

Quarterly Review Document

March Quarter 2016

Reporting for the period 01 January 2016 to 31 March 2016

Introduction & Welcome

Welcome to Wahlstrom Financial Services' Quarterly Review for the March 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



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Investment Markets

Share markets weaker

It was a difficult start to the year for global share markets with sentiment souring amid some less-than-encouraging developments in China, further oil price weakness and escalating geopolitical tensions. In China, the devaluation of the yuan, some disappointing manufacturing data and growing regulatory uncertainty combined to drive stocks sharply lower in the early part of the period as investors worried about another emerging markets crisis. Meanwhile, oil prices sank to levels not seen in over a decade as supply continued to outpace demand, tensions between Saudi Arabia and Iran escalated and North Korea carried out a surprise nuclear test. Sentiment was also impacted early by some softer US economic data, doubts about central banks' ability to successfully support global growth and uncertainty over the health of the global financial sector. Importantly, stocks were able to recoup much of these early losses toward the end of the period as valuations began to look a little more attractive than they did at the start of the year, oil prices staged a strong rebound and US Federal Reserve (Fed) chair Janet Yellen reiterated that any future rate hikes will be gradual.

The Australian share market was also weaker; stocks falling early for much the same reasons as their global counterparts. However, the local market was also hampered by sharp falls across the 'Big Four' banks, which account for almost 30% of the S&P/ASX 300 Index. Banks were sold off amid uncertainty over the health of the global financial sector and concerns that rising funding costs and bad debts will hurt profitability. Some encouraging domestic growth data and strong rebounds in both iron ore and oil prices through the second half of the period did help to limit the market's decline.



RBA leaves rates on hold

The Reserve Bank of Australia (RBA) left the official cash rate unchanged at a historically low 2.00% throughout the period, despite a deterioration in the global growth outlook, heightened market volatility and a stronger Australian dollar. In making its decision, the central bank concluded that "there were reasonable prospects for continued growth in the economy, with inflation close to target" and that "the current setting of monetary policy remained appropriate." Further, the RBA noted that "over the period ahead, new information should allow the Board to judge whether the improvement in labour market conditions is continuing and whether the recent financial turbulence portends weaker global and domestic demand." We believe an interest rate cut is possible, especially if there is any significant deterioration in key domestic economic data or major external market shock.

Australian dollar stronger

The Australian dollar (AUD) continued to strengthen in the first quarter, though much of the local unit's gains came in March amid some better-than-expected domestic growth data, a less aggressive Fed and strong rebounds in both iron ore and oil prices. The AUD rose 8.3% against the British pound, 4.8% against the US dollar (USD) and 1.2% against the euro. It fell 2.3% against the Japanese yen while the broader Australian Trade-Weighted Index closed the period up 2.7%.

Domestic growth beats forecasts

The Australian economy expanded by more than expected in the final quarter of 2015 with gross domestic product rising 0.6% for the three months ended 31 December. The market had anticipated growth of 0.4%. Household spending was the main driver of growth over the quarter while exports, government spending and dwelling investment also made modest contributions. In contrast, mining investment continued to act as a significant headwind. On an annual basis, the economy grew 3.0%; up from the 2.5% growth recorded in the 12 months ended 30 September.

Wahlstrom Financial Services' Model Portfolios in Action

How are we positioning our Model Portfolios?

Our view on global equities has shifted downward 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. Whilst this remains the case, we believe low single-digit returns now look more likely.

This shift in our thinking comes as the outlook for corporate profits weakens, global trade and manufacturing softens and the risks around emerging markets increase, albeit slightly. In short, we believe the cyclical backdrop for equities is becoming less supportive.

Global divergence will remain a key theme this year and is likely to drive further market volatility. On the one hand, the European Central Bank and the Bank of Japan are expanding quantitative easing and moving interest rates further into negative territory. On the other hand, the Fed is facing inflationary pressures from an unemployment rate that recently dipped below 5%, as well as the fading deflationary impacts of falling commodity prices and a rising USD. The weakness in the rest of the world is acting as a headwind for the US economy, but domestic inflation pressures mean that the Fed is likely to still raise interest rates a couple of times this year. The net result is that periods of market stability are likely to be punctuated by episodes of Fed tightening speculation and fears of a global slowdown.

