

# Quarterly Report

30 June 2020



## InvestSMART Balanced Portfolio

### 2020 Financial year highlights

- The InvestSMART Balanced Portfolio fell slightly in FY20, down 1.33% (after fees).
- Estimated yield on the portfolio is currently 3.05%.
- The Balanced Portfolio outperformed peers in FY20 by 0.41%.

**INVESTSMART**

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[www.investsmart.com.au](http://www.investsmart.com.au)

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## About Us

InvestSMART 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.

## Portfolio overview

The InvestSMART Balanced Portfolio is designed for investors who seek a balanced investment solution. The Portfolio is invested in a blend of 5 - 15 Exchange Traded Funds (ETFs), to offer investors an even allocation across both defensive income assets (bonds & cash) & growth assets (shares & property) all managed in the one portfolio.

Our Balanced Portfolio is part of our capped fee range, so you keep more of what you earn to grow your investment faster.

## Investment objective

To provide investors returns in line with the benchmark minus our fees by investing in a blend of our preferred ETFs.

## 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 portfolio details

### INVESTMENT CATEGORY

Low-cost ETF Portfolio

### BENCHMARK

Morningstar Multisector Balanced Index

### INCEPTION DATE

29 December 2014

### SUGGESTED INVESTMENT TIMEFRAME

2+ years

### NUMBER OF SECURITIES

5 - 15

### INVESTMENT FEE

\$99 - \$451 p.a. capped

### PERFORMANCE FEE

N/A

### MINIMUM INITIAL INVESTMENT

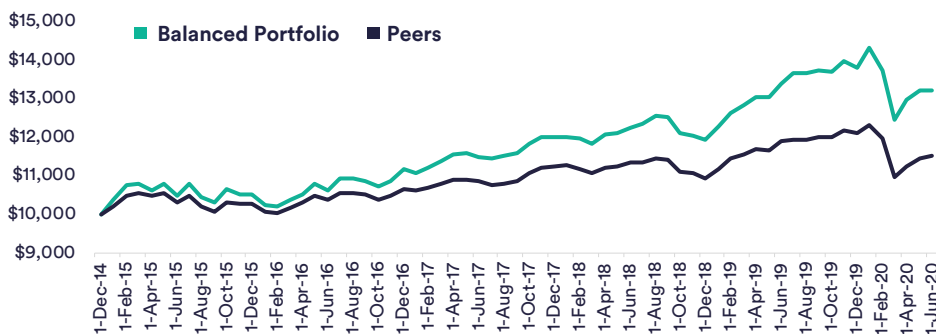
\$10,000

### STRUCTURE

Professionally Managed Account (PMA)

As at 30 June 2020

Performance of \$10,000 since inception



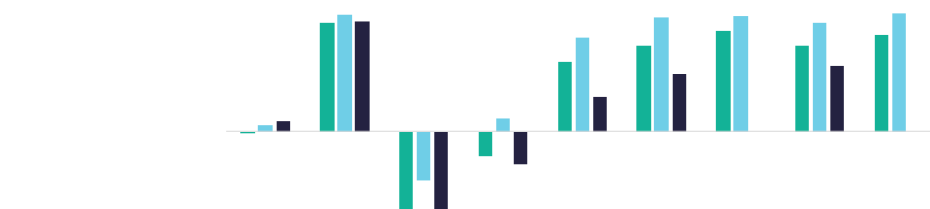
Top 5 holdings

IAF	25.6%
IOZ	22.1%
VGS	21.5%
AAA	10.3%
VBND	9.9%

Performance (after fees)

	1 mth	3 mths	6 mths	1 yr	2 yrs	3 yrs	5 yrs
InvestSMART Balanced Portfolio	-0.1%	5.9%	-4.3%	-1.3%	3.8%	4.6%	4.6%
Average of 594 peers funds <sup>^</sup>	0.6%	6.0%	-4.3%	-1.7%	1.9%	3.1%	3.5%
Excess to Peers	-0.6%	-0.1%	0.1%	0.4%	1.9%	1.5%	1.1%

