INVESTSMART

31 May 2019

InvestSMART Balanced Portfolio

Monthly update

PERFORMANCE TO 31 MAY 2019	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS (P.A.)	3 YRS (P.A.)	4 YRS (P.A.)	S. I. (P.A.)
InvestSMART Balanced	0.01%	3.04%	8.12%	7.62%	5.86%	6.37%	4.78%	6.19%
Peers	-0.39%	1.87%	5.44%	4.29%	4.29%	4.89%	N/A	N/A
Morningstar Multisector Balanced Index	-0.05%	3.01%	8.17%	8.50%	7.12%	6.99%	N/A	7.25%

May in Review: Good and Bad ‘Surprises’

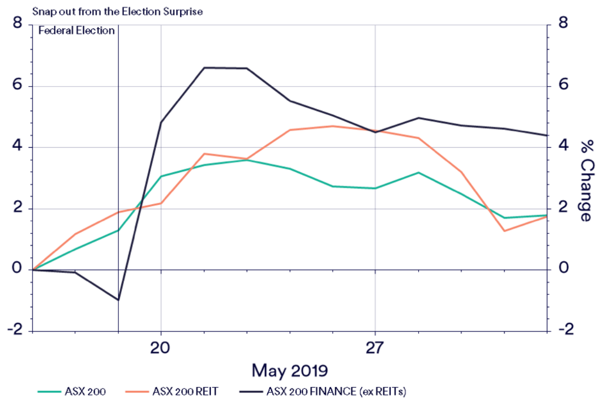
‘Surprise’ was the word of the month in May:

- **A returned Coalition Government**
- **The Reserve Bank of Australia (RBA) Governor Phillip Lowe telling the market in mid-May that the RBA would cut rates in June (and now has)**
- **Australian unemployment increasing to 5.2% in May**
- **The US hitting over US$500 billion worth of Chinese imports with a 25% tariff**
- **Global bond yields sliding to new record lows, or below their respective central bank cash rates to foretell a global recession**
- **The European Parliamentary Elections seeing far Left and Right parties monstering centralists (not that surprising actually)**

These surprises had both positive and negative impacts on markets.

Let’s start with the Federal Election. There was a very sharp market ‘release’ in sectors forecasted to be directly impacted by a possible Labor Government. We are not here to be political, but it’s clear the market had priced in the possible impacts of Labor’s franking credit, negative gearing and capital gains tax changes rather significantly.

Election Surprise - Pressure release

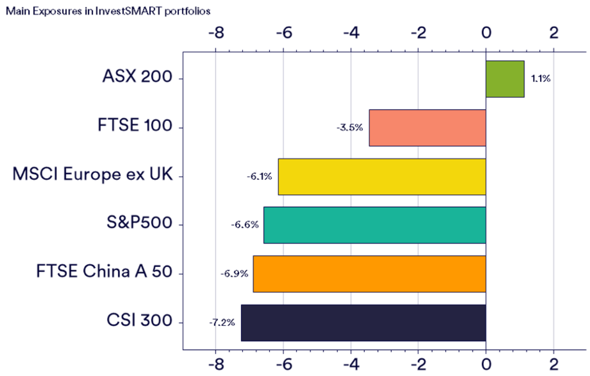


Source: Thomson Reuters Datastream, InvestSMART

The reaction from the REIT and financial services sectors post-election was telling. In the 24 hours after the election, the Big Four banks, private health insurers and mortgage brokers had moved at least 8%, with the likes of Mortgage Choice jumping 14%.

However, the Federal Election probably spared the ASX from what was actually a very lacklustre May. In fact, the deeper into the month we went, the further global markets fell. 'Warning signs' on the state of global growth ramped up and geopolitical tensions escalated.

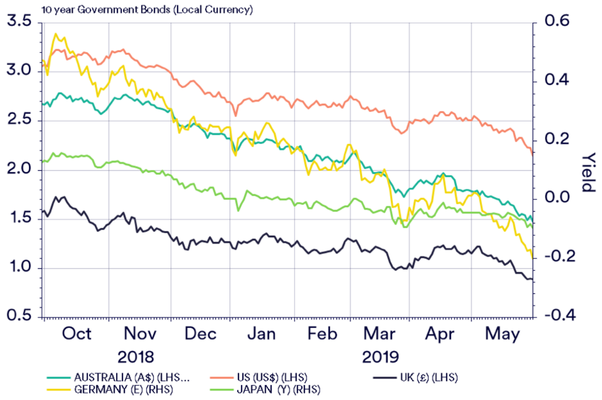
Sell in May Go Away



Source: Thomson Reuters Datastream, InvestSMART

The May 'warning signs' are leading. It does make us sit up and look at how managers are realigning themselves as markets move into a 'trickier' period. Bond yields the world over plummeted in May suggesting global rates are now locked in at these record low levels for another decade. The declines in yields are also a sign that markets are becoming increasingly concerned about 'risk' investment.

Bond Yield Gloom - Global Weakness



Source: Thomson Reuters Datastream, InvestSMART

These 'warnings signs' were not lost on the RBA, leading Governor Lowe to actually tell the market 2 weeks in advance that it would now cut rates. This was a surprise, and officially put Australia on notice that we are slowing.

