CAREphilosophy®

March 2020

CARE QUARTERLY NEWS LETTER

EXCITING LIFE BORING MONEY

and not the other way around

A virus pandemic, an oil crisis, financial market capitulation, toilet paper hoarding and media's unrelenting focus on negative news and anti-social behaviour. It's not all bad news.

Market bears point to the abysmally weak and weakening economic data to justify views of why the Australian and global share markets will retest their lows. All global economic data looks dire with year on year numbers meaningless.

Interest rates are low, Australian corporate balance sheets are generally strong, the Australian government has a strong fiscal position.

A vaccine will be found for COVID-19 and the economy will, eventually, return to normal.

GLOBAL OVERVIEW

The last quarter has been one of the strangest thus far in my 33-year career in financial markets, reflecting the plot of an Agatha Christie novel rather than reality. A virus pandemic, an oil crisis, financial market capitulation, toilet paper hoarding and media's unrelenting focus on negative news and anti-social behaviour. As the understanding of the ferocious virality of COVID-19 was understood, governments around the world announced major travel bans and lockdowns to control the outbreak. An induced recession was all but assured. The Australian share market (S&P ASX 200) reached a low point of 4402.05 on 23 March 2020 just over 4 weeks after reaching its high of 7197.2 on 20 February – a 35.3% fall. Market bears today point to the abysmally weak and weakening economic data to justify views of why the Australian and global share markets will retest their lows. All global economic data looks dire with year on year numbers meaningless. The fact that the economic data is going to worsen is a market known and as markets are a discounting mechanism of "known knowns", weak economic data may already be in the price. In fact, the Australian share market has recovered almost 21% since the low point suggesting that market participants are expecting a "v" shaped recovery. This is plausible as there has been a marked fall in new outbreaks in Australia arguably ahead of the initial predictions by the government and its advisers.

Still, the authorities will err on the side of caution before lifting social restrictions. If the current trend in containment continues, the domestic economy will likely be opened in the first two weeks of May. Borders however could be closed for many more months. When the border is re-opened, one could expect long delays in moving through immigration as testing will not be random. Further infection outbreaks may start at this time, but one hopes that a vaccine will be found before this occurs.

What will be evident when the economy rises from the ashes is that interest rates will be near 0%, inflation lower than even the most pessimistic predictions, non-existent wage pressures and the very real

Emmanuel Calligeris

Chairman of the CARE Investment Committee

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possibility that consumers build their savings which will limit consumption over the course of 2021. The situation remains extremely fluid.

Virgin Australia is set to become the most high-profile casualty of the COVID-19 pandemic. Whilst on the positive side, there are a number of interested parties, on the negative side, the future of some of its 10,000 staff could be in doubt. Virgin's worthiness as a business was already impaired carrying a large amount of debt prior to the coronavirus outbreak. Companies (just like mortgage holders) can only sustain their loans whilst revenue (and wages) are being earned. When income dries up, the ability to repay debt becomes a problem. In Virgin's case, a large one at that.

The other interesting issue that the pandemic has raised is that of industrial, retail and commercial (office) property. This may be listed on the stock exchange – for example Westfield shopping centre operator Scenter Group, or privately held. A positive outcome from this pandemic is the realisation that staff can efficiently and effectively work from home. When we emerge from the pandemic, companies may revisit how much space is required in order to conduct their businesses. We may well find that less space is required in future as more staff work from home. Companies may require less rental space providing cost savings to running those businesses.

The Australian Government's early access to $20 000 superannuation package to bridge the pandemic induced employment rout has thrown up an interesting issue also. Superannuation fund inflows have all but ceased and it is estimated that one million people have registered to access their funds. Some Superannuation Funds have become forced sellers of their privately held property assets. This may force them to accept a lower price than would otherwise have been the case. The CARE portfolios only invest global listed property.

It is highly liquid meaning it can be sold fairly quickly. It will be interesting to see whether the listed entities line up to buy privately held investments for a bargain or two through the issuing of more units (also known as rights issues).

