

PORTFOLIO MODELS – Quarter 3, 2020 Report

Market Review – IndexInvest Horizon series model portfolios

It's easy to get distracted in the current environment. Covid-19 case counts globally ebb and flow as does the political rhetoric around vaccinations and cures, the US political "circus" rolls on and will only intensify in the lead up to the November poll, the delivery and appropriateness of the various fiscal support packages (including the Australian budget) are under scrutiny and geo-political tensions remain elevated.

A resurgence of Covid-19 cases in Europe and the inability of Democrats and Republicans in the US to come to an agreement on a fiscal package resulted in weaker equity market performance during September. There was hope that a fiscal support package would be agreed upon prior to the US election, but that now seems increasingly uncertain with the Democrats and Republicans still at odds regarding the size of the package. Domestically, unemployment figures were stronger than expected, though there is greater uncertainty heading forward as JobKeeper starts to unwind.

There are some early encouraging signs that the global economy can recover. Central banks and governments have assertively responded with stimulus measures. These measures include interest rate cuts, business loan guarantees and funding measures for banks. Governments have also responded with wage subsidies to mitigate the immediate downside risks to the global economy. However, the coronavirus threat needs to be contained before a sustainable turning point is achievable. Clearly, positive news on this front in the coming months could be a game changer for markets, potentially leading to a significant rally in some of the stocks that have lagged this year.

The final quarter of the year could be particularly eventful. By January, we should know the outcome of the US election, whether a no-deal Brexit was avoided in the UK and whether US Congress has passed more fiscal stimulus. Most importantly, there is a good chance that we will get news on a vaccine. For now, we remain cautiously optimistic of opportunities for global markets as the pandemic and other matters are addressed.

IndexInvest Horizon Portfolio models - Holdings (%)

COVID-19 has, and likely will continue, to cause volatility in global economies and markets. Given the considerable uncertainty, IndexInvest investment managers may over-weight allocations to selected sectors and under-weight allocations to others. This is done to reduce the adverse effects such volatility has on a portfolio.

<i>Portfolio Constituents & Weights - 30 September 2020</i>	Balanced	Growth	High Growth
<i>Vanguard Diversified Balanced Index Fund</i>	98%	0%	0%
<i>Vanguard Diversified Growth Index Fund</i>	0%	98%	0%
<i>Vanguard Diversified High Growth Index Fund</i>	0%	0%	98%
<i>Cash</i>	2%	2%	2%

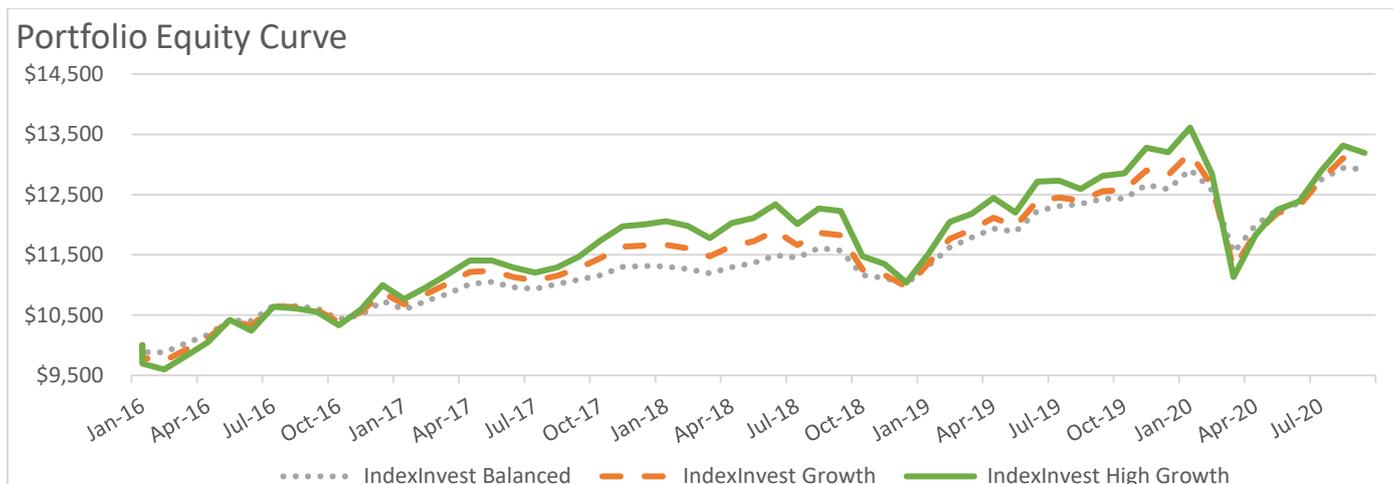
Quarterly Performance Commentary

The third quarter emphasised the benefits of geographic diversification. Asian equities returned over 10% and are the joint best-performing equity region year to date, up over 5%. Meanwhile, UK equities fell 3% and are down 20% year to date. European equities also lagged the rest of the world, with returns of 2% and -7% for the quarter and year to date respectively. US equities delivered nearly 9% over the quarter and over 5% this year. Over the quarter, global equities (unhedged) still had a strong return of 3.9%, However, these share gains were restrained by September's correction as well as a rising Australian dollar.

Australian shares had a disappointing quarter with a -0.4% return. The Energy sector was the weakest link with a -14.1% return given weak oil prices. Financial sector shares (-6.2%) also disappointed with concerns over rising doubtful debts as the 'JobKeeper' and 'loan repayment deferral' programs are set to be tapered. However, there were some bright spots. The Information Technology sector (+12.6%) benefited from Wall Street's surge. Consumer Discretionary (8.7%) also positively surprised given hopes for a post-virus recovery.

Global bonds (hedged) delivered a 0.7% return for the quarter. Government bond yields were essentially stable as investors willingly financed the larger stimulus packages. Australian government bond yields fell by 0.08% over the quarter to end at 0.79%. In the US, bond yields rose slightly to end the quarter at 0.68%. Bond yields decreased in Germany and Japan during the quarter by 0.07% and 0.01% respectively. Spreads in investment grade and high yield credit, as well as emerging market debt widened moderately during September in conjunction with the sell-off in risk assets, but remain tighter over the quarter. Similarly in FX, the USD strengthened during September as investors shifted to safer currencies, but remains weaker over the quarter.

Performance Details



Portfolio Performance Ending 30 September, 2020

Portfolio	3 Months	6 Months	1 Year	3 Years (p.a.)	Inception (p.a.)*
IndexInvest Horizon Balanced	4.61%	11.99%	3.97%	5.24%	5.55%
Balanced Benchmark – CPI+1%	^	-1.39%	0.13%	1.90%	2.16%
IndexInvest Horizon Growth	5.84%	15.55%	3.80%	4.93%	5.73%
Growth Benchmark – CPI+2%	^	-0.90%	1.14%	2.92%	3.18%
IndexInvest Horizon High Growth	6.54%	18.53%	2.99%	4.77%	6.01%
High Growth Benchmark – CPI+3%	^	-0.40%	2.15%	3.96%	4.21%

*Inception date: 1 January 2016. ^ CPI data for formulating the benchmark is not available at time of writing.

Risk Analysis

IndexInvest Horizon	Balanced	Growth	High Growth
Standard Deviation	6.33%	8.59%	10.85%
Sharpe Ratio	0.76	0.59	0.51
Information Ratio	0.43	0.23	0.12
Sotino Ratio	0.79	0.63	0.55

*Risk free rate is assumed to be 0.81%

Important Information

Performance Data

The performance figures represent past performance of the model portfolios. 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 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

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