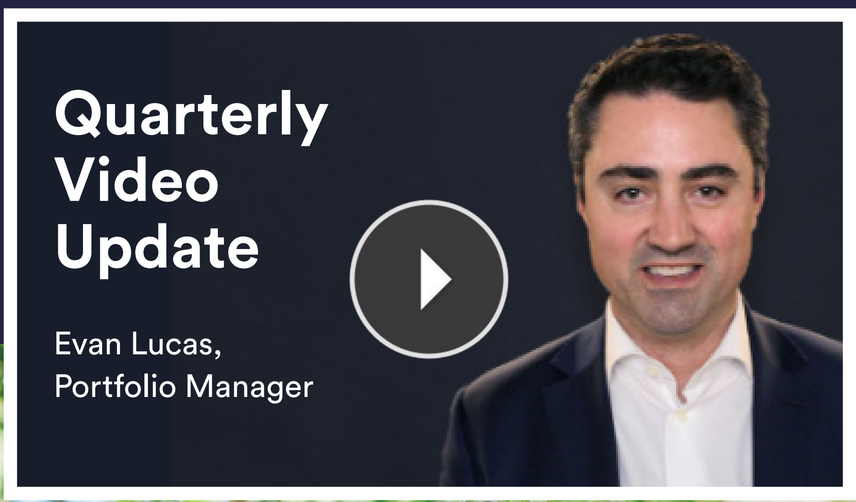
InvestSMART Diversified Income Portfolio

QUARTERLY UPDATE



This quarter Evan discusses:

- The booming growth assets
- Interlinking events in Q1
- The Portfolio's performance

InvestSMART Diversified Income Portfolio

PERFORMANCE TO 31 MAR 2019	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS (P.A.)	3 YRS (P.A.)	4 YRS (P.A.)	SINCE INCEP.
InvestSMART Diversified Income	1.54%	5.43%	2.89%	7.45%	4.50%	5.60%	3.71%	4.74%
Morningstar Aus Msec Moderate TR AUD	1.38%	5.06%	3.31%	7.51%	5.70%	5.76%	4.53%	5.23%
Peers	0.93%	3.92%	1.77%	4.07%	3.40%	3.83%	-	-

Key Points

- **The InvestSMART Diversified Income Portfolio produced a return of 5.43% (after fees) during the March Quarter.**
- **No changes were made to the portfolio during the March quarter**
- **Estimated yield on the portfolio is currently 3.06%**
- **Since inception the Diversified Income portfolio has returned 4.74% per. annum (after fees)**
- **All facets of the portfolio attributed to the quarter's performance**

Although the Diversified Income portfolio is defensive in nature, its overall diversification with growth allowed it to take advantage of a rare event that occurred in the first quarter of 2019 – the simultaneous appreciation of bonds and equities. There is clear justification for this move, that being, global economic risk. Each market, however, is appreciating for different reasons. The bond market is reacting to the 'malaise' of a contracting (and possible recessional) global growth story, while equities were reacting to the possible 'cure' in future monetary policy stimulus.

Further to this, there were three interlinked events in Q1 that drove the portfolio further still:

- The US Federal Reserve backing away from this rate hiking cycle, releasing the pressure building in the flow of credit which had hit 'restrictive' levels (which was a clear drag on economic growth).
- The US-China trade war moving into a constructive phase, releasing the concern that geo-political risk was going to accelerate the issue around slowing global growth.
- Expectations of global monetary stimulus in the second half of 2019 have accelerated.

Both domestic and international equities surged over the quarter, with the US seeing its best start to a year since 1998. Over the quarter, we saw a rise of 14.1%, making this the best quarter since Q3 2009. The ASX in January and February was one of the best performing indices of the MSCI 23 developed markets before settling in March. All up, the ASX ended the quarter up 9.3%.

Bonds, too, surged in the quarter and even depressed some bond yields to record lows, in the case of the Australian 10-year. Meanwhile, listed property and infrastructure, due to their bond-proxy structures, saw strong inflows from those hunting for yield. We note that, if the Australian Labor Party wins office at the upcoming Federal Election, and enacts its proposed changes to franking credits, then these bond proxies will become even more attractive to those looking for income. That's because they currently offer little-to-none franking.

The performance inside the Diversified Income portfolio was mainly driven by growth assets. The Vanguard MSCI index International Shares ETF (VGS) attributed 1.48% to the portfolio, while the domestic listing of the iShares Core S&P/ASX 200 (IOZ) and the Vanguard Australian Property Securities Index (VAP) attributed 1.54% and 1.34% respectively. These are very solid returns considering the growth asset weighting in the portfolio is only 36%.

“THE PERFORMANCE INSIDE THE DIVERSIFIED INCOME PORTFOLIO WAS MAINLY DRIVEN BY GROWTH ASSETS.

