Fiducian Quarterly Investment Strategy Report

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ECONOMIC OUTLOOK

GLOBAL ECONOMY

The global economy is continuing to gain momentum, with accelerating growth in the US, Europe, Japan and China. This is a very different outlook from that of early 2016, when the developed world appeared on the brink of permanent slow growth and near-recession. The IMF is forecasting global growth of 3.6% in 2017 and 3.7% in 2018, up from growth of 3.2% in 2016, while the developed world has picked up to growth of 2.2% this year from 1.7%.

- **The global economy** is continuing to gain momentum. According to Maurice Obstfeld, the Economic Counsellor for the International Monetary Fund (IMF), 'the global cyclical upswing that began midway through 2016 continues to gather strength. Only a year and a half ago, the world economy faced stalling growth and financial market turbulence. The picture now is very different, with accelerating growth in Europe, Japan, China and the United States. Financial conditions remain buoyant across the world, and financial markets seem to be expecting little turbulence going forward, even as the Federal Reserve (the US central bank, known as the 'Fed') continues its monetary normalization process and the European Central Bank inches up its own' (October 2017). To confirm this improving outlook the IMF is forecasting world growth of 3.6% this year and 3.7% in 2018, up from 3.2% in 2016. Most of this lift is expected to come from the developing world, where growth is forecast to rise to 4.9% next year, up from 4.6% this year and 4.3% in 2016. In contrast, the developed world is forecast to grow by only 2.2% this year and a mediocre 2.0% in 2018 but up from 1.7% in 2016.

While the IMF is forecasting growth of only 2.0% for the advanced economies for 2018, this already appears as though it could be too conservative. US growth of 3.3% for the September (at an annualised rate), along with growth of 0.6% for both the Euro zone and Japan for the quarter alone, point to at least the potential for a stronger rebound than forecast.

- However, this forecast for the advanced economies could turn out to be too conservative, as data is already pointing towards a rebound in growth in a number of key countries. Notably, the US economy grew at a robust annualised rate of 3.3% in the September quarter, after accelerating in the June quarter to a growth rate of 3.1%, up from a lethargic annualised rate of 1.2% in the March quarter. In Europe, a rebound also appears to be underway, with growth across the whole Euro zone of 1.3% for the six months to 30 September, the fastest pace of expansion in 6 years. Growth rates for the September quarter for individual European countries included 0.8% for Germany, 0.5% for both France and Italy, a strong 0.8% for Spain and even growth of 0.3% for Greece. Outside the Euro zone, growth was also strong for the Scandinavian region, with the Swedish, Norwegian and Danish economies up respectively by 0.8%, 0.7% and 0.6% for the quarter, while for the UK, growth was somewhat softer (up 0.4%). The Japanese economy is also showing signs of a continuing recovery, expanding by 0.6% for the September quarter alone, its seventh straight quarter of growth.

What appears to be preventing the IMF from taking a more positive view of the economic outlook for the developed world is its concern about longer-term structural impediments to growth that include 'demographic factors and weak productivity that weigh on potential growth'. The IMF would like to see further structural reforms to address this.

- While this improvement this year in the general economic outlook appears to be snowballing, the IMF remains cautious, warning that 'prospects for medium-term growth are more subdued, as demographic factors and weak productivity weigh on potential growth'. In other words, beyond 2018, the IMF is hedging its bets about the economic outlook and is waiting to see whether governments and financial authorities, including central banks, can take advantage of the current 'welcome cyclical pickup in global activity that provides an ideal window of opportunity to tackle the key policy challenges' that face the world. As the IMF noted in its previous report (July), 'many advanced economies need well-sequenced and tailored structural reforms to boost productivity and investment', notably innovative fiscal policies and less burdensome regulatory policies, as these are 'best suited to address adverse structural trends'.

