31 July 2020

Monthly Update

InvestSMART Capped Fee Portfolios

With portfolio manager Evan Lucas

'The Monthly Musing'

Riding the second wave

A second wave; it was the biggest concern from the medical world during the initial phase of the pandemic, it is clearly upon us globally. From an Australian perspective, so far, we remain 'lucky' and I say that with a large amount of caution as what is besetting Victoria (the state I call home) is worrying to say the least as any loss of life is tragic, but we have been spared the worst of COVID-19.

What isn't so 'lucky' is the economic impacts from COVID. It is very likely that for the first time since World War I, we will experience supply chain shortages from domestic suppliers.

Victoria is the largest supplier to states such as South Australia and Tasmania for manufactured goods. It is also the largest supplier of agricultural meat goods to the nation. This means the supply of agricultural goods like lamb, beef and pork will be impacted throughout August (despite what the politicians say) and will see price increases downstream; your Woolworths or Coles run will be different wherever you live in this country in the coming period.

On the anecdotal evidence it should be seen as a negative, and indeed, fixed income markets are pricing in this idea. Yet, even during the worst month of infections in Australia and indeed the world, equities (risk markets) marched on unencumbered. Why?

'Whatever it takes' – that is the message and stance all developed world central governments are taking. Never in history have we seen the amount of fiscal stimulus entering the system like we are now. It is backstopping global economies more than ever and with second, third and possibly more waves on the horizon, this fiscal support is giving a level of confidence that risk markets need to cross the bridge to the other side.

It's why the growth side of all portfolios supported performance in July and why we expect equities to not retract the fall seen at the start of the crisis. That is not to say there won't be pull backs or corrections, but a 29 per cent to 33 per cent decline like that seen in March is unlikely.

Interestingly enough, COVID-19 is also creating a structural shift in behaviour, specifically consumption behaviour.

Digital disruption has been part of our lives for several decades, but never have we seen the speed at which we have fully embraced a structural change. Online consumption has exploded in the post-COVID world and explains why in the month of July, US equities ratchetted high.

The S&P 500 has 27.5 per cent exposure to technology, compare this to the ASX's 3.6 per cent. It is this 27.5 per cent exposure to technology that can also explain why the S&P 500 finds itself starting August just 70 points off its record all time high set in February, and why it was 5.5 per cent higher in July compared to the ASX's 0.5 per cent increase.

We would point out that the ASX's tech space increased 4.8 per cent in July, the materials space, which is being boosted by rapid increases in commodity prices (gold +10.3 per cent, copper +6.8 per cent and iron ore +5.0 per cent), added 7.1 per cent (materials make up 15 per cent of the ASX), yet all this was almost completely countered by the ASX's over-exposure to financials, which is being impacted by the uncertainty of COVID-19 and the risk of increasing bad and doubtful debts.

Unfortunately for the ASX, this underperformance to global peers has been a theme for the past 10 years and with COVID likely to weigh on sectors like banking in the near future, we suspect the underperformance to continue. It's why we offer satellite portfolios like the International Equities Portfolio, that you can add to your overall holdings.

The advantage of the satellite portfolios is you can leave your diversified core portfolio unchanged to provide long-term reliability at a low cost but then add in additional exposure through the International Equities Portfolio, which can boost your overall performance without overexposure to one particular asset class.

The same can be said for those looking for some additional capital protection – the Interest Income Portfolio, which is made up of Australian treasuries and corporate debt securities, provides that capital protection some investors are looking for in this market.

It is why InvestSMART is proud to offer an array of portfolios that can suit a core and satellite approach at the lowest cost we can. Remember that our management fee is applied to your overall investment value, not the number of investments or portfolios you hold.

