

EXCITING LIFE BORING MONEY

and not the other way around



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global lockdown seems too high of a bar considering the potential economic loss, especially as policy stimulus is reaching a limit in many countries.

Less bad was good

is the best way to describe the rise in share markets around the world in May and June, as investors focused on the better than expected economic data and the re-opening of the economy.



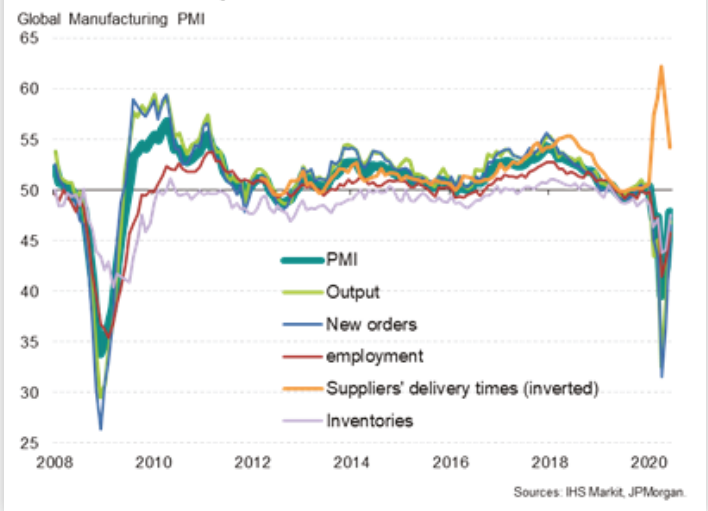
In our last CARE Quarterly newsletter, we highlighted that the economic data around the world was weak and likely to remain weak for some time as governments induced an economic coma to stop the spread of Covid-19.

Whilst Australia had great

early success in limiting the spread of the virus, we have seen a second wave of infections emanating in Victoria more recently. Globally, the rate of confirmed cases passed 12 million in July. Countries including the US were not as successful as Australia in containing the spread. A surge in infections in some states in the US as well as new clusters that emerged in China and Germany, remain a concern. Emerging markets like Brazil, India, Indonesia and the Philippines are still struggling to flatten the curve, seeing thousand to tens of thousands of new cases daily. These countries are facing a hard choice between lives and livelihoods. Yet, it should be noted that countries are now more experienced and prepared to cope with new infections than in early March. Even if infections remain elevated, a large-scale global lockdown seems too high of a bar considering the potential economic loss, especially as policy stimulus is reaching a limit in many countries.

In the first quarter of 2020, markets feared the worst

Global PMI components



for the economy and pressure on health systems. However, in May and June, less bad was good is the best way to describe the rise in share markets around the world as investors focused on the better than expected economic data, the re-opening of the economy and gradual easing of social restrictions.



Emmanuel Calligeris

Chairman of the CARE Investment Committee

With the technology sector gaining traction during lockdowns, strong tech shipments are benefiting several Asian economies such as Taiwan, Korea and Singapore.

Recent economic data showed evidence of a tentative recovery. The global Manufacturing and Services purchasing managers indexes (shown by the dark green line in the chart) continued to pick up in June, with some individual countries crossing the expansion/contraction level of 50 into expansionary territory.

Globally, consumers had put off purchasing items whilst there was uncertainty and the lockdowns. However, the demand had not disappeared. That pent-up demand has fuelled consumption while job losses start to slow as businesses re-open. With the technology sector gaining traction during lockdowns, strong tech shipments are benefiting several Asian economies such as Taiwan, Korea and Singapore.

In Australia, as a result of the recent spread, Melbourne was forced into a 6-week lockdown to stop a surge in COVID-19 cases across several suburbs. The outbreak has severely impacted the Victorian economy, representing about 20% of overall Australian GDP. The trend in the cases originating in Melbourne suggests that we are likely to see a stop start economy. The shutdown reinforces our view that interest rates will remain low for the foreseeable future despite the optimism from the Reserve Bank of Australia. The Board noted that "it is possible that the depth of the downturn will be less than earlier expected". However, the outlook was described as "highly uncertain" and likely to be bumpy.