The current synchronised pickup in growth across the developed world may hold the key to productivity improvements through a solid lift in private investment, especially in plant and equipment through the introduction of new technology. As the Chair of the US 'Fed', Janet Yellen, recently noted,

- While policymakers remain concerned about the issue of weak investment leading to weak productivity growth, it may be that the recent upsurge in growth holds the key to stronger investment. Stronger growth inevitably brings greater corporate earnings, which in turn can generate a lift in investment, enabling companies to introduce technological innovations and thereby boost productivity. In terms of official policy to encourage this, as Janet Yellen, Chair of the US 'Fed' recently noted, 'monetary policy cannot improve the productivity of workers – fiscal and regulatory policies, which are the responsibility of

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'monetary policy cannot improve productivity' – fiscal and regulatory policies are best suited for this. In this regard, tax cuts and de-regulation the new US Administration look positive.

the Administration and the Congress, are best suited to address such adverse structural trends' (3 March 2017). In this regard, moves by the new US Administration under President Trump to reduce regulatory impositions on business and, even more importantly, to significantly lower the corporate tax rate, are moves in the right direction. While the exact dimensions of new tax legislation were uncertain by early December, it did appear that major tax cuts were on the way to approval by Congress. Even before this, however, the evolution of a pro-business environment this year has seen private investment in plant and equipment rise strongly in the US.

The global economy is now clearly enjoying an economic upswing. While much of the developing world is continuing to grow rapidly, the outlook is also improving for the advanced economies. Pro-business fiscal and regulatory policies appear to hold the key to lifting productivity.

- **In summary**, the global economy is now clearly enjoying an upswing, with growth well up on 2016 and forecast to be even stronger in 2018. Encouraging signs of improved economic performance are evident in the US, increasingly in Europe and even in Japan, while much of the developing world, notably China and India, are continuing to expand rapidly. While the IMF remains concerned about structural barriers to growth over the medium-term, it may be that the key to boosting investment and productivity lies in a more pro-business environment, such as is now emerging in the US, coupled with continuing expansionary monetary policy in some jurisdictions.

REGIONAL ECONOMIES

The US economy in recent months has been showing all the signs of robust recovery. For the second quarter in a row, growth was above 3% (annualised). Also positive has been a strong rebound in private investment, especially in the all-important area of new plant and equipment. Despite investment in housing declining for the second quarter in a row, household spending rose, driven by gains in employment, gains in real disposable personal income and gains in household net worth. Unemployment rate reached its lowest level in 16 years in November, average hourly earnings have continued to rise steadily (if slowly) and household net wealth has reached record levels, nearly doubling in the last decade.

The US economy picked up further speed in the September quarter (up 3.3% at an annualised rate), boosted by a solid rise in private investment (up 7.3%), with spending on plant and equipment up strongly for the third quarter in a row. Spending purely on equipment rose by 10%, while investment on intellectual property rose by 6%. This strong growth in private investment is already starting to have an effect on productivity data, with labour productivity up an unexpected 3.0% for the September quarter (annualised) and up 1.5% for the year to end-September. Exports were up, while imports dropped, so that net exports contributed strongly to growth. On the other hand, residential investment declined for the second quarter in a row, as did federal, state and local government spending on non-defence items (defence spending itself remained solidly positive). Household spending also rose (2%), with spending on durables, such as cars, up by a hefty 8%, pointing to rising consumer confidence (all rates annualised). The 'Fed' recently noted that the pick-up in consumer spending this year reflected improvement in the key factors that drive such spending – 'continued gains in employment, in real disposable personal income and in household net worth'. In fact, real disposable personal income rose solidly for the third quarter in a row, driven by a steadily improving employment environment (the unemployment rate was 4.1% in November, the lowest rate in over 16 years) and by some growth in average hourly earnings (up 2.5% over the year to November, slightly above the inflation rate of 2.0% over the year). Household net worth reached a record high in the September quarter ($96.9 trillion), up by around $42 trillion since the depth of the Global Financial Crisis in 2009 and up $2 trillion for the quarter alone (US flow of funds data).

The emergence of a stronger and healthier US economy has meant that there is no longer a need for a stimulatory monetary policy. While the central bank's 'QE' program ended in late 2014, 'quantitative tightening' has just begun. In October, the 'Fed' began to reduce its holdings of securities by $10 billion per month, while interest rates are likely to be raised further over the coming year.

