CAREphilosophy®

September 2020

CARE QUARTERLY NEWS LETTER

EXCITING LIFE BORING MONEY

and not the other way around

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Economic growth rates will remain patchy at best as labour markets will likely remain weak as we head into 2021.

GLOBAL OVERVIEW

Welcome to our CARE Newsletter for the September quarter 2020. Over the quarter, financial markets understandably remained focused on the global pandemic and its influence on economic growth rates, policy settings and whether an effective vaccine is close at hand. The Victoria-centred outbreak looks to have come back under control at a cost of 2% of GDP growth to the Australian economy in the September quarter. Despite this however, the overall economy may record a positive growth rate over the period bring an end to a fairly sharp and deep recession. Unfortunately, the recent news on Covid-19 outbreaks overseas, has not been encouraging, with a resurgence in cases across a wide range of countries, particularly those within the Euro Zone.

Whilst rising in July and August, the Australian share market fell in September after the US share market was driven lower by technology companies and a setback in a Covid-19 vaccine trial. Sentiment soured and the world has assumed the brace position, as the US Presidential election nears creating uncertainty for markets. US economic activity appears to have recovered in the September quarter, as the unemployment rate continued to fall in September.

Despite this good news, we are unlikely to see the labour market return to how it was at the beginning of 2020 when the unemployment rate recorded 3.5%. It currently stands at 7.9% having reached a high in April of 14.7%. Retail sales continued to grow in August, albeit at the softest pace in four months. Consumer confidence remained downbeat in August, which, coupled with uncertainty over the timing of another coronavirus relief package, should limit spending in the months ahead. Importantly, the Federal Reserve reiterated that the U.S. economy has a long way to go before recovering from the coronavirus pandemic and will likely require more support. This suggests further policy stimulus.

The Chinese economy is on track to become the only major world economy to grow in 2020 after consumer confidence recovered in the third quarter, although a lagging services sector meant the 4.9% increase in GDP missed market expectations of an increase of 5.2%. Exports and an increase in industrial output

Emmanuel Calligeris

Chairman of the CARE Investment Committee

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and retail sales towards the end of the quarter lent support to growth. Combined growth for the first three quarters of the year was 0.7%, putting China back into growth after the coronavirus pandemic led to a 6.8% decline in the first quarter. The economy will benefit from strong overseas demand for medical products and technological devices as well as solid new infrastructure investment. A re-escalation of trade tensions with the U.S. and another wave of Covid-19 are the main downside risks.

Europe's economy is sliding towards a double-dip recession on the back of rising coronavirus infections and fresh government restrictions on people's movements. Germany, France, the UK, Italy, Spain and the Netherlands have all announced measures to contain another wave of COVID-19 infections, with more expected in the near term. Belgium announced the closure of all bars and cafés for four weeks, while Switzerland widened its mandate for wearing masks. France put into effect a night curfew in Paris and other cities between 9pm and 6am. Like Melbourne, the night life economy has come to a complete standstill. The European Central Bank held interest rates at zero and announced that it will continue its pandemic emergency purchase program worth a total of €1.35 trillion.

In Australia, the impact of the renewed lockdowns in Victoria resulted in significant divergence in the economic performance of Victoria from the rest of the country. Overall, household incomes have been supported through the raft of fiscal and other measures, including super withdrawals and loan deferrals. Overall, the Federal Budget was a net positive to the outlook for domestic demand growth.

In a recent speech, Reserve Bank Governor Lowe addressed the unusual feature of the current economic conditions being the massive increase in savings that has bolstered private sector balance sheets. The Governor said that it was possible ***"that as restrictions ease, people will choose to draw on their accumulated buffers to sustain and increase their spending".*** The key to this likelihood was confidence in health outcomes and the future state of the economy. In that regard the surge in consumer sentiment should give him considerable encouragement. He noted that ***"As the economy opens up... it is reasonable to expect that further monetary policy easing would get more traction than was the case earlier"***. It is expected that policy will be eased further in the near term. It is likely that the RBA will cut the key policy rates (cash rate; three-year bond target; and Term Funding Facility) to 0.10% from 0.25% and the Exchange Settlement Account rate from 0.10% to 0.01%. The TFF allows banks to borrow from the Reserve Bank for three years at a generous rate of 0.25% up to a healthy limit. Prior to October, the banks could collectively borrow $154 billion. That was boosted to $200 billion.

