Quarterly Update SEPTEMBER 2017

EXCITING LiFE
Boring Money
.... and not the other way around

CARE QUARTERLY NEWSletter

GLOBAL OVERVIEW

EMMANUEL CALLIGERIS
Chairman of the CARE Investment Committee

ON THE EMPLOYMENT FRONT IN THE UNITED STATES, IT IS DIFFICULT TO QUANTIFY THE HURRICANE EFFECTS ON ECONOMY WIDE EMPLOYMENT GROWTH OR THE UNEMPLOYMENT RATE BUT THEY APPEAR TO HAVE BEEN LARGE.

Economic data around the world has been broadly in line with expectations that paint a picture of firmer but unspectacular growth. Market sentiment has improved further as equity markets brushed aside the threat of nuclear war with North Korea. Markets have reacted positively after the US Government finally released a blueprint of tax reforms. The Federal Reserve released its latest minutes which highlighted the need for further reduction in the amount of money that it is printing and also flagged its intention for a further interest rate increase by the end of the year. The Federal Reserve minutes coincided with a backdrop of stronger US economic data which showed that the level of manufacturing was at a 13-year high. Importantly, new orders which is a sign of future strength was strong as too hiring intentions of manufacturing companies.

On the employment front in the United States, it is difficult to quantify the hurricane effects on economy wide employment growth or the unemployment rate but they appear to have been large. We mentioned in our last report that an enigma with the US economy was that despite very low unemployment level, wages growth has been extremely benign leading to very low inflation levels. This seems to have taken a turn in September. The unemployment rate fell to 4.2% and average hourly wages increased 2.9%. This is certainly a trend to be followed closely over the next few months. The lagged rise in inflation maybe similar to that of the late 1960's when inflation rose rapidly necessitating interest rate increases at a pace faster than the market was expecting.

The People's Bank of China announced a reduction in reserve requirements to boost lending to parts of the economy where access to credit has been limited, including small businesses, farmers, and low-income earners. Although delayed until next year, this is the first cut in reserve requirements since February 2016 and indicates that officials are concerned that efforts to curb excessive lending to other parts of the economy have unduly impacted the targeted groups. The authority's moves suggest that China struggles to grow unless debt increases.

In Australia, the Reserve Bank of Australia left the official cash rate at 1.50% as

CAREphilosophy

- THE UNEMPLOYMENT RATE FELL TO 4.2% AND AVERAGE HOURLY WAGES INCREASED 2.9%.
- THE LAGGED RISE IN INFLATION MAYBE SIMILAR TO THAT OF THE LATE 1960'S WHEN INFLATION ROSE RAPIDLY NECESSITATING INTEREST RATE INCREASES AT A PACE FASTER THAN THE MARKET WAS EXPECTING.
- THE RESERVE BANK OF AUSTRALIA LEFT THE OFFICIAL CASH RATE AT 1.50% AS EXPECTED, MARKING A 14TH STRAIGHT MONTH WITHOUT CHANGE.
- THE AUSTRALIAN DOLLAR WEAKENED ON THE BACK OF WEAKNESS IN COMMODITY PRICES HAVING REACHED APPROXIMATELY 0.81 CENTS VERSUS THE US DOLLAR.

expected, marking a 14th straight month without change. Recent data have been consistent with an economy growing gradually but susceptible to the fortunes of Chinese growth. The NAB Business Survey was positive overall, however, a concern for the outlook is that conditions are uneven across the economy. The sectors that are supporting conditions at above average levels are construction and manufacturing. Weakness is clearly evident in the retail sector which has been affected by weak wage growth, high household debt, rising energy costs, low housing affordability and the peak in housing investment activity. Recent strength in employment growth has been positive however slow growth in real wages and high levels of household debt will likely constrain growth in household spending.

The Australian dollar weakened on the back of weakness in commodity prices having reached approximately 0.81 cents versus the US dollar. The iron ore price fell -21.4% in September, reversing its strong gains earlier in the quarter. The oil price gained +7.5% in September and +14.5% over the quarter as production cuts by OPEC gained traction.