Yes, the Federal Election boosted Australian equities with a small sugar hit, but the overall outlook is becoming anaemic. Economic growth is falling below trend on declines in the household sector, unemployment is ticking up, and retail sales are contracting.

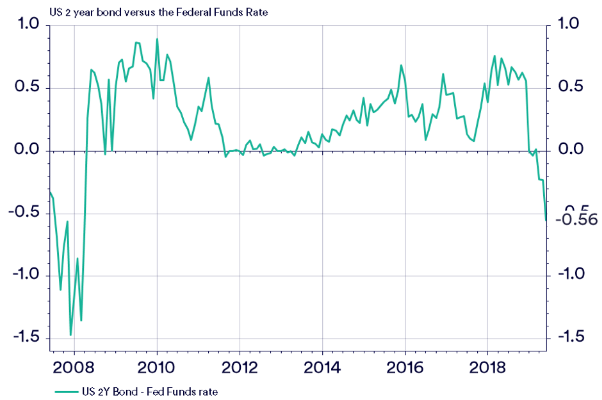
This isn't just an Australian phenomenon. The economic 'shining light' of the past decade, the US, was forecasted to be hiking rates in 2019, but is now facing recession risk. The 'recession forecaster', which is the inversion of the US 10-year bond to the US 3-month T-bill, flashed red in March. But in May, the 'flash' turned into a full-blown siren, revealed by the steep drop below the line in the next chart.

US Recession here we come?

Source: Thomson Reuters Datastream, InvestSMART

Since 1900, this metric has forecasted a US recession over 95% of the time. What Is 'blurring' the view of a US recession is US unemployment is at its lowest level since the 1960s, wage growth is the highest it has been in 25 years, and inflation is near enough to the Federal Reserve's 2% target. But, as the chart below shows, US markets are now pricing in 2 rate cuts from the Federal Reserve in the next 12 months. This is the difference between the US 2-year bond yield and the Federal Funds rate.

Cuts coming at the Federal Reserve?



Source: Thomson Reuters Datastream, InvestSMART

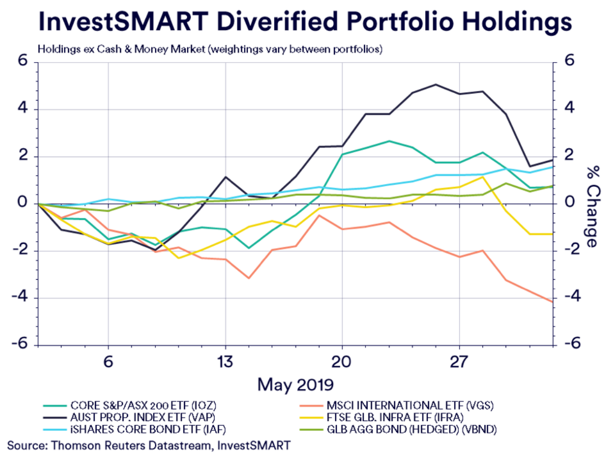
May's biggest surprise has to be the rapid ramp-up in global pessimism. Yes, the old market adage of 'sell in May, go away' could explain some of this movement.

And, one month does not make a market, and it certainly doesn't make an investment timeframe. But we are aware that some risk-off trading has formed.

We have always pointed out that, over the life of your total investment, there will be periods of volatility and market contraction. Look through this, and even think about using these periods as a chance to continue to add to your holding to smooth out returns and average down your holding price for the longer term.

Diversified Portfolios

Individual capital performance of the securities held by the Diversified Portfolios, with weightings varying depending on risk appetite.



InvestSMART Balanced Portfolio

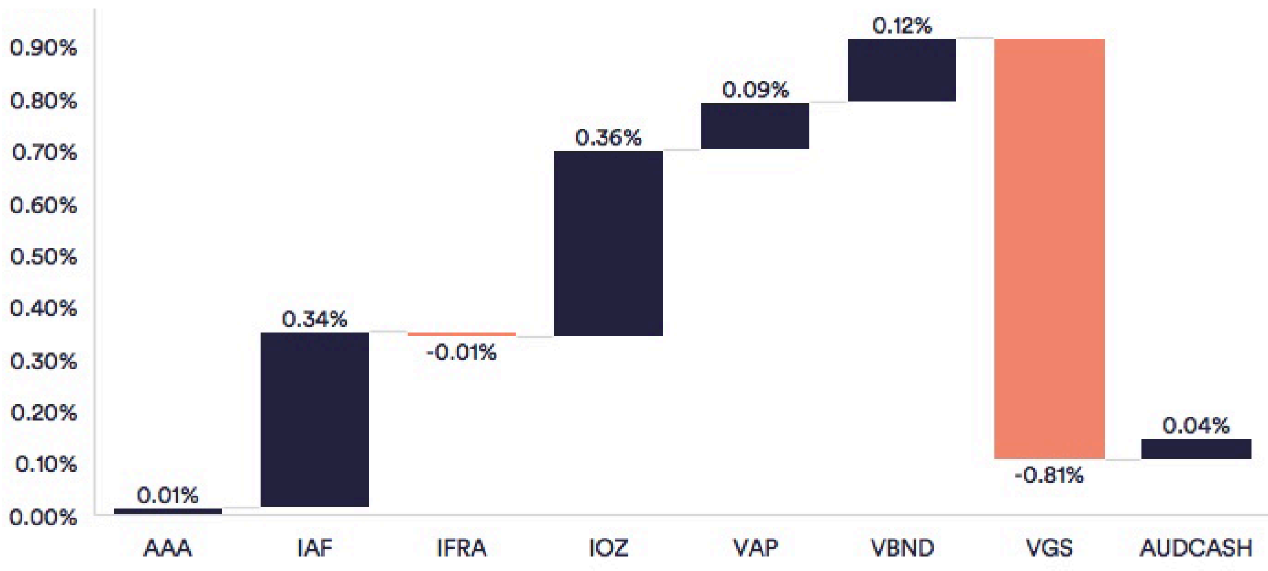
- **Added 0.01% after fees in May as domestic equities scrapped out a positive read despite the decline from international equities**
- **Domestic equities attributed 0.36%, fixed interest 0.34% and domestic property 0.09%**
- **Only International Equities (VGS) didn't attribute performance to the portfolio in the month of May subtracting 0.81% from performance**