This brings us to the very important issue of company recapitalisation more broadly. The past week has witnessed several companies issuing more shares including Metcash and Flight Centre and data centre operator NextDC. In the case of NextDC it was to pursue growth opportunities given that its shares were at an all-time high - a sign that its shareholders have faith in their management. In the case of the banks, ANZ stated that 14% of its outstanding home loan balances had requested a loan deferral which indicates that many of its customers "had not stashed away money for a rainy day." Despite the additional provisions, ANZ and NAB cited that in a worst-case scenario they may require a further $5.8bn to cover potential losses. NAB issued $3 billion in new shares to buffer future losses.

When black swan events such as the COVID-19 outbreak occur and fear and hysteria led by media hype become the norm, it becomes very difficult to calculate the true value of companies and the market. On the current estimate, it would appear that we have passed the fear and hysteria phase in Australia, but there seems to be a lot of work needed overseas particularly in the US where a second wave carries a high probability of occurrence if the public does not adhere to social distancing measures. Australia's borders are likely to remain closed for quite some time and the parts of the economy dependant on the rest of the world will likely continue to suffer. In this respect, we are watching the labour market for signs of prolonged weakness. Although a somewhat lagging indicator of economic activity, the labour market's health will be a key barometer of the overall health of the economy. We remain relatively optimistic that a return to "normal" will occur within a reasonable time.

Policy response by the Australian government has been swift and credible in size and the response by the Reserve Bank has been large and targeted. When the economy does rise from the ashes, the hunt for return will begin again 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 40% over the year in US dollar terms. Even in Australian dollar terms, the gold price increased by approximately 28%.

The CARE portfolio returns were negative over the quarter and the year ending March 2020. As was mentioned in the December 2019 quarterly report, the returns achieved by the portfolios were unsustainable and likely to moderate, but we did not anticipate the pandemic. International shares as represented by the MSCI Index, outperformed the Australian share market as the weaker Australian Dollar cushioned the fall in companies such as Tesla, Microsoft and Alphabet Inc. The sharp market moves saw Australian and international share exposure in the portfolios fall and the Investment Committee took the opportunity to rebalance into these shares which we felt had fallen too far. Fixed interest investments which increased in price over the quarter were sold to fund the share purchases. The CARE Core portfolios gain exposure to the Australian share market through the VAS and SMLL investments and to international shares via VTS, IOO, IEM, VEU and IJR. Each investment is highly diversified with VTS – the Vanguard Total US Market Share Exchange Traded Fund holding over 3500 US companies.

Within the Australian share market, travel and energy companies performed extremely poorly as one would expect following the isolation of people and fall in the price of oil. Flight Centre, Oil Search, Santos and Scentre Group retreated between 60 and 78% in price terms. Even Macquarie Bank declined by nearly 38% over the quarter highlighting the panic that set into markets. On the positive side A2 Milk (+18.4%), Resmed (+12.13%) and CSL (+7.87%) all performed well over the quarter. The resources sector which includes BHP, RIO and Fortescue Metals fell by less than the broader share market as these companies sell their goods in US dollars.

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 that the isolation measures saw an increase in Netflix subscriptions and personal electronic gaming company NVIDIA Corp. The share price increased 14% and 10% respectively over the quarter. Pharmaceutical company Gilead Sciences Inc. saw its share price increase by almost 15% as it gained approval for clinical trials on its Remdesivir. The drug has yet to be proven on the coronavirus. Cosco also performed well over the quarter for the same reasons that Coles and Woolworths performed well in Australia.

The Magellan investment outperformed the market by 10.8% over the year ending March which was pleasing. Over the quarter, the return was -1.2% representing a market outperformance of 8.1%. Two investments to rise were Microsoft and Tencent. Microsoft surged to a record high over the quarter after its cloud business helped the software company beat earnings and revenue forecasts for the fourth quarter of 2019 and then held up relatively well after it was judged a stock that would benefit from the world's switch to online due to the pandemic. Tencent rose on an improving earnings outlook and as the virus forced Chinese to work from home and engage more with the company's suite of digital services. The manager's largest detractors were the investments in Yum! Brands, Starbucks, HCA Healthcare and Facebook. Yum! Brands and Starbucks fell as their outlets were closed when countries ordered lockdowns or restrictions on restaurants to stop the transmission of the coronavirus – though the decline in Yum! Brands first started when the owner of KFC, Pizza Hut and Taco Bell restaurants reported a 2% decline in Pizza Hut's same-store sales for the