Prices look to have fallen recently for some property sectors across Australia. The apartment market seems to be over supplied and anecdotal evidence suggests rental incomes have fallen slightly. This is concerning and spotlights the low provisioning of bad loans by banks. The Australian Prudential Regulatory Authority's macro-prudential measures appear to have had the desired impact of moderating the climb in prices however the impact of policy changes in the foreign buyer space remains opaque. Auction clearance rates have dropped from 75% levels late last year to around 65% currently and importantly, on declining volumes. Dwelling price growth has slowed from a 14% annualised pace over the six months to March to a 3.4% annual pace over the six months to September.

The S&P/ASX Accumulation index gained 0.80% over the quarter with the return over the year recording 9.25% and 7.08% over 3 years. The market has been stuck in a narrow trading range led by a somewhat underwhelming profit reporting season and importantly a relatively weak forward outlook. Dividend payouts remained very high for most companies, which is good for shareholders, but lessens the profit that can be reinvested for future growth. CSL performed strongly as it expands globally, South 32 also performed well on improving expectations for Chinese steel demand and Lendlease increased on a positive outlook for its US business. Conversely, Ramsay Healthcare and Sonic Healthcare shares fell due to a slowing pace of profit growth, the Myer share price fell 4.8% over the September quarter following company guidance for lower profits.

WEAKNESS IS CLEARLY EVIDENT IN THE RETAIL SECTOR WHICH HAS BEEN AFFECTED BY WEAK WAGE GROWTH, HIGH HOUSEHOLD DEBT, RISING ENERGY COSTS, LOW HOUSING AFFORDABILITY AND THE PEAK IN HOUSING INVESTMENT ACTIVITY.

Emerging market shares and developed market shares (excluding Australia) rose by 5.58% and 4.72% respectively. Emerging market share exposure is gained through Blackrock whilst exposure to international developed market shares is gained through State Street. Both asset classes helped the portfolios with holdings in companies such as Tencent Holdings (China's equivalent of Google) which rose by 76.6% over the quarter, Samsung Electronics and Alibaba Group on the emerging markets front and Apple Inc., Microsoft, Nestle and Facebook on the developed markets front. Bond markets underperformed share markets over the quarter whilst global listed property trust prices fell by 1.37% over the quarter.

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 rate securities where the risk of capital loss is low. As a result, the performance by the CARE portfolios was enhanced. The portfolios are invested in short maturity interest bearing securities managed by Realm Investment House and Kapstream.

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 7.44% 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. Fortum Corporation is the largest holding at 2.26%. Fortum operates power plants, including co-generation plants, and generates and sells electricity and heat. Fortum also provides waste services such as recycling, reutilisation, final disposal solutions and soil remediation and environmental constructions services. Waddell & Reed, a US investment and financial planning company is the second largest holding at 1.99%.

Magellan performed well with the portfolio rising 1.5% over the quarter and 13.7% over the year. PayPal, Visa and Mastercard all performed well within the Magellan Global fund over the quarter. PayPal gained after a better than expected profit result. The company delivered a 26% growth in total payments volumes including 50% in mobile transactions. Visa rose after its earnings topped analyst expectations for the third straight quarter, aided by outperformance of Visa Europe. Mastercard saw its share price rise after its second-quarter revenue hit a record as volumes and transactions on its network rose. Stocks that lagged included investments in Kraft Heinz, Starbucks and HCA. Kraft Heinz slid after second-quarter revenue fell more than expected though cost-cutting boosted profit. Starbucks fell amid cautious market commentary as to the outlook for growth in retail traffic and store footprint and the company slightly reduced its annual profit forecast. HCA which operates approximately 172 hospitals and approximately 119 freestanding surgery centres in the United States and London, fell amid uncertainty as to whether the Affordable Care Act repeal bill (replacing Obamacare) would be passed in the US given expiration of the budget reconciliation in the month of September.

Within the Care Enhanced Australian Share Portfolio, the Manager – Joseph Palmer and Sons decreased the amount of cash in the portfolio as better opportunities for investment at reasonable prices began to appear. The manager bought into Amcor, Boral and Westfield shopping centre owner in Australia – Scentre Group and increased positions in BHP and CSL whilst marginally reducing the exposure to Westpac and Commonwealth Bank and Telstra.