A strengthening US economy over recent months has allowed the 'Fed' to continue its gradual tightening of monetary policy. After raising official interest rates (the 'Federal Funds rate') by 0.25% in December 2016 (to 0.5%), the 'Fed' raised rates three times in 2017 (to 1.25% on 13 December). At its mid-June meeting, the 'Fed' also announced plans to slowly sell down its holdings of securities that currently amount to around $4.2 trillion ($2.5 trillion in US Treasury bonds and $1.7 trillion in mortgage-backed securities). Ultimately, the 'Fed' would like to see interest rates back at what it terms the 'neutral' rate, currently deemed to be around 3%. The central bank has to navigate carefully between the need to keep a lid on any emergence of inflationary pressures, while allowing the recovery to continue to gain strength. As the IMF has emphasised, 'a faster-than-expected monetary policy normalisation in the US could tighten global financial conditions' and lead to negative economic effects around the world, including 'triggering reversals in capital flows to emerging economies' (24 July).

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The 'Fed' now appears near to achieving its two official goals of full employment and price stability (inflation of around 2% per annum). Most economic indicators point to a strong economy, with only inflation measures still marginally below their targets ranges. Nevertheless, as the IMF has made clear, the 'Fed' must proceed with due caution.

The goals of the US central bank ('to foster maximum employment and price stability') now appear close to being met, although the 'Fed' noted at its 1 November meeting that 'core inflation readings (1.8% for the year to October) continue to surprise on the downside'. On the other hand, the manufacturing Purchasing Managers' Index (PMI), an indicator of the strength of the manufacturing sector, rose to its highest level since 2004 in September (60.8), while consumer confidence in December remained at a high level (University of Michigan sentiment index). The following features of recent monthly data shed further light on the current state of the US economy:

- Industry capacity utilisation (77.0% in October) was 2.9% below long-run trend.
- Money supply (M1) was growing by a solid 7.8% (year-on-year) by 31 October.
- Bank lending to businesses was weaker (up only 1.2% year-on-year by September).

The European economy appears to be finally responding to central bank actions to lower interest rates and push money (or 'liquidity') into the banking system through 'QE'. Growth strengthened noticeably in the June and September quarters across the Continent, with Germany doing particularly well from an undervalued Euro. The Japanese economy has also begun to respond well to an expansionary monetary policy that is still very much in place. Rising global trade, assuming it is sustained, could also underpin Chinese growth, which remains robust despite efforts to rein in the property market.

Europe appears to have finally emerged from recession, with growth responding to actions taken by the European Central Bank (ECB) from March 2015 when it began a large-scale program of 'quantitative easing' ('QE'), along with cutting interest rates to 0% in 2016. While rates have been kept at 0% (still above the negative official rates in some non-euro zone countries, including Sweden, Denmark and Switzerland), the 'QE' program is to be scaled back from the start of 2018 to 30 billion euros per month from 60 billion euros. Germany, in particular, continues to benefit from what for it is an undervalued Euro and it now has the largest current account surplus in absolute terms in the world, but the rest of the continent has also begun to show increasing signs of recovery. The **Japanese economy** is also continuing to respond well to a strongly expansionary monetary policy that has been in place since 2011. Japanese GDP rose by 0.6% for the September quarter alone, with the economy benefiting from a low currency and strong export demand, with exports up 14% over the year to October. Even a declining working age population (down around 700,000 per year ('Fed' data), has not been enough to hold back recovery. Prime Minister Abe won a landslide victory in October on a platform of continuing to push for stronger growth. In the case of **China**, despite government efforts to cool the property market and rein in debt, growth was still 6.8% in the September quarter (year-on-year). Corporate earnings growth remains high (up 25% for the year to October) but the economy could slow marginally in 2018.

AUSTRALIAN ECONOMY

The Australian economy grew at a moderate rate in the September quarter, with household spending notably subdued. Households appear to have become cautious in the face of slowing growth in net wealth (due to a weak housing market), very weak wages growth and rising costs, such as electricity. On the other hand, the economy saw a welcome increase in private capital formation for the first time since 2013. Large-scale immigration has continued apace and, as such, per capita growth figures have been very modest. In terms of national income data (which takes account of relative export prices), rising commodity prices over the past year or so have provided some support to this measure of economic well-being. In