Over the quarter, the Australian share market ended -0.44% lower with the 1-year return -10.21%. Over 5 years, the market has returned 7.31% per annum. Over the quarter, consumer-related companies benefit from the fiscal stimulus. Bunnings Warehouse, JB Hi-Fi and Woolworths were major beneficiaries. With consumers unable to travel and spend their money on other experiences they are back to spending on hard goods and refurbishments. Iron ore miner Fortescue Metals' share price increased 19.81% thanks to the strong demand for from China supporting the ore price. However, the banking sector continued to struggle as low interest rates place pressure on margins. Despite some improvements recently, bank bad debts remain elevated and expenses remain high as they deal with legacy issues from the Royal Commission. Commonwealth Bank underperformed the other major banks as it took a far less conservative treatment in modelling future loan losses (also known as bad debts) to support its dividend. This was not well received by the market. Companies exposed to COVID-19 (travel, education) remain under pressure,

although some of the results were better than feared including IDP Education and Corporate Travel Management. Afterpay (APT) continued its run, rising 33.41% in August alone, reaching a new record high and surpassing Coles and Amcor to become the 17th-largest company in the Australian share market after acquiring Spanish payments company Pagantis and doubling its revenue in financial year 2020. Treasury Wine Estate the owner of Penfolds Wines declined after China announced it will begin an anti-dumping probe into wines in containers holding 2 litres or less from Australia. These companies are held in the in the VAS exchange traded fund in your portfolios.

International share markets performed well over the quarter with large companies outperforming small companies and emerging market shares outperforming developed market shares. The emerging market shares were primarily driven by the resurgence in the Chinese share market as the number of reported Covid-19 cases remained low and the government increased spending to boost economic activity.

The CARE Investment Committee took the opportunity to rebalance the portfolios in line with market moves during the quarter. In July, the portfolio was topped up into the Realm portfolio within Australian fixed interest whilst Australian shares were sold down. This followed the bounce in the share market. These rebalances are in line with the CARE Investment Philosophy that it is good practice to move back to the long term strategic asset allocation of the portfolio when short term asset prices deviate from their long term expected returns.

Within the enhanced international shares portfolio, the Magellan investment returned 3.4% for the quarter and delivered an outperformance of 3.5% over the year. The largest contributors were the investments in Alibaba Group, Facebook and Starbucks Corporation. The Starbucks share price increased after the coffee chain said its businesses in China and the US were recovering well as these economies reopened. Alibaba, Microsoft, Tencent, Alphabet and Facebook reported strong second-quarter profits that beat market expectations as they continued to benefit from growing businesses that use their services with more activities transferring online. Novartis, a Swiss multinational pharmaceutical company, detracted performance after the health products group was unable to provide future profit guidance. This was not well received by the market as investors perceived this as lack of certainty about the company's future. The WDIV index which is also part of your enhanced international shares portfolio recorded a negative return of -2.02% over the quarter and -22% over the year. WDIV invests in a group of high dividend paying companies such as Nokian Tyres (a Finland tyre manufacturer), Freenet AG (a German wireless telecommunications company) and Red Electrica Corporacion SA (a national electricity grid operator in Spain). These companies tend to rise and fall with the economic cycle, which is still materially obstructed by the pandemic.

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International share markets

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The Enhanced Australian Shares portfolio remained defensively positioned with a high cash weighting around 30%, reflecting the manager - Joseph Palmer and Sons' views of overall valuations which remain stretched for some companies including Afterpay and recycler Sims Metals. The fall in the oil price due to the pandemic saw the manager top up Woodside Petroleum in the portfolio. The high cash holding and good stock selection from companies like Boral and Costa Group helped the manager outperform the market by 2.26% over the year despite a drag from the cash holding over the past six months.

The Active portfolio held its exposures to all five sectors having reduced exposure to the global 100 companies (IOO.ax) in the second quarter of the year. Our market timing signals remained positive at the end of the third quarter. Gold is held in the Active portfolio. The gold price continued its record run, breaking through $2,000 for the first time. The actions of central banks to drive real (inflation adjusted) interest rates lower makes cash and government bonds less attractive and gold is seen as an alternative safe haven asset. In US dollar terms the gold price

was 7% higher for the quarter however strength in the Australian dollar offset some of this rise. The gold price increased by 2.65% in Australian dollar terms.