Financial conditions remain growth-friendly and subdued inflation is allowing central banks to proceed cautiously in respect to monetary policy settings. The global economy remains in a synchronized upswing that should persist for the next year. In Australia, the ongoing weakness in wage growth, while household debt is so high and a further decline in building construction is likely to result in disappointing growth numbers and ensure that the cash rate remains on hold for most of 2018 with a slight bias downward. The silver lining for the economy may be strength in investment conditions and ongoing infrastructure works.

IN AUSTRALIA, THE ONGOING WEAKNESS IN WAGE GROWTH, WHILE HOUSEHOLD DEBT IS SO HIGH AND A FURTHER DECLINE IN BUILDING CONSTRUCTION IS LIKELY TO RESULT IN DISAPPOINTING GROWTH NUMBERS AND ENSURE THAT THE CASH RATE REMAINS ON HOLD FOR MOST OF 2018 WITH A SLIGHT BIAS DOWNWARD.

CAREphilosophy

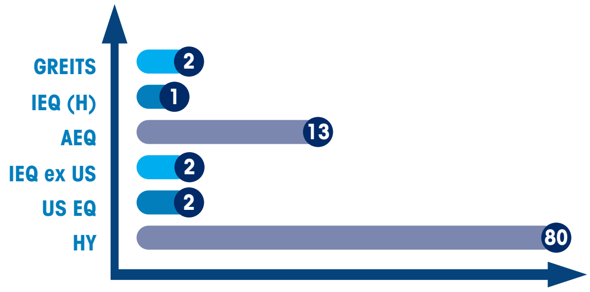
RETURNS TO THE 30TH SEPTEMBER 2017

by CARE Investment Strategy

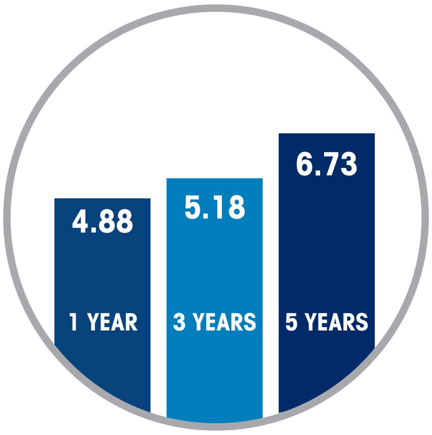
GPS CORE PORTFOLIO RETURNS TO THE 30TH SEPTEMBER 2017

	1 year	3 Years	5 Years
CORE Conservative	4.57	4.99	6.15
CORE Moderate	5.76	5.80	7.37
CORE Balanced	8.89	7.18	9.62
CORE Growth	9.78	8.32	11.22
CORE High Growth	11.32	9.39	12.81

