GPS WEALTH

CARE QUARTERLY
NEWSLETTER

Australia & Global Update | September 2015

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

Despite a setback in the Australian and global share markets in the last quarter, investors once again realised healthy returns above inflation in the year ending September 2015. Property trusts continued to benefit from low interest rates which in turn remained low as a result of declining inflation. International shares performed strongly helped by the fall in the Australian dollar in the first half of the year.

> Despite a setback in the Australian and global share markets in the last quarter of the year, investors once again realised healthy returns above inflation. Property trusts continued to benefit from low interest rates which in turn remained low as a result of low inflation. International Shares performed strongly helped by the fall in the Australian dollar in the first half of the year.

The global economy continues to grow at a below trend pace which is likely to persist for some time. In the US, retail sales barely rose in September and producer prices recorded their biggest decline in eight months, raising further doubts about whether the Federal Reserve will raise interest rates this year. The weak reports were the latest suggestion that the economy was losing momentum in the face of slowing global growth and a strong dollar. Job growth braked sharply in the past two months. US growth has averaged 2.3% over the first half of the year and is unlikely to accelerate meaningfully in the second half as the economy faces a number of crosswinds. On the positive side, the lower oil price should provide a boost for consumption. Capital expenditure on energy should begin to normalise having contracted 30% in the first half of the year. Finally government spending should begin to turn positive having been a drag over the recent past. Tighter lending standards, a reduced rate of growth in asset prices and the likelihood of tighter interest rates (albeit delayed) are all likely to be a headwind for growth in the near term.

As is the case for the US, in the short term Euro area growth has been spurred by a drop in the price of oil. In addition a weaker euro currency and a thawing of credit markets have aided growth recently. However these benefits should begin to wane, whereby a renewed focus on the debt dynamics of the region should resurface. As the 2016 budgets are prepared, there will be pressures for additional austerity measures, which are unlikely to be offset by new stimulus from creditor countries, including Germany.

Highlights

- Global economy continues to grow at a below trend pace
- US growth has averaged 2.3% over the first half of the year and is unlikely to accelerate meaningfully
- Euro area growth has been spurred by a drop in the price of oil
- Japanese economy will continue to face a number of challenges
- PBOC cut its interest rate for the fifth time

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.

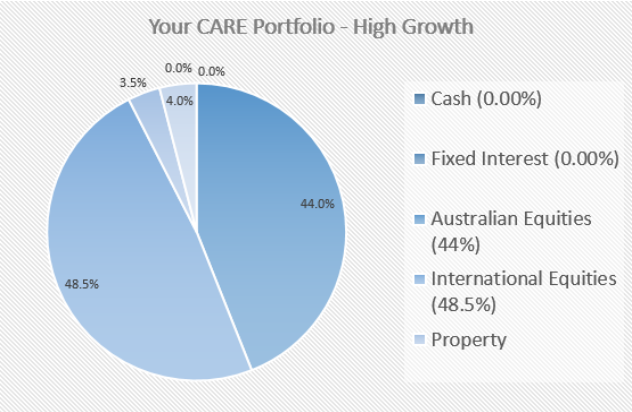
The CARE Philosophy™: "Exciting life, boring money and not the other way around!"

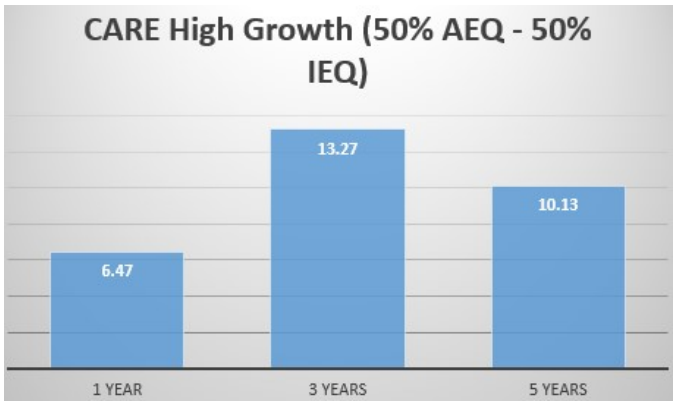
The Japanese economy will continue to face a number of challenges – a most significant being the ageing population and high government debt to GDP ratio. The high government debt will limit the ability of policy makers to pursue easier fiscal policy meaning that quantitative easing will continue for the foreseeable future. Japan exports capital equipment to emerging markets where risks appear elevated outside of Asia. Capital flows over the past few years have fed large lending booms. Presently Turkey, South Africa and Brazil look most vulnerable to further deleveraging. The key question is whether these strains will affect developed markets.

