CAREphilosophy®

December 2022

CARE QUARTERLY NEWSLETTER

EXCITING LIFE BORING MONEY

and not the other way around

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Headline inflation

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GLOBAL OVERVIEW

Welcome to the new year and our CARE update for the December quarter. Over the December quarter bond, share and property markets continued to endure volatility however prices ended higher over the period. Interestingly, markets are forward looking and are encouraged by signs that inflation has peaked and is starting to abate. Hence, we have seen higher returns as we go to press on early 2023. The unwinding of extremely loose monetary and fiscal policy, the invasion of the Ukraine by Russia which forced energy prices higher, overhanging supply chain issues and inflation all continued to influenced movements across all assets. The US Federal Reserve raised the official interest rate again by 0.5% to 4.25%-4.5% during its last monetary policy meeting of 2022, pushing borrowing costs to the highest level since 2007 whilst the Reserve Bank of Australia increased our rate another 0.25% to 3.10%. This was the eighth month in a row that the RBA hiked. Whilst the RBA has not ruled out further rate hikes there is an expectation by market analysts that the tightening cycle is close to a peak. It may be a bit too soon to be forecasting a peak in the interest rate cycle, but at the very least, we expect a longish pause by the RBA.

In the US investors were encouraged by statements from Federal Reserve Chair Mr. Powell that the pace of interest rate hikes will likely abate in 2023. However, investors were left slightly disappointed by clear signs from the minutes of the most recent meeting that the central bank would need to keep interest rates higher for longer to tame inflation. The Chairman went to length to address any misunderstandings by the market, stating that it was important to clearly communicate that a slowing in the pace of rate increases was not an indication of any weakening of the Committee's resolve to achieve its inflation goal. **Although inflation remains centre stage, the focus continues to shift towards more core measures of inflation.** Core inflation removes the headline

Emmanuel Calligeris

Chairman of the CARE Investment Committee

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components that can exhibit large amounts of volatility from month to month, including oil and food prices. It is likely that core inflation in the US will slow but unlikely to return to a desired 2.5% level for some time.

In China, it is surprising how quickly policy has moved from 'zero covid" to reopening and lifting most restrictions. **As China re-opens, the impact on the domestic and global economy could be significant.** In the short term the rapid spread of COVID-19 is likely to be a negative for activity as cases and mortalities rise. The experience from other countries is that once the virus has passed through the population, and especially if vaccination levels can become more effective, then economic activity will rise strongly. This should be seen on numerous levels – higher consumption and private sector investment, increased volumes of foreign trade and travel, and a potential recovery in China's property market. There will be higher demand for fuel and commodities which could see upward pressure on prices and inflation in the middle to latter part of 2023.

It wasn't that long ago that markets were fretting that Germany may run out of power as it was a major importer from Russia which had sanctions put on exports including energy following the invasion of the Ukraine. It was forecast that German manufacturing would likely need to be shut down so that people wouldn't freeze over winter. This would have plunged Germany into recession and had implications for the broader Euro area. Crisis averted. the German government revised its 2023 economic forecast higher, from a fall of 0.4% to growth of 0.2%, as the negative impact of Europe's energy crisis has been less severe than originally thought. the German government revised its 2023 economic forecast higher, from a fall of 0.4% to growth of 0.2%, as the negative impact of Europe's energy crisis has been less severe than originally thought.

Share investors remain jittery as good news on inflation is offset by disappointing economic data, especially in the US where the data has reignited fears of recession. Both US retail sales and industrial production declined and were worse than expected. Additionally, there were several announcements of large-scale redundancies at bellwether firms such as Microsoft and Goldman Sachs, which added to the negative sentiment. Bond investors read the data as the economy is slowing and interest rates increases will abate. Bond yields in the US (and Australia) have decreased with the 10-year yield in the US falling from 3.5% towards 3.3%, its lowest level since September. The initial driver behind the dip was the producer price inflation figure for December, which showed the annual rate falling to 6.2% – below expectations, and behind November's figure of 7.3% – as energy and food costs eased. It was the lowest figure since March 2021. The figure was down 0.5% for the month, marking the steepest monthly decline since April 2020.

