

## Macro Commentary – Q3 2019

### Market Review

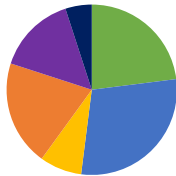
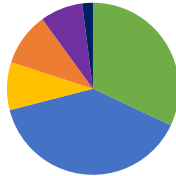
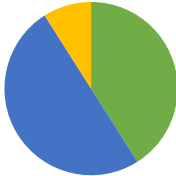
The global business cycle continues to mature, with the US and most major economies in the late-cycle phase. Sagging trade and industrial activity continued to weigh on global growth, with the share of major countries with expanding manufacturing sectors dropping to its lowest level since 2012. This weakness occurred despite an upturn in our diffusion index of China's industrial production. For the first time in the past decade, China's stimulus measures and manufacturing upswing have failed to lift global trade and industrial activity. While China's monetary and fiscal policy easing has helped stabilize industrial activity, we believe high debt levels and US-China trade uncertainty supports our stance that material economic reacceleration remains unlikely.

In Australia, equity prices are near their highest levels since just before the outbreak of the global financial crisis as domestic uncertainty moderated with the Liberal-led coalition's surprise win in May's general election. The right-leaning coalition is seen as substantially more market-friendly than the opposition Labor Party.

The Reserve Bank of Australia joined the parade of global central banks easing policy or preparing to ease policy by cutting the policy rate to a record low 0.75% in October and indicating it is likely to cut rates further amid slow growth and low inflation. The move is seen as a step toward offsetting the effects of a falling housing prices as a result of macro prudential policies that had prompted consumers to rein in spending.

A weak Australian dollar is a tailwind for the country's commodity exporters. The currency has fallen 38% from its 2011 high and is acting as a shock absorber for the economy. From a valuation perspective, trailing twelve-month earnings are right in line with their post-GFC average.

### IndexInvest Strategic Portfolio models - Holdings (%)

Portfolio Constituents & Weights - 30 Sep 2019	Balanced	Growth	High Growth
			
<b>Australian Equity</b>	<b>23.0%</b>	<b>32.0%</b>	<b>41.0%</b>
MVW VanEck Vectors Australian Equal Weight ETF	15.0%	20.0%	20.0%
A200 BetaShares Australia 200 ETF	8.0%	12.0%	21.0%
<b>International Equity</b>	<b>29.0%</b>	<b>39.0%</b>	<b>50.0%</b>
QUAL VanEck Vectors MSCI World Ex Australia Quality ETF	18.0%	25.0%	32.0%
WXOZ SPDR S&P World Ex Australia Fund	8.0%	11.0%	15.0%
CORE ETFS Global Core Infrastructure ETF	3.0%	3.0%	3.0%
<b>Property</b>	<b>8.0%</b>	<b>9.0%</b>	<b>9.0%</b>
VAP Vanguard Australian Property Securities Index ETF	5.0%	5.0%	5.0%
DJRE SPDR Dow Jones Global Real Estate ETF	3.0%	4.0%	4.0%
<b>Australian Fixed Income</b>	<b>20.0%</b>	<b>10.0%</b>	<b>-</b>
IAF iShares Core Composite Bond ETF	20.0%	10.0%	-
<b>International Fixed Income</b>	<b>15.0%</b>	<b>8.0%</b>	<b>-</b>
VIF Vanguard International Fixed Interest Index	15.0%	8.0%	-
<b>Cash</b>	<b>5.0%</b>	<b>2.0%</b>	<b>-</b>
ISEC iShares Enhanced Cash ETF	5.0%	2.0%	-

## Quarterly Performance Commentary – IndexInvest Strategic Portfolio models

The model portfolios delivered positive total returns through the third quarter 2019, as most asset classes advanced over the period. All models were broadly in line with their respective strategic asset allocation (SAA) benchmarks. The recent out of cycle model rebalance traded on 1<sup>st</sup> July 2019 was due to a major platform’s investment limitation on VanEck Vectors Australian Property ETF (MVA) and VanEck Vectors Australian Equal Weight ETF (MVW). But we have liaised with the platform to have MVA considered for inclusion in the super product by their investment committee. Until such a time as the platform approves MVA per our requests, we will allocate the percentage scheduled to MVA in favour of VAP – Vanguard Australian Property Securities ETF.

