CAREphilosophy®

September 2021

CARE QUARTERLY NEWSLETTER

EXCITING LIFE BORING MONEY

and not the other way around

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rebound off COVID-19 lows combined with transport disruptions caused several regional markets to see steep rises in prices

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of whether inflation is transitory or will reach a new high is likely to continue for some time yet with bond, share and property markets on high alert.

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from before the pandemic, but the one most are focused on is inflation.

GLOBAL OVERVIEW

Returning to (More) Normal

Asset markets retreated in September, taking a well-deserved breather from the frenetic pace of price rises over the past 18 months. Despite the fall over the month, financial markets posted a positive quarter and again had a strong year. The pullback in share markets around the world was driven by several factors including;

- Concerns about the slowdown in China and in particular the housing sector after Evergrande became the third property developer to default this year;
- The rise in bond yields as central banks signal the end of crisis-era interest rate settings with the Norges Bank raising rates, the Bank of England signalling rate rises later this year and the US Federal Reserve signalling a faster and earlier tapering of printing money to buy government and non-government bonds;
- Concerns over the US debt ceiling and;
- The impact of supply shortages (particularly in energy) caused by layoffs through the pandemic.

The domestic lockdown impacts showed up clearly in the employment data with job losses significantly higher than consensus. Unsurprisingly, the unemployment rate fell slightly to 4.5% as the job losses coincided with a sharp decline in labour force participation. Business confidence and business conditions both rebounded modestly in August, despite ongoing strict lockdowns across NSW and VIC. Australian consumer sentiment was also resilient, rising 2.0% in September after falling 4.4% in August, reflecting some consumer optimism in the vaccine roll-out and roadmap to exit lockdowns. We expect moderate growth in Australia over the next year.

In the US, more optimistic tones from the Central Bank caused bond prices to fall and another brush with the US debt ceiling caused uncertainty. More broadly, an energy demand rebound off COVID-19 lows combined with transport disruptions caused several regional markets to see steep rises in prices, with natural gas up 34%, thermal coal +21%, and Brent oil 7% higher over the month. Despite the fall last month, the US share market has risen again (at the time of writing) reflecting a good start to the September quarter profit reporting season and an inflation reading that was only slightly worse than

Emmanuel Calligeris

Chairman of the CARE Investment Committee

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feared. So far in the profit reporting season banks in the US have helped the share market rebound. Profits by JP Morgan and Goldman Sachs were boosted by stronger consumer credit card spending, financial market trading and merger and acquisition deals. Tesla had a strong profit result showing that margins were high and news that car rental company Hertz, ordered 100 000 new cars saw the share price rise considerably.

The U.S. headline inflation reading was slightly higher than expected, rising 0.4%, edging the annual inflation rate to 5.4%. Core consumer price inflation which excludes more volatile items such as food and energy, was in line with market expectations, posting a 0.2% per cent gain, keeping the annual rate steady at 4.0%. The ongoing debate of whether inflation is transitory or will reach a new high is likely to continue for some time yet with bond, share and property markets on high alert. Like the central bank, we expect the higher inflation readings will be transitory and should begin to abate as normalisation progresses. Other U.S. data was consistent with a strong US economy including a reduction for claims for unemployment benefits and stronger retail spending.

The Chinese economy appears to be losing steam hit by flooding, higher input prices, curbs on the property sector and polluting industries and the recent flare-up in domestic Covid-19 cases leading to renewed mobility restrictions. Growth in retail sales, industrial production, exports and fixed investment undershot market expectations, while manufacturing activity data dipped. This comes after underlying momentum improved in the second quarter amid soaring exports and stronger retail sales. The government has intensified a regulatory crackdown, hitting large technology companies with probes and fines, announcing new antitrust and data regulations, restricting foreign companies from listing on the stock exchange and banning for-profit tutoring. While consistent with Beijing's renewed focus on social welfare and reducing inequality, the measures run the risk of harming business sentiment and investment. Growth should remain robust however, further domestic Covid-19 outbreaks are a key risk given the government's zero-tolerance approach, while tense relations with the West, elevated corporate debt levels and regulatory clampdowns further cloud the outlook. Monetary policy will tilt towards an easing bias and then result in a reduction of interest rates, despite the disappointing credit data and even if the possibility of aggressive easing remains low. More targeted support to small and medium sized businesses will likely continue, and new credit facilities to support firms engaging in decarbonisation may start to operate in the very near future. Thanks to the back-loaded local bond issuance and fiscal resource deployment, there is room for more active government spending support through infrastructure investment.

