June 2021

CARE QUARTERLY NEWSLETTER

EXCITING LIFE BORING MONEY

and not the other way around

The news in Australia continued to be positive with unemployment falling back to pre-Covid lows of 4.9% and job vacancy statistics suggesting further improvement lies ahead.

The unprecedented challenges from the coronavirus (COVID-19) continue to hamper economic growth around the world.

For now, global bond markets appear to be comfortable with the "transitory" narrative of recent elevated inflation measures and will be key to watch going forward.

GLOBAL OVERVIEW

At the time of writing, Sydney suffered a Covid-19 Delta variant outbreak which saw a lockdown of over 25% of Australia's population. The variant soon crossed into Victoria seeing Melbourne, the second largest city in Australia also locked down and forcing 50% of the population to remain at home. The genomic testing of Covid strains clearly showed this variant displacing all others at an alarming pace. Fortunately, this variant remains within the reach of existing vaccine regimens, but the risk that a new strain may escape existing vaccine technology is ever present. The program of vaccinations continues to roll out and plans are increasingly being made for a future where lock-downs will no longer be the strategy of choice. Indeed, Britain has gone down the path of herd immunity and it will be interesting to see the outcome. Whilst there will be ramifications to economic growth in the medium term, the Australian share market took the news in its stride, barely flinching - unlike the sell off we saw a year or so ago. The Australian share market increased 2.3% over the month to be 27.8% higher over the year. Australian small companies increased 3.1% over the month to be 33.2% higher over the year.

Although the economic news is dated considering the latest lockdowns, the news in Australia continued to be positive with unemployment falling back to pre-Covid lows of 4.9% and job vacancy statistics suggesting further improvement lies ahead. Again, that was before the latest outbreak so it will be interesting to see whether more small businesses have taken a fatal blow and their owners, currently on life support from the government, join the jobseeker market. New lending for housing increase solidly over the quarter however, the trends over recent months show an acceleration in lending to investors and a flattening out in lending to first home buyers. Investor lending is now very close to its previous peak in early 2015 probably driven by the very poor term deposit rates currently on offer. These trends raise the risk of the reintroduction of restricted lending policy (called macro-prudential policy) by the Australian Prudential Regulatory Authority (APRA) to cool the market. Previous macro prudential policy has been aimed at keeping a lid on lending to investors,

Emmanuel Calligeris

Chairman of the CARE Investment Committee

The RBA announced its decision to extend bond purchases (money printing) from early September until mid-November at a reduced rate of $4 billion per week.

In terms of other central bank policy, The US central bank, the Federal Reserve, continues to print money at an alarming rate.

lending on an interest only basis and lending at a high loan to valuation ratio. Investor lending came into focus when investor credit growth was running at 10% per annum. While we are currently well short of that figure, the reaction function of APRA may change.

The NAB business survey registered a significant hit from the beginning of Sydney's lock-down in late June and the tail end of restrictions from Melbourne's May/June experience. However, confidence and conditions nationally remain above average, and key detail from the survey (namely strength in employment and capital expenditure intentions) is constructive for the outlook. Australia's state economies have rebounded strongly out of previous lockdowns; the pre–conditions for another robust recovery are clearly present.

The RBA announced its decision to extend bond purchases (money printing) from early September until mid-November at a reduced rate of $4 billion per week. This was both a taper as well as a shift to take a more flexible approach to money printing. In his press conference of 6 July RBA Governor Lowe stated,

"the reviews of our bond purchases take into account: the effectiveness of the bond purchases to date; the decisions of other central banks; and, most importantly, progress towards our goals for inflation and employment. We will use this same framework in our future reviews."

