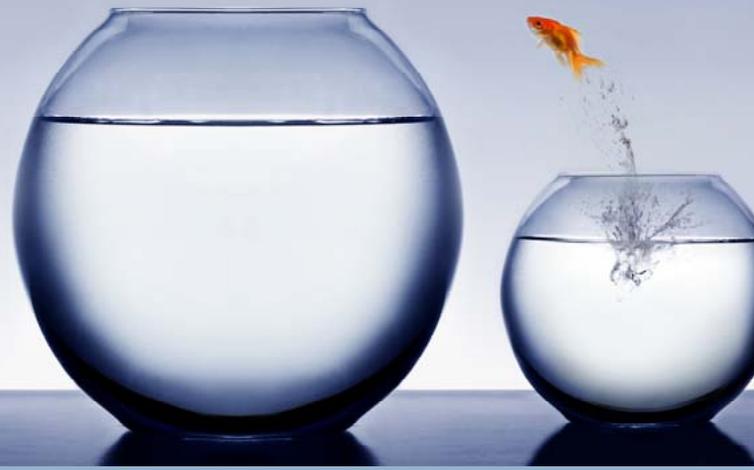


Personal Wealth



Summer 2017

A Quarterly Newsletter for

Lifespan Clients

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Investment Markets

Recent Events

Global equities continue to trade near record highs while volatility in most markets is very low. As an example, the US S&P 500 has not had more than a 3% pullback since the start of 2017. This is despite two major hurricanes and uncertainty around the passage of the Trump tax cuts.

The US Federal Reserve finally announced that it is starting the process of shrinking its \$US4.5 trillion balance sheet. The European Central Bank announced a reduced pace of QE from April next year. Bond purchases will be cut to 60 billion euros a month from 80 billion euros currently. Another major development was the German election which did not produce a clear winner but markets have surprisingly so far taken it in their stride.

The Australian dollar has been relatively weak recently, dipping into the 75 US cent range after peaking at over 80 cents not so long ago. However, this has coincided with a rally in the iron ore price as Chinese economic data provided support for commodities.

Year to date, (in local currency to November 27), Global equities have

returned 21.3% (MSCI AC World), US equities have returned 20.4% (S&P 500), while Australian shares have returned 13.9% (ASX 200). Emerging markets continue to be the best performing region with a return of 33%. However, the big mover has actually been Australian Small Cap equities which have returned 18.6% after lagging large caps for a few quarters. Over the 3 months to the end of October, Australian Small Caps have returned 10.3% while large Caps are up 4.7%. They have also outperformed Emerging markets and Developed Market Global equities which returned 9.8% and 8.8% respectively over the same period.

Economy

The global economy is experiencing its best growth since the global financial crisis with all major regions experiencing solid expansions. This has led the International Monetary Fund (IMF) to raise its 2017 and 2018 global growth expectations to 3.6% and 3.7% respectively. In Emerging markets, the IMF is forecasting growth of 4.6% in 2017 and 4.9% in 2018.

The US economy is doing particularly well with better than expected 3rd quarter GDP growth of 3.3%

(annualised). This is the second quarter in a row with above 3% growth. The Eurozone's economic recovery is also continuing. The region's GDP grew by 0.6% in the 3rd quarter, down from 0.7% in Q2 but still solid. Also, the unemployment rate fell to 8.9% in September, the lowest rate since January 2009. Chart 1 shows the number of countries in a recession, this is at a record low with the vast majority of countries experiencing positive growth.

In Australia, the September quarter Consumer Price Index (CPI) increased by 0.6% for the quarter to be up 1.8% for the year ending September, however this was below expectations of 0.8% and 2.0% respectively. While inflation is low, the jobs market remains relatively strong. The unemployment rate unexpectedly fell to 5.4% in October from 5.5% in the previous month, this was the lowest jobless rate since February 2013.

With the global economy doing well, a number of major central banks have signalled a shift away from exceptionally easy monetary policy in the future. The expectation is that this withdrawal of stimulus will be very gradual. The US Fed is the first Central bank to actually start the process of reducing the amount of

bonds on its balance sheet. Over time this should have the effect of increasing interest rates and making debt more expensive.