A risk is the potential collapse of Chinese developer Evergrande. Financial market commentators have drawn parallels between the recent credit events in China and past crises, such as the 2008 US subprime crisis triggered by the collapse of the US investment bank Lehman Brothers and the 1998 collapse of hedge fund Long-Term Capital Management. Others have linked these events to the bursting of Japan's real-estate bubble in the 1990s. Excessive indebtedness and overvalued assets triggered market instability in those cases. However, none of those situations offers appropriate insights into events in China. These have involved systemically important institutions (SIIs) in a system that is driven by policy rather than by the market. It is hard to see that Evergrende's woes will spread and lead to the collapse of the Chinese banking system. It is likely though that it will create a deflationary pulse on the economy suggesting interest rates will be lowered.

China's construction industry accounts for more than half of the steel used in the country. Coupled with supply coming onstream this has led to a fall in the price of iron ore. The share prices of BHP, RIO and Fortescue have all fallen substantially as a result. A spike in short positions in these companies, broker downgrades and panic selling tells the tale of the commodity's swift fall from grace. The iron ore price fell to $US107 a tonne and now sits 55% below the record high of $US237.57 a tonne reached just four months ago. We watch the development here closely as it may have wider ramifications than just the iron ore sector.

The jump in energy prices resulted in a stellar return for the Energy sector. Companies such as Oil Search, Santos, Beach Petroleum and Whitehaven Coal all performed well. Other companies that performed well over the quarter were Australian technology company Wisetech Global, whose share price increased 65% over the quarter following a good profit report and management's positive outlook. Ausnet Services (+44%) and Sydney Airport (+43%) also performed well. Ausnet benefit from the increase in internet usage as we stayed home and Sydney Airport was the subject of a takeover bid at $8.75 per share. This was a substantial premium to the price it was trading on the date of the announcement. As mentioned above Materials (-9.3%) was the worst performer, driven down again by the continued pull back in the iron ore price. Gold fell 3.4% as the Federal Reserve signalled a sooner-than expected rate hike in the US. These companies are held within the Vanguard Australian Shares investment in the portfolio.

International share markets ended the quarter 4% higher in Australian dollar terms to be 27.8% higher over the year. The US share market ended flat over the quarter although Netflix +(14%) Tesla (+14%) and Cosco (+14%) all had a strong quarter whilst parcel delivery company UPS (-13%) and rail transportation company Union Pacific (-12%) performed poorly. These Companies are in the VTS exchange traded fund in the portfolios which returned 31% over the year.

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Emerging market shares performed poorly over the quarter decreasing by 5% predominately led by China for reasons noted above. International smaller companies as represented by the IJR exchange traded fund in the portfolios had a stellar year, rising by 56%. Like their large company counterparts, energy company share prices increased over the quarter. Range resources, a natural gas and oil company, increased 35% over the quarter whilst the second largest holding Omnicell, a healthcare company, saw its share price fall marginally over the period. This weakness was short lived as Omnicell received a takeover bid in early October.

Global property trusts, represented by DJRE in the CARE portfolios, increased a further 3.8% over the quarter bringing the total return over the year to just shy of 32%. The Australian and global bond markets ended the quarter with a near 0% return as investors fretted over China and the possibility of higher inflation.

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 Enhanced International Share portfolio was re-balanced at the beginning of the quarter. The Magellan investment was replaced with Hyperion Asset management and Insync Funds Management. The move was timely as Hyperion's largest portfolio holding is Tesla which increased substantially since the manager was appointed. It is still early in the portfolio's transition, however our analysis suggests that these managers will combine with WDIV investment to produce strong long term returns. The rotation into cheaply priced companies which benefit from strength in the economy continued. The WDIV investment was able to hold its ground in the broader market sell off benefiting from its exposure to oil company Exxon Mobil and Keyera Corp, a LNG company in Canada.

