DECEMBER 2019

Investment Outlook Report

Overview
Trade hopes fuelling 'mini-cycle'

Economic Analysis
Signs of stability as markets greet 2020 with vigilance

Quarterly Outlook
Low interest rates will benefit real assets

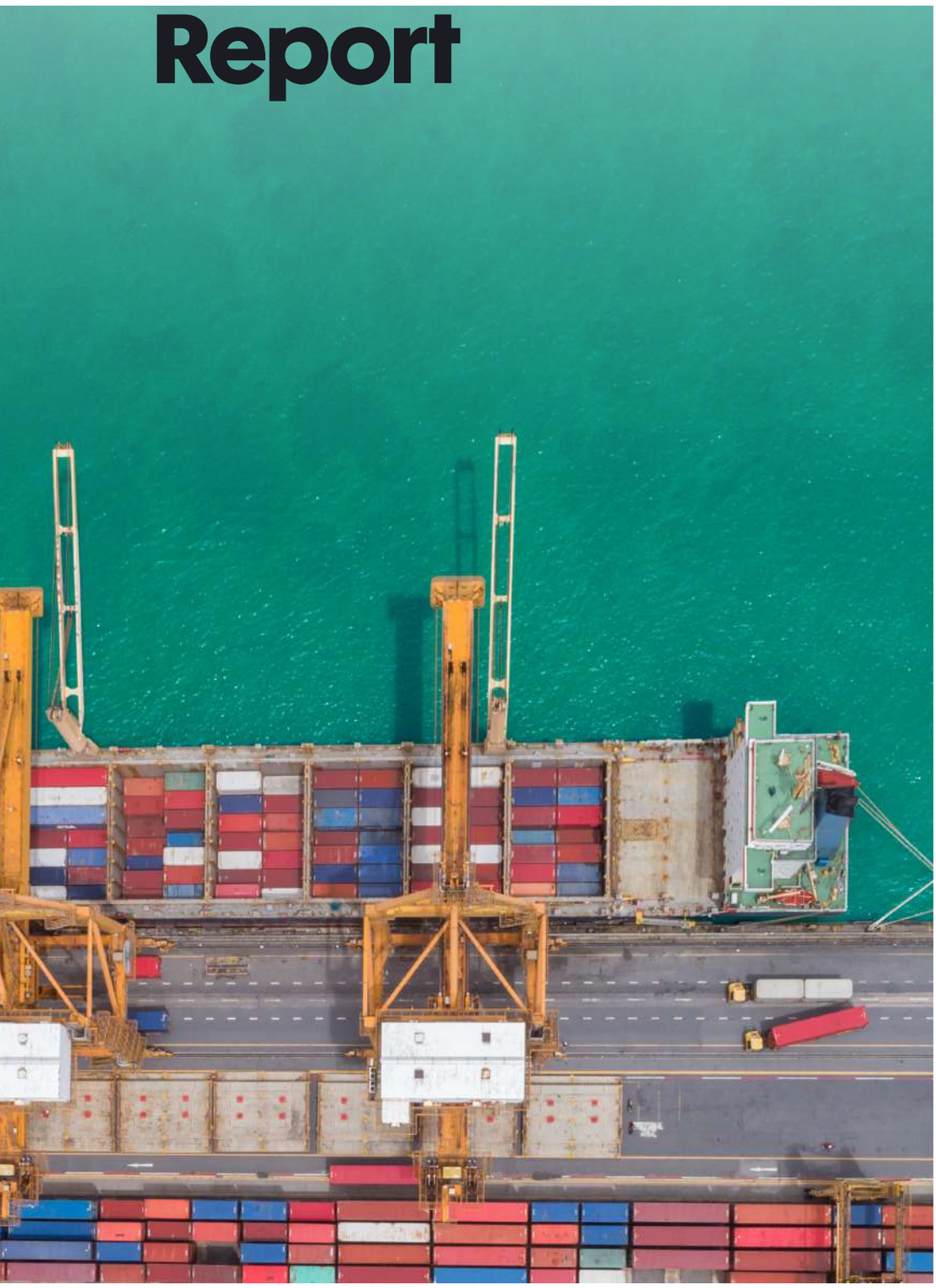
Dynamic Asset Allocation
Portfolio allocations by risk profile for the September quarter 2019

Lonsec

The **Investment Outlook Report** reflects Lonsec's latest views on investment markets and the economy, as well as providing dynamic asset allocation guidance against Lonsec's strategic asset allocation framework.

ISSUE 36

Investment Outlook Report



Contents

Lonsec

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Overview

Trade hopes fuelling 'mini-cycle'

LUKASZ DE POURBAIX
CIO, LONSEC INVESTMENT SOLUTIONS

Markets continued their upward trajectory in November. When you look at the returns across key asset classes over the last 12 months most asset classes have generated double digit returns. Growth assets such as equities and listed real assets generated over 20% for the year ending 30 November, while bonds generated high single digit to double digit returns. This has been a great outcome for investors and certainly well above Lonsec's long-term expected returns for asset classes.

Part of what has fuelled these high returns, post markets getting the wobbles after the US yield curve inverted in August, can be attributed to markets pricing in the avoidance of a recession and the expectations of a potential recovery in growth. We have witnessed such 'mini-cycles' in the past, in 2013 and 2016, however what is different this time is that EPS growth is more muted and other factors which contributed to previous mini-cycles, such as the US or Chinese fiscal stimulus, are less likely to have an impact.

So what does this mean for markets? We think markets may experience a short-term upswing as the 'mini-cycle' plays out. We have therefore slightly adjusted our dynamic asset allocation tilts deploying some of the excess cash in our portfolios towards Australian equities. Our overall asset allocation continues to have a defensive skew with the objective of diversifying the portfolios by asset type and investment strategy. This positioning reflects our broader view that asset prices are stretched and that while some economic indicators have stabilised, we believe we are closer to the end of the cycle.

Economic Analysis

Market moves

Index returns as at 30 November 2019

	3 Months (%)	6 Months (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)
AUSTRALIAN EQUITIES	4.75	9.25	26.04	12.67	9.96
GLOBAL EQUITIES	7.49	12.76	13.64	12.26	9.37
A–REITS	0.84	9.20	27.02	13.58	13.17
GLOBAL LISTED PROPERTY	3.63	7.52	13.62	9.19	6.91
AUSTRALIAN FIXED INTEREST	-0.16	3.37	10.69	5.66	4.87
GLOBAL FIXED INTEREST	-1.03	3.16	9.04	4.37	4.42
CASH	0.25	0.58	1.58	1.75	1.95
AUD/USD	0.45	-2.52	-7.43	-2.89	-4.48

MARKET INDICES:
S&P/ASX 300 ACCUMULATION INDEX
MSCI WORLD EX AUSTRALIA NR INDEX (AUD HEDGED)
S&P/ASX 300 A–REIT ACCUMULATION INDEX
FTSE EPRA/NAREIT DEVELOPED NR INDEX (AUD HEDGED)
BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX AUD
BLOOMBERG BARCLAYS GLOBAL AGGREGATE TR INDEX (AUD HEDGED)
BLOOMBERG AUSBOND BANK BILL INDEX AUD

Economic Analysis

Signs of stability as markets greet 2020 with vigilance

The global economy ends 2019 on a weak note, although the combination of monetary policy easing over the year and the recent de-escalation in the US-China trade war has raised hopes that things will begin to improve in 2020. With a hard Brexit looking less likely following a dominant Conservative victory and signs of an upturn in China, risk assets have responded with vigour.

The highlight over the month was China and the United States agreeing to a 'phase one' trade deal that would see the US remove tariffs on Chinese goods in stages. The agreement would require China to make structural reforms and change its trade practices in the areas of intellectual property, technology transfer, agriculture, financial services and currency. To the extent that the 18-month trade war and the associated uncertainty over the prospect of a deal had undermined activity and confidence, de-escalation is positive for sentiment and investment.

According to Fed chairman Jerome Powell, "both the US economy and monetary policy are in a good place." The US economy expanded by a revised 2.1% in the September quarter but with the equity market up more than 25% year-to-date the focus will now turn to earnings. A lack of EPS growth this year leaves the US equity market vulnerable should the policy easing of 2019 and the de-escalation in trade tensions not flow through to business confidence and economic growth.

A 'phase one' deal would require China to make changes to its intellectual property, technology transfer, and agricultural rules

Of course, the other major news item on the political front was the impeachment of US President Trump, only the third president in US history to be impeached. The decision paves the way for a trial in the Senate, although given Republican control it is highly unlikely that Trump will be removed from office. While markets have largely ignored the impeachment, they will begin to focus on the 2020 US presidential election. Ahead of that will be the selection of the Democrat presidential candidate, which represents a potential source of risk for markets.

Growth and inflation continue to disappoint in Europe—particularly in Germany—prompting calls for a boost in government spending. These voices include Christine Lagarde, the new president of the ECB, as well as the OECD and, surprisingly, the Bundesbank. Meanwhile, in the UK, it seems that the vote for the Conservatives was both a vote for Brexit and against the extreme left-wing policies of the current Labour Party.

There was more upbeat news on China during the month. A range of better-than-expected data releases and, of course, the announcement of the phase-one trade deal have reduced the risk of a more significant downturn in Chinese growth (at least for now).

Finally, in Australia, the economy enters 2020 growing well below potential growth rates, with excess capacity in the labour market and inflation almost 1.0% below the target rate. With the RBA drifting further away from achieving its inflation and unemployment targets, further cuts to the cash rate remain likely. Indeed, during the month, RBA Governor Philip Lowe signalled that the "effective lower band" for the cash rate was 0.25%, and against a background of weak capex, wages and GDP data, markets moved to factor in further policy easing towards this level by mid- to late-2020.

Perhaps the most disappointing aspect of the latest national accounts data was that, despite a strong rise in household disposable income over the year, driven by solid labour income growth and lower taxes and interest rates, household consumption growth was very weak. Consumers have opted to lift savings and pay down debt, which is a positive long-term development, but detrimental to short-term growth. Indeed, the latest budget estimates reflect this weaker growth, with projected budget surpluses less than previously announced. Nevertheless, the government remains committed to achieving budget surpluses.

Australia

The Australian economy enters 2020 growing well below potential growth rates, with excess capacity in the labour market and inflation almost 1.0% below the target rate. It suggests the RBA maintains a bias to cutting cash rates further. Indeed, during the month RBA Governor Philip Lowe signalled that the "effective lower band" for the cash rate was 0.25%, and against a background of weak capex, wages and GDP data, markets moved to factor in further policy easing towards this level by mid- to late-2020.

The RBA has indicated that if it drifts further away from achieving its inflation and unemployment targets, rates will be cut. September quarter inflation data shows core inflation around 1.5%, with little sign of upward pressure. The October employment report showed unemployment rising to 5.3%, well up on the 5.0% level at the beginning of 2019, although the November report showed unemployment dropping back to 5.2% with employment growth of 39,900. Markets reassessed the likelihood of further rate cuts given stronger jobs data, but the latest report seems at odds with leading indicators, which suggest a soft labour market. ANZ job ads are down 12.6% over the year, although the series has stablised over the last six months.

Australia's capex data for the September quarter was disappointing. Total private sector capex was down 0.2% with annual growth in volume terms at -1.3%. Mining and manufacturing sector capex rose during the quarter by 3.9% and 5.4% respectively, but the largest component, 'other' (which predominately represents the service sector) dropped 2.7%. Capex intentions for the 2019-20 year also declined.

Markets reassessed the likelihood of further rate cuts given stronger jobs data, but the latest report seems at odds with leading indicators

Australia's GDP expanded by 0.4% in the quarter, lifting the annual growth rate to 1.7% from 1.6%. The major contributors to growth remain public sector consumption growth (services), which rose 0.2% during the quarter and 1.2% for the year, and exports, which rose 0.2% during the quarter and 0.8% for the year).

Perhaps most telling in the data was that a strong rise in household disposable income failed to translate into stronger household spending. Over the year, household consumption growth was just 1.2% despite a solid lift in household disposable income in the September quarter (up 2.5% for the quarter and 5.1% for the year), which, in turn, was driven by solid labour income growth, falling interest rates, and a reduction in tax payable (thanks to the government's tax cuts). Rather, the household savings rate jumped to 4.8% from 2.7%.