Defensive plays in the iShares Core Composite Bond ETF (IAF) attributed 0.75% while the Vanguard Global Aggregate Bond Index (Hedge) ETF (VBND) added 0.58%. This perfectly illustrates how low-capital appreciating assets typically see a significant benefit from movements in the bond market.

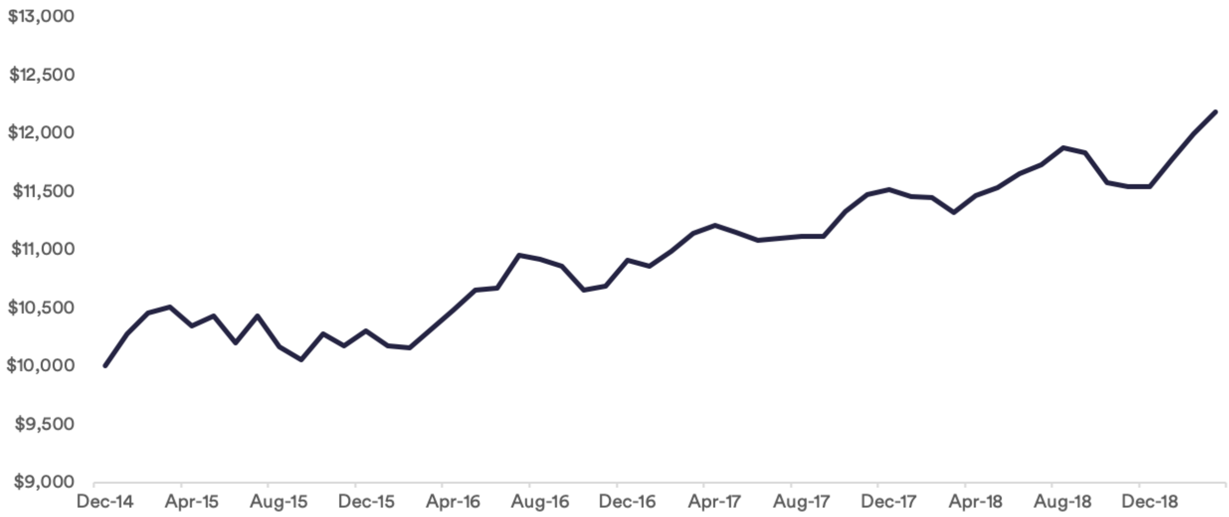
Looking to Q2 and the remainder of 2019, the ‘malaise’ and ‘cure’ trading conditions are likely to remain. Central banks are clearly nervous about growth. This is driving risk off investment. And yet, the language used by central bankers to counter the malaise is directly stimulating risk on trading.

However, we are reminded that as providers of Managed Accounts, we have a duty to highlight to our investors that short-term gyrations, while captivating, do detract from our long-term stated goal of providing long-term, above-peer returns with the lowest fees possible. Thus, we need to look through the current events to make sure the Diversified Income Portfolio continues to provide solid yield and capital returns over a 2+ year investment timeframe.

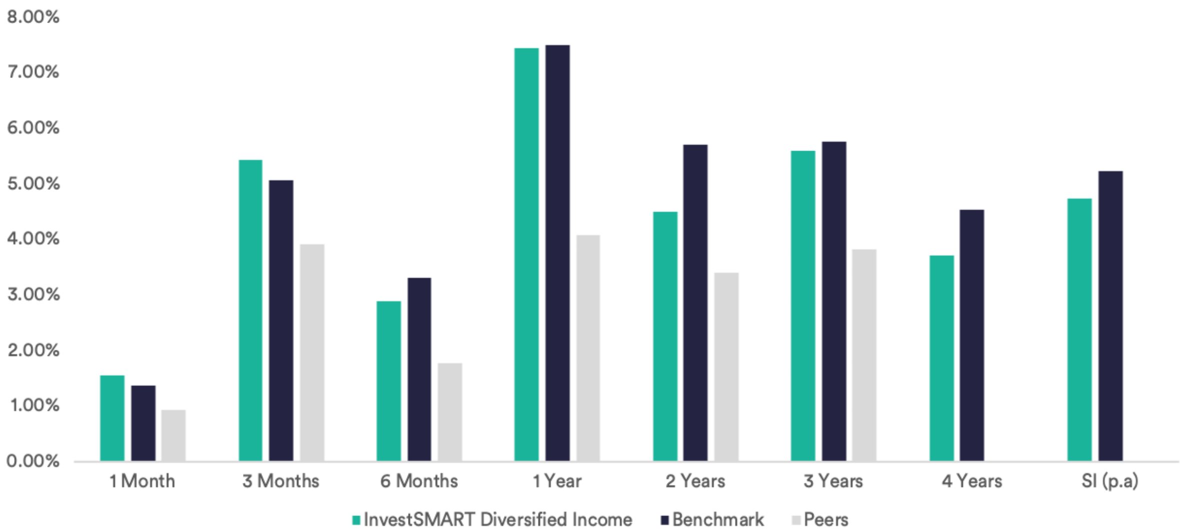
For more information on our Diversified Portfolios, click here.