The Enhanced Australian Shares portfolio outperformed the index by 0.81% over the quarter however performance was below the broader market over the year. This type of performance is expected by managers like this, that aims to protect capital as markets fall. The manager's 17% cash holding was certainly a help in September. Amongst the better performing companies were Flight Centre which should benefit when we begin to travel again. The company's share price increased 45% over the quarter. Sydney Airport received a takeover bid by a consortium of industry funds and private equity and Spark Infra-structure. 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 iron ore miners Fortescue Metals and BHP. The other disappointment was AGL whose embattled board was dealt a humiliating defeat over an activist climate resolution proposed at its annual meeting that further ramps up pressure on emissions reduction ahead of its controversial demerger. Fruit and vegetables company Costa Group continued to struggle this quarter due to ongoing labour shortages among fruit and vegetable pickers, due to Covid, being a handbrake on profits.

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 key variable in the economic outlook continues to be the pandemic. Abating numbers of confirmed global virus cases, the ramp-up of vaccinations around the world, and Merck's announcement is good news for a world economy still not fully reopened. The known unknown is the potential for new mutations. However, these developments offer relief and a roadmap of hope that the marginal impact of any new wave will decline as we learn to live with the virus and new therapeutics overcome this disease allowing the renormalisation of lives.

For bond yields, renormalisation has been a two-step-forward, one-step-backward shuffle to date. The upward trend has been relatively meek. Yields are still below March levels. Chinese 10-year bond yields have retreated to levels that existed in February 2020, following policy renormalisation in August of last year. Despite the increase in yields, there is not much incentive to own developed country fixed-income, yet yields remain low—negative in Germany— and the dollar is stable. A lot has changed from before the pandemic, but the one most are focused on is inflation. The Federal Reserve and European Central Bank are betting that current inflation is mainly due to supply side distortions. Once those supply factors improve, prices will stop going up and inflation will retreat. The risk is that they are not temporary, central banks fall behind the curve, and inflation becomes more systemic. It is still too early to tell.

RETURNS

30th September 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

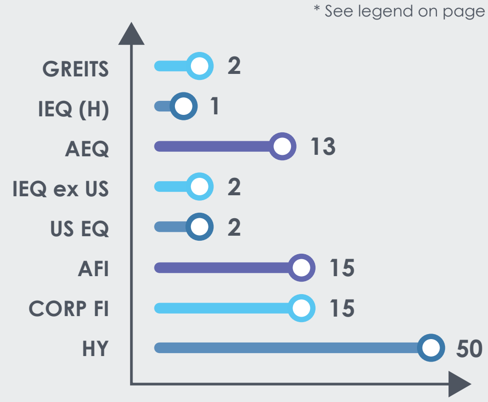
* Returns are based on model portfolio, benchmark allocation & assumes investment over 1, 3 & 5 years ending September 2021. The E (enhanced) component is assumed to be 50% Australian Equities & 50% International Equities. Past Performance is not indicative of future performance.
* The CARE portfolio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

	1 Month	3 Months	6 Months	1 year	3 years	5 years
CORE Conservative	-0.66	0.90	3.41	7.21	5.04	4.83
CORE Moderate	-0.91	1.18	5.05	12.67	6.34	6.49
CORE Balanced	-1.11	1.50	6.86	19.07	7.66	8.29
CORE Growth	-1.41	1.74	8.49	24.70	8.79	9.75
CORE High Growth	-1.74	1.91	9.91	30.52	9.82	11.11