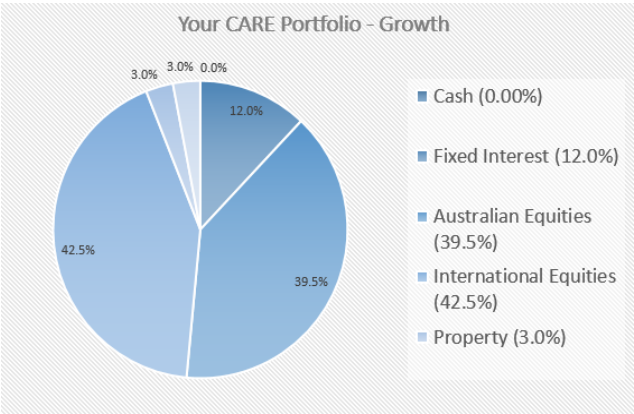
The People's Bank Of China cut its interest rate for the fifth time and is likely to ease further as data suggest that the economy has not yet found a bottom. GDP growth is likely to continue slowing as can be seen in declining Bloomberg consensus figures: 6.9% for 2015, 6.7% for 2016, and 6.5% for 2017. This weaker growth profile has significant implications for emerging markets. Commodity prices are likely to remain soft, putting pressure on the major exporters such as Brazil, Chile, Colombia, Mexico, and Russia. However, commodity importers may see a windfall gain from low commodity prices. For the most part, this favours Asia and Eastern Europe whilst harming Latin America and Africa.

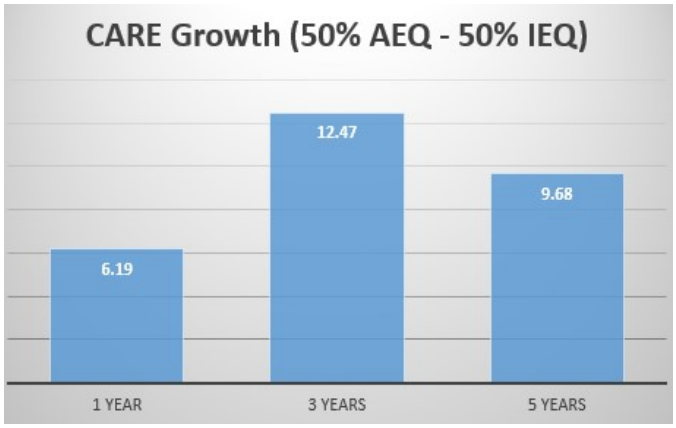
In Australia there has been little in the way of new data that has changed our view that the economy remains locked in a low growth low inflation trajectory. Retail sales continue to paint a picture of a soft economy as too did the labour data. The economy added 17,400 new jobs in August. That resulted in a slightly lower unemployment rate, dropping 0.1% to 6.2%. A breakdown by state performance produced some mixed results. New South Wales recorded a 6% unemployment rate Victoria and Western Australia each saw unemployment fall from 6.4% to 6.1%. At the other end of the scale, South Australia's jobless rate topped 7.9%. The trend terms show a different picture though. It shows the number of unemployed people rose by 6,000. There were 778,000 unemployed persons in August. That was up from 772,000 in July owing to a 0.1% dip in the participation rate. This week's decision to re-price both investor and owner occupier mortgages by 0.20% (but not business loans) by Westpac, the effective cash rate in the economy has risen. It is clear that increased regulation of banks via both higher capital requirements and rising funding costs associated with meeting a stronger funding mix, was increasing bank operating costs. It was also clear that, APRA was indicating that the return on equity (RoE) for an "unquestionably strong" banking system was lower than before. At the time of writing, the other 3 major banks followed suit. Given that outside of housing, the economy does not require higher interest rates, The RBA is likely to ease further.

