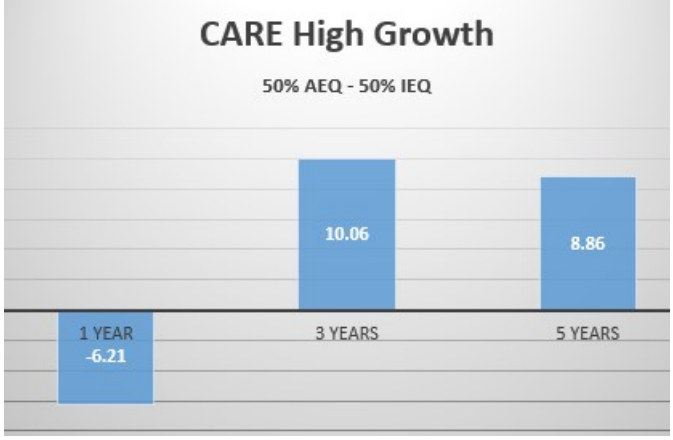
North American retailer Target and technology company Oracle, also made strong contributions for the quarter. Target rose after releasing its fourth quarter profit result and providing 2016 guidance for 9-15% earnings per share growth, which was ahead of market expectations. Oracle performed well through the quarter and experienced a spike in its share price following the release of its profit result. The company reported a significant acceleration in cloud subscription growth together with gross profit margin expansion, with overall earnings being ahead of management guidance. Oracle stands to benefit significantly from the shift to cloud services in the long-term and is a high quality operator in the software and services space.

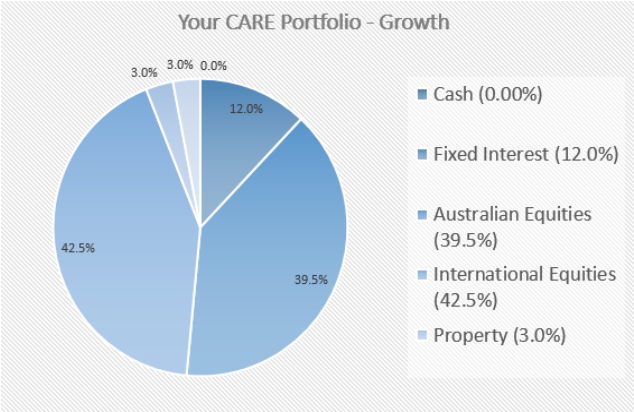
Intel declined through the first half of the quarter before recovering most of its losses. The stock's decline was reflective of weakness in the IT sector more broadly amid investors decision to rotate back to more defensive sectors, and its profit result was weaker than expected, after being impacted by a stronger US dollar and still soft demand for personal computers.

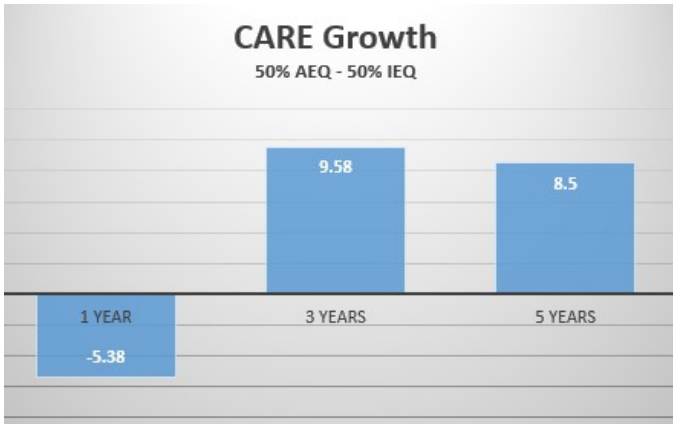
The outlook for share markets remains fairly unpredictable given the continued uncertainties of the timing of further US interest rate hikes as well as continued economic weakness in many parts of the world such as Japan and Europe. Debt levels in China will also continue to cause concerns. Offset against these negatives is the continued very easy monetary policy set by all major Central Banks around the world which continues to force investors to look for returns in share markets. This is always a dangerous starting point but outside the US, there is little chance of interest rates rising for the foreseeable future. Moreover, policy makers are acutely aware of the sensitivity to interest rates, constrained fiscal conditions and the unwelcomed prospect of deflationary pressures, hence the lower for longer mantra is likely to dominate investor behaviour.