YOUR CARE PORTFOLIO CONSERVATIVE

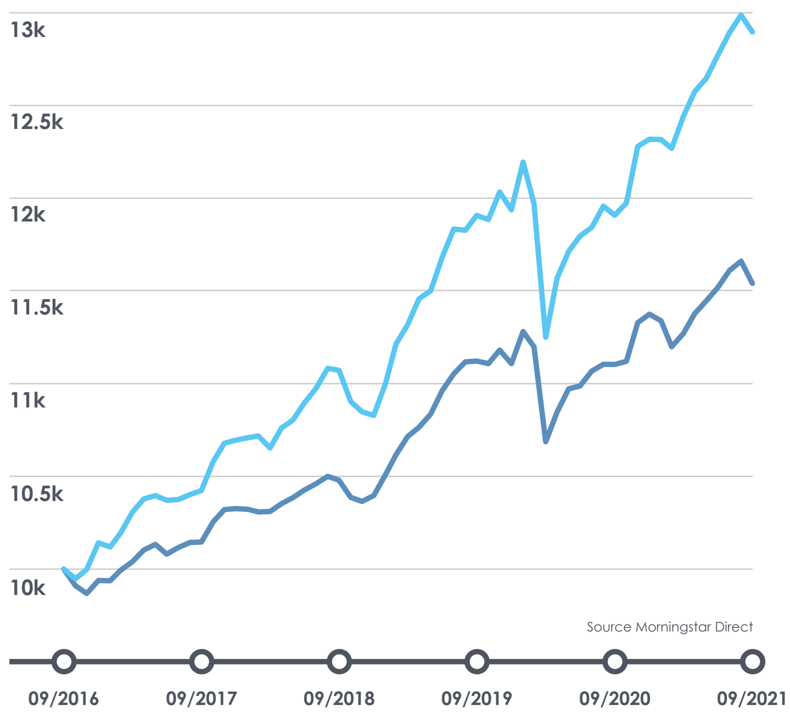
* See legend on page 5



50% AEQ – 50% IEQ

CARE CONSERVATIVE STRATEGY

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

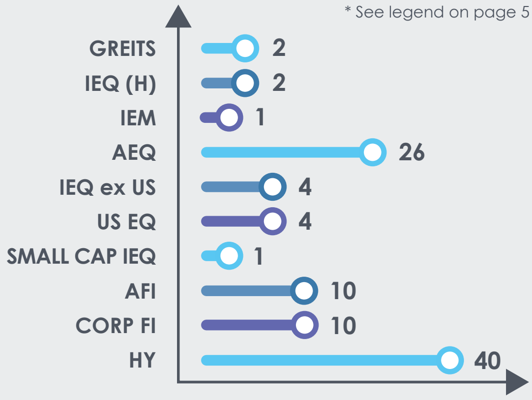


CARE Conservative (50%AEQ - 50%IEQ) — Total Return AUD 12.89K

Multisector Conservative Investor — Total Return AUD 11.54K

YOUR CARE PORTFOLIO MODERATE

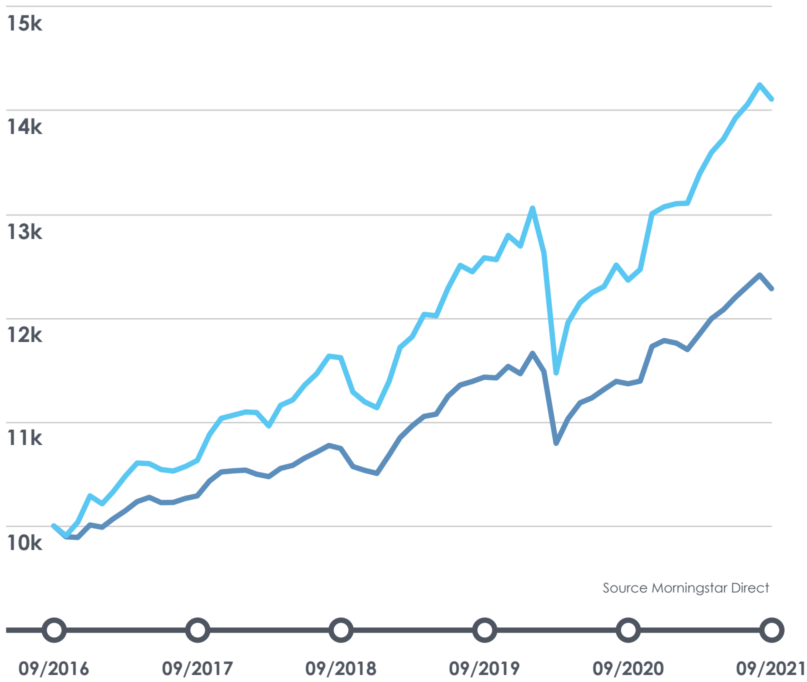
* See legend on page 5



50% AEQ – 50% IEQ