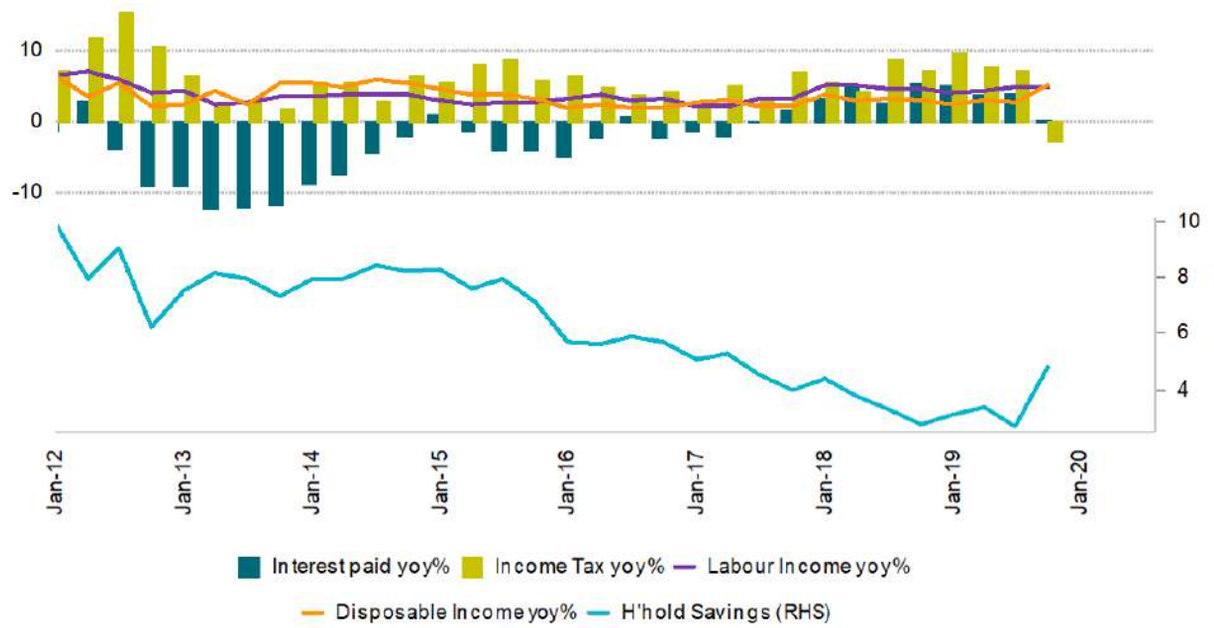
Dwelling approvals fell more than anticipated in October, down 8.1%, taking the annual decline to 23.6%. Private house approvals fell 7.0% while higher density approvals were down 11.3%. For the year house approvals are down 19.4% while unit approvals are down 31.0%.

Despite the weak growth trends, Australia is on track to achieve a budget surplus in 2019-20, although the Mid-Year Economic and Fiscal Outlook (MYEFO) revealed that the forecast budget surplus has been cut from $7.1 billion to $5 billion. Within the update the government downgraded the forecast for economic growth from 2.75%, to 2.25%. Wages growth was also downgraded from 2.75% to 2.5% in 2019-20, and from 3.5% to 2.5% in 2020-21.

This has the effect of reducing personal income tax collections by $7 billion over the next four years. The government also expects to collect $9 billion less in GST as consumers reduce their spending. Total tax receipts have been revised down by $3 billion in 2019-20 and by $32.6 billion over the four years to 2022-23. The surplus for 2020-21 is now projected to be $6.1 billion instead of $11 billion as previously estimated.

Most observers believe that fiscal policy should play a greater role in supporting the economy given the potential negative impacts from extremely low interest rates. However, the deterioration in the budget position makes it increasingly difficult for the government to resort to fiscal expansion should the economy require it, while also seeking to maintain a budget surplus. The $14 billion in tax cuts scheduled for mid-2022 (around 0.75% of GDP) could be brought forward if required, noting that the government's conservative iron ore forecast of US$55 per tonne is well below the average FYTD of around $90 per tonne. If sustained, the price gap will cost the budget around $3 billion in tax receipts this year and $10 billion next fiscal year.

Australian consumers are stashing away their income



SOURCE: ABS, HEURISTICS

Household disposable income rose 2.5% in the September quarter (5.1% year-on-year), driven by solid labour income growth, falling interest rates, and a reduction in tax payable (thanks to the government's tax cuts). However, this did not translate into stronger spending, as households lifted the savings rate to 4.8% from 2.7%.

United States

The highlight for the month was China and the United States agreeing to a 'phase one' trade deal that would see the US reduce tariffs on Chinese goods in stages. According to the statement from the United States Trade Representative's Office, the agreement would require China to make structural reforms and change its trade practices in the areas of intellectual property, technology transfer, agriculture, financial services and currency.

While a 25% tariff on US$250 billion in Chinese goods would be maintained, the 15% tariff on another US$120 billion in Chinese goods imposed in September would be reduced to 7.5%. A new round of tariffs on US$156 billion of Chinese goods, due to be imposed on 15 December, was cancelled.

To the extent that the 18-month trade war and the associated uncertainty over the prospect of a deal had undermined activity and confidence, de-escalation is positive for sentiment and investment. Indeed, equity markets around the world have responded favourably. The question now is whether this deal is the beginning of a series of phased tariff rollbacks, or, as has happened on numerous occasions, both parties fail to follow through on the details of agreements made and tensions flare up once again.

The expansion is now 41 quarters long, although the compound annual growth rate is the slowest of the post-war period

The other major news item was the impeachment of US President Trump, only the third president in US history to be impeached. The House of Representatives charged him with using the power of his office to freeze US foreign aid to Ukraine in order to pressure Ukraine's president into launching investigations into Trump's political rival Joe Biden. A second charge, obstruction of Congress, charged that the President refused to co-operate with the impeachment inquiry by withholding documentary evidence and preventing key aides from giving evidence. The decision paves the way for a trial in the Senate, although given Republicans control it is highly unlikely that Trump will be removed from office.

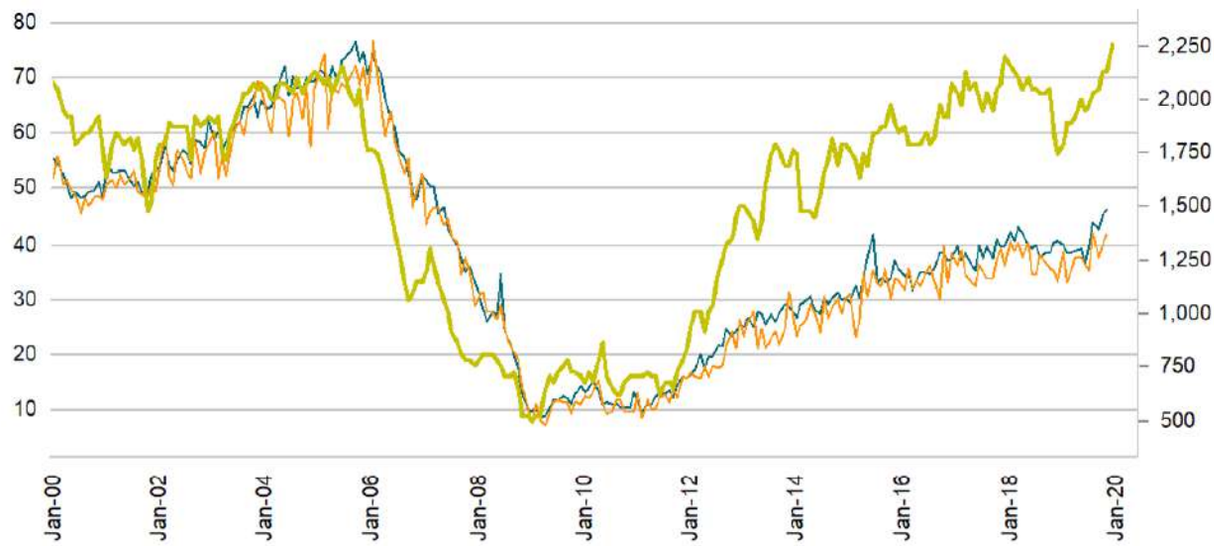
The Fed kept the funds rate steady at 1.5–1.75% in December while the latest FOMC dot plot shows the Fed has downgraded its projections for the funds rate. It's now projecting no move until the end of 2020, before rising to 1.9% at the end of 2021, 2.1% at the end of 2022 and 2.5% in the long term (unchanged). Markets are expecting the funds rate to move to 1.25% during 2020. Fed chairman Jerome Powell noted, "both the US economy and monetary policy are in a good place."

On the economic data front, the news was perhaps slightly more positive. September quarter GDP growth for the US was revised up to 2.1% from 1.9%. The record expansion is now 41 quarters long, although the compound annual growth rate of 2.3% per annum is the slowest expansion of the post-war period. The US payrolls data for November was better than expected, with 266,000 jobs added (versus an expected 190,000), which saw the unemployment rate drop to 3.5%. Wages growth for the private sector eased back to 3.1%, although for non-supervisory production workers wages growth is now running at 3.7%. Housing data continues to improve, reflecting lower mortgage rates and reasonable income growth. The NAHB builder sentiment index rose to a 20-year high while housing permits surged to the highest level since 2007.

The US ISM survey data for November was disappointing. The new orders index for manufacturing dropped to 47.2 from 49.1, while the service sector new orders index rose to 57.1 from 55.6. Overall, the composite PMI new orders index is consistent with 1.5–2.0% GDP growth. The US retail sales data was weaker than expected with monthly growth of 0.2% compared with 0.5% forecast. Annual growth in retail sales is now 3.3%.

The focus will now turn to earnings. With the market up sharply in 2019, the lack of EPS growth this year leaves the US equity market vulnerable should the Fed ease policy in 2019 and the de-escalation in trade tensions not flow through to business confidence and economic growth. The 2020 US presidential election cycle will also come into view. The next few months will see attention shift to the selection of the Democratic presidential candidate. The current frontrunner is Joe Biden while Senator Elizabeth Warren is also a possibility but seen as unfavourable by Wall Street.

The property market is one of the bright spots of the US economy



SOURCE: ST LOUIS FED. HEURISTICS

Housing data continues to improve, reflecting lower mortgage rates and reasonable income growth. The NAHB builder sentiment index rose to a 20-year high while housing permits surged to the highest level since 2007.

Europe

The IHS Markit Eurozone Composite PMI paints a picture of a near-stagnant economy with growth in the December quarter of around 0.1%. The manufacturing sector is seen as contracting at a 1.0% quarterly rate across the eurozone, and only in Greece and France is the sector expanding. In Germany, the zone's largest economy, manufacturing is contracting at the fastest pace since the GFC. The service sector is growing at its second-lowest rate since January this year.

Core inflation (excluding food and energy) in the Eurozone picked up to 1.3% from 1.2% and is still well below the 2.0% targeted by the ECB. On a purely graphic basis it could be suggested this measure of inflation is breaking up out of a 0.9% to 1.1% band seen since early 2017.

Industrial production fell 2.0% over the year to September, driven by a large fall in Germany of over 5.0% over the year to October. The German car industry has been in a slump since the diesel scandal and is now facing falling sales while having to meet the cost of investing in electric vehicles. The industry has lost 50,000 jobs this year. To make matters worse there is a fear that US President Trump may turn his attention to European car imports now that he has a preliminary China 'deal' and the USMCA (United States-Mexico-Canada Agreement) trade pact (which replaces Nafta). Indeed, Trump has proposed 100% tariffs on $2.4 billion of French goods on the basis that the digital services tax discriminates against US technology companies.

Unemployment in the eurozone fell marginally in October to 7.53% from 7.55% and is sitting at the lowest rate since the GFC. However, the weakness in the manufacturing sector may be responsible for the fall in the unemployment rate coming to an end, at least temporarily. Spanish unemployment has nudged up in recent months and at 14.25% is still well above the 8.0% pre-GFC low. Unemployment in Germany, France and Italy continues to fall. At 3.08% German unemployment is the lowest since at least 1990.

Calls for a boost in government spending have come from a range of sources including Christine Lagarde, the new president of the ECB, as well as the OECD and, surprisingly, the Bundesbank. Lagarde has called for a boost to productive public investment, including infrastructure, R&D and education, and increased harmonisation in services, banking and capital markets to rebalance the region's economy away from exports to domestic demand.

The OECD said that governments need to take "urgent" action to improve the medium-term prospects for their economies and that advanced economies should kick-start private investment in new energy technologies and digitalisation with "bold public investment". The OECD forecast that weak global growth will continue for the next two years. Jens Weidmann, the head of the Bundesbank, said that the German government's commitment to a balanced federal budget should not become a "fetish".

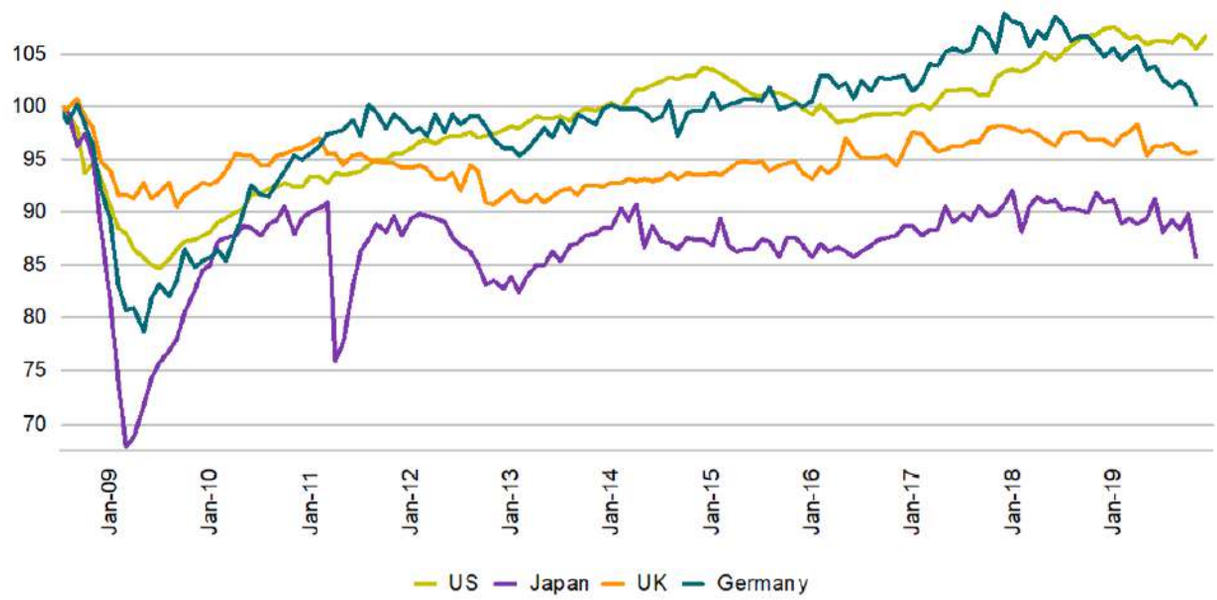
Calls for a boost in government spending have come from the ECB, OECD and, surprisingly, the German Bundesbank

In light of Brexit and ahead of the UK general election the IHS MARKIT / CIPS UK PMIs, unsurprisingly, presented a rather grim picture. The PMI reading was consistent with UK GDP declining at a quarterly rate of around 0.1% with the fastest fall in new work since July 2016, and the biggest drop in export orders since at least September 2014.

