

InvestSMART Interest Income Portfolio

QUARTERLY UPDATE

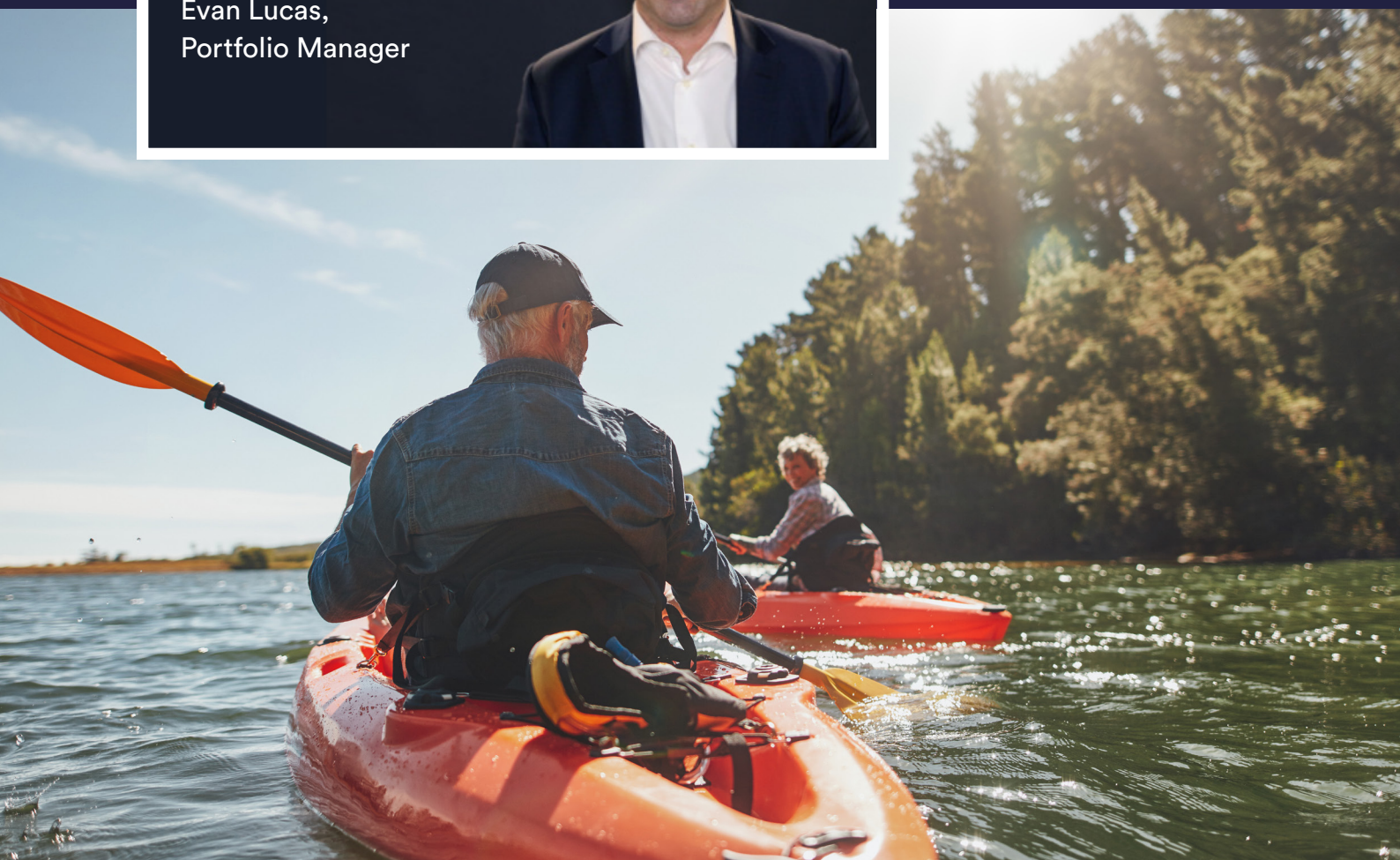
Quarterly Video Update

Evan Lucas,
Portfolio Manager



This quarter Evan discusses:

- The strong demand for bonds in Q4
- The Australian 10-year bond yield
- Why the Portfolio is a good option for those looking to protect their capital