Australian Shares as represented by VAS in the Core and Active portfolio increased 9.40% over the quarter as a result of the high weight to mining and energy companies as compared to other stock exchanges around the world. BHP (+18.2%), RIO (+25%) and Fortescue Metals (+21.2%) performed well on the back of the news that China was lifting its lockdown restrictions. The other company that performed well was Origin Energy which received a takeover bid by Brookfield and EIG. Shares ended 45% higher over the quarter. Pilbara Metals (-17.6 performed poorly with brokers downgrading their valuation for the lithium miner over the quarter whilst the Star Entertainment group fell (-30.9%) after the NSW treasurer increased the tax rates Star pays on poker machines.

International shares performed well over the quarter increasing by 3.95% as represented by the Morgan Stanley Capital Index (MSCI) in Australian dollar terms. US shares increased by 7.56% predominately driven by large industrial companies including JP Morgan (+24.5%), Mastercard (+19.7%) and Visa (+14.4%). Technology companies continued to lag with Google, Amazon and Apple all performing poorly. The rise in the Australian dollar by circa 3% detracted from performance. European shares jumped strongly on less bad economic news. ING increased nearly 30% whilst Siemens (+28.6%) also performed well over the quarter whilst Occidental Petroleum (-11.8%) underperformed the broader index as the oil price declined. The exposure to international shares in your CARE portfolio is through the iShares Global 100 ETF- IOO, Vanguard Total US Market ETF – VTS, iShares Emerging markets ETF and the Vanguard All World ex-US ETF – VEU. There are over 3 000 international companies held within these investments. The US makes up over 50% of the global market. Property trusts performed well over the quarter increasing by 11.7%, however lost significant ground over the year (-19.4%) due to higher interest rates.

The Investment Committee made changes to the portfolio over the quarter to reflect what we believed represented good risk adjusted opportunity in markets. Most significantly, the Australian dollar looked undervalued relative to the US dollar and the Committee sold half of the holding in US Total Market Shares (VTS) and bought more global shares WXHG (already a holding) hedged back into Australian dollars. All of IOO was sold and IHOO which is the same underlying investment hedged into Australian dollars, was bought. By doing this, the portfolios captured the increase in share prices in December and January without returning much of it through the rise in the Australian dollar. The Committee also reflected this currency view in the investment in GOLD in the Active portfolio. The Committee sold 25% of the GOLD in US dollars and bought QAU which is the Australian dollar equivalent. In the Core Conservative, Moderate and Balanced portfolios, the Committee also sold Australian shares (VAS) following the rise and rebalanced into fixed interest through the Realm High Income fund. The Growth portfolio was rebalanced from global shares excluding the US (VEU) into US shares (VTS) and Australian small companies (SMLL) and the High Growth portfolio, Australian shares (VAS) were sold and US smaller companies (IJR) and global real estate (DJRE) was bought.

Within the Enhanced International Shares portfolio, Insync and WDIV performed well over the quarter whilst Hyperion's performance suffered. The WDIV investment holds companies that pay a larger portion of their profits as dividends including H&R Block and a US property company - LTC Properties. LTC Properties has a dividend yield of 6.0%. WDIV also owns Unum Group a life insurance company listed in the US which is lowly priced and offers a dividend yieldof 3.5%. Hyperion underperformed the benchmark. The manager's largest holding, Tesla, remained under selling pressure again despite not being able to fulfil orders for its cars. This bodes well for future profits and after a rigorous interview with the manager in December, they remained steadfast that profits of Tesla were still growing strongly. Interestingly, since reporting its profit result, the Tesla share price increased 33% in a week. In other portfolio holdings, the manager continues to hold quality companies with strong growth prospects including Microsoft, PayPal and luxury goods brand Hermes International. Insync follows a similar strategy and the manager's investment process has been leading them

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towards companies including: Microsoft, Bookings.com and Accenture.

