

InvestSMART Low-cost ETF Portfolios

Monthly Update - 31 October 2019

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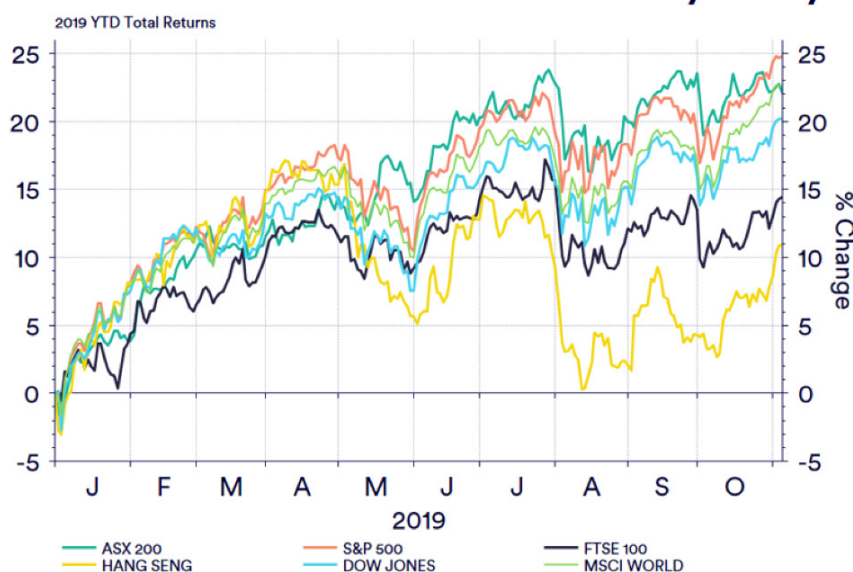
INVESTSMART

October in Review: White Knights saving us from what again?

Historically, October is in the 'top two' worst months of the year – May being the other. However, the 2019 enigma was again on display last month, as the initial collapse was quickly bid up and global markets started to question if the selloff was justified. October ended in

The boon in equity markets is happening with a backdrop of 'consumer worry', 'growth conundrums' and geopolitics at the 'worst level since World War II' according to the former Speaker of the House Commons (regarding Brexit) but could also be levelled at the issues in Hong Kong and the US-China trade tensions.

The 'Stellar' Year - Thanks Monetary Policy



All year we have been at pains to point out this has been a consistent theme across all markets. We have described it as the 'malaise' and 'cure' of the global economy, where bonds were reacting to the 'malaise' of the global economic growth issues, equities the 'cure' through monetary policy stimulus.

That 'great white knight' in monetary policy has well and truly ridden in on its steed, with five of the eight largest central banks cutting their respective cash rates in 2019. In October the Reserve Bank of Australia (RBA)

the red, but the momentum it built through the middle of the month has already filtered into November.

With less than two months to the end of the calendar year, it is worth pointing out just how strong a year 2019 has been. The equity-led appreciation is on track to be double the yearly average in Australia. The US is on track for its best year of the last three and has led all comers once again in 2019.

and the Federal Reserve both enacted a further 25-basis points (bps) cut to their respective cash rates. October was the RBA's third 25bps cut in five months, it was the Federal Reserve's third 25bps cut in three consecutive meetings.

These actions have flushed markets with cash once again and is backstopping any sell offs in equities in particular.

What is rather interesting about the 'action' is the 'proactiveness' of it. As we have to ask: are things really going to get that slow in the coming years?

The RBA certainly thinks so and has 'tried to get ahead of the curve' with its rate cuts in 2019. The same argument has been put forward by the Federal Reserve, the European Central Bank and in a surprise move to start November, the Bank of England, although they are yet to pull the monetary policy lever.

Yes, there are clear signs of slowing in certain areas like consumption, and wage growth is flattening out.

But, and this may explain why markets are starting to latch onto the next market wave, what if the slowdown is temporary, things reflate in 2020 and the global recession that has been forecasted for almost 12 months now, never materialise? The reaction in equities will be that of strength as markets know it is backstopped by central bank monetary accommodation coupled with better economic data and higher corporate earnings.

In fact, market movements to start November could actually suggest this idea is starting to take hold given record all-time highs are being printed in the US.

With seven weeks left in 2019, there is still every chance this year could return 2.5 times the yearly average. With our portfolios designed specially to capture market performance, as well as the most important part of investing – total returns, this could be a very good year indeed for all investors.