Europe remains our preferred exposure while we have become more cautious on the US and emerging markets. In Asia-Pacific, we expect patchy economic growth will result in only modest performance across the region.

Fixed income returns will likely be constrained by the upward pressure on bond yields from Fed rate hikes while credit market returns will be kept in check by concerns over company profitability and default rates.

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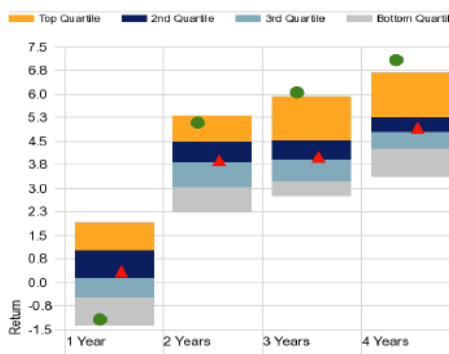
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Wahlstrom Financial Services Model Portfolios vs. Peer Group Universe

Defensive Portfolio Relative to Peer Group

As of Date: 31/03/2016 Peer Group (5-95%): Open End Funds - Australia - Multisector Conservative

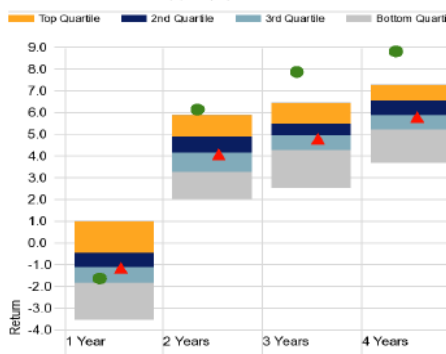


Wahlstrom Defensive

Australia OE Multisector Conservative

Balanced Portfolio Relative to Peer Group

As of Date: 31/03/2016 Peer Group (5-95%): Open End Funds - Australia - Multisector Moderate

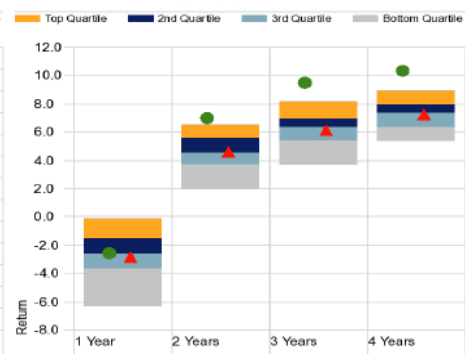


Wahlstrom Balanced

Australia OE Multisector Moderate

Balanced Growth Portfolio Relative to Peer Group

As of Date: 31/03/2016 Peer Group (5-95%): Open End Funds - Australia - Multisector Balanced



Wahlstrom Balanced Growth

Australia OE Multisector Balanced

Growth Portfolio Relative to Peer Group

As of Date: 31/03/2016 Peer Group (5-95%): Open End Funds - Australia - Multisector Growth



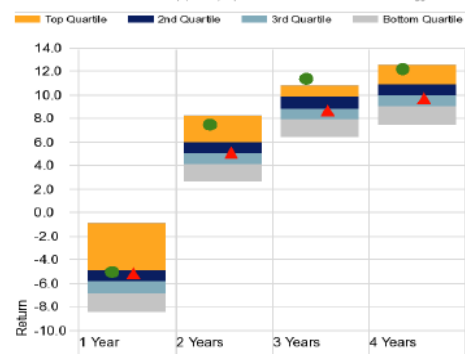
Wahlstrom Growth

Australia OE Multisector Growth

Source: Morningstar Direct

High Growth Portfolio Relative to Peer Group

As of Date: 31/03/2016 Peer Group (5-95%): Open End Funds - Australia - Multisector Aggressive



