CPI+2 Diversified Portfolio

31 MARCH 2018

Portfolio Commentary

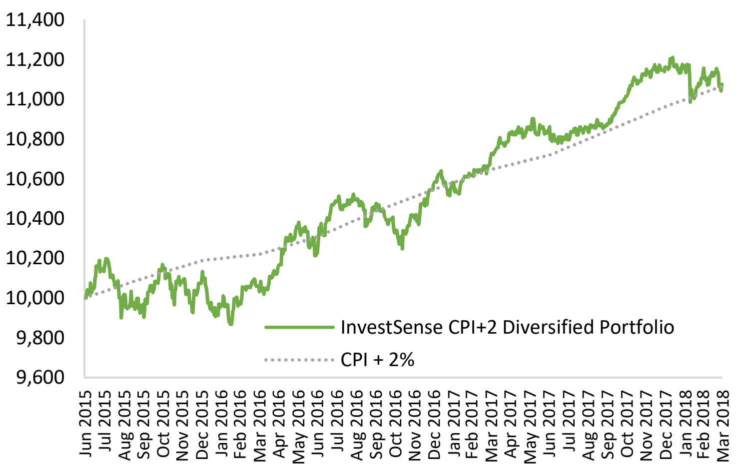
After strong markets in 2017, characterised by historically low volatility, volatility has returned to markets in 2018. After a sluggish start in January, markets fell in early February and began to recover for the remainder of February and early March only to give it all back again in late March. Markets have mostly tracked sideways to slightly down so far this year (to the end of March). A reminder that markets don't always go up as they have done for the last couple of years. The recent volatility has largely been as a consequence of concerns around further interest rate increases in the US as well as geopolitical risks in the form of trade wars (with President Trump mostly focussed on China). Regulatory risks for high profile tech companies also spooked that segment of the market, while domestically the Royal Commission on banks has weighed on bank stocks.

Given the movements in markets, it is unsurprising that for the March quarter some of the best performing asset classes were the defensive ones. Cash returned 0.4% for the three months while Australian bonds returned 0.9%. Global bonds were slightly down returning -0.1% for the quarter, with returns being dampened by rising interest rates in the US and a shift in interest rate expectations. Australian equities returned -3.7% for the quarter to March, while despite the volatility, international equities still managed to post a 0.8% return with emerging market equities posting an even more solid 3.4% for the quarter. The asset classes that experienced the largest falls and haven't fully recovered were the more interest rate sensitive sectors such as Australian listed property and global listed infrastructure. They fell by around 5 – 6% at the start of February and by the end of the quarter still hadn't recovered their losses. Thankfully, we happen to be underweight these asset classes and only maintain a relatively minor exposure.

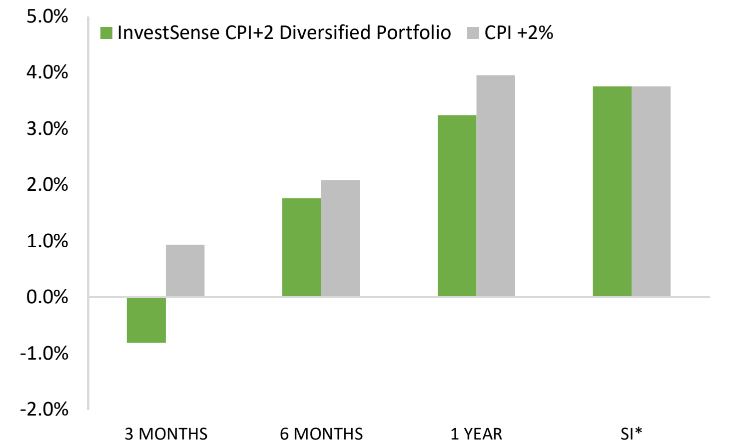
Given the weak performance across most of the major asset classes for the quarter the InvestSense CPI+ portfolios were slightly down for the quarter but performed broadly in line with expectations given the asset mix. From an asset allocation perspective, the underweight to property and infrastructure contributed positively to the portfolio's performance. The underweight to fixed interest detracted slightly from performance but was compensated by the overweight cash position.