YOUR CARE PORTFOLIO CONSERVATIVE



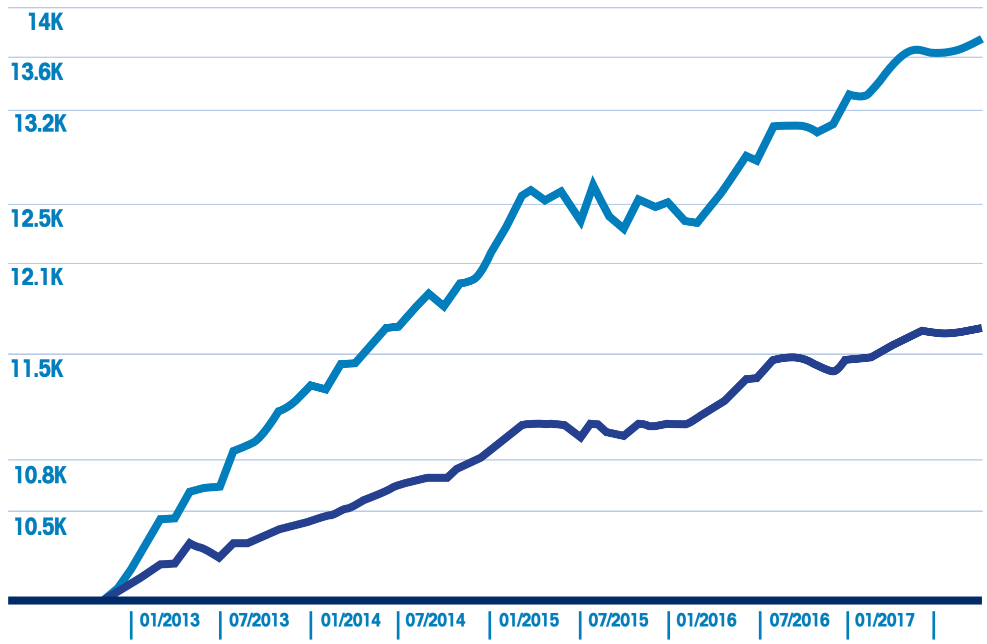
See legend on page 4



50% AEQ – 50% IEQ

CARE CONSERVATIVE STRATEGY

Growth of $10,000 over 5 years to 30 September 2017



INVESTMENT NAME	VALUE
CARE Conservative (50% AEQ - 50% IEQ) (Total Return A 13.74K)	Multisector Conservative Investor (Market Return, AUD 11.66K)

Source Morningstar Direct

LEGEND

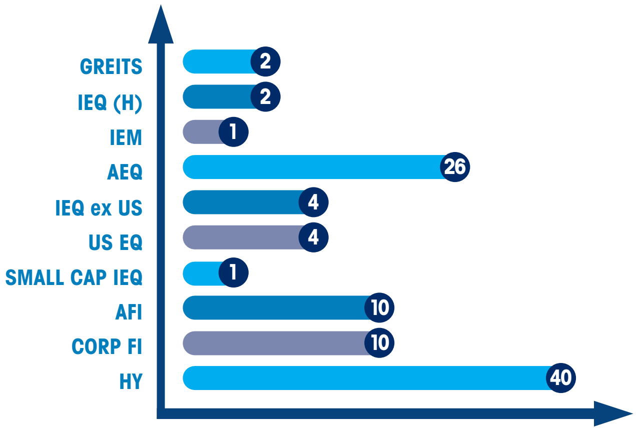
- International Real Estate .... GREITS
- International Shares (Hedged) .... IEQ (H)
- Australian Shares .... AEQ
- International Shares (ex-USA) .... IEQ ex US
- International Shares USA .... US EQ
- High Income .... HY
- International Emerging Market Shares .... IEM
- International Small Companies Shares .... Small Cap IEQ
- Australian Fixed Interest .... EFI
- Australian Corporate Fixed Interest .... Corp FI

* Returns are based on model portfolio, benchmark allocation & assumes investment over 1 , 3 & 5 years ending 30th September 2017. The E (enhanced) component is assumed to be 50% Australian Equities & 50% International Equities. Past Performance is not indicative of future performance.

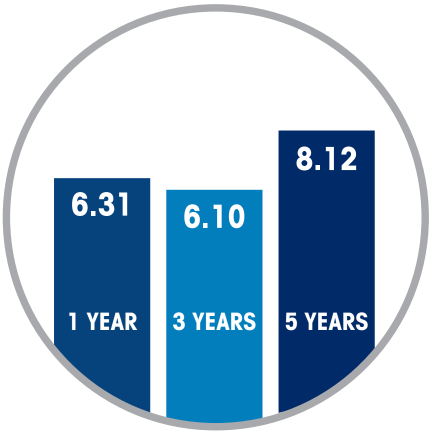
* The CARE portfolio Returns are before tax, Adviser fee, and Platform Fees however net of CARE Investment Committee Fee.

* Returns are based on: C,A & E only – RESERVES is not factored into the return series.