Performance

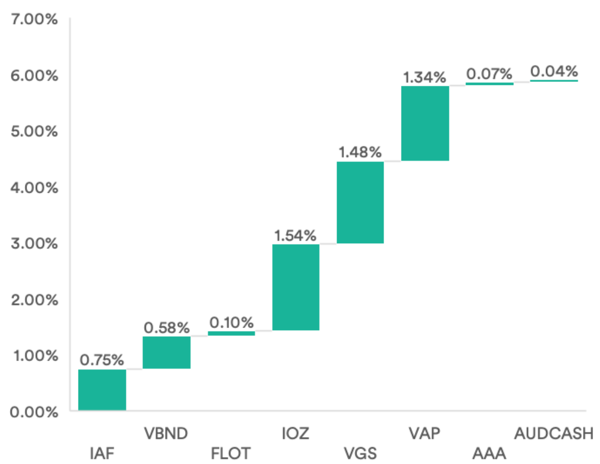
Performance of $10,000 since inception



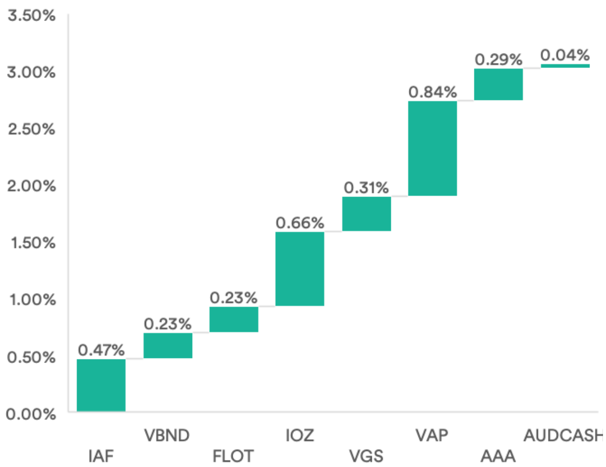
Performance relative to benchmarks



Performance attribution – before fees



Yield attribution



Portfolio holdings

TOP PORTFOLIO HOLDINGS		
SECURITY	**TICKER**	**MAR 2019**
Australian Equities		
iShares Core S&P/ASX 200 ETF	IOZ	14.24%
International Equities		
Vanguard MSCI Index International Shares ETF	VGS	12.47%
Property & Infrastructure		
Vanguard Australian Property Securities Index ETF	VAP	9.44%
Cash		
BetaShares Australian High Interest Cash ETF	AAA	14.21%
AUD Cash	AUDCASH	2.62%
Fixed Interest		
iShares Core Composite Bond ETF	IAF	20.92%
Vanguard Global Aggregate Bond Index ETF	VBND	15.65%
VanEck Vectors Australian Floating Rate ETF	FLOT	10.46%

ASSET ALLOCATION					
AUSTRALIAN EQUITIES	**INTNL. EQUITIES**	**AUSTRALIAN FIXED INTRST**	**INTNL. FIXED INTRST**	**CASH**	**PROPERTY**
13.53%	13.04%	24.06%	21.61%	18.33%	9.44%

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 31 March 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. Peers indicated in the performance table is a Morningstar data feed based on similar underlying securities per portfolio.

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
A blend of our preferred Exchange Traded Funds (ETFs)

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

STRUCTURE
Professionally Managed Account (PMA)

SUITABILITY
Suitable for investors looking for a better return than cash or saving for the short-term

PORTFOLIO MANAGER
Evan Lucas

Appendix

Glossary

Attribution highlights the proportion of the total return that was generated by a given security.

Peers are defined as retail investment funds that share the same benchmark as the portfolio, as determined by Morningstar's peer grouping methodology. Regarding the InvestSMART Diversified Income Portfolio, these are multi asset class funds with an asset allocation that is weighted higher toward growth assets. Not all retail investment funds have been included in Morningstar data. Number of peers is 623.

The Indirect Cost Ratio is the weighted management fee of the underlying ETFs and Managed Funds held within the portfolio.

The **Risk Ratings** that InvestSMART Group assigns to our investment products is based on an industry standard, The Standard Risk Measure (SRM). The SRM is a guide developed by the Financial Services Council (FSC) and The Association of Superannuation Funds of Australia (ASFA) that outlines the likely number of negative annual returns expected over any 20 year period. The purpose of the SRM is to provide a standardised labelling system to assist investors in comparing investment options across providers.

Important information

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