Markets and Outlook

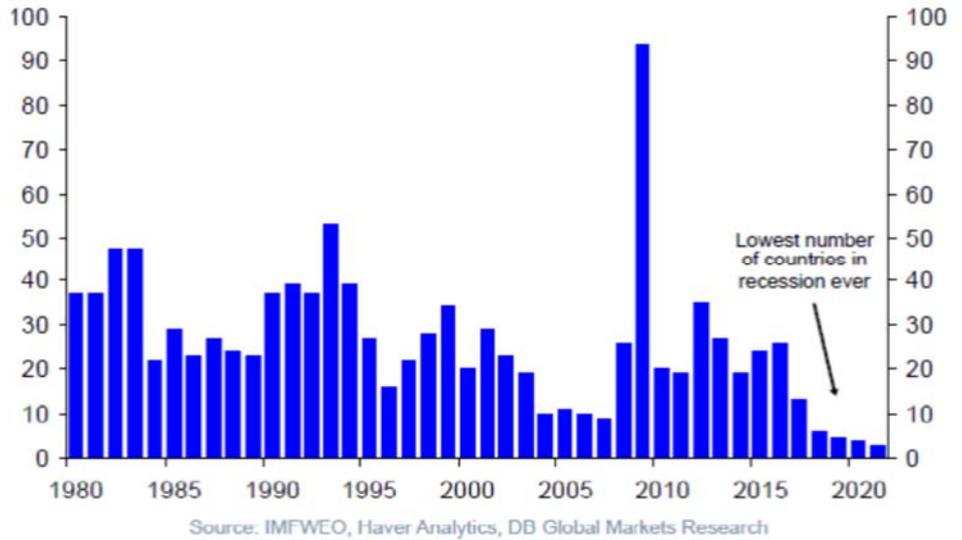
The US Fed is currently in a tightening cycle and we would expect another 0.25% rate rise in December. A rate rise would lift the US short term interest rate to about 1.5%, the same level as Australia. Obviously, this is negative for the Australian dollar as we will lose our yield advantage. It appears that short term rates will rise quicker in the US than in Australia which should put additional pressure on our dollar. The Australian Reserve Bank appears constrained by the level of household debt and is likely to be on hold well into 2018.

The global economy is in a real sweet spot with synchronised growth and projections for even higher future growth. Inflation is low and central banks are in no hurry to raise interest rates. However, this has probably lead to some complacency. The extremely low volatility in the US market is probably an indication of this. This low volatility has probably contributed to higher valuations as there has been no pain involved in holding equities in 2017.

Another issue for markets is that there are much lower expectations for short term rates than the US Fed. Looking out to the end of 2019, the market is about 1% lower than the Fed. If the Fed projections prove to be correct then this will be negative for markets, particularly equities. Certainly there is no expectation of inflation breaking out which would be very negative for investment markets.

Chart 1.

Number of Countries in a Recession



Source: Deutsche Bank Research, Mercer Investments (Australia) Limited 2017

US equity valuations are also quite high at over 18 times forward earnings. This PE is around 13% above the 25 year average value of 16 times. We assume that there is some anticipation that the US tax cuts get passed and this is baked into current valuations. If these fail to materialise then we would expect the US and other markets to pull back. However valuations are more reasonable outside the US. Another thing that concerns us is that the rally this year in the US (and MSCI China) has been somewhat narrow and has been concentrated in the big tech names such as Amazon, Apple, Facebook and Tencent.

Emerging markets have benefited from the synchronised global upturn and relatively weak US dollar to be the best performing region in 2017. While valuations are quite reasonable and could conceivably expand from here, they too are experiencing a

'Goldilocks' scenario.

While we are not bearish, we are concerned that there is a lot of good news in markets right now. Even if the current Goldilocks conditions persist, valuations imply that returns will be lower going forward than the recent past.

While we are cautious right now, our basic strategy is largely unchanged. We will continue to maintain our overweight to Global equities given the higher projected earnings growth there and our view that the Australian dollar is vulnerable. We are also quite defensive in our fixed interest exposure since we believe interest rates will rise from here.

Investment Returns to 31 October 2017 (% p.a.)

