Hatch Financial Planning

Quarterly Update JUNE 2019

EXCITING LiFE

Boring Money

.... and not the other way around

CARE QUARTERLY NEWSletter

GLOBAL OVERVIEW

- THE G20 SUMMIT AND THE ONGOING TRADE WAR BETWEEN THE US AND CHINA DOMINATED FINANCIAL MARKET MOVEMENTS IN THE QUARTER.
- IN AUSTRALIA RBA REDUCED THE CASH RATE BY A FURTHER 0.25% TO JUST 1%. IT IS A RECORD LOW THAT WILL LIKELY BE BROKEN BEFORE YEAR END.

CAREphilosophy

EMMANUEL CALLIGERIS
Chairman of the CARE Investment Committee

Bond, share and listed property markets had a strong quarter to June 2019. The G20 Summit and the ongoing trade war between the US and China dominated financial market movements. Share markets moved higher because interest rate markets moved to factor in lower rates around the world reflecting lower economic growth thanks to the threat of a further increase in tariffs. There was a truce of sorts in the trade war following the G20 meeting. The trade truce will now allow the Federal Reserve to reassess its next move regarding interest rates as markets moved to expect two reductions by the end of 2019 at the most pessimistic point in the trade wars. That has since been parred back to 1 cut by year end.

The Federal Reserve's willingness to offset the trade war's negative impact on the economy could encourage an even tougher stance on trade by the US Congress on China, which could trigger even more interest rate accommodation. This would not be ideal. It is likely that the US has entered a long period where interest rates will be on hold however this outlook will depend on the strength of the US dollar. On the economic front there was little data released to alter the view of slower growth in the near term.

The Chinese economy has lost some momentum amid the escalating trade war with the United States. The GDP growth rate slowed to 6.2% from 6.4%. Manufacturing, which makes up a large part of the economy, has weakened. The manufacturing

THE TRADE TRUCE WILL NOW ALLOW THE FEDERAL RESERVE TO REASSESS ITS NEXT MOVE REGARDING INTEREST RATES.

data suggests that the economy is running below potential. The reading pointed to the first contraction in factory activity since February, as new orders, overseas sales and output all declined. In addition, employment dropped further, with evidence suggesting that voluntary leavers had not been replaced. Business confidence was broadly neutral, with some companies expecting the launch of new products and expansion plans to boost output in the year ahead, while others were concerned about the ongoing trade tensions. Although retail sales posted a noticeable improvement, this mostly reflected a seasonal distortion related to the Labour Day holiday. The collapse of Baoshang Bank by regulators on 24 May sparked concerns about the health of China's financial system, especially small lenders, and caused primary credit rates to rise. The bank collapse was more related to fraud as opposed to the risk around the total financial system.

In Europe, growth has stabilised however it would be hard to conclude that the

- THERE WAS A TRUCE OF SORTS IN THE TRADE WAR FOLLOWING THE G20 MEETING. THE TRADE TRUCE WILL NOW ALLOW THE US FEDERAL RESERVE TO REASSESS ITS NEXT MOVE REGARDING INTEREST RATES AS MARKETS MOVED TO EXPECT TWO REDUCTIONS BY THE END OF 2019 AT THE MOST PESSIMISTIC POINT IN THE TRADE WAR. THAT HAS SINCE BEEN PARED BACK TO 1 CUT OR 0.25% (FROM 2.5%) BY YEAR END.

- THE CHINESE ECONOMY HAS LOST SOME MOMENTUM AMID THE TRADE WAR WITH THE UNITED STATES. THE GDP GROWTH RATE SLOWED TO 6.2% FROM 6.4%. MANUFACTURING, WHICH MAKES UP A LARGE PART OF THE ECONOMY, HAS WEAKENED. THE MANUFACTURING DATA SUGGESTS THAT THE ECONOMY IS RUNNING BELOW POTENTIAL.

