

Portfolio Commentary

The September quarter was marked by the diverging path of the US equity market versus the rest of the world, a brewing crisis in emerging markets, and a continuing focus on trade negotiations between the US and its partners. The US economy saw the benefits of corporate tax cuts filter through. This economic strength allowed the US Federal Reserve Bank to keep hiking rate and caused the bellwether 10-year Treasury rate to climb above 3%. The impact of higher US rates and correspondingly stronger US Dollar probably led to the deepening crisis in emerging markets and relative weakness in world ex-US equities. At home, while the RBA maintained rates unchanged, the cost of Australian mortgages continues to rise, due to our banks' reliance on overseas funding. Finally, while the tit-for-tat imposition of tariffs on Chinese and American imports reached new highs, the US signed a new version of the NAFTA trade deal with Mexico and Canada, and negotiations with the European Union seemed to be advancing. Overall the flow of trade related news has increased market volatility but hasn't had a deeply negative effect for now.

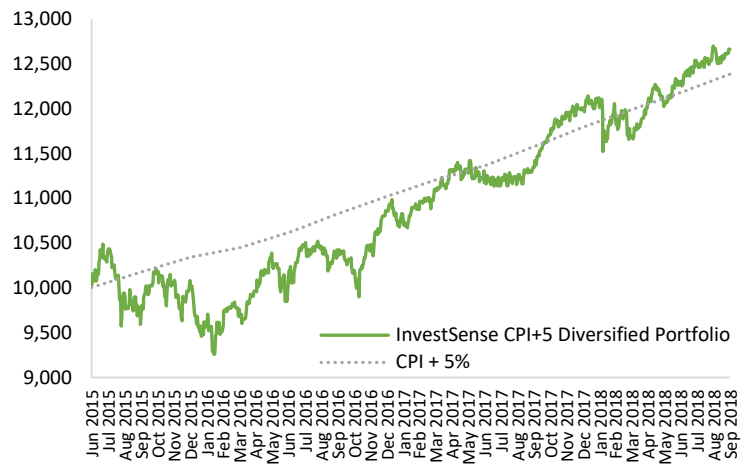
The Australian Dollar weakened further, which once again helped improve returns of international equities for Australian based investors. As such, the top performer for the September quarter was international equities (+7.4%), followed much further afield by Australian listed property trusts (+2.0%) and Australian equities (+1.5%). Even emerging markets, with negative returns in local currency terms, returned +1.0% for Australians. Due to rising bond yields the performances of all bond-sensitive asset classes were underwhelming by comparison: infrastructure returned +0.8%, global REITs +0.4%, Australian fixed interest +0.5% and global fixed interest -0.1%. Cash returned 0.5% for the September quarter.

Given the positive performance across most of the major asset classes for the quarter the InvestSense portfolios posted positive returns over the quarter. From an asset allocation perspective, the underweight to fixed interest proved beneficial however the overweight to cash detracted. At a product level, within International Equities the US exposure via IVV strongly outperformed versus the index but the main detractors were the exposures to Europe (IEU) and Emerging Markets (IEM). Elsewhere, the Infrastructure exposure (IFRA) underperformed listed properties.

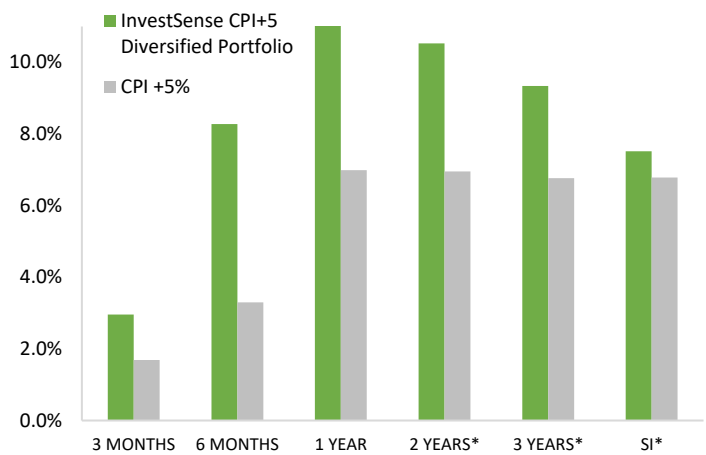
The performance seen during the September quarter was a modest push upwards before bouts of volatility began to appear in early October. We have been saying for some time that markets appear on the over-valued side, but they still offer better prospective returns over the long run when compared to cash. Hence, we have adopted a somewhat "bar-bell" approach to portfolio construction. On the one hand we have meaningful allocation to defensive positions such as cash and fixed interest while also continuing to maintain exposure to growth assets although not as much as we ordinarily would in more normal market conditions.