Wahlstrom High Growth

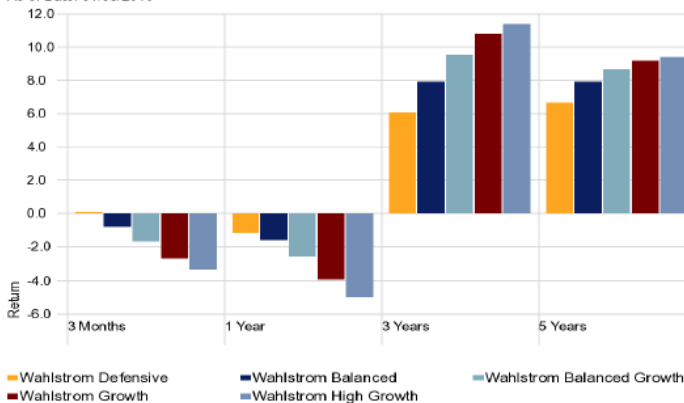
Australia OE Multisector Aggressive



Wahlstrom Financial Services Model Portfolios

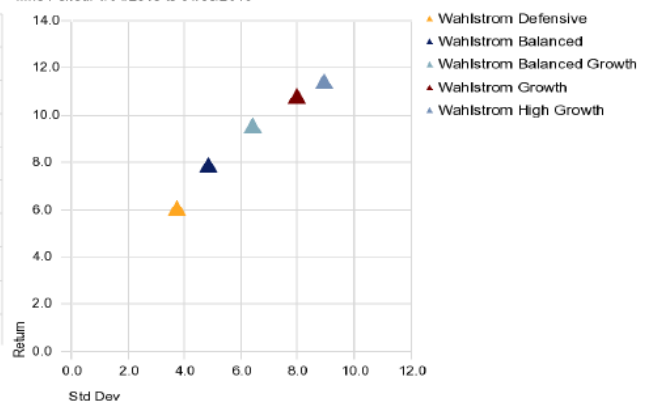
Periodical Returns

As of Date: 31/03/2016



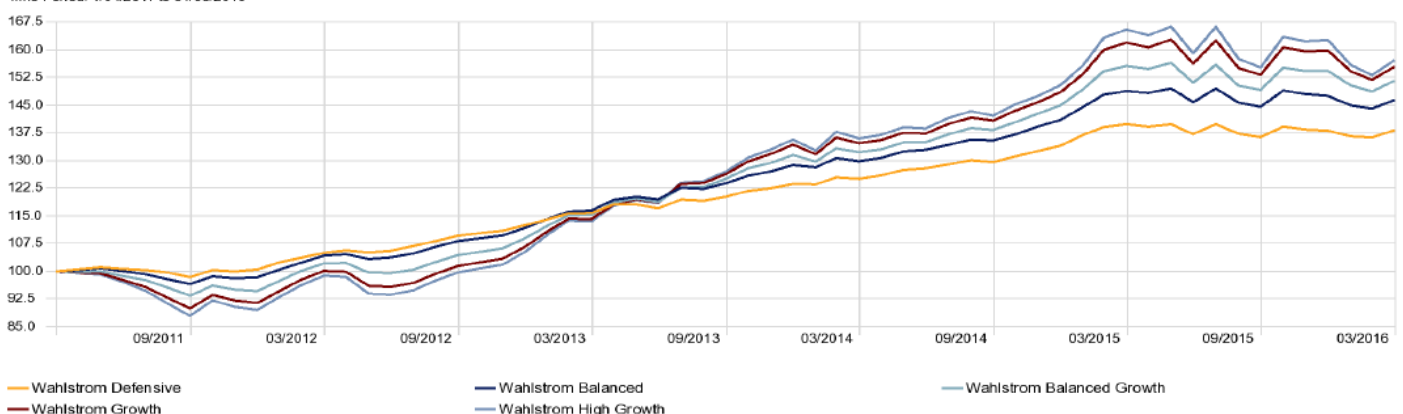
Risk & Return

Time Period: 1/04/2013 to 31/03/2016



Investment Growth

Time Period: 1/04/2011 to 31/03/2016



Source: Morningstar Direct