Performance relative to benchmarks

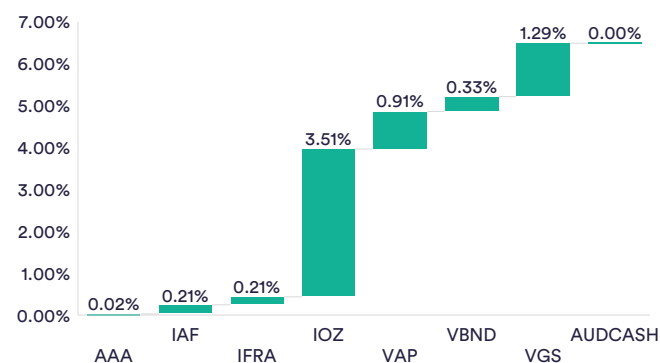


	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	4 Years	5 Years	SI (p.a)
InvestSMART Balanced	-0.06%	5.89%	-4.27%	-1.33%	3.75%	4.65%	5.47%	4.62%	5.21%
Benchmark	0.38%	6.34%	-2.65%	0.70%	5.07%	6.18%	6.26%	5.92%	6.41%
Peers	0.6%	6.0%	-4.3%	-1.7%	1.9%	3.1%	0.0%	3.5%	0.00%

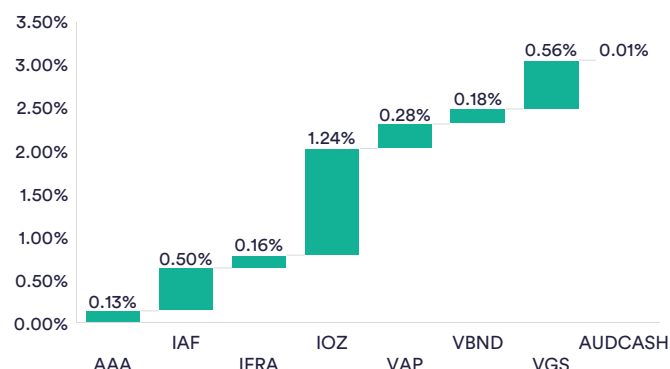
Asset allocation

International Equities	22.4%
Australian Equities	21.3%
Australian Fixed Interest	21.2%
International Fixed Interest	14.1%
Cash	13.2%
Property	7.8%

Attribution – Performance



Attribution – Yield



# InvestSMART Balanced Portfolio 2020 Financial year update

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## Yearly Performance

- The InvestSMART Balanced Portfolio fell slightly in FY20, down 1.33% (after fees).
- No changes were made to the portfolio during the year.
- Estimated yield on the portfolio is currently 3.05%.
- The Balanced Portfolio outperformed peers in FY20 by 0.41%.

## Quarterly Performance

- The InvestSMART Balanced Portfolio rose strongly in the June quarter, up 5.89% (after fees).
- No changes were made to the portfolio during the quarter.
- Estimated yield on the portfolio is currently 3.05%.
- The Balanced Portfolio underperformed peers in the final quarter by 0.08%.

I wanted to try to avoid emphasising the obvious, but I just can't. Financial year 2020 was probably the most momentous financial year in living memory.

Never have markets moved from full bull market to full bear market and back again in such a short period of time. March 2020 marked the end of the longest bull market in US and Australian history lasting 11 years and one month, registered the fastest equity market crash since the 1987 'flash crash' and the fastest recovery since 1998 when the Asian Financial Crisis was in full swing.

In the last four months of the financial year, the world has witnessed the worst economic crisis since the Great Depression and in some instances, the worst set of economic data on record. For example, US

unemployment has never in its history seen a scenario where nearly one in every six Americans (47.8 million) are now unemployed and where nearly one in every five is claiming some form of work benefit.