After the sharp selloff in the last quarter of 2018, global share markets rebounded sharply in the first half of 2019. The declines from the fourth quarter of 2018 have now been more than fully recouped. Even though markets were turbulent in the quarter, investors still recorded solid returns. Escalations in trade tensions weighed on confidence in the global economic expansion. However, stocks proved resilient thanks to commentary by the US Federal Reserve that was interpreted to indicate that, in the face of slower global growth, it may reduce interest rates to sustain economic expansion. Several major central bankers, who are also contending with economic fallout from trade tension, have followed suit with more accommodative rhetoric.

Fixed income market also delivered a strong return over the past quarter. Global trade tensions, slower economic activity data and moderate inflation have been supportive of lower government bond yields. Credit markets have also performed strongly given a sharp rebound in global share markets after the weakness in May 2019. Australian bonds also delivered positive returns with government yields falling sharply given subdued economic activity data, a softening housing market and mild inflation.

The significant fall in the yield of Australian government bonds and the Reserve Bank of Australia’s (RBA) decision to reduce the cash rate on two occasions this quarter helped highlight the relative attractiveness of the Property sector’s consistent distribution yield. Investor support of the sector enabled a number of trusts to raise capital during the quarter with most designed to fund non-retail property acquisitions and developments.

## Performance Details

### Portfolio Performance Ending 30 September, 2019

Portfolio	3 Months	6 Months	1 Year	3 Years p.a.	Inception p.a.*
<b>IndexInvest Strategic Balanced</b>	3.22%	7.42%	11.07%	9.63%	8.86%
<i>Balanced Benchmark – CPI+2%</i>	^	2.24%	3.81%	3.87%	3.58%
<b>IndexInvest Strategic Growth</b>	3.66%	8.46%	11.24%	11.70%	10.61%
<i>Growth Benchmark – CPI+3%</i>	^	2.75%	4.84%	4.90%	4.52%
<b>IndexInvest Strategic High Growth</b>	4.01%	9.39%	11.13%	13.79%	12.35%
<i>High Growth Benchmark – CPI+4%</i>	^	3.25%	5.88%	5.94%	5.46%

\*Inception date: 29 Apr 2016. ^ CPI data for formulating the benchmark is not available at time of writing.

### Risk Analysis

IndexInvest Strategic	Balanced	Growth	High Growth
Standard Deviation	5.90%	7.81%	9.88%
Sharpe Ratio	1.27	1.22	1.17
Information Ratio	0.98	0.86	0.78
Sotino Ratio	2.24	1.80	1.56

\*Risk free rate is assumed to be 2.5%

## Fund Portfolio Performance Ending 30-Sep-2019

Fund	3 Months	6 Months	1 Year	3 Years p.a.	Inception p.a.
VanEck Vectors Australian Equal Weight ETF	2.88%	10.06%	10.44%	11.77%	11.25%
BetaShares Australia 200 ETF	1.96%	10.85%	10.17%	-	-
VanEck Vectors MSCI World Ex Australia Quality ETF	5.33%	10.99%	11.64%	17.37%	14.96%
SPDR S&P World Ex Australia Fund	4.52%	6.14%	4.52%	13.72%	11.32%
SPDR Dow Jones Global Real Estate ETF	9.40%	9.77%	20.46%	8.61%	7.77%
VanEck Vectors Australian Property ETF	1.48%	6.00%	23.73%	12.15%	11.28%
Vanguard Australian Property Securities Index ETF	1.24%	5.29%	17.80%	8.64%	8.08%
VanEck Vectors FTSE Global Infrastructure*	3.77%	7.63%	18.96%	10.68%	10.31%
ETFS Global Core Infrastructure ETF	5.81%	10.28%	20.09%	-	-
iShares Core Composite Bond ETF	2.09%	5.33%	11.23%	4.45%	4.58%
Vanguard International Fixed Interest Index	2.61%	5.11%	10.47%	3.18%	3.48%
iShares Enhanced Cash ETF	0.34%	0.69%	1.65%	-	-