The Conservative Party won the election in a landslide with 365 seats to Labour's 202. The Conservatives now have a commanding majority of 80 seats in Parliament. The number of Labour party MPs fell to the lowest in 84 years. In Scotland the picture was radically different as the Scottish National Party (SNP) won 56 out of 59 seats and renewed the push for national independence. It seems that the vote for the Conservatives was both a vote for Brexit and against the extreme left-wing policies of the current Labour Party.

The Conservative Party's victory depends on MPs in some of Britain's most deprived industrial towns. They will demand a bigger state, higher public spending, tax cuts for the poor, and a Brexit that does not cost jobs. In recognition, Johnson plans to direct billions of pounds into the midlands and north of England and push ahead with Brexit's scheduled departure date of 31 January. Johnson is to pass a law legally prohibiting him from extending the transition period beyond December 2020, keeping the risk of a hard Brexit alive.

Declining manufacturing activity is a major theme across the European continent



SOURCE: ONS. BUNDESBANK. US FED. HEURISTICS

Over the year German industrial production is down 5.3%, while Japan is down 6.6%. The UK and US are also weaker. Weakness in the eurozone's largest member does not bode well for the stability of the European economy.

Japan

Japan's September quarter GDP was revised up to 1.8% annualized from 0.2%, thanks to business investment growing by a higher-than-expected 7.3% annualized growth. Consumption contributed 1.2 percentage points, investment 1.1 and the public sector 0.7 percentage points. Offsetting this was 0.7% from both net exports and inventories.

The November Jibun Bank Japan PMIs present a disappointing view of the economy. The composite index suggests a further contraction in growth in November but at a lesser rate than in October. A stronger rebound in November was expected after the distortion following October's sales tax rise. The services sector staged a weak recovery in November, suggesting that demand in the sector had weakened in the December quarter. While in the manufacturing sector orders from China dropped.

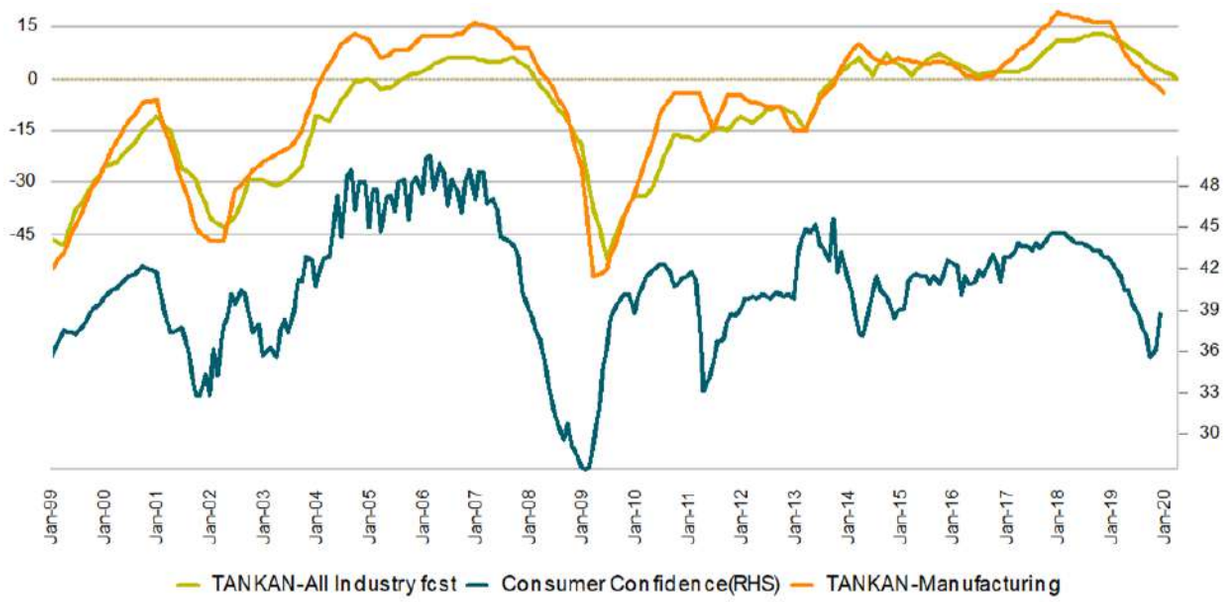
The Tankan survey for large manufacturers fell for the fourth consecutive quarter reflecting weakness in exports related to the US-China trade war. Exports have fallen over 9.0% over the year to October, down from a recent yearly growth rate of 15% in May 2017, while imports rose 2.0% over the year to September. The economy is likely to have contracted in the December quarter.

The services sector staged a weak recovery in November, suggesting that demand has weakened in the December quarter

Job offers per applicant have fallen to 1.57 in October from a recent high of 1.63 in April, while the unemployment rate fell to 2.39% in October from 2.42% previously. It seems likely that the labour market is not tightening further. Nonetheless, wage growth is minimal and the numbers are volatile. Inflation in the Tokyo region has eased in recent months while core inflation, which excludes food and energy, was unchanged in October at 0.6%.

The government has launched a fiscal stimulus package of ¥13.2 trillion (US$121 billion) to repair typhoon damage, upgrade infrastructure and invest in new technologies. The package is recognition of weakness in the global economy, the drag from the recent rise in the consumption tax, and the risk of a slowdown after next summer's Tokyo Olympics.

Japan's consumers are doing the heavy lifting



SOURCE: BANK OF JAPAN, HEURISTICS

Sentiment among large manufacturers in Japan fell for the fourth straight quarter. The service sector remains resilient while consumer confidence appears to be recovering in recent months after declining from late 2017.

China

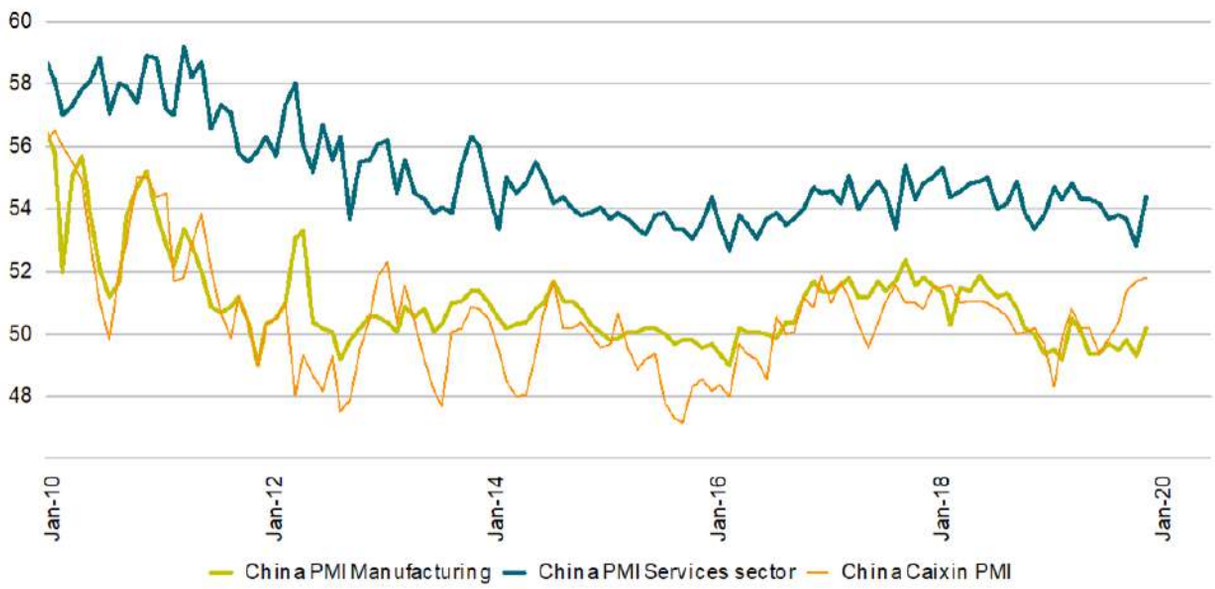
There was more upbeat news on China during the month. A range of better-than-expected data releases and, of course, the announcement of the phase-one US-China trade deal, have supported the view that a more significant downturn in Chinese growth could be averted (at least for now). In lifting the clouds from the Chinese economic outlook, these positive developments also mitigate the immediate need for additional stimulus to support growth targets.

The official manufacturing PMI rose to 50.2 in November, the first reading above 50 since April 2019. Meanwhile, the Caixin PMI, which is more focused on the private sector, rose to 51.8 from 51.7, while the service sector PMI jumped to 54.4 from 52.8. The improved PMI data was reinforced by better-than-expected outcomes for industrial production and retail sales. Industrial output expanded by 6.2% year-on-year in November, up from 4.7%, while retail sales expanded by 8.0% year-on-year, compared with 7.2% the previous month. Investment spending, however, continues to languish, up 5.2% over the year.

The improved PMI data was reinforced by better-than-expected outcomes for industrial production and retail sales

The easing measures undertaken over the past 12 months appear to have alleviated fears of a major downturn. Growth has been boosted by cuts to the bank reserve requirement ratio, while the government has brought forward 1 trillion yuan of the 2020 local government special bonds quota used to finance infrastructure projects to this year. However, the stimulus is more targeted and pales in comparison with previous stimulus phases. Inflation in China rose to 4.5% in November, driven by a 110% surge in pork prices as African Swine fever swept through China's hog herds. At the same time, the Producer Price Index (PPI) fell 1.4% over the year.

Improving PMIs is a positive sign for the Chinese economy



SOURCE: MARKIT. NBS. HEURISTICS

The Chinese economy appears to be stabilising. The official manufacturing PMI rose to 50.2 from 49.8, following six months of sub-50 readings. The Markit PMI, which is more indicative of private sector growth, rose to 51.8 from 51.7 while the service sector PMI lifted to 54.4 from 52.8.

Economic Analysis

Key economic indicators

Indicator		Australia	USA	Europe	Japan	China	NZ
REAL GDP GROWTH	% YOY	1.7	2.1	1.2	1.9	6.0	2.3
	QUARTER	Q3	Q3	Q3	Q3	Q3	Q3
	%	0.4	0.5	0.2	0.5	1.5	0.7
	PERIOD	QOQ	QOQ	QOQ	QOQ	QOQ	QOQ
HEADLINE CPI	CURRENT	115.4	257.93	105.32	102.2	104.5	103.4
	MONTH/QUARTER	Q3	NOVEMBER	NOVEMBER	OCTOBER	NOVEMBER	Q3
	%	1.7	2.1	0.95	0.2	4.5	1.5
	PERIOD	YOY	YOY	YOY	YOY	YOY	YOY
RETAIL SALES GROWTH	% YOY	2.3	3.3	1.4	-7.1	8.0	4.5
	MONTH/QUARTER	OCTOBER	NOVEMBER	OCTOBER	OCTOBER	NOVEMBER	Q3
	%	0.2	0.2	-0.6	-14.4	0.8	1.6
	PERIOD	MOM	MOM	MOM	MOM	MOM	QOQ
UNEMPLOYMENT	% YOY	5.2	3.5	7.5	2.4	3.6	4.2
	MONTH/QUARTER	NOVEMBER	NOVEMBER	OCTOBER	OCTOBER	Q3	Q3
	CHANGE	-0.1	-0.1	-0.1	0.0	0.0	0.3
	PERIOD	MOM	MOM	MOM	MOM	QOQ	QOQ

FIGURES BASED ON LATEST AVAILABLE DATA AS AT 21 OCTOBER 2019
SOURCE: HEURISTIC INVESTMENT SYSTEMS

Economic Analysis

Risk matrix

Key economic and market risks

Return to solid global growth with modest inflation	**Positive**: Current concerns over a slowdown in economic growth turn out to be overblown. China stabilises growth around 6.0 – 6.5% while US growth holds well above trend. Europe and Japan improve after a weak 2018, supported by extremely easy policies. Emerging market economies recover. Bond yields remain relatively low as inflation remains contained. Equities resume their rally. Positive for cyclical exposures.
US Fed is slow to ease policy	**Negative**: With US growth slowing, partly as a result of the uncertainty over trade, the Fed is expected to ease policy. However, member concerns about labour market tightness and inflation, along with a desire to avoid being seen as caving to political pressure, means the Fed refrains, at least initially. Markets weaken.
European political risks intensify	**Negative**: The rise of populist parties across Europe leads to policies aimed at reducing immigration and backtracking on globalisation. Recent developments in Italy are a case in point, with a rise in the fiscal deficit adding to already high debt levels, raising the risk of further rating downgrades and concern over the euro. The prospect of a hard Brexit and the resulting economic dislocation causes markets to panic. Equity markets suffer and defensive assets outperform.
Global geopolitical risks intensify	**Negative**: Responses from US trade partners over tariff rises results in a trade war and protectionist policies as the new political norm. While the two Koreas appear to have defused tensions for now, there is still a risk that the situation could become inflamed, while uncertainty over the position of other major powers undermines risk appetite and markets.
US and China fail to reach a trade deal	**Negative**: Failed trade negotiations between the US and China lead to a prolonged trade war and an escalation in tensions. This leads to lower growth as real consumption declines and heightened uncertainty undermines investment. Financial markets experience weakness and volatility, adding to the weaker outlook.
Chinese 'hard landing'	**Negative**: The Chinese authorities are slow and too timid in their response to the current cyclical and structural downturn given their increased emphasis on financial stability. This causes a sharp downturn in the property market, exposing high levels of local government debt and undermines consumer spending. The yuan is allowed to depreciate and capital outflows intensify. This leads to GDP growth well below 5.0%. Negative for the global economy but also the Australian economy, equities, commodity prices, emerging markets and particularly resources and the Australian dollar. Bonds outperform.
Low interest rates, tax cuts, and stronger commodities	**Positive**: With cash and mortgage rates at, or near, record lows, the currency at reasonable levels, and a sharp improvement in the fiscal position allowing for tax cuts, the domestic economy surprises to the upside. This, along with a renewed lift in global growth and commodity prices, and strengthening infrastructure investment, flows through to domestic employment, incomes and growth. Domestic equities lift. RBA signals eventual tightening.
Australia fails to avoid a recession	**Negative**: Despite rate cuts, fiscal easing and easier lending conditions, weaker global growth exposes Australia's imbalances and high debt levels. Households continue to roll back spending in the face of rising unemployment, low wages growth and uncertainty, but this time there are no sectors coming to rescue the domestic economy. Investment turns down, any housing recovery is aborted, and the government is slow to ease fiscal policy. The bank sector is impacted. The Australian dollar weakens and equities and bond yields move lower.