- IN EUROPE, GROWTH HAS STABILISED HOWEVER IT WOULD BE HARD TO CONCLUDE THAT THE ECONOMY IS HEALTHY. ITALY EMERGED FROM RECESSION AND GERMANY SAW STRONGER GROWTH, HOWEVER INFLATION IS LOW. FORECAST GROWTH REMAINS UNCHANGED AT 1.4% IN 2019 AND 1.6% IN 2020. IT IS LIKELY THAT ANOTHER ROUND OF MONEY PRINTING WILL OCCUR BEFORE YEAR END.

economy is healthy. Italy emerged from recession and Germany saw stronger growth, however inflation is low. Forecast growth remains unchanged at 1.4% in 2019 and 1.6% in 2020. The recent euro area employment report showed the unemployment rate improved, falling to 7.5%, which was the lowest reading since July 2008. Quantitative easing (or money printing) has and will continue with yet another version likely later this year.

In Australia RBA reduced the cash rate by a further 0.25% to just 1%. Governor Lowe has made it clear that there is more spare capacity in the labour market than previously thought with full employment likely to be closer to 4.5% than 5% as previously thought. This means that wage inflation is unlikely to drive inflation higher in the near term. It is widely understood that monetary policy alone cannot reduce spare capacity in the economy nor get inflation back into the 2 to 3% target band. Fiscal policy will need to be eased further through further tax cuts and infrastructure spending. To this end, tax cuts have been passed by Parliament which should help boost consumer spending in the near term. Our outlook for the Australian economy is for low and steady growth. This was reinforced by the CBA PMI surveys that covers manufacturing and services, or 75% of GDP. Flash PMI data for June signalled a further pickup in growth momentum across the Australian private sector. Output and new business both expanded. Overall it was an encouraging result, particularly for the services sector. The uncertainty generated by the federal election has been removed which appears to have had a positive impact on business activity. On the housing front, there are some early signs of stabilisation with the monthly house price falls becoming smaller and auction clearance rates have lifted. Volumes though have been well down.

The Australian share market increased 8% over the quarter to be 11.5% higher over the year. Interest rate sensitive companies performed strongly over the quarter including property trusts and infrastructure which increased 4.1% and

THIS MEANS THAT WAGE INFLATION IS UNLIKELY TO DRIVE INFLATION HIGHER IN THE NEAR TERM. IT IS WIDELY UNDERSTOOD THAT MONETARY POLICY ALONE CANNOT REDUCE SPARE CAPACITY IN THE ECONOMY NOR GET INFLATION BACK INTO THE 2 TO 3% TARGET BAND.

4.5% respectively. Both asset classes increased by 19.1%. over the year. These asset classes include such companies as Goodman Group, Dexus, Transurban and Sydney Airport. These companies are within the VAS and DJRE investments in the CARE portfolios. Other companies that performed well included gold produce Newcrest Mining (+27%), health insurer Medibank Private (+26%) and gaming machine manufacturer Aristocrat Leisure (+24%). Companies that weighed on performance included South 32 (-15%), Oilsearch (-11%) and AGL (-7%). Banks increased after the surprise election win by the Coalition as the franking credit policy was unchanged.

International share prices increased by 5.2% over the quarter and 11.5% over the year. Shares in US technology companies increased strongly again over the quarter. Digital wireless telecommunications company QUALCOMM increased 32% and Facebook increased 14% on better than expected (advertising) sales, the company hinted it was near a settlement with US authorities over privacy violations, and its plans for a digital currency Libra were well received. Microsoft surged to record highs as profits exceeded expectations thanks to strong growth from the Azure cloud computing business. SAP climbed after the German software company raised its fiscal 2019 profit forecast thanks to its thriving cloud-computing business, and prominent 'activist' shareholder Elliott Management announced it had bought a stake in SAP and endorsed the company's new plan. These companies are held in the VTS investment in the CARE portfolios and within the Enhanced international share portfolio managed by Magellan. Other companies that performed well for the portfolio included Disney (24%) and insurance and financial services company AIG which increased 21% over the quarter. Companies that performed poorly include Du Pont, a chemical company and 3M (-18%). Du Pont missed its profit guidance whilst 3M's net sales were 5% lower than a year ago.

