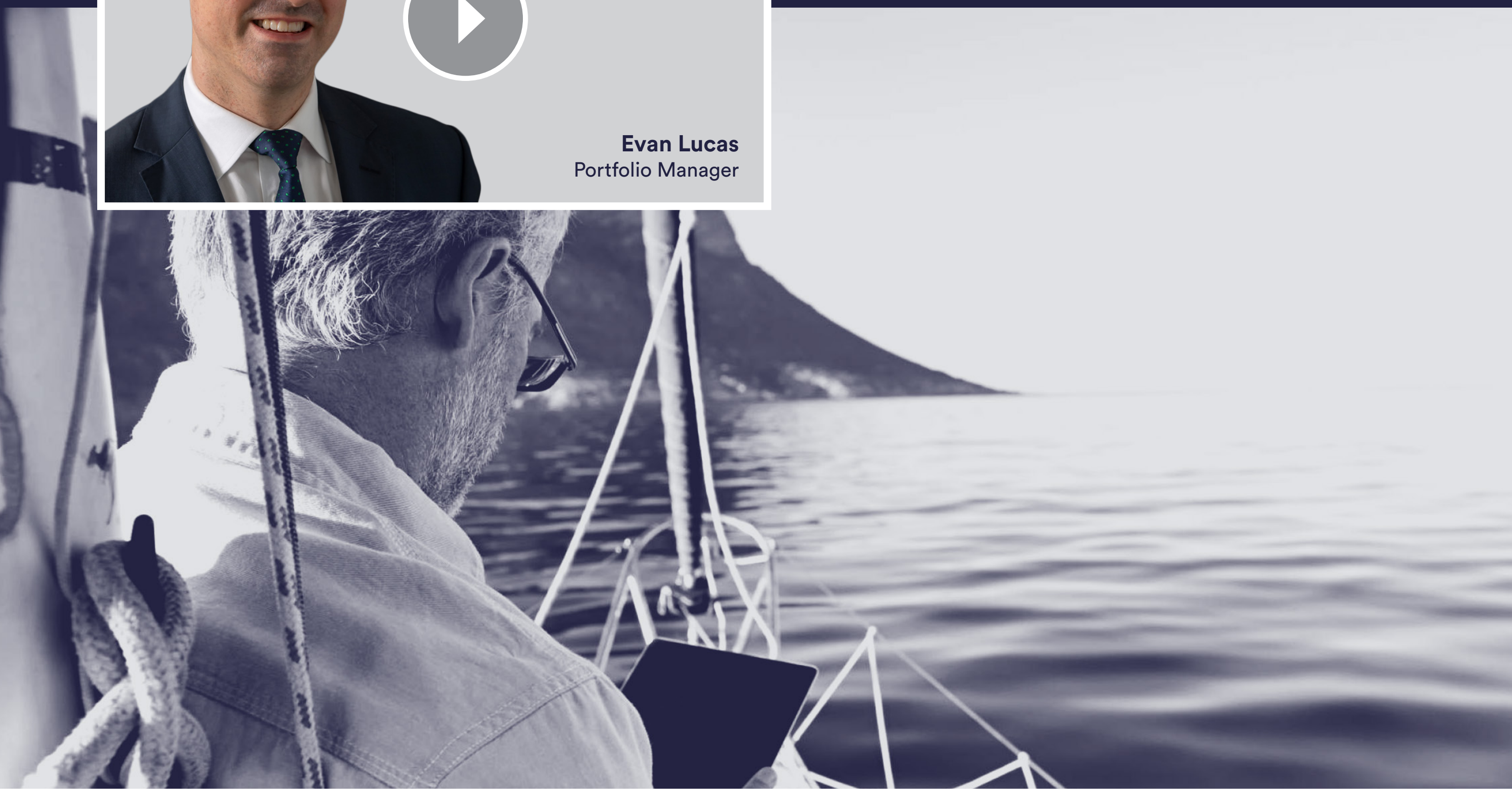
InvestSMART Balanced Portfolio

Financial Year Update

30 JUNE 2019

- Return of 9.09% (after fees) during FY19
- No changes were made to the portfolio during the June quarter
- Estimated portfolio yield is 2.96%



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InvestSMART Balanced Portfolio