The Australian economy expanded at a moderate rate in the September quarter, with GDP up 0.6%. For the year to 30 September, the economy grew by 2.8%. However, during the quarter household consumption barely grew, while private capital formation (investment) expanded strongly for the first time since the June quarter, 2013. One of the drivers of investment was spending on new engineering construction, which grew 6.3% in the quarter and 12.7% through the year. This has been a welcome trend after it dropped 50% from its peak at the height of the mining boom in 2012. While overall GDP growth has been reasonable, on a per capita basis it has been diluted by the country's high rate of population expansion through immigration (a net addition of 182,000 in 2015-16 and expected to be even higher for 2016-17). In the September quarter per capita growth was an almost indiscernible 0.2% and only 1.3% for the year. Looking beyond GDP data to what the Australian Bureau of Statistics calls 'a broader measure of change in national economic well-being', known as real net national disposable income, which takes account of the effect on national purchasing power of movements in the terms of trade (the ratio of our export prices to our import prices), this measure rose by a buoyant 4.5% for the year, reflecting a rise of 9.7% in the terms of trade, mainly on the back of stronger prices for our two largest merchandise exports, iron ore and coal. This marked a change from falling commodity prices for each of the four years to 2015-16 (by nearly 35% in aggregate), which depressed national income. However, over the past 18 months (from 30 June 2016 to 11 December 2017), the iron ore price rose 32% and

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particular, the country's two largest merchandise export items, iron ore and thermal coal, have been performing well.

the thermal coal price rose 85%, underpinning export growth. These somewhat elevated prices provided support to the currency, with the $A holding up against the $US over this period (up 1%). This currency strength though has been one of the factors hindering the country's international competitiveness. As such, the Reserve Bank (RBA) is likely to hold official interest rates steady at the current 1.50% as the 'Fed' lifts US official interest rates further over the coming year.

The current political weakness of the Commonwealth Government, given its one seat majority in the Lower House and its minority position in the Upper House, has mostly prevented the introduction of needed economic reforms. Needed reforms include significantly lower corporate tax rates, a lower minimum wage, labour market de-regulation, cheaper and more reliable electricity and a more competitive currency setting.

The current Commonwealth Government continues to be faced with a largely adversarial Senate that makes it difficult to pass legislation. While some tax reform has made it through both Houses of Parliament, it is less than is needed to reboot an economy that is facing growing international competitiveness hurdles. These include one of the highest corporate tax rates in the world (soon to be well above the US rate as well), escalating electricity prices that are close to if not the highest in the world (with an increasingly unreliable base load supply in some states due to policy mismanagement by Federal and State Governments), high minimum wage rates and over-regulation of the labour market and business more generally. Despite these headwinds, the robust global economic recovery that appears to be underway is likely to underpin at least the export side of the domestic economy over the coming year. Over the longer-term though, as the NAB Business Survey for October makes clear, 'there are still significant challenges to the outlook, especially as the economy starts to see less support coming from housing construction and from LNG exports'.

STRATEGY FOR FIDUCIAN FUNDS

STRATEGY OVERVIEW

Our economic analysis set out above indicates that stronger growth appears to be spreading across the world, with the advanced economies finally starting to enjoy a degree of coordinated expansion. We are now seeing an increasingly robust US economy that is pushing the 'Fed' to steadily tighten monetary policy, while Europe has escaped from the grip of recession and even Japan is beginning to experience solid growth on the back of a rapid rise in exports. Promisingly too, there have been some indications of the beginning of a lift in productivity, something that key organisations like the IMF had feared was becoming elusive. In fact, only last year Christine Lagarde, the IMF's Managing Director, expressed the fear that the advanced economies could be entering 'a low growth trap' that would likely keep productivity growth minimal, investment low and growth weak. Instead the prospect is emerging of a period of strengthening productivity, strongly rising investment and strong growth, potentially well above the 2% forecast by the IMF for 2018 for the developed world. Certainly though much could depend on important initiatives being pushed by the new Trump administration in the US, particularly the President's aim of lowering corporate tax rates down towards a target of 20% (from the current 36%, one of the highest rates amongst advanced economies). By early December different variations of this tax cut had passed through the Congress and only required reconciliation through debate, with every likelihood that a large cut would come into effect within a short period of time. If successfully implemented, this would be the largest corporate tax cut in US history, exceeding by a wide margin the cut implemented by President Reagan in the 1980s. The cut would greatly lift the after tax earnings of US corporations and potentially provide a significant boost to private investment and therefore to productivity in the US. This would then have significant flow-on effects worldwide due to the size of the US economy (the largest in the world).

