

Commentary

MARKET COMMENTARY

Australian equity markets were up 3.8% for the month of May buoyed by the RBA's decision to cut rates in early May and following the lead from international equity markets which were up 6.0% for the month. Emerging market equities were up 1.4% in May.

Australian REITs continued to be a solid performer over the month, returning 2.7% for May. Australian REITs are up 12.2% since the start of the year compared to the broader Australian equity market which is up 3.7%. It is apparent that A-REITs are being supported by a low interest rate environment and investors desire for yield. In this context we believe that valuations in the REIT sector continue to appear stretched. Global property also posted a positive return for the month returning 1.8%.

Within fixed interest, Australian bonds posted a return of 1.3% over the month of May as the bond market reacted to the cut in interest rates by the RBA. Global bonds returned 0.6% for the month. Cash returned 0.2% over the month and 0.1% since the start of the year.

PORTFOLIO COMMENTARY

The InvestSMART Diversified Conservative portfolio returned 1.9% over the month of May, ahead of its benchmark and RBA Cash Rate +1% objective. The overweight to Australian equities and underweight to fixed interest were the main contributors to performance. Exposure to the emerging markets and global shares ex US detracted from performance.

The Australian equity exposure via the MSCI Australia 200 ETF returned 3.0% over the month. Within international equities, the exposure to US equities via the iShares Core S&P 500 ETF and iShares Core S&P Midcap ETF returned 7.2% and 7.8% respectively. The Vanguard All-World ex US Shares Index ETF and iShares Europe ETF returned 5.3% and 5.4% respectively. The MSCI Emerging Markets ETF was up for the month returning 2.5% but dragged relative to developed equities.

Within property, the Australian property exposure (via the Vanguard Australian Property Securities ETF) returned 2.8% for the month, while global property (via the SPDR Dow Jones Global Real Estate Fund ETF) returned 5.9%.

Within fixed interest, the iShares Composite Bond ETF returned 1.4%, while the Macquarie Income Opportunities Fund returned 0.5%. The BetaShares Australian High Interest Cash ETF returned 0.2% over the month.

PORTFOLIO POSITIONING

The portfolio remains overweight Australian equities on the basis that valuations appear reasonably compelling when compared to other asset classes and given the attractive yield characteristics of the asset class. Within fixed interest the portfolio holds Australian government bonds and has an exposure to Australian credit and overseas securities. The portfolio is expected to do well in an environment where Australian equities outperform other asset classes and where credit outperforms government bonds. Within international equities the portfolios have a bias towards emerging markets and an underweight to US equities, therefore the portfolio will benefit when US equities underperform broader equity markets and emerging markets do well.

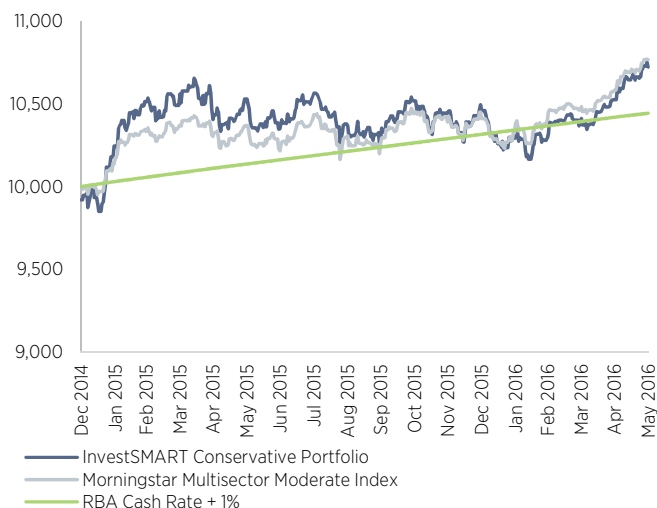
Current market pricing implies that the portfolio's RBA Cash Rate+1% objective is achievable over the long-term but only through a reasonable allocation to relatively volatile equity investments. This means that investors should be comfortable with above average volatility, which could result in a short-term fall in the portfolio's value of around 13%.

PERFORMANCE TO 31 MAY 2016

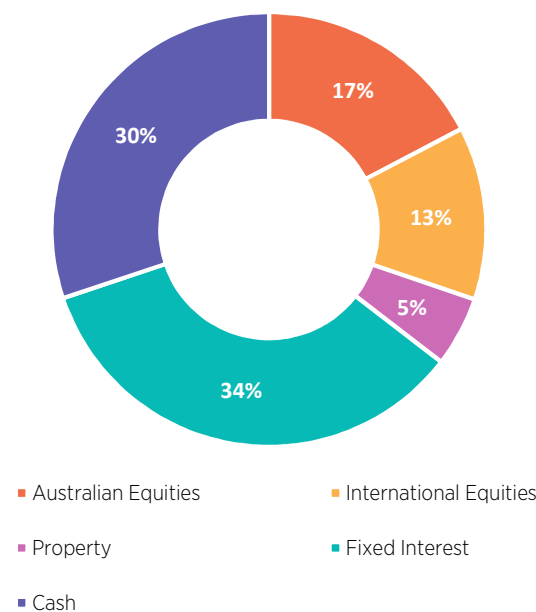
	1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	SI* (P.A.)
InvestSMART Conservative Portfolio	1.88%	4.16%	2.76%	1.84%	5.04%
Morningstar Multisector Moderate Index	1.74%	3.48%	3.64%	3.85%	5.34%
Excess to Benchmark	0.13%	0.68%	-0.88%	-2.01%	-0.30%
RBA Cash Rate + 1%	0.24%	0.74%	1.49%	3.03%	3.11%
Excess to Objective	1.64%	3.42%	1.26%	-1.19%	1.94%