In terms of other central bank policy, The US central bank, the Federal Reserve, continues to print money at an alarming rate. In more normal times, we would be worried that all this money printing will lead to inflation. However, these are not normal times. Although the Federal Reserve raised its headline inflation by 1% to 3.4%, the central bank continued to reassert that inflation pressures are "transitory" despite the biggest rise in consumer prices in 13 years. Inflation increased to 5% on a year-over-year basis in May. Excluding food and energy, the core inflation rate increased 3.8% year over year, the highest pace since 1992. The Federal Reserve's assertion that US inflation numbers are transitory seems to have been accepted by financial markets as indicated by the move lower in long term (3 to 30 year) interest rates. The sharp move lower in long term interest rates highlighted a clear change in the market's view of the Federal Reserve reaction function. The market thinks that the US central bank is now less likely to let the US economy run hot, less likely to tolerate inflation running above target for too long and more likely to increase short-term interest rate, earlier. Inflationary fears have been significantly downgraded as a result.

In China, economic growth seems to have peaked however remains resilient at 7.9% over the year. Inflation jumped to 5.3% year on year on rising prices for producers including a higher iron ore price. Growth was supported by the catch-up of industrial companies spending more money on capital investment whilst real estate investment cooled. Retail sales grew 12.1% over the year thanks to strong online sales. The latest COVID-19 wave and the resultant partial lockdowns in Guangdong (11% of China's GDP) will have affected restaurant and offline sales, especially auto sales since the data was released. Industrial production growth held up at 8.3% over the year on resilient exports, despite the rising cost pressures, the upbeat exports supported manufacturing. Labour market conditions further improved, with the surveyed unemployment rate fully returning to the pre-COVID level at 5.0% in June vs 5.3% in March.

The Peoples Bank of China (the Central Bank) cut the amount of money it requires banks to hold with it. This effectively allows banks to lend out more money.

Authorities' initial hint of such a cut surprised investors as it signalled concerns of slower growth. The cut is expected to release about 1 trillion yuan into the economy. The more money in the economy means the cheaper the price of money which usually means companies and people are prepared to increase their borrowings to invest and spend more.

In Europe, the rift between Central Bank members that want stronger growth and those that think stronger growth will lead to higher inflation, seems to be back on the widening path with some members arguing in favour of a small reduction of money printing. While members 'widely agreed' with the view of higher inflation being mainly transitory, there also seemed to have been concerns about a less sluggish pass-through from producer to consumer prices than in the past. Some members even argued that

"there could be upside risks to inflation not only over the shorter term but also over the medium term".

The point for reduced money printing was made on the back of more favourable financing conditions as well as an improved economic outlook. We believe that those fearing higher long-term inflation are jumping at shadows. Growth and inflation are likely to remain low as we come through the Covid affected data.

The unprecedented challenges from the coronavirus (COVID-19) continue to hamper economic growth around the world. The Delta strain seems to be even more infectious than earlier strains however markets seem less phased than they did in the first and second quarters of 2020. Supply side disruptions remain particularly the supply of microchips which is in turn disrupting many industries including the auto industry. The Australian share market recorded an increase of 27.8% as mentioned above. This was captured in the Vanguard Australian Share (VAS) exchange traded fund. Within VAS, the banks did a lot of the heavy lifting whilst resource companies including BHP, Rio and Fortescue Metals performed well thanks to the high iron ore price. Telstra shares rose 7% after the company announced the sale of a 49% stake in its Tower portfolio for $2.8b to a consortium of infrastructure investors. The price was materially higher than analyst expected. Sydney Airport received an opportunistic takeover bid. Sydney Airport's shares, which were trading at close to $9 before COVID-19 hit, tumbled after Australia's borders closed and have not fully recovered, The airport's shares increased 34% following news of the $22 billion offer. Companies whose share price did not perform well include A2 Milk, AGL and construction group Cimic whose share price declined following a disappointing profit report.

International share markets ended the quarter 9% higher in Australian dollar terms to be 26% higher over the year. The US share market in particular had a buoyant year, with both the S&P 500 (the index of the 500 largest companies) and the technology heavy Nasdaq 100 reaching a new all-time high. Global property trusts, represented by DJRE in the CARE portfolios, increased by 10.7% over the quarter. The Australian bond market increased 1.5% and international bonds decreased -0.9% over the quarter.