PERFORMANCE TO 30 JUNE 2019 (AFTER FEES)	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS (P.A.)	3 YRS (P.A.)	4 YRS (P.A.)	S.I. (P.A)
InvestSMART Balanced Portfolio	2.62%	4.17%	11.83%	9.09%	7.77%	7.85%	6.17%	6.67%
Morningstar Aus Msec Balanced TR AUD	2.63%	4.24%	11.69%	9.63%	9.03%	8.18%	7.27%	7.73%
Excess to Benchmark	-0.01%	-0.06%	0.14%	-0.54%	-1.26%	-0.33%	-1.10%	-1.06%

Financial Year Highlights

- **The InvestSMART Balance Portfolio produced a return of 9.09% (after fees) during FY19**
- **Since inception the Balance portfolio has returned 6.61% per annum (after fees)**
- **The Portfolio in FY19 outperformed peers by 3.00% and beat its objective 5.56%**

Quarterly Highlights

- **The InvestSMART Balance Portfolio produced a return of 4.17% (after fees) during the June quarter**
- **No changes were made to the portfolio during the June quarter**
- **Estimated yield on the portfolio is currently 2.96%**
- **All facets of the portfolio attributed to the quarter's performance**

It was a structurally interesting year for the Balanced Portfolio, as both sides of the portfolio, on a capital basis, performed strongly. In fact, it's the defensive side of the portfolio that has been most confounding, considering fixed interest and treasuries since the end of the second quarter of FY19 have produced capital returns one would normally associate with growth assets.

Treasuries, both domestically and internationally, have seen significant inflows as investors position against a possible global slowdown. Treasuries saw huge inflows as investment capital looked for safety. The Australian 10-year bond in FY19 saw its yield fall 49.2% to a record low of 1.28% and now trades at a significant premium to face value. Its US counterpart has seen its yield fall 30% over the same period, a period that included two increases to the Federal Funds rate. If we look at the US 10-year from its peak in November 2018 to the close of the financial year, that marks a 39% decline in yield, and we see its yield below 2% for the first time since October 2016.

This movement in the defensive side of the portfolio also had an effect on the property holdings as its 'quasi-bond' traits saw more yield investors making the switch as the year progressed. It's not surprising given the non-franked yield on domestic property is approximately 4.4%, which is a full 205 basis points (2.05%) above the average term deposit and 340 basis points (3.4%) above the cash rate. It's clearly attractive, and the FY19 performance of listed property reflects this attraction.

Growth markets, however, bucked the risk-off trading of their defensive peers and continued to see very strong capital inflow in FY19.

Let's concentrate on the international holding first, specifically, the 63% that is US-facing. The US experienced growth in three of the four quarters in FY19. US equities did reflect some of the economic risks seen in the bond market with the second quarter of FY19 being the worst quarter in the US since the GFC (December was actually the worst month in US equities in over 50 years). Risks in credit and growth began to surface.

This was immediately countered by the third quarter which was the best quarter in US equity markets since the third quarter of 2009.

So why are growth assets able to look though the risks seen in some economic indicators?

We have been looking at this phenomenon in terms of the economic 'malaise' which is provoking the bond market to react the way it is, versus the possible 'cure' being further monetary policy stimulus. That would counter the economic malaise that is causing equity markets to react this way. If we look at the global macro-economic drivers over the financial year, these all crystallise that point:

- The US Federal Reserve shifting from its hiking cycle in the first half of FY19 to a neutral even dovish stand point to close out the financial year. In FY20 the market believes the Federal Reserve will cut rates four times. This shift was most pronounced in Q3 when the pressure building in the flow of credit, which had hit 'restrictive' levels at the end of November 2018, opened up again on this change in outlook.
- The US-China trade war, officially enacted in August 2018, before moving into a constructive phase in Q3, then collapsing in April 2019 before finishing the financial year with a meeting between President Trump and President Xi at the G20 which appears to have the two powerhouses back at square one. It remains a key event risk in FY20.
- New global monetary policy stimulus started in the final quarter of the financial year with the Reserve Bank of New Zealand firing first, cutting its cash rate to 1.5%. The Reserve Bank of Australia was next, cutting rates for the first time since August 2016. Looking at the start of FY20, the RBA has followed up its cut in June, to be the first central bank to cut in FY20. However, it is clear the RBA won't be the alone in this endeavour, with the market forecasting the Federal Reserve is likely to cut rates in the first quarter of FY20 and believes it will do it four times by the close of the financial year in June next year.

