

InvestSMART Diversified Income Portfolio

QUARTERLY UPDATE

Quarterly Video Update

Evan Lucas,
Portfolio Manager



This quarter Evan discusses:

- Why Australian fixed income remains stable
- What the coming quarter may bring for income exposures
- Outlook for fixed income into 2019 and 2020



InvestSMART Diversified Income Portfolio

PERFORMANCE TO 30 SEPT 2018	1 mth	3 mths	6 mths	1 yr	2 yrs	3 yrs	Since Inception (p.a.)
InvestSMART Diversified Income	-0.32%	1.58%	4.54%	6.46%	4.37%	5.56%	4.63%
Morningstar Aus Msec Moderate TR AUD	-0.31%	1.47%	4.06%	6.48%	4.80%	5.35%	5.08%
Peers	-0.34%	0.71%	2.20%	3.77%	3.14%	3.54%	-

KEY POINTS

- **Produced a return of 1.58%**
- **No changes were made to the Portfolio**
- **Estimated yield is 2.96%**

The InvestSMART Diversified Income Portfolio produced a return of 1.58% (after fees) during the September Quarter. Since inception the Portfolio has returned 4.63% p.a. (after fees).

Global equities performed strongly in the third quarter of 2018 with the Vanguard MSCI index International Shares ETF (VGS) attributing 1.07% to the fund as US markets experienced their best quarter since the December quarter of 2013. VGS has a 63% exposure to US markets and the outlook remains robust for the world's largest economy, in addition the falling AUD is providing additional gains for international holdings.

The iShares Core S&P/ASX 200 (IOZ) attributed only 0.26% over the quarter despite Australia's positive full-year reporting season as geo-political tensions (US-China trade wars) and the Banking Royal Commission took their toll on the index. We expect the Australian market will underperform global peers again this coming quarter as bank funding increases and commodity prices moderate.

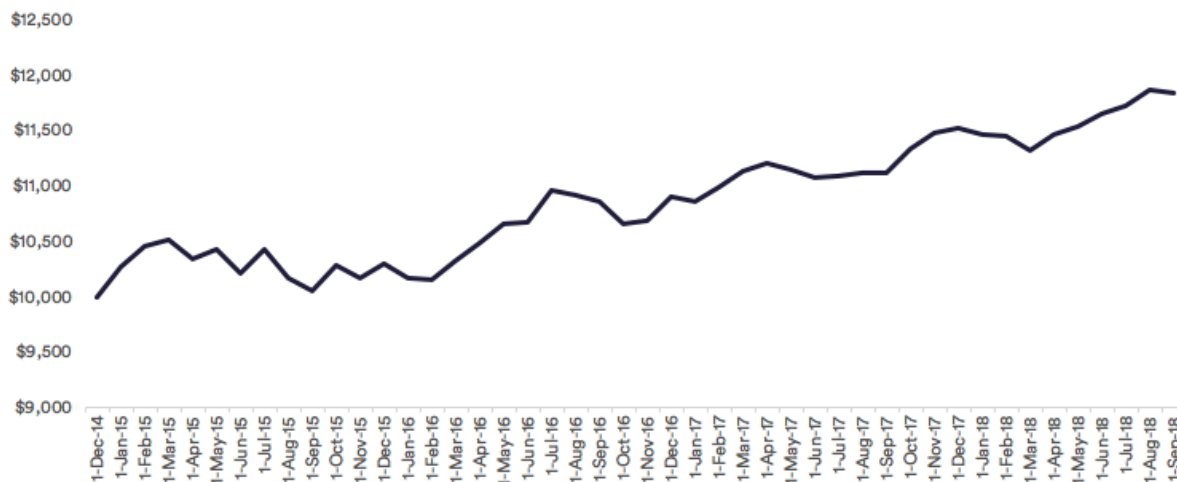
The Vanguard Australia Property Securities Index ETF (VAP) and iShares Core Composite Bond ETF (IAF) added 0.23% and 0.11% respectively. The Australian bond market remained steadfast despite its US counterpart moving quiet rapidly.