The Enhanced Australian shares portfolio increased by 8.77% slightly behind the index over the quarter but comfortably ahead (+7.5%) over the year. It was pleasing to see that the manager -Joseph Palmer and Sons, produced a positive return in a tumultuous year when the index recorded a return of -1.08%. Portfolio holdings over the quarter were relatively unchanged. Link suitor Dye and Durham, formally announced that it was ending its interest in acquiring any part of Link Group. Its share price dropped as a result. Link went ahead with it's spin-off of PEXA, with each shareholder in Link receiving 1 PEXA share for every 7.52 shares held in Link. Shareholders should have received their PEXA shares on 10th January. REA Group saw a volatile quarter as its competitor Domain Holdings showed a general worsening in property listing conditions around Australia. Domain advised that its listings in November and December were down 16% and 22% respectively from last year as interest rate rises impact the housing market. The manager views that REA Group is a capital light business with high market share and real pricing power.

As mentioned last quarter, we believe that there will be some further interest rate rises in Australia and in the US however both central banks have/will adopt a more cautious approach to monetary tightening. Headline inflation is trending down however core inflation may stay sticky through 2023. The discount rate being used by investors to value shares has returned to a more normal level following a period of artificially low interest rates over the last 2-3 years. Valuation risk is therefore less but analyst profit expectations may still be high, and this may limit near term gains.

RETURNS

BY CARE INVESTMENT STRATEGY

LEGEND

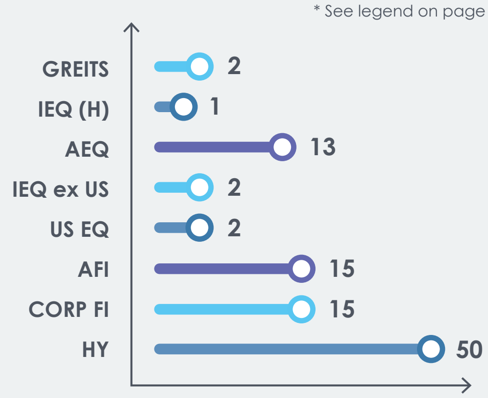
International Real Estate	GREITS	High Income	HY
International Shares (Hedged)	IEQ (H)	International Emerging Market Shares	IEM
Australian Shares	AEQ	International Small Companies Shares	Small Cap IEQ
International Shares (ex-USA)	IEQ ex US	Australian Fixed Interest	AFI
International Shares USA	US EQ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

CORE PORTFOLIO RETURNS TO THE 31ST DECEMBER 2022

	1 Month	3 Months	6 Months	1 year	3 years	5 years	7 years
CORE Conservative	-0.44	3.08	2.79	-4.28	1.23	2.71	3.41
CORE Moderate	-1.02	4.34	3.86	-4.73	2.25	3.74	4.65
CORE Balanced	-1.33	5.67	4.94	-5.07	3.49	4.86	5.96
CORE Growth	-2.03	6.55	5.17	-7.20	3.64	5.41	6.74
CORE High Growth	-2.78	7.56	5.56	-8.82	3.82	5.89	7.50