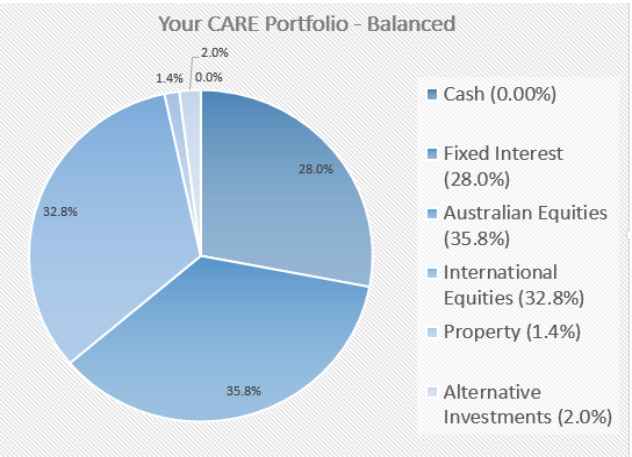
CAREphilosophy

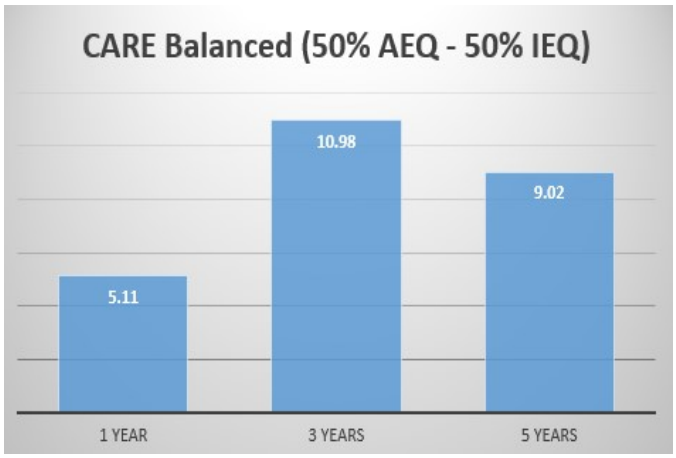




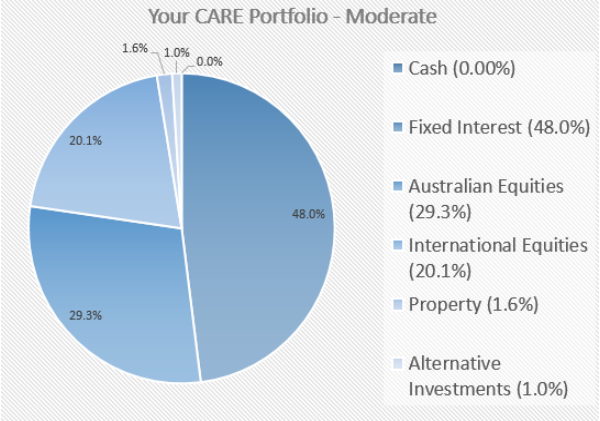


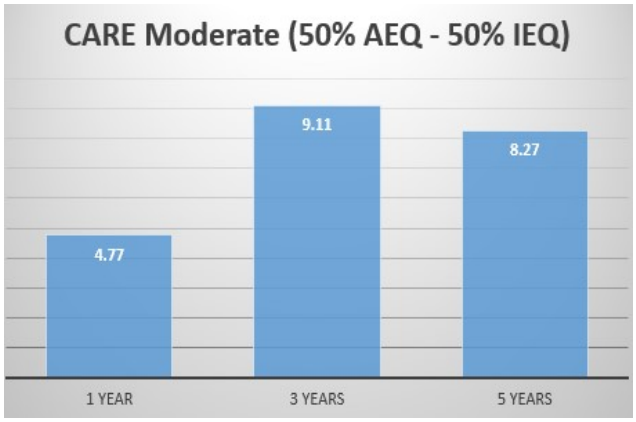


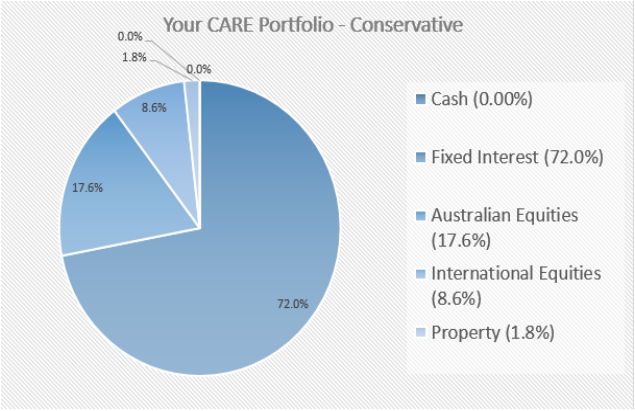


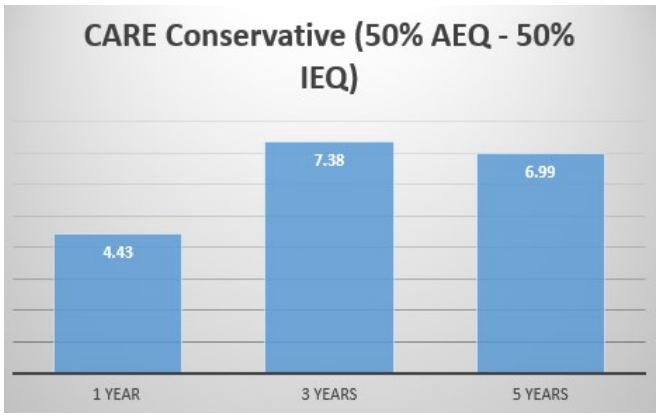


***Returns are based on model portfolio, benchmark allocation & assumes investment over 1 , 3 & 5 years ending 30th September 2015. The E (enhanced) component is assumed to be 50% Australian Equities & 50% International Equities. Past Performance is not indicative of future performance.**









GPS CORE PORTFOLIOS

GPS CORE Portfolios	1 year	3 years	5 years
GPS CORE Balanced	4.18	9.95	7.98
GPS CORE Conservative	4.04	6.44	6.34
GPS CORE Growth	5.49	12.07	8.98
GPS CORE High Growth	5.73	13.66	9.65
GPS CORE Moderate	4.10	7.90	7.19

GPS Wealth – CARE High Growth

Investment Name	Value		
CARE High Growth (50% AEQ - 50% IEQ) (Total Return...	16.82K	Morningstar Aus Msec Aggressive TR AUD (Market Retu...	16.5K

