CARE esg-conscious™

Empowering a better future

- **Bond, share and property** markets have moved up in expectation of lower interest rates in 2024.
- **Against the backdrop** of the current unsettled geopolitics, central banks are navigating a very narrow runway.
- **Markets are always** forward looking and the likelihood of lower interest rates has been the catalyst for the returns.

GLOBAL OVERVIEW

Welcome to our CARE ESG Quarterly Review for the December quarter 2023. Both share and bond market prices continued to rise in the December quarter, capping a solid year for investment markets. The moves were driven by the combination of evidence that inflation was easing, comments by the Chairman of the US Central Bank that interest rates were likely to fall in 2024 and economic data that remained fundamentally robust. This resulted in a near consensus view that a soft landing is in place with rate cuts in the US now expected in March and Australia is likely to follow with interest rate reductions in the second half of the year. This seems optimistic, as discussed below. The Australian 10-year bond yield decreased from 4.4% to 4% during the month on comments by the Reserve bank of Australia that higher interest rates were working to slow the economy. That's just part of the story.

Market analysts interpreted the comments that a further increase in monetary policy was not required and in fact the next likely move by the central bank would be to cut rates. The Australian bond market returned 3.80% over the quarter to be 5.3% higher over the year. The S&P/ASX 200 Accumulation Index increased 7.26% in December closing on its highs for the year and delivered a return of 12.4% for 2023. This is represented by the Vanguard Australian shares investment in your CARE Core and Active portfolios. The fall in bond yields saw a continued rotation to the more interest rate-sensitive parts of the stock market, with real estate investment trusts REITs (+11.4%) the best performing sector. This sector of the market is incorporated in the DJRE investment. Within the Australian share market, Healthcare (+9.1%) also performed strongly with several large stocks recovering from oversold positions. While also delivering positive returns, Energy (+3.6%) underperformed on the lower oil price, and Consumer Staples (including Coles and Woolworths) (+5.1%) also lagged. The smaller end of the Australian share market which has struggled all

Emmanuel Calligeris
Chairman of the CARE Investment Committee

year, also increased strongly in December with the S&P/ASX Small Ordinaries Index rising 7.2%, to post a positive return of 7.8% for the year and a rise of 15% from the low point in late October.

International shares as represented by the Morgan Stanley Capital Index (MSCI), returned 1.8% in December held back by the rise in the Australian dollar particularly against the US dollar as the US share market makes up most of this index. Over the year ending December 2023, the MSCI increased a very healthy 23.2% thanks to the rise in just a handful of companies in the US including Apple, Alphabet Inc., Nvidia, Meta, Tesla, Microsoft and Amazon. Collectively known as the “Magnificent 7.” The US share market itself was strong with the S&P 500 4.4% higher over the month. The rise followed economic data that suggested a more benign inflation outlook is likely and to that end comments from US Federal Reserve Chairman Powell that we are likely at the peak of the interest rate cycle. The Fed has projected that rates will fall in line with the core PCE (personal consumption expenditure) inflation from 3.2% to 2.4% in 2024. The market has taken this a step further in its expectations and is now pricing a 70% chance of the first rate cut at the central bank’s March meeting and led bond markets to price in close to 1.50% of interest rate reductions over the course of the year.

The influence of the Magnificent 7 on stock markets in 2023 was nothing short of profound. There were many reasons for why the “Magnificent 7” performed so strongly including strong underlying fundamentals, strong profits, beneficiaries of the artificial intelligence (AI) boom, apparent immunity from inflation and vagaries of interest rates, but there is no denying it was very narrow and concentrated in these mega-cap names. We must remember that no tree grows to the sky. These companies have experienced strong profit growth but profit growth will eventually slow to a more normal pace. Commodities were mixed with notable moves being Brent Oil down -7%, as non-OPEC production was higher than expected, and iron ore up 7% on the back of China’s increased crude steel production. Gold was the weakest performer, as the narrative around lower inflation and soft-landing dampened demand.

In Europe, our previous report highlighted the sluggishness of the manufacturing economies and in particular - Germany. The ECB will pivot to an interest rate easing stance despite the economic data becoming less bad. Investors appear to be expecting rate cuts to ease the headwind from restrictive monetary policy. However, consumer inflation expectations also increased, after having declined in the prior three months. This is the first batch of important data in the run-up to the January ECB meeting. The bad news is that a lasting disinflation trend cannot be taken for granted yet. At the same time, the improving economic situation does not require an early interest rate cut. Data still seems geared towards a wait-and-see position at least until the second quarter.