Even without this tax cut, however, a strengthening global economy has been reflected in stronger earnings results by companies around the world. According to forecasts, global corporate earnings are likely to be up by over 14% in 2017 and another 10% in 2018, after rising by only 3% in 2016 (Yardeni Research, based on MSCI earnings). As such, earnings have nearly kept pace with the increases in stock market indices over the past year, despite the fact that many of the world's major stock markets have been enjoying a 'bull' run (up more than 20% in a year) since the US Presidential election in November 2016. Much of this run up has been due to the fabled ability of markets to look ahead and factor in expected new economic developments. With earnings forecast to rise by 12% in the US in 2018, by 9% in Europe as a whole, 15% in China and 22% in India, there is room for further stock market appreciation. Such earnings growth, if achieved, would also allow for a marked improvement in valuation metrics, such as the price-to-earnings ratio for markets. In valuation terms, as at 30 November, the MSCI World Shares index was trading at 16.8 times forward (12 months ahead) earnings, somewhat above its long-term average PE ratio of 15. However, in fundamental valuation terms and assuming ongoing earnings growth, most share markets could still be regarded as being fairly valued, despite upward movement in some key interest rates. In contrast, most bond markets continue to appear expensive, with bond yields (interest rates) still at historically low levels, although above the record lows set in mid-2016.

Current tactical asset allocation strategies have been developed as set out below.

International Fixed Interest

Sovereign bond yields in most major markets jumped higher after the election of Donald Trump as US President in November 2016 but then shifted lower from April before starting to move up again from September, following the realisation that major tax cuts were likely to be implemented before the end of the year.

Government bond yields in most major markets reached historic lows in July 2016, in the weeks following the 23 June 2016 UK referendum vote to leave the European Union. However, yields then slowly began to rise and jumped higher following the US Presidential election in November. However, from early April a downwards trend set in for the next 5 months, reflecting a view that any significant economic reforms in the US, such as tax cuts, could take longer than originally thought to be implemented. After dropping to close to 2.0% in early September, the yield on US 10-year Treasury bonds steadily rose again, reaching 2.42% by 30 November. This was below its 2017 peak but up from its 8 July 2016 record low of 1.36%; while equivalent German and Japanese yields were respectively 0.29% and 0.05%, also down from their highs this year but up from negative yields in mid-2016.
International bonds appear to be over-valued and we remain under-weight this sector.

STRATEGY FOR FIDUCIAN FUNDS

Australian Fixed Interest

Australian bond yields remain higher than for most major international bond markets. Margins have contracted in recent months but could expand again if the domestic economy strengthens.

Australian bond markets have moved in line with major international bond markets for some time but have also attracted investors seeking supposedly 'safe' havens. 10-year bond yields have been consistently higher than in the US, although the margin was reduced by June to as low as 0.2%. By 11 December, Commonwealth 10-year bonds were yielding 2.56%, down from 2.98%.in March and the margin over equivalent US bonds was down to 0.17%.

Domestic bonds still appear to be over-valued and we remain under-weight this sector.

Inflation-Indexed Fixed Interest (CPI Bonds)

Inflation-linked bonds could out-perform if inflation rises over time.

These bonds tend to be less volatile than conventional issues but can out-perform in times of inflationary pressure, which could be expected to increase along with economic recovery.

Australian Shares

The Australian share market has been part of the worldwide 'bull' run in stock prices over the period since President's Trump's election last November. For the domestic market, however, much of this rise took place in the two months to the end of 2016. Over the course of 2017, the local market has tended to lag many of the major international share markets. The exception has been the Resources sector, which is totally dependent on world prices for commodities. Our two largest merchandise export items, iron ore and coal, have appreciated strongly in price in recent months, as have some of the rarer metals, such as lithium, which have been enjoying a price boom, encouraging a host of small 'explorer' listings. A slowing housing market over the coming year could see the banks affected by slowing demand for home loans.

