31 DECEMBER 2019

Quarterly Report

InvestSMART Conservative Portfolio

December Quarter Highlights

- **Portfolio flatlined in the December quarter -0.05% (after fees)**
- **No changes were made to the portfolio during the quarter**
- **Estimated yield on the portfolio is currently 2.80%**
- **Fixed Income suffered solid declines as investors rotated out of Defensive assets and into Growth**

About Us

InvestSMART 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.

Portfolio overview

The InvestSMART Conservative Portfolio is designed to offer investors a sustainable income stream by investing across asset classes, actively managed by our investment team. Having a well-diversified portfolio is a well-known strategy to assist in growing your capital while minimising your investment risks.

Our Conservative Portfolio is part of our capped fee range, so you keep more of what you earn to grow your investment faster.

Investment objective

To provide investors returns in line with the benchmark minus our fees by investing in a blend of our preferred ETFs.

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 portfolio details

INVESTMENT CATEGORY
Low-cost ETF Portfolio

BENCHMARK
Morningstar Multisector Moderate Index

INCEPTION DATE
29 December 2014

SUGGESTED INVESTMENT TIMEFRAME
2+ years

NUMBER OF SECURITIES
5 - 15

INVESTMENT FEE
$99 - $451 p.a. capped

PERFORMANCE FEE
N/A

MINIMUM INITIAL INVESTMENT
$10,000

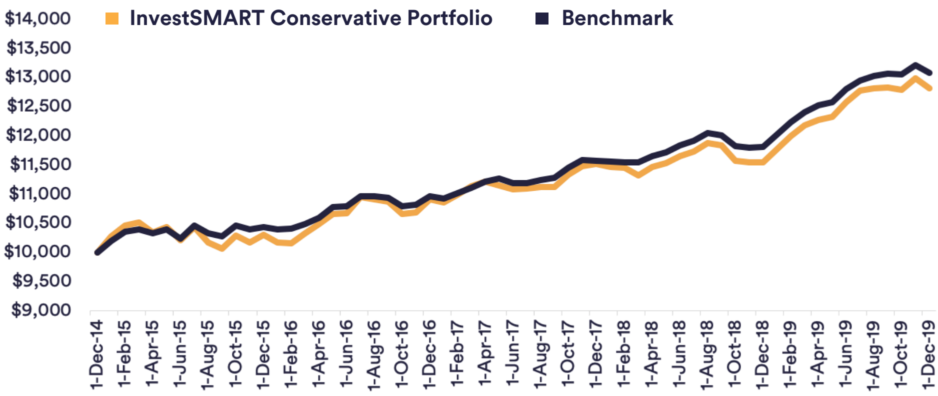
STRUCTURE
Professionally Managed Account (PMA)

Performance to 31 Dec 2019

	1 year	2 yrs p.a	3 yrs p.a	5 yrs p.a
InvestSMART Conservative#	10.8%	5.4%	5.4%	5.0%
Average of 620 peers funds^	8.3%	3.9%	4.1%	3.5%
Excess to Peers	2.5%	1.5%	1.3%	1.5%

InvestSMART Portfolio performance figures are after investment and admin fees excl. brokerage and assuming dividends re-invested and no withdrawals. The peer comparison figures have been sourced from Morningstar data and is therefore limited to the funds and investment products included in their database. This may not include all funds available for retail investment in Australia. The peer calculation is inclusive of admin and investment fees; excludes brokerage and no withdrawals have been made. InvestSMART cannot determine whether or not franking has been included, nor if dividends have been reinvested. Historical performance is not a reliable indicator of future performance. Fees^: InvestSMART Conservative 0.55% & Average of 620 peers 1.57%. Note: Our InvestSMART Conservative is benchmarked against Morningstar Multisector Moderate Index.

Performance of $10,000 since inception



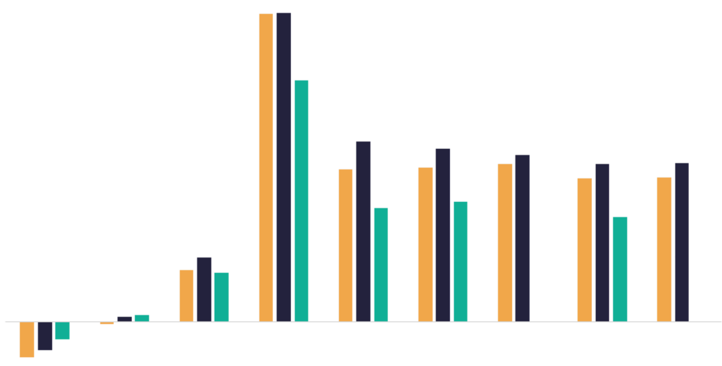
Asset allocation

Australian Fixed Interest	28.4%
Cash	20.3%
International Fixed Interest	17.0%
International Equities	13.0%
Australian Equities	12.1%
Property	9.2%