Portfolio allocation

TOP 5 HOLDINGS	
Security	**Weighting**
iShares Core S&P/ASX 200 ETF (IOZ)	23.95%
Vanguard MSCI Index International Shares ETF (VGS)	21.79%
iShares Core Composite Bond ETF (IAF)	20.17%
Vanguard Global Aggregate Bond Index (Hedged) ETF (VBND)	14.37%
AAA Australian High Interest Cash ETF (AAA)	7.63%

ASSET ALLOCATION	
Sector	**Weighting**
Fixed Interest	33.31%
Australian Equities	24.07%
International Equities	22.27%
Cash	11.58%
Property & Infrastructure	8.77%

Attribution – Performance



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 May 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.

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 Balanced Portfolio is designed for investors who seek a balanced investment solution. The Portfolio is invested in a blend of Exchange Traded Funds (ETFs), to offer investors with a balanced allocation across both income assets (bonds & cash) & 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 Exchange Traded Funds (ETFs).

Why the InvestSMART Balanced Portfolio?

Having a well-diversified portfolio is a well-known strategy to assist in growing your capital whilst minimising your investment risks. The InvestSMART Balanced 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 Balanced Index

INCEPTION DATE
29 December 2014

SUGGESTED INVESTMENT TIMEFRAME
4+ 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 seeking a conservative investment solution

PORTFOLIO MANAGER
Evan Lucas

Important information

While every care has been taken in preparation of this document, InvestSMART Funds Management Limited (ABN 62 067 751 759, AFSL 246441) ("InvestSMART") makes no representations or warranties as to the accuracy or completeness of any statement in it including, without limitation, any forecasts. Past performance is not a reliable indicator of future performance. This document has been prepared for the purpose of providing general information, without taking account of any particular investor's objectives, financial situation or needs. An investor should, before making any investment decisions, consider the appropriateness of the information in this document, and seek professional advice, having regard to the investor's objectives,financial situation and needs. This document is solely for the use of the party to whom it is provided.

This document has been prepared by InvestSMART. Financial commentary contained within this report is provided by InvestSMART. The information contained in this document is not intended to be a definitive statement on the subject matter nor an endorsement that this model portfolio is appropriate for you and should not be relied upon in making a decision to invest in this product.

The information in this report is general information only and does not take into account your individual objectives, financial situation, needs or circumstances. No representations or warranties express or implied, are made as to the accuracy or completeness of the information, opinions and conclusions contained in this report. In preparing this report, InvestSMART has relied upon and assumed, without independent verification, the accuracy and completeness of all information available to us. To the maximum extent permitted by law, neither InvestSMART, their directors,employees or agents accept any liability for any loss arising in relation to this report.

The suitability of the investment product to your needs depends on your individual circumstances and objectives and should be discussed with your Adviser. Potential investors must read the Product Disclosure Statement (PDS) and Investment Menu (IM), and FSG along with any accompanying materials.

Investment in securities and other financial products involves risk. An investment in a financial product may have the potential for capital growth and income, but may also carry the risk that the total return on the investment may be less than the amount contributed directly by the investor.

Past performance of financial products is not a reliable indicator of future performance. InvestSMART does not assure nor guarantee the performance of any financial products offered.

Information, opinions, historical performance, calculations or assessments of performance of financial products or markets rely on assumptions about tax, reinvestment, market performance, liquidity and other factors that will be important and may fluctuate over time.

InvestSMART, its associates and their respective directors and other staff each declare that they may, from time to time, hold interests in Securities that are contained in this investment product. As Responsible Entity, InvestSMART is the issuer of the product through the Managed Investment Scheme (ARSN: 620 030 382).

InvestSMART Funds Management Limited
PO Box 744
Queen Victoria Building
NSW 1230 Australia

Phone: 1300 880 160
Email: invest@investsmart.com.au

www.investsmart.com.au