InvestSMART Interest Income Portfolio

PERFORMANCE TO 31 MAR 2019	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS (P.A.)	3 YRS (P.A.)	SINCE INCEP.
InvestSMART Interest Income	1.48%	2.75%	4.43%	5.21%	3.69%	3.08%	3.10%
Bloomberg AusBond Composite 0+Y TR AUD	1.82%	3.43%	5.75%	7.19%	5.22%	4.17%	4.45%
Peers	1.40%	2.67%	4.14%	5.07%	3.78%	3.03%	-

Key points

- **The InvestSMART Interest Income Portfolio produced a return of 2.75% (after fees) during the March Quarter.**
- **No changes were made to the portfolio during the March quarter.**
- **Estimated yield on the portfolio is currently 2.23%.**
- **Since inception the Interest Income portfolio has returned 3.1% per annum (after fees).**
- **All facets of the portfolio attributed to the quarter's performance.**

Fixed income saw a surge in fund flows in the first quarter of 2019 as investors reweighted into bonds. The prospect of interest rate cuts at the RBA and other major central banks, coupled with the risk of a global economic slowdown, drove these investor moves. Several international bond markets actually saw yield curve inversions – where short-dated bonds have a higher yield than their long-dated peers – and in the case of the US, can be a signal for a future recession.

For example, the Australian 10-year bond yield hit its lowest level ever in the quarter of 1.731% and closed the quarter down 54.5 basis points (bps). Meanwhile, the premium-to-face value of the 7- and 8-year Australian bond ballooned out to as much as 32% over the same period. Investors were buying safety at any price, it would seem. In fact, we would argue that bond buying at one point probably became irrational.

This did translate into solid capital performance for the interest income portfolio. The iShares Treasury ETF (IGB) and the Vanguard Australian Government Bond Index ETF

(VGB) added 1.36% and 1.03% respectively. On the floating notes and money market side of the portfolio, the Bank Bill Swap Rate (BBSW) yield fell throughout the quarter as cash allocations increased on growth fears. The FLOT and QPON both added to the overall performance of the portfolio, up 0.14% and 0.22% respectively.

The March quarter also saw a major change in forecasting from the RBA, where it completely dropped its hawkish tilt and moved to a neutral stance with a slight dovish tone. On the back of the following quote, this clearly contributed to the movement in the fixed income market: "There are

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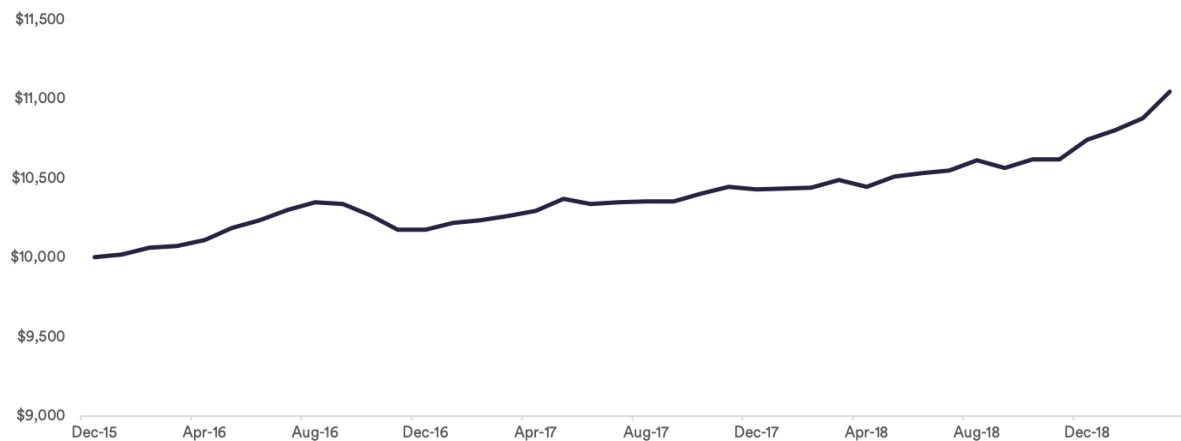
plausible scenarios under which the next move in interest rates is up. There are also plausible scenarios under which it is down. At the moment, the probabilities appear reasonably evenly balanced.”

Leading to expectations that, come December, the Australian cash rate will be cut by a minimum of 25bps. The market is currently pricing in 40bps of cuts by December, while 65% of economists see the cash rate 50bps lower to 1% come December. This will drive investment in fixed income over the coming 12 months and thus the Interest Income Portfolio.

