

31 MARCH 2020

## Quarterly Report

# InvestSMART Interest Income Portfolio



### March 2020 Quarter Highlights

- The InvestSMART Interest Income Portfolio gained 1.34% in the March quarter (after fees).
- Several changes were made to the portfolio during the quarter to better align to its benchmark (see performance section).
- Estimated yield on the portfolio is currently 2.01%.
- All corporate bond holdings fell in the first quarter of 2020 while all sovereign bond holdings gained.

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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 Interest Income Portfolio is designed for investors seeking a high level of stability and regular income by investing in domestic and global fixed securities. The Portfolio is invested in a blend of 5 - 20 Exchange Traded Funds (ETFs), to provide investors exposure to the performance of fixed interest assets all managed in the one portfolio.

Our Interest Income 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 Exchange Traded Funds (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 Aggressive Index

### INCEPTION DATE

23 December 2015

### SUGGESTED INVESTMENT TIMEFRAME

2+ years

### NUMBER OF SECURITIES

5 - 20

### INVESTMENT FEE

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

### PERFORMANCE FEE

N/A

### MINIMUM INITIAL INVESTMENT

\$10,000

### STRUCTURE

Professionally Managed Account (PMA)

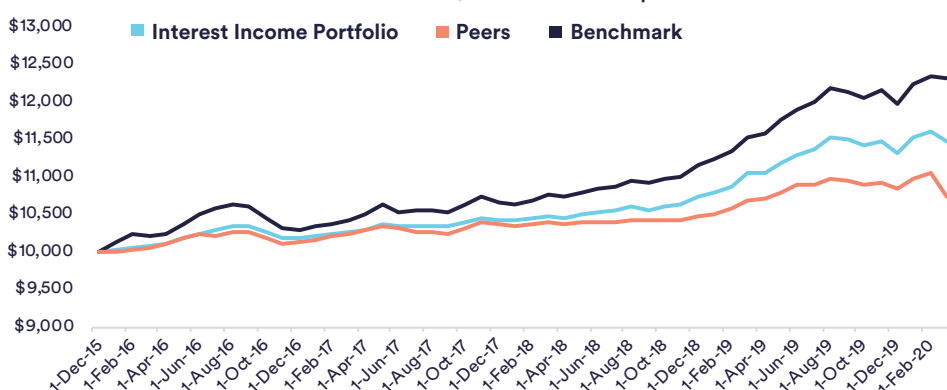
### Performance to 31 March 2020 (after fees)

	1 mth	3 mths	6 mths	1 yr	2 yrs	3 yrs	4 yrs	S. I. (p.a.)
InvestSMART Interest Income Portfolio <sup>#</sup>	-1.0%	1.3%	-0.1%	3.9%	4.5%	3.7%	3.3%	3.3%
Average of 242 peers funds <sup>^</sup>	-1.0%	1.9%	0.5%	4.9%	5.2%	4.2%	N/A	N/A
Excess to Peers	0.0%	-0.5%	-0.6%	-1.0%	-0.6%	-0.4%	N/A	N/A

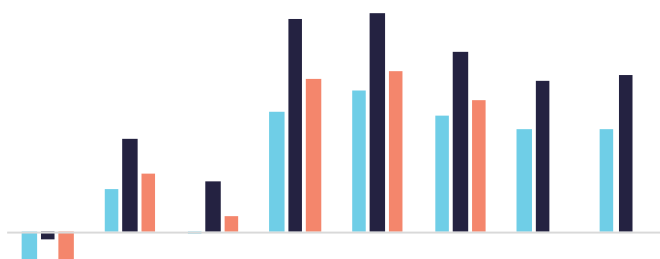
Fees<sup>^</sup>: InvestSMART Interest Income 0.55% & Average of 242 peers 1.27%

Note: Our InvestSMART Interest Income is benchmarked against Bloomberg AusBond Composite 0+Yr TR AUD Index.