Economic Analysis
Currency outlook

Key exchange rates and forecasts

	AUD/USD	AUD/EUR	AUD/JPY	AUD/CNY	AUD/NZD	EUR/USD	USD/JPY	USD/CNY
DECEMBER 2019	0.688	0.618	75.40	4.818	1.043	1.112	109.36	7.00
MARCH 2020	0.665	0.610	70.50	4.69	1.05	1.09	106	7.05
JUNE 2020	0.675	0.625	70.90	4.74	1.04	1.08	105	7.02
SEPTEMBER 2020	0.69	0.627	73.10	4.83	1.03	1.10	106	7.00
DECEMBER 2020	0.70	0.625	73.50	4.87	1.03	1.12	105	6.95

SOURCE: HEURISTIC INVESTMENT SYSTEMS. 20 DECEMBER 2019

Quarterly Outlook

Lonsec

Quarterly Outlook

Low interest rates will benefit real assets

LUKASZ DE POURBAIX
CIO, LONSEC INVESTMENT SOLUTIONS (MODEL PORTFOLIOS AND MANAGED ACCOUNTS)

At our September investment committee meeting we further increased our exposure to real assets and trimmed some of our exposure to global equities. We also increased our exposure to global REITS based on our view that the sector is attractive from a relative valuation perspective, especially in comparison to US equities. Furthermore we believe the low interest rate environment is beneficial for real asset investments.

We also note that the risks to equity markets have increased and the higher allocation to real assets provides a more defensive growth exposure relative to the market. Finally, the overall reduction to global equities has not changed our relative bias to emerging markets within the global equities category. We continue to believe that, on a three-year view, emerging market equites are attractively valued and offer a superior return profile to developed market equities.

SHAILESH JAIN,
HEAD OF AUSTRALIAN
EQUITIES FUNDS
RESEARCH

Australian Equities

The solid quarterly performance was led by the defensive consumer staples sector which finished up 11.6% and the economically sensitive consumer discretionary sector gained 8.9%. The relative outperformance of these sectors was attributed to the stronger than expected earnings results from some of the large cap names including Coles, Woolworths and JB HiFi. The macroeconomic backdrop provided consumer facing companies with cause for some optimism through a combination of income tax cuts, interest rate cuts and house price stabilisation in Melbourne and Sydney.

Health care and IT sectors finished up 7.2% and 5.9% respectively. These two sectors benefitted from resilient earnings results and relatively positive outlook statements. In terms of healthcare large index weight, CSL and Resmed gained 8% and 14% respectively and both companies delivered double digit profit growth accompanied by upgrades in profit guidance. The IT sector was led again by Afterpay up 59% and WiseTech rising 24% respectively, with management maintaining conviction in their 'lofty' future growth pathways.

The largest weighted sector in the market, the financials produced a respectable 3.3% return which was above the overall benchmark. The big four banks produced mixed share price performance over the recent quarter. NAB was the standout returning 10.4% while CBA was the laggard down 3.1%.

Only CBA out of the big four banks reported full year results during the recent reporting season with a 5% reduction in profit impacted by softer credit growth, falling net interest margins courtesy of the RBA's rate cuts, and heightened competition from non-bank lenders. ANZ recently announced further provisioning of $651 million to cover customer remediation costs from the 'fee for no service' scandal emanating from last year's Hayne Royal Commission. It is expected that the final customer compensation bill from the major 4 banks and leading wealth management firms may climb above $10 billion. A significant amount on face value but the final amount would on average total less than 6 months of the affect companies net profits.

The A-REIT sector delivered a 1.1% return over the September quarter. Over the three-month period the 10-year Australian government bond yield fell from 1.35% to 0.96%. REITs are one of the key beneficiaries from persistent falling interest rates due to their debt financing structures. Within the A-REITs sector there was wide dispersion in terms of performance from the traditional sub-sectors.

Australian share index performance to 30 September 2019 (total return)

	1 Month	3 Months	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)
S&P/ASX 300 TR INDEX AUD	1.91	2.55	12.57	11.85	9.55
S&P/ASX SMALL ORDINARIES INDEX	2.61	3.11	3.95	8.80	9.61
S&P/ASX 300 FINANCIALS	4.23	3.34	12.00	9.08	6.79
S&P/ASX 300 HEALTH CARE	-2.15	7.24	16.71	20.12	20.65
S&P/ASX 300 MATERIALS	2.95	-3.50	15.62	17.40	11.47
S&P/ASX 300 INFORMATION TECHNOLOGY	0.11	5.94	14.67	20.60	15.66
S&P/ASX 300 CONSUMER STAPLES	1.74	11.60	15.95	15.53	9.50
S&P/ASX 300 ENERGY	4.46	0.05	-9.83	11.47	-2.44

SOURCE: FINANCIAL EXPRESS

Industrial and office as well as exposures to funds management performed strongly with captive pent-up demand, falling cap rates and rising asset valuations, while retail struggled due to anemic retail sales, negative re-lease spreads and retailers continuing to focus more on online channels away from bricks and mortar. The best performers in the A-REIT sector over the September quarter were Charter Hall Group and Stockland.

The resources and energy sectors underperformed the market producing 0.0% and -3.5% respectively. The lacklustre performances were largely driven by falls in commodity prices reflective of global economic weakness and heightened geopolitical risks.

The small cap segment of the market outperformed its large cap counterparts with S&P/ASX Small Ordinaries Index returning 3.1% for the September quarter. On a 12-month basis to September 2019, the Small Ordinaires Index returned 4.0% which underperformed the broader S&P/ASX 300 Index significantly by 8.6%. The small cap industrials outperformed the small cap resources by 3.5% over the September quarter. Also, small cap biotech stocks have become a hot segment with eye watering multiples delivering notable short-term returns for investors including Polynovo +39% and Avita Medical Limited +31% in the September quarter alone.

S&P/ASX 300 TR Index three-year rolling returns (% p.a.) to 30 September 2019

SOURCE: LONSEC, FINANCIAL EXPRESS

Outlook

After a relatively strong share market performance in the September quarter the outlook appears mixed across most sectors, indicative of a favourable market for stock pickers. The increase in optimism for market participants are resulting from:

- Fiscal and monetary stimulus,
- Signals of a recovery in house prices which should increase consumption activity,
- Depreciating Australian dollar to boost earnings from internationally focused companies,
- Ongoing spending on infrastructure projects, and
- More buoyant mining investment cycle.

Counteracting these green shoots:

- Sluggish wages growth,
- Pessimism around the outlook for the global economy, and
- Relatively weak building and construction activity.

The S&P/ASX 300 Index has delivered an outsized 22.9% return for calendar 2019. Currently, the ASX 300 Index is trading on a 12-month forward price to earnings (P/E) ratio of over 16 times, approximately 15% higher than the long-term average of 14 times. The prospective P/E market multiple needs to be justified by strong and robust earnings growth.

Returns for interest rate sensitive sectors e.g. utilities, infrastructure and REITs will continue to be supported by investors search for income with tailwinds of historically low bond yields. Financials remains under pressure from an industry perspective with banks profit growth expected to be low to moderate due to constrained lending, net interest margin pressures and bad debts are at extremely low levels which should rise in consideration of elevated household indebtedness and below-trend domestic economic growth outlook.

IT stocks are trading on expensive valuations and look increasingly vulnerable without supportive earnings growth. Investors remain bullish in this segment of the market due to the long duration growth potential that is difficult to come by.

SIMONE GAVIN, SECTOR LEAD, GLOBAL EQUITIES

Global Equities

It proved to be another volatile quarter as the Trump administration in Washington turned up the temperature in the simmering trade war with China. The latest frog to be boiled was Huawei, China's privately-held telecommunications and emerging consumer goods champion.International equities continue to endure the crosswinds created by the US-China trade wars and global central banks unleashing a fresh round of easing. Against this backdrop, the MSCI World NR Index AUD benchmark extended its gains during the September quarter to finish 4.6% higher and lifted the rolling one-year return to 9.2%. The MSCI Emerging Markets NR Index AUD benchmark finish 0.4% lower for the quarter but was 5.1% higher on a rolling one-year basis.

The trade wars have weighed on business sentiment, which is taking its toll on manufacturing and export-sensitive sectors across several regions, particularly Europe, Japan and China. However, the services sector has remained relatively resilient, primarily driven by the robust US consumer sector, which has enjoyed healthy balance sheets, steady employment and wage growth, and low interest rates. The US economy expanded by 2.0% during the June quarter, while unemployment remains at a 50-year low of 3.7% and wage growth is expected to exceed 3.0%.

On the other hand, the eurozone remains anaemic and expanded at a below-trend rate of 0.8% during the June quarter, hampered by reduced consumer spending and trade tensions. Additionally, uncertainty surrounding Brexit appears to be catching up with the UK economy, which contracted 0.8% in the June quarter. The pronounced dispersion in performance across international equities sectors and regions should see investment opportunities increase for active managers.

Emerging markets remain in the passenger seat of the ongoing trade wars, which saw emerging market equities remaining under pressure. Export-dependent economies such as China, Taiwan and South Korea continue to feel the negative impact, which has been exacerbated by tensions between Japan and South Korea. Growth in China slowed to 6.2% year-on-year during the June quarter as the escalating tensions weakened business confidence and export growth. Even emerging markets that are less exposed to global trade, such as India and Brazil, have seen a slowdown due to weakness in consumer spending and a lack of progress on much needed government reforms.

Global share index performance to 30 September 2019 (net return in AUD)

	1 Month	3 Months	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)
MSCI AC WORLD INDEX	2.00	4.02	8.76	14.43	12.35
MSCI WORLD EX AUSTRALIA INDEX	2.01	4.65	9.13	15.01	13.01
MSCI WORLD EX AUSTRALIA INDEX (AUD HEDGED)	2.30	1.34	1.92	11.24	9.29
MSCI WORLD EX AUSTRALIA SMALL CAP INDEX	1.97	3.15	1.33	12.36	12.77
MSCI EMERGING MARKETS INDEX	1.80	-0.37	5.12	10.53	7.80

SOURCE: FINANCIAL EXPRESS

The muted growth outlook and elevated geopolitical risks have seen global central banks unveil further rate cuts and other stimulus measures. The US Federal Reserve cut rates twice during the September quarter to reduce the federal funds rate to a range of 1.75% to 2.00%, with officials balancing trade tensions and weaker global growth against stronger domestic demand. The European Central Bank announced a comprehensive stimulus package in September that included cutting rates to a record low of -0.5%, restarting quantitative easing and more dovish forward guidance. The Bank of Japan is likely to cushion the impact of the consumption tax hike in October. Globally, there have been 48 rate cuts by central banks, which have been a tailwind to the positive year-to-date performance for international equities.

Amid worries around the growth outlook, perceived defensive sectors were the best performing, including utilities, real estate and consumer staples, while growth sectors such as energy and consumer discretionary underperformed. The markets saw a rotation into value names during September, benefiting sectors that have been out of favour this year such as financials. While some investors expect the outperformance of value to continue, Lonsec believes it may be too soon to make that call. From a fundamental perspective, the outperformance likely reflect broader sector moves, such as financials reacting to higher rates and energy to the attacks in Saudi Arabia, while growth sectors like discretionary and technology are coming under pressure from political and regulatory issues.

MSCI World ex Australia NR Index three-year rolling returns (% p.a.) to 30 September 2019

SOURCE: LONSEC. FINANCIAL EXPRESS

Outlook

While year-to-date performance has been positive, there is potential for the volatility in international equities to pick up. The crosswinds created by rising geopolitical risks and further monetary policy easing is expected to broaden the range of possible outcomes and present both upside and downside risks. However, it will be difficult to determine which side will gain the upper hand. The crucial downside risk remains the further escalation of the US-China trade wars, which could lead to a further slowdown of the global manufacturing sector and spill over to some of the bright spots of the global economy.

