

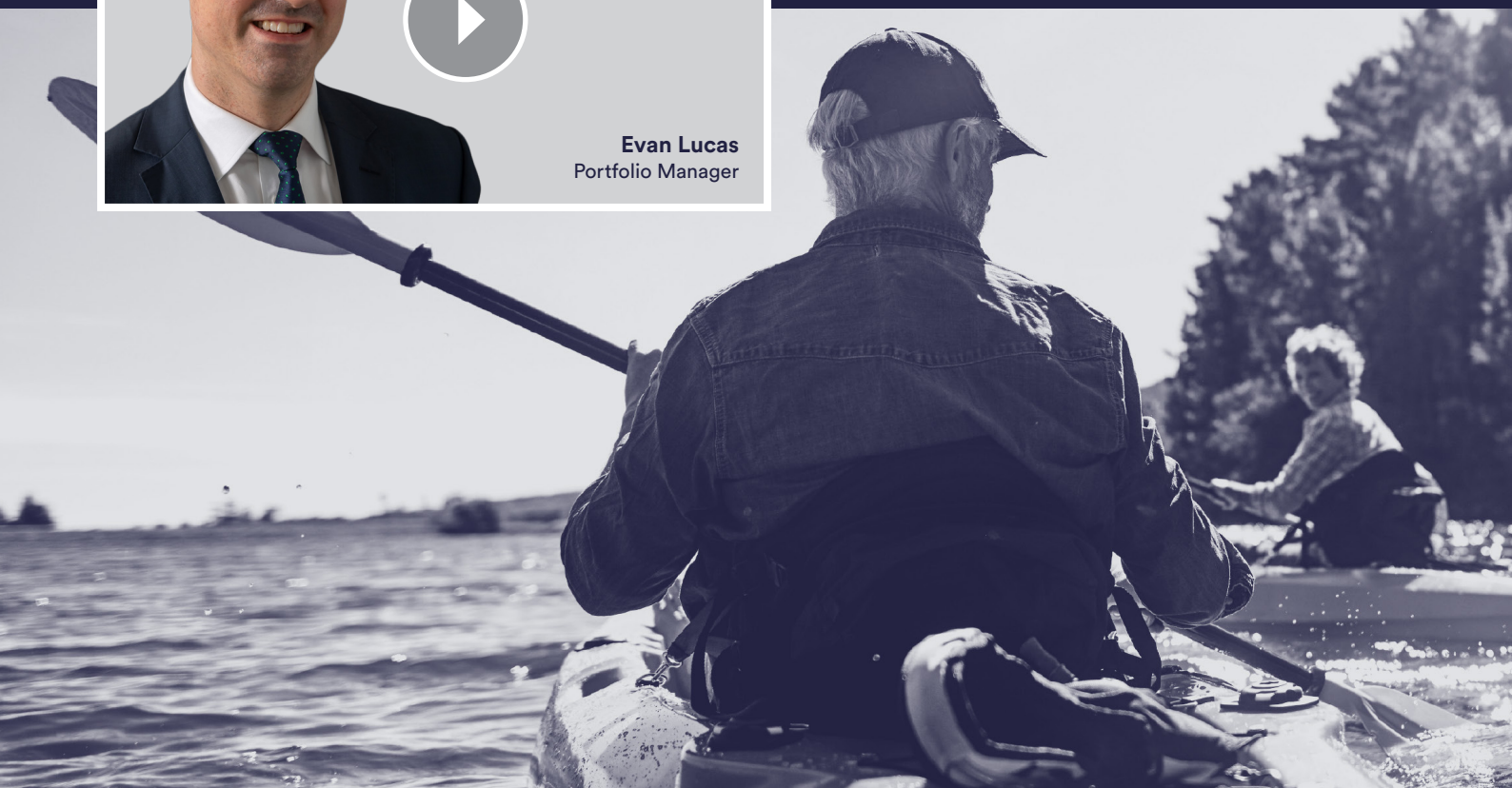
InvestSMART Interest Income Portfolio

Financial Year Update

30 JUNE 2019



- Return of 7.03% (after fees) in FY19
- No changes were made to the portfolio during the June quarter
- Estimated portfolio yield is 2.06%