Top 5 holdings

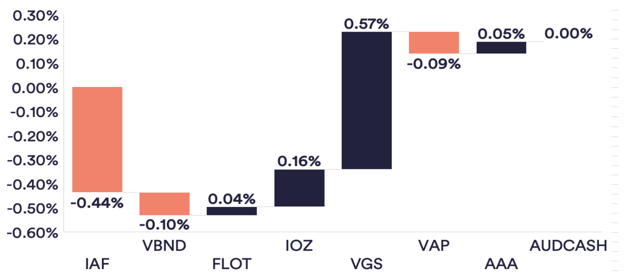
IAF	26.64%
AAA	16.76%
IOZ	12.76%
VGS	12.48%
FLOT	10.09%

Performance relative to benchmarks

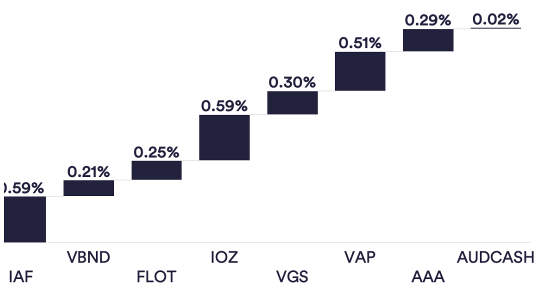


	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	4 Years	5 Years	SI (p.a)
InvestSMART Conservative	-1.24%	-0.05%	1.82%	10.78%	5.35%	5.41%	5.52%	5.02%	5.04%
Benchmark	-0.98%	0.18%	2.24%	10.81%	6.32%	6.07%	5.83%	5.52%	5.55%
Peers	-0.59%	0.26%	1.72%	8.44%	4.00%	4.21%	0.00%	3.66%	0.00%

Attribution – Performance



Attribution – Yield



InvestSMART Conservative Portfolio

The Conservative Portfolio's heavy weighting towards fixed interest was its Achilles heel in the second quarter of the financial year 20. From the beginning of October all the way through to the close of the calendar year, fixed income both domestically and internationally has been slipping as fund managers rotate more and more into higher yielding risk assets.

We need to point out that 2019 was an incredible year for all asset classes including fixed income. If we take Bloomberg's AusBond Composite index, it rose 7.6% in 2019, the best total return since 2014, despite the fact the Australian 10-year bond has been falling on a capital basis since August. The Aussie 10 year reached a record low yield of 0.85% in late August, it closed the year at 1.3%, as the 'risk' of the great global slowdown that bond markets had been pricing in all year, faded out.

We did point out that the December 2018 to August 2019 moves in fixed interest were the 'exception', not the rule. An 8.5% capital gain is the kind of movement one expects in equities, per annum, not fixed interest inside nine months. If, as forecasted by most economists, central banks ease rates and the global slowdown doesn't eventuate, the decline in fixed interest is likely to continue in the near future.

The growth side of the portfolio had a positive quarter despite December 31 logging a 1.8% decline to go with the 1% decline right at the start of the month. However, we should highlight the year that was 2019:

- Best year of the decade for the ASX 200 adding 18.4% on a capital basis but more importantly, it added 23.4% on a total return basis – a figure we at InvestSMART see as a much more important figure. What's even more interesting from the domestic trading year is the returns of the MSCI Australian High Dividend index, up a whopping 36.4%. Compare that to the Growth index adding 28.31% while the Value index added just 10.8%. This suggests that the outflows from fixed interest are likely to be heading to high yielding returns despite the increase risk of equities.
- S&P 500 added 29% for its best year since 2014, 31.4% on a total returns basis as investors piled into the risk returns.
- Europe rose 23.25%, 27.62% on total return and even China, after the issues facing Hong Kong, managed 16.4%, 20.7% on total returns.

Looking into financial years 2020/21, there are plenty of questions to be asked no doubt. 2019 was the year we constantly referred to as the 'malaise' (economic slowdown) and the 'cure' (central bank stimuluses). With three rate cuts from the RBA and the possibility of a further two in 2020 and even Aussie-styled quantitative easing, two from the Federal Reserve and a re-enactment of quantitative easing form the European Central bank and the Bank of Japan, it's little wonder this massive liquidity excess flowed into investment.

Will this 'cure' continue to support markets into 2020? Likely, but we certainly don't believe it will be as strong a calendar year as 2019. Taking this idea further, did 2019 just price in all current and future stimulus and thus, if the RBA for example does not cut rates further, see some of the gains in 2019 coming out in 2020? It's a risk we are monitoring, however, on current and forward-looking data, the cuts are coming sooner rather than later with the first likely to come in March 2020.

The other part of the portfolio that we will be monitoring in the final six months of the financial year is property. The median capital city house price rose 10.4% in the final quarter of 2019, the fastest rate in five years, as the RBA rate cuts lowered rates and flushed out buyers. It should also be pointed out that proposed changes from the Labor Party at the May 2019 election around negative gearing also released a risk issue, and property has been surging since June. Forecasts are for a strong year in property as low supply coupled with returning demand drive prices higher.

We highlight all this for constructive reasons – when investing, even in a conservative portfolio, your time horizon is key, and you should always be thinking in 2+ year timeframes. Pull backs are opportunities not impediments.

Your opportunity to average down your cost base as you look to your investment time horizon gives you the ability to look through the intra-day, week, month and even yearly fluctuations with a resolve that will minimise making an investment mistake.

INVESTSMART

investsmart.com.au/invest
1300 880 160

Important information