Over longer time periods the portfolio continues to track in line with objectives, but recent months have shown that over shorter time periods and during bouts of market volatility the portfolios may still exhibit negative periods. 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. 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 27%. 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.

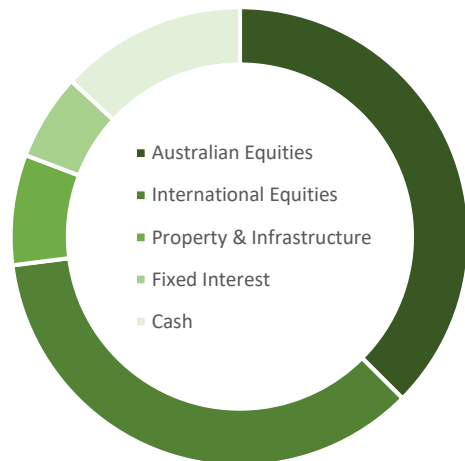
Growth of \$10,000 (Income Reinvested)



Performance Summary to 30 SEPTEMBER 2018



Asset Allocation



PERFORMANCE TO 30 SEPTEMBER 2018	3 MONTHS	6 MONTHS	1 YEAR	2 YEARS*	3 YEARS*	SI*
InvestSense CPI+5 Diversified Portfolio	3.0%	8.3%	11.6%	10.5%	9.3%	7.5%
CPI + 5%	1.7%	3.3%	7.0%	7.0%	6.8%	6.8%
Excess above objective	1.3%	5.0%	4.6%	3.6%	2.6%	0.7%

Portfolio Configuration & Underlying Performance

ASSET CLASS	ASSET WEIGHT	HOLDING	3 MONTHS	6 MONTH	1 YEAR	WEIGHT
Australian Equities	37%	ISHARES S&P/ASX 200 ETF	1.7%	10.6%	15.0%	19.1%
		BETASHARES FTSE RAFI AUSTRALIA 200 ETF	1.6%	10.0%	13.4%	18.3%
International Equities	36%	ISHARES CORE S&P 500 ETF	10.2%	20.2%	28.8%	15.7%
		ISHARES EUROPE ETF	4.7%	7.1%	9.6%	11.4%
		BETASHARES WISDOMTREE JAPAN ETF	6.6%	6.7%	8.0%	3.5%
		ISHARES MSCI EMERGING MARKETS ETF	2.0%	-2.3%	7.6%	5.1%
Property & Infrastructure	8%	VANGUARD AUSTRALIAN PROPERTY SECURITIES INDEX ETF	2.6%	12.8%	14.3%	2.8%
		SPDR DOW JONES GLOBAL REAL ESTATE FUND ETF	1.2%	10.0%	11.0%	2.4%
		VANECK VECTORS FTSE GLOBAL INFRASTRUCTURE (H) ETF	-0.2%	6.5%	1.8%	2.6%
Fixed Interest	6%	ISHARES COMPOSITE BOND ETF	0.5%	1.3%	3.4%	1.8%
		VANGUARD AUSTRALIAN CORP FIXED INTEREST INDEX ETF	0.8%	1.4%	3.9%	2.7%
		VANGUARD INTERNATIONAL CREDIT SECURITIES INDEX (H) E	0.2%	0.0%	0.1%	1.7%
Cash	13%	BETASHARES AUSTRALIAN HIGH INTEREST CASH ETF	0.5%	1.0%	2.0%	6.4%
		Cash	0.5%	1.0%	1.8%	6.7%

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 September quarter.

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