Performance of the Capped Fee Portfolios

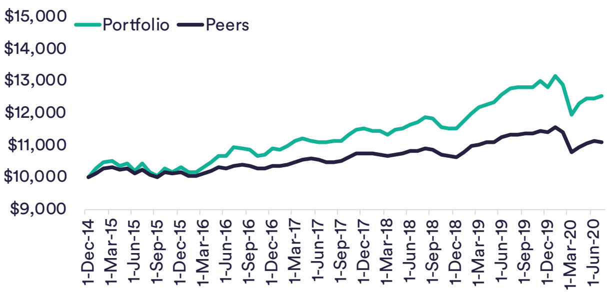
Diversified Portfolios

Individual capital performance of the securities held by the Diversified Portfolios, with weightings varying depending on risk appetite.

Conservative

Performance to 31 Jul 2020					
	1 mth	6 mths	1 yr	3 yrs	5 yrs
Conservative Portfolio	0.5%	-4.7%	-1.8%	4.1%	3.7%
Morningstar Aus Msec Moderate TR AUD	0.5%	-2.5%	0.9%	5.3%	4.6%
Peers	0.7%	-3.1%	-0.8%	2.9%	2.6%
Excess to Peers	-0.2%	-1.6%	-1.0%	1.2%	1.1%

Peformance of $10,000 since inception

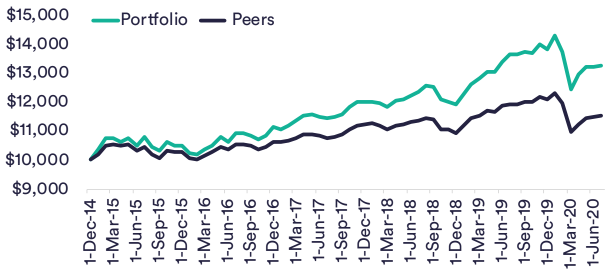


- With fixed interest and equities continuing to grow, the portfolio expanded 0.54 per cent after fees in July which was in line with peers.
- All aspects of the portfolio attributed to performance with domestic fixed interest (+0.16 per cent), international fixed income (+0.16 per cent) and international equities (+0.12 per cent) the biggest contributors.
- The yield on the Conservative Portfolio at the close of July was 2.31 per cent.

Balanced

Performance to 31 Jul 2020					
	1 mth	6 mths	1 yr	3 yrs	5 yrs
Balanced Portfolio	0.6%	-7.0%	-2.6%	5.0%	4.2%
Morningstar Aus Msec Balanced TR AUD	0.5%	-5.1%	-0.4%	6.5%	5.4%
Peers	0.8%	-5.4%	-2.2%	3.5%	3.2%
Excess to Peers	-0.2%	-1.6%	-0.4%	1.5%	1.0%

Peformance of $10,000 since inception



- Global equities continue to be a large support for the portfolio which expanded 0.6 per cent after fees in July which was in line with peers.
- All aspects of the portfolio attributed to performance with domestic equities (+0.14 per cent) and international equities (+0.22 per cent) the biggest contributors.
- The yield on the Balanced Portfolio at the close of July was 2.59 per cent.

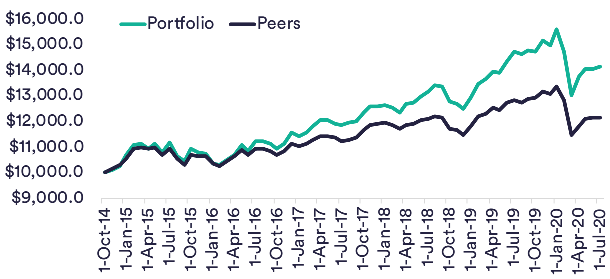
Diversified Portfolios

Growth

Performance to 31 Jul 2020

	1 mth	6 mths	1 yr	3 yrs	5 yrs
Growth Portfolio	0.7%	-9.2%	-3.8%	5.9%	4.7%
Morningstar Aus Msec Growth TR AUD	0.6%	-7.6%	-2.0%	7.0%	5.7%
Peers	0.9%	-7.7%	-3.9%	3.6%	3.4%
Excess to Peers	-0.2%	-1.5%	0.1%	2.3%	1.3%