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fourth quarter. HCA Healthcare dropped after elective surgeries were deferred as hospitals built capacity to respond to the pandemic and investors weighed the impact of the unprecedented jump in US unemployment on HCA's revenue mix from different payers. Facebook fell after demand for advertising fell amid the health and economic emergency.

The WDIV index which seeks to invest in high dividend yielding companies globally returned -21.5% over the quarter and -11.7% over the year. The largest holding was German wireless telecommunications company Freenet AG 2.14% followed by Spanish Gas and Utilities company Enagas Sa representing 1.9% of the portfolio's 88 holdings.

Over the quarter, bond yields (longer term government interest rates) in the US fell as central banks decreased short term interest rates and began to print money again. The pandemic caused extreme volatility in bond markets also and in particular bonds issued by companies (not just those issued by sovereign governments). Central banks adopted a "whatever it takes" attitude to keep the financial institutions in particular but also premium (investment grade) companies like Boeing solvent.

Within the Enhanced Australian Shares portfolio Joseph Palmer and Sons remained defensive with a relatively high weight in cash as they waited for the opportunity to buy into a better value share market. The manager performed well in the downmarket relative to the index, 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 topped up over the quarter as they became cheaper and the manager purchased Sydney Airports and Ansell in the selloff. The cash holdings of the portfolio were reduced from 28% to 17%. 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 expressed in our last two CARE Quarterly Reports, all asset markets – shares, property and bonds, had reacted to the lower for longer interest rate theme globally. Term deposit rates were moving lower and that was likely to persist through to the end of 2020. With inflation rising by less than 2%, investors became mildly exuberant. The temptation, and compulsion, was for investors to reallocate funds to investments with a higher interest rate or potential return. However, we mentioned that such a strategy needed to be balanced off against increased risk.

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 seems to be unfolding as a very volatile year. We maintain the view that investing requires a rational approach and an appropriate investment time horizon. Financial markets will become obsessed over monetary policy settings, recession fears, trade wars geopolitics and pandemics. Opportunities will avail themselves to increase investment at good valuations such as that presented in the first quarter of 2020. Recession is a given however it has been induced. Monetary and fiscal policy settings have been adjusted pre-emptively in recognition of this fait accompli. Interest rates will remain low for the foreseeable future. The outlook now hinges on restarting the economic engine. Employment indicators will be paramount in gauging market strength over the next 6 months.

RETURNS

31ST MARCH 2020

By CARE Investment Strategy

LEGEND

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

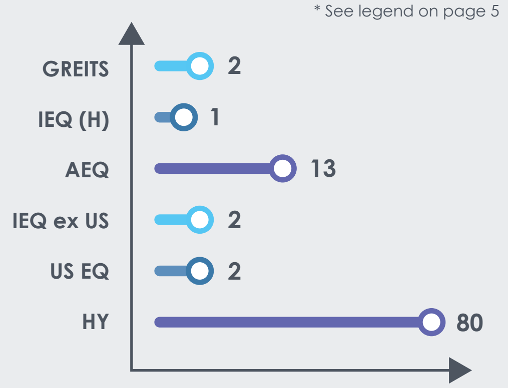
* Returns are based on model portfolio, benchmark allocation & assumes investment over 1, 3 & 5 years ending March 2020. The E (enhanced) component is assumed to be 50% Australian Equities & 50% International Equities. Past Performance is not indicative of future performance.
* The CARE portfolio Returns 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 31ST MARCH 2020

	1 Month	3 Months	6 Months	1 year	3 years	5 years
CORE Conservative	-5.10	-4.67	-4.64	-0.06	2.77	3.07
CORE Moderate	-8.03	-8.49	-8.00	-2.68	2.54	3.12
CORE Balanced	-10.75	-12.45	-11.12	-5.32	2.21	3.10
CORE Growth	-13.61	-16.19	-14.54	-8.16	1.99	3.04
CORE High Growth	-16.76	-20.11	-18.26	-11.26	1.49	2.79