The CARE Investment Committee took the opportunity to rebalance the portfolios over the quarter as price fluctuations afforded the opportunity. Australian and global shares and global smaller companies in which the CARE portfolios gain exposure through VAS, WXHG, VTS and IJR, were sold at the margin and the proceeds invested into the Realm High Income Fund. As many of our clients may be aware, the fixed income exposure within the portfolios is through Kapstream and Realm where the strategy is to take minimal interest rate exposure and hence protect capital as best as possible. This strategy continues to benefit our clients and has produced a less volatile portfolio return compared to other comparable funds. Remaining disciplined to rebalancing is important and a key benefit of the CARE Investment Philosophy.

The Australian Share Market

recorded an increase of 27.8%.

International Share Markets

ended the quarter 9% higher in Australian dollar terms to be 26% higher over the year.

The Enhanced International Share portfolio gained 6.7% over the quarter. In the last quarter of 2020 and the first quarter of 2021, there was a large rotation into companies that generally benefit from strength in the economy as we came out of the short, deep recession caused by the Covid-19 lockdowns. This came to an abrupt halt in the June quarter as lower long term interest rates saw share market investors switch back towards technology companies whose generally higher valuations are more appealing in a low interest rate environment. The WDIV investment has a small amount of exposure to technology companies. Despite this, WDIV performed well over the quarter (+5%) but lagged the broader market (+9.3%). The largest holding is Keyera Corp, a LNG company in Canada. The share price has increased approximately 50% over the year. US accounting firm H&R Block also performed well again this quarter. The company's share price has increased 75% over the past year and it remains amongst the top 25% of dividend paying companies in the US. B&G Foods, Inc. manufactures, shelf-stable and frozen foods in the United States was a lagging stock in the portfolio. The share price has been flat over the past year when the overall market has increased substantially.

The Magellan fund disappointed over the quarter and the year. Despite Magellan's portfolio recording a positive return, it lagged the index at a time that we would have expected outperformance. Positive contributors included investments in Alphabet, Microsoft and Facebook. Alphabet increased after the parent of Google reported that rising spending on digital advertisements boosted first-quarter sales to USD 55.3 billion, a higher-than-expected rise of 34% from a year earlier. Microsoft's share price increased as rising demand for computers, gaming consoles, and digital services delivered over the cloud boosted the software company's first quarter sales by a higher-than-expected 19%. Microsoft also agreed to buy speech recognition firm Nuance Communications for US$19.7 billion, to expand the services it can offer business customers. The Facebook share price increased after the company reported a 48% increase in first-quarter sales which was well above expectations. Furthermore a US judge unexpectedly dismissed two complaints against the company from the US regulator because the Federal Trade Commission failed to prove the company was a monopoly.

The biggest detractors were the investments in Eversource Energy, a US utility company, Tencent of China and WEC Energy of the US. Eversource Energy fell after the Connecticut Public Utility Regulatory Authority found that Eversource did not satisfy relevant performance standards, ordered an indefinite reduction of 0.9% to subsidiary Connecticut Light & Power's authorised return on investments, ordered the opening of a regulatory docket to consider issuing civil penalties against the subsidiary and foreshadowed the disallowance of certain costs that the authority asserts were imprudently incurred were Eversource to seek recovery. Tencent fell as the Chinese government stepped up regulatory scrutiny of the country's largest technology stocks. WEC Energy, which provides electricity and gas across four Midwest states, slid on concerns that utilities were most vulnerable to any rise in interest rates.

The Enhanced Australian Shares portfolio under-performed the index in part due to the large cash holding by the manager albeit at the time of writing, this balance was steadily declining. Amongst the better performers was Sydney Airport which received a takeover bid by a consortium of industry funds and private equity and Spark Infrastructure. Spark Infrastructure is considering a $5.2 billion takeover bid from Kohlberg Kravis Roberts' (KKR) infrastructure fund and Ontario Teachers' Pension Plan after the suitors raised their offer twice. Dragging on performance was fruit and vegetables company Costa Group whose share price fell following warnings about labour shortages among fruit and vegetable pickers, due to Covid, being a handbrake on profits. This triggered a share price fall. The other drag on performance was InvoCare, Santos and Woodside Petroleum.

