31 March 2020

ifsinvest Cautious Model – March 2020 Quarterly Report

Actual asset allocation as at 31 March 2020

Cash	32%
Fixed Interest (Global & Aus)	36%
Alternative Debt	5%
Liquid Alternatives	5%
Australian Shares	12%
International Shares	10%

Fund facts

Inception date
1 December 2017
Recommended investment timeframe
5 years plus
Performance-related fee
0.00%
Return objective
Inflation plus 2.25% per annum, over rolling 5 year periods
Risk objective
Limit negative annual returns to 1 in 10 years
Investment Management fee
Direct: 0.15% (cap $5m) Indirect: 0.14% Total: 0.29%

Fund Objective

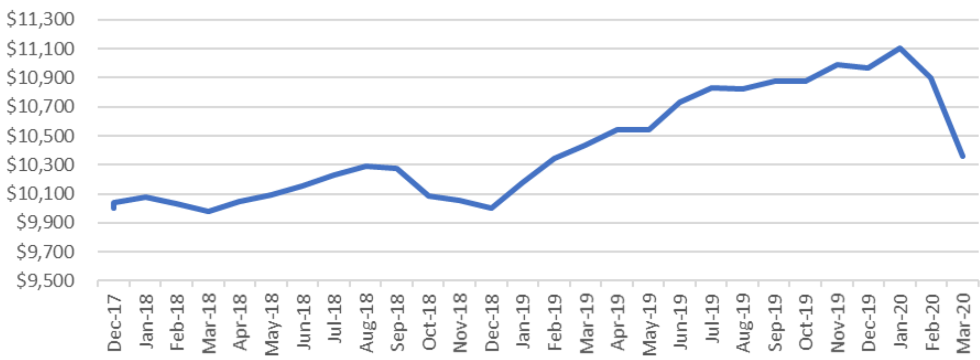
The Cautious Model aims to achieve a return of inflation + 2.25% p.a. on a rolling five-year basis.

Performance as at 31 March 2020

	3 Months %	1 Year %	2 Year %
Net return	-5.55	-0.78	1.87
Objective (CPI +2.25%)	0.91	4.44	4.01

Net return is shown after investment fees and costs but before administration fees. Please see the Product Disclosure Statement for further information in regards to fees. Past performance is not a reliable indicator of future performance.

Growth of $10,000 ($Aud)



Allocations

Top 5 Geographic Allocation	
Australia	61.66%
USA	19.10%
Japan	4.47%
France	1.82%
UK	1.55%

Top 5 Currency Exposures	
Australian Dollar	95.82%
US Dollar	2.84%
Japanese Yen	0.31%
Chinese Yuan	0.23%
Korean Won	0.19%

Top 5 Exposures	
Bank certificates of deposit	27.77%
Government Bonds (Australia)	9.24%
United States Treasury	8.08%
Japan (Government of)	3.34%
Bank floating rate notes	2.91%

Top 5 Equity Exposures	
CSL Ltd	0.95%
Commonwealth Bank of Australia	0.84%
BHP Billiton	0.71%
Westpac Banking Corporation	0.49%
Microsoft Corp	0.41%

Fund Commentary

The March 2020 quarter was one of the most negative, and volatile, that investment markets have faced in recent decades. As the quarter began, Australia was coping with a dramatic summer. Drought and bushfires made headlines in a more dramatic way than anyone would have hoped, with some rural communities facing ruin, with disagreement amongst commentators and politicians over the causes and the response. As January progressed, the world became aware of a new respiratory illness in China, COVID 19. By the end of the month the World Health Organisation reported 7,818 cases globally, with only 82 outside China. The Chinese government had shared the genetic profile of the virus with researchers round the world. This, together with the strict lockdown imposed on the city of Wuhan, and the quick construction of a new hospital, led many to believe the threat from the virus would be contained. Markets continued to advance, with Australia's 200 largest companies (represented by the ASX 200 index) gaining 4.98% for the month.

This rally in stock markets continued into February, but as the month progressed new facts emerged and investors took a far less benign view of COVID 19. The first headlines to grab our attention related to the astonishing situation of a cruise ship docked in Yokohama, where the number of confirmed cases rapidly increased to include 712 of 3,711 people on board. Against the backdrop of these infections, and the evacuation flights of foreign nationals from the locked down city of Wuhan, the global infection numbers began to quickly climb. By 22 February, the Australian Government reported that there were now 77,794 infections globally, including 2,359 deaths. These remained 98% restricted to China, but it was clear to most observers that China was going to be facing a challenge to economic growth and there would be some disruption to global supply chains. The Australian cases totalled 22; 15 linked to Wuhan and 7 from Australians repatriated from the cruise ship in Yokohama. During the last 6 business days of February, markets fell with shocking rapidity: the ASX 200 fell by 10% in this period.

As March unfolded, the global infection rate accelerated. As we were jolted emotionally from the extraordinary scenes in Italy, we were told to stay at home. Faced with serious job insecurity and good old fashioned fear, consumer confidence dropped. The Westpac-Melbourne Institute Index of Consumer Sentiment fell dramatically, in fact the April index (capturing most of March) showed the biggest monthly decline in the whole 47 years of their survey. There were very strong policy responses from the various arms of government, both monetary and fiscal. The monetary response included 2 interest rate cuts and a yield targeting operation, essentially buying bonds to keep bond yields at 0.25%. Apart from the direct impact on households through mortgage repayments, these policies were hoped to stabilise bond markets and ensure a low, consistent bond yield which may underpin share prices. The fiscal response was no less dramatic, with unprecedented government intervention in the job market and spending approaching 10% of GDP (over 5 times the stimulus during the 2008 Global Financial Crisis). During the course of March though, markets continued to fall with the ASX 200 losing 20.65%.

Against the backdrop of such significant human, economic and investment damage, the Cautious model inevitably suffered a loss for the March quarter. It fell by 5.55%, which took the 1 year return into negative territory as well. But over the quarter, the ASX 200 lost over 23%. The Cautious model held up well under the circumstances, highlighting the importance of diversification. During the quarter, the diversification benefit was realised from two main areas, fixed interest and international shares. The fixed interest allocation is defensively positioned mostly in government bonds, which rallied over the quarter – the FTSE World Government Bond Index returning 3.91%.