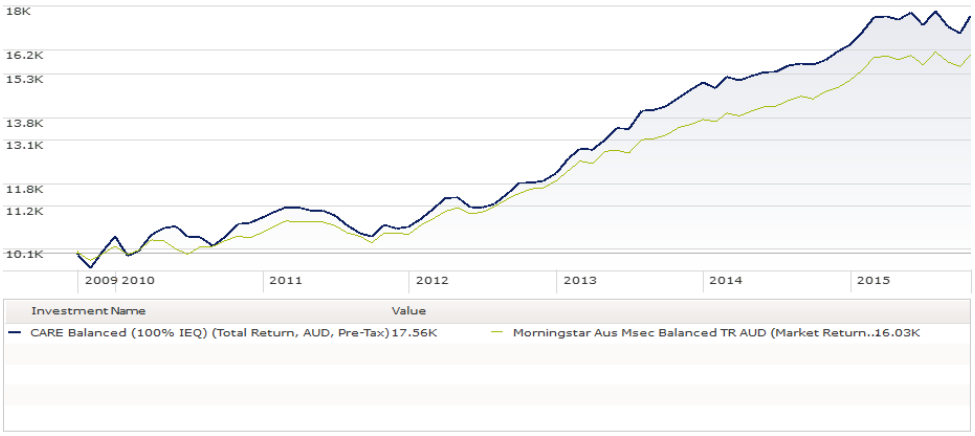
Source: Morningstar Direct

GPS Wealth - CARE Growth

Investment Name	Value		
CARE Growth (50% AEQ - 50% IEQ) (Total Return, AU...	15.97K	Morningstar Aus Msec Growth TR AUD (Market Return, ..	16.01K

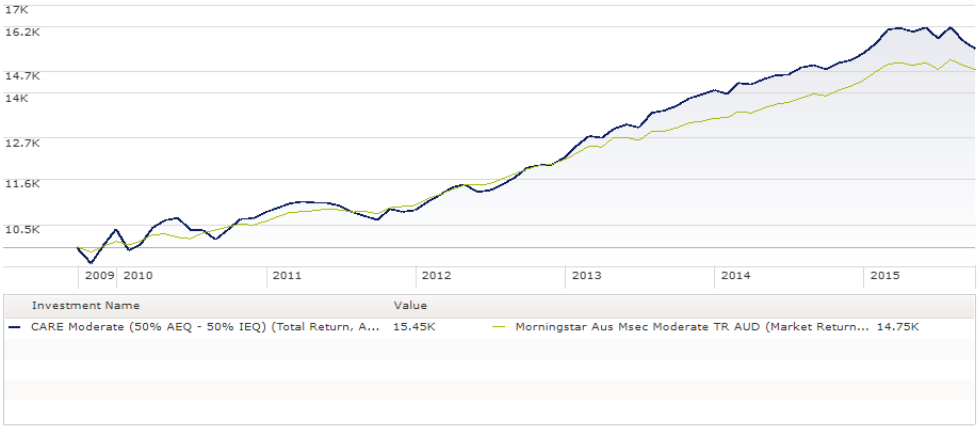
Source: Morningstar Direct

GPS Wealth – CARE Balanced



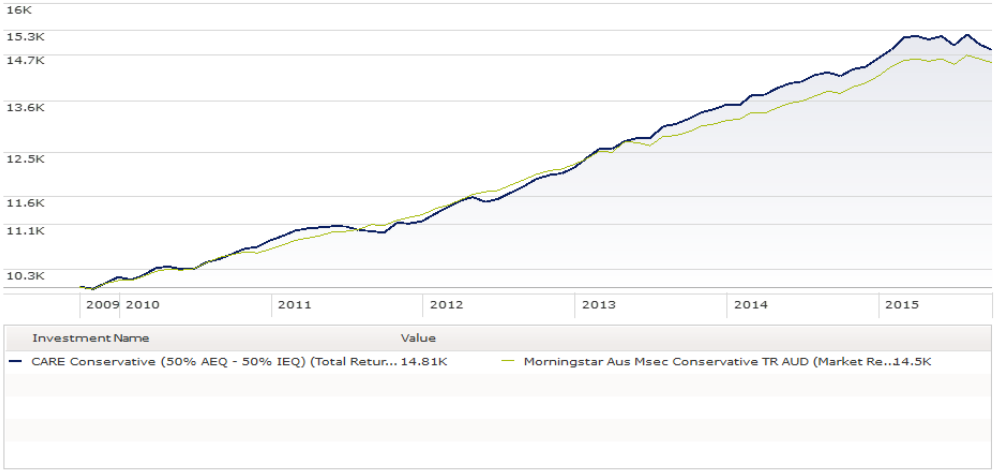
Source: Morningstar Direct

GPS Wealth – CARE Moderate



Source: Morningstar Direct

GPS Wealth – CARE Conservative



Source: Morningstar Direct