The Australian share market followed other major global markets higher after the US Presidential election in early November 2016. Over the whole period from 9 November 2016 (the immediate aftermath of the US election) to 12 December 2017, the domestic market rose by an impressive 22% (ASX200 Accumulation index). The Resources sector was the out-performer, rising by 27% (after being up 42% in 2016). Elevated iron ore and coal prices have been a major factor in this out-performance, aided by runaway price increases for such minerals as lithium and cobalt (used in electric car batteries), which has greatly boosted the riskier 'explorers' end of the Resources sector. The Industrials sector was up 22% over this period, while the Financials sector rose 23% and listed property stocks (REITs) rose by 17%. The Financials sector has been affected firstly by the Commonwealth Government's decision to introduce a 'major bank levy' from 1 July 2017 to try to scoop up some of the profits earned by the 5 largest banks (forecast to raise around $1.5 billion per annum) and then by a clearly politically motivated decision to put in place a Royal Commission to investigate one of the most highly rated banking sectors in the world. While this could dampen the sector's performance over the coming year, banks could also be affected by a slowing housing market that is already underway. While annual average house price gains for the whole country were 5% over the year to 30 November, over the November quarter the average national price increase was only 0.2%, with a 1.3% price fall for Sydney (CoreLogic data). Household finances though remain in good condition, with total household interest payments currently under 9% of household disposable income (RBA data), while household net wealth continues to rise to record levels. By 30 November, the domestic market had an estimated price-to-earnings ratio (PER) of around 16.0 times trailing earnings, which was near its long-term average of 15, while the average dividend yield remained attractive at 4.1% (RBA data). The stock market still appeared fairly valued in historical terms and relative to other investment opportunities.

Exposure to this sector is currently above benchmark.

STRATEGY FOR FIDUCIAN FUNDS

International Shares

Global share markets have mostly enjoyed a 'bull' run over the past year. If the US Administration is successful in pushing major corporate tax cuts through Congress, then a further market lift could be expected in 2018.

Global equities markets have mostly been enjoying a 'bull' run over the past year. This reflects a positive market view that the US was moving towards a business-friendly environment (with probable significant tax cuts, especially for companies but also for individuals), as well as stronger economic growth across the developed world. From 9 November 2016 to 12 December 2017, the broad US market (S&P500) rose by 23%, the technology-laden US Nasdaq index by 31%, the German market by 24% and the Japanese market by 41%. Less dramatically, the UK market was up 9% and the Chinese market 5%.

Major share markets still mostly appeared to be fairly valued by early December compared with other liquid investment opportunities, such as bonds and cash.

In terms of valuations, by 30 November, the PER for the **major world markets** as a whole (reflecting the MSCI World index) was 16.8 times estimated forward earnings (excluding stocks without positive earnings), above its longer-term average of 15 times earnings. In general terms, most share markets still appeared more attractively priced than other investment opportunities, such as bonds and cash. Some emerging markets too appeared attractively priced, including India, which has been benefiting from new economic reforms.
Exposure to this sector remains above benchmark (aided by potential $A weakness).

Listed Property Trusts

The listed property sector is now more conservatively geared and better cashed up (after large capital raisings) than it was prior to the global financial crisis. The sector has become less attractive than it was and trades at a small premium to net asset value but it has a reasonable dividend yield and a fair price-to-earnings ratio.

The listed property sector has marginally under-performed the broader market over the past year or so, after significantly outperforming the broader market over the three previous calendar years. Perceptions of the sector have greatly improved since its heavy falls in 2008 and 2009. The structure of most listed property securities is now much stronger, with lower average gearing and more stable earnings. By 8 December, the sector's average PER was around 16.5 times forward earnings, with an earnings yield of 6.1% and a dividend yield of around 4.9% (2018-19 earnings, Macquarie estimate and based on an average pay-out ratio of 80%). However, the sector does trade at a small premium to net asset value and appears more fully valued than it was previously.
Exposure to this sector is currently under benchmark.

Australian Dollar

A lower $A could benefit exports, as well as those companies competing against imports.