Within the CARE Enhanced international shares fund the largest detractors included the investments in Alphabet and Lowe's (America's equivalent of Australia's Bunnings Warehouse). Alphabet declined after the House of Representatives said it was launching a broad anti-trust investigation into technology companies including Alphabet's Google. Lowe's fell after rising merchandise costs forced the home-improvement retailer to report lower-than-expected profits for the quarter and to reduce its full-year profit forecast. The WDIV index which seeks to invest in high dividend yielding companies globally returned 4.24% quarter and 9.42% over the year. The income produced by this investment was 5.4% over the year consistent with its methodology. The largest holding is Swedish fashion retailer H&M and Klépierre - a French real estate investment trust and Europe's second-biggest publicly traded mall operator.

Within the Enhanced Australian Shares portfolio Joseph Palmer and Sons performed well over the year. Some of their core traditional stocks, notably Telstra, Westpac and Commonwealth Bank enjoyed strong gains. Telstra's recovery is particularly noteworthy, returning over 50% for the financial year, represented by their ordinary and special dividends, plus their considerable price rise. The manager has been gradually selling these companies and introducing some new stocks, including InvoCare, Link Administration and Costa Group. The portfolio structure 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.

The CARE Investment Committee rebalanced the CORE portfolios over the quarter by decreasing Australian Shares (VAS) and increasing the portfolio's exposure to international emerging market shares (IEM) and international developed market shares outside the US (VEU). In the Active portfolio all asset classes remained fully invested. Gold performed particularly well in light of the instability caused by trade war rhetoric. These rebalances are in line with the CARE Investment Philosophy that it is good practice to move back to the long-term strategic asset allocation of the portfolio when short term asset prices deviate from their long term expected returns.

All asset markets – shares, property and bonds, have reacted to the lower for longer interest rate theme globally. This is likely to persist through to the end of the year, but we would not be surprised if we see intermittent price corrections between now and then. 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 and geopolitics. Opportunities will avail themselves to increase investment at good valuations such as that presented in the last quarter of 2018. Recession could occur at some point but only if interest rates become restrictive. The economic indicators in the US are still firm and do not suggest that the interest rate settings in the US are likely to cause recession in the near term. The same is true for Australia. Employment growth is strong and the official interest rate set by the Reserve Bank of Australia is low and shows no sign of rising any time soon, government spending is strong and investment intentions are also firm.

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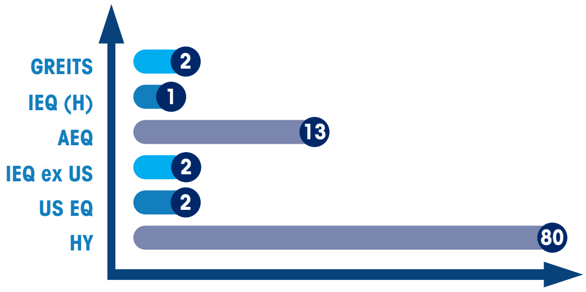
RETURNS TO THE 30TH JUNE 2019

by CARE Investment Strategy

GPS CORE PORTFOLIO RETURNS TO THE 30TH JUNE 2019

	1 year	3 Years	5 Years
CORE Conservative	6.41	5.36	5.00
CORE Moderate	6.93	7.11	6.22
CORE Balanced	6.95	8.84	7.30
CORE Growth	7.59	10.35	8.70
CORE High Growth	8.25	11.91	9.82