InvoCare is Australia's biggest funerals business. The company suffered losses in calendar 2020 after COVID-19 restrictions imposed by governments on the numbers of people able to attend funerals heavily disrupted its ability to provide full-service funeral services. The InvoCare business runs brands that include White Lady Funerals and Simplicity Funerals. It slid to a loss of $9.2 million for the 12 months ended December 31 and new chief executive warned that uncertainties from COVID-19 could linger for a further 18 months. Santos had strong revenue and was able to constrain costs which is a good thing. However, the shift towards renewables has hampered its share price performance. The share price of private hospital operator Ramsay has also lagged, as elective surgery was delayed due to the government's desire to keep beds free for Covid sufferers. The vaccine roll out should see more normal conditions return in due course.

Share and property markets around the world have provided investors excellent gains over the last year. It is important we understand that such large gains have stemmed from the large sell-off we saw as the pandemic first struck panic into investors. Such large gains are unlikely to be repeated in the near term. Having said that, the investment outlook remains bright. The vaccination rollout to date has been slow in Australia and further lockdowns are likely to ensure interest rates remain low for some time. In the US, the sensitivity of share markets to daily comments by the central bank is a salient reminder of the significant impact ultra-loose monetary policy has had on global markets for more than a decade. For now, global bond markets appear to be comfortable with the "transitory" narrative of recent elevated inflation measures and will be key to watch going forward.

As the pandemic months drop out of the comparisons and the supply chain issues are sorted out, inflation will eventually fall back towards its target of two per cent on average. Given the global debt levels, its hard to argue against this. Government debt around the world is huge. Bond yields remain low in this context and now likely to consolidate around current levels until more data on the progress of inflation and the durability of the economic outlook becomes available in the face of Covid variants.

RETURNS

30th JUNE 2021

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

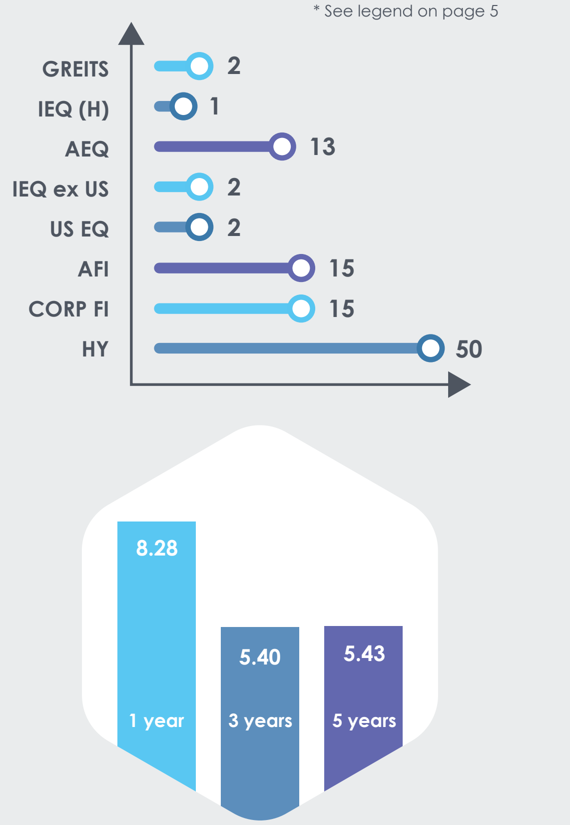
* Returns are based on model portfolio, benchmark allocation & assumes investment over 1, 3 & 5 years ending June 2021. The E (enhanced) component is assumed to be 50% Australian Equities & 50% International Equities. Past Performance is not indicative of future performance.
* The CARE portfolio Returns 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.