Volatility has increased and will likely remain high. The US Presidential election, fiscal policy globally, low interest rates and warp speed vaccine trials are all market sensitive events that will influence asset prices. Economic growth rates will remain patchy at best as labour markets will likely remain weak as we head into 2021.

RETURNS

30th SEPTEMBER 2020

By CARE Investment Strategy

LEGEND

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

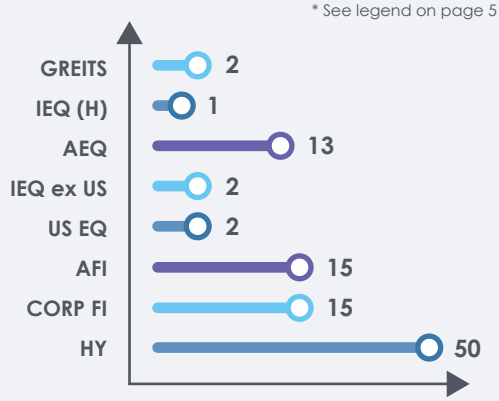
* Returns are based on model portfolio, benchmark allocation & assumes investment over 1, 3 & 5 years ending September 2020. The E (enhanced) component is assumed to be 50% Australian Equities & 50% International Equities. Past Performance is not indicative of future performance.
* The CARE portfolio 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 30th SEPTEMBER 2020

	1 Month	3 Months	6 Months	1 year	3 years	5 years
CORE Conservative	-0.27	1.05	5.73	0.82	4.31	4.55
CORE Moderate	-0.95	1.11	7.82	-0.80	4.68	5.38
CORE Balanced	-1.64	1.40	10.00	-2.23	4.83	6.14
CORE Growth	-2.22	1.69	11.97	-4.31	5.09	6.68
CORE High Growth	-2.91	1.81	14.29	-6.58	5.17	7.20

