

ASG INVESTMENT UPDATE JUNE 2019



ECONOMICS

- The Australian RBA lowered interest rates to 1.25% in June. RBA indicated additional lowering of interest rates, if capacity remains in the economy (unemployment) and inflation remains low. Markets are expecting further interest rate cuts over coming months.
- Australian economic growth is about 1.8% year on year. Australian house prices remain soft, which can, via the wealth effect, lower consumption and economic growth, however, macro prudential controls have loosened. Auction clearance rates in some areas have begun to rise. Post Australian election Government is working with cross bench to pass its tax package through the Senate.
- The US Fed confirmed it will act to sustain economic growth if tariff impacts cause US economic activity to slow. Additionally, markets are expecting the US Fed to lower interest rates. The European Central Bank indicated additional stimulus is available.
- Geopolitical risks remain at the front of investors minds and add to investment market uncertainty. These risks include ongoing global trade concerns with the USA and China, ongoing Brexit and European Union discussions.

GROWTH ASSETS

- Australian equities rose 3.6% in June or 11.4% for the FY.
- US S&P500 rose 5.6% in June and 11.9% for the FY.
- European equities have been relatively softer on growth concerns.
- Emerging market equity volatility remains, but value is apparent vs developed markets.

DEFENSIVE ASSETS

- The RBA indicates that it could lower the official cash rate further. 10 year bond yields return to historic low levels at 1.35%. Markets expecting at least 25bps of RBA rate cuts by calendar year end.
- US Fed indicates 'patient', but could lower interest rates if tariffs act to lower economic activity. US 10 Year bonds at 2.0%
- US interest rates remain above Australian levels. US 10 Year bond yields have fallen to their lowest levels in 2 years.

CURRENCY

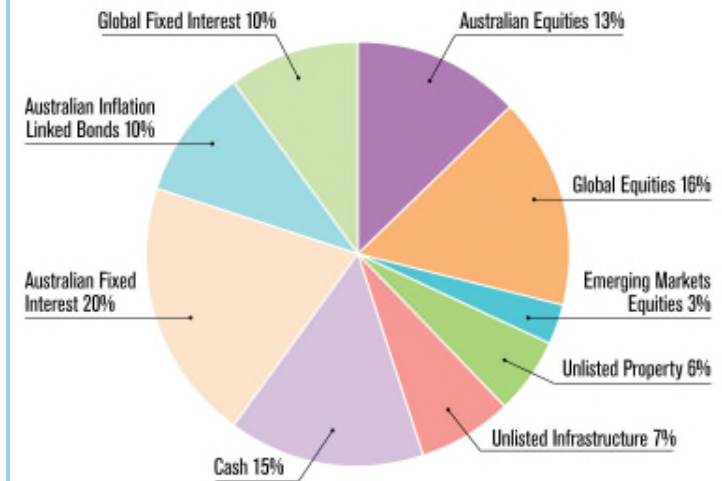
- Global currencies are being influenced by Central Bank adjustments to official interest rate policy.
- AUD remains just below the 70c AUD/USD level, but, remains volatile.
- Trade, commodity prices (especially iron ore) and interest rate levels are currently the key drivers of the AUD.
- Expect continued volatility in AUD vs trading partners.

PORTFOLIO POSITIONING

- Overweight unlisted Australian property – Office & Healthcare.
- Mildly overweight developed market equities, with equity markets moving toward all time high levels.
- Underweight global bonds. Expect 'lower for longer' global interest rate environment impacting investment returns.
- Neutral Australian Fixed Income following recent yield declines to historic low levels.

CHART

**Pathway Education Fund - Australia
Long Term Asset Allocation**



Declared rates of return for the JUNE 2019 quarter.

PEF AU 1.75%

Three key themes:

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

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 30th of June 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.