A more upbeat scenario will require a dampening of geopolitical risks, central banks maintaining their dovish stance and bond yields remaining depressed. Global bond yields have plunged in recent months as market conditions have deteriorated, which has seen more than US $17 trillion (approximately 30% of the global bond market) trade at negative interest rates. The depressed bond yields are making the valuations of international equities appear increasingly attractive and could fuel further gains should geopolitical risks show signs of abating.

Ultimately, the performance of international equities from here on will depend on several critical questions. Will Trump accept a compromise with China to prolong the US economic expansion leading into the 2020 presidential election? Or will he double down on his current path of escalation? Is China willing to offer considerable concessions if Trump changes his tune? Both sides have offered minor concessions recently, which has seen key dates being pushed back and certain goods being exempted from additional tariffs as a gesture of goodwill ahead of high-level discussions.

Overall, international equity valuations are expected to remain volatile and remain at levels that Lonsec considers stretched. Many of the lingering concerns continue to simmer in the background, making international equities fertile hunting grounds for active managers. Earnings momentum remains reasonable but appears to be waning. However, emerging markets continue to benefit from the tailwinds of a relatively stable US dollar and a dovish US Fed. While geopolitical risks continues to tilt emerging markets to the downside, Lonsec believes the higher expected returns offered should continue to compensate for the additional risks.

PRASANKA RAJAPAKSHA, SECTOR LEAD, FIXED INCOME

Cash and fixed interest

The RBA, after a brief pause, maintained its easing bias in October with a 25-basis point reduction in the cash rate to a historical low of 0.75%. The latest rate cut was the third for the calendar year, with similar reductions in June and July. The policymaker highlighted that the decision was taken in order to support employment and income growth, and to provide greater confidence that inflation will be consistent with its medium-term target. The RBA, while noting the trend of lower interest rates globally and the likelihood of lower rates for an extended period, signalled its willingness to continue monetary policy easing to support economic growth, full employment and achieving the inflation target.

The Australian economy continued expanding, albeit at a weaker-than-expected rate, over the year to June 2019. While lower interest rates, government tax cuts, infrastructure spending, a seemingly stabilised housing market, and the positive outlook for the resources sectors are expected to support growth, the bleak outlook for consumer spending due to subdued wage growth remains a key headwind.

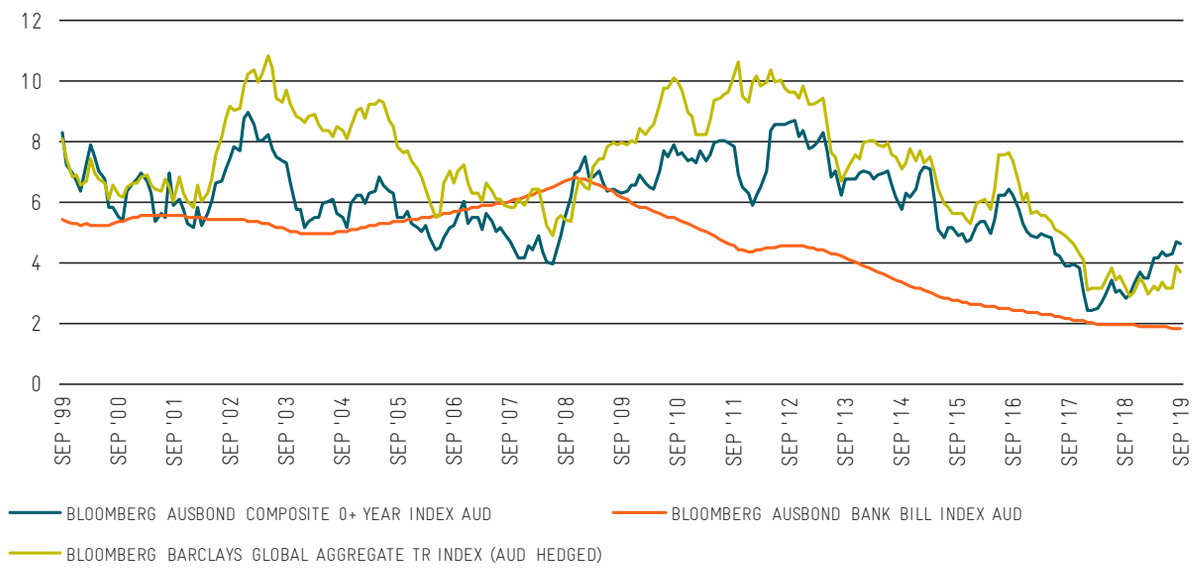
The global economy continued showing signs of slowing down with underwhelming economic data signalling weaker growth in a backdrop of escalating trade war and political uncertainties. In response, most global central banks reverted to an easing cycle with the Federal Reserve cutting rates twice (in July and September) and the European Central Bank cutting policy rates further into negative territory as well as signalling a restart of its asset purchase programme.

Australian fixed interest

Australian Government bond prices moved higher in tandem with its US and German counterparts as risk-off sentiment dominated the past quarter. However, the trend reversed somewhat in September with demand for safe-haven assets weakening as investors flocked back to risk assets. The 10-year government bond yield fell rapidly from 1.32% in June to 0.88% in August, before partially reversing course higher in September. The Australian dollar remained volatile and depreciated further on the back of RBA rate cuts and weakening growth outlook. The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, gained 1.98% over the quarter mainly driven by price appreciation due to lower yields.

The credit market was largely swayed by the risk-on, risk-off sentiment that dominated the quarter with the Australian iTraxx index swinging between the range of 56 basis points and 72 basis points before ending at 67 basis points in September.

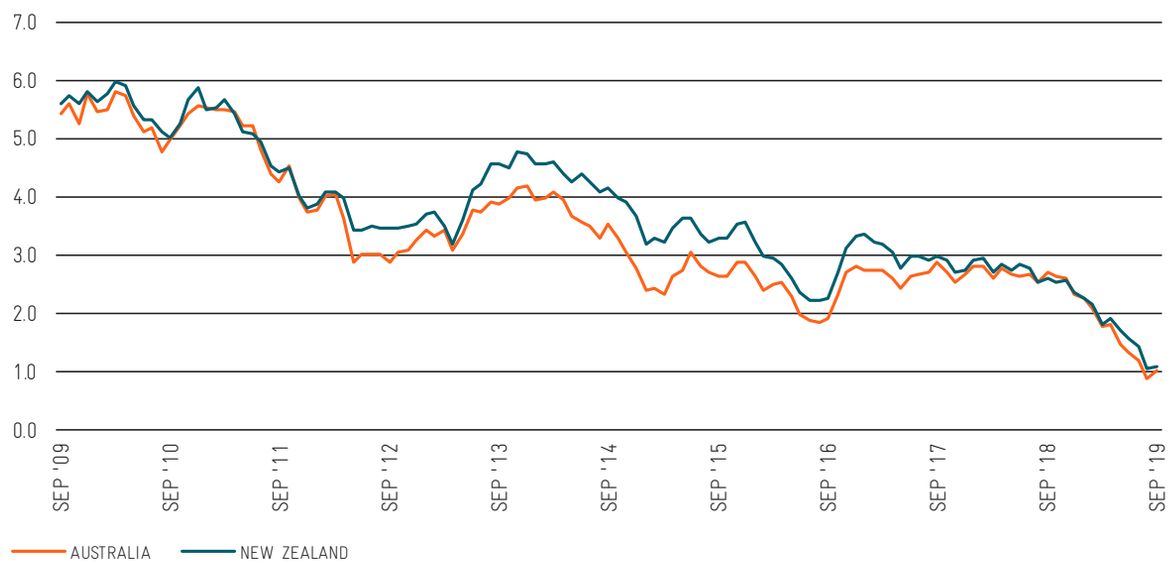
Australian fixed interest three-year rolling returns (% p.a.) to 30 September 2019



SOURCE: LONSEC. FINANCIAL EXPRESS

The trend of tightening credit spreads continued throughout the quarter, barring some widening in the month of August when risk-off sentiment dominated the market. Credit remains popular with active managers favouring both corporate bonds and securitised assets within portfolios. The trend of managers opting to move towards higher quality credits and generating value through relative value trades remained due to tight spreads (or expensive valuations), limited opportunities, and a somewhat weak economic outlook. Credit spreads are still considered expensive, with room for widening as economic conditions tighten and uncertainty rises within markets. Disciplined security selection remains a key factor in adding alpha in this sector.

Australian and New Zealand 10-year government bond yields (%)



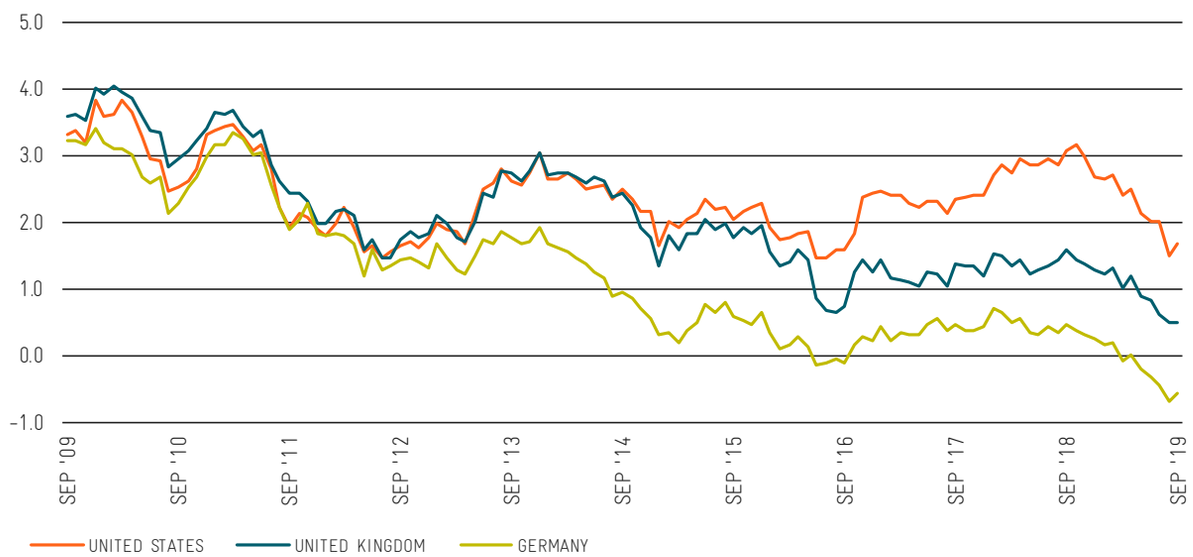
SOURCE: LONSEC, BLOOMBERG

Global fixed interest

The quarter was dominated by a 'race to the bottom' in bond yields as well as policy rates amid trade and political tensions affecting global growth outlook. The portion of negative yielding bonds increased to about US $17 trillion or roughly a quarter of world government and corporate bonds issued. The US 10-year Treasury yield, which stood at around 2.0% in June, collapsed down to 1.46% in early September before partially recovering to end the quarter at 1.66%.

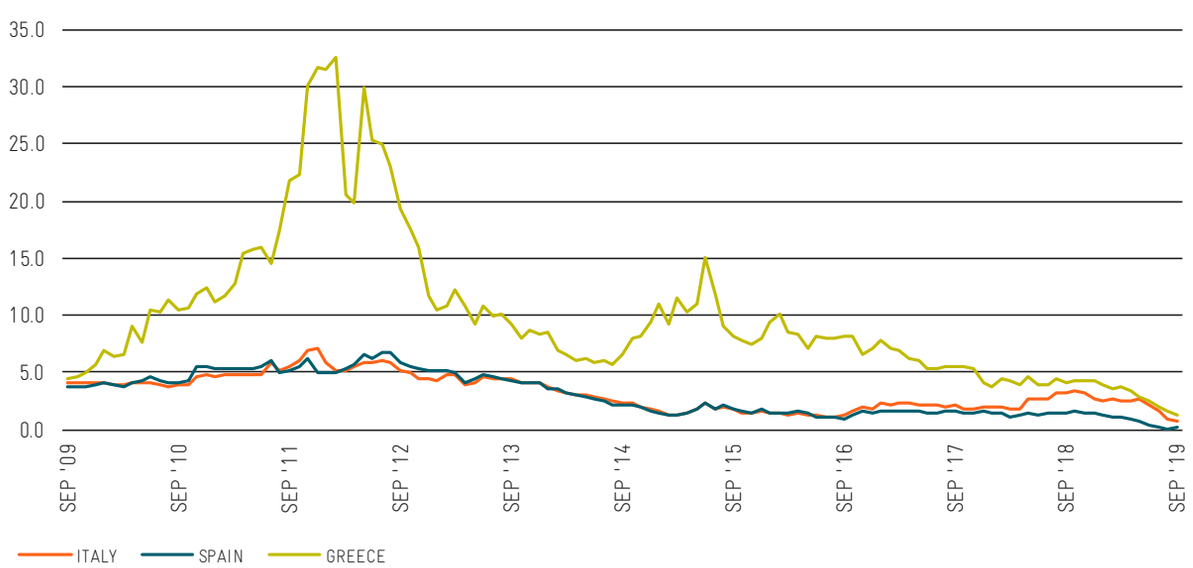
Bonds was among the best performing asset classes in August and the global bond market, as measured by the Bloomberg Barclays Global Aggregate Index (USD Hedged) delivered a return of 2.6% over the quarter. While bond funds with a long duration bias flourished as yields rallied, Lonsec continued to observe the appetite of many global managers to actively diversify risk within portfolios. Going forward it is expected that global yields will continue to remain at low levels with most central banks returning to easing mode amid sluggish growth outlook. Lonsec continues to favour global bonds over Australian bonds largely from a valuation and diversification perspective.