Policy support by the Reserve bank and the government has indeed been instrumental in limiting damaging feedback loops in the economy. The JobKeeper program and other fiscal stimulus has mitigated disruptions to the labour market and household incomes. Accommodative monetary policy and direct intervention in credit markets by the Reserve Bank have eased concerns over the potential for credit shortages. Despite this very accommodative

Policy support by the Reserve bank and the government has indeed been instrumental in limiting damaging feedback loops in the economy. The JobKeeper program and other fiscal stimulus has mitigated disruptions to the labour market and household incomes.

monetary and fiscal policy, downside risks exist.

These include:

- the depth and severity of a second wave of COVID-19 and whether it will necessitate the reintroduction of lockdowns more broadly across Australia
- how the reduction in fiscal stimulus will be managed beyond September 2020 and
- whether there will be a worsening in China-Australia trade relations

As mentioned last quarter, it was unlikely that Australia's international borders would be opened in the near term. Consequently, the travel industry will remain impacted for the foreseeable future. Companies like Qantas, Corporate Travel Management and Flight Centre will see their profits challenged as a consequence. Other sectors of the economy will also be affected including banks and financial companies. Customers have come under increasing financial strain as a result of being out of work or had a reduction in earnings as consequence of forced closure of their businesses. The Australian Prudential Regulation Authority (our regulator of banks) has highlighted that property investors and small business owners are among those most likely to have requested a payment holiday as the value of loans deferred reaches \$266 billion or 10% of total loans. One-third of homeowners that have asked for a reprieve were investors, making them the single biggest group to ask for a deferral. This was closely followed by small business owners. To accommodate this, banks have extended loan repayments by 4 months to allow borrowers the benefit of time to restore incomes, get disrupted businesses back on track or restructure their affairs. The granting of an extra 4 months to take borrowers to the earlier of 10 months or 31 March 2021 is generous but only time will tell if it will need to be extended again or whether the banks begin to call in their loans.

When economic activity becomes more normal the

hunt for return is likely to ramp up a notch as investors seek forever shrinking returns in a low inflation, low growth and highly indebted world. High debt means interest rates will not need to rise by much to be potent. As such, until such time that debt is reduced the low interest rate regime will persist, hindering investors that seek income. It is likely that interest rates and term deposit rates will remain low for a few years to come. Relative to interest rates, share market valuations seem reasonable. The low interest rate high debt world favours gold. The GOLD investment in the CARE Active portfolio has performed to expectation, rising by approximately 31% over the year in US dollar terms. Even in Australian dollar terms, the gold price increased by approximately 30%.

Over the quarter the Australian share market increased by 16.5% as investors reacted to the less bad economic data. Amongst the companies that

to this part of the market via the Betashares Small Companies Select ETF which increased 26.18% over the quarter. International shares as represented by the MSCI Index, returned 5.9% over the quarter. The return was held back by the rise in the Australian dollar reflecting stronger commodity prices and weakness in the US dollar. The Investment Committee took the opportunity to rebalance into international emerging market shares from Australian shares as a result of the market moves outlined above. This followed the rebalance from fixed interest into Australian shares earlier in the quarter when the Australian share market had performed poorly. The Committee believed that share markets around the world were unduly oversold in March. The move benefit the performance of the portfolios.

Today, the official Cash rate in Australia has fallen to just 0.25% although the actual Cash rate is lower at 0.10% as the Reserve Bank of Australia conducts its

The GOLD
investment in the CARE Active portfolio has performed to expectation, rising by approximately 30% over the year in Australian dollar terms.



As was the case
in the Australian share market, there was a wide dispersion of individual company share performance globally.

performed well were Santos, James Hardy, Newcrest Mining and Fortescue Metals. IAG, CSL and Dexus lagged the broader market. CSL afforded good protection as the share market fell in March but its underperformance was due to a rotation away from defensive stocks into companies whose price had fallen more aggressively in late March. The rising Australian dollar hurt companies earning US dollars like CSL.