YOUR CARE PORTFOLIO CONSERVATIVE



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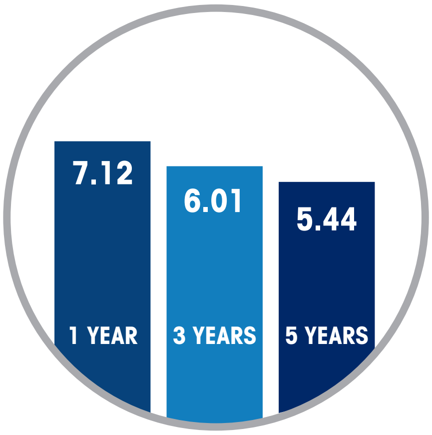
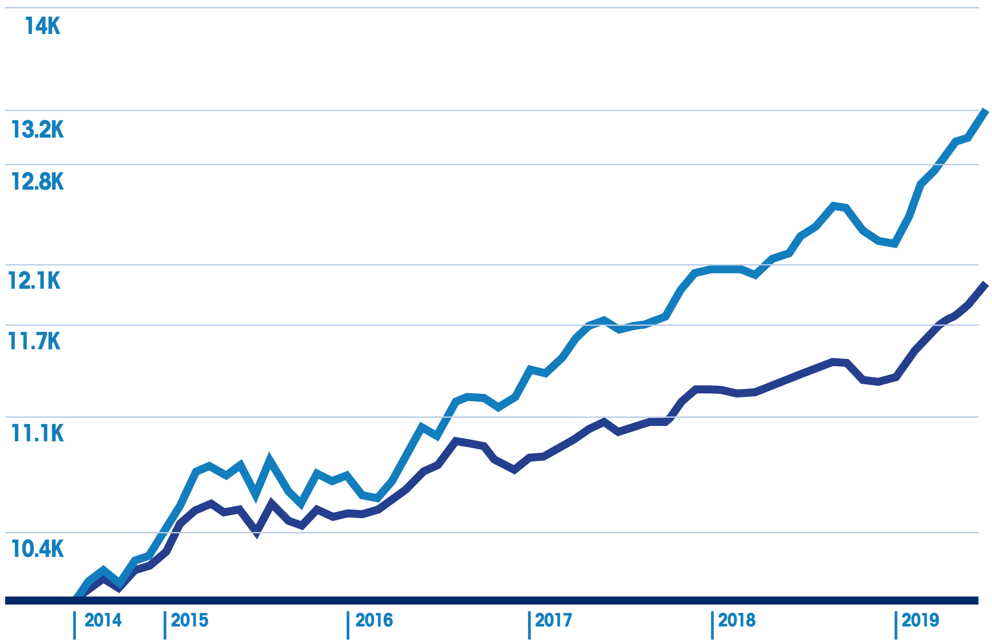


50% AEQ – 50% IEQ

CARE CONSERVATIVE STRATEGY

Growth of $10,000 over 5 years to 30 June 2019



INVESTMENT NAME VALUE

CARE Conservative (50% AEQ - 50% IEQ) (Total Return, AUD13.21K)

Australia Fund Multisector Conservative (Total Return, AUD 11.97K)

Source Morningstar Direct

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 30th June 2019. 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.

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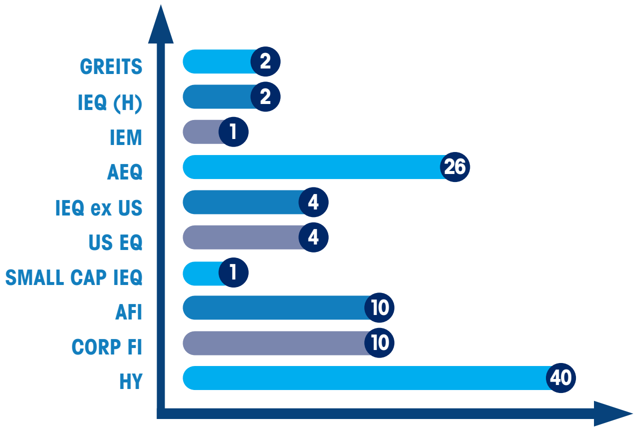
YOUR CARE PORTFOLIO MODERATE