China’s policy meeting was disappointing in that there were no strong policy signals, however the background message appears to be that fiscal stimulus will continue to be used to prop up growth. Although annual growth recorded 5.2%, it underwhelmed expectations. Other data releases reveal that the economy continues to face potent headwinds. The GDP deflator – the broadest measure of inflation - declined 1.5% over the year corroborating the signal from falling producer and consumer prices. The property market is deteriorating with the contraction in new home prices and residential property sales deepening. The property slump and deflationary forces are weighing down on consumer sentiment. The 7.4% year-on year expansion in retail sales in December fell below an 8% forecast. The bottom line from the economic data released in January is that the outlook remains gloomy. The current policy stance is not accommodative enough to produce a cyclical recovery.

Following strong gains in October and November, Australia shed jobs in December. Full-time employment fell by 106,600. The unemployment rate held steady at 3.9% only because those looking for a job, gave up. Job vacancies continue to trend lower. Whilst employment seems to be weakening, inflation is still running at 4.2% - way above the Reserve Bank's 2-3% target. The RBA has been cautious since increasing the cash rate to 4.35% so that it doesn't crush the economy particularly given the level of mortgage debt. The cash rate is probably slightly restrictive, but not greatly so given the inflation rate. The real rate is about zero. A properly restrictive rate would be higher. For example, in the US, the cash rate is 2% above the inflation rate. The market is suggesting a rate cut by May. However, this seems to be optimistic given little prospect that inflation will fall materially by the end of 2024 to justify reduced rates beginning by May. The Australian share and bond markets seem to have run a little ahead of expectations in the short-term and could drift sideways or correct slightly.

As mentioned above, bond, share and property markets have moved up in expectation of lower interest rates in 2024. Although we are close to if not at the end of the interest rate tightening cycle in the US, Europe and potentially Australia, with further stimulus required in China, the path of reductions looks optimistic. Strong growth and low inflation with full employment equals economic Utopia. However, when an economy reaches full employment as is the case in the US and Australia today, the central bank needs to calibrate monetary policy almost perfectly to keep it there. If it does not cut rates fast enough, unemployment will increase; if it cuts rates too fast, inflation will rise. Against the backdrop of the current unsettled geopolitics, central banks are navigating a very narrow runway.

In terms of portfolio activity over the quarter, the Investment Committee took the opportunity to trim our overweight position in Hyperion and Vanguard Ethically Conscious Small Companies fund (VESG) and purchase Betashares FAIR (Australian share fund).

The Betashares FAIR exchange traded fund invests in Australian companies that have passed screens to exclude companies with direct or significant exposure to fossil fuels or engaged in activities deemed inconsistent with responsible investment considerations. These include energy companies. The fund returned 5.46% over the quarter, to be 11.27% higher over the year. Quarterly performance was slightly under the broad ASX 200 benchmark as underweight position in outperforming sector such as Energy and Materials, together with overweight position in underperforming sector such as Healthcare, detracted from Fund performance. International shares had a stellar return thanks to the technology sector. Within International shares, the Vanguard Ethically Conscious International Shares Index ETF (VESG) returned 6.35% for the quarter. Companies involved in artificial intelligence (AI) like Nvidia, Meta Platforms, Microsoft Corporation and Google in the US, helped performance once again this quarter.

The lift in technology company shares was very beneficial for the Hyperion global fund in the Enhanced international Shares component which has a large holding in ServiceNow, a cloud computing platform, whose share price increased by almost 100% over the year. The portfolio also holds music streaming giant, Spotify (+162%) and owner of facebook -Meta

Platforms (+216%). Both companies had a stellar year for their shareholders. In the Insync portfolio, Adobe Systems, Booking Holdings (owner of booking.com) and cruise ship operator Carnival Corp. all performed well for your portfolio.

Within the Enhanced Australian shares component, Australian Ethical finished the quarter behind the broader market due to their lack of holdings in Energy companies also, which generally fail to pass the manager's ethical screening process. Healthcare bounced back this quarter and, given it is one of the key overweight positions in the portfolio, it added to performance. Positively, Cochlear, a medical device company, reported a very strong result and was the portfolio's best performing stock for the quarter. Cochlear's strong financial position and bright outlook are helpful in supporting its valuation. It remains an attractive asset given it is a truly global medical device company with limited competitors. The Manager's holding of Resmed helped performance during the quarter.

