

31 DECEMBER 2019

## Quarterly Report

# InvestSMART Interest Income Portfolio

### December Quarter Highlights

- Portfolio fell 1.41% in the December quarter (after fees)
- No changes were made to the portfolio during the quarter
- Estimated yield on the portfolio is currently 1.93%
- Fixed income markets under real pressure as the forecast global slowdown hasn't materialised



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[www.investsmart.com.au](http://www.investsmart.com.au)

1300 880 160

## 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 Interest Income Portfolio is designed for investors seeking a high level of stability and regular income by investing in domestic and global fixed securities. The Portfolio is invested in a blend of 5 - 20 Exchange Traded Funds (ETFs), to provide investors exposure to the performance of fixed interest assets all managed in the one portfolio.

Our Interest Income 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 Exchange Traded Funds (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 Aggressive Index

### INCEPTION DATE

23 December 2015

### SUGGESTED INVESTMENT TIMEFRAME

2+ years

### NUMBER OF SECURITIES

5 - 20

### INVESTMENT FEE

\$99 - \$451 p.a. capped

### PERFORMANCE FEE

N/A

### MINIMUM INITIAL INVESTMENT

\$10,000

### STRUCTURE

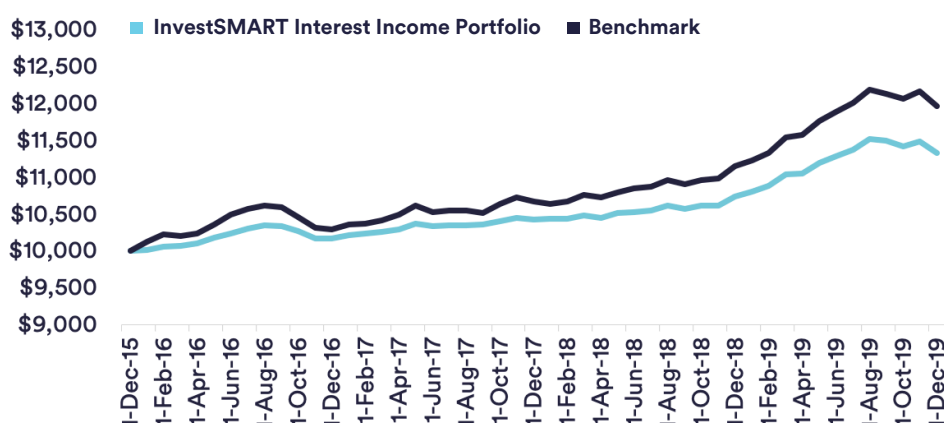
Professionally Managed Account (PMA)

### Performance to 31 Dec 2019

	1 year	2 yrs p.a	3 yrs p.a	4 yrs p.a
InvestSMART Interest Income*	5.3%	4.1%	3.6%	3.1%
Average of 310 peers funds^	5.7%	4.2%	3.6%	N/A
Excess to Peers	-0.4%	-0.1%	0.0%	N/A

# 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 Interest Income 0.55% & Average of 310 peers 1.25%. Note: Our InvestSMART Interest Income is benchmarked against Bloomberg AusBond Composite 0+Yr TR AUD Index.

### Performance of \$10,000 since inception



### Asset allocation

Australian Fixed Interest	92.9%
International Fixed Interest	3.6%
Cash	3.5%

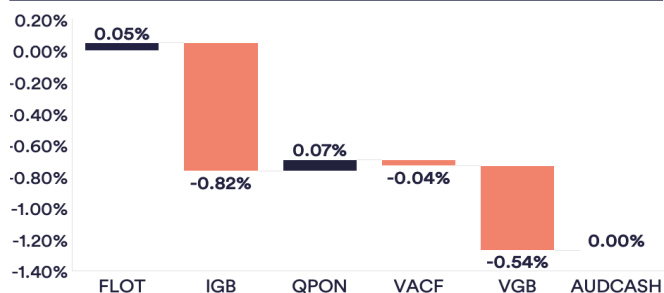
### Top 5 holdings

IGB	35.7%
VGB	27.8%
QPON	13.8%
FLOT	13.8%
VACF	7.0%

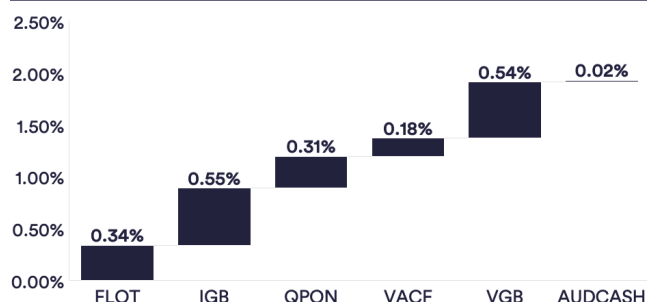
### Performance relative to benchmarks



### Attribution – Performance



### Attribution – Yield



## InvestSMART Interest Income Portfolio

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The Interest Income Portfolio's performance through 2019 has been impressive with a 5.32% return in the calendar year. That is the kind of return we would expect from high risk weighted portfolios, not a conservative one. The AusBond Composite index had its best year on a total return basis since 2014, despite the fact the Australian 10-year bond has been falling on a capital basis since August. Remember the Aussie 10-year bond reached a record low yield of 0.85% in late August, it closed the year at 1.3%. On a capital basis we would highlight the 7- and 8-year bonds which at one point in September had a 27% premium to their face values, a premium that was unsustainable.

However, the final quarter of the calendar year was weaker as markets rotated out of fixed income markets and into the higher risk equity markets. This trend begun in September then accelerated through the final quarter of the calendar year for both domestic and international fixed income markets.

We were of the view that fixed income would likely ease in the final months of 2019. We did point out in the previous quarterly report 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 and, in only nine months not 12.

If, as forecast 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. There are also several geo-political events that will filter into pricing of fixed income in 2020.

First is the 'de-escalation' of the US-China trade tensions. The Phase 1 signing in the first quarter of 2020 is a 'pro-growth' scenario and could see further funds in US fixed interest markets in particular, flowing to risk.

Second is the US Presidential election, a re-elected President would also be a negative for fixed interest.

Finally, central banks are likely to continue their easing cycles throughout 2020, further pushing cash rates to new record lows, making interest returns even more unattractive.

We highlight all this for constructive reasons – when investing, even in a conservative interest only portfolio, your time horizon and investment goals are key, you should always be thinking in a 2+ year timeframe. Pull backs are opportunities not impediments for your longer-term investment goal.



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### **Important information**

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