Source: Praemium, RBA. Returns are before expenses and fees. Returns are shown as annualised if the period is over 1 year. * Since Inception (SI) date is 29 December 2014.

Growth of \$10,000 INCOME REINVESTED



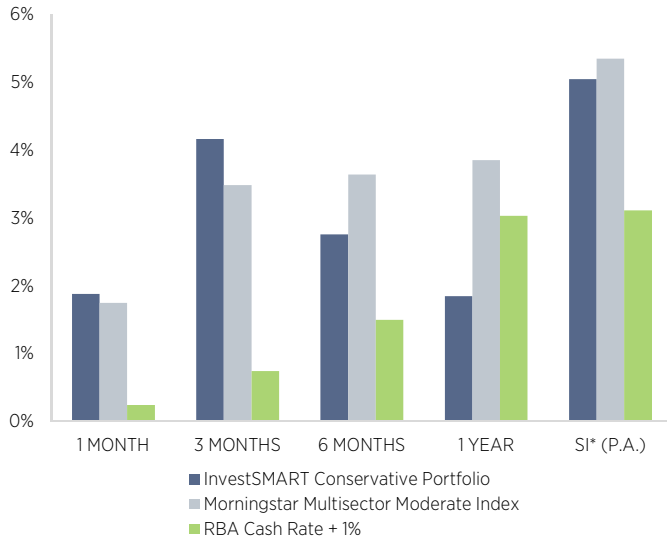
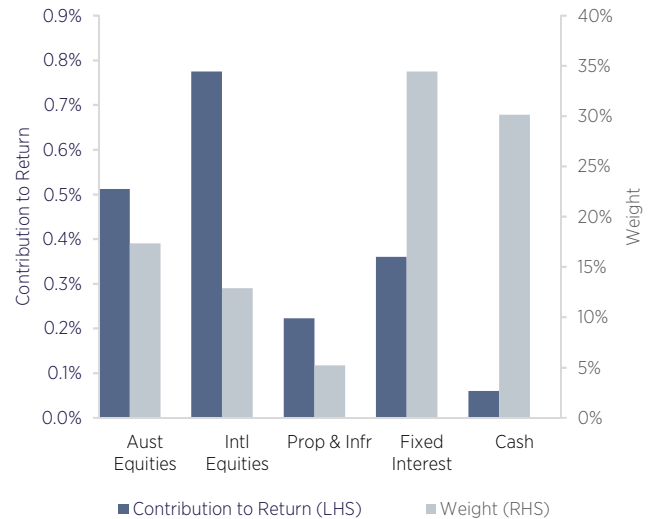
Asset Allocation as at 31 May 2016



Portfolio Objective

The investment objective is to achieve a return of 1% above the RBA Cash rate per annum over three year rolling periods by investing in a diverse mix of asset classes covering Australian equities, international equities, property, infrastructure, alternatives, fixed interest and cash.

Performance Summary to 31 May 2016


 Contribution to Return
1 Month to 31 May 2016


Underlying Holdings Performance

PERFORMANCE TO 31 MAY 2016

	1 MONTH	3 MONTHS	6 MONTHS	1 YEAR
ISHARES S&P/ASX 200 ETF	3.0%	12.0%	6.5%	-1.8%
VANGUARD ALL-WORLD EX-US SHARES INDEX ETF	5.3%	9.0%	-1.7%	-6.4%
ISHARES CORE S&P 500 ETF	7.2%	7.5%	1.0%	7.1%
ISHARES EUROPE ETF	5.4%	8.3%	-3.2%	-6.5%
ISHARES MSCI EMERGING MARKETS ETF	2.5%	9.7%	-0.5%	-13.4%
ISHARES CORE S&P MIDCAP ETF	7.8%	10.7%	1.7%	4.4%
VANGUARD AUSTRALIAN PROPERTY SECURITIES INDEX ETF	2.8%	8.5%	16.1%	15.6%
SPDR DOW JONES GLOBAL REAL ESTATE FUND ETF	5.8%	7.7%	4.4%	9.5%
ISHARES COMPOSITE BOND ETF	1.4%	1.4%	3.6%	4.3%
MACQUARIE INCOME OPPORTUNITIES	0.5%	2.3%	1.5%	1.4%
BETASHARES AUSTRALIAN HIGH INTEREST CASH ETF	0.2%	0.6%	1.3%	2.5%
CASH	0.2%	0.6%	1.2%	2.3%

Source: Bloomberg

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