The CARE ESG Conscious Defensive portfolio delivered a positive return of 4.12% over the December quarter outperforming the benchmark by a pleasing 0.33% thanks to strong performance from Realm and Franklin. Our conservative portfolio construction and the manager's security selection was an excellent result for our investors.

Returns in 2023 were very good. Markets are always forward looking and the likelihood of lower interest rates has been the catalyst for the returns. As we progress into 2024, these returns are likely to moderate but should remain strong particularly under a soft-landing scenario. However, the consumer in Australia enters 2024 in a weakened state which is remarkable given the still low level of unemployment. Australians are saving at the lowest level since the GFC reflecting a desperate response to a cost-of-living crisis that has seen real incomes decimated. The national accounts show that a significant driver of the destruction of real incomes has been by higher levels of tax through bracket creep along with higher interest payments.

The implosion in the rate of savings clearly follows a period of accumulation through the COVID period but we now know that the core consumption group of 24-55-year-olds have burnt through the buffers. It is hard to grow an economy given this backdrop.

RETURNS

31st December 2023

	1 Month	3 Months	6 Months	1 year
ESG Conscious Conservative	2.83	4.64	4.19	10.68
ESG Conscious Moderate	3.28	5.04	4.16	13.18
ESG Conscious Balanced	3.61	5.34	4.14	15.05
ESG Conscious Growth	3.94	5.64	4.12	16.92
ESG Conscious High Growth	4.39	6.04	4.10	19.41

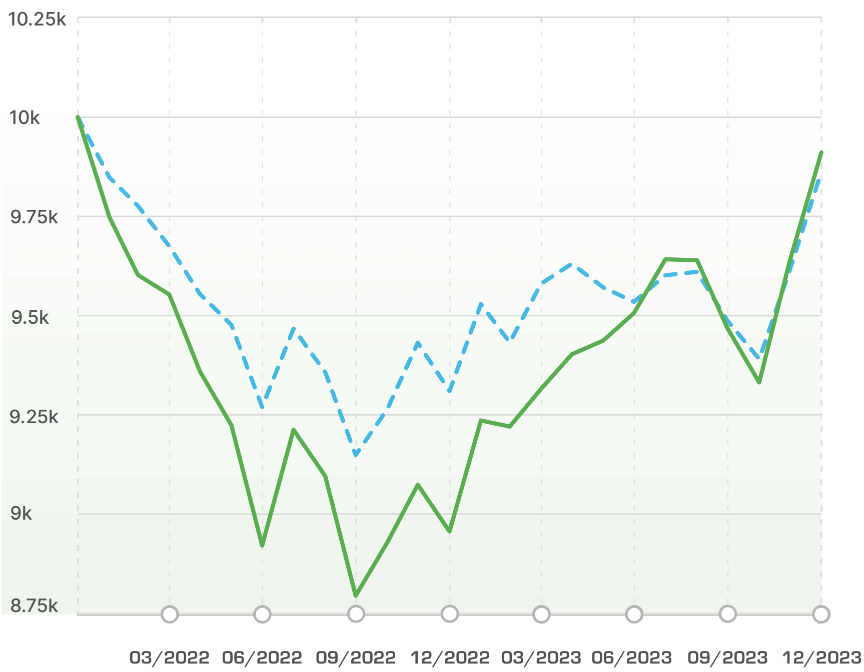
• Returns are based on model portfolios assuming benchmark allocation. The numbers are before tax, adviser fees or platform fees but are net of the CARE Investment Management fees.

Allocation

• The CARE Essentials returns are calculated assuming above allocation to the ESG Conscious High Growth portfolio and the ESG Conscious Defensive Portfolio.

	ESG Conscious High Growth	ESG Conscious Defensive
ESG Conscious Conservative	30%	70%
ESG Conscious Moderate	50%	50%
ESG Conscious Balanced	65%	35%
ESG Conscious Growth	80%	20%
ESG Conscious High Growth	100%	0%

