31 MARCH 2020

Quarterly Report

InvestSMART Conservative Portfolio

March 2020 Quarter Highlights

- **The InvestSMART Conservative Portfolio lost 6.48% in the March quarter (after fees).**
- **No changes were made to the portfolio during the quarter.**
- **Estimated yield on the portfolio is currently 2.89%.**
- **All defensive assets gained over the first period, all growth assets declined.**

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 Conservative Portfolio is designed to offer investors a sustainable income stream by investing across asset classes, actively managed by our investment team. Having a well-diversified portfolio is a well-known strategy to assist in growing your capital while minimising your investment risks.

Our Conservative 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 Moderate 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)

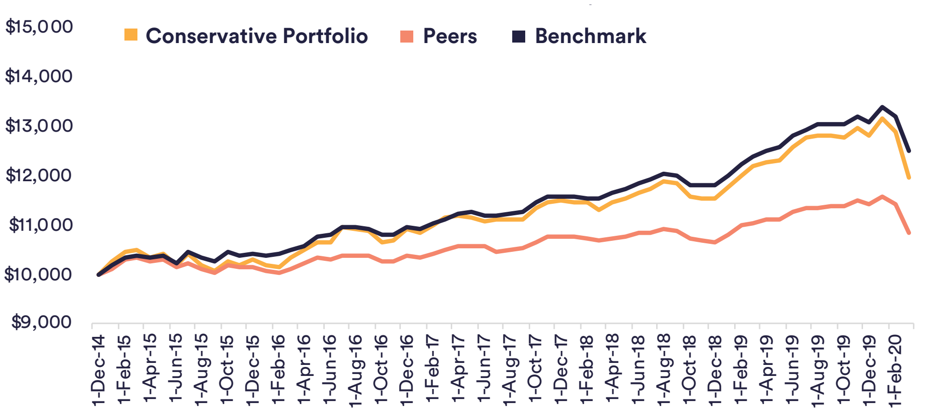
Performance to 31 March 2020 (after fees)

	1 mth	3 mths	6 mths	1 yr	2 yrs	3 yrs	4 yrs	5 yrs	S. I. (p.a.)
InvestSMART Conservative Portfolio	−6.9%	−6.5%	−6.5%	−1.8%	2.7%	2.4%	3.7%	2.6%	3.5%
Average of 608 peers funds^	−6.0%	−5.9%	−5.7%	−2.0%	1.0%	1.6%	N/A	1.7%	N/A
Excess to Peers	−0.9%	−0.6%	−0.8%	0.2%	1.7%	0.8%	N/A	0.9%	N/A

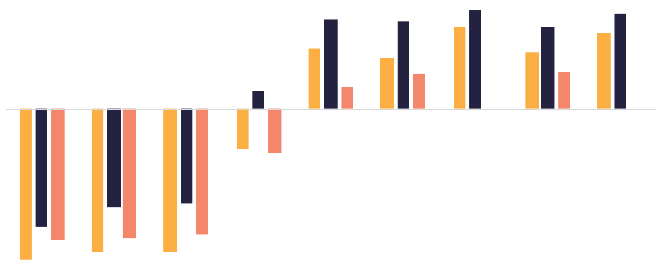
Fees^: InvestSMART Conservative 0.55% & Average of 608 peers 1.58%

Note: Our InvestSMART Conservative is benchmarked against Morningstar Multisector Moderate Index.

Performance of $10,000 since inception



Performance relative to benchmarks



	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	4 Years	5 Years	SI (p.a)
InvestSMART Conservative	-6.87%	-6.48%	-6.54%	-1.78%	2.73%	2.36%	3.70%	2.59%	3.46%
Benchmark	-5.31%	-4.44%	-4.27%	0.81%	4.10%	4.04%	4.50%	3.77%	4.37%
Peers	-6.0%	-5.9%	-5.7%	-2.0%	1.0%	1.6%	0.0%	1.7%	0.0%

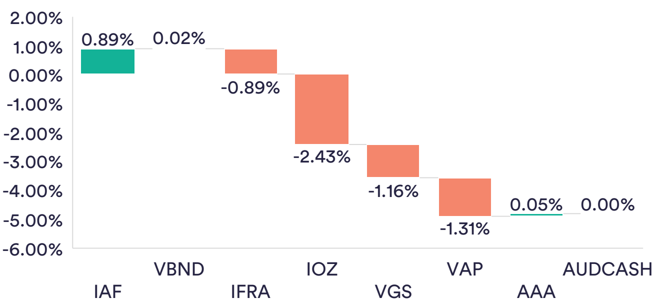
Asset allocation

Australian Fixed Interest	29.7%
Cash	20.2%
Intl. Fixed Interest	19.2%
International Equities	12.1%
Australian Equities	10.5%
Property	8.4%