This has led to the US Federal Reserve expanding its balance sheet by the equivalent of 13% of US Gross Domestic Product (GDP) in the space of just three months to try and cushion the blow on the US economy. To put this expansion into context, what the Federal Reserve has done in three months in 2020 took it three years to do during the Global Financial Crisis (GFC).

COVID-19 is officially the worst global public health crisis in 100 years and it has caused the greatest economic shock in 80 years. FY20, thanks to COVID-19, will be remembered as the year that reset conventional wisdom. Traditional questions of what constitutes a market valuation, a risk, a return and a price have all been thrown into disarray by the complete blurring of what future earnings, revenues and daily operations look like.

What COVID has also taught investors is the pace of change has never been faster. It has caught out so many, particularly those that panicked and broke their investment strategies.

Those that went to cash because of COVID and stayed in cash throughout the pandemic are lamenting this move. The smart money, on the other hand, either held firm to their strategy or doubled down on the discounts in international and domestic equities and the capital increases in fixed income.

(Remember that fixed income has a capital price and a yield, whereas the asset classed as 'cash' only has a yield. It is for this reason fixed income has outperformed cash as the capital appreciation in FY20 has been strong and accounts for the better than cash performance of the Conservative Portfolio.)

Balanced strategies in the final quarter of FY20 have boomed on signs that a recovery is starting to take place both domestically and internationally, illustrated by the Balanced Portfolio's 5.89% rise in the three months to June driven by the growth side of the portfolio. I would also highlight it was buffered from the worst of the initial falls in March by its defensive, fixed income side.

But it is more than this. The smart money also continued with tried and tested investment strategies. We have always been a strong advocate for strategies such as dollar-cost averaging and asset allocation. Both have been almost textbook truths since COVID hit.

I want to really highlight why dollar-cost averaging is so important. From July 2019 to February 2020, both defensive and growth facets of the portfolio (fixed interest and equities) had been rising solidly, with equities both here and abroad making record all-time highs around 20 February.

For arguments sake, let's create an example of a dollar-cost averaging strategy where the investor was adding \$5000 to their investments at the end of every month.

So, in February you would have bought near enough to the top of the market. Again, for arguments sake, let's say the investor bought \$5000 of the market at a price of \$1, meaning 5000 lots of the market was bought in February.

COVID hits and the market fell 22% come the close of March, leading to panic and investors breaking strategy. The smart money, however, held true to the dollar-cost average strategy and bought another \$5000 of the market in March. But this time the price was \$0.78, meaning they bought 6410 lots of the market. The smart money now held 11,420 lots of the market at an average price of \$0.876 per lot.

The smart money continued this strategy for the end of April, May and June. At the close of the financial year, the smart money's \$25,000 of investment from February to June netted 28,300 lots of the market at an average price of \$0.88 at 30 June with the market at \$0.92. This is in contrast to those that haven't bought the market since February who are stuck with 5000 lots at \$1.00 with the market at \$0.92. To put this a different way, those that broke strategy have a negative \$400 balance, the smart money now has a positive balance of over \$1,000.

If you apply this principle to the Balanced Portfolio, you can see that not only has the portfolio weathered the COVID crisis pretty well, but your overall average unit price would have reduced during this time, positioning you even better for your long-term investment horizon.

Remember, your time horizon is key, and you should always be thinking in a 2+ year timeframe for a Balanced Portfolio setup. Event risks like COVID or the GFC are, unfortunately, part of the investment cycle. But when you apply strategies like dollar-cost averaging and asset allocation, it gives you the ability to look through the intra-day, week, month and even year fluctuations with more confidence.



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### **Important information**

This document has been prepared by InvestSMART Funds Management Limited (ABN 62 067 751 759, AFSL 246441) (InvestSMART), the responsible entity of the [InvestSMART Balanced Portfolio] (Fund) and issuer of units in the Fund.

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