APT's share price increased 224% in the June quarter after the company announced a positive trading update. The company is still loss making however recorded strong volume growth, a new partnership with ebay Australia and reassured investors that there was no requirement to raise capital. This was followed by announcements in May and June where the company saw an acceleration in customer growth during the COVID-19 pandemic to approximately 5m and 1m active customers in the US & UK respectively. Further to this, Chinese Internet giant Tencent Holdings Limited announced that it had taken a 5% stake in Afterpay.

Australian Small companies outperformed their large company counterparts. The portfolios gain exposure

quantitative easing (money printing) operations. The 3-year bond yield is just 0.25% and the 10-year bond yield is a mere 0.87% reflecting the weak economy and low inflation levels we are likely to see for the next few years. It is hard, but not impossible, to see these yields heading lower to result in further capital gains for investors. If yields remain at the current level, the total return from these bonds will be the yield. Hence the portfolios have taken credit exposure that will give our investors a slightly better return in the shorter term if the no change in yield scenario plays out. These investments are through Kapstream and Realm.

As was the case in the Australian share market, there was a wide dispersion of individual company share performance globally. Of particular note this quarter was PayPal which increased almost 91% and personal electronic gaming company NVIDIA Corp which increased 56%. Apple, Amazon and Adobe increased by 51%, 45% and 44% respectively. Companies that performed poorly over the period included aerospace and defence systems company Raytheon Technologies whose profits were impacted by the pandemic as too

banking giant Wells Fargo whose share price fell 9% over the period.

The Magellan investment underperformed the market by 4.2% over the quarter however remains comfortably above the index by 4.2% over the year. The biggest contributors were the investments in Microsoft, Facebook and Tencent Holdings. Microsoft gained after the software company reported that its thriving cloud and server businesses had boosted profit margins over the March quarter when revenue rose 15% to US\$35 billion and operating income climbed 25% to US\$13 billion. Facebook advanced after the social-media company said revenue rose a higher-than expected 17% to US\$18 billion in the March quarter as the number of daily active users of its sites jumped 11%. Chinese internet company - Tencent announced it will invest US\$70 billion in digital infrastructure over the next five years in alignment with the Chinese government's desire for a digital infrastructure investment push to restart the economy. The only detractor was the investment in Heineken, which fell as restrictions on gatherings from March battered sales.

The WDIV index which seeks to invest in high dividend yielding companies globally returned -1.79% over the quarter and -16.78% over the year. The largest holding was German wireless telecommunications company Freenet AG followed by Spanish Gas and Utilities company Enagas Sa representing 4% of the portfolio's 88 holdings. This investment held back performance and disappointingly so as defensive stocks usually perform well in stressed markets. It was not the case during the pandemic. Expensive technology companies became more expensive. These technology companies are discounting a large amount of positive earnings sentiment into the future.

Within the Enhanced Australian Shares portfolio Joseph Palmer and Sons remained defensive with a relatively high weight in cash. This held the performance back relative to the benchmark over the quarter however still managed a 13.6% return. The Manager outperformed the index by approximately 1% over the year however, was unable to avoid an overall negative return. In your managed portfolio the shares of Santos, CSL, Wesfarmers, BHP, Sonic Healthcare and Macquarie were trimmed over the quarter as they became more expensive and Brambles was sold. The manager kept the proceeds in cash as they await better buying opportunities. The portfolio strategy remains an approximately equal mix between economically cyclical 'value' stocks, and faster growing, but often more expensive 'growth' stocks, all selected from within the top 200 Australian Companies.

As mentioned last quarter, we expect that interest rates will be near 0%, inflation low, wage pressures low and the very real possibility that consumers build

their savings which will limit consumption over the course of 2021. The temptation, and compulsion, for investors to reallocate funds to investments with a higher interest rate or potential return has persisted over the quarter. However, such a strategy needs to be balanced off against increased risk. Navigating this new normal will be a challenge that requires a good financial plan. Understanding that the Reserves portfolio will be crucial to achieving that plan and working with your adviser to rebalance accordingly will be very important. The black swan event brought the almost 11-year bull market to a sudden halt and investor's risk tolerance will be tested yet again in what has been a very volatile year.