YOUR CARE PORTFOLIO CONSERVATIVE

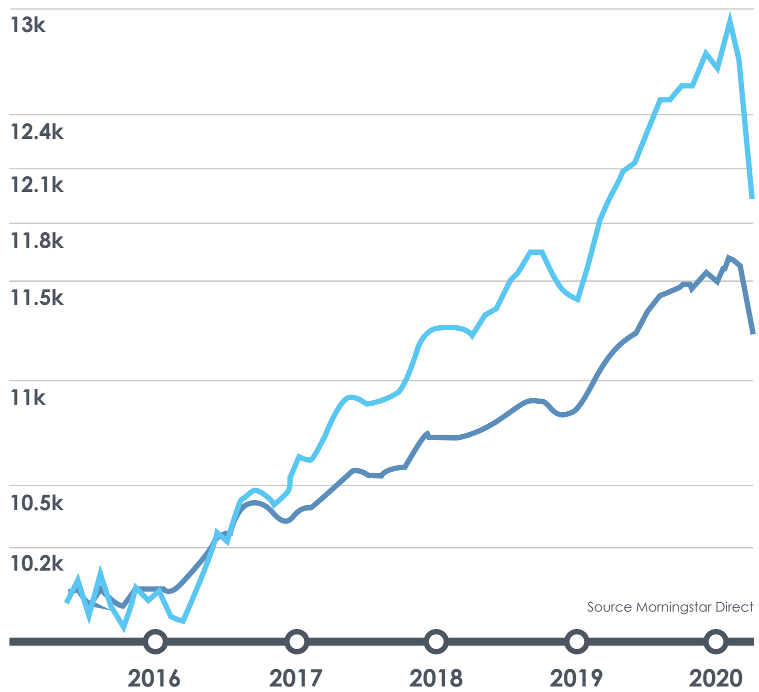
* See legend on page 5



50% AEQ – 50% IEQ

CARE CONSERVATIVE STRATEGY

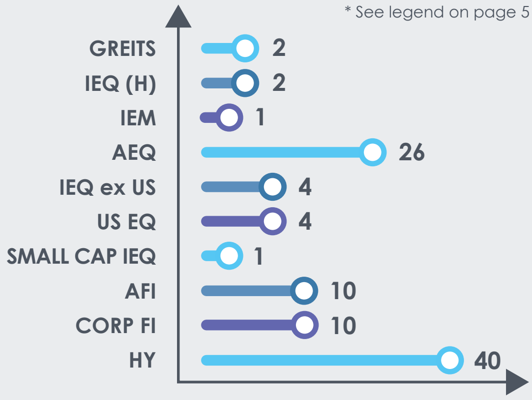
Growth of $10,000 over 5 years to 31 March 2020



CARE Conservative (50%AEQ - 50%IEQ) — Total Return AUD11.91K
Multisector Conservative Investor — Total Return AUD 11.22K