After falling from a high of $US1.10 in July 2011 to a trough of $US0.69 on 17 January 2016, the $A began to rise, peaking at over $US0.80 in September 2017, due mostly to stronger commodity prices. By 12 December it was still an elevated $US0.76.

Investors should always opt for well-diversified, professionally managed portfolios.

As always, we **recommend** that, to counter market uncertainties, investors should hold **diversified portfolios**. These should give investors the best opportunities for capital growth with risk minimisation over the medium term. Portfolio asset allocation decisions and short-term market timing are also often best left to fund managers who exercise these decisions on a professional basis with the benefit of all available information.

ASSET ALLOCATION FOR FIDUCIAN MANAGED FUNDS

CAPITAL STABLE, BALANCED AND GROWTH PORTFOLIOS

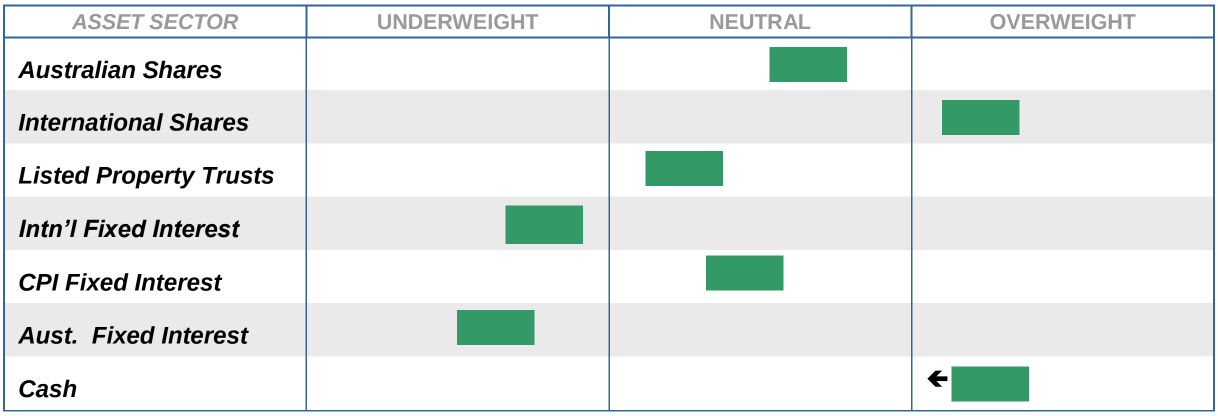
CAPITAL STABLE PORTFOLIO	Benchmark %	Range %	Jun 17 %	Sep 17 %	Previous 3 month activity
Australian Shares	15	8 – 19	16	16	→
International Shares	10	6 –14	13	14	↗
Property	5	3 – 8	5	4	↘
International Fixed Interest	16	5 – 30	10	10	→
CPI Fixed Interest	7	0 – 17	5	5	→
Aust Fixed Interest	32	15 – 44	20	19	↘
Cash	15	5 – 42	31	32	↗

BALANCED PORTFOLIO	Benchmark %	Range %	Jun 17 %	Sep 17 %	Previous 3 month activity
Australian Shares	37	29- 45	39	37	↘
International Shares	23	15 – 32	26	28	↗
Property	9	5 – 17	9	8	↘
International Fixed Interest	7	4 – 12	5	6	↗
CPI Fixed Interest	3	0 – 8	3	3	→
Aust Fixed Interest	16	10 – 22	11	10	↘
Cash	5	3 – 40	7	8	↗

GROWTH PORTFOLIO	Benchmark %	Range %	Jun 17 %	Sep 17 %	Previous 3 month activity
Australian Shares	42	34 –50	44	42	↘
International Shares	28	20 – 36	31	33	↗
Property	11	5 –15	10	10	→
International Fixed Interest	5	0 – 14	3	3	→
CPI Fixed Interest	2	0 – 7	2	2	→
Aust Fixed Interest	10	5 – 16	6	6	→
Cash	2	2 – 32	4	4	→

Decrease ↘ Increase ↗ Hold Position (Less than 1% up or down) → Significant change (5% or more) ↑/↓

NEXT LIKELY DIRECTION OF ASSET ALLOCATION CHANGE



Next likely direction in 3 to 6 months: → Increase ← Decrease