CORE PORTFOLIO RETURNS TO THE 30th June 2021

	1 Month	3 Months	6 Months	1 year	3 years	5 years
CORE Conservative	0.84	2.49	3.00	7.38	5.15	5.04
CORE Moderate	1.32	3.83	5.62	12.60	6.50	6.80
CORE Balanced	1.87	5.29	8.82	18.98	7.95	8.71
CORE Growth	2.42	6.63	11.57	24.65	9.16	10.22
CORE High Growth	2.82	7.85	14.11	30.40	10.26	11.67

YOUR CARE PORTFOLIO CONSERVATIVE

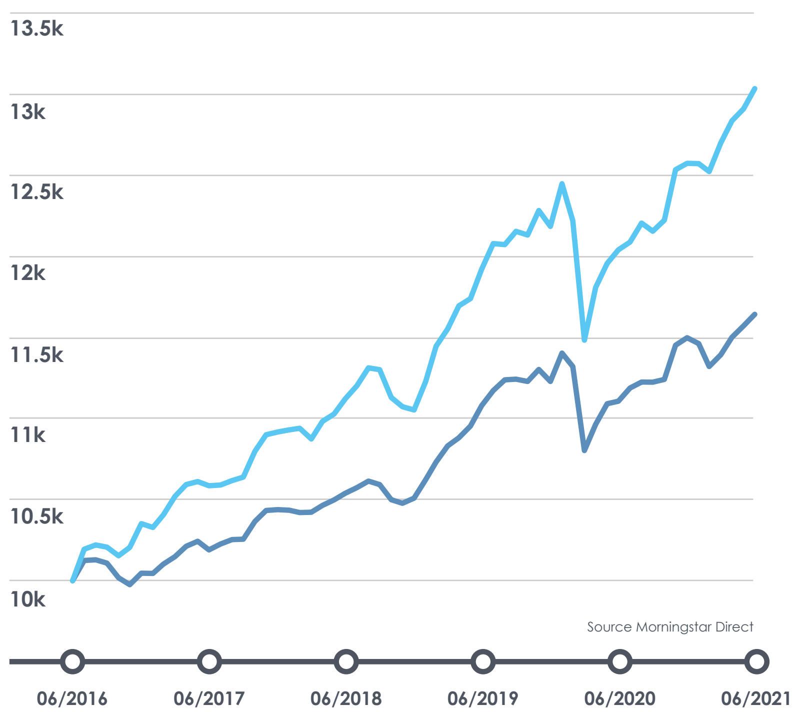
* See legend on page 5



50% AEQ – 50% IEQ

CARE CONSERVATIVE STRATEGY

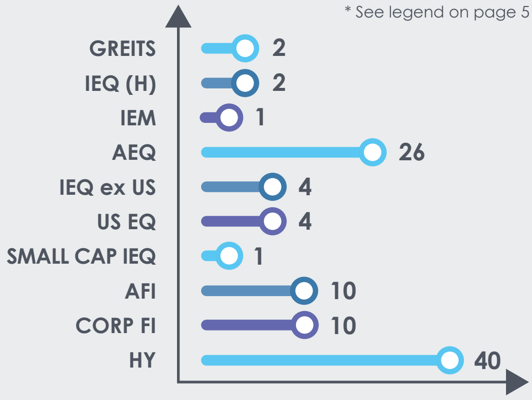
Growth of $10,000 over 5 years to 30 June 2021