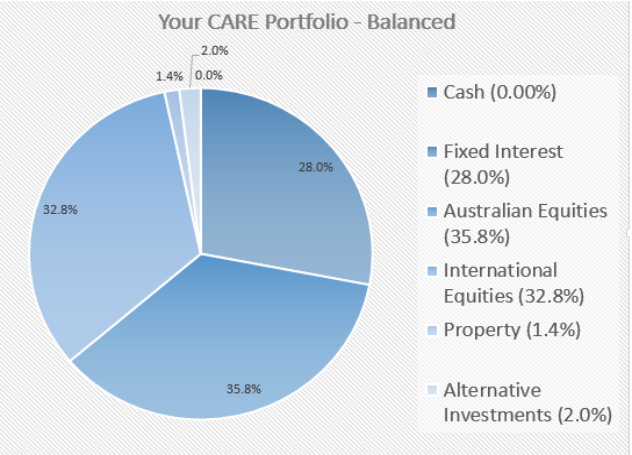
CAREphilosophy

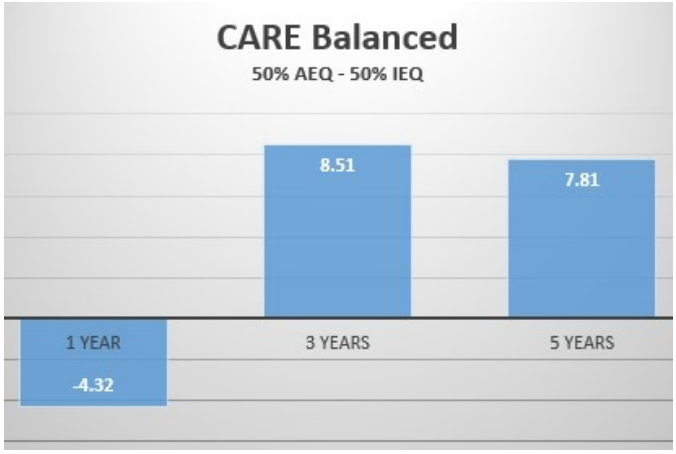




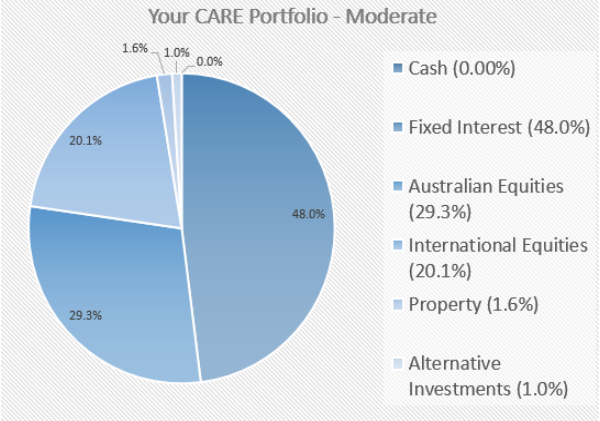


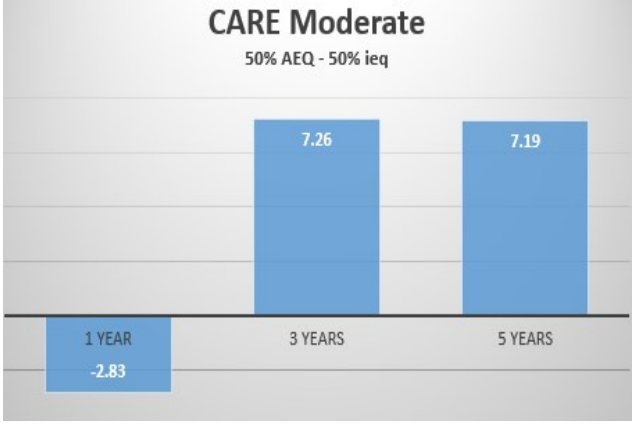


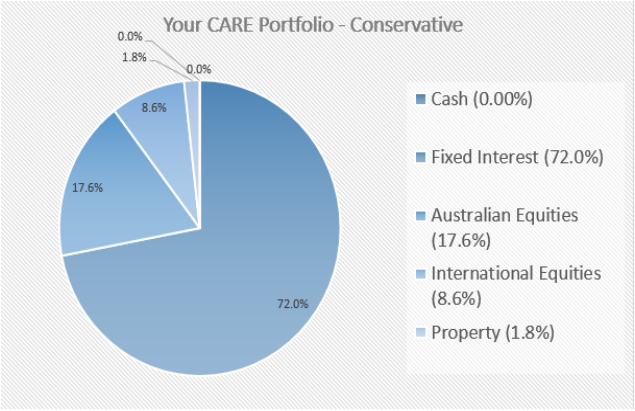


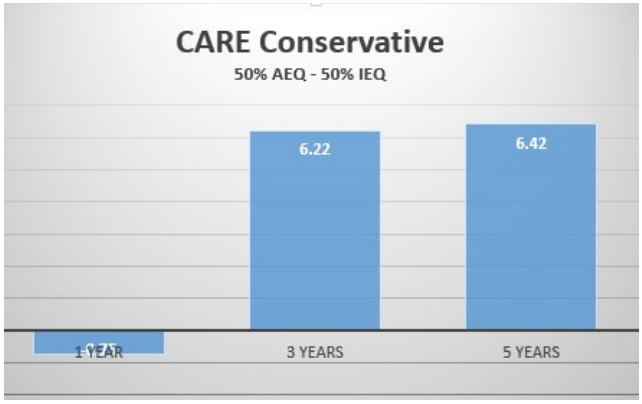


***Returns are based on model portfolio, benchmark allocation & assumes investment over 1 , 3 & 5 years ending 31st March 2016. The E (enhanced) component is assumed to be 50% Australian Equities & 50% International Equities. Past Performance is not indicative of future performance.**



