Wahlstrom
Financial Services

Quarterly Review Document

June Quarter 2016

Reporting for the period 01 April 2016 to 30 June 2016

Introduction & Welcome

Welcome to Wahlstrom Financial Services' Quarterly Review for the June quarter 2016. This document has been created to provide you with information on the current economic environment and how Wahlstrom Financial Services' Model Portfolio is performing.

This document includes two sections. The Investment Markets section discusses the local and global financial markets and the Model Portfolios section discusses their performance and the changes that have been made since the previous Quarterly Review.

The graphs on page 4 illustrate how the model portfolios have performed in comparison to our peer groups and how our model portfolios are positioned for the upcoming quarter.

If you have any questions in relation to this document please contact your adviser on 07 5574 0667.

Leigh Wahlstrom & Chris Gunther

Product Steering Committee

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Investment Markets

Share markets stronger

Share markets performed well through April and May, benefiting from a stabilisation in Chinese economic data, a broad rally in commodity prices – oil in particular showed signs the market may finally be re-balancing – and stronger euro-zone growth. Sentiment was further boosted by news Greece had agreed a new deal with its creditors, as well as increasing speculation the US economy is strong enough to with-stand higher interest rates. The mood turned more cautious in June as volatility spiked in the lead up to the Brexit vote; Britons ultimately electing to leave the European Union (EU) by a count of 52% to 48%. This con-tributed to a heavy selloff globally as investors tried to determine the impact Britain's departure from the EU will have on the global economy. However, the selloff proved to be relatively short-lived with most de-veloped markets recouping their post-Brexit losses as bargain hunters stepped in and as investors bet that central banks will do more to support growth.

Australian shares also performed well with the S&P/ASX 300 Accumulation Index closing the period up 4.0%. Stocks gained early amid a strong rebound in the 'Big Four' banks and rising commodity prices. Sentiment was further buoyed by the Reserve Bank of Australia (RBA)'s decision in May to cut the official cash rate to 1.75% and a series of encouraging domestic economic data. Like their global counterparts, Australian stocks struggled amid Brexit uncer-tainty but ultimately recovered in the days following.

RBA eases monetary policy

The RBA cut interest rates once during the period, lowering the official cash rate to a historically low 1.75% at its May board meeting. The decision came in the wake of a surprisingly soft March quarter inflation reading which saw the Bank's preferred 'core' inflation reading slow to just 1.6% over the last 12 months – well below its 2-3% target range and low enough to spark defla-tionary fears. In his post-meeting statement, Governor Glenn Stevens noted that "inflation has been quite low for some time and recent data were unexpectedly low." He went on to say that "while the quarterly data contain some temporary factors, these results, together with ongoing very subdued growth in labour costs and very low cost pressures elsewhere in the world, point to a lower outlook for inflation than previ-ously forecast." A stronger Australian dollar (AUD) in the lead up to the bank's May meeting is also likely to have played a part in the RBA's decision. The local currency had jumped around 14% between mid-January and the weeks just prior to the move, making the RBA's task of rebalancing growth all the more challenging.

Australian dollar weaker after cash rate cut

The AUD fell in the second quarter following the RBA's rate cut decision in May, and also as a result of pre- and post-Brexit uncertainty. Limiting the currency's decline were better-than-expected domestic growth numbers and stronger commodity prices. The AUD fell 11% against the Japanese yen, 3% against the US dollar and 1% against the euro. It rose 4% against the British pound while the broader Australian Trade-Weighted Index closed the period down 3%.

Domestic growth beats forecasts

The economy expanded by more than expected in the first quarter of 2016 with gross domestic product for the three months ended 31 March coming in at 1.1%. The market had anticipated growth of 0.8%. A surge in exports and strong household consumption were the main drivers of growth over the period while a decline in business investment within engineering construction and new buildings was the biggest de-tractor. On an annual basis, the economy grew 3.1%; up from the 3.0% growth recorded in the 12 months ended 31 December 2015.

Wahlstrom Financial Services' Model Portfolios in Action

How are we positioning our Model Portfolios?