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	EFI
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 June 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 JUNE 2020

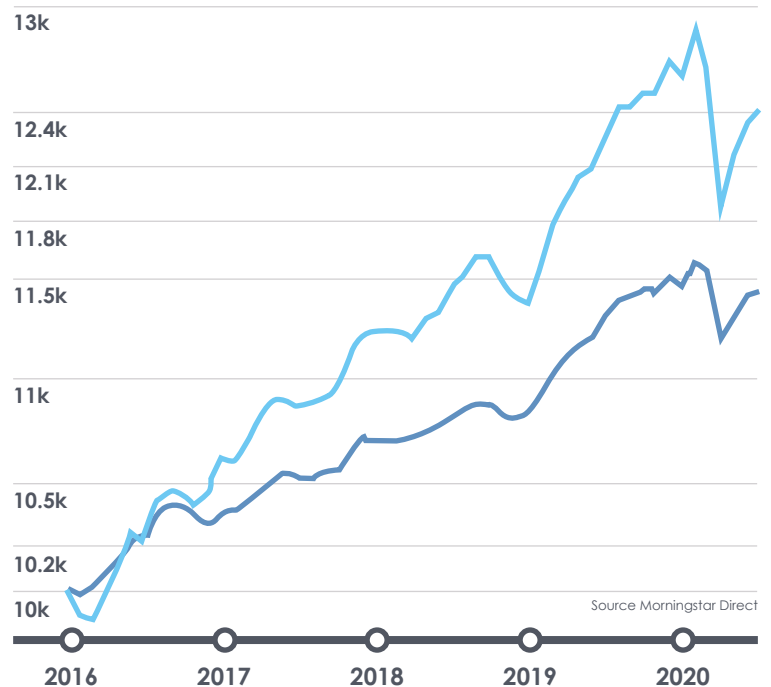
	1 Month	3 Months	6 Months	1 year	3 years	5 years
CORE Conservative	0.81	4.63	-0.26	1.63	4.13	4.26
CORE Moderate	0.98	6.64	-2.42	0.24	4.59	4.78
CORE Balanced	1.10	8.48	-5.02	-1.23	4.78	5.19
CORE Growth	1.07	10.12	-7.71	-3.10	5.03	5.48
CORE High Growth	1.23	12.26	-10.31	-5.13	5.17	5.72

YOUR CARE PORTFOLIO CONSERVATIVE



CARE CONSERVATIVE STRATEGY

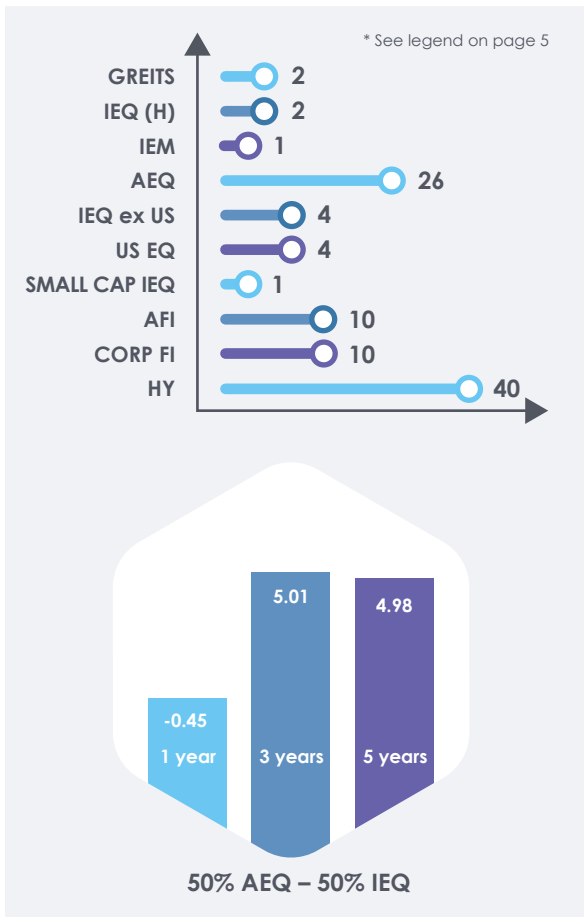
Growth of \$10,000 over 5 years to 30 June 2020