GROWTH OF $10,000 SINCE INCEPTION



CONSERVATIVE

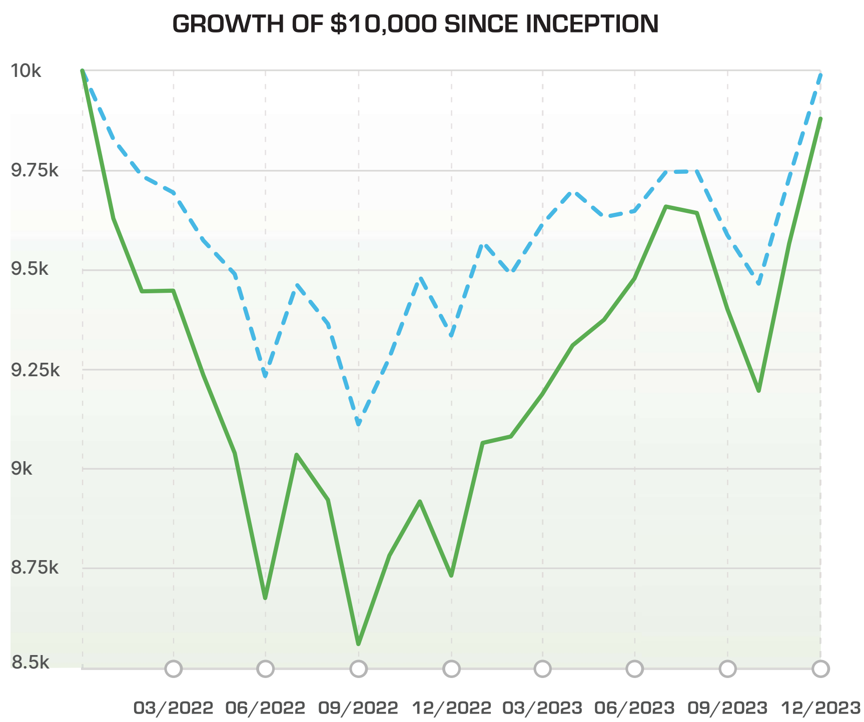
- CARE ESG Conscious
  Total Return AUD 9.91K
- Autralia Fund Multisector
  Total Return AUD 9.86K

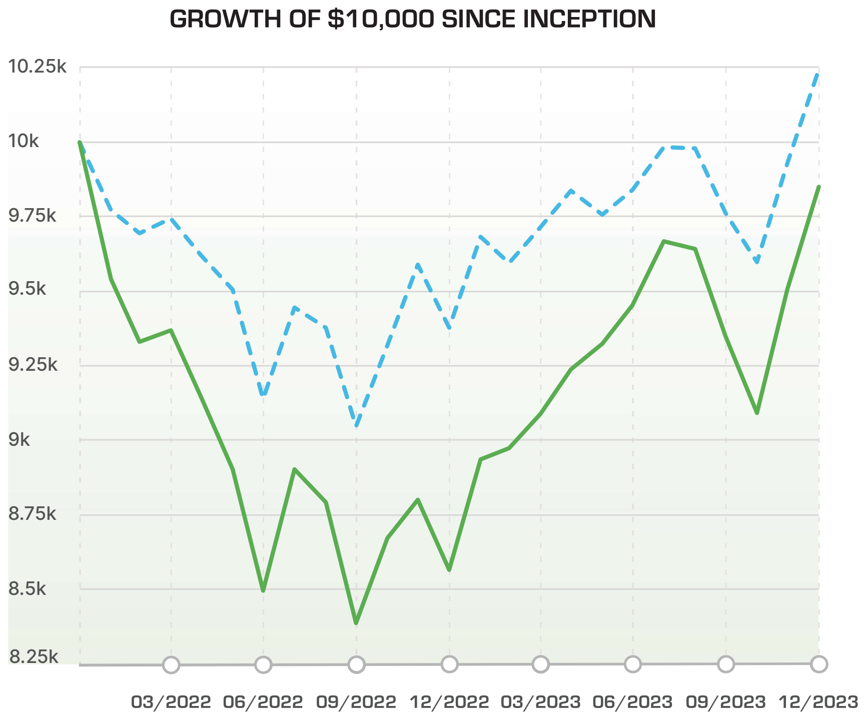
Time Period: 1/01/2022 to 31/12/2023
Source Morningstar Direct

MODERATE

- CARE ESG Conscious
  Total Return AUD 9.88K
- Autralia Fund Multisector
  Total Return AUD 9.99K