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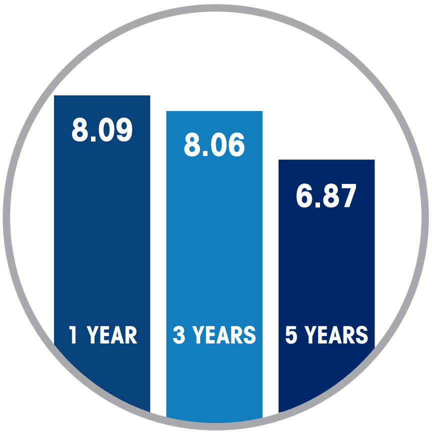
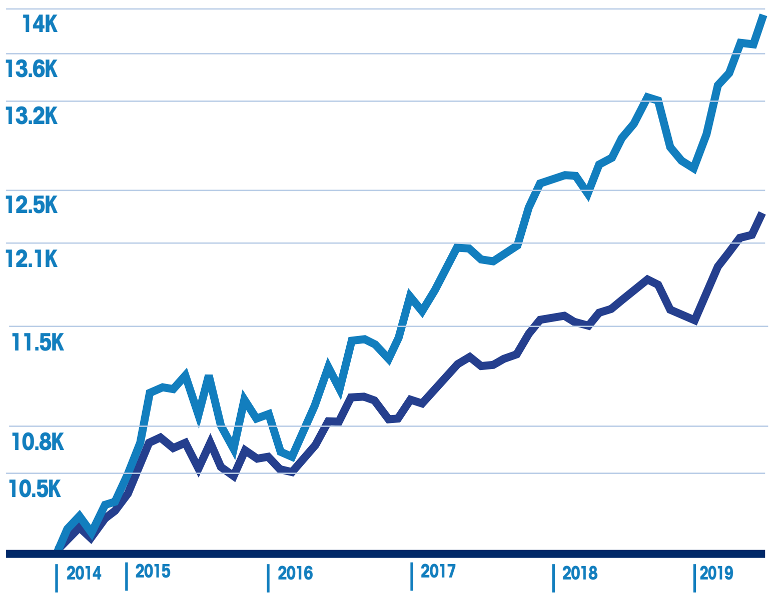


50% AEQ – 50% IEQ

CARE MODERATE STRATEGY

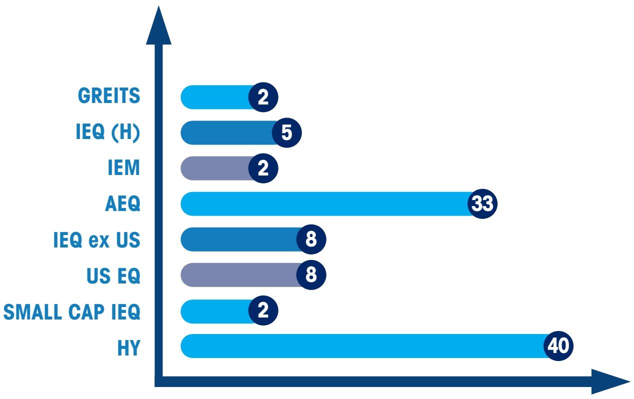
Growth of $10,000 over 5 years to 30 June 2019



INVESTMENT NAME	VALUE
CARE Moderate (50% AEQ - 50% IEQ) (Total Return, AUD 13.97K)	Australia Fund Multisector Moderate (Total Return, AUD 12.35K)

Source Morningstar Direct

YOUR CARE PORTFOLIO BALANCED



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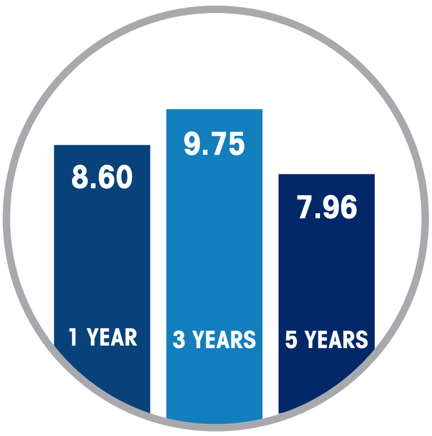
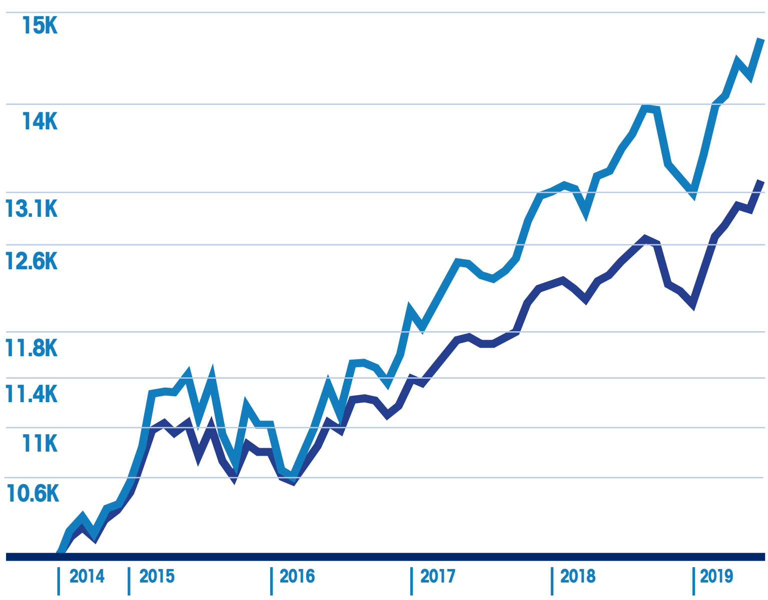