YOUR CARE PORTFOLIO CONSERVATIVE

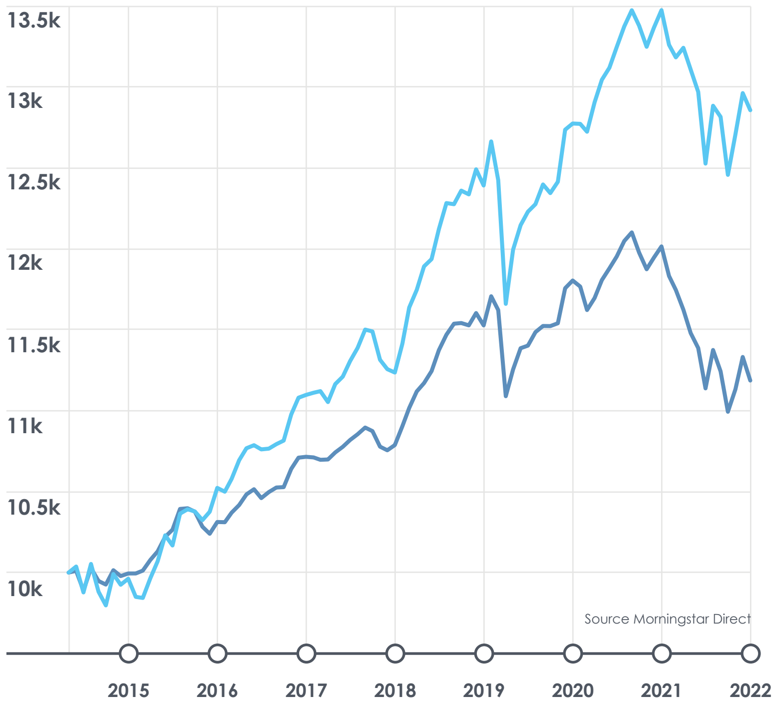
* See legend on page 5



50% AEQ – 50% IEQ

CARE CONSERVATIVE STRATEGY

Growth of $10,000 over 7 years to 31st December 2022

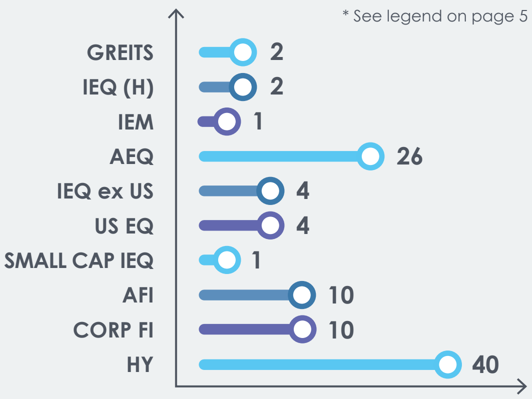


CARE Conservative (50%AEQ - 50%IEQ) — Total Return AUD 12.85K

Multisector Conservative Investor — Total Return AUD 11.18K

* Returns are based on model portfolio, benchmark allocation & assumes investment over 1, 3 & 5 years ending December 2022. 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



50% AEQ – 50% IEQ

CARE MODERATE STRATEGY

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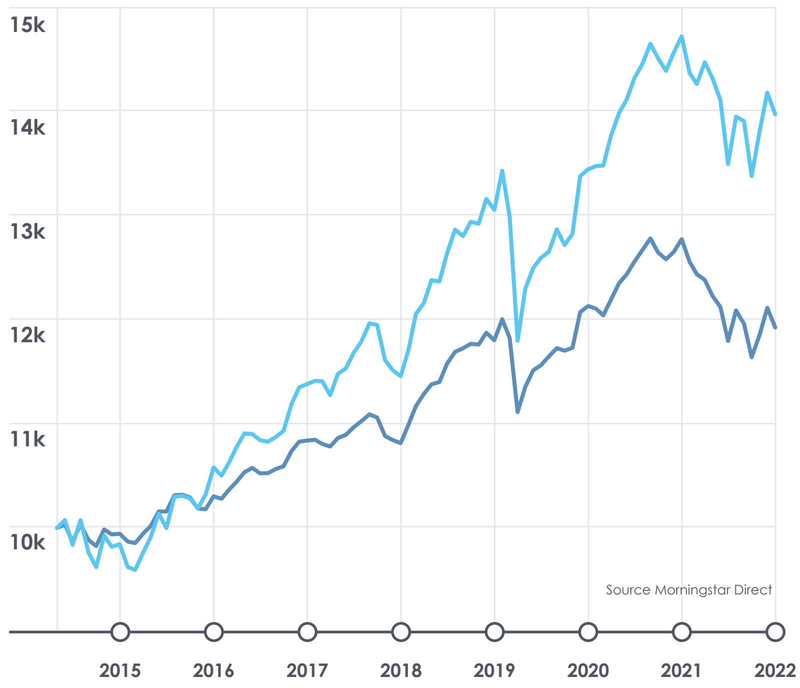
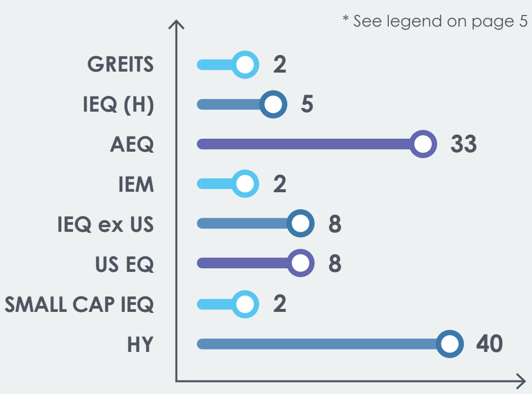