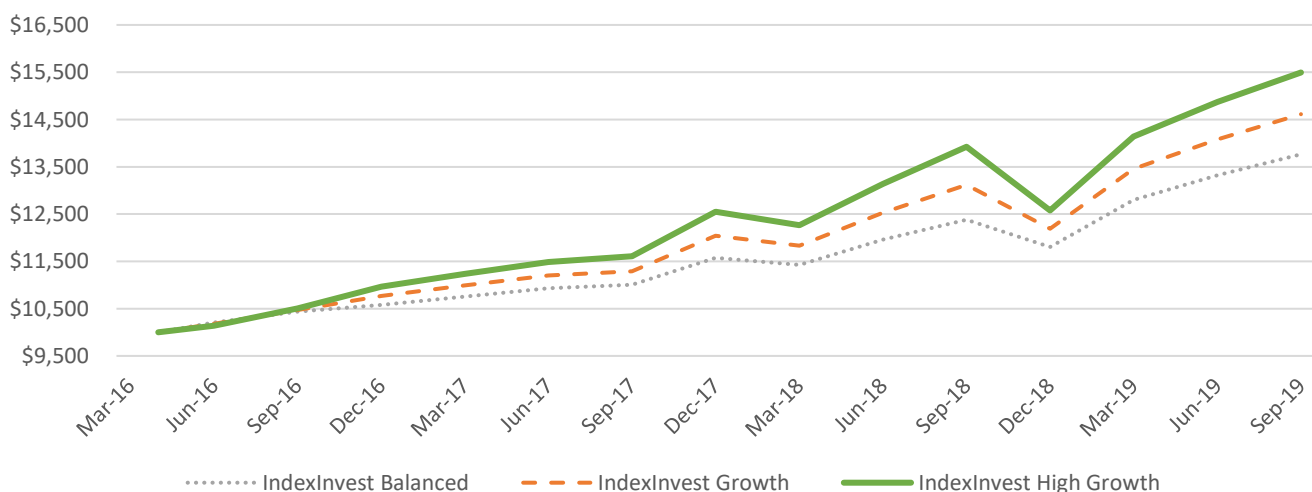
\*This holding was sold on 18<sup>th</sup> Sep 2017, purchased ETFS Global Core Infrastructure ETF on 19<sup>th</sup> Sep 2017.

## Performance Contributors and Detractors for 12 Months

Fund	Balanced	Growth	High Growth
VanEck Vectors Australian Equal Weight ETF	2.25%	3.09%	3.79%
BetaShares Australia 200 ETF	0.17%	0.25%	0.44%
VanEck Vectors MSCI World Ex Australia Quality ETF	2.13%	2.95%	3.75%
SPDR S&P World Ex Australia Fund	0.39%	0.53%	0.72%
SPDR Dow Jones Global Real Estate ETF	0.60%	0.80%	0.80%
VanEck Vectors Australian Property ETF	1.11%	1.10%	1.10%
Vanguard Australian Property Securities Index ETF	-0.06%	-0.06%	-0.06%
ETFS Global Core Infrastructure ETF	0.58%	0.58%	0.58%
iShares Core Composite Bond ETF	2.23%	1.11%	0.00%
Vanguard International Fixed Interest Index	1.57%	0.83%	0.00%
iShares Enhanced Cash ETF	0.08%	0.03%	0.00%

## Portfolio Equity Curve

### IndexInvest Portfolio models



## Important Information

### Performance Data

The performance figures represent past performance of the IndexInvest Strategic model portfolios (as opposed to the separately offered IndexInvest Dynamic Portfolio models). Past performance is not indicative of future performance. Performance for periods longer than a year have been annualised and represent cumulative (i.e. compounded) returns. Performance calculations may include back tested data. Performance is calculated to the last business day of the quarter. Performance does not include brokerage fees and commissions that may be incurred in the trading of securities within each model portfolio.

Performance figures include fund management fees and expenses of the ETFs included within a model portfolio and assume the reinvestment of distributions of any such ETF. Performance figures do not include investment management fees, if any, to be applied by IndexInvest. Performance returns do not reflect any management fees, transaction costs or expenses applied by product issuers.

### Important Information

Issued by IndexInvest Pty Ltd ABN 68 112 875 617, Authorised Representative no. 338955.

This material is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. IndexInvest is a part of the Holzworth Partners group which comprises accountants, lawyers, financial advisers. IndexInvest acts as an investment manager in Australia. IndexInvest does not offer financial products to persons in New Zealand who are retail investors (as that term is defined in the Financial Markets Conduct Act 2013 (FMCA)). This material does not constitute or relate to such an offer. To the extent that this material does constitute or relate to such an offer of financial products, the offer is only made to, and capable of acceptance by persons in New Zealand who are wholesale investors (as that term is defined in the FMCA).

This material provides general information only and does not take into account your individual objectives, financial situation, needs or circumstances. Before making any investment decision, you should therefore assess whether the material is appropriate for you and obtain financial advice tailored to you having regard to your individual objectives, financial situation, needs and circumstances.

This material is not a securities recommendation or an offer or solicitation with respect to the purchase or sale of any securities in any jurisdiction.

No part of this material may be reproduced or distributed in any manner without the prior written permission of IndexInvest.

© 2019 IndexInvest Pty Ltd. All Rights reserved. IndexInvest and the stylised logo are unregistered trademarks of IndexInvest.