50% AEQ – 50% IEQ

CARE BALANCED STRATEGY

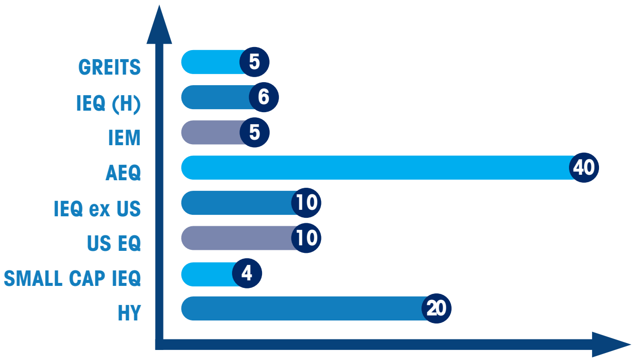
Growth of $10,000 over 5 years to 30 June 2019



INVESTMENT NAME	VALUE
CARE Balanced (50% AEQ - 50% IEQ) (Total Return, AUD 14.7K)	Australia Fund Multisector Balanced (Market Return, AUD 13.22K)

Source Morningstar Direct

YOUR CARE PORTFOLIO GROWTH



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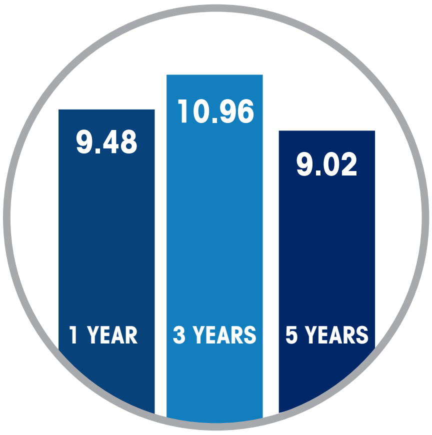
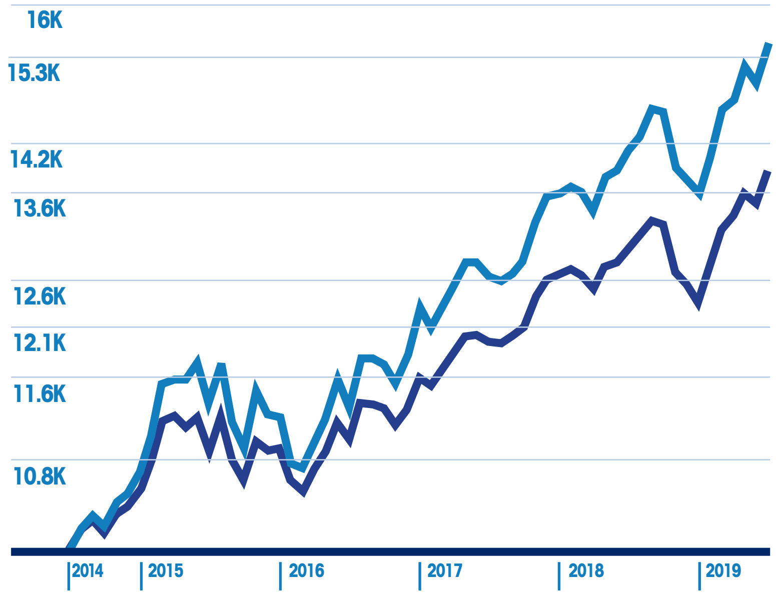


