

ENHANCED STRATEGIC MODEL PORTFOLIOS ETF ONLY

Allocations as of 6 November 2018








Key Takeaway: Cut model risk. Maintain overweight positioning to growth assets.

- **Overweight equities to fixed income.** We maintain our preference for equities over fixed income assets, but take the opportunity to reinforce a focus on portfolio resilience amidst increasing uncertainty.
- **Reinstate Emerging Market equities at benchmark weight.** Emerging market equities offer attractive valuations, along with the backdrop of economic reforms & robust earnings growth. Financial contagion risks, whilst ever present, remain low. Whilst uncertainty around trade isn't likely to dissipate, a great deal of this reservation is already priced in.
- **Reduce tactical overweight to Australian Small Cap equities, trim underweight to ASX200.** The Australian equity market has underperformed the broader developed market index through October, with the S&P / ASX200 index returning -6.05%, with developed market equities down 5.41% throughout the month (MSCI World net in AUD). As a result of the recent sell off, we see valuations in broad based domestic equities firming up since last rebalance, and take this opportunity to trim risk in domestic small cap equities (ISO), as well as reduce our underweight to the S&P / ASX 200 ETF (IOZ).
- **Trim US equity overweight.** Solid corporate earnings & strong economic growth underpin our positive view of this asset class. Whilst we are mindful of US midterm elections potentially resulting in a shift in the balance of power in Washington, any near term policy shifts seem unlikely. Equity momentum continues to firm up, and whilst we retain an overweight position, we trim this overweight slightly to reduce total portfolio risk.

Trade Rationale

- **Asset allocation:** Our overweight positioning to equities relative to fixed income assets continues to be driven by our overweight positioning in US & Japanese equities. Within Japan, in spite of a weaker yen, solid corporate fundamentals & cheap valuations remain supportive.
- **Australian equities:** The model portfolios continue to underweight broad based Australian equities (IOZ), but less so than the August model rebalance. We take this rebalance as an opportunity to increase the models exposure to broad based Australian equities slightly, yet retain a modest underweight relative to benchmark. Reducing the tactical tilt to domestic small cap equities (ISO) serves to reduce overall model portfolio risk. We continue to monitor the possible fallout from the Hayne royal commission into the banking & finance sector, coupled with muted credit growth amongst the big four major banks.
- **Emerging Market Equities:** Elevated concerns about the impact of heightened US & China trade tensions spooked investors through the month of October. With Trump & Xi to meet at the G20 summit in late November, a successful summit may help eliminate a major tail risk in the market, with emerging market equities likely to benefit the most. We also take this rebalance as an opportunity to reposition to benchmark weight as our underweight to EM equities has contributed positively to active returns since August 15th rebalance.
- **Fixed Income:** Within Global Fixed Income, we continue to hold underweight positioning relative to our Strategic Asset Allocation, represented by the exposure IHCB. We also retain our overweight positioning to Australian Fixed Income (IAF) to further diversify portfolio risk.

Allocations as of 6 November 2018¹

Portfolio Constituents & Weights – 6 November 2018		Conservative	Moderate	Balanced	Growth	Aggressive
						
Composite Management Fee ²		0.19%	0.20%	0.20%	0.20%	0.21%
Australian Fixed Income		51.8%	43.8%	31.0%	20.6%	10.0%
IAF	iShares Core Composite Bond ETF	48.1%	40.9%	31.0%	20.6%	10.0%
IGB	iShares Treasury ETF	3.7%	2.9%	-	-	-
International Fixed Income		14.0%	9.6%	6.8%	1.6%	-
IHCB	iShares Core Global Corporate Bond (AUD Hedged) ETF	14.0%	9.6%	6.8%	1.6%	-
Australian Equity		8.2%	16.5%	27.6%	38.5%	46.7%
IOZ	iShares Core S&P/ASX 200 ETF	5.5%	13.6%	24.6%	35.5%	43.6%
ISO	iShares S&P/ASX Small Ordinaries ETF	2.7%	2.9%	3.0%	3.0%	3.1%
Developed equity		8.9%	14.3%	21.8%	29.6%	35.9%
IJP	iShares MSCI Japan ETF	-	-	1.5%	3.2%	3.8%
IVV	iShares S&P 500 ETF	3.6%	4.9%	6.9%	8.7%	10.6%
IVE	iShares MSCI EAFE ETF	-	1.5%	-	-	-
IEU	iShares Europe ETF	-	-	1.5%	1.7%	2.3%
IHVV	iShares S&P 500 AUD Hedged ETF	3.6%	4.9%	6.9%	9.0%	10.6%
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		17.1%	14.3%	10.3%	6.2%	3.2%
ISEC	iShares Enhanced Cash ETF	14.6%	11.7%	7.7%	3.6%	-
BAUBIL	AusBond Bank Bill Index	2.5%	2.6%	2.6%	2.6%	3.2%

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Footnotes

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² Composite Management Fee is as of 6 November 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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