YOUR CARE PORTFOLIO MODERATE



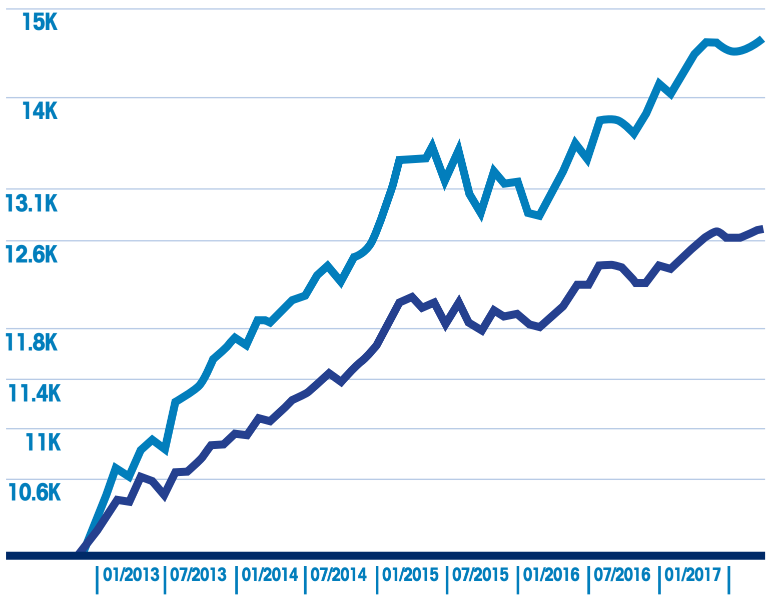
See legend on page 4



50% AEQ – 50% IEQ

CARE MODERATE STRATEGY

Growth of $10,000 over 5 years to 30 September 2017



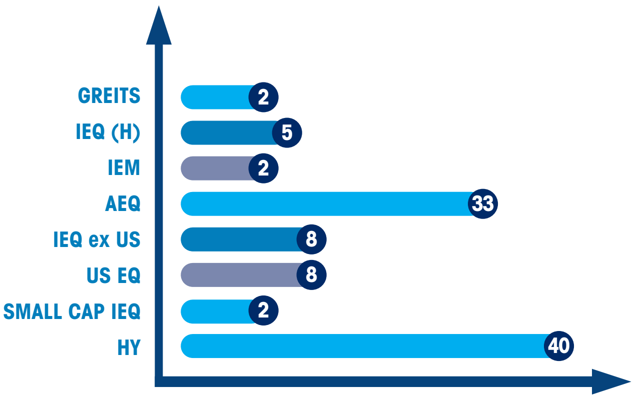
INVESTMENT NAME VALUE

CARE Moderate (50% AEQ - 50% IEQ) (Total Return A 14.63K

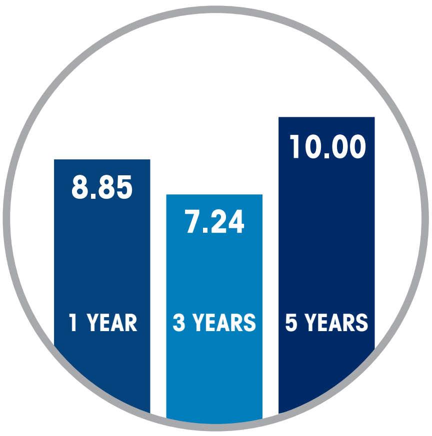
Australia Fund Multisector Moderate (Total Return, AUD 12.72K)