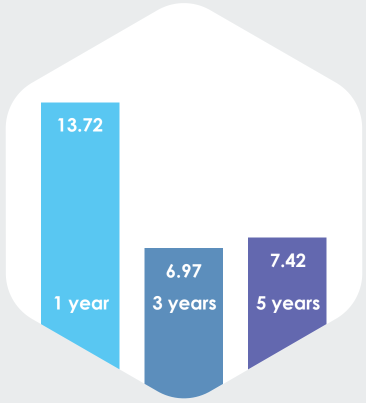


CARE Conservative (50%AEQ - 50%IEQ) — Total Return AUD 13.03K

Multisector Conservative Investor — Total Return AUD 11.64K

YOUR CARE PORTFOLIO MODERATE

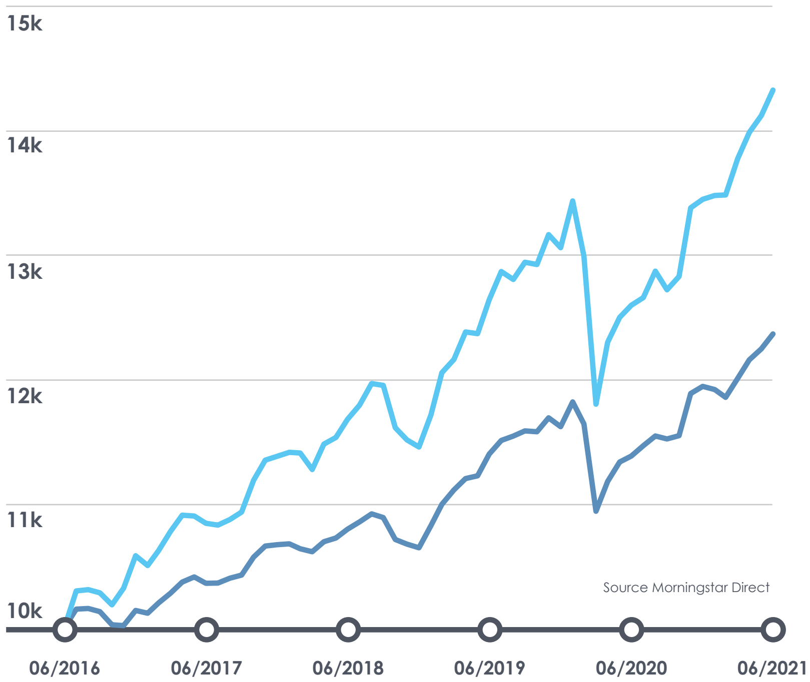




50% AEQ – 50% IEQ

CARE MODERATE STRATEGY

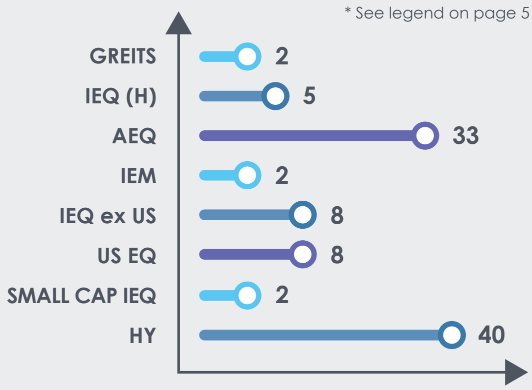
Growth of $10,000 over 5 years to 30 June 2021



