# CPI+5 Diversified Portfolio

30 JUNE 2018

## Portfolio Commentary

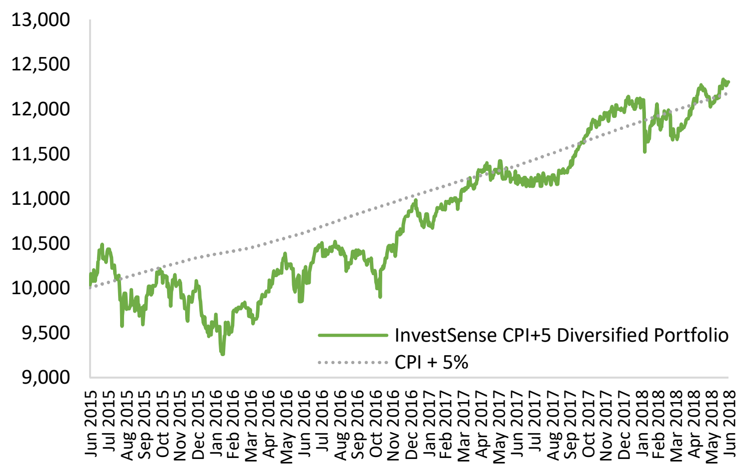
The return of volatility noticed in the previous quarter was confirmed in the second quarter of 2018, especially in the month of June when the world fretted over the prospect of a full blown trade war between the US and China. Emerging Markets, which were mostly flat in April and May, were most negatively impacted by the June turn of events, as China and China-dependent economies constitute a majority of that index. The US and other developed markets, which were up modestly in the beginning of the quarter, gave back some of their gains but finished in positive territory. By contrast, Australian equities and Property & Infrastructure faired particularly well. Our local market benefitted from a post-Royal Commission rally in banks, while Property & Infrastructure seemed to enjoy the bad news that might preface lower interest rates. They were not affected by the 7th rate hike by the US Federal Reserve Bank, which seemed to have been already priced in.

As noted above, this was overall a good period for growth asset classes, especially for Australian investors with an unhedged exposure to overseas equity markets, who benefitted from the fall in the Australian Dollar. The top perfomers for the June quarter were Australian (+9.42%) and Global (+8.48%) listed property trusts, while Infrastructure returned 5.05%. Australian equities returned 8.36% for the quarter to June while despite the trade war news (unhedged) international equities still managed to post a 5.53% return. The asset class that experienced the largest fall was Emerging Markets, returning -4.45%. Global bonds (+0.15%) continue to underperform Australian bonds (+0.82%) in light of rising interest rates in the US and a stable outlook for local interest rates. Cash returned 0.49% for the June quarter.

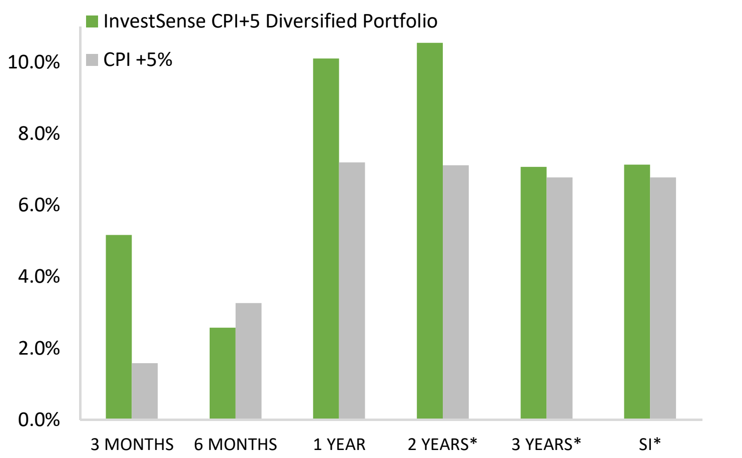
Given the positive performance across most of the major asset classes for the quarter theInvestSense CPI+ portfolios performed well over the quarter. From an asset allocation perspective, the underweight to fixed interest continues to add value to the portfolio. By contrast, the underweight to property and infrastructure didn't serve us well over the quarter, as did our overweight to cash (as expected in rising equity markets).