YOUR CARE PORTFOLIO CONSERVATIVE

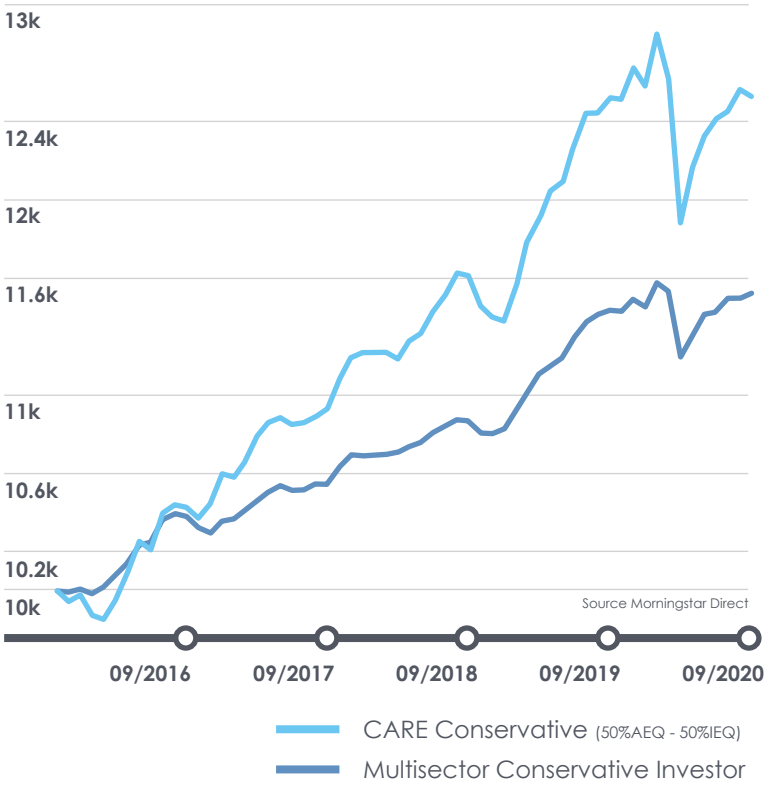
* See legend on page 5



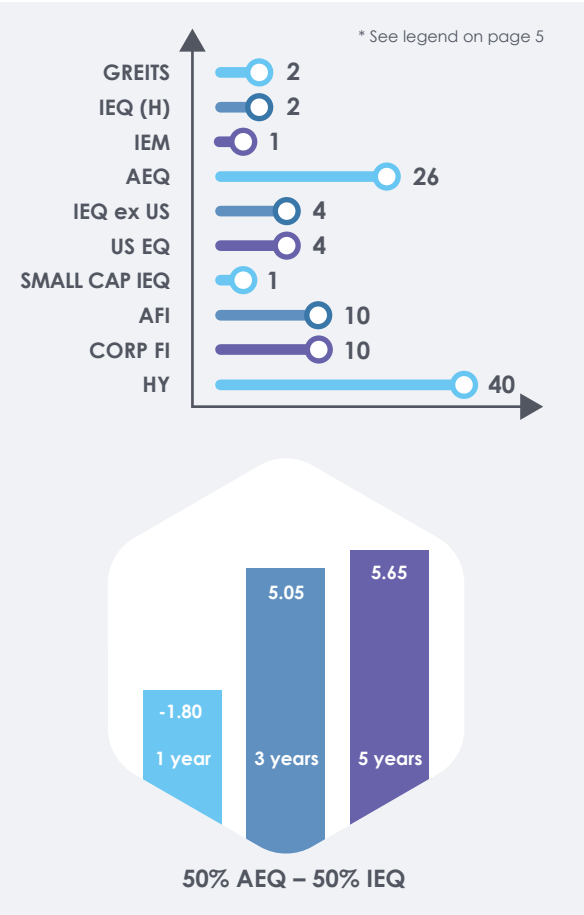
50% AEQ – 50% IEQ

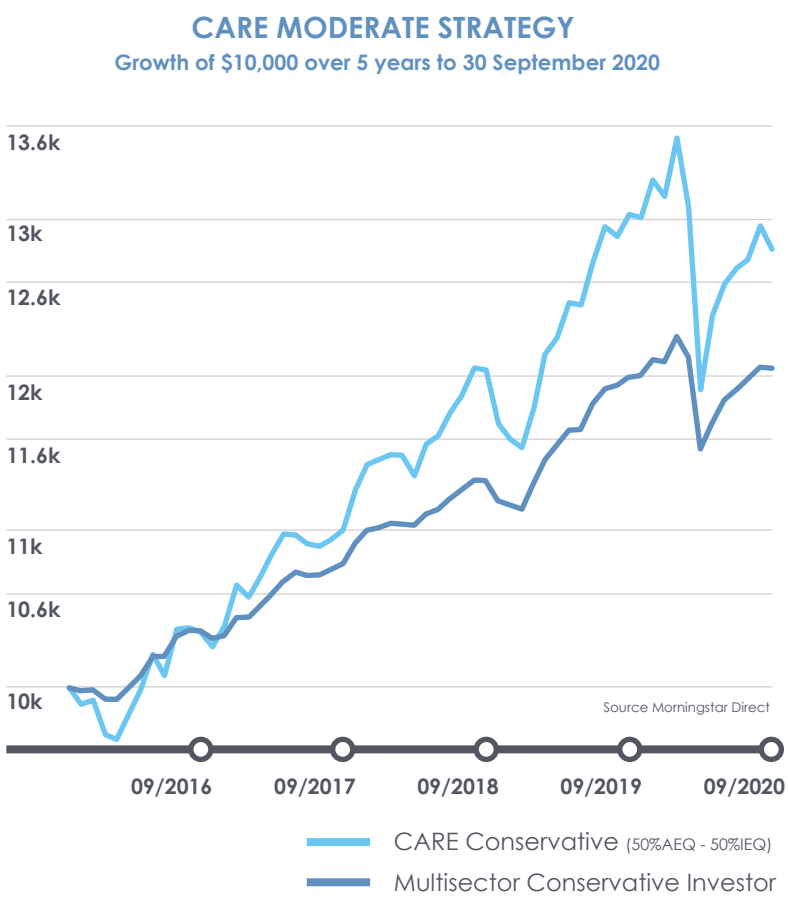