US, UK and German 10-year government bond yields (%)



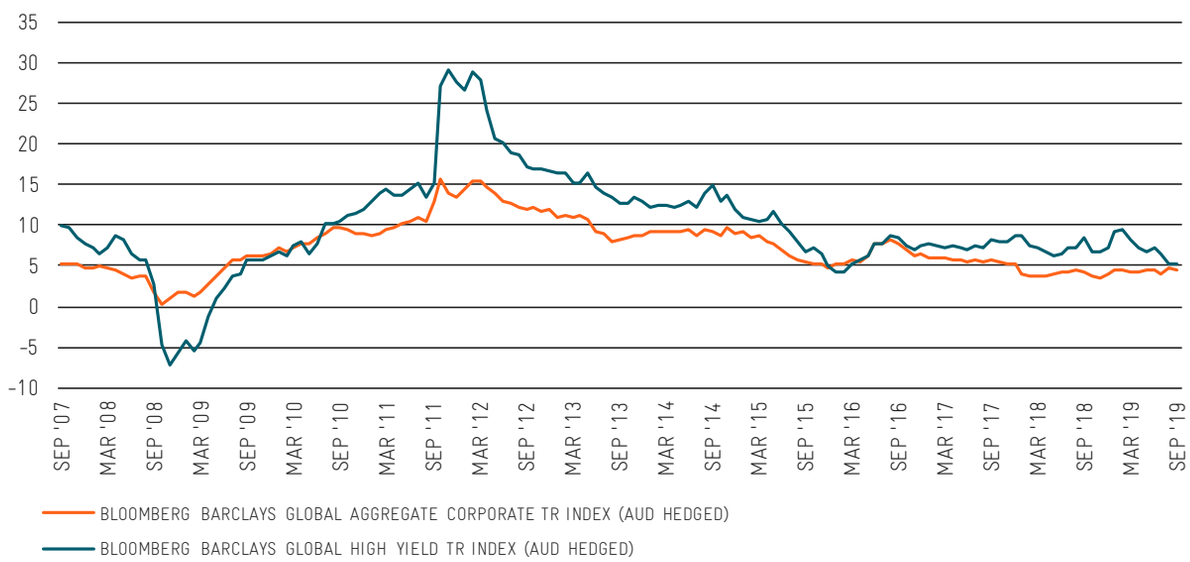
SOURCE: LONSEC. BLOOMBERG

Italian, Spanish and Greek 10-year government bond yields (%)



SOURCE: LONSEC, BLOOMBERG

Investment grade and high yield credit three-year rolling returns (% p.a.) to 30 September 2019



SOURCE: LONSEC. FINANCIAL EXPRESS

Credit

Investment grade credit spreads fluctuated during the quarter on the back of market volatility but ended largely flat in September. High-yield spreads did much the same, although widened out approximately 80 basis points in August before snapping back in to end the quarter. Investment Grade credit saw a record issuance in September as companies capitalised the opportunity to lock-in lower borrowing rates. The leveraged loan market, which rapidly grew in recent years due to investors' chase for yields and fear of increasing rates, saw cracks reappearing with investors shifting focus to weakening economic fundamentals. The fundamental view remains unchanged while credit spreads remain expensive, offering select points of value. In addition, volatility is expected to continue over the coming year.

Emerging markets

Emerging Markets are an attractive option for investors seeking yields well beyond what is on offer in other developed markets, with many active managers choosing to utilise a portion of their risk budget in these assets. Even more seductive in that regard are those countries bucketed in frontier markets such as Ghana, Kenya or Egypt which yield around 10–20% on their local currency bonds. The decision of whether to invest in hard or local currency exposure is also part of an allocation decision, one which can impact returns greatly.

Argentina dominated headlines in the past quarter following a surprise presidential primary result in August, imparting immense downward pressure on Argentine peso and bonds. As such, Lonsec highlights that although attractive in a yield sense, emerging market debt can be highly susceptible to a number of factors, such as geopolitical risks, a strengthening US dollar, the rise and fall of commodity prices, and idiosyncratic factors.

Overall

Over the quarter, Lonsec's asset allocation remained unchanged for both traditional portfolios and portfolios with Alternatives, with neutral allocations to Cash and Global bonds and a slight underweight to Australian bonds. The sharp fall in US government bond yields during the quarter was notable, but in comparison to domestic bond yields they remain attractive from a relative valuation perspective. Emerging market allocations are proving more popular than a year ago, with competitive yield on offer. However, these types of assets are more susceptible to a sharp swing in volatility.

In terms of investment grade credit, spreads remain tight but still offer late cycle carry. There are opportunities to add value, but robust security selection is required. In high yield, valuations are expensive with the sector expected to suffer further volatility going forward. Overall, the global economy is showing signs of fragility with uncertainty clouding the horizon.

KEVIN PROSSER,
MANAGER – DIRECT
ASSETS RESEARCH

Property and infrastructure

The September quarter 2019 was another positive period for Australian Property Securities, however the broader Australian Equities sector (+2.4%) outperformed Australian Listed Property (+1.0% average of S&P/ASX 200 & 300 indices). Global Property Securities—AUD Hedged (+2.6%) outperformed Global Equities—AUD Hedged (+1.4%), with unhedged returns boosted by the weaker Australian dollar (-2.7% against the US dollar).

Global property markets

US Retail securities (especially **Shopping Centres**) had a bounce during the month of September, in line with the broader market switch across to value stocks. While this is unlikely to herald a prolonged period of outperformance, it demonstrates that investors recognized that parts of the retail sector had been over-sold. Shopping Centres that are anchored by food and service retailers are still sought after, and these assets continue to perform well with high occupancies. Rental growth in the US supermarkets is usually minimal until the five-year re-set period (then at market). In Australia, rental growth can be more linked to inflation or have share of revenue formulae, which gives a smoother annual rental growth (until a market re-set point).

In the US, **Lodging/Resorts** continued to be a lagging sector (+10.6% for the calendar year to date), affected by changing occupancy levels. The best performing sectors being **Data Centres** (+48.5%), **Residential** area (Manufactured +43.7% and Single-Family Homes +41.9%), and **Industrial** property (+41.8%). This reflects the overall reduction in weighting of global investors to retail and redeployment to sectors with more certainty of earnings and less affected by the trend to e-commerce.

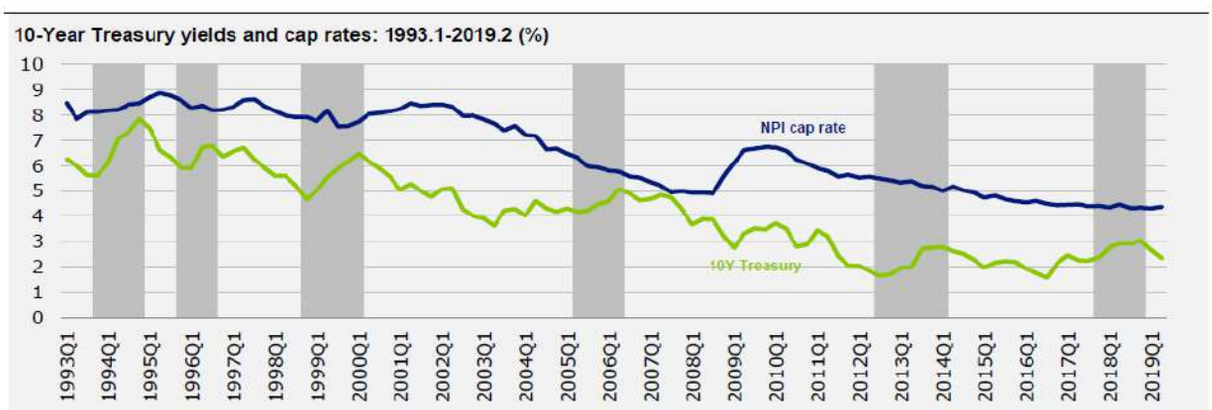
In the last review, we noted that retail REITs were performing well in **Asia (Hong Kong/China)**, however the protests in Hong Kong, the ongoing US-China trade war, and a strong Hong Kong dollar have dented share prices. "These impacts were also evidenced by the recently released August figures for retail sales that showed a 23% decline year-on-year, and tourist arrivals that fell 39.1% compared to the prior year."[1] While anecdotal evidence is that rents continue to be paid, the increasing violent actions are causing damage to buildings and infrastructure. These costs are not clear, and the situation could escalate should the Chinese government take stronger action. Hong Kong has endured tough times before (SARS crisis in 2003) and managers remain optimistic on the longer term for the region.

[1] Quay Global Real Estate Fund Monthly Performance Update—September 2019

On the global property outlook, Invesco believes that "real estate fundamentals are sound but moderating." Invesco added: "Broadly, the risk to the growth outlook has increased, while the yield/cap rate concerns have lessened", and: "In absolute terms, real estate prices are high and yield/cap rates are low in all regions. However, pricing relative to other asset classes largely remains within normal ranges."[2]

Invesco has also produced research that demonstrates over past cycles that "rising interest rates have not always resulted in rising cap rates."

Rising interest rates have not always resulted in rising cap rates

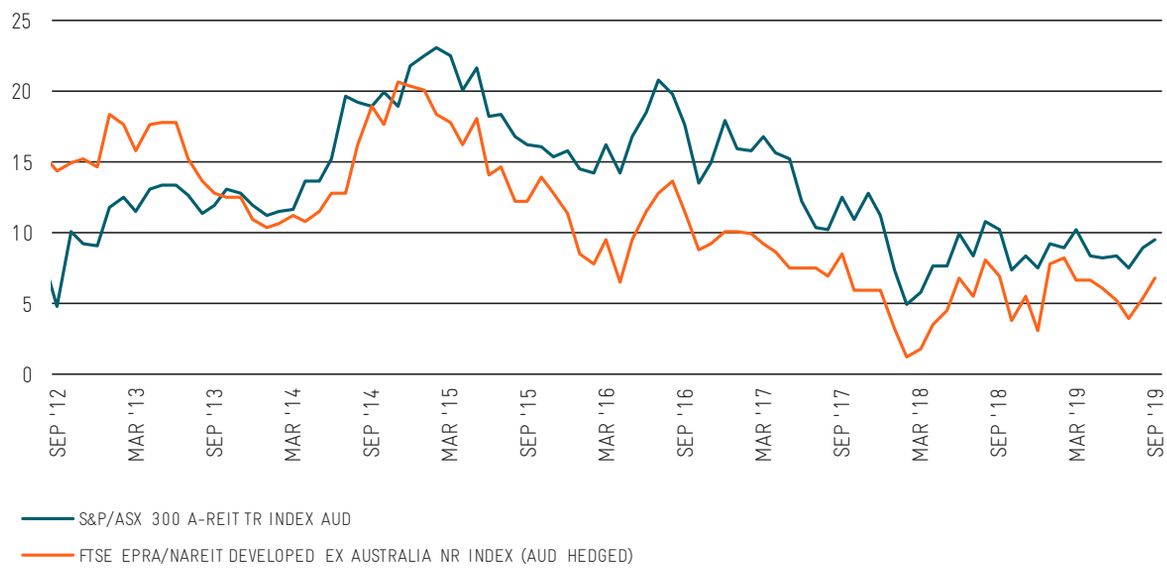


		Shift in Treasury Yield/Cap Rate (bps)	
Period	# Quarters	10Y Treasury	NPI Cap Rate
1993.4-1994.4	4	222	35
1995.4-1996.3	3	89	(40)
1998.4-2000.1	5	181	(19)
2005.2-2006.2	4	91	(55)
2012.3-2014.1	6	113	(49)
2017.3-2018.4	5	80	(5)

SOURCE: INVESCO REAL ESTATE – PRESENTATION TO LONSEC, SEPTEMBER 2019

[2] Invesco Real Estate House View H1 2019 Global Market Outlook

Australian and global property three-year rolling returns (% p.a.) to 30 September 2019



SOURCE: LONSEC. FINANCIAL EXPRESS

As at 30 September 2019, the Global REIT sector is trading at a modest 2.0% premium to Net Asset Values and US REITs at a 10% premium (which is above the long-term average of around +2.0%). However, valuations of sub-sectors and regions vary, and most managers are positioning their portfolios according to their assessment of relative values of stocks within their sector and region. Estimates of earnings growth for listed property are still in the range of +4.0% to +5.0% for 2019.[3]

While the threat of rising interest rates for the moment has been quelled by rates continuing to fall, Lonsec is still of the view that global property markets are in the mature part of the cycle, the tail of which is being extended while inflation and interest rate pressures are kept at bay.

Australian commercial property markets

From a macro perspective, Australian real estate capital values appear to be late in the cycle, with 'lower for longer' monetary policies extending cycle duration. Moving forward, growth is likely to be driven by asset-level net operating income (NOI) growth, rather than further capitalisation rate declines.

[2] CBRE Clarion Securities – October 2019

The headwinds buffeting the **retail sector** continue to blow an ill wind, as Australian consumer confidence in the September quarter hit a four-year low.[4] While ABS data for August shows a slight rise in retail sales (0.4% month-on-month[5]), possibly as a result of back-to-back RBA rate cuts, there are clearly significant challenges for retailers and, in turn, shopping centre landlords.

The retail landscape is experiencing a bifurcation and 'flight to quality', where foot traffic (and dollars) are increasingly flowing to shopping centres that are grocery-anchored or have a mix of experiential retail offerings in densely populated primary trade areas. Interestingly, retail stocks have generally outperformed the S&P/ASX A-REIT 300 Index (+1.1%) in the September quarter and include Vicinity (+3.2%), **SCA Property** (+7.9%) and **Scentre** (+2.3%). Underperformers include **Unibail Rodamco-Westfield** (-0.56%) and GPT (-0.2%). **Stockland**, which is a diversified stock with significant retail exposure, also outperformed (+8.1%).