“WE EXPECT THAT THE AUSTRALIAN MARKET WILL UNDERPERFORM GLOBAL PEERS AGAIN THIS COMING QUARTER AS BANK FUNDING INCREASES AND COMMODITY PRICES MODERATE.”

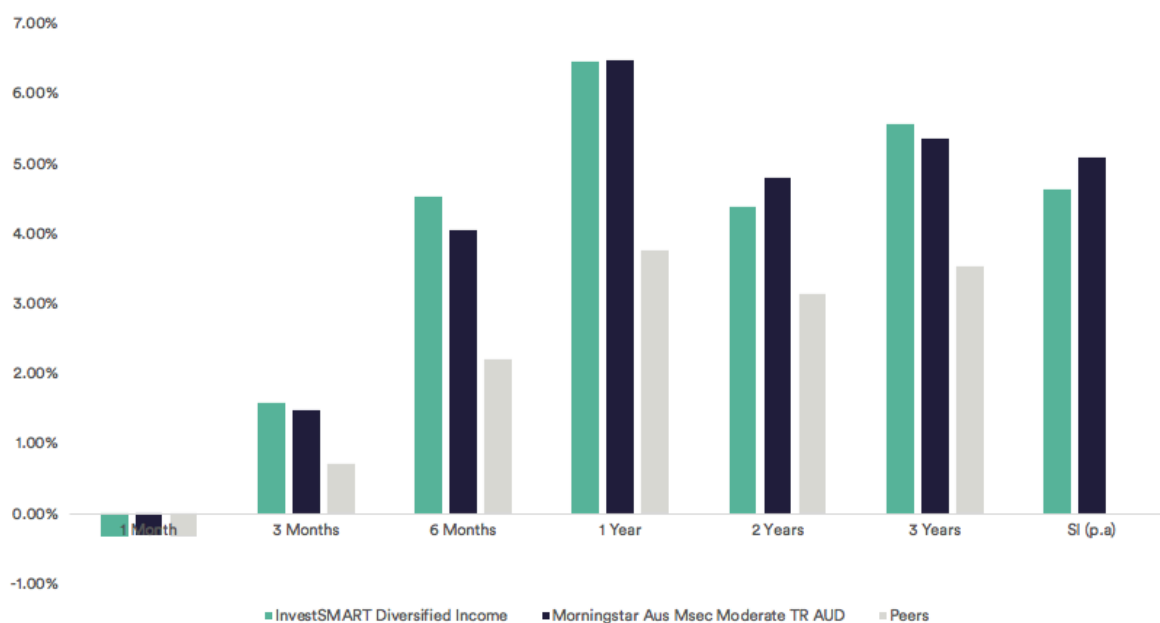
Looking to the final quarter fixed interests is likely to remain little changed in the final quarter, the RBA is not forecasted to change the cash rate in 2018 and no change is expected to Australia's AAA credit rating – this should mean yields and the capital position should remain weather any volatility in the coming quarter.