50% AEQ – 50% IEQ

CARE GROWTH STRATEGY

Growth of $10,000 over 5 years to 30 June 2019

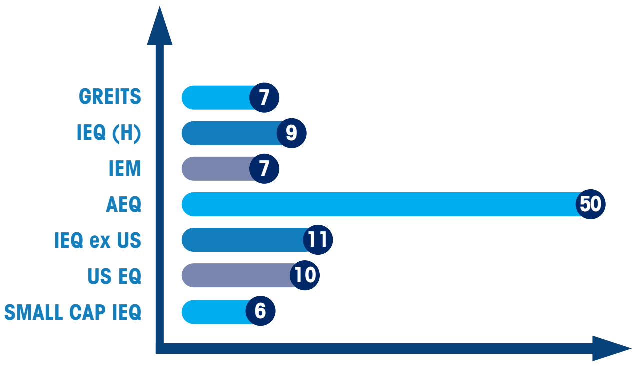


INVESTMENT NAME **VALUE**

CARE Growth (50% AEQ - 50% IEQ) (Total Return, AUD 15.44K) Australia Fund Multisector Growth (Total Return, AUD, P ..13.85K)

Source Morningstar Direct

YOUR CARE PORTFOLIO HIGH GROWTH



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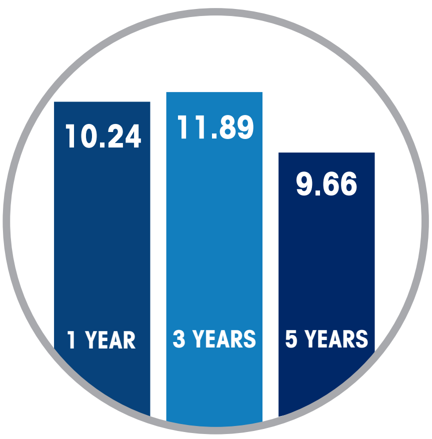
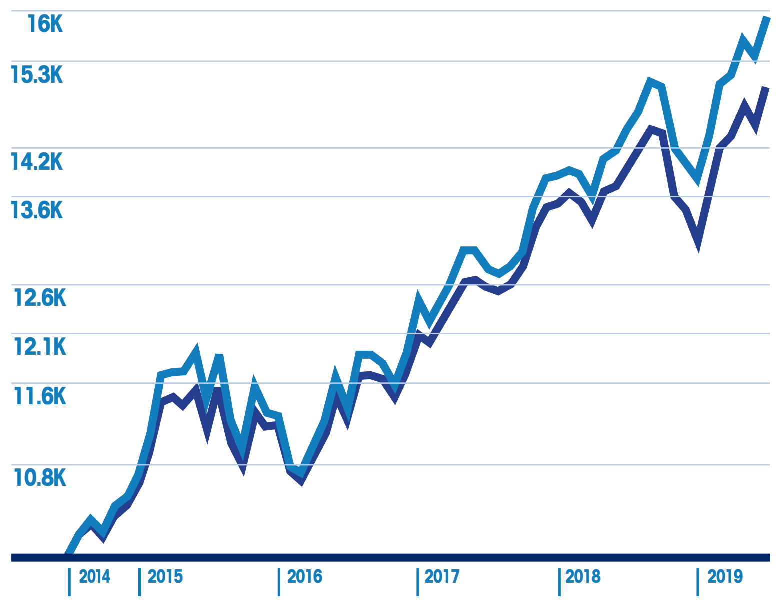


50% AEQ – 50% IEQ

CARE HIGH GROWTH STRATEGY

Growth of $10,000 over 5 years to 30 June 2019



INVESTMENT NAME **VALUE**

CARE High Growth (50% AEQ - 50% IEQ) (Total Return A..15.91K) Australia Fund Multisector Aggressive (Total Return, AU.. 14.98K)

Source Morningstar Direct

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.

Hatch Financial Planning

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