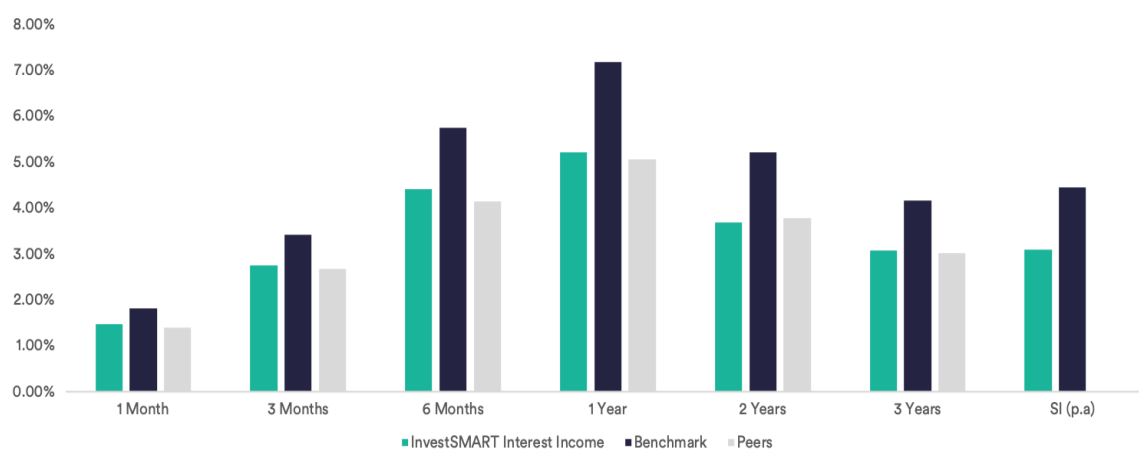
For more information on our Interest Income Portfolio, [click here](#).

Performance

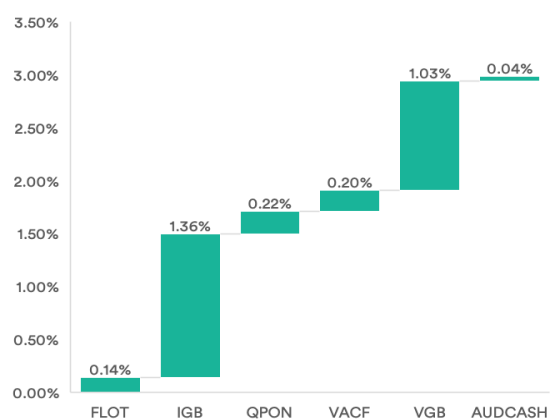
Performance of \$10,000 since inception



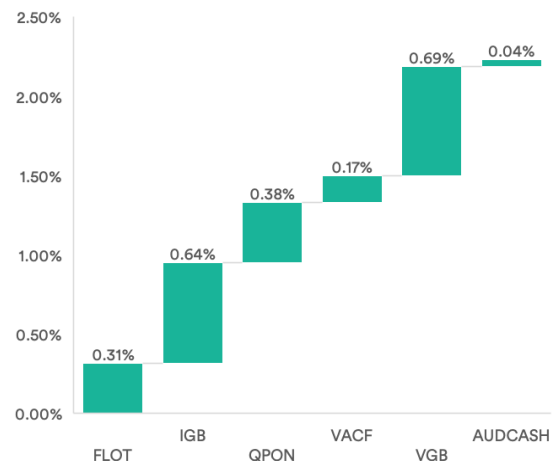
Performance relative to benchmarks



Performance attribution – before fees



Yield attribution



Portfolio holdings

TOP PORTFOLIO HOLDINGS		
SECURITY	TICKER	MAR 2019
Cash		
AUD Cash	AUDCASH	2.91%
Fixed Interest		
VanEck Vectors Australian Floating Rate ETF	FLOT	14.30%
Vanguard Australian Government Bond Index ETF	VGB	27.10%
iShares Treasury ETF	IGB	34.55%
Vanguard Australian Corporate Fixed Interest Index ETF	VACF	6.89%
BetaShares Australian Bank Senior Floating Rate Bond ETF	QPON	14.27%

ASSET ALLOCATION		
DOMESTIC FIXED INTEREST	INTERNATIONAL FIXED INTEREST	CASH
91.82%	3.72%	4.48%

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 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

A blend of our preferred Exchange Traded Funds

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

STRUCTURE

Professionally Managed Account (PMA)

SUITABILITY

Suitable for investors who are looking for a very defensive investment option, with a high level of capital stability and regular income

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 Bloomberg's peer grouping methodology. Regarding the InvestSMART Interest 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 316.

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.

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