Peformance of $10,000 since inception



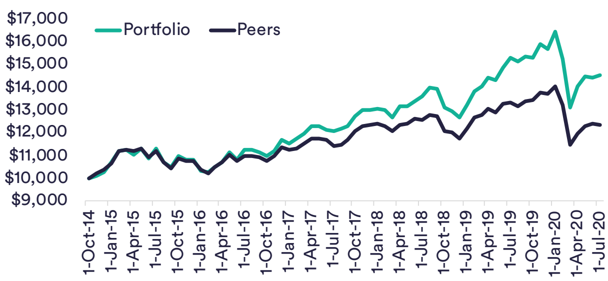
- Global equities continue to be a large support for the portfolio which expanded 0.66 per cent after fees in July which was in line with peers.
- All aspects of the portfolio attributed to performance with domestic equities (+0.14 per cent) and international equities (+0.22 per cent) the biggest contributors.
- The yield on the Growth Portfolio at the close of July was 2.81 per cent.

High Growth

Performance to 31 Jul 2020

	1 mth	6 mths	1 yr	3 yrs	5 yrs
High Growth Portfolio	0.7%	-11.4%	-4.9%	6.2%	5.0%
Morningstar Aus Msec Aggressive TR AUD	0.6%	-9.3%	-2.5%	8.0%	6.5%
Peers	0.8%	-10.5%	-5.5%	4.3%	4.0%
Excess to Peers	-0.1%	-0.9%	0.6%	1.9%	1.0%

Peformance of $10,000 since inception



- Global equities continue to be a large support for the portfolio which expanded 0.71 per cent after fees in July which was in line with peers.
- All aspects of the portfolio attributed to performance with domestic equities (+0.23 per cent) and international equities (+0.48 per cent) the biggest contributors.
- The yield on the Growth Portfolio at the close of July was 3.03 per cent.

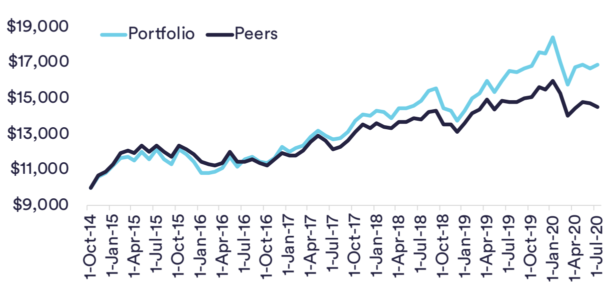
Single Asset Class Portfolios

International Equities

Performance to 31 Jul 2020

	1 mth	6 mths	1 yr	3 yrs	5 yrs
International Equities	1.2%	-8.3%	1.9%	9.7%	6.6%
MSCI World Ex Australia NR AUD	0.6%	-7.1%	3.4%	11.6%	8.1%
Peers	0.7%	-7.1%	1.5%	8.9%	6.5%
Excess to Peers	**0.5%**	**-1.2%**	**0.4%**	**0.8%**	**0.1%**

Peformance of $10,000 since inception



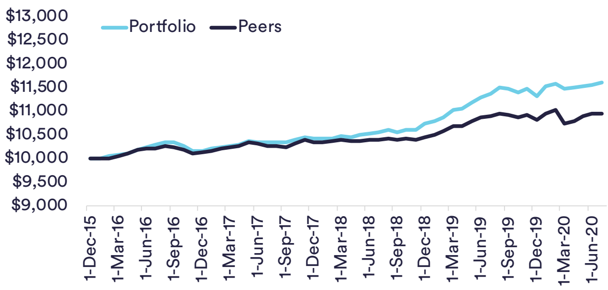
- The portfolio expanded 1.16 per cent after fees in July as the International Portfolio got hit by the surging Australian dollar.
- S&P 500 (IVV) attributed +0.59 per cent, European equities (VEQ) attributed +0.04 per cent while the global holding VGS attributed +0.43 per cent per cent.
- All facets of the portfolio contributed to performance