CARE Moderate (50%AEQ - 50%IEQ) — Total Return AUD 13.97K

Multisector Moderate Investor — Total Return AUD 11.92K

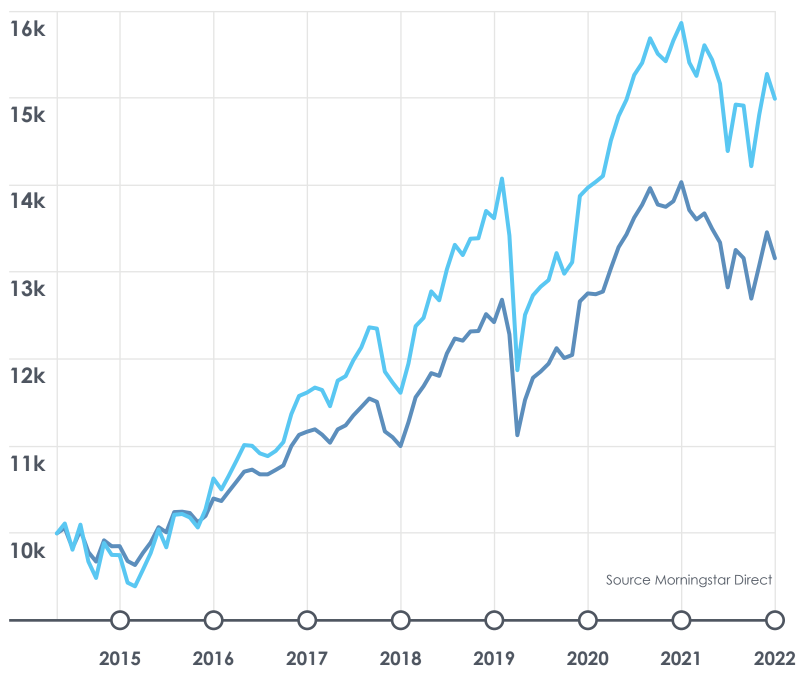
YOUR CARE PORTFOLIO BALANCED



50% AEQ – 50% IEQ

CARE BALANCED STRATEGY

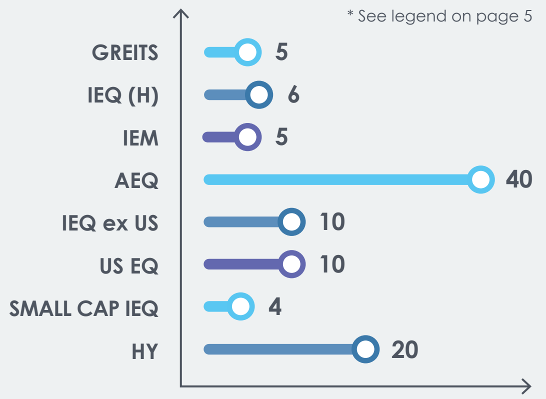
Growth of $10,000 over 7 years to 31st December 2022