CARE Conservative (50%AEQ - 50%IEQ)
 Multisector Conservative Investor

Total Return AUD 12.42K
 Total Return AUD 11.44K

YOUR CARE PORTFOLIO MODERATE



CARE MODERATE STRATEGY

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



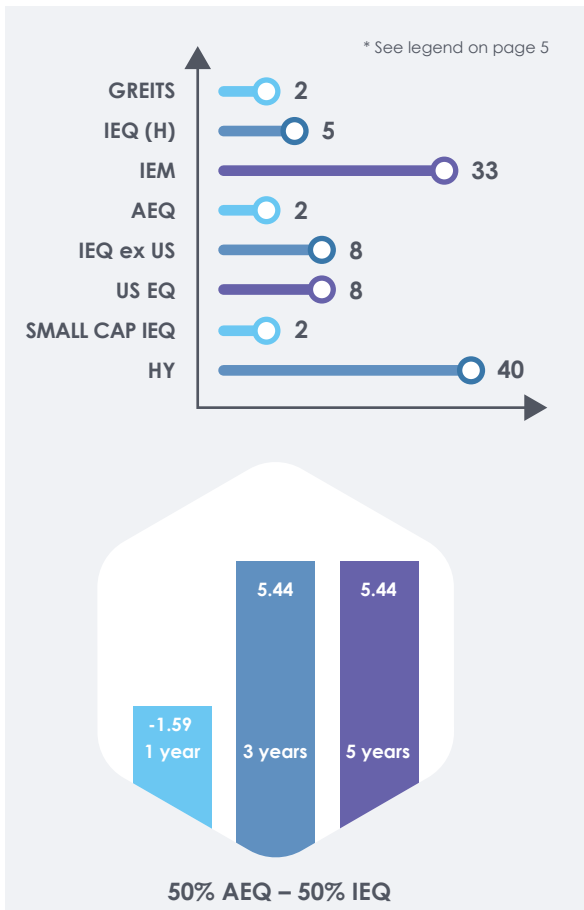
CARE Moderate (50%AEQ - 50%IEQ)