Diversified Portfolios

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

Conservative

| CONSERVATIVE PERFORMANCE TO 31 OCT 2019 | | | |
|---|--------------------------|--------------------------------------|---------------------|
| | InvestSMART Conservative | Morningstar Aus Msec Moderate TR AUD | Excess to Benchmark |
| 1 Month | -0.24% | -0.09% | -0.15% |
| S.I. (p.a) | 5.18% | 5.68% | -0.51% |

- Contracted 0.24% after fees in October after falling strongly in the early part of the month before recovering late
- Domestic equities attributed 0.01%, International Equities 0.04%, fixed interest detracted 0.3%
- All facets barring fixed interest contributed to the portfolio

Balanced

| BALANCED PERFORMANCE TO 31 OCT 2019 | | | |
|-------------------------------------|----------------------|--------------------------------------|---------------------|
| | InvestSMART Balanced | Morningstar Aus Msec Balanced TR AUD | Excess to Benchmark |
| 1 Month | -0.32% | -0.04% | -0.29% |
| S.I. (p.a) | 6.67% | 7.73% | -1.06% |

- Contracted 0.32% after fees in October after falling strongly in the early part of the month before recovering late
- Domestic equities attributed 0.02%, International Equities 0.04%, fixed interest detracted 0.27%
- All facets barring fixed interest and infrastructure contributed to the portfolio

Growth

| GROWTH PERFORMANCE TO 31 OCT 2019 | | | |
|-----------------------------------|--------------------|------------------------------------|---------------------|
| | InvestSMART Growth | Morningstar Aus Msec Growth TR AUD | Excess to Benchmark |
| 1 Month | -0.22% | 0.06% | -0.28% |
| S.I. (p.a) | 8.27% | 9.08% | -0.81% |

- Contracted 0.22% after fees in October after falling strongly in the early part of the month before recovering later in the month
- Domestic equities attributed 0.02% while International Equities attributed 0.1%, fixed interest detracted 0.16%
- All facets barring fixed interest and infrastructure contributed to the portfolio

High Growth

| HIGH GROWTH PERFORMANCE TO 31 OCT 2019 | | | |
|--|-------------------------|--|---------------------|
| | InvestSMART High Growth | Morningstar Aus Msec Aggressive TR AUD | Excess to Benchmark |
| 1 Month | -0.09% | 0.11% | -0.20% |
| SI (p.a) | 9.09% | 10.79% | -1.70% |

- Contracted 0.09% after fees in October after falling strongly in the early part of the month before recovering later in the month
- Domestic equities attributed 0.03% while International Equities attributed 0.15%
- All facets barring fixed interest and infrastructure contributed to the portfolio

Satellite Portfolios

International Equities

| INTERNATIONAL PERFORMANCE TO 31 OCT 2019 | | | |
|--|------------------------------------|--------------------------------|---------------------|
| | InvestSMART International Equities | MSCI World Ex Australia NR AUD | Excess to Benchmark |
| 1 Month | 0.46% | 0.41% | 0.05% |
| S.I. (p.a) | 11.29% | 13.59% | -2.31% |

- Added 0.46% after fees in October on the record prints in US equities and Asian indices rallied hard
- S&P 500 (IVV) attributed 0.03% while the global holding VGS attributed 0.14%
- All facets of the portfolio contributed to the portfolio

Interest Income

| INTEREST INCOME PERFORMANCE TO 31 OCT 2019 | | | |
|--|-----------------------------|--|---------------------|
| | InvestSMART Interest Income | Bloomberg AusBond Composite 0+Y TR AUD | Excess to Benchmark |
| 1 Month | -0.67% | -0.49% | -0.18% |
| S.I. (p.a) | 3.48% | 4.97% | -1.49% |

- Contracted 0.67% after fees in October as treasuries unwound from their record highs
- Treasuries contracted 0.63% while floating rate notes were flat.
- Mixed performance across the portfolio in October

Diversified Property and Infrastructure

| DIV. PROP. AND INFRA. PERFORMANCE TO 31 OCT 2019 | | | |
|--|---|-----------------------|---------------------|
| | InvestSMART Diversified Property & Infrastructure | A Composite Benchmark | Excess to Benchmark |
| 1 Month | 0.58% | 0.29% | 0.29% |
| S.I. (p.a) | 8.45% | 9.84% | -1.38% |

- Added 0.58% after fees in October as domestic property and infrastructure rallied on bond-proxy set up
- Domestic property attributed 0.21%, SYD attributed 0.49% while international property contracted down 0.13%, international infrastructure contracted 0.15%.

Hybrid Income

| HYBRID INCOME PERFORMANCE TO 31 OCT 2019 | | | |
|--|---------------------------|--------------------|---------------------|
| | InvestSMART Hybrid Income | RBA Cash Rate + 3% | Excess to Benchmark |
| 1 Month | -1.48% | 0.31% | -1.79% |
| S.I. (p.a) | 4.42% | 4.50% | -0.07% |

- The total portfolio return was -1.48% for the month, following the write-down of the position in AXLHA which had been held at cost. As mentioned to investors in an email in October, this had been held at cost until there was clarity of the wind-up process for these Notes.
- We expect investors to be paid approximately 33 cents for each Note held in February 2020. This will add approximately 0.45% to the return noted above.

- Please note: Only hybrid model investors who invested prior to 12 September 2018 through the SMA have exposure to this Note
- Since inception the total portfolio return is 4.42%, which is 0.08% over its return objective.
- October was a low-income month with no securities trading ex-distribution.
- Commonwealth Bank will price its new hybrid issue – CBA PERLS XII – at the lower end of expectations at around 3.80% including franking credits. Given the lack of new hybrids recently, we expected this to be a popular issue, and issue size has increased from \$750 mill to \$1.25 billion.

[See here](#) for more information on our Diversified Portfolios

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