YOUR CARE PORTFOLIO MODERATE

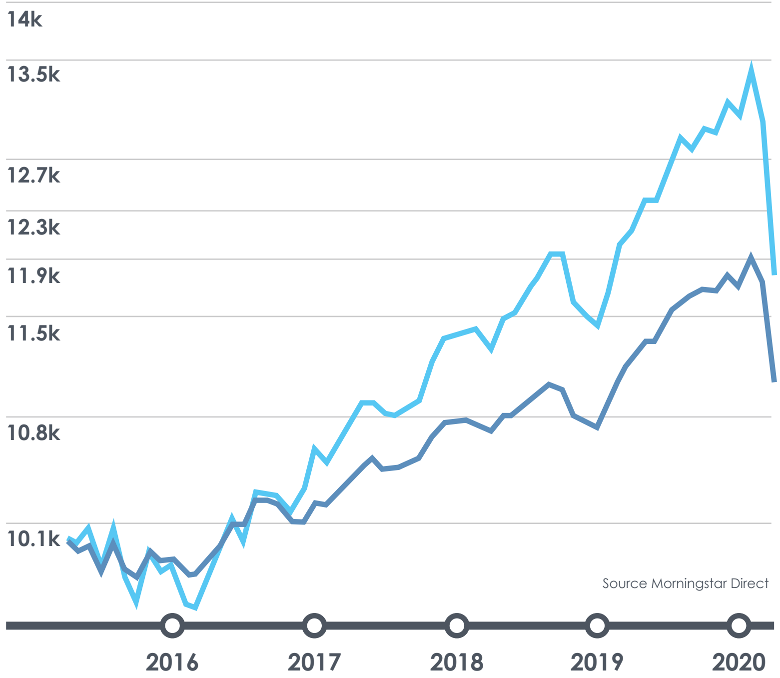
* See legend on page 5



50% AEQ – 50% IEQ

CARE MODERATE STRATEGY

Growth of $10,000 over 5 years to 31 March 2020

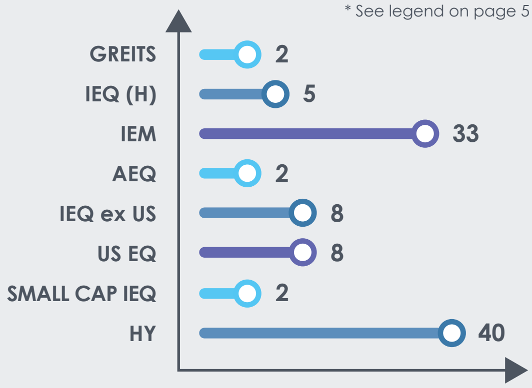


CARE Moderate (50%AEQ - 50%IEQ) Total Return AUD11.8K

Australia Fund Multisector Moderate Total Return AUD 11.04K

YOUR CARE PORTFOLIO BALANCED

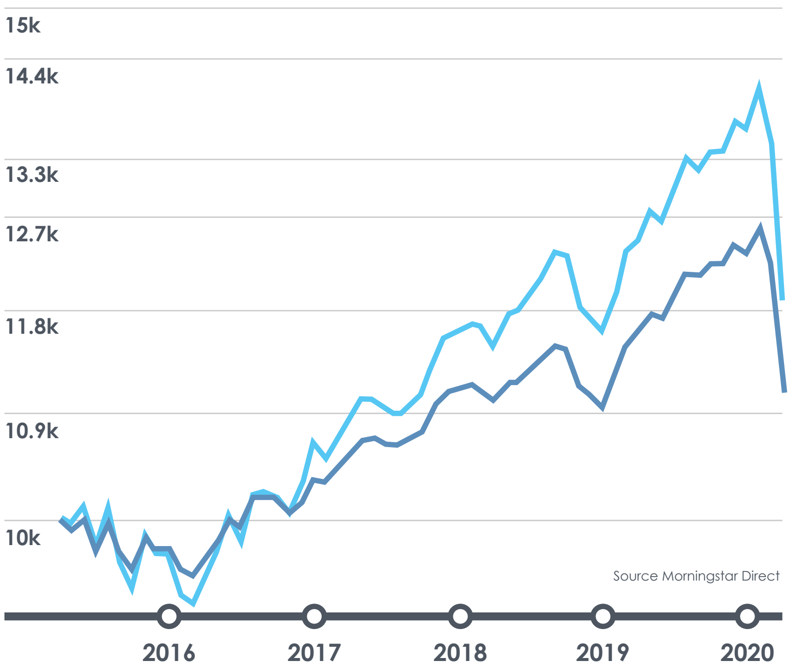
* See legend on page 5



50% AEQ – 50% IEQ

CARE BALANCED STRATEGY

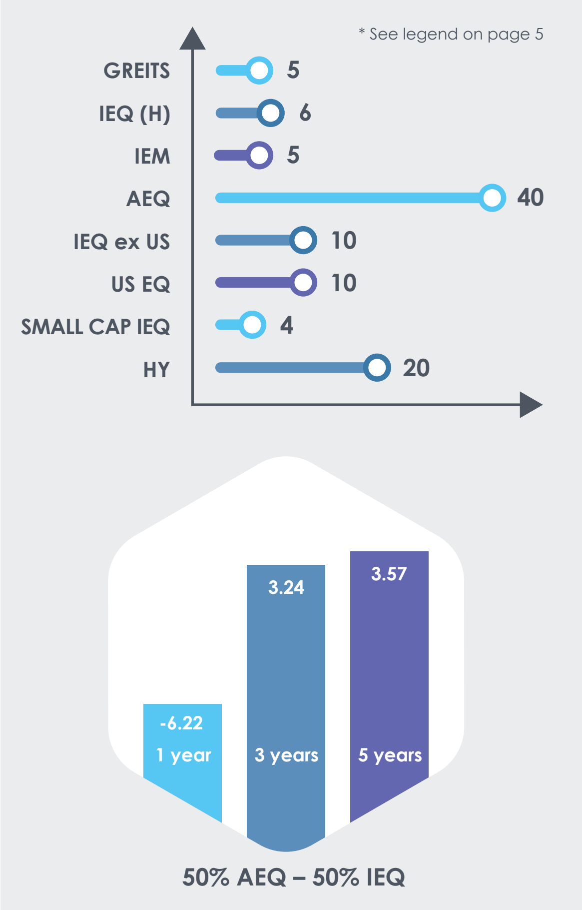
Growth of $10,000 over 5 years to 31 March 2020



CARE Balanced (50%AEQ - 50%IEQ) Total Return AUD11.88K

