

## Investment Objective

The IQCM Balanced portfolio aims to provide a combination of income and moderate capital gains over rolling three-year periods by investing in a blend of Australian and International shares, Property, Infrastructure Assets, Bonds and Cash. The portfolio is designed for investors who:

- Are seeking a portfolio diversified across a range of different asset classes;
- Are seeking a combination of income and moderate capital gains and have a low to medium tolerance for risk and so are willing to accept a medium degree of volatility in order to achieve their long-term investment objective; and
- Desire a portfolio where the asset allocation is actively managed based on changes in market valuations.

## Distributions

The IQCM Balanced Portfolio will have semi-annual distributions. The portfolio offers investors the ability to automatically reinvest distributions at no cost whilst also providing high liquidity for ease of client withdrawals.

## Methodology

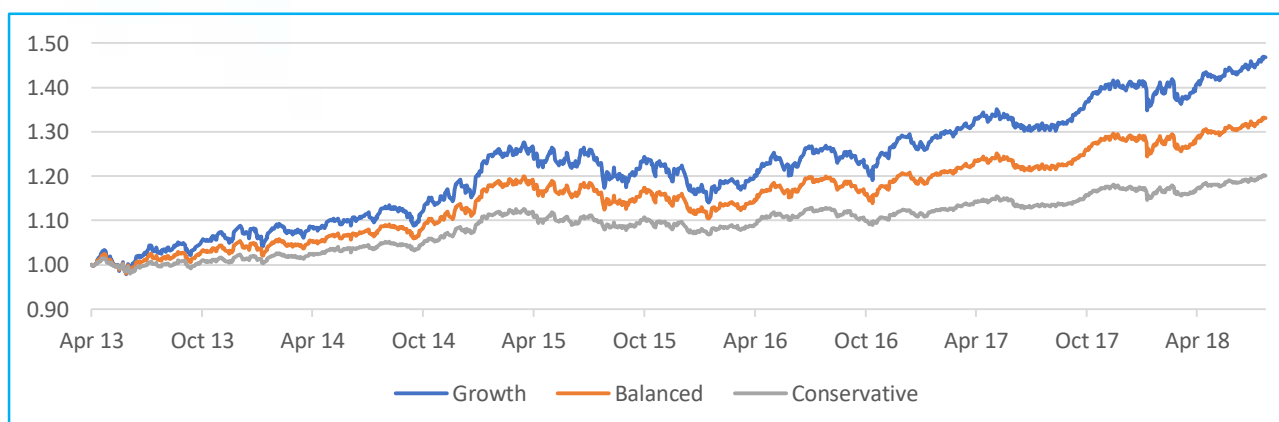
The portfolio invests across a multitude of asset classes including Australian and International shares, Property, Infrastructure Assets, Bonds and Cash. This is because the manager believes diversification across asset classes will result in higher risk-adjusted returns over the long term. The portfolio will vary its asset allocation based on the manager's objective process that aims to determine the appropriate mix of asset classes that is likely to meet the portfolio's objective.

## Performance (as at 30 September 2018)

	1 month (%)	2 months (%)	3 months (%)	6 months (%)	Since inception (%)*
Performance (p.a.)	(0.23%)	1.40%	2.43%	n/a	3.79%

\* Inception date was 30 May 2018

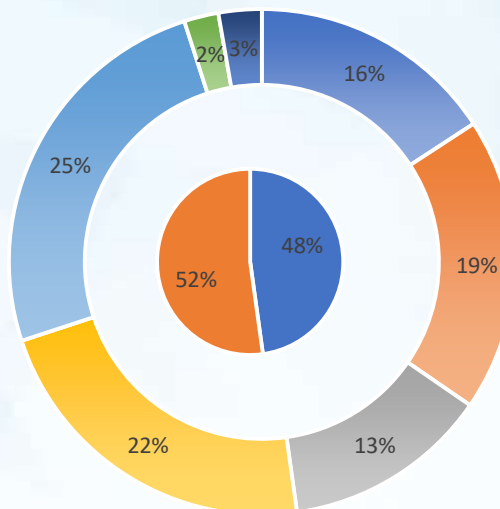
### Historical Performance (based on a non-actual portfolio with a similar strategy)



**Note:** As the portfolio is newly established, the performance of a similar, non-actual portfolio is shown above to illustrate how a portfolio using a similar strategy may have performed in the past. Please note however that the initial allocations to various asset classes (which weren't subsequently rebalanced) used to establish this non-actual portfolio as at 30 April 2013 are intended solely to show how a similar portfolio may have performed from that date. Historical performance of the non-actual portfolio is not a reliable indicator of the performance of the IQCM Balanced Portfolio. Returns are before fees and expenses, assume reinvestment of any distributions and do not take into account taxes.

## Asset Allocation

- Cash %
- Australian Bonds %
- International Bonds %
- Australian shares %
- International shares %
- Australian listed property %
- International listed property %



## Investment Commentary

Australian shares had a reasonable first quarter of the 2019 financial year, with the S&P / ASX 200 Total return index rising 1.5% during the period. Despite recent pullbacks, there remains a bifurcation within the Australian market – and in fact in many overseas markets too – between the high-flying growth and momentum stocks and cheaper, more boring value stocks.

The portfolio makes no attempt to emphasise value or growth stocks but this is an interesting dynamic that tends to repeat – and subsequently reverse – as stock markets go through their various cycles.

The portfolio benefitted from the 7.0% rise in the S&P 500 during the September quarter. The US economy continues to grow strongly, expanding at an annualised rate of 4.2% in the June quarter, while the US unemployment rate fell to 3.7% in September, the lowest in nearly 50 years.

While inflation continues to inch up, it is still relatively low, thereby helping 80% of US companies beat estimates for second-quarter earnings (according to Factset).

However, with US unemployment so low and tax cuts and a large fiscal deficit helping boost the economy further, we wouldn't be surprised if inflation continued to rise in coming years.

If this continues, then we'd expect US interest rates to keep rising also. The 10-year US government bond yield rose from 2.85% to 3.06% over the quarter and has risen further since, to 3.15% at the time of writing.

As such, we think the Federal Reserve may be at risk of being behind the curve in reducing the extremely accommodative monetary policy that has been a feature of the US economy – and in fact, most of the world's other developed economies too – since the GFC.

Bond investors are starting to believe in the idea of higher interest rates too. Our positions in investment grade fixed rate Australian bonds issued by government entities, semi-government entities and corporates lost 0.46% in September, although they eked out a 0.49% gain for the quarter.

Similarly, our positions in foreign investment grade bonds issued by government entities, semi-government entities and corporates lost 0.31% in September but nevertheless was still up 0.55% for the quarter.

Consistent with our view that the Federal Reserve risks getting behind the curve in terms of raising interest rates to help cool at very strong US economy, we have moved a portion of both our Australian and foreign bond investments into floating-rate bond investments.

### Disclaimer:

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While the Federal Reserve's actions most directly affect the US bond markets, due to Australia being dependent on foreign capital flows, we think higher interest rates in the US will flow through to Australia to at least some extent.

An example of what could occur can be seen in moves recently by three of the big four banks to raise their variable mortgage rates "out-of-cycle" (ie without the Reserve Bank of Australia raising the official cash rate). The banks justified their move by pointing to rising funding costs as a result of higher interest rates overseas.

The adjustments to the portfolio were made after quarter end.

## IQCM Balanced Portfolio Key facts

- ❖ Inception date: 30 May 2018
- ❖ Management fee: 0.50% per annum
- ❖ Distribution frequency: semi-annual
- ❖ Number of holdings: 8
- ❖ Minimum investment: \$50,000

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