Time Period: 1/01/2022 to 31/12/2023
Source Morningstar Direct



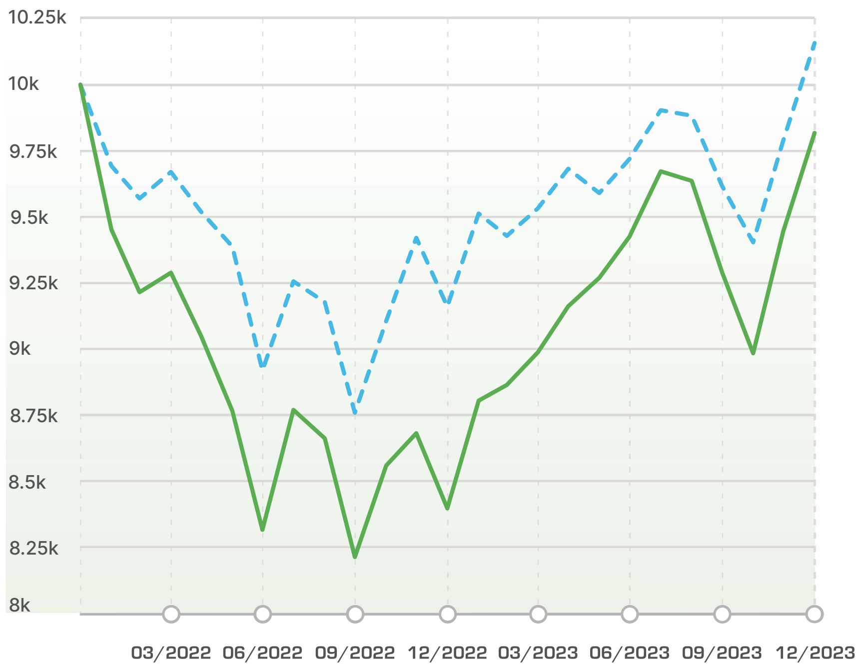


BALANCED

- CARE ESG Conscious
  Total Return AUD 9.85K
- Australia Fund Multisector
  Total Return AUD 10.24K

Time Period: 1/01/2022 to 31/12/2023
Source Morningstar Direct

GROWTH OF $10,000 SINCE INCEPTION



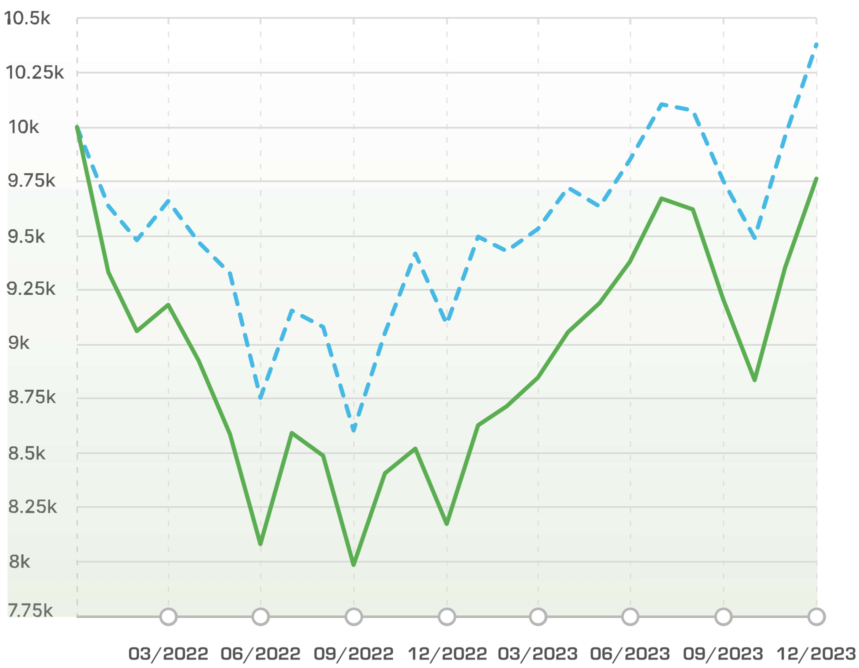
GROWTH

CARE ESG Conscious
Total Return AUD 9.82K

Autralia Fund Multisector
Total Return AUD 10.16K

Time Period: 1/01/2022 to 31/12/2023
Source Morningstar Direct

GROWTH OF $10,000 SINCE INCEPTION



HIGH GROWTH

CARE ESG Conscious
Total Return AUD 9.76K

Australia Fund Multisector
Total Return AUD 10.38K

Time Period: 1/01/2022 to 31/12/2023
Source Morningstar Direct

The CARE Investment Committee

Emmanuel Calligeris

Chairman BEc MBus (Finance)

Emmanuel is Chairman of the CARE Investment Committee. Emmanuel holds a degree in economics and worked as the Chief Investment Officer for OnePath Investments (the investment arm of ANZ Bank) for over 20 years where he was responsible for $13 Billion of funds under management.

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.

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.

Insight Wealth Planning

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