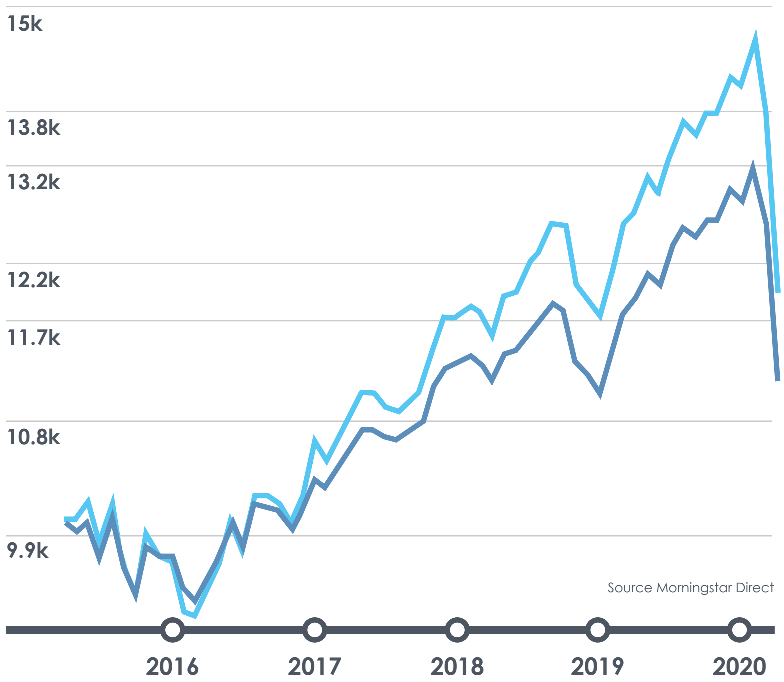
Australia Fund Multisector Balanced Total Return AUD 11.06K

YOUR CARE PORTFOLIO GROWTH



CARE GROWTH STRATEGY

Growth of $10,000 over 5 years to 31 March 2020



CARE Growth (50%AEQ - 50%IEQ) Total Return AUD11.95K

Australia Fund Multisector Growth Total Return AUD 11.14K

YOUR CARE PORTFOLIO HIGH GROWTH

CARE HIGH GROWTH STRATEGY

Growth of $10,000 over 5 years to 31 March 2020

CARE High Growth (50%AEQ - 50%IEQ) Total Return AUD11.98K

Australia Fund Multisector Aggressive Total Return AUD 11.42K

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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