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InvestSMART Interest 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.)	S.I. (P.A)
InvestSMART Interest Income	0.82%	2.14%	4.96%	7.03%	4.41%	3.25%	3.50%
Bloomberg AusBond Composite 0+Y TR AUD	1.04%	3.05%	6.59%	9.57%	6.28%	4.23%	5.02%
Excess to Benchmark	-0.22%	-0.91%	-1.63%	-2.55%	-1.87%	-0.98%	-1.52%

Financial Year Highlights

- The InvestSMART Interest Income Portfolio produced a return of 7.03% (after fees) in FY19
- Since inception the Interest Income Portfolio has returned 3.5% per annum (after fees)
- FY19 was the best performance in the portfolio to date

Quarterly Highlights

- The InvestSMART Interest Income Portfolio produced a return of 2.14% (after fees) during the June quarter
- No changes were made to the portfolio during the June quarter
- Estimated yield on the portfolio is currently 2.06%
- All facets of the portfolio attributed to the quarter's performance

The surge in bond and fixed income products since the end of the second quarter has seen capital returns in this portfolio well and truly beating all expectations last financial year.

If we look at the treasuries and corporate bond holdings, the capital return since December 2018 to the close of the financial year has been 8.6% and 4.8% respectively. This is the kind of capital return one would expect from

risk assets such as equities or property, not defensive assets such as treasuries.

The investment flows into fixed interest presents a double-edged conundrum. The likely reasoning for the investment, being possible future economic risk, may offset capital returns here.

“THE SURGE IN BOND AND FIXED INCOME PRODUCTS SINCE THE END OF THE SECOND QUARTER HAS SEEN CAPITAL RETURNS IN THIS PORTFOLIO WELL AND TRULY BEATING ALL EXPECTATIONS LAST FINANCIAL YEAR.

The US bond market flashed 'recession risk' twice in FY19, once in March, and then again in June. That was the first time since May 2007 the US bond market inverted, which is a situation where short-dated bonds have a higher yield than their long-dated peers.

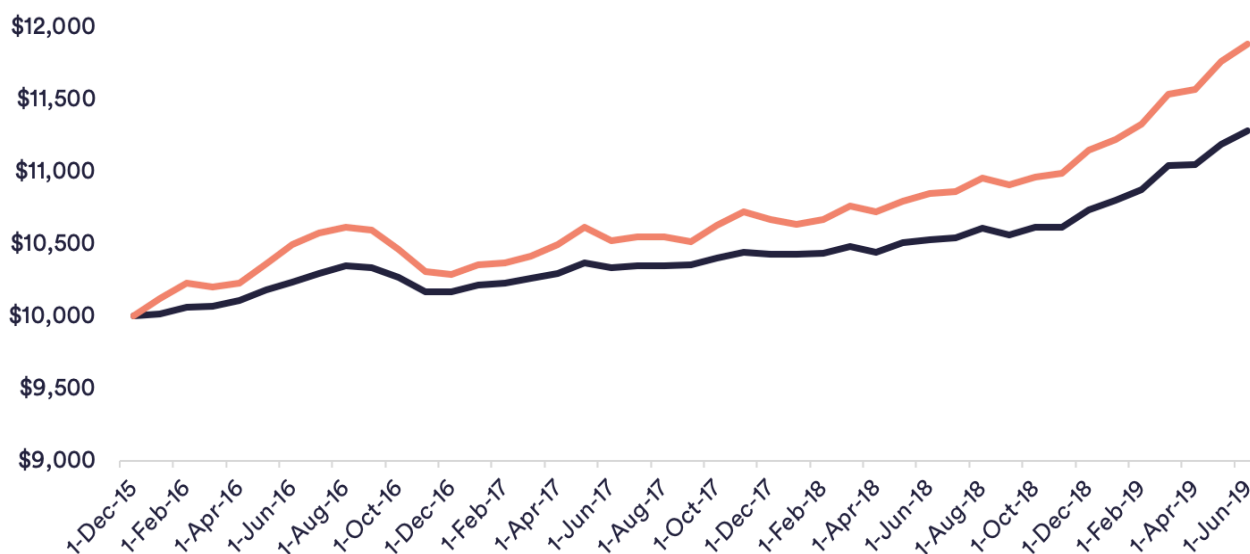
Looking at the domestic fixed income market, the flows were just as strong. The Australian 10-year bond yield hit its lowest ever level in the final month of the financial year of 1.276%. Over the 12 months of FY19 the Australian 10-year yield has fallen 128 basis points (bps) or 1.28% that's a 49.2% decline.