Relative to its CPI+ objectives, the Portfolio disappointed for the quarter but as has been articulated before, the CPI+ objective is an absolute measure and needs to be taken into account over a longer cycle. Since inception, the portfolios remain broadly in line with their objectives but given the short history of the portfolios it is always a risk that they may experience a period of underperformance relative to the objective given were equity market valuations are in this present day. Part and parcel of investing and seeking returns means taking on risk in order to do so. Therefore, given the portfolios will always have some exposure to equities (particularly the higher risk portfolios) then it should be expected that the portfolios may undergo periods where they may not meet their CPI+ objective over short-to-medium term periods. Nonetheless, we estimate that under a worst-case scenario the portfolio may experience a short-term fall in the portfolio's market value of around 13%. However, at that point it is likely that markets would be offering more attractive prospective returns to which the portfolio's expected returns are likely to exceed the CPI+2% objective.

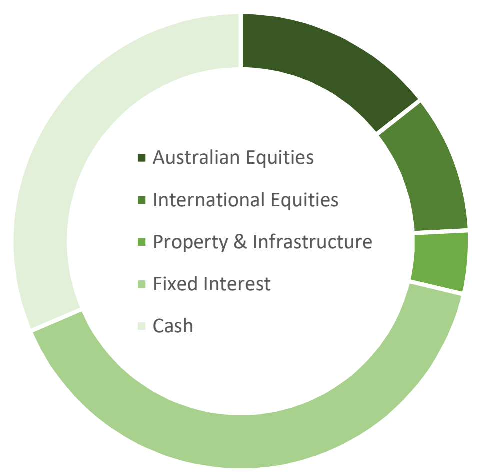
Growth of $10,000 (Income Reinvested)



Performance Summary to 31 MARCH 2018



Asset Allocation



	3 MONTHS	6 MONTHS	1 YEAR	2 YEARS*	SI*
InvestSense CPI+2 Diversified Portfolio	-0.8%	1.8%	3.2%	4.8%	3.7%
CPI +2%	0.9%	2.1%	3.9%	4.1%	3.7%
Excess above objective	***-1.7%***	***-0.3%***	***-0.7%***	***0.7%***	***0.0%***

**per annum, inception date is 27/06/2015*

Portfolio Configuration & Underlying Performance

ASSET CLASS	ASSET WEIGHT	HOLDING	3 MONTHS	6 MONTH	1 YEAR	WEIGHT
Australian Equities	14%	ISHARES S&P/ASX 200 ETF	-4.0%	4.0%	3.0%	7.2%
		BETASHARES FTSE RAFI AUSTRALIA 200 ETF	-4.0%	3.1%	1.8%	7.2%
International Equities	10%	ISHARES CORE S&P 500 ETF	-1.0%	7.2%	12.0%	4.0%
		ISHARES EUROPE ETF	-0.5%	2.4%	13.6%	3.3%
		BETASHARES WISDOMTREE JAPAN ETF	-7.7%	1.2%	9.3%	1.0%
		ISHARES MSCI EMERGING MARKETS ETF	1.9%	10.1%	21.8%	1.6%
Property & Infrastructure	4%	VANGUARD AUSTRALIAN PROPERTY SECURITIES INDEX ETF	-6.1%	1.3%	-0.3%	1.6%
		SPDR DOW JONES GLOBAL REAL ESTATE FUND ETF	-3.5%	0.9%	1.0%	1.3%
		VANECK VECTORS FTSE GLOBAL INFRASTRUCTURE (H) ETF	-5.9%	-4.4%	1.2%	1.5%
Fixed Interest	39.9%	ISHARES COMPOSITE BOND ETF	0.9%	2.1%	3.0%	13.5%
		VANGUARD AUSTRALIAN CORP FIXED INTEREST INDEX ETF	0.1%	2.4%	4.0%	13.6%
		VANGUARD INTERNATIONAL CREDIT SECURITIES INDEX (H) E	-1.2%	0.0%	2.4%	12.9%
Cash	31.4%	BETASHARES AUSTRALIAN HIGH INTEREST CASH ETF	0.5%	1.0%	2.0%	22.2%
		Cash	0.4%	0.8%	1.6%	9.2%

Portfolio Objective

To achieve a return of CPI +2% per annum over the long term, by investing in a diverse mix of asset classes covering Australian equities, international equities, property, infrastructure, alternatives, fixed interest and cash.

Portfolio Changes

There were no changes to the composition of the portfolio during the March quarter.