ASG INVESTMENT UPDATE SEPTEMBER 2019

ECONOMICS

- Global political uncertainty continues to create risks for investment markets: including ongoing US & China trade machinations, currency market concerns, continuing Brexit and European Union discussions.
- The Australian RBA lowered the cash rate to 1.00% in July, with no further move in August and September. However, a reduction is expected in coming months. The RBA indicated it would be prepared to further lower the official cash rate or consider unconventional stimulus measures to assist the economy meet its inflation target band of 2% to 3%. Inflation in Australia is currently 1.6% p.a.
- Australian economic growth is around 1.4% year on year. This is the slowest level of economic growth since the GFC. Australian house prices have displayed some improvement with auction clearance rates rising. The RBA has signalled that fiscal stimulus may assist the economy whilst noting the current low cost of government borrowing and the need for infrastructure investment and structural reform.
- The US Federal reserve lowered interest rates in September to 1.75% to 2.00% following a reduction in August.

GROWTH ASSETS

- Australian equities rose 2.6% in the September quarter.
- US S&P500 rose 5.7% in the September quarter.
- Volatility has abated in developed equity markets, but risks remain which can alter sentiment swiftly.
- Emerging market equities have underperformed developed market equities, but value is apparent.
- Unlisted assets continue to provide solid returns without listed market volatility.

DEFENSIVE ASSETS

- Australian 10 year bond yields moved to historic low levels of below 1.00%, before stabilising. The possible introduction of unconventional monetary policy could influence 10 year interest rate levels, if introduced.
- US Fed could continue to lower interest rates if tariffs act to lower economic activity. US 10 Year bonds are at 1.5%.
- US interest rates remain above Australian levels. The US yield curve did invert (10 years below 2 year yields), however, has since returned to a more normal shape.

CURRENCY

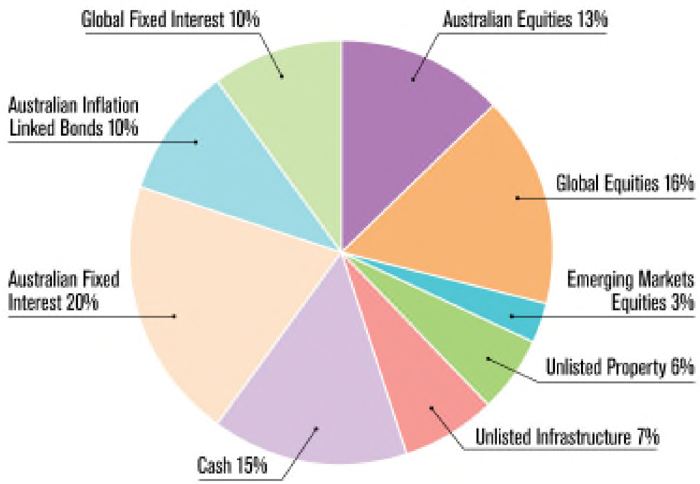
- Global currencies are being influenced by Central Bank adjustments to official interest rate policy.
- AUD remains below the 69c AUD/USD level and did trade to near 67cents, but, remains volatile.
- Trade, commodity prices (especially iron ore) and interest rate levels are currently the key drivers 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 back to near all time high levels.
- Underweight global bonds. Expect ‘lower for longer’ global interest rate environment impacting investment returns.
- Neutral to 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 SEPTEMBER 2019 quarter.

PEF AU 0.90%

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.

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ASG

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