CARE Moderate (50%AEQ - 50%IEQ) Total Return AUD 14.32K

Multisector Moderate Investor Total Return AUD 12.36K

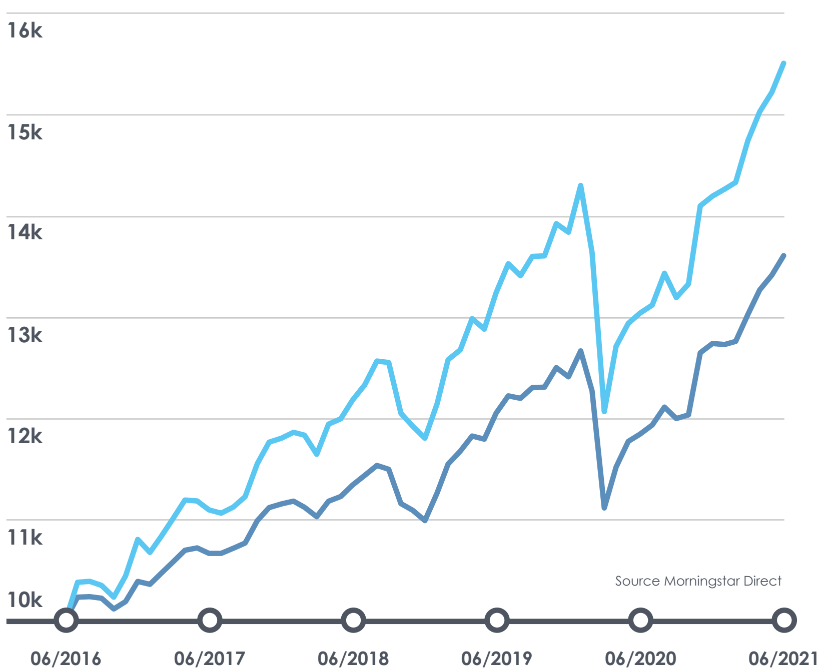
YOUR CARE PORTFOLIO BALANCED



50% AEQ – 50% IEQ

CARE BALANCED STRATEGY

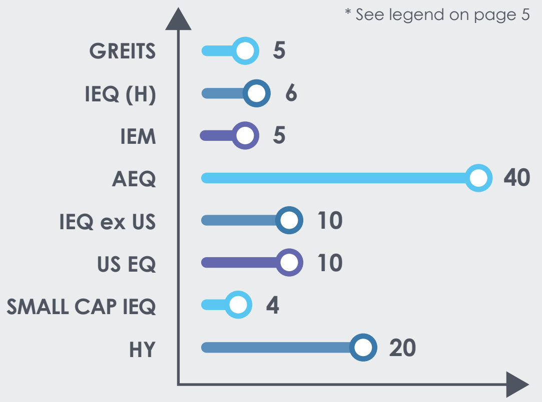
Growth of $10,000 over 5 years to 30 June 2021