Performance

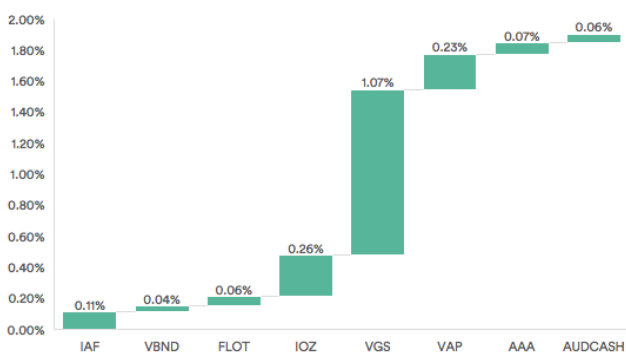
PERFORMANCE OF \$10,000 SINCE INCEPTION



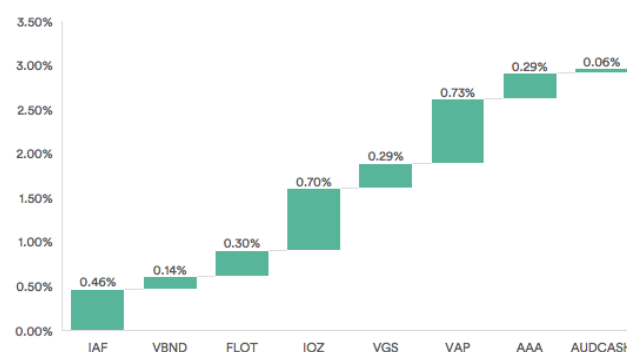
PERFORMANCE RELATIVE TO BENCHMARKS



PERFORMANCE ATTRIBUTION - BEFORE FEES



YIELD ATTRIBUTION



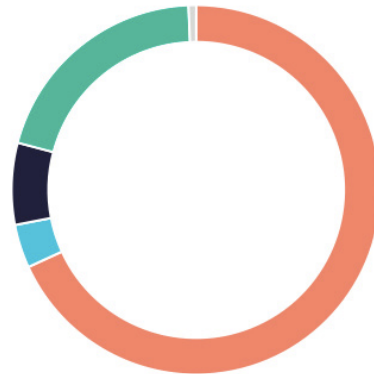
Portfolio Holdings

SECTOR ALLOCATION

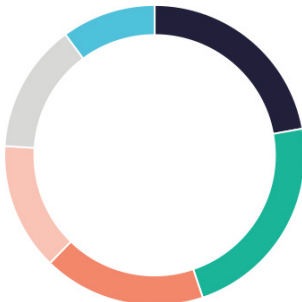


- Government Bonds
- Corporate Bonds
- Consumer Discretionary
- Consumer Staples
- Energy
- Financials
- Health Care
- Industrials
- Information Technology
- Materials
- Other
- Real Estate
- Telecommunication Services
- Utilities
- Cash

GEOGRAPHIC ALLOCATION



- Australia
- Asia
- Europe
- North America
- Others
- Cash

TOP PORTFOLIO HOLDINGS				<div><div><div>■ Domestic Equities</div><div>■ International Equities</div><div>■ Domestic Fixed Interest</div><div>■ International Fixed Interest</div><div>■ Cash</div><div>■ Property & Infrastructure</div></div></div>
Security	Ticker	Sep 2018	Jun 2018	
Australian Equities				
iShares Core S&P/ASX 200 ETF	IOZ	14.49%	14.54%	
International Equities				
Vanguard MSCI Index International Shares ETF	VGS	12.93%	12.25%	
Property & Infrastructure				
Vanguard Australian Property Securities Index ETF	VAP	8.69%	8.62%	
Cash				
BetaShares Australian High Interest Cash ETF	AAA	14.32%	14.48%	
AUD Cash	AUDCASH	3.64%	3.66%	
Fixed Interest				
iShares Core Composite Bond ETF	IAF	20.20%	20.43%	
Vanguard Global Aggregate Bond Index ETF	VBND	15.21%	15.38%	
VanEck Vectors Australian Floating Rate ETF	FLOT	10.52%	10.64%	

InvestSMART Group Limited (INV)

was founded in 1999 and is a leading Australian digital wealth advisor which has over 32,000 clients and over \$1.4B in assets under advice. InvestSMART's goal is to provide quality advice and low cost investment products, free from the jargon and complexities so commonly found in the finance industry, to help you meet your financial aspirations.

The Portfolio

The InvestSMART Diversified Income Portfolio is designed for investors looking for a better return than cash or saving for the short-term. The Portfolio invests in a blend of ETFs, with a higher allocation in income assets (bonds & cash) than growth assets (shares & property) all managed in the one portfolio.

Investment Objective

The Portfolio's investment objective is to provide investors returns in line with the benchmark minus our fees by investing in a blend of our preferred ETFs.

Why the InvestSMART Diversified Income Portfolio?

Having a well-diversified portfolio is a well-known strategy to assist in protecting your capital while offering better return than cash. The InvestSMART Diversified Income Portfolio has been designed to balance your returns, by carefully balancing risk and fees.

Who manages the investment?

