InvestSMART Core Growth Portfolio

Financial Year Update

30 JUNE 2019

- Return of 10.17% (after fees) during FY19
- No changes were made to the portfolio during the June quarter
- Estimated portfolio yield is 3.25%

InvestSMART Core Growth 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 Core Growth	3.20%	4.77%	14.26%	10.17%	9.51%	9.66%	7.27%	8.27%
Morningstar Aus Msec Growth TR AUD	3.25%	4.92%	14.21%	10.57%	10.52%	9.80%	8.31%	9.08%
Excess to Benchmark	-0.05%	-0.15%	0.05%	-0.40%	-1.01%	-0.14%	-1.04%	-0.81%

Financial Year Highlights

- **The InvestSMART Core Growth Portfolio produced a return of 10.17% (after fees) during FY19**
- **Since inception the Core Growth Portfolio has returned 8.27% per annum (after fees)**
- **The Portfolio in FY19 outperformed peers by 3.77% and beat its objective by 4.93%**

Quarterly Highlights

- **The InvestSMART Core Growth Portfolio produced a return of 4.77% (after fees) during the June quarter**
- **No changes were made to the portfolio during the June quarter**
- **Estimated yield on the portfolio is currently 3.25%**
- **All facets of the portfolio attributed to the quarter's performance**

Growth was one asset class that faced an interesting financial year. After 2018 saw no major asset class or investment products beating inflation, there was a feeling that Growth could perform in one of two ways. It could finally exhibit traits that the longest bull run in history was over or return to the unfettered uptrend it has charted in the post-GFC world.

There was evidence in markets that growth assets could falter, based on the price action of treasuries, and suggestions global risk was building.

> **"GROWTH WAS ONE ASSET CLASS THAT FACED AN INTERESTING FINANCIAL YEAR.**

Both domestic and international treasuries saw significant inflows in FY19 as investors positioned for a possible global slowdown. 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, with its yield below 2% for the first time since October 2016. The Core Growth portfolio has exposure to these markets and did benefit from these events.

It was that moment that treasuries and fixed income assets started to impact 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.

So why did growth assets, which make up over 74% of the Core Growth, look though the risks seen in other markets?

We have been looking at this phenomenon in terms of the economic 'malaise' which is provoking the bond market to react a certain way, 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, standpoint 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.

With the Federal Reserve releasing US and global credit markets at the end of 2018, US equity markets accelerated rapidly. In fact, the third quarter of FY19 was the best quarter the US has seen since the third quarter of 2009. That's not to say US equities didn't reflect some of the economic risks seen in the bond market. The second quarter of FY19 was the worst quarter in the US since the GFC, and December its worst month in over 50 years.

But what is also clear is equity markets are probably pricing risks in bond markets another way. As per 'lower for longer', global markets expect central bank policy to remain at current levels for the next decade. This should give the corporate world some confidence to invest, to grow and to look at debt as an opportunity. Equity markets are clearly expecting corporate growth to expand over this period and thus FY20 is likely to follow a similar path to that of FY19 internationally.

"SO WHY DID GROWTH ASSETS, WHICH MAKE UP OVER 74% OF THE CORE GROWTH, LOOK THOUGH THE RISKS SEEN IN OTHER MARKETS?

Domestically, equities on a total return basis performed rather well (+11.6%), especially in light of the international factors mentioned. The ASX 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 in FY19. The banks and insurers have basically come full circle throughout the financial year. However, there were sectors of the market that certainly benefitted from market cyclicality of FY19, with the clearest example of this being iron ore.

Iron 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 in 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, but we expect growth to maintain its strong performance as monetary policy globally begins to kick in.

FY20 reweighting

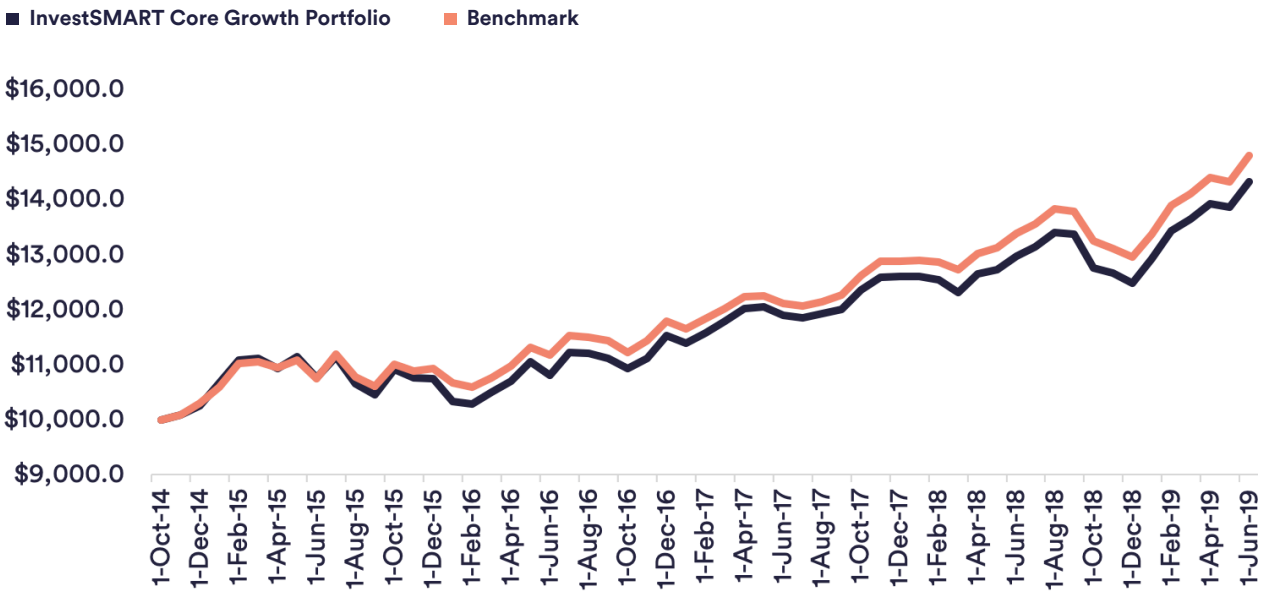
Following a review of peers and a review of our overall holdings we have shift our weightings to reflect the state of the market. This has led to the following changes:

Weighting changes

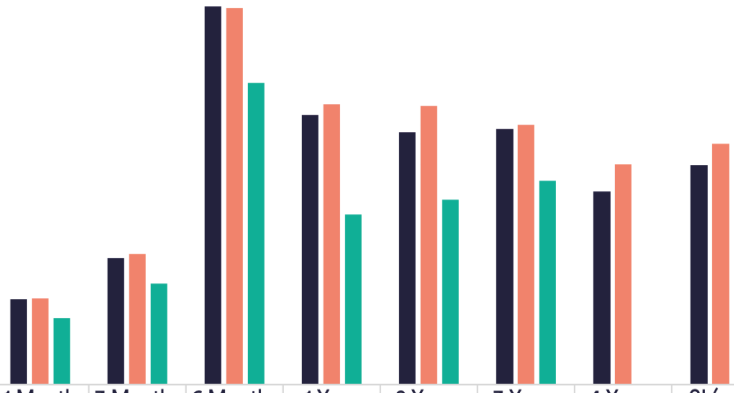
SECURITY	CURRENT (%)	NEW (%)	CHANGE (%)
AAA	5.1	7.1	1.9
IAF	10.2	14.0	3.8
IFRA	6.6	5.5	-1.1
IOZ	29.9	30.5	0.6
VAP	30.7	30.0	-0.7
VBND	7.5	5.5	-2.0
VGS	7.5	6.5	-1.0
AUDCASH	2.5	1.0	-1.5

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

Performance of $10,000 since inception

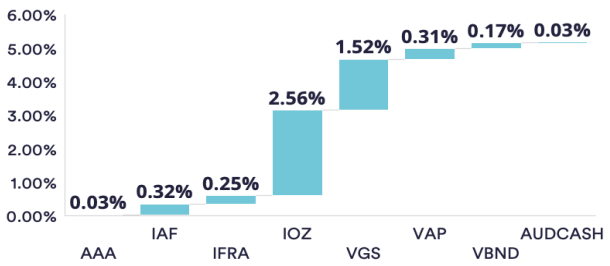


Performance relative to benchmarks

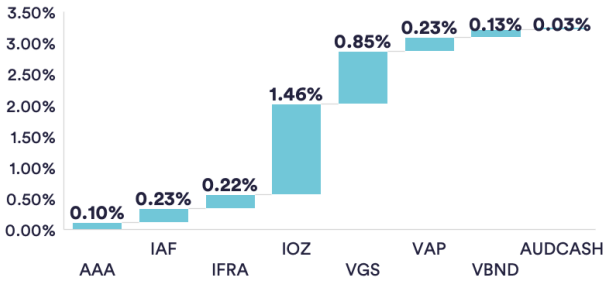


	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	4 Years	SI (p.a)
InvestSMART Core Growth	3.20%	4.77%	14.26%	10.17%	9.51%	9.66%	7.27%	8.27%
Benchmark	3.25%	4.92%	14.21%	10.57%	10.52%	9.80%	8.31%	9.08%
Peers	2.49%	3.81%	11.38%	6.41%	6.99%	7.70%	0.00%	

Performance attribution – before fees



Yield attribution



TOP 5 HOLDINGS	
Security	**Weighting (%)**
Vanguard MSCI Index International Shares ETF (VGS)	30.71
iShares Core S&P/ASX 200 ETF (IOZ)	29.90
iShares Core Composite Bond ETF (IAF)	10.21
Vanguard Australian Property Securities Index ETF (VAP)	7.54
Vanguard Global Aggregate Bond Index (Hedged) ETF (VBND)	7.45

ASSET ALLOCATION	
Sector	**Weighting (%)**
Australian Equities	29.00
International Equities	31.91
Australian Fixed Interest	8.52
International Fixed Interest	9.04
Cash	7.78
Property	13.75

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 Core Growth Portfolio is designed for investors who are looking to build their wealth over the medium-term. The Portfolio is invested in a blend of Exchange Traded Funds (ETFs), to offer investors a higher allocation to growth assets (shares & property) vs income assets (bonds & cash) all managed in the one portfolio.

Investment objective

Provide a return of 3% over the RBA cash rate per annum over a 5-year rolling period by investing in a diverse mix of asset classes.

Why the InvestSMART Core Growth Portfolio?

Having a well-diversified portfolio is a well-known strategy to assist in growing your capital whilst minimising your investment risks. The InvestSMART Core Growth 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 Growth Index

INCEPTION DATE
24 October 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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