Domestically, equities on a total return basis performed rather well (+11.6%), especially in light of the international factors mentioned. We also had to contend with the likes of the Banking Royal Commission, a Federal Election and two State Elections (Victoria and New South Wales).

These domestic factors were major drags for the financial services sector. However, there were sectors of the market that certainly benefitted from market cyclicality of F19, with the clearest example of this being iron ore.

The red ore has appreciated over 110% in FY19, seeing the likes of Fortescue Metals and Rio Tinto returning to their 'glory years' pricing. This has also helped Australia register record after record trade surplus culminating to the June figure of $5.46 billion. It also has Australia on track for its first current account surplus since the early 1970s, all of which has seen resources booming in FY19.

FY20 is expected to be more benign than FY19, however, the RBA cuts will filter into the economy this financial year and add much needed support on a capital front yield. However, the outlook is unlikely to structurally improve as firms look to maintaining and even trimming dividends this year, which is why the Balanced Portfolio is well positioned to navigate the possible risks building in FY20.

FY20 reweighting

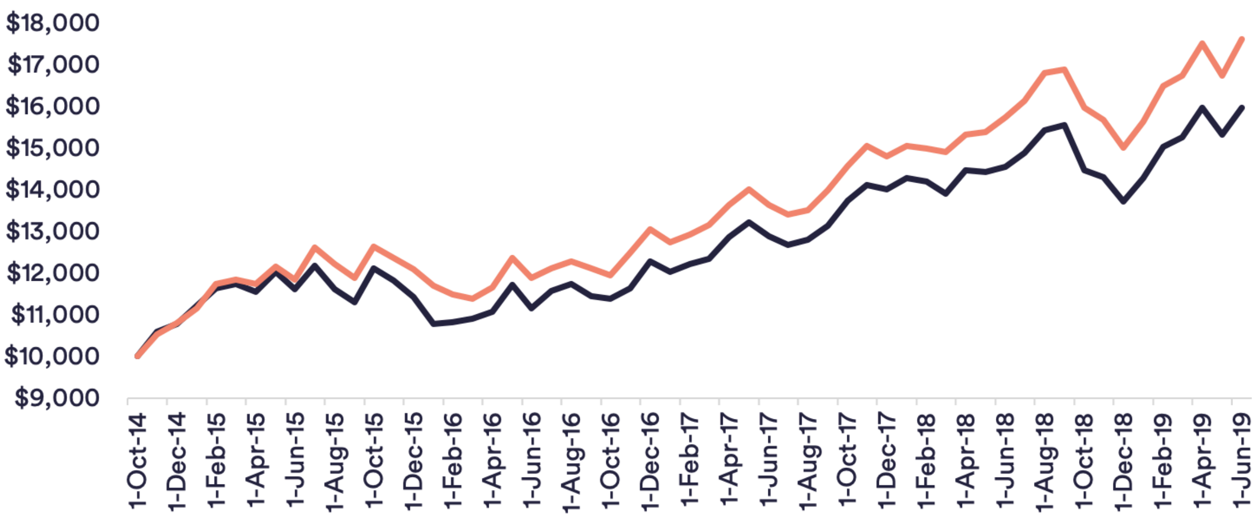
Following a review of peers and a review of our overall holdings we have shift our weightings to reflect the state of the market this has seen the following changes.

Weighting changes

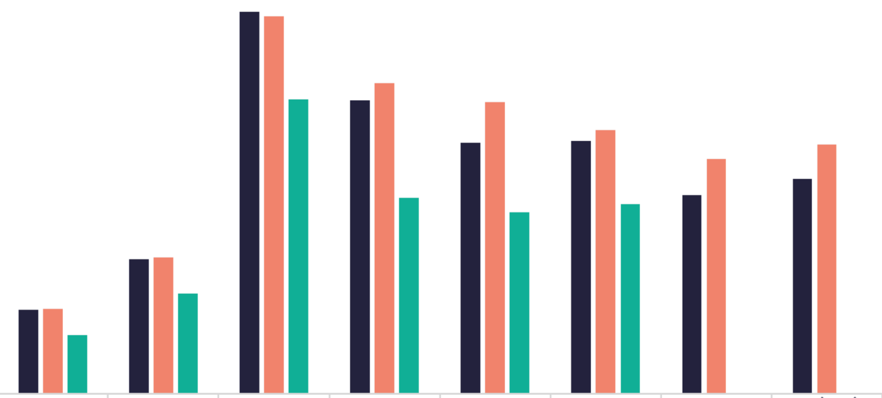
SECURITY	CURRENT (%)	NEW (%)	CHANGE (%)
AAA	7.4	11.0	3.6
IAF	19.9	24.3	4.4
IFRA	5.1	4.8	-0.4
IOZ	24.3	24.3	0.0
VAP	4.3	4.8	0.5
VBND	14.2	9.3	-4.9
VGS	22.1	20.6	-1.5
AUDCASH	2.7	1.0	-1.7

This change came into effect as of the 4th of July 2019.