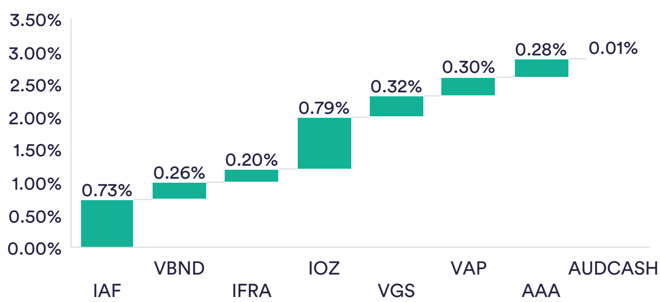
Top 5 holdings

IAF	35.9%
AAA	17.9%
VBND	13.4%
VGS	11.6%
IOZ	10.6%

Attribution – Performance



Attribution – Yield



InvestSMART Conservative Portfolio

How to explain or even comment on the last quarter? No one alive today has ever experienced a global health crisis like the one the globe is experiencing in 2020. It has had some 'starts' with the likes of SARS (Severe Acute Respiratory Syndrome), MERS (Mid-East Respiratory Syndrome) and Ebola, but nothing on the scale that COVID-19 has turned into.

March 31 was a big full stop for the growth side of the portfolio on the following stats:

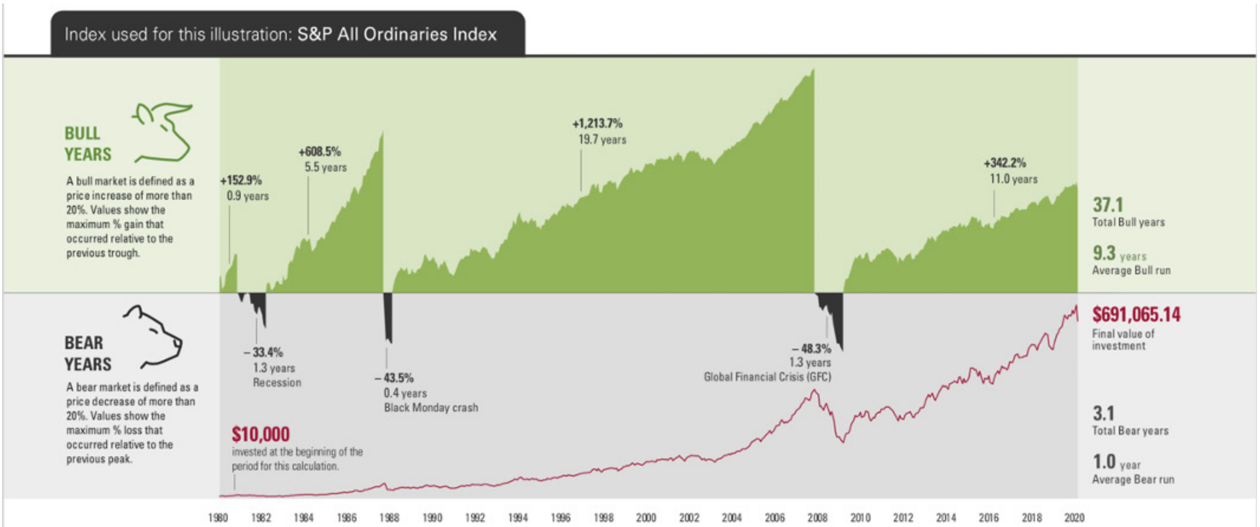
- ASX Accumulation Index broke a 10.8-year bull run with a 23.1% decline in the March quarter, led by the Energy sector -47.92%, Real Estate -34.83% and Financials -27.95%.
- The biggest bull market in U.S. history has ended with the sharpest slide into a bear market since the 1987 crash. Mark the date: March 12, 2020 was the official end to the 11 year and 3-day U.S. bull market. The S&P 500 fell 20% in the first three months of the year, which is the worst first quarter on record.
- The US Volatility Index averaged 57 in March, triple the mean average of the past decade. It also hit an all-time high of 82, beating its GFC high by more than 10 points.
- European shares plunged more than 20% for the worst three months in the Eurozone since 2002, surpassing the Eurocrisis of 2011 and the GFC in 2008-09.
- Tokyo's TOPIX fell almost 20% in its worst three months since 2008.
- China's Shanghai Composite lost 10% in the quarter, South Korea's KOPSEI 19% and Singapore's Strait Times 20%.