The Portfolio outrperformed its CPI+ objective 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 and over the past 3 years, the portfolio remains above its objective. 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 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. This is especially true in the present day, when equity market valuations are elevaed. 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 25%. 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+5% objective.

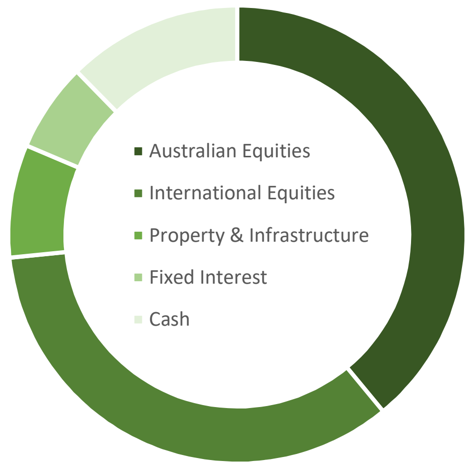
## Growth of $10,000 (Income Reinvested)




## Performance Summary to 30 JUNE 2018




## Asset Allocation




| PERFORMANCE TO 30 JUNE 2018 | 3 MONTHS | 6 MONTHS | 1 YEAR | 2 YEARS* | 3 YEARS* | SI* |
|---|---|---|---|---|---|---|
| InvestSense CPI+5 Diversified Portfolio | 5.2% | 2.6% | 10.1% | 10.5% | 7.1% | 7.1% |
| CPI +5% | 1.6% | 3.3% | 7.2% | 7.1% | 6.8% | 6.8% |
| ***Excess above objective*** | ***3.6%*** | ***-0.7%*** | ***2.9%*** | ***3.4%*** | ***0.3%*** | ***0.4%*** |

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

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## Portfolio Configuration & Underlying Performance

| ASSET CLASS | ASSET WEIGHT | HOLDING | 3 MONTHS | 6 MONTH | 1 YEAR | WEIGHT |
|---|---|---|---|---|---|---|
| Australian Equities | 39% | ISHARES S&P/ASX 200 ETF | 8.7% | 4.4% | 13.8% | 19.6% |
| | | BETASHARES FTSE RAFI AUSTRALIA 200 ETF | 8.3% | 3.9% | 13.5% | 19.5% |
| International Equities | 34% | ISHARES CORE S&P 500 ETF | 9.1% | 8.0% | 18.7% | 14.7% |
| | | ISHARES EUROPE ETF | 2.3% | 1.8% | 7.5% | 11.2% |
| | | BETASHARES WISDOMTREE JAPAN ETF | 0.1% | -7.7% | 7.3% | 3.4% |
| | | ISHARES MSCI EMERGING MARKETS ETF | -4.2% | -2.4% | 11.3% | 5.1% |
| Property & Infrastructure | 8% | VANGUARD AUSTRALIAN PROPERTY SECURITIES INDEX ETF | 9.9% | 3.2% | 13.2% | 2.8% |
| | | SPDR DOW JONES GLOBAL REAL ESTATE FUND ETF | 8.7% | 4.9% | 7.8% | 2.4% |
| | | VANECK VECTORS FTSE GLOBAL INFRASTRUCTURE (H) ETF | 6.7% | 0.4% | 3.3% | 2.8% |
| Fixed Interest | 6.3% | ISHARES COMPOSITE BOND ETF | 0.7% | 1.6% | 2.8% | 1.8% |
| | | VANGUARD AUSTRALIAN CORP FIXED INTEREST INDEX ETF | 0.6% | 1.3% | 3.3% | 2.7% |
| | | VANGUARD INTERNATIONAL CREDIT SECURITIES INDEX (H) E | -0.1% | -1.3% | 0.7% | 1.7% |
| Cash | 12.4% | BETASHARES AUSTRALIAN HIGH INTEREST CASH ETF | 0.5% | 1.0% | 2.0% | 6.6% |
| | | Cash | 0.5% | 0.9% | 1.7% | 5.7% |

## Portfolio Objective

To achieve a return of CPI +5% 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.