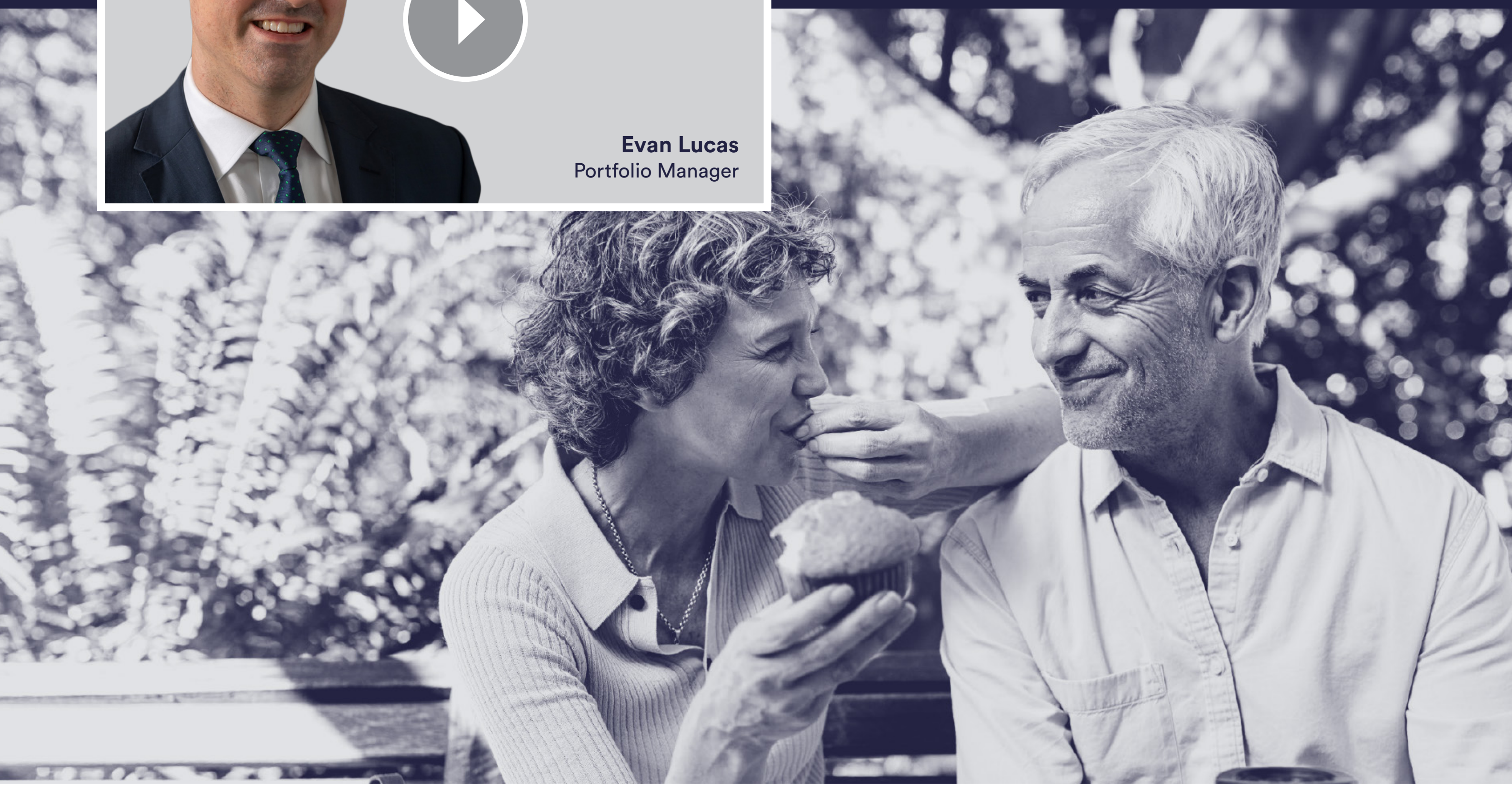
InvestSMART Diversified Income Portfolio

Financial Year Update

30 JUNE 2019

- Return of 7.79% (after fees) during FY19
- No changes were made to the portfolio during the June quarter
- Estimated portfolio yield is 2.65%



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InvestSMART Diversified Income 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 Diversified Income	1.99%	3.15%	8.77%	7.79%	6.42%	5.55%	5.29%	5.20%
Morningstar Aus Msec Moderate TR AUD	1.79%	3.16%	8.38%	8.15%	6.94%	5.86%	5.74%	5.66%
Excess to Benchmark	0.20%	-0.01%	0.39%	-0.36%	-0.52%	-0.31%	-0.45%	-0.47%

Financial Year Highlights

- **The InvestSMART Diversified Income Portfolio produced a return of 7.79% (after fees) in FY19**
- **Since inception the Diversified Income Portfolio has returned 5.20% per annum (after fees)**
- **Best financial year performance since inception**
- **Beat peers by 2.66% and beat objective by 5.28% in FY19**

Quarterly Highlights

- **The InvestSMART Diversified Income Portfolio produced a return of 3.15% (after fees) during the June quarter**
- **No changes were made to the portfolio during the June quarter**
- **Estimated yield on the portfolio is currently 2.65%**
- **All facets of the portfolio attributed to the quarter's performance**

'Income' became a very interesting investment question in FY19. Movements in the traditional income-denoted markets, such as treasuries and fixed income, saw yields collapse from the end of the second quarter as capital flowed in.