Total Return AUD 12.83K

Australia Fund Multisector Moderate

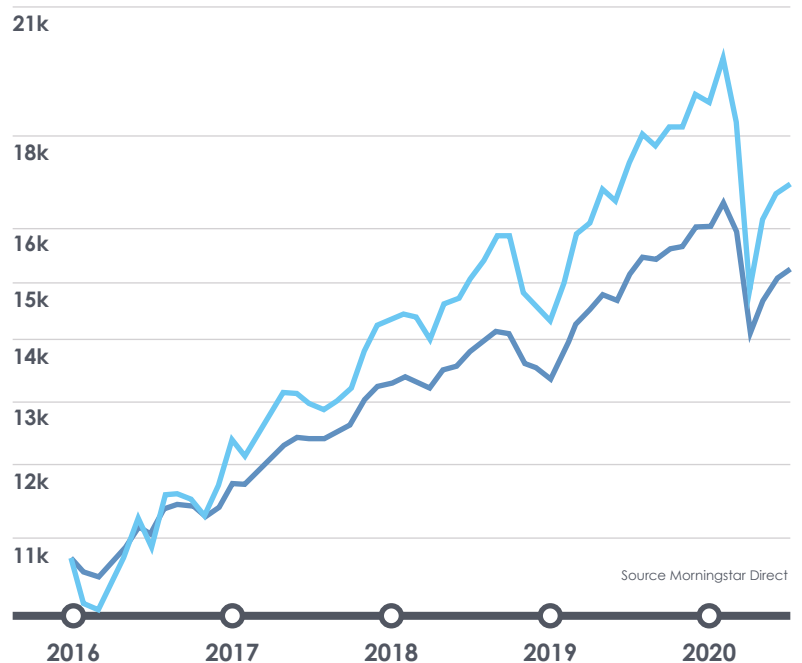
Total Return AUD 11.64K

YOUR CARE PORTFOLIO BALANCED



CARE BALANCED STRATEGY

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



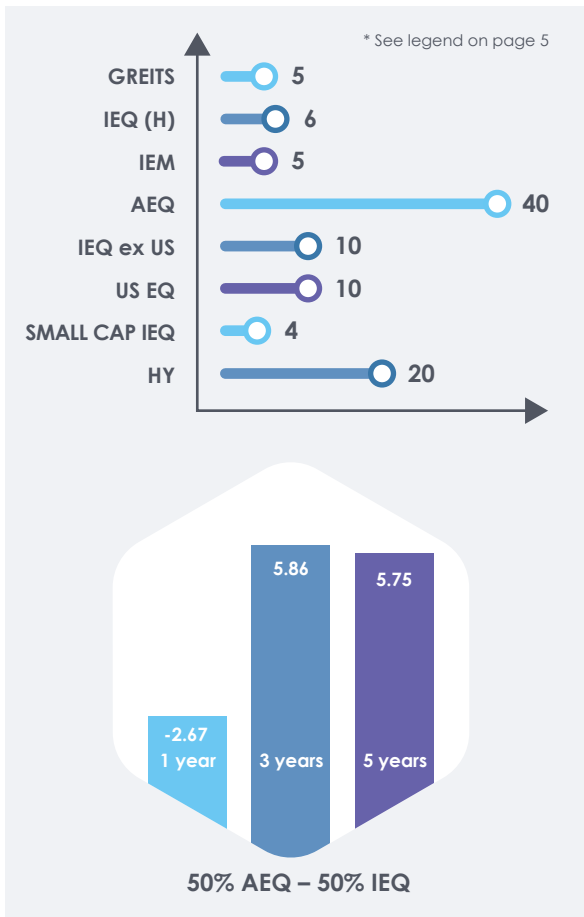
CARE Balanced (50%AEQ - 50%IEQ)