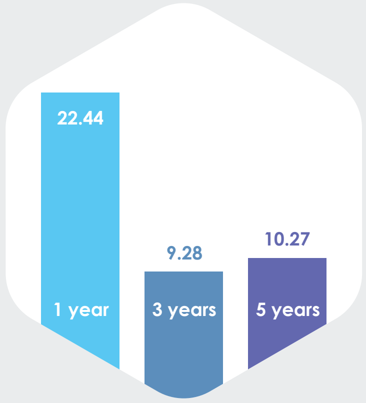


CARE Balanced (50%AEQ - 50%IEQ) Total Return AUD 15.51K

Multisector Balanced Investor Total Return AUD 13.61K

YOUR CARE PORTFOLIO GROWTH

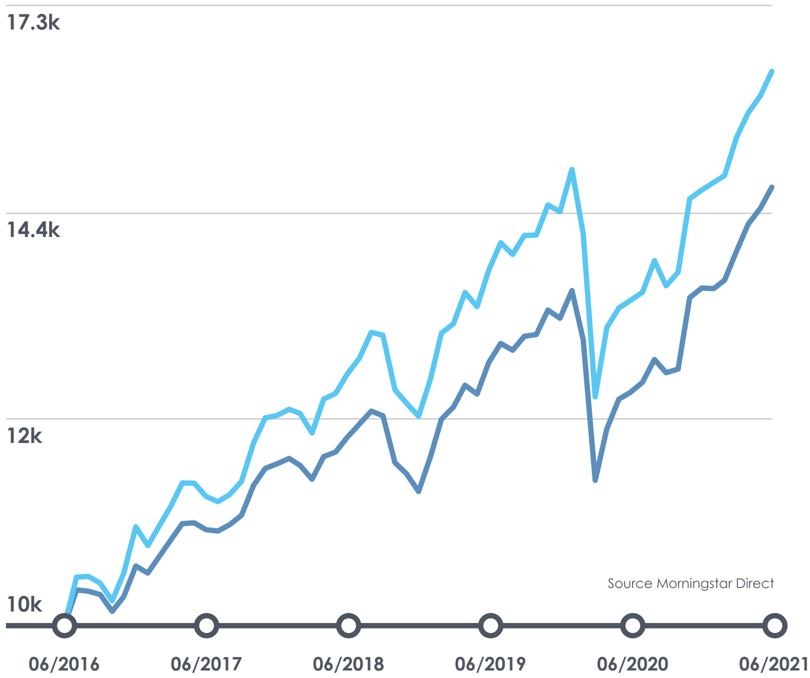




50% AEQ – 50% IEQ

CARE GROWTH STRATEGY

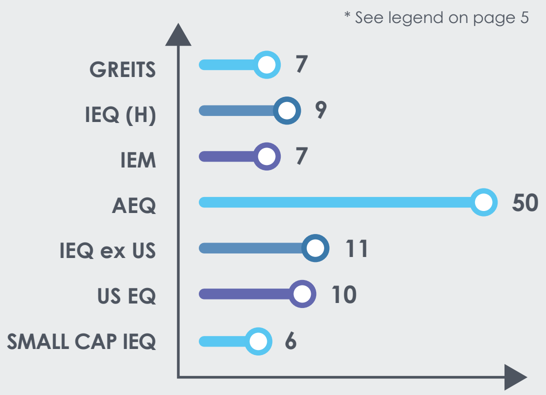
Growth of $10,000 over 5 years to 30 June 2021

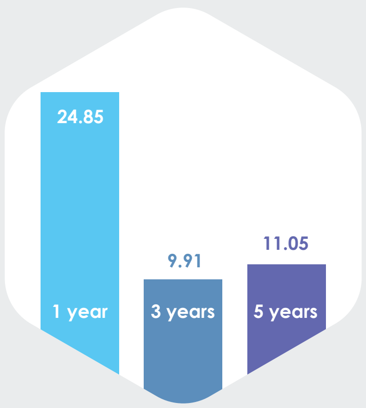


CARE Growth (50%AEQ - 50%IEQ) Total Return AUD 16.32K

Multisector Growth Investor Total Return AUD 14.73K

YOUR CARE PORTFOLIO HIGH GROWTH

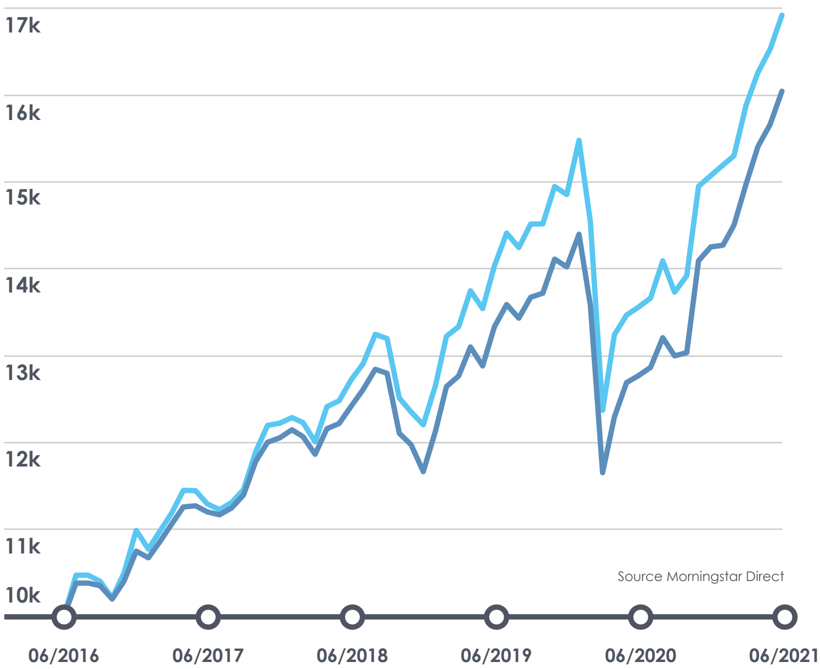




50% AEQ – 50% IEQ

CARE HIGH GROWTH STRATEGY

Growth of $10,000 over 5 years to 30 June 2021



CARE High Growth (50%AEQ - 50%IEQ) Total Return AUD 16.92K

Multisector High Growth Investor Total Return AUD 16.04K

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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