Our view on risk assets has evolved since the beginning of the year. Our favoured scenario was for mid-to-low single-digit returns and a gradual rise in long-term interest rates. We now believe low single-digit returns look more likely. And interest rate normalisation is slower to come about than previously thought.

Earlier this year, the European Central Bank started buying corporate bonds (in addition to government bonds) and there is speculation the Bank of Japan is moving to finance more government spending, or 'helicopter money'. Whilst the US Federal Reserve (Fed) may be moving slower than we had anticipated at the beginning of 2016, it is still our view that the steady tightening of the US labour market will put enough upward pressure on inflation to trigger one Fed rate hike in the second half of the year.

In the USA, a stronger USD will be a headwind to the economy, but this will likely be offset by a more cautious Fed that may delay raising rates until the end of the year. Further, we think the worst of the corporate profits downturn may now have passed; though we remain underweight US equities due to the poor value they currently offer.

We believe the Brexit will have a significant impact on Europe and the UK. However, it's not all bad news. Europe's economy had been improving prior to the vote, the pound's decline will provide support and equity market valuations are reasonable in both regions. That said, the implications of Brexit will take months to work through, so more volatility seems likely.

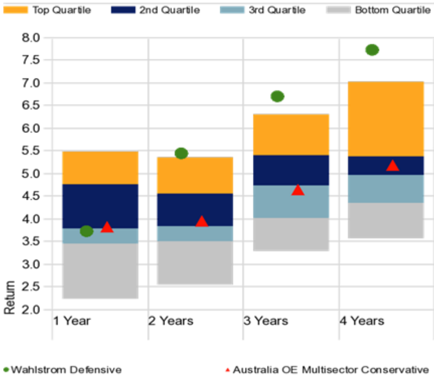
Meanwhile, Japan's 'safe haven' status is putting upward pressure on the yen and downward pressure on the country's business cycle. These trends are slightly offset by improving valuations.

Finally, we remain cautious on the outlook for emerging markets, with Brexit putting some upward pressure on the USD and downward pressure on commodity prices.

Wahlstrom Financial Services Model Portfolios vs. Peer Group Universe

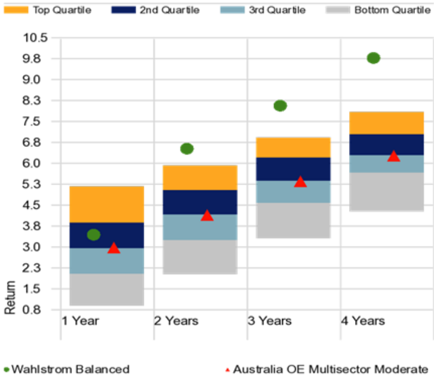
Defensive Portfolio Relative to Peer Group

As of Date: 30/06/2016 Peer Group (5-95%): Open End Funds - Australia - Multisector Conservative



Balanced Portfolio Relative to Peer Group

As of Date: 30/06/2016 Peer Group (5-95%): Open End Funds - Australia - Multisector Moderate

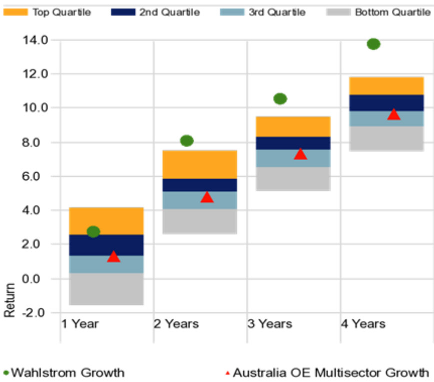


Balanced Growth Portfolio Relative to Peer Group

As of Date: 30/06/2016 Peer Group (5-95%): Open End Funds - Australia - Multisector Balanced

Growth Portfolio Relative to Peer Group

As of Date: 30/06/2016 Peer Group (5-95%): Open End Funds - Australia - Multisector Growth