Total Return AUD 13.16K

Australia Fund Multisector Balanced

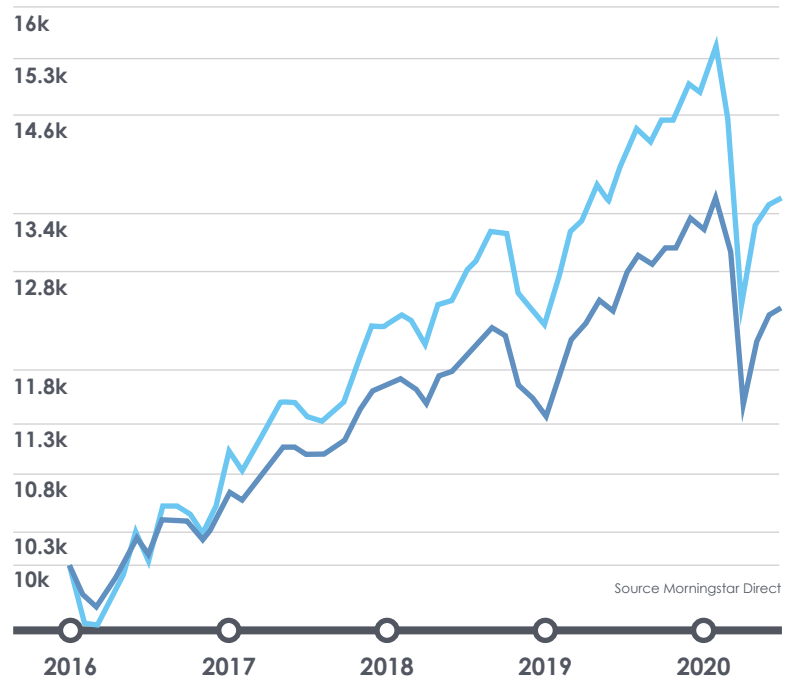
Total Return AUD 12.36K

YOUR CARE PORTFOLIO GROWTH



CARE GROWTH STRATEGY

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



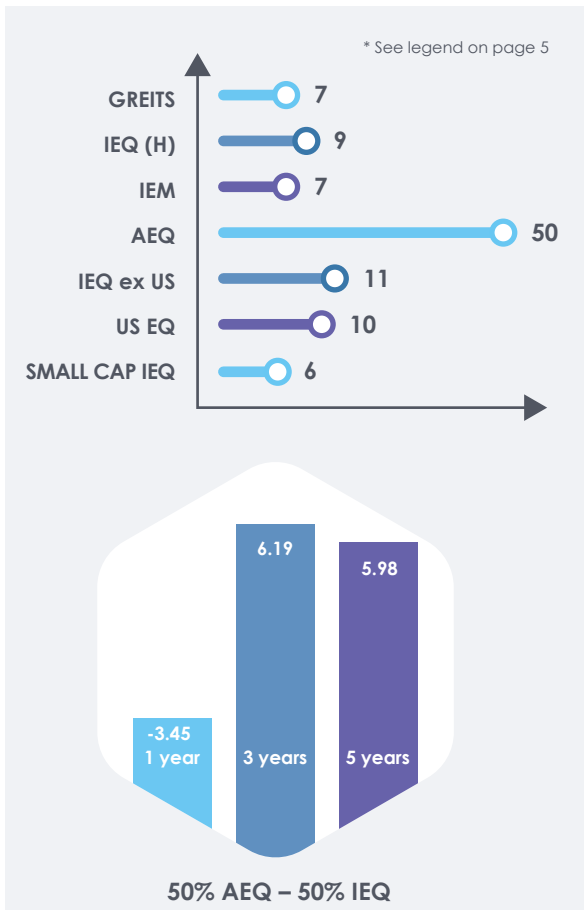
CARE Growth (50%AEQ - 50%IEQ)

Australia Fund Multisector Growth

Total Return AUD 13.61K

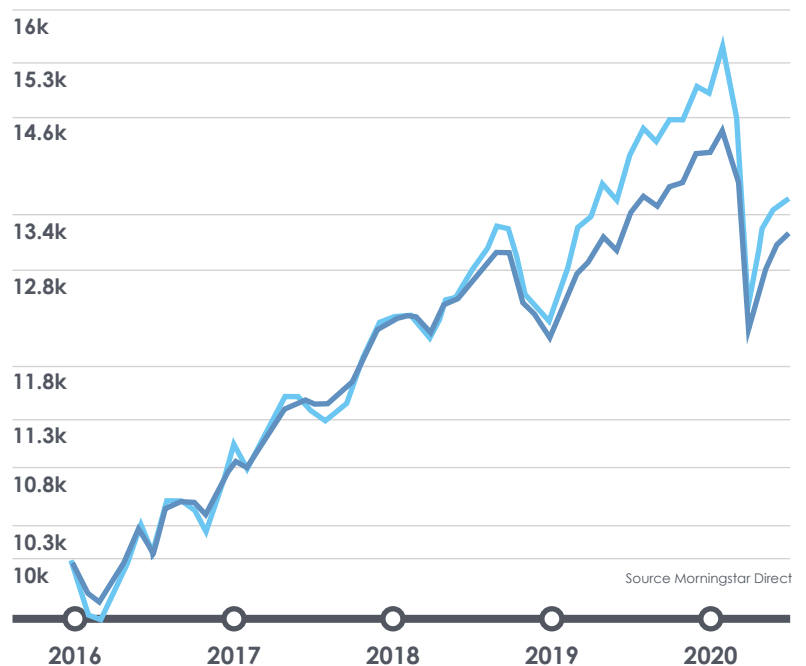
Total Return AUD 12.42K

YOUR CARE PORTFOLIO HIGH GROWTH



CARE HIGH GROWTH STRATEGY

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



CARE High Growth (50%AEQ - 50%IEQ)

Australia Fund Multisector Aggressive

Total Return AUD 13.61K

Total Return AUD 13.22K

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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