On the defensive side of the portfolio, fixed interest and cash saw solid inflows as investors looked to capital value stores. Of note was:

- The Australian 10-year bond rallied 3.35% in the quarter.
- The Australian 3-year bond rallied 11%, as the RBA stepped into market to support the economy.
- Cash markets and floating notes held their ground in the 3 months to March 31

It's been a huge quarter with COVID-19 decimating economies around the world, putting health systems under immense strain. Central banks all over the world reacted to the pandemic by moving monetary policy to GFC footings for the likes of the US, Europe and Asia and to record positions for our own Reserve Bank.

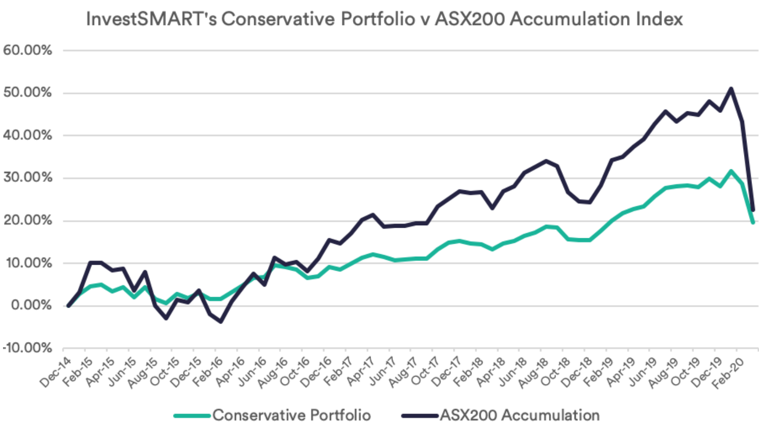
These global programs will be in place for a significant period of time and they will support the global and domestic economy over the coming years as the world recovers from COVID-19, and it will. There will come a time when global markets will calm, and normal trading will return.



Why we are confident in this view is because over the last 70 years, the US has seen 14 bear markets, on average each one has lasted a year with the average decline being 28.6%. At the same time, **what normally eventuates in the 12 months after these bear markets is a US bull market, lasting an average of 7 years with an average rise of 43%.**

If we look at the ASX, it too has shown time and time again that it does recover and even more so when you factor in total returns. Remember, statistically, the ASX is the highest yielding developed market in the world – it has an average yield of 4.2% over the past 5 years and although in the short term these yields may be impacted, they too will return.

Then there is the 40-year history in bull and bear markets, and this chart from Vanguard Australia is a perfect illustration of why we remain strong in our philosophy that time in the market will always outperform time out of the market.



However, all this illustrates one thing – single asset classes are a risk in themselves. At InvestSMART, our core values when it comes to portfolio investment are:

- Diversification.
- Total return.
- Time in the market; and
- Low fees.

The aim of the Conservative Portfolio is to lower the risk that can materialise in asset classes such as 'pure' equities. Therefore, if we compare the performance of the portfolio in the first quarter to that of the ASX 200 Accumulation Index (total return) – it is a perfect illustration of the risk mitigation the portfolio provides through its diversification and heavier weightings to lower risk assets.

As the chart shows, the Conservative Portfolio's mixture of domestic and international fixed income has softened the full brunt COVID-19 has had on a single asset such as the ASX. The chart also highlights the risk mitigation used in the Conservative Portfolio, where the defensive side makes up 69.1%, which minimises the overall loss of value in the portfolio. This risk mitigation has not just been present in the first quarter of 2020, but also the fourth quarter of 2018 and the first quarter of 2016. Remember, the portfolio still has growth assets to give it that stronger upside which comes with equity investing, but its main goal is to smooth out market fluctuations and give more consistent lower risk returns.

Looking forward at the second and third quarters, we expect the bear market to continue for at least the next 3 months, meaning the volatility seen in global equity markets will continue. We believe that until the US 'clears the peak' and is seeing a decline in cases and deaths, markets will continue to experience these large intraday swings of 1% or more. This is also the time to evaluate how cost-price averaging can significantly improve your long-term returns due to your larger investment base and better average price. It is a tried and proven strategy for those looking for long term total returns, and we have shown above we know the market will return.

Portfolio performance

As explained above, the portfolio's diversification buffered it from the full force of the declines in equities. With the fixed income side making up 49% of the portfolio, it held up well during this period.

The domestic and international equity listings did detract from performance with IOZ -2.43% and VGS -1.16%. It was the same story for property with VAP -1.31 % and infrastructure IFRA -0.89%.

On the defensive front, the fixed income listings held their ground with IAF actually contributing to performance 0.89%, while VBND contributed 0.02%.

No changes were made to the portfolio in the first quarter and we do not expect any changes to be made in the coming quarter.

investsmart.com.au/invest

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Important information