Source: Morningstar Direct

Wahlstrom Financial Services

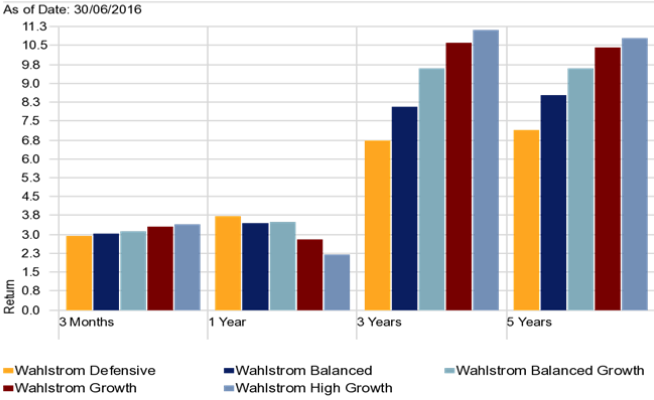
High Growth Portfolio Relative to Peer Group

As of Date: 30/06/2016 Peer Group (5-95%): Open End Funds - Australia - Multisector Aggressive

Wahlstrom Financial Services Model Portfolios Performance

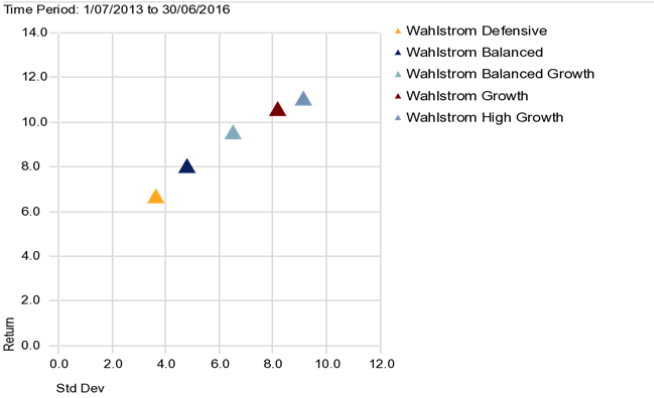
Periodical Returns

As of Date: 30/06/2016



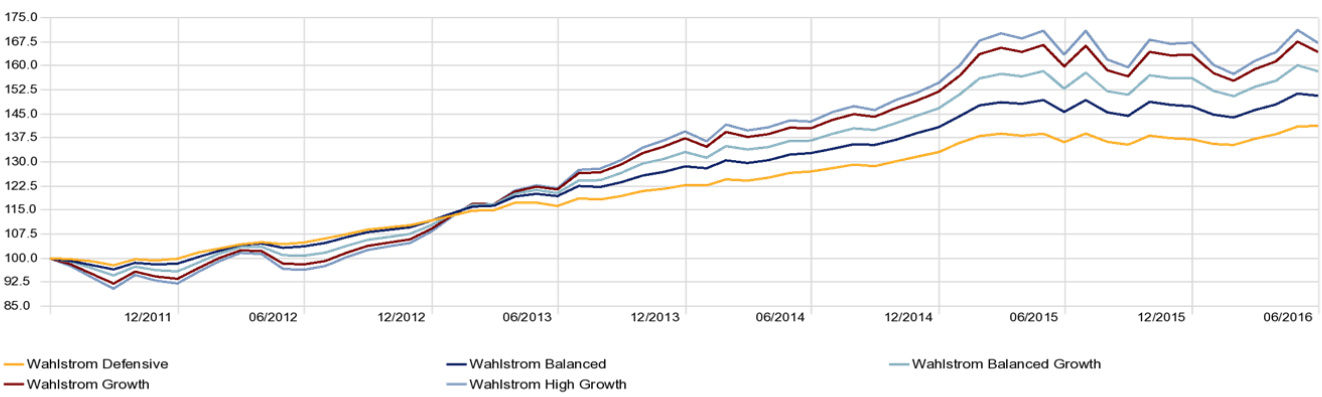
Risk & Return

Time Period: 1/07/2013 to 30/06/2016



Investment Growth

Time Period: 1/07/2011 to 30/06/2016



Source: Morningstar Direct