Despite capitalisation rates falling to historical lows, the l**ogistic and industrial sector** continues to enjoy robust investor demand. The rise of e-commerce has translated into higher tenant demand for well-located warehouses, logistics and distribution centres with good transportation links and population proximity. Limited supply of assets which meet this criteria, especially 'brown-field' sites, is a major factor behind continued rental growth and tightening yields. **Goodman Group** is a global leader in this space and has benefited greatly from their integrated 'own, develop and manage' business model. While the stock has pulled back over the September quarter (-6.8%), it is up around 75% compared to a year ago. Another beneficiary of the industrial boom is **Charter Hall Group** (+6.1% in the September quarter), which has a more diversified model including office and retail.

The outlook for the **office sector** continues to go from strength to strength, particularly in the east coast capital cities. Record low vacancy rates for Sydney CBD (4.1%) and Melbourne CBD (3.2%) combined with strong tenant demand for well-located quality office space is translating into solid rental growth and falling incentives.[6] While there is a significant supply of new office space slated for delivery in these two cities over 2019-22 (~685,000sqm), a significant portion (Sydney 58%; Melbourne 82%) has already been pre-committed.[7] While capital values have appreciated over the past few years in large part due to falling capitalisation rates, moving forward it is expected that net operating income growth will play a larger part in this aspect.

[4] Westpac Melbourne Institute Index of Consumer Sentiment (October 2019)
[5] Australian Bureau of Statistics – Australian Retail Sales (August 2019)
[6] Colliers Research (June 2019)
[7] CBRE Research (June 2019)

Sentiment towards the **residential sector** has continued to improve on the back of the RBA's successive interest cuts and APRA easing its credit lending guidelines[8], which is filtering through to prices for mainly existing houses. These conditions have yet to be reflected in a pick-up in residential construction, although they are "expected to revive housing construction by 2021."[9]

Demand for housing continues to be supported by strong population growth and solid employment markets, which has translated into low vacancy rates for Sydney (3.2%) and Melbourne (2.0%). To alleviate such housing pressures, developers are increasing their focus on the 'build-to-rent' sector, which is a relatively-new concept to the Australian market, however is quite well established overseas, particularly in North America.

Investors, both local and international, continue to be attracted by the A-REIT market's dividend yields averaging 4.7% p.a. and expected earnings growth of 2.0–3.0% p.a. With a 'lower-for-longer' interest rate outlook, Lonsec expects this trend to continue for some time. Valuations overall for the sector are sitting at around a 6.0% premium to NAV, with the retail sector at a discount and more sought after sectors (logistics, industrial and specialised) at a premium.

Global infrastructure markets

During the September 2019 quarter Global Infrastructure Securities—AUD Hedged (+3.5%) outperformed Global Equities—AUD Hedged (+1.4%), with unhedged returns boosted by the weaker Australian dollar (primarily against the US dollar). The global listed infrastructure sector continues to benefit from low interest rates, with government long-term bond rates that are factored into discounted cash flow models improving valuations.

More economically sensitive US railway stocks (**Union Pacific**, **CSX** and **Norfolk Southern**) were flat or declined over the quarter on slower activity in the US (possibly some impact from the US-China trade sanctions). These companies continued efforts to cut costs through 'precision-scheduled railroading', with Union Pacific (the most efficient of the three) aiming to reduce its operating costs to revenue from 60% to 55%.[10]

[8] APRA – APRA finalises amendments to guidance on residential mortgage lending (July 2019)
[9] Reserve Bank of Australia – Housing & the Economy, October 2019
[10] Wall Street Journal, Incoming Union Pacific CFO in Search of Additional Efficiencies at US Railroad, 30 September 2019

Among US electricity generating utilities, old coal-fired plants are being replaced by natural gas and renewable energy. Infrastructure companies with coal-related infrastructure (e.g. coal fired power stations or railways to coal fields) are likely to be impacted as investment moves towards these now cheaper sources of electricity. Utilities that have made large investments in renewables or gas (e.g. **NextEra Energy**) are expected to perform better than those that have more exposure to coal (e.g. **Duke Energy**).[11]

However, it has not been all positive for the renewables sector. The UK-listed John Laing Group has reported a £66 million write-down on three of its Australian renewable energy projects (part of a $600 million write-down across the sector) due to congestion in the power grid eroding profitability. The Group has also frozen future investment in the sector.[12]

ASX-listed infrastructure stocks **Transurban**, **Sydney Airport** and **Auckland Airport** were relatively flat during the September 2019 quarter, as investors took a breather after previous gains in these stocks on lower interest rates. Transurban also undertook a large capital raising. The outlook for these stocks over the next year is contingent on traffic growth. Across Transurban's portfolio in Australia and the US, average daily traffic was up by 2.0% in the year to June 2019 despite traffic disruption from construction.[13]

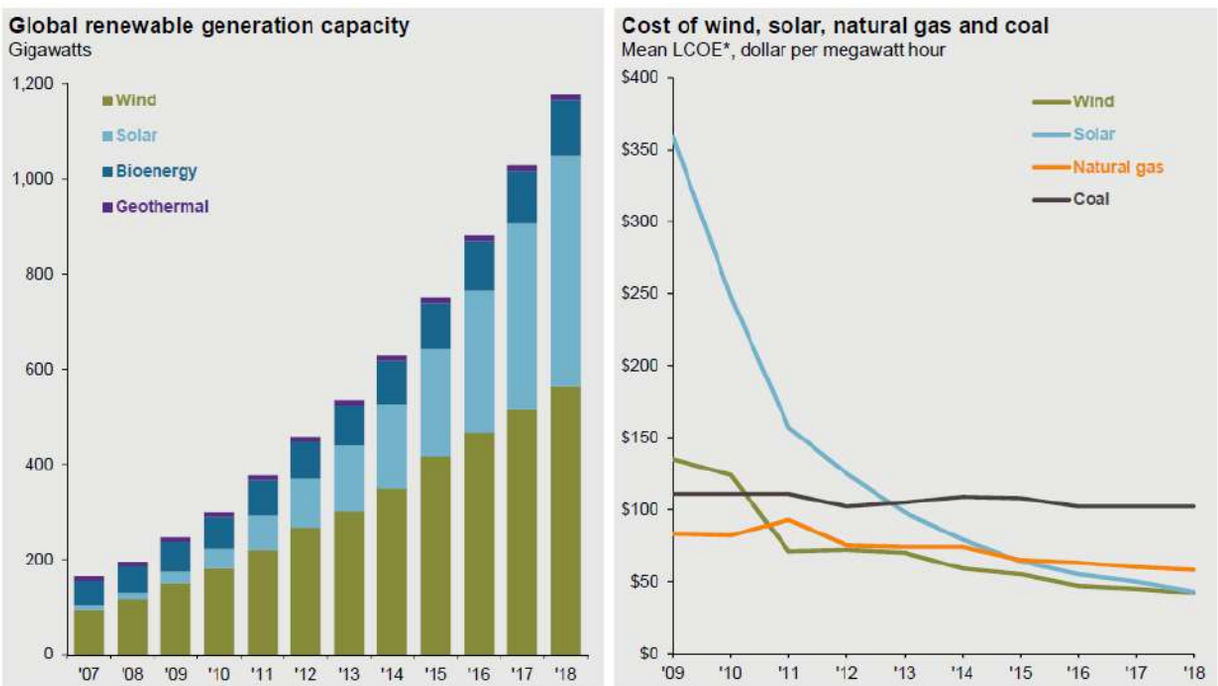
Sydney Airport continues to see growth in international passengers (+1.4% for nine months to September 2019), but with a dip in domestic passengers (-1.1%). Overall passenger traffic was steady at 32.8m for this period.[14]

The **Productivity Commission Review of Australian Airports** final report is due shortly and airlines have been lobbying for more regulation. The June 2019 draft report recommended that Australia's existing 'light-handed' airport regulation (no need for a third-party adjudicator) remains fit for purpose, although the Commission will revamp its airport monitoring process.

Broadly speaking, the outlook for utility stocks is expected to remain positive, with near-term cash flows backed by the certainty of regulated returns (albeit these are re-set at regular intervals, and sometimes with a negative outcome). Less regulated sectors have assets that contain a built-in pricing inflation hedge. Most sectors also have the opportunity for infrastructure groups to grow their asset bases.

[11] Wall Street Journal, Coal Bankruptcies Pile Up as Utilities Embrace Gas, Renewables, 14 August 2019
[12] Australian Financial Review, Solar investors choke on $1b congestion hit, 25 September 2019
[13] Transurban Chairman's Annual Meeting address, 10 October 2019
[14] ASX Release: Sydney Airport Traffic Performance, September 2019

Rising interest rates have not always resulted in rising cap rates



Source: International Renewable Energy Agency, Lazard, J.P. Morgan Asset Management.
*LCOE is levelized cost of energy, the net present value of the unit-cost of electricity over the lifetime of a generating asset. It is often taken as a proxy for the average price that the generating asset must receive in a market to break even over its lifetime.
Data is based on availability as of August 31, 2019.

SOURCE: JP MORGAN Q3 2019 GUIDE TO ALTERNATIVES, 31 AUGUST 2019

JAMES KIRK,
SECTOR LEAD,
ALTERNATIVES

Alternatives

The US bond market experienced a precipitous fall in bond yields in August as the stalling global economy started to infect the outlook for the United States. The Federal Reserve has gone from one 'mid-cycle adjustment' interest rate cut to two cuts, with seemingly more to come. Many analysts are viewing these rate cuts as the commencement of a new fully blown easing cycle. During September, the yield on the US 10-year bond ripped higher from 1.50% to nearly 1.90% on prospects of a US-China trade deal, only to plummet back towards 1.50% by the end of the month.

Global equity markets chose to ignore the economic related drop in bond yields and instead chose to celebrate a 'dovish' Fed. Equities regained momentum but stalled just below all-time highs as the return of trade uncertainty tempered investors' enthusiasm. For now, it appears to be a battle between the opposing forces of global central banks versus a slowing global economy.

On one side are the global central banks, who are now easing across the board. The European Central Bank has cut interest rates deeper into negative territory and have now decided to buy bonds indefinitely, with the aim of cutting borrowing costs to stimulate investment and growth. Back home, the Reserve Bank of Australia remains in an easing cycle amid talk of domestic Quantitative Easing to stimulate the economy and cap the currency.

The global economic data continues to point to the need for stimulus. In Europe, the German economy looks to be on the edge of a recession, with GDP growth barely positive. In Asia, China's economy is still growing, however worrying signs are emerging with manufacturing contracting and services slowing. The global uncertainty now looks to be infecting the US, with manufacturing data hitting a decade low. Despite the high level of uncertainty, global central banks look to be holding the line for now.

Throughout the September quarter there was a large divergence in performance across the Lonsec Alternatives sub-sectors, with the median manager returns as follows: Managed Futures (-0.53%), Private Equity (+0.02%), Macro (+0.1%), Systematic Risk Premia (-0.63%) and Market Neutral (-0.2%). The top performing fund for the quarter was the CFM IS Trends Trust — Class A (+12.17%), which provides investors with a global diversified exposure to Long Term Trend Following strategies.

The Fund's strong quarterly performance is overshadowed by more moderate annual returns (0.98%) and its sister strategy — Class B (0.7%) which targets a higher volatility level. There was a wide dispersion of returns within the Managed Futures universe over the last year. The sector benefited from a sustained trend in government bonds as yields declined. However, other sectors have been range-bound or volatile and as such have not provided a conducive environment for trend following strategies. The impact on each manager's performance was largely determined by the mix of signal time frames used.

The positive return momentum over the last quarter continues to be a welcome relief for investors in the sector. Over the medium term, sector and sub-sector returns lack consistency and the return stream from some strategies has been somewhat volatile. That said, the return of economic and geo-political uncertainty over the quarter means that traditional asset classes remain susceptible to abrupt changes in sentiment, and therefore an allocation to alternatives remains a productive diversifying strategy.

CBOE Volatility Index (VIX)

SOURCE: BLOOMBERG

Dynamic Asset Allocation

Lonsec

Investment Outlook Report

DECEMBER 2019

Dynamic Asset Allocation

Portfolio allocations by risk profile as at September 2019

VERONICA KLAUS,
HEAD OF INVESTMENT
CONSULTING

Lonsec Dynamic Asset Class Positions with Alternatives—September 2019[1]

	Last Quarter	Current View
AUSTRALIAN SHARES	UNDERWEIGHT	UNDERWEIGHT
INTERNATIONAL SHARES	NEUTRAL	**SLIGHTLY UNDERWEIGHT**
GLOBAL DEVELOPED	SLIGHTLY UNDERWEIGHT	SLIGHTLY UNDERWEIGHT
GLOBAL EMERGING MARKETS	SLIGHTLY OVERWEIGHT	SLIGHTLY OVERWEIGHT
AUSTRALIAN PROPERTY	NEUTRAL	NEUTRAL
GLOBAL PROPERTY	NEUTRAL	**SLIGHTLY OVERWEIGHT**
LISTED INFRASTRUCTURE	SLIGHT OVERWEIGHT	SLIGHT OVERWEIGHT
AUSTRALIAN BONDS	SLIGHTLY UNDERWEIGHT	SLIGHTLY UNDERWEIGHT
GLOBAL BONDS	NEUTRAL	NEUTRAL
CASH	NEUTRAL	NEUTRAL
ALTERNATIVES	OVERWEIGHT	OVERWEIGHT

Secure

	Benchmark	Ranges	Last Quarter	This Quarter	Change
AUSTRALIAN SHARES					
INTERNATIONAL SHARES					
AUSTRALIAN PROPERTY					
GLOBAL PROPERTY					
LISTED INFRASTRUCTURE					
AUSTRALIAN BONDS					
GLOBAL BONDS					
CASH	100	100	100.0	100.0	
ALTERNATIVES^					
Total	**100**		**100**	**100**	

NOTE: 'DIVERSIFIED INCOME' IS REALLOCATED IN EQUAL PROPORTIONS TO AUSTRALIAN BONDS AND GLOBAL BONDS

[1] THE FOLLOWING TABLES PROVIDE AN EXAMPLE OF ASSET CLASS TILTS BASED ON LONSEC'S CURRENT DYNAMIC ASSET ALLOCATION VIEWS. FINANCIAL ADVISERS SHOULD CONSIDER THEIR OWN ASSET ALLOCATION POLICY AND PORTFOLIO MANDATE CONSTRAINTS WHEN USING LONSEC'S DYNAMIC ASSET ALLOCATIONS TO IMPLEMENT PORTFOLIO CHANGES.

