

ASG INVESTMENT UPDATE DECEMBER 2018



ECONOMICS

- Economic growth has been strong in the US at about 4% p.a, however, rising interest rates have provided headwinds. Markets are questioning if the economic growth will continue at this pace or decline. US 10 Year yields have fallen from recent high levels seen in Oct18. The US yield curve is flattening with the US Federal Reserve movements and actions impacting liquidity and sentiment.
- Geopolitical risks continue to add to investment market uncertainty. Ongoing global trade wars involving the USA and China with the imposition of tariffs and a 'protectionism' theme, Brexit discussions and Italy's budget position.
- Australian economic growth is about 3.0%, however, wage & credit growth are slow, household indebtedness a concern and the savings ratio is lower. Australian house prices have declined with Australian macro prudential controls impacting credit growth.
- Global inflation appears less of a risk with economic growth concerns in the US. It is currently about 2% in both the US and Australia.

GROWTH ASSETS

- US equity market has corrected from near all time high levels in late Sept18. In local currency terms the S&P500 fell 6.9% in Oct18, gained 2.0% in Nov18 and fell 9.1% in Dec18 (worst month in decades).
- US technology stock prices have fallen despite solid corporate earnings. Apple is 32% below its early Oct18 price.
- Emerging markets offer value, but, volatility remains.
- Australian equities fell 6.1% in Oct18, 2.2% in Nov18 and 0.2% in Dec18. Worst calendar year in last seven years.

DEFENSIVE ASSETS

- US Fed and the Bank of England continue to raise official short term interest rates, this may slow in 2019. US at 2.25%/2.50%.
- Australian short term interest rates appear on hold with the economic and global backdrop. Cash rate remains at 1.5%.
- US interest rates remain above Australian levels for the first time in 20 years.
- Global bonds volatile, but supported by investors seeking 'safe havens' in light of global equity market weakness.

CURRENCY

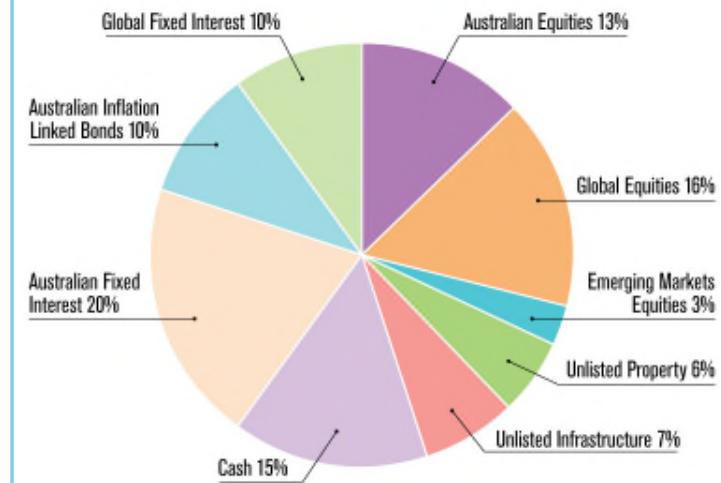
- Global currencies are being influenced by Central Bank alterations to official interest rates and the removal of Quantitative Easing.
- AUD a little weaker vs USD through the quarter and volatile.
- Commodity prices influence AUD, especially iron ore
- Expect continued volatility in AUD vs trading partners.

PORTFOLIO POSITIONING

- Underweight global bonds. Expect 'lower for longer' global interest rate environment influencing investment returns.
- Overweight unlisted Australian property – Office & Healthcare.
- Underweight equity markets which have seen corrections over past three months. US tech's have fallen swiftly & sharply – Facebook, Apple, Amazon, Netflix & Google (FAANG's).
- Introduced an active Australian equity manager in Sep18.

CHARTS

Pathway Education Fund - Australia Long term asset allocation



Declared rates of return for the Dec 2018 quarter.

PEF AU -1.85%

Three key investment themes:

1. Investment markets do experience times of volatility, especially equity markets, which can occur in a short space of time.
2. Diversification in the portfolio is important.
3. Focus on the long term investment objectives. ASG's investment portfolios have a conservative balanced risk profile.

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DISCLAIMER

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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.