Performance of $10,000 since inception

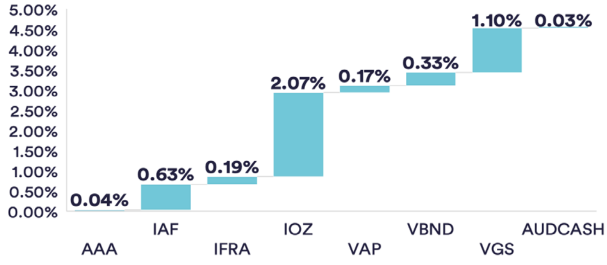


Performance relative to benchmarks

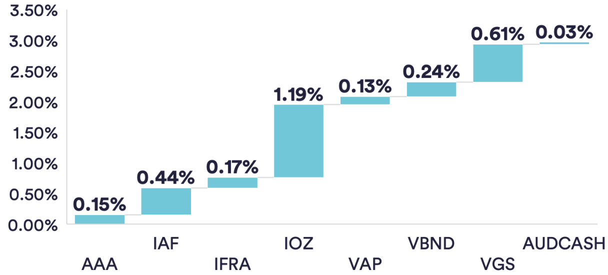


	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	4 Years	SI (p.a)
InvestSMART Balanced	2.62%	4.17%	11.83%	9.09%	7.77%	7.85%	6.17%	6.67%
Benchmark	2.63%	4.24%	11.69%	9.63%	9.03%	8.18%	7.27%	7.73%
Peers	1.84%	3.13%	9.11%	6.09%	5.63%	5.89%	0.00%	

Performance attribution – before fees



Yield attribution



TOP 5 HOLDINGS	
Security	**Weighting (%)**
BetaShares Australian High Interest Cash ETF (AAA)	7.43
iShares Core Composite Bond ETF (IAF)	19.87
VanEck Vectors FTSE Global Infrastructure (IFRA)	5.12
iShares Core S&P/ASX 200 ETF (IOZ)	24.25
Vanguard Australian Property Securities Index ETF (VAP)	4.29

ASSET ALLOCATION	
Sector	**Weighting (%)**
Australian Equities	23.50
International Equities	23.08
International Fixed Interest	17.29
Australian Fixed Interest	16.58
Cash	10.45
Property	9.10

Performance numbers exclude franking, after investment and admin fees; excludes brokerage. All yield figures include franking. All performance figures, graphs and diagrams are as at 30 June 2019. Performance figures are based on the portfolio's previous investment structure, a Separately Managed Account (SMA). This portfolio is now offered as a Professionally Managed Account (PMA), as of 1 November 2018. The underlying securities remain the same between the SMA and PMA structures. The inception date refers to the SMA. Please see the Investment Menu for full PMA fee details. Table 1 performance figures; after investment and admin fees, includes brokerage. Unit pricing taken at the end of each month.

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 Balanced Portfolio is designed for investors who seek a balanced investment solution. The Portfolio is invested in a blend of Exchange Traded Funds (ETFs), to offer investors with a balanced allocation across both income assets (bonds & cash) & 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 Balanced Portfolio?

Having a well-diversified portfolio is a well-known strategy to assist in growing your capital whilst minimising your investment risks. The InvestSMART Balanced 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
Low-cost ETF Portfolio

INVESTMENT STYLE
Low cost Active Asset Allocation

BENCHMARK
Morningstar Multisector Balanced Index

INCEPTION DATE
29 December 2014

SUGGESTED INVESTMENT TIMEFRAME
2+ years

NUMBER OF SECURITIES / STOCKS
5 - 15 securities

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

PERFORMANCE FEE
N/A

MINIMUM INITIAL INVESTMENT
$10,000

PORTFOLIO MANAGER
Evan Lucas

Important information

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