Dynamic Asset Allocation

Defensive

	Benchmark	Ranges	Last Quarter	This Quarter	Change
AUSTRALIAN SHARES	7	4-10	6.0	6.0	
INTERNATIONAL SHARES	7	4-10	7.0	7.0	
AUSTRALIAN PROPERTY	4	1-7	4.0	4.0	
GLOBAL PROPERTY					
LISTED INFRASTRUCTURE					
AUSTRALIAN BONDS	23	13-33	22.5	22.5	
GLOBAL BONDS	22	12-32	22.0	22.0	
CASH	25	15-35	25.5	25.5	
ALTERNATIVES^	12	8-16	13.0	13.0	
Total	**100**		**100**	**100**	

NOTE: 'DIVERSIFIED INCOME' IS REALLOCATED IN EQUAL PROPORTIONS TO AUSTRALIAN BONDS AND GLOBAL BONDS

Conservative

	Benchmark	Ranges	Last Quarter	This Quarter	Change
AUSTRALIAN SHARES	13	9-17	12.0	12.0	
INTERNATIONAL SHARES	14	10-18	14.0	14.0	
AUSTRALIAN PROPERTY	6	3-9	6.0	6.0	
GLOBAL PROPERTY					
LISTED INFRASTRUCTURE	2	0-5	2.5	2.5	
AUSTRALIAN BONDS	21	11-31	20.5	20.5	
GLOBAL BONDS	22	12-32	22.0	22.0	
CASH	10	0-20	10.0	10.0	
ALTERNATIVES^	12	8-16	13.0	13.0	
Total	**100**		**100**	**100**	

NOTE: 'DIVERSIFIED INCOME' IS REALLOCATED IN EQUAL PROPORTIONS TO AUSTRALIAN BONDS AND GLOBAL BONDS

Balanced

	Benchmark	Ranges	Last Quarter	This Quarter	Change
AUSTRALIAN SHARES	19	13-25	18.0	18.0	
INTERNATIONAL SHARES	19	13-25	19.0	18.5	-0.5
AUSTRALIAN PROPERTY	6	3-9	6.0	6.0	
GLOBAL PROPERTY	2	0-5	2.0	2.5	+0.5
LISTED INFRASTRUCTURE	3	0-6	3.5	3.5	
AUSTRALIAN BONDS	14.5	8-22	14.0	14.0	
GLOBAL BONDS	14.5	8-22	14.5	14.5	
CASH	5	0-15	5.0	5.0	
ALTERNATIVES	17	12-22	18.0	18.0	
Total	**100**		**100**	**100**	

NOTE: 'DIVERSIFIED INCOME' IS REALLOCATED IN EQUAL PROPORTIONS TO AUSTRALIAN BONDS AND GLOBAL BONDS

Growth

	Benchmark	Ranges	Last Quarter	This Quarter	Change
AUSTRALIAN SHARES	24	17-33	23.0	23.0	
INTERNATIONAL SHARES	28	20-38	28.0	27.5	-0.5
GLOBAL DEVELOPED	25	18-34	24.5	24.25	-0.25
GLOBAL EMERGING MARKETS	3	0-6	3.5	3.25	-0.25
AUSTRALIAN PROPERTY	7	4-10	7.0	7.0	
GLOBAL PROPERTY	2	0-5	2.0	2.5	+0.5
LISTED INFRASTRUCTURE	3	0-6	3.5	3.5	
AUSTRALIAN BONDS	7	4-12	6.5	6.5	
GLOBAL BONDS	8	4-10	8.0	8.0	
CASH	2	0-10	2.0	2.0	
ALTERNATIVES	19	13-25	20.0	20.0	
Total	**100**		**100**	**100**	

NOTE: 'DIVERSIFIED INCOME' IS REALLOCATED IN EQUAL PROPORTIONS TO AUSTRALIAN BONDS AND GLOBAL BONDS

Dynamic Asset Allocation

High Growth

	Benchmark	Ranges	Last Quarter	This Quarter	Change
AUSTRALIAN SHARES	30	22-42	29.0	29.0	
INTERNATIONAL SHARES	39	28-48	39.0	38.5	-0.5
GLOBAL DEVELOPED	33	22-42	32.5	32.25	-0.25
GLOBAL EMERGING MARKETS	6	3-9	6.5	6.25	-0.25
AUSTRALIAN PROPERTY	7	4-10	7.0	7.0	
GLOBAL PROPERTY	2	0-5	2.0	2.5	+0.5
LISTED INFRASTRUCTURE	3	0-6	3.0	3.0	
AUSTRALIAN BONDS					
GLOBAL BONDS					
CASH	0	0-10	0.0	0.0	
ALTERNATIVES^	19	13-25	20.0	20.0	
Total	**100**		**100**	**100**	

NOTE: 'DIVERSIFIED INCOME' IS REALLOCATED IN EQUAL PROPORTIONS TO AUSTRALIAN BONDS AND GLOBAL BONDS

Lonsec Dynamic Asset Class Positions without Alternatives—September 2019[1]

	Last Quarter	Current View
AUSTRALIAN SHARES	UNDERWEIGHT	UNDERWEIGHT
INTERNATIONAL SHARES	NEUTRAL	**SLIGHTLY UNDERWEIGHT**
GLOBAL DEVELOPED	SLIGHTLY UNDERWEIGHT	SLIGHTLY UNDERWEIGHT
GLOBAL EMERGING MARKETS	SLIGHTLY OVERWEIGHT	SLIGHTLY OVERWEIGHT
AUSTRALIAN PROPERTY	NEUTRAL	NEUTRAL
GLOBAL PROPERTY	NEUTRAL	**SLIGHTLY OVERWEIGHT**
LISTED INFRASTRUCTURE	SLIGHTLY OVERWEIGHT	SLIGHT OVERWEIGHT
AUSTRALIAN BONDS	SLIGHTLY UNDERWEIGHT	SLIGHTLY UNDERWEIGHT
GLOBAL BONDS	NEUTRAL	NEUTRAL
CASH	OVERWEIGHT	NEUTRAL

Secure

	Benchmark	Ranges	Last Quarter	This Quarter	Change
AUSTRALIAN SHARES					
INTERNATIONAL SHARES					
AUSTRALIAN PROPERTY					
GLOBAL PROPERTY					
LISTED INFRASTRUCTURE					
AUSTRALIAN BONDS					
GLOBAL BONDS					
CASH	100	100	100.0	100.0	
Total	**100**		**100**	**100**	

NOTE: 'DIVERSIFIED INCOME' IS REALLOCATED IN EQUAL PROPORTIONS TO AUSTRALIAN BONDS AND GLOBAL BONDS

CASH IS USED AS A BALANCING ITEM WHERE REQUIRED

[1] THE FOLLOWING TABLES PROVIDE AN EXAMPLE OF ASSET CLASS TILTS BASED ON LONSEC'S CURRENT DYNAMIC ASSET ALLOCATION VIEWS. FINANCIAL ADVISERS SHOULD CONSIDER THEIR OWN ASSET ALLOCATION POLICY AND PORTFOLIO MANDATE CONSTRAINTS WHEN USING LONSEC'S DYNAMIC ASSET ALLOCATIONS TO IMPLEMENT PORTFOLIO CHANGES.

Dynamic Asset Allocation

Defensive

	Benchmark	Ranges	Last Quarter	This Quarter	Change
AUSTRALIAN SHARES	8	5-11	7.0	7.0	
INTERNATIONAL SHARES	8	5-11	8.0	8.0	
AUSTRALIAN PROPERTY	4	1-7	4.0	4.0	
GLOBAL PROPERTY					
LISTED INFRASTRUCTURE					
AUSTRALIAN BONDS	28	18-38	27.5	27.5	
GLOBAL BONDS	27	17-37	27.0	27.0	
CASH	25	15-35	26.5	26.5	
Total	**100**		**100**	**100**	

NOTE: 'DIVERSIFIED INCOME' IS REALLOCATED IN EQUAL PROPORTIONS TO AUSTRALIAN BONDS AND GLOBAL BONDS

CASH IS USED AS A BALANCING ITEM WHERE REQUIRED

Conservative

	Benchmark	Ranges	Last Quarter	This Quarter	Change
AUSTRALIAN SHARES	16	11-22	15.0	15.0	
INTERNATIONAL SHARES	16	11-22	16.0	16.0	
AUSTRALIAN PROPERTY	6	3-9	6.0	6.0	
GLOBAL PROPERTY					
LISTED INFRASTRUCTURE	2	0-5	2.5	2.0	-0.5
AUSTRALIAN BONDS	25.5	16-36	25.0	25.0	
GLOBAL BONDS	24.5	15-35	24.5	24.5	
CASH	10	0-20	11.0	11.5	+0.5
Total	**100**		**100**	**100**	

NOTE: 'DIVERSIFIED INCOME' IS REALLOCATED IN EQUAL PROPORTIONS TO AUSTRALIAN BONDS AND GLOBAL BONDS

CASH IS USED AS A BALANCING ITEM WHERE REQUIRED

Balanced

	Benchmark	Ranges	Last Quarter	This Quarter	Change
AUSTRALIAN SHARES	23	16-30	22.0	22.0	
INTERNATIONAL SHARES	26	18-34	26.0	25.5	-0.5
GLOBAL DEVELOPED	23	16-32	22.5	22.25	-0.25
GLOBAL EMERGING MARKETS	3	0-4	3.5	3.25	-0.25
AUSTRALIAN PROPERTY	6	3-9	6.0	6.0	
GLOBAL PROPERTY	2	0-5	2.0	2.5	+0.5
LISTED INFRASTRUCTURE	3	0-6	3.5	3.5	
AUSTRALIAN BONDS	18	9-27	17.5	17.5	
GLOBAL BONDS	17	9-25	17.0	17.0	
CASH	5	0-15	6.0	6.0	
Total	**100**		**100**	**100**	

NOTE: 'DIVERSIFIED INCOME' IS REALLOCATED IN EQUAL PROPORTIONS TO AUSTRALIAN BONDS AND GLOBAL BONDS

CASH IS USED AS A BALANCING ITEM WHERE REQUIRED

Growth

	Benchmark	Ranges	Last Quarter	This Quarter	Change
AUSTRALIAN SHARES	32	22-42	31.0	31.0	
INTERNATIONAL SHARES	36	26-46	36.0	35.5	-0.5
GLOBAL DEVELOPED	30	20-40	29.5	29.25	-0.25
GLOBAL EMERGING MARKETS	6	4-8	6.5	6.25	-0.25
AUSTRALIAN PROPERTY	7	4-10	7.0	7.0	
GLOBAL PROPERTY	2	0-5	2.0	2.5	+0.5
LISTED INFRASTRUCTURE	3	0-6	3.5	3.5	
AUSTRALIAN BONDS	9.5	6-14	9.0	9.0	
GLOBAL BONDS	8.5	5-13	8.5	8.5	
CASH	2	0-10	3.0	3.0	
Total	**100**		**100**	**100**	

NOTE: 'DIVERSIFIED INCOME' IS REALLOCATED IN EQUAL PROPORTIONS TO AUSTRALIAN BONDS AND GLOBAL BONDS

CASH IS USED AS A BALANCING ITEM WHERE REQUIRED

Dynamic Asset Allocation

High Growth

	Benchmark	Ranges	Last Quarter	This Quarter	Change
AUSTRALIAN SHARES	41	31-51	40.0	40.0	
INTERNATIONAL SHARES	47	37-57	47.0	46.5	-0.5
GLOBAL DEVELOPED	39	28-48	38.5	38.25	-0.25
GLOBAL EMERGING MARKETS	8	6-12	8.5	8.25	-0.25
AUSTRALIAN PROPERTY	7	4-10	7.0	7.0	
GLOBAL PROPERTY	2	0-5	2.0	2.5	+0.5
LISTED INFRASTRUCTURE	3	0-6	3.5	3.5	
AUSTRALIAN BONDS					
GLOBAL BONDS					
CASH	0	0-10	0.5	0.5	
Total	**100**		**100**	**100**	

NOTE: 'DIVERSIFIED INCOME' IS REALLOCATED IN EQUAL PROPORTIONS TO AUSTRALIAN BONDS AND GLOBAL BONDS

CASH IS USED AS A BALANCING ITEM WHERE REQUIRED

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Investment Outlook Report

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