Treasuries have been a particular target for capital looking for safety. The Australian 10-year bond has seen its yield falling 49.2% to a record low of 1.28% in FY19, and now trades at a premium to face value. Its US counterpart has seen its yield falling 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, it's a 39% decline in yield, and we see its yield below 2% for the first time since October 2016. The Diversified Income Portfolio is heavily weighted to treasuries and we do understand that the average yield has been falling due to these factors.

However, a falling yield is countered by capital appreciation. Both domestic and global bond EFTs (IAF and VBND) have seen capital returns of 7.01% and 5.49% respectively in FY19. This is well and truly above trend, in fact, bordering on abnormal and allowing the total return of the portfolio in FY19 to monster the returns of FY18 and even more so when compared to peers.

Defensive flows in FY19 have been driven by several key macro-economic events in FY19, the most notable being:

- The US-China trade war, officially enacted in August 2018, before moving into a constructive phase in Q3, then collapsing in April 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 to square one. It remains a clear event risk in FY20.

- A slowing global economy led by Europe, the US and China, and forecasts of possible recessions in certain pockets of the world. This is likely to persist into FY20.
- New global monetary policy stimulus started in the final quarter of the financial year with the Reserve Bank of New Zealand firing first and 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 become the first central bank to cut in FY20. However, it's clear the RBA won't be alone in this endeavour with markets forecasting the Federal Reserve is likely to cut rates in the first quarter of FY20 and believing the Federal Reserve will do this four times by the close of the financial year in June next year.

There was a similar movement in the yield of equities over FY19. The ASX's dividend yield fell from 4.5% at the open of the financial year to 3.8% at the close. The capital growth in the financial year however was 6.85%, and on a total return basis it was 11.5%.

This certainly illustrates why total returns remains the ultimate goal of investing. The total return of the ASX is impressive considering FY19 was a testing year. As mentioned, the US-China trade war begun, the RBA cut rates as consumption, employment and inflation moved against expectations, and the Federal Election created investment risks.

However, there were sectors of the market that certainly benefited from market cyclicality, with the clearest example of this being iron ore. The red ore has appreciated over 110% in FY19 and taken the likes of Fortescue Metals and Rio Tinto with it, which have returned to their 'glory years' pricing. It has also helped Australia register record after record trade surplus culminating to the June figure of $5.46 billion. Australia is on track for its first current account surplus since the early 1970s. All these points lead us to conclude resources have been booming in FY19.

FY20 is expected to be more benign than FY19, but the RBA cuts will filter into the economy this financial year and add much needed support on a capital front. However, yield is unlikely to structurally improve as firms look to maintain and even trim dividends this year.

Globally, FY19 was relatively positive. If we concentrate on the US, markets which make up two thirds of the portfolio's international exposure, three of the four quarters in FY19 were positive. However, there were some reflections on the economic risks to the bond market, with the second quarter being the worst quarter in the US since the GFC (December was actually the worst month in over 50 years), although what followed was the best quarter in US equity markets since the third quarter of 2009. It closed the financial year at a record all-time high. If the Federal Reserve was to join the RBA and RBNZ in cutting rates in FY20, then US markets are likely to continue to print these kinds of records.

FY20 reweighting

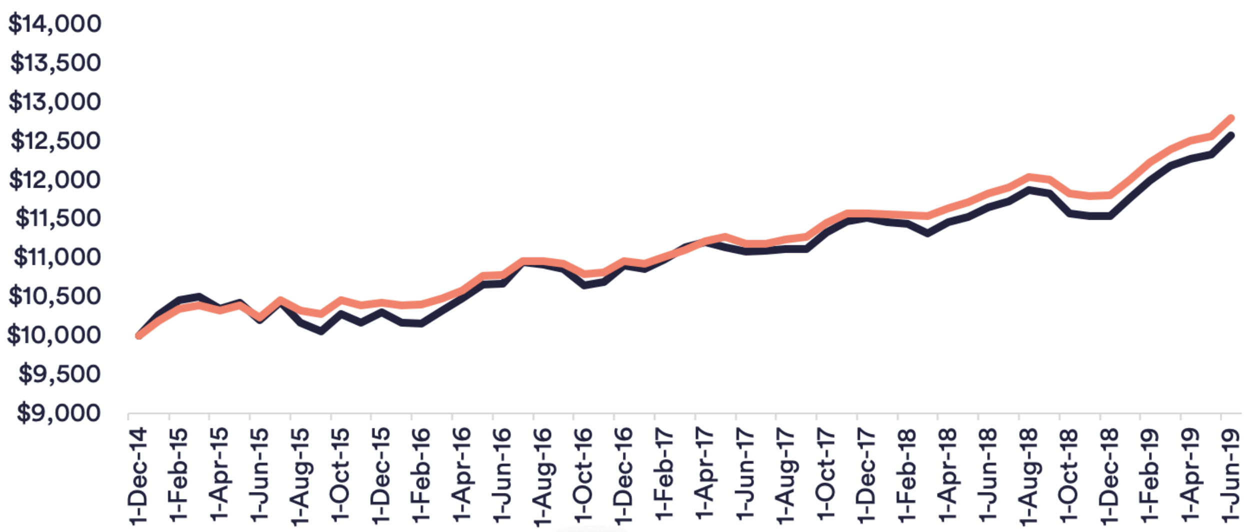
Following a review of peers and a review of our overall holdings we have shifted our weightings to reflect the state of the market. This has seen the following changes:

Weighting changes

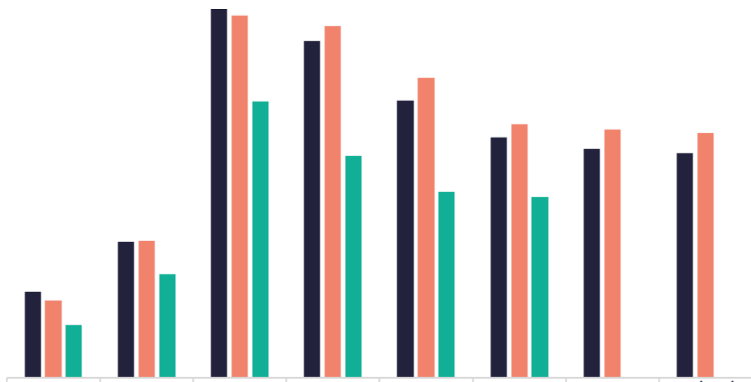
SECURITY	CURRENT (%)	NEW (%)	CHANGE (%)
IAF	20.9	26.9	6.0
VBND	15.5	10.1	-5.4
FLOT	10.2	10.2	0.0
IOZ	14.8	12.8	-2.0
VGS	12.7	11.7	-1.0
VAP	9.5	9.5	0.0
AAA	13.8	17.8	4.0
AUDCASH	2.6	1.0	-1.6

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

Performance of $10,000 since inception

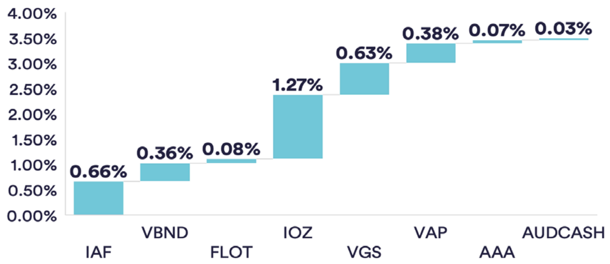


Performance relative to benchmarks

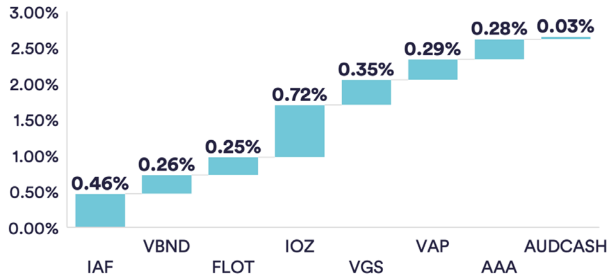


	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	4 Years	SI (p.a)
InvestSMART Diversified Income	1.99%	3.15%	8.77%	7.79%	6.42%	5.55%	5.29%	5.20%
Benchmark	1.79%	3.16%	8.38%	8.15%	6.94%	5.86%	5.74%	5.66%
Peers	1.22%	2.39%	6.38%	5.13%	4.29%	4.18%	0.00%	

Performance attribution – before fees



Yield attribution



TOP 5 HOLDINGS

Security	Weighting (%)
iShares Core Composite Bond ETF (IAF)	20.89
Vanguard Global Aggregate Bond Index (Hedged) ETF (VBND)	15.49
iShares Core S&P/ASX 200 ETF (IOZ)	14.80
Betasharescashetf ETF Units FP (AAA)	13.83
Vanguard MSCI Index International Shares ETF (VGS)	12.66

ASSET ALLOCATION

Sector	Weighting (%)
Australian Fixed Interest	23.87
International Fixed Interest	21.38
Cash	17.93
Australian Equities	14.06
International Equities	13.25
Property	9.50

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 Diversified Income Portfolio is designed for investors looking for a better return than cash or saving for the short-term. The Portfolio invests in a blend of ETFs, with a higher allocation in income assets (bonds & cash) than 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 Diversified Income Portfolio?

Having a well-diversified portfolio is a well-known strategy to assist in protecting your capital while offering better return than cash. The InvestSMART Diversified Income 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 Moderate 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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