

ENHANCED STRATEGIC MODEL PORTFOLIOS ETF ONLY

Allocations as of 11 December 2018



Key Takeaway: US China trade issues remain unresolved. Maintain low active risk positioning.

- **Overweight equities to fixed income.** We continue to maintain our preference for equities over fixed income assets. We see little changes in our quantitative signals within the model, and retain portfolio resilience in the face of persistent macro economic uncertainty.
- **Reduce developed market equity exposure.** We trim model exposure to both European (IEU) & Japanese equities (JJP). Within Japan, we still retain a small active, overweight position. Within MSCI Europe & EAFE, we move to nil exposure across all model portfolios.
- **Reposition Australian equity exposure.** We take this quarterly rebalance as an opportunity to reduce model overweight to Australian small cap equities (ISO), and move to a moderate overweight positioning in broad cap Australian equities (IOZ).
- **Further increase US equity overweight.** The model portfolios continue to hold an overweight to US equities, and we take this model rebalance as an opportunity to increase our overweight positioning in both hedged & unhedged exposures (IVV & IHVV).
- **Retain benchmark weight to Emerging Market Equities.** As per the last model rebalance on 15th August 2018, we continue to remain at benchmark weight to emerging market equities across all model portfolios (IEM).
- **Fixed income assets.** We take this quarterly rebalance as an opportunity to rotate from an overweight to underweight in Australian fixed income assets (IAF). We thus tactically overweight to domestic government bonds (IGB). The models also move to maximum underweight to global spread assets (IHCB).

Trade Rationale

- **Asset allocation:** Our overweight positioning to equities relative to fixed income assets is largely driven by the need to retain portfolio resilience, where we retain a similar, nominal active risk budget from last model rebalance in November 2018, relative to the model strategic asset allocation.
- **Australian equities:** The model portfolios move from underweight broad based Australian equities (IOZ) to moderately overweight, & cut our tactical overweight to Australian Small Caps (ISO). Momentum & valuations have firmed slightly in domestic equities, but macro risks remain. Our base case is that wage growth & inflation remain weak for some time. A cautious consumer, coupled with high personal debt levels we anticipate will lead to a patient Reserve Bank of Australia. The backdrop of geopolitical trade tensions have the potential to escalate, coupled with domestic credit conditions continuing to tighten, lead us to be more cautious with the model portfolios domestic equity allocation.
- **Developed Market Equities:** Elevated concerns regarding the impact of heightened US & China trade tensions continue to pose downside risk to global GDP. With the October market sell-off, valuations look more attractive across developed market equities, yet we continue to remain watchful. We look to increase model exposure to US equities (IVV & IHVV), funding this overweight from European equities. We move to maximum underweight European equities (IEU) as relatively muted earnings growth, weak economic momentum & political risks persist as headwinds.
- **Fixed Income:** Within Global Fixed Income, we further trim exposure to Global Credit assets, as represented by the exposure IHCB. Sustained growth does support credit assets, yet high valuations continue to limit upside. We also take this rebalance as an opportunity to rotate from overweight to underweight in Australian investment grade fixed income securities (IAF), moving tactically into an overweight position in Australian treasury bonds (IGB).






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Allocations as of 11 December 2018¹

Portfolio Constituents & Weights – 11 December 2018 ¹		Conservative	Moderate	Balanced	Growth	Aggressive
						
Composite Management Fee ²		0.19%	0.19%	0.19%	0.19%	0.19%
Australian Fixed Income		52.7%	43.5%	31.5%	19.6%	9.8%
IAF	iShares Core Composite Bond ETF	40.7%	33.2%	23.2%	13.2%	4.7%
IGB	iShares Treasury ETF	12.0%	10.3%	8.3%	6.4%	5.1%
International Fixed Income		12.8%	9.7%	5.5%	1.5%	-
IHCB	iShares Core Global Corporate Bond (AUD Hedged) ETF	12.8%	9.7%	5.5%	1.5%	-
Australian Equity		8.4%	18.5%	29.5%	41.0%	49.3%
IOZ	iShares Core S&P/ASX 200 ETF	8.4%	17.0%	28.0%	39.5%	47.8%
ISO	iShares S&P/ASX Small Ordinaries ETF	-	1.5%	1.5%	1.5%	1.5%
Developed equity		9.1%	12.8%	21.0%	28.4%	33.7%
IJP	iShares MSCI Japan ETF	-	-	1.5%	2.4%	2.5%
IVV	iShares S&P 500 ETF	3.7%	4.9%	7.2%	9.5%	11.3%
IHVV	iShares S&P 500 AUD Hedged ETF	3.7%	4.9%	7.3%	9.5%	11.3%
WVOL	iShares Edge MSCI World Minimum Volatility ETF	1.7%	1.5%	2.5%	3.5%	4.3%
WDMF	iShares Edge MSCI World Multifactor ETF	-	1.5%	2.5%	3.5%	4.3%
Emerging Equity		-	1.5%	2.5%	3.5%	4.2%
IEM	iShares MSCI Emerging Markets ETF	-	1.5%	2.5%	3.5%	4.2%
Cash		17.0%	14.0%	10.0%	6.0%	3.0%
ISEC	iShares Enhanced Cash ETF	14.5%	11.5%	7.5%	3.5%	-
BAUBIL	AusBond Bank Bill Index	2.5%	2.5%	2.5%	2.5%	3.0%

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Footnotes

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² Composite Management Fee is as of 11 December 2018 and subject to change. Composite Management Fee is the weighted average of the management fee/TER of each iShares ETF (as disclosed in the iShares ETF's current offer document) including in the model portfolio.

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