CARE CONSERVATIVE STRATEGY

Growth of $10,000 over 5 years to 30 September 2020

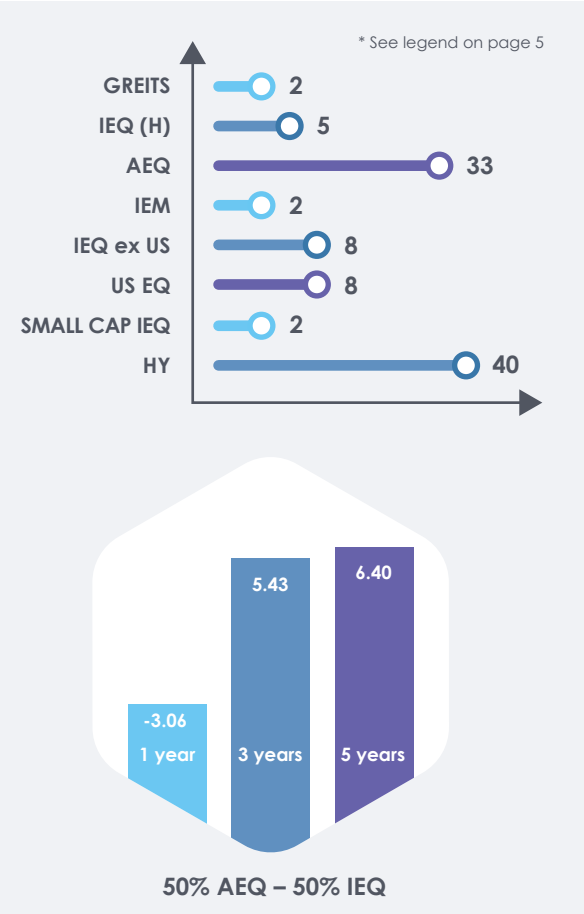


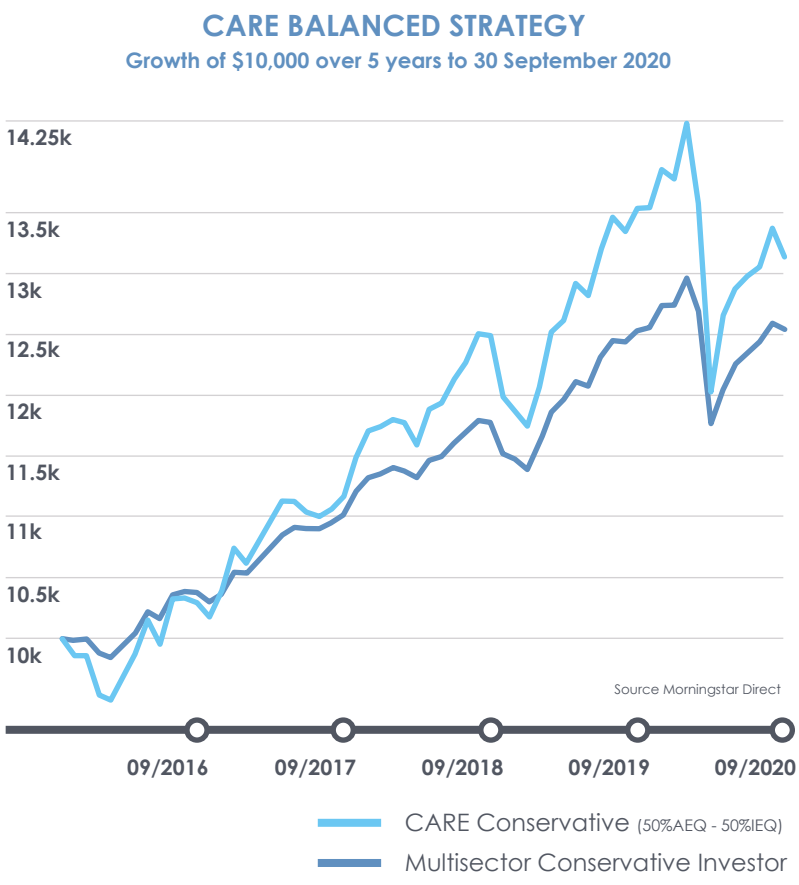
YOUR CARE PORTFOLIO MODERATE



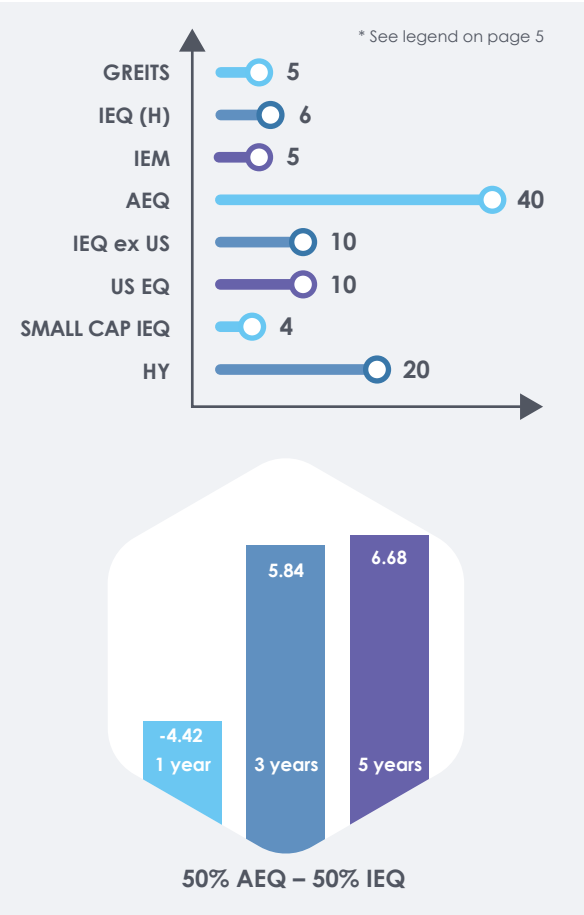