Source Morningstar Direct

YOUR CARE PORTFOLIO BALANCED



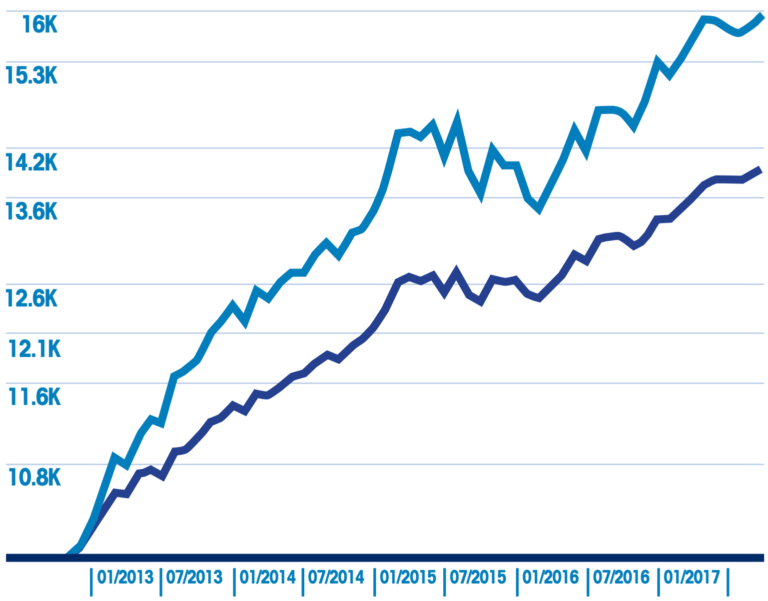
See legend on page 4



50% AEQ – 50% IEQ

CARE BALANCED STRATEGY

Growth of $10,000 over 5 years to 30 September 2017



INVESTMENT NAME VALUE

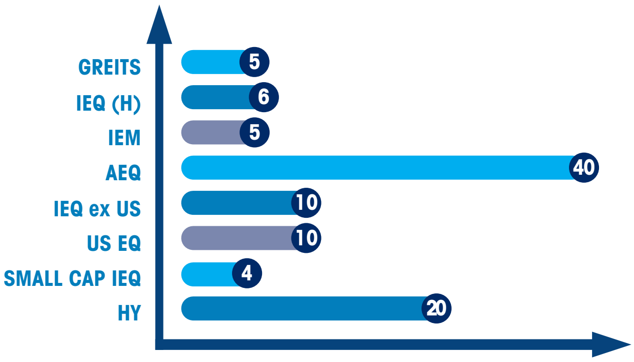
CARE Balanced (50% AEQ - 50% IEQ) (Total Return A 15.94K

Multisector Balanced Investor (Market Return, AUD, Pre13.95K)

