

ASG INVESTMENT UPDATE MARCH 2019



ECONOMICS

- Market expectations have adjusted toward slightly lower levels of global growth, but, not a sharp collapse in activity. However, European growth has been downgraded and the European Central bank has increased stimulus.
- Central banks, US Fed and Australian RBA, indicated interest rates could be on hold for some time, dependant upon domestic economic factors. Markets are now expecting an interest rate cut in the US & Australia in late 2019. The US10Yr vs 2Yr yield spread briefly inverted. This is historically a lead indicator of a US recession and certainly a slowing of economic growth.
- Geopolitical risks continue to add to investment market uncertainty. Ongoing global trade concerns involving the USA and China with the imposition of tariffs and a 'protectionism' theme, ongoing Brexit discussions, France demonstrations and Italy's budget position.
- Australian economic growth is about 2.5%, however, wage & credit growth are slow despite low unemployment and low inflation. Australian house prices have declined which can, via the wealth effect, lower consumption and economic growth.

GROWTH ASSETS

- Australian equities rose 10.9% enjoying their best quarter since 2009. Banks stronger post Royal Commission.
- US S&P500 rose 12.5% in the March quarter. Best start to a calendar year since 1998, following the worst December since 1931.
- European equities have been relatively softer on growth concerns
- Emerging markets rose 8.9% for the quarter and remain volatile.

DEFENSIVE ASSETS

- The RBA indicates a "more evenly balanced" view on Australian short term interest rates. They appear to be on hold for some time, dependant upon economic activity. The Australian official cash rate remains at 1.5%. 10Yr bond yield hit a low of 1.73%. Short term markets price in 50bps of RBA rate cuts.
- US Fed shall now be 'patient' in 2019 and now is 2.25%/2.50%.
- US interest rates remain above Australian levels.
- Global bond yields fell during the quarter with considerable changes to central bank expectations going forward.

CURRENCY

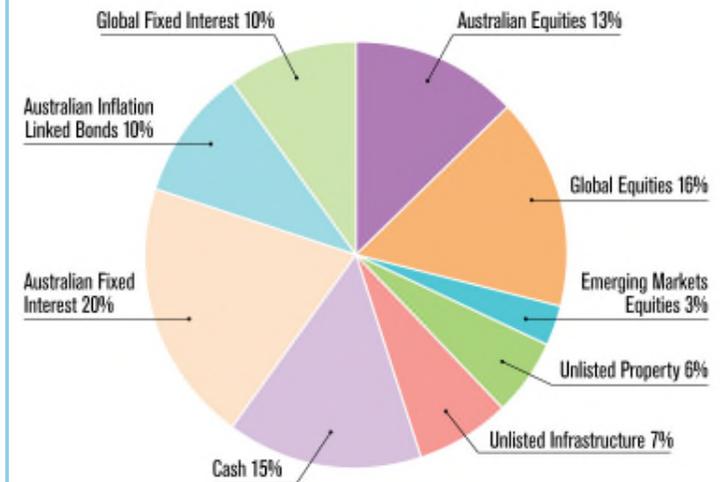
- Global currencies are being influenced by Central Bank adjustments to official interest rate policy and the removal of Quantitative Easing.
- AUD approached the 70.0 AUD/USD level, but, volatile.
- Trade, commodity prices (especially iron ore) and interest rate levels are key drivers of the AUD.
- Expect continued volatility in AUD vs trading partners.

PORTFOLIO POSITIONING

- Overweight unlisted Australian property – Office & Healthcare.
- Mildly overweight developed market equities following the rebound in the March 2019 quarter.
- Underweight global bonds. Expect 'lower for longer' global interest rate environment impacting investment returns.
- Introduced a new active managed volatility Australian equity strategy in Sep18 which added to diversification in the sector.

CHART

Pathway Education Fund - Australia Long Term Asset Allocation



Declared rates of return for the March 2019 quarter.

PEF AU 2.75%

Three key investment themes:

1. Equity and bond markets do experience times of volatility which can occur in a short space of time.
2. Portfolio construction with diversification is important.
3. Keep a focus on the long term investment objectives. ASG's investment portfolios have a conservative balanced risk profile.

DISCLAIMER

This is not intended to be an endorsement of any of the listed securities named above for inclusion in personal portfolios. The above material reflects ASG's views at a particular point in time, having regard to factors specific to ASG and its overall investment objectives and strategies. This information is current as at the 31st of March 2019.

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Return objectives are not promises or predictions of any particular rate of return. The Declared Rate of Return specified relates to our Australian Pathway Education Fund and is published after fund taxes, fees and expenses.