Cash
Managed Account Portfolio

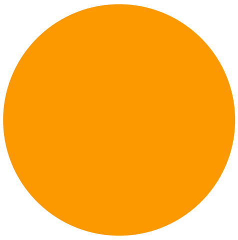
Quarterly Performance Update

Q22018

All data and information as at Portfolio Date: 30/06/2018

Asset Allocation

Portfolio Date: 30/06/2018



	%
Cash	100.0
Total	**100.0**

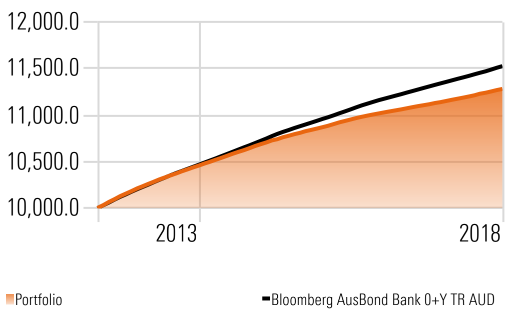
Core Portfolio - Complete List of Holdings

Portfolio Date: 30/06/2018

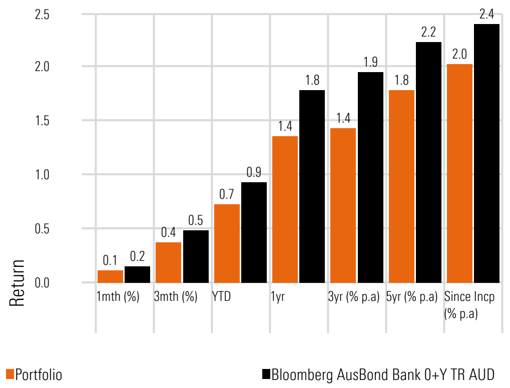
	Portfolio Weight %
iShares Core Cash ETF	49.5
Cash Account	25.9
BetaShares High Int Cash	24.7

Investment Growth of $10,000

Time Period: 1/07/2012 to 30/06/2018



Returns



'In the short run the market is a voting machine - reflecting a voter registration test that requires only money not intelligence or emotional stability - but in the long run the market is a weighing machine'.
- Benjamin Graham and Warren Buffett

Key points:

- The upward path of U.S. interest rates and increasing trade tensions has impacted investor sentiment in recent months, leading to heightened volatility
- Recent weakness in Emerging Market shares and bonds sees them stand out in a world of few opportunities

2018 has proven to be a challenging year so far. The strong gains and buoyant sentiment of 2017 feel like a distant memory, having been replaced by a more cautious period of muted returns from key share and bond markets. In many cases, the cause for investor concern is not new. The upward direction for the outlook for U.S. interest rates has been on the horizon for some time. Global political issues too, like the ongoing Brexit negotiations, are well known, notwithstanding the increasing news flow in recent times. Indeed, concerns over the political outlook in Italy (and by extension the health of Italian banks) have again risen to the surface. Granted, these issues are a little further down the road toward resolution, but understandably are still triggering investor anxiety along the way. New challenges have though emerged, notably via an escalation of trade tensions, which, for example, has reignited Emerging Market uncertainty, particularly regarding China. Closer to home, investors have had to digest the surprising and explosive revelations aired during the Banking & Financial Services Royal Commission.

Against such a backdrop, it should come as no surprise that financial markets have endured a volatile time. This change in investor sentiment is noteworthy. For too long, investors have thought the strong market returns were reasonable and sustainable expectations for the future. Having been increasingly complacent in their approach toward the end of 2017, investors have had their attitudes toward risk sharply refocused. In our view, this prudence is warranted but, as is often the case, investors have fled those assets with the greatest perceived uncertainty. This has often been without regard for the price of the asset, as many investors solely focus on removing the discomfort of being invested in assets where fear and worry is the greatest. This irrational response has resulted in significant outflows from Emerging Market shares, bonds and currencies just like in late 2016. This 'flight to safety' has further contributed to a strengthening U.S. dollar, which was already experiencing upward pressure, given the growth of the U.S. economy. In each case, however, while risks remain, the fundamental drivers of cash flows from these assets (for instance, dividends) appear strong; and importantly, valuations having further improved with this recent weakness (suggesting that investors are being compensated for the risks of investing in these assets).

This point regarding valuations cannot be underestimated. While there are plenty of potential catalysts for weakness firmly on the radar, attempting to predict the actions of global Central banks and governments, which are heavily dictating sentiment, is a fruitless exercise. What remains a far better guide to identifying sources of potential future returns is to invest based on an understanding of "what is in the price". In this respect, attractively priced opportunities remain few and far between. Indeed, many of the traditional asset classes favoured by Australian investors, such as Australian and U.S. equities offer a poor reward for risk. Similarly, global bonds are expected to deliver negative returns, after inflation, over the longer term, as stimulatory monetary policy, in place since the Global Financial Crisis, is unwound. With this, while we welcome the recent caution, investors still appear to be too optimistic on the outlook for portfolio returns given the opportunities currently available.

Against this backdrop, the need for a focus on the preservation of capital has arguably rarely been stronger. The portfolio remains invested across highly liquid cash securities, with these investments supplemented by the iShares Core Cash ETF and the BetaShares Australian High Interest ETF, which maintains a number of cash deposits across a selection of Australian banks. With so few assets offering sufficient reward for risk, we continue to expect cash to remain an attractive option for investors, both in terms of it being the only asset class that can protect capital with near 100% certainty, but also because it provides investors with a liquid option to park their capital, in wait for more compelling investment opportunities in other asset classes, as they arise. With this, even with cash rates at record lows and likely staying there for some time yet, we believe the Cash portfolio remains appropriately positioned towards those investments that offer the best reward for risk, in order for it to achieve its objectives over the longer term.

Transactions in the Quarter

There were no transactions in the Quarter

*Cash returns will vary between platforms. The rate used for the Cash holding is the RBA Target Cash Rate less 0.55% p.a

MORNINGSTAR