The indiscriminate buying in the second half of the financial year suggests investors are buying safety at almost any price. The clear example of this is the premium to face value of the 7- and 8-year Australian bonds which ballooned out to as much as a 32% premium to face value in May.

We continue to argue the bond market is creating a very crowded narrow trade, one that has bordered on irrational. We also are fully aware that the yield on offer in this portfolio has been falling throughout the financial year due to this type of trading. However, this has been more than offset by the total return. Going forward, FY20 is unlikely to see the same sort of capital strength as FY19, but we don't expect high levels of outflows. Economic risk remains high, and therefore, we could expect returns to revert to the yearly average since inception which is around 3.5%.

Performance of \$10,000 since inception

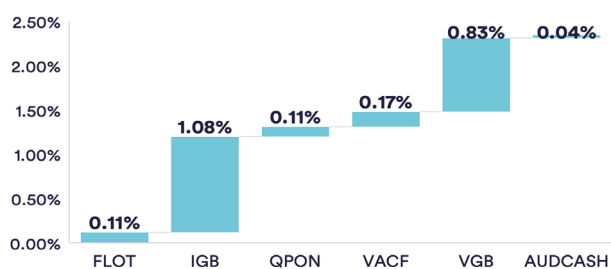
■ InvestSMART Interest Income Portfolio ■ Benchmark



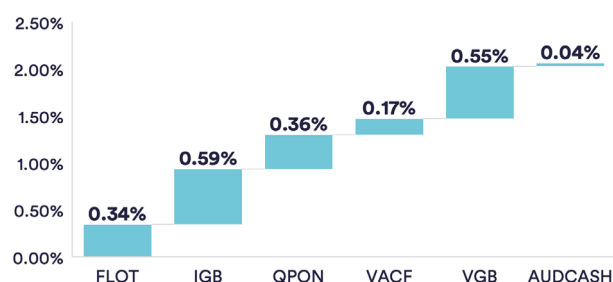
Performance relative to benchmarks



Performance attribution – before fees



Yield attribution



TOP 5 HOLDINGS	
Security	Weighting (%)
iShares Treasury ETF (IGB)	34.84
Vanguard Australian Government Bond Index ETF (VGB)	27.31
VanEck Vectors Australian Floating Rate ETF (FLOT)	14.05
Australian Bank Floating Rate Bond ETF (QPON)	14.03
Vanguard Australian Corporate Fixed Interest Index ETF (VACF)	6.88

ASSET ALLOCATION	
Sector	Weighting (%)
Fixed Interest	97.12
Cash	2.88

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 Interest Income Portfolio is designed for investors seeking a high level of stability and regular income using domestic and global fixed securities. The Portfolio is invested in a blend of Exchange Traded Funds (ETFs), to provide investors exposure to the performance of domestic bond markets 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 Interest Income Portfolio?

Allocation to bonds within a portfolio provides a deal of certainty and downside protection during periods of equity market volatility. The InvestSMART Interest Income Portfolio allows investors to tap into the bond market whilst ensuring a level of stability and a regular income stream.

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

Bloomberg AusBond Composite 0+Yr TR AUD Index

INCEPTION DATE

23 December 2015

SUGGESTED INVESTMENT TIMEFRAME

2+ years

NUMBER OF SECURITIES / STOCKS

5 - 20 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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