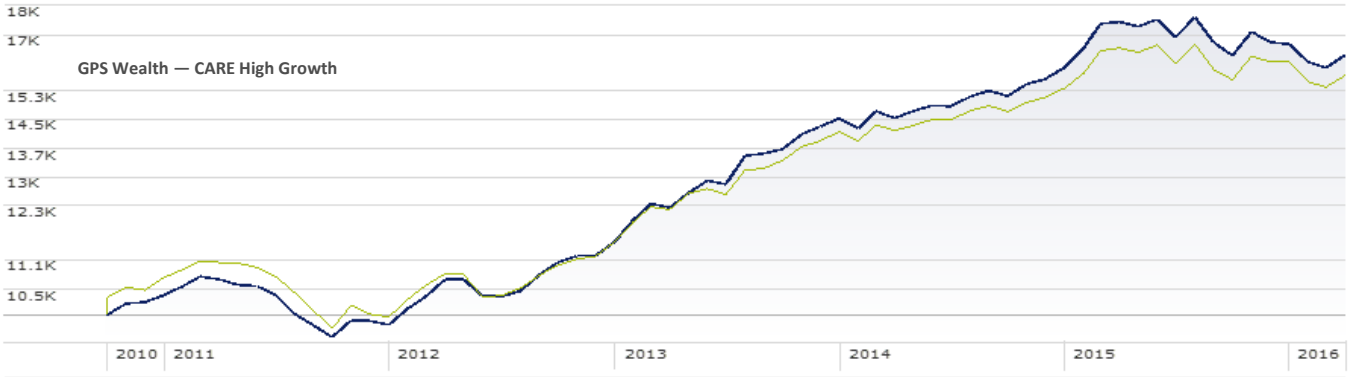




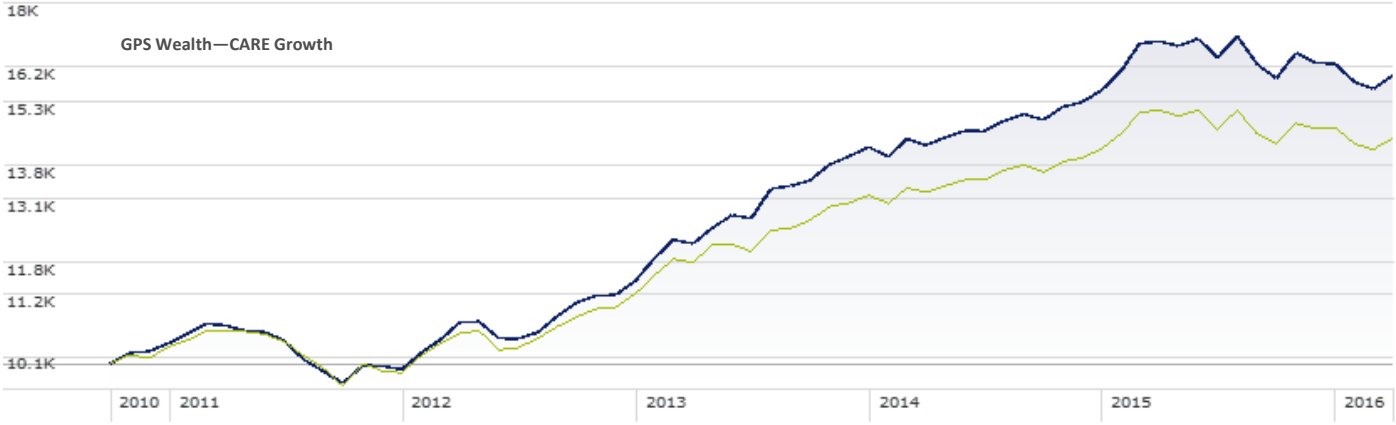


GPS CORE PORTFOLIOS

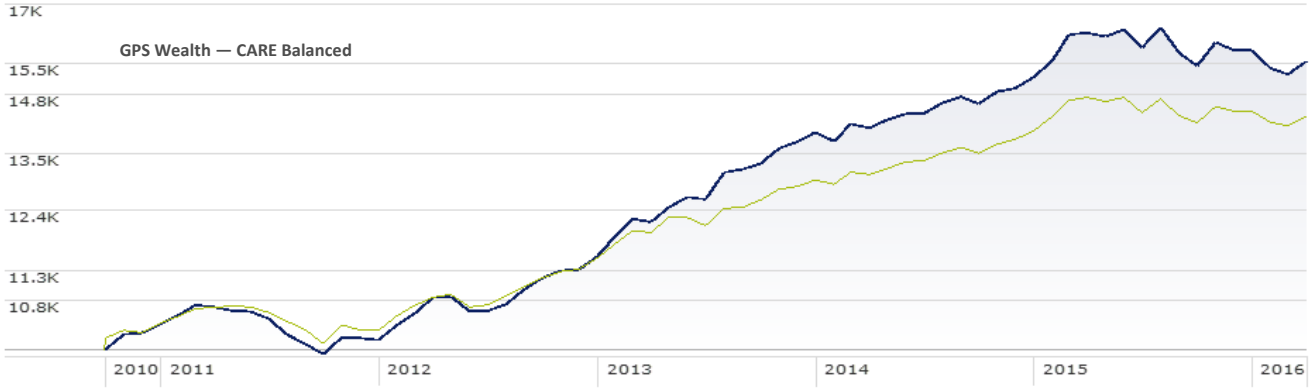
GPS CORE Portfolios	1 year	3 years	5 years
GPS CORE High Growth	-7.11	10.41	8.47
GPS CORE Growth	-5.39	9.42	7.93
GPS CORE Balanced	-3.81	7.86	7.04
GPS CORE Moderate	-2.11	6.43	6.44
GPS CORE Conservative	-0.11	5.56	5.81