CARE Balanced (50%AEQ - 50%IEQ) — Total Return AUD 14.99K

Multisector Balanced Investor — Total Return AUD 13.16K

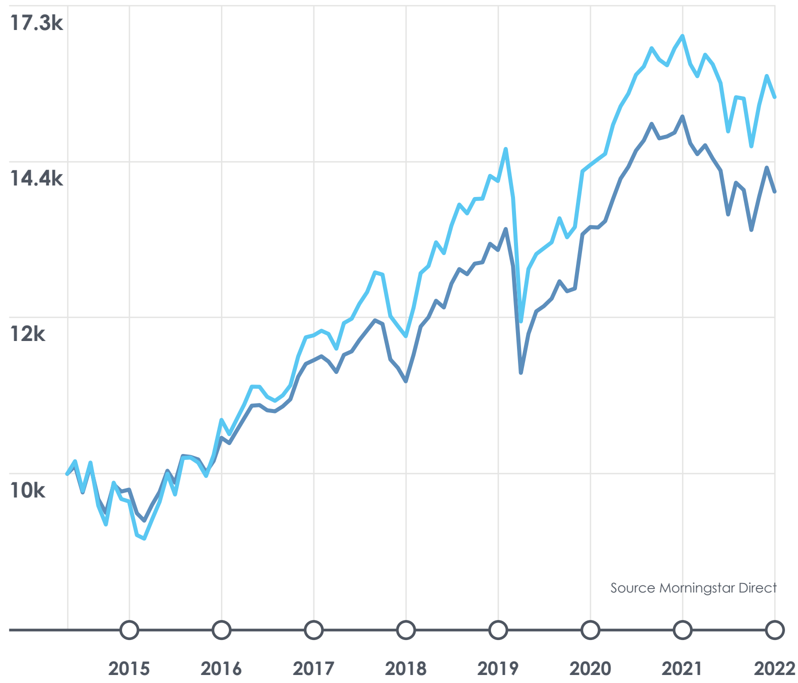
YOUR CARE PORTFOLIO GROWTH



50% AEQ – 50% IEQ

CARE GROWTH STRATEGY

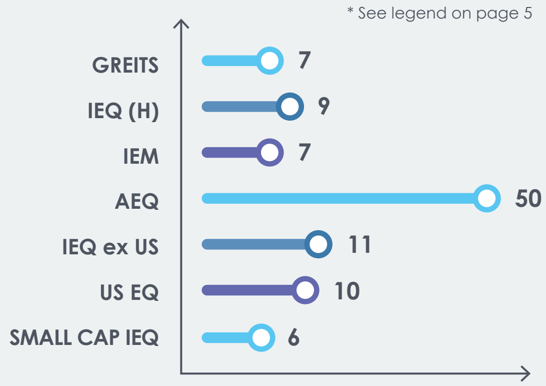
Growth of $10,000 over 7 years to 31st December 2022



CARE Growth (50%AEQ - 50%IEQ) Total Return AUD 15.52K

Multisector Growth Investor Total Return AUD 13.90K

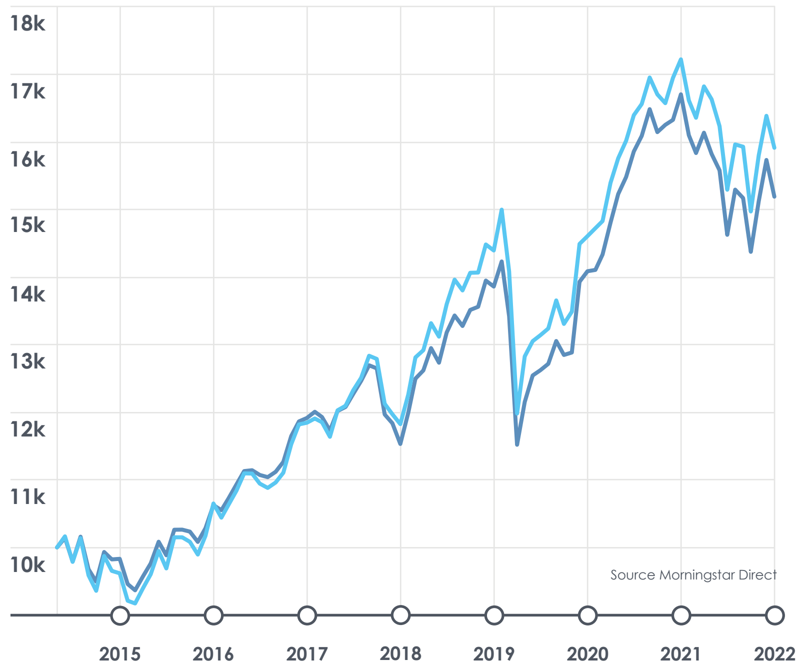
YOUR CARE PORTFOLIO HIGH GROWTH



50% AEQ – 50% IEQ

CARE HIGH GROWTH STRATEGY

Growth of $10,000 over 7 years to 31st December 2022



CARE High Growth (50%AEQ - 50%IEQ) Total Return AUD 15.91K

Multisector High Growth Investor Total Return AUD 15.19K

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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WEALTH PLANNING

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