CARE MODERATE STRATEGY

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

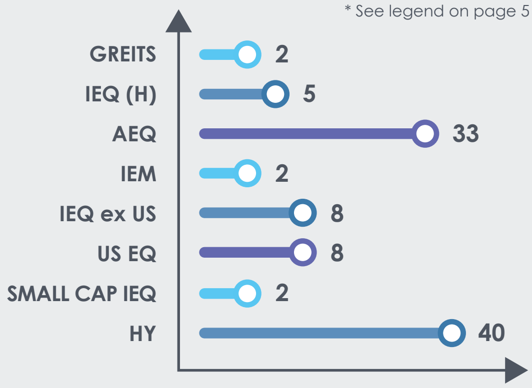


CARE Moderate (50%AEQ - 50%IEQ) Total Return AUD 14.11K

Multisector Moderate Investor Total Return AUD 12.28K

YOUR CARE PORTFOLIO BALANCED

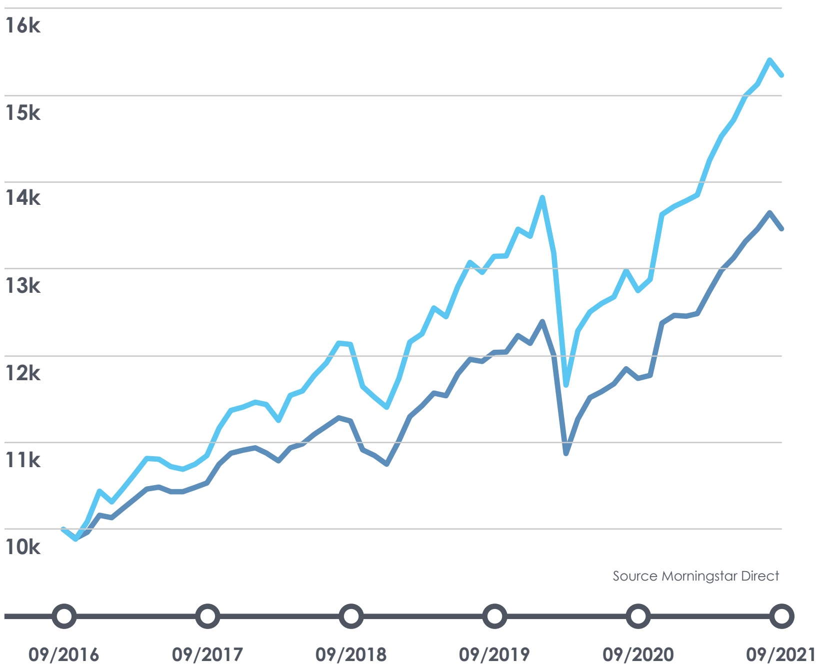
* See legend on page 5



50% AEQ – 50% IEQ

CARE BALANCED STRATEGY

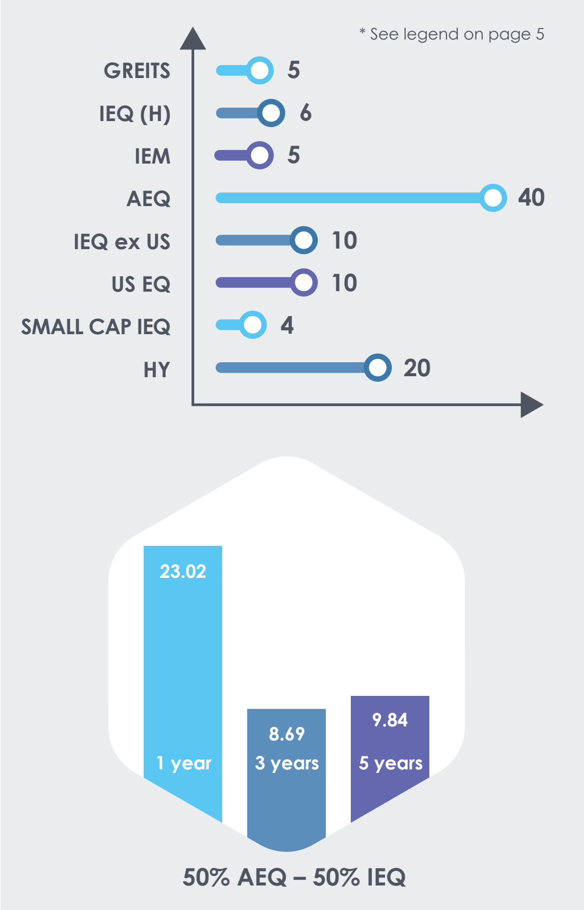
Growth of $10,000 over 5 years to 30 September 2021