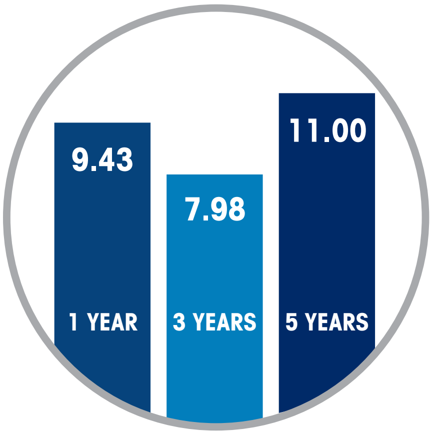
Source Morningstar Direct

CAREphilosophy

YOUR CARE PORTFOLIO GROWTH



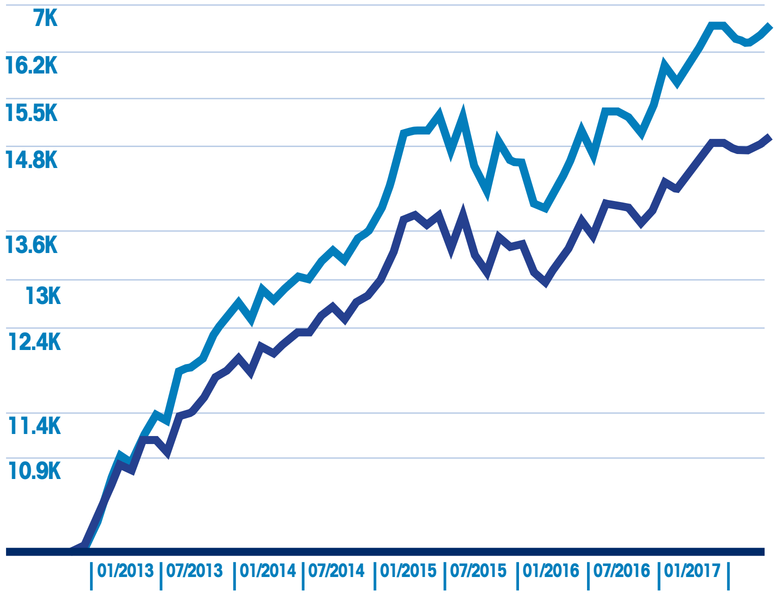
See legend on page 4



50% AEQ – 50% IEQ

CARE GROWTH STRATEGY

Growth of $10,000 over 5 years to 30 September 2017

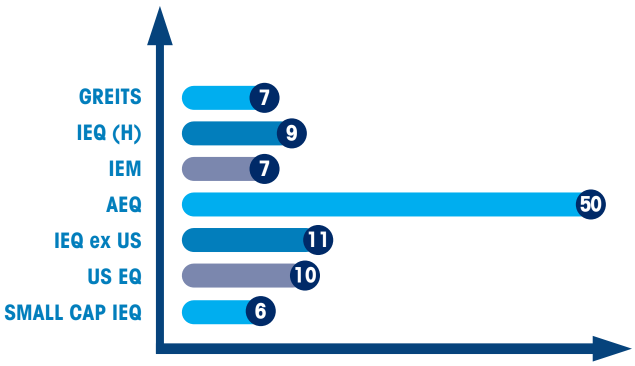


INVESTMENT NAME **VALUE**

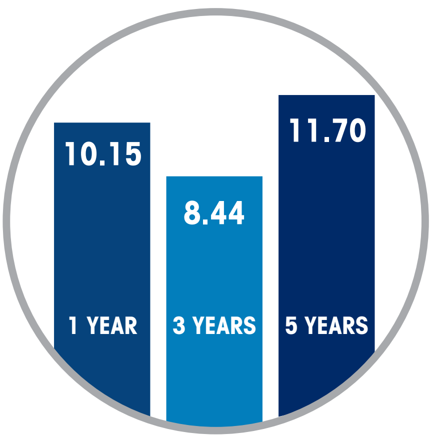
CARE Growth (50% AEQ - 50% IEQ) (Total Return AUD 16.65K) Australia Fund Multisector Growth (Total Return, AUD, P 14.94K)

Source Morningstar Direct

YOUR CARE PORTFOLIO HIGH GROWTH



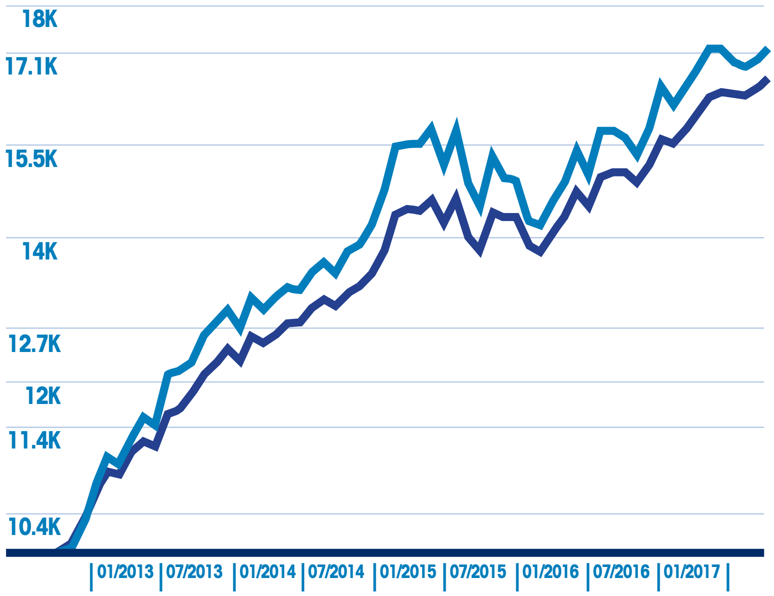
See legend on page 4



50% AEQ – 50% IEQ

CARE HIGH GROWTH STRATEGY

Growth of $10,000 over 5 years to 30 September 2017



INVESTMENT NAME **VALUE**

CARE High Growth (50% AEQ - 50% IEQ) (Total Return 17.17K) Multisector Aggressive Investor (Market Return, AUD, Pr 16.63K)

Source Morningstar Direct

Meet the CARE Investment Committee

Emmanuel Calligeris BEc MBus (Finance)

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 SIA (Aff) ADFP

Rob was a founder of GPS Wealth, delevoped the CARE Investment Philosophy over the last 15 years and successfully managed $100m in clients' funds during the GFC.

Grahame Evans GAICD DipSM MBA

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

Dr. Mark Brimble BCom(Hons) PhD CPA FFin

Mark is an independent member of the CARE Investment Committee. Mark holds a doctorate in capital markets and is keenly interested in investor behaviour.

GPS WEALTH

GPS Wealth Head Office

Level 9, 89 York Street
Sydney NSW 2000

Phone. **+61 2 8074 8599**

AFSL 254 544 | Australian Credit Licence 254 544
ABN 17 005 482 726