Interest Income

Performance to 31 Jul 2020

	1 mth	6 mths	1 yr	2 yrs	4 yrs
Interest Income	0.4%	0.7%	2.1%	4.8%	3.0%
Bloomberg AusBond Composite 0+Y TR AUD	0.4%	1.5%	3.6%	7.0%	4.1%
Peers	0.6%	1.2%	2.8%	5.5%	N/A
Excess to Peers	**-0.2%**	**-0.5%**	**-0.7%**	**-0.7%**	**N/A**

Peformance of $10,000 since inception



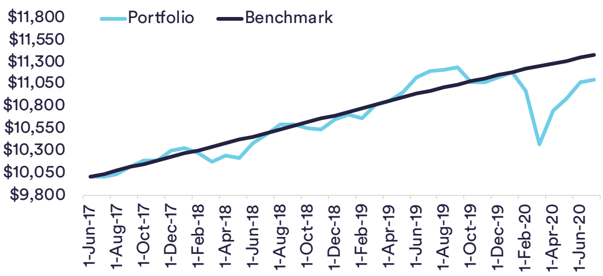
- Expanded 0.36 per cent after fees in July.
- Treasuries attributed 0.21 per cent, corporate fixed interest attributed 0.15 per cent while cash was flat.
- All facets of the portfolio contributed to performance in July.
- The yield on the Interest Income Portfolio sits at 2.88 per cent.

Single Asset Class Portfolios

Hybrid Income

Performance to 31 Jul 2020	1 mth	6 mths	1 yrs	2 yrs	3 yrs
Hybrid Income	0.4%	-0.5%	-0.5%	3.2%	3.7%
RBA Cash Rate + 3%	0.3%	1.7%	3.6%	4.1%	4.2%
Excess to Benchmark	**0.1%**	**-2.2%**	**-4.1%**	**-0.9%**	**-0.5%**

Peformance of $10,000 since inception

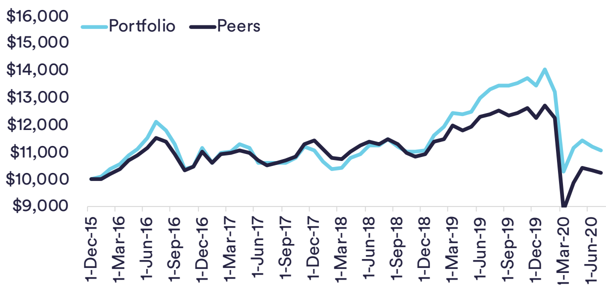


- The total portfolio return was 0.36% for the month including franking credits. The estimated running yield is approximately 5.0%, and estimated yield to call/maturity is 5.00% including franking credits.
- The total portfolio return was 3.28% and -0.52% for the quarter and 12-month periods respectively. Since inception the total portfolio return is 3.62% including franking credits, which is -0.63% under its return objective of the RBA Cash rate plus 3%.
- Two securities approaching their first call dates were sold during the month – WBCPF and CBAPE. The proceeds were re-invested in the remaining securities in the portfolio.
- The RBA maintained the cash rate at 0.25%
- One security in the portfolio paid a distribution in July.
- At end of July the portfolio had a 3.09% allocation to cash after investing capital in existing positions.

Property and Infrastructure

Performance to 31 Jul 2020	1 mth	6 mths	1 yr	2 yrs	4 yrs
Property and Infrastructure	-0.9%	-20.7%	-16.5%	-0.8%	-2.2%
A Composite Benchmark	-1.0%	-20.1%	-14.4%	-0.2%	-0.8%
Peers (BetaShares Legg Mason Real Income Fund)	-2.1%	-24.2%	-21.2%	0.0%	0.0%
Excess to Peers	**1.2%**	**3.5%**	**4.7%**	**-0.8%**	**-2.2%**

Peformance of $10,000 since inception



- The portfolio contracted 0.87 per cent after fees in July.
- Domestic property attributed 0.05 per cent, international infrastructure attributed 0.38 per cent but was counted by international property detracting 0.31 per cent, TCL detracted 0.25 per cent and SYD detracting 0.27 per cent
- The yield on the Property and Infrastructure Portfolio sits at 4.17 per cent.

For more information on our Diversified Portfolios, click here.

investsmart.com.au/invest
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Important information