Evan Lucas, has been investing and researching global markets for over 10 years and is supported by our Investment Committee, chaired by Paul Clitheroe. After getting his Masters in Finance from Flinders University, Evan started his career in Amsterdam with ABN Amro before moving to the Royal Bank of Scotland. He returned to Australia with RBS Morgans where he developed his top down approach, joining InvestSMART as our Chief Market Strategist in 2018.

Key Details

INVESTMENT CATEGORY

A blend of our preferred Exchange Traded Funds (ETFs)

INVESTMENT STYLE

Low cost Active Asset Allocation

BENCHMARK

Morningstar Multisector Moderate Index

INCEPTION DATE

29 December 2014

SUGGESTED INVESTMENT TIMEFRAME

2+ years

NUMBER OF SECURITIES / STOCKS

5 - 15 securities

MANAGEMENT FEE

0.40% - 0.77% p.a.

PERFORMANCE FEE

N/A

MINIMUM INITIAL INVESTMENT

\$10,000

STRUCTURE

Separately Managed Account (SMA)

SUITABILITY

Suitable for investors looking for a better return than cash or saving for the short-term.

PORTFOLIO MANAGER

Evan Lucas

Appendix

Portfolio Holdings

DIVERSIFIED INCOME PORTFOLIO	
Australian Equities	
iShares Core S&P/ASX 200 ETF [IOZ]	Issuer: Blackrock iShares Management fee: 0.15% Benchmark: S&P/ASX200 Investment case: Provide domestic equity market exposure.
International Equities	
Vanguard MSCI Index International ETF [VGS]	Issuer: Vanguard Management fee: 0.18% Benchmark: MSCI World ex-Australia Investment case: Provide diversified international equity exposure.
Property & Infrastructure	
Vanguard Australian Property Securities Index ETF [VAP]	Issuer: Vanguard Management fee: 0.23% Benchmark: S&P/ASX300 A-REIT Index Investment case: Provide domestic REIT exposure.
Cash	
BetaShares Australian High Interest Cash ETF [AAA]	Issuer: BetaShares Management fee: 0.18% Benchmark: 30-day Bank Bill Swap Rate Investment case: Provide returns more than RBA cash rate on our cash holdings.
Fixed Interest	
iShares Core Composite Bond ETF [IAF]	Issuer: Blackrock iShares Management fee: 0.20% Benchmark: Bloomberg AusBond Composite 0+ Yr Index Investment case: Provide exposure to domestic fixed interest securities.
VanEck Vectors Australian Floating Rate ETF [FLOT]	Issuer: VanEck Management fee: 0.22% Benchmark: Bloomberg AusBond Credit FRN 0+ Yr index Investment case: Provide exposure to domestic and international floating rate interest securities.
Vanguard Global Aggregate Bond Hedged ETF [VBND]	Issuer: Vanguard Management Fee: 0.20% Benchmark: Bloomberg Barclays Global Aggregate Float Adjusted Index hedged into Australian dollars Investment case: Provide exposure to international fixed interest securities.

Appendix

Glossary

Attribution highlights the proportion of the total return that was generated by a given security.

Peers are defined as retail investment funds that share the same benchmark as the portfolio, as determined by Morningstar's peer grouping methodology. Regarding the InvestSMART Diversified Income Portfolio, these are multi asset class funds with an asset allocation that is weighted higher toward growth assets. Not all retail investment funds have been included in Morningstar data. Number of peers is 673.

The Indirect Cost Ratio is the weighted management fee of the underlying ETFs and Managed Funds held within the portfolio.

The **Risk Ratings** that InvestSMART Group assigns to our investment products is based on an industry standard, The Standard Risk Measure (SRM). The SRM is a guide developed by the Financial Services Council (FSC) and The Association of Superannuation Funds of Australia (ASFA) that outlines the likely number of negative annual returns expected over any 20 year period. The purpose of the SRM is to provide a standardised labelling system to assist investors in comparing investment options across providers.

Performance numbers exclude franking, after investment and admin fees. All yield figures include franking. Performance Attribution graph only relates to the 3-month performance figure for the quarter. All performance figures, graphs and diagrams are as at 30 September 2018.

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