### Performance of \$10,000 since inception

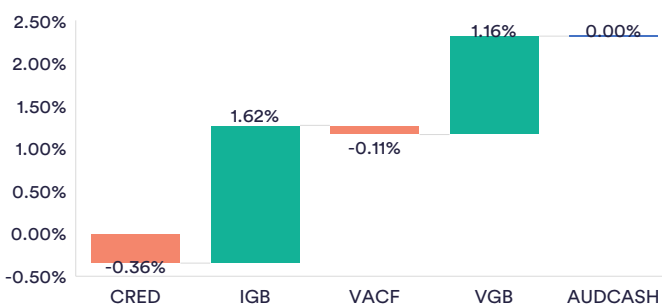


### Performance relative to benchmarks

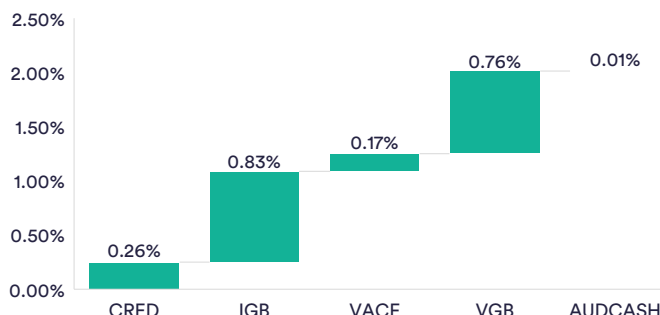


	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	4 Years	SI (p.a.)
Interest Income Portfolio	-0.98%	1.34%	-0.09%	3.86%	4.54%	3.74%	3.27%	3.28%
Benchmark	-0.21%	2.99%	1.63%	6.80%	7.00%	5.74%	4.82%	4.99%
Peers	-1.0%	1.9%	0.5%	4.9%	5.2%	4.2%	0.0%	0.0%

### Attribution – Performance



### Attribution – Yield



### Asset allocation

Australian Fixed Interest	96.4%
International Fixed Interest	1.6%
Cash	2.0%

### Top 5 holdings

IGB	47.8%
VGB	36.9%
VACF	6.7%
CRED	6.5%
Cash	2.0%

## InvestSMART Interest Income Portfolio

As COVID-19 decimates economies around the world putting health systems under immense strain, fund flows headed one way; into bonds. The issue from an investment perspective is that this flow pushed risk-free rates to fall next to zero. 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.

Furthermore, this quarter saw, in my view, a fundamental and structural change to how this portfolio may be viewed, to one that is now 'capital backstopped' for its investment timeframe of two plus years.

Our justification for this statement can be lifted directly from the RBA's emergency meeting on March 18.

*"The Reserve Bank Board agreed to the following comprehensive package to support the Australian economy through this challenging period:*

1. *A reduction in the cash rate target to 0.25 per cent.*

*The Board will not increase the cash rate target until progress is being made towards full employment and it is confident that inflation will be sustainably within the 2–3 per cent target band.*

2. *A target for the yield on 3-year Australian Government bonds of around 0.25 per cent.*

*This will be achieved through purchases of Government bonds in the secondary market. Purchases of Government bonds and semi-government securities across the yield curve will be conducted to help achieve this target as well as to address market dislocations..."*

Since the March 18 announcement, the RBA has bought A\$27 billion worth of government securities to reach its aim of bringing the cost of borrowing down to its stated levels and it is showing no signs of slowing down.

This buying program is providing an almost guaranteed backing at any price point of Australian government bonds and explains why both sovereign bond ETF holdings in the Interest Income Portfolio were positive over the first quarter.

What the March 18 statement also means is that for the next two to three years the RBA will backstop the government bond market. This means the Interest Income Portfolio has a known 'buyer' (supporter of price) with the deepest of deep pockets.

However, this backstopping 'guarantee' comes with a downside – lower yields. The whole aim of the RBA's program is to reduce the yield on government bonds. Remember, the lower the yield on a government bond, the less the government's repayments are, which is the stated aim of the RBA's policy. As the Interest Income Portfolio is a holder of government and corporate bonds with the aim of having a 'safe income' stream, the current RBA policy probably runs counter-productive to its aim, something holders will have to get used to.

However, as a defensive capital preserving investment portfolio, the RBA's aim has locked in this setting for the foreseeable future.

### Portfolio performance

During the quarter, the investment committee decided to realign the portfolio to reflect a closer alignment to the benchmark. This saw the portfolio moving from 5 holdings to 4 and being 100% fixed income and 100% domestic focused. This meant all floating notes were removed from the portfolio as they are not held by the benchmark, seeing FLOT and QPON being removed, while CRED – BetaShares Australian Investment Grade Corporate Bond – was added. This was conducted on March 5, 2020.

Post the reweighing, the Interest Income Portfolio had the following holdings and weightings:

- IGB increased to a 48% weighting
- VGB increased to a 37% weighting
- VACF unchanged at a 7% weighting
- CRED introduced with a 7% weighting

The resulting sector allocation is as follows:

- 48% Treasury bonds
- 37% government back securities
- 14% Corporate bonds
- 1% cash

Over the quarter IGB attributed 1.62% while VGB attributed 1.16%, slightly countered by CRED which detracted 0.36% from performance and VACF which detracted 0.11% from performance. Since inception the portfolio has returned 3.28% per annum.



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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 Interest Income Portfolio] (Fund) and issuer of units in the Fund.

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