Asset Class	1 month	3 months	1 Year	3 Years	5 Years
Australian Shares	4.01	4.73	16.13	6.94	10.30
Global Shares	4.46	8.75	22.27	12.95	17.70
Listed Property	2.25	4.08	7.91	10.61	12.35
Fixed Interest	1.09	0.77	1.64	3.94	4.12

Source: Mercer



Protecting What Matters Most



Types of life insurance

There are different types of cover that fall under the broad heading of life insurance. Depending on your circumstances you may need one or more of the following: To help work out the best level of insurance cover for you, consider:

Life cover - also known as 'term life insurance' or 'death cover', pays a set amount of money when you die. The money will go to the people you nominate as beneficiaries on your policy.

Total and permanent disability (TPD) cover - pays a lump sum to assist with rehabilitation and living costs if you are totally and permanently disabled. TPD is often bundled with life cover.

Trauma cover - provides cover if you are diagnosed with a specified illness or injury. These policies include the major illnesses or injuries that will make a significant impact on your life, such as cancer or a stroke. It is sometimes called 'critical illness cover' or 'recovery insurance'.

Income protection - replaces the income lost through your inability to

work due to injury or sickness. Before you start comparing policies, check whether you already have life insurance through your super fund, as you may already have some cover.

How much life insurance do I need?

There is no correct answer, but more insurance gives you more protection. However, it also depends on what you can afford, so you may need to prioritise.

To help work out the best level of insurance cover for you, consider:

How much cash your family would have if you were to die or become disabled. How much money is in superannuation, shares, savings and existing insurance policies? How much paid leave do you have? What type of support could your family provide? You may also be entitled to government benefits or workers compensation if you get injured (although this may be reduced by income protection claims).

How much cash your family would need if the worst were to happen.

Consider the size of your mortgage and any other debts, as well as childcare, education and other costs.

The difference between these is the amount of cover you should get. However, you may need to compromise between what you would like and what you can afford.

Before you start comparing policies, check whether you already have life insurance through your super fund, as you may already have some cover.

You may decide to change your level of cover based on changes to your lifestyle. For example, if you have children and a large mortgage you may decide you need more cover. Alternatively, if you've paid off your mortgage or no longer have financial dependents you may decide to reduce your cover.

Review your policies every time your income or your personal circumstances change to make sure you have the right type and level of cover.

Switching life insurance cover

If you decide to switch your cover to a different insurer, don't just look at the difference in premium. It is also important to consider:

Level of cover - will you be receiving the same level of cover, and is this the cover you need? For example, if your current insurer covers any pre-existing conditions, will your new insurer do this as well?

Waiting periods - do any waiting periods apply to different types of benefits with your new insurer?

Insurance calculators

There are many online insurance calculators to help you work out how



much cover you should have. Some have detailed questions so it is a good idea to check a few different calculators to see a range of recommendations for your circumstances.

What's the difference between stepped and level premiums?

Insurance premiums usually increase with age because the older you get, the more likely you are to make a claim.

For insurance such as life, total and permanent disability, or trauma cover, you may be able to choose between stepped or level premiums.

Here is the difference between stepped and level premiums:

Stepped premiums - Your insurance premium will increase each year as you get older but is usually cheaper in the beginning. If you're thinking about this option, it is worth looking at what the premiums will be over the next 5 years, or however long you intend to hold the insurance for, to make sure you can afford the premiums.

Level premiums - Your insurance premium does not change due to your age but is generally more expensive than a stepped premium in the beginning. Level premiums may increase over time due to inflation adjustments or changes to the insurer's fees.

If you want to control your costs over time then level premiums may suit you. Premiums are usually higher in the beginning but much cheaper than stepped premiums when you are older. If you intend to hold the insurance for a long time, level premiums are likely to be cheaper in the long run.

Source: ASIC Moneysmart

When working out what insurance you need, always read up on what's included and excluded in each policy.

A licensed financial adviser can help you navigate through the complexities of life insurance and help choose the right insurance cover for your needs. For more information please contact your adviser.

Season's Greetings

Well here we are again!

That time of the year when it is so easy to be distracted by all the tinsel and lights, by all the commotion and excitement that surrounds.

A time when we should take a moment to reflect on the year that was and more importantly those with who we shared or wished we shared it with.

We, would like to take this time to sincerely thank you for your trust, confidence and loyalty. For allowing us to be part of your lives and guiding you.

Wishing you all the best for the festive season and trust that the best of the year gone by be the worst of that to come.



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