CARE Balanced (50%AEQ - 50%IEQ) Total Return AUD 15.23K

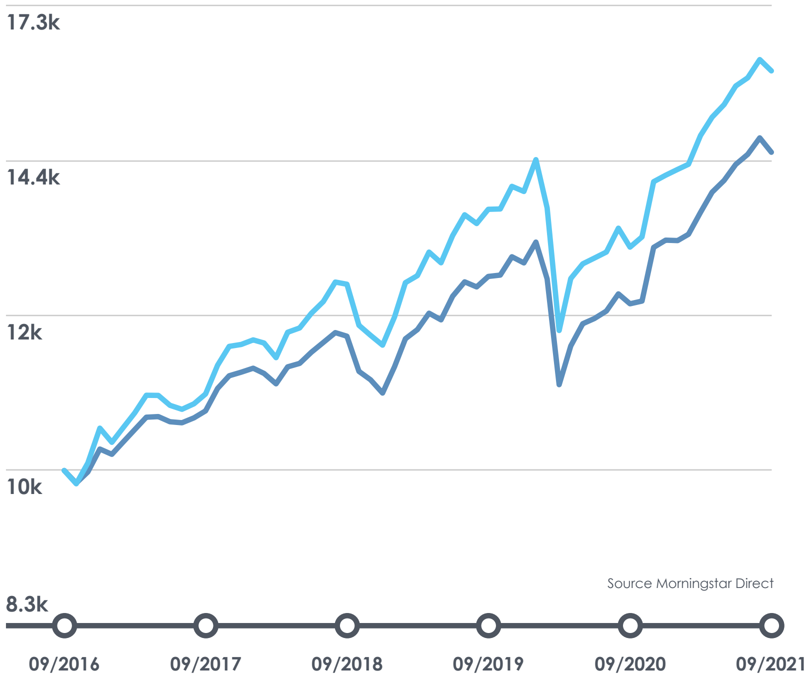
Multisector Balanced Investor Total Return AUD 13.46K

YOUR CARE PORTFOLIO GROWTH



CARE GROWTH STRATEGY

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



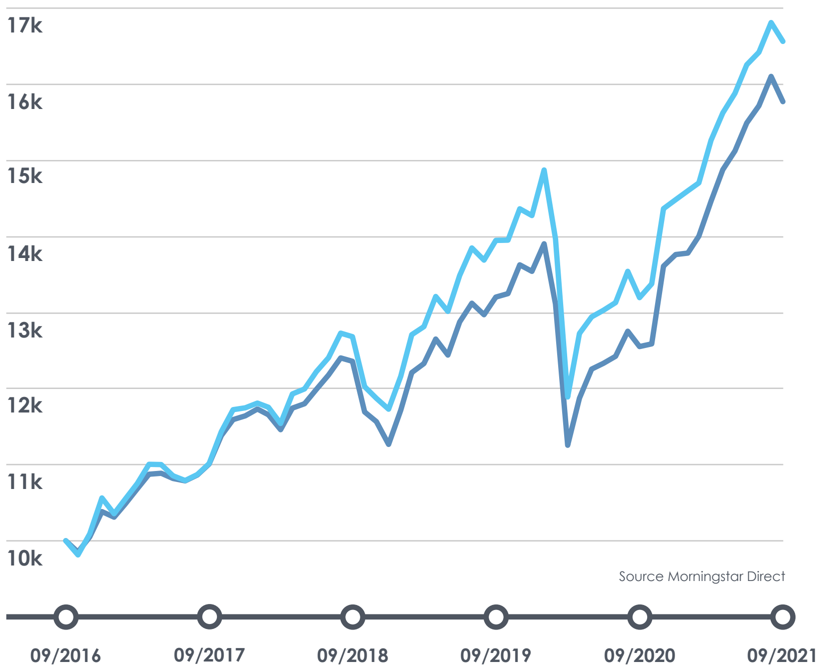
CARE Growth (50%AEQ - 50%IEQ) Total Return AUD 16.00K

Multisector Growth Investor Total Return AUD 14.54K

YOUR CARE PORTFOLIO HIGH GROWTH

CARE HIGH GROWTH STRATEGY

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



CARE High Growth (50%AEQ - 50%IEQ) Total Return AUD 16.56K

Multisector High Growth Investor Total Return AUD 15.77K

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.

BLUE CHIP Wealth Management

Blue Chip Wealth Management Pty Ltd

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