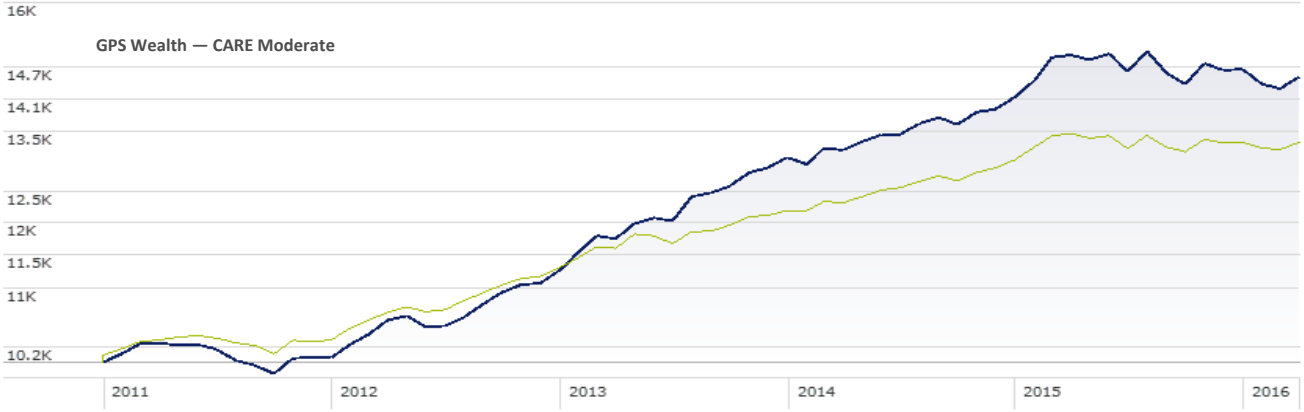
Investment Name	Value
CARE High Growth (50% AEQ - 50% IEQ) (Total Return...	16.37K
Australia OE Multisector Aggressive (Total Return, AUD, ..	15.75K



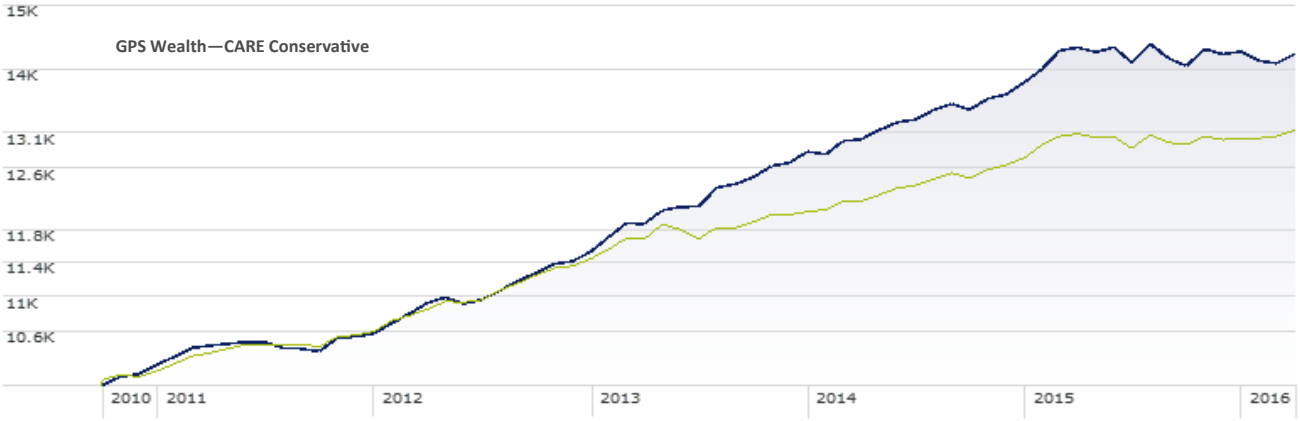
Investment Name	Value
CARE Growth (50% AEQ - 50% IEQ) (Total Return, AUD...	16K
Australia OE Multisector Growth (Total Return, AUD, Pre...	14.44K



Investment Name	Value		
CARE Balanced (50% AEQ - 50% IEQ) (Total Return, A...	15.57K	Australia OE Multisector Balanced (Total Return, AUD, Pr.	14.31K



Investment Name	Value		
CARE Moderate (50% AEQ - 50% IEQ) (Total Return, A...	14.51K	Australia OE Multisector Moderate (Total Return, AUD, P...	13.32K



Investment Name	Value		
CARE Conservative (50% AEQ - 50% IEQ) (Total Return.	14.23K	Australia OE Multisector Conservative (Total Return, AU..	13.12K