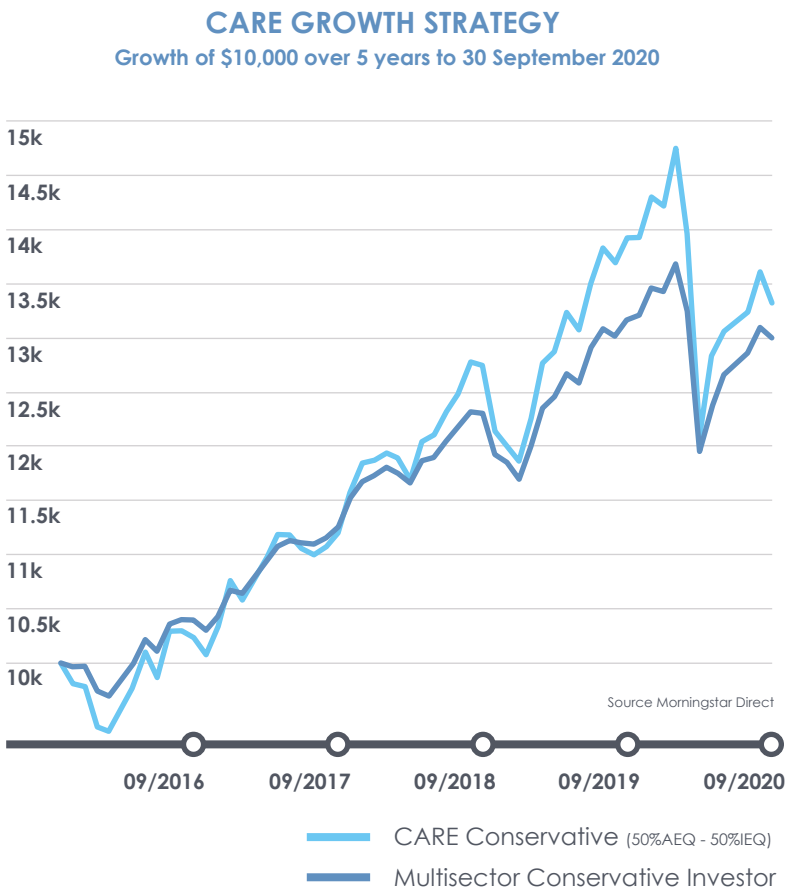
YOUR CARE PORTFOLIO BALANCED



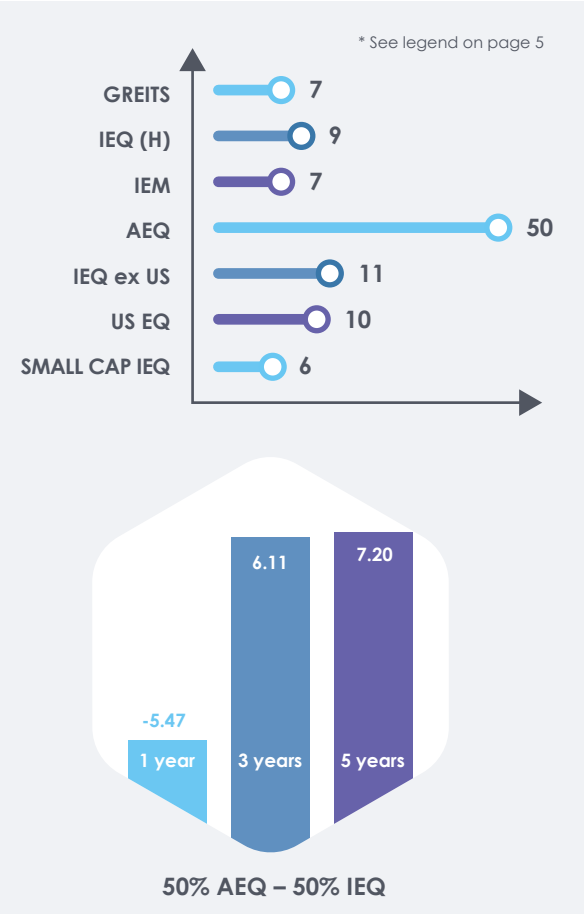


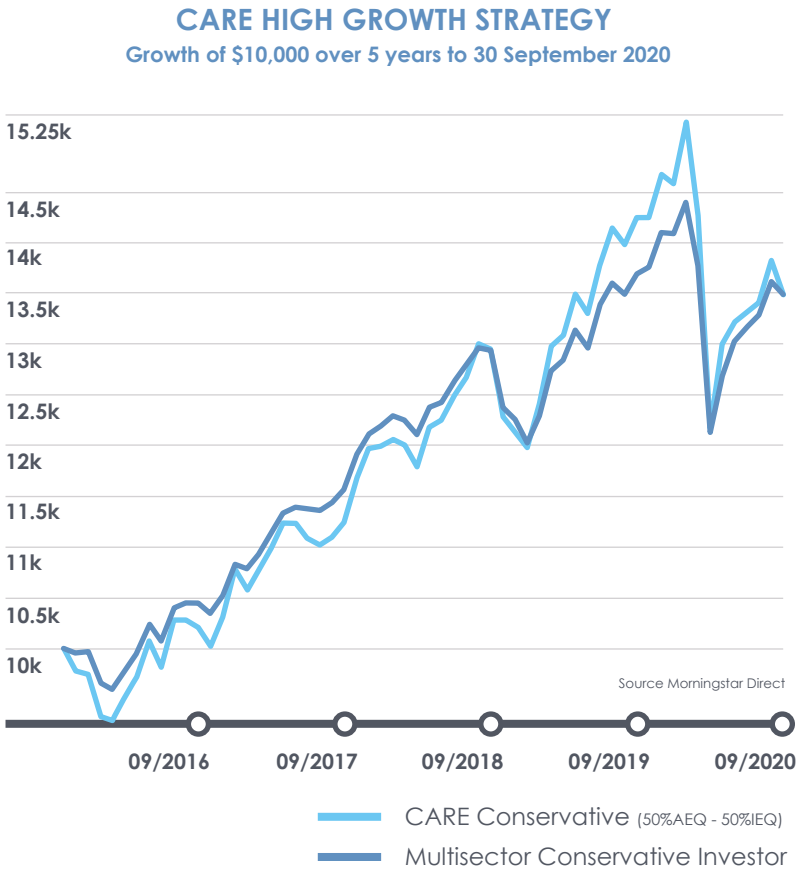
YOUR CARE PORTFOLIO GROWTH





YOUR CARE PORTFOLIO HIGH GROWTH





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, developed 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.

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