First Point Balanced Model Portfolio
Quarterly Update | March 2020

Model Performance as of 31 March 2020

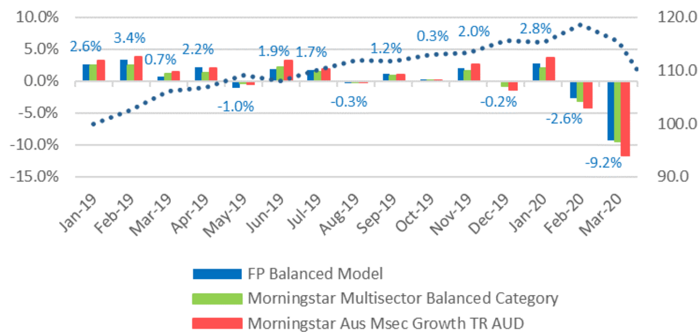
Performance at 31 March **2020**	1-Month	3-Month	6-Month	12-Month
FP **Balanced** Model [1]	-9.2%	-9.2%	-7.3%	-1.9%
Morningstar Aus Msec **Growth** TR AUD	-11.6%	-12.2%	-11.0%	-3.9%
Excess Returns	***2.4%***	***3.0%***	***3.7%***	***2.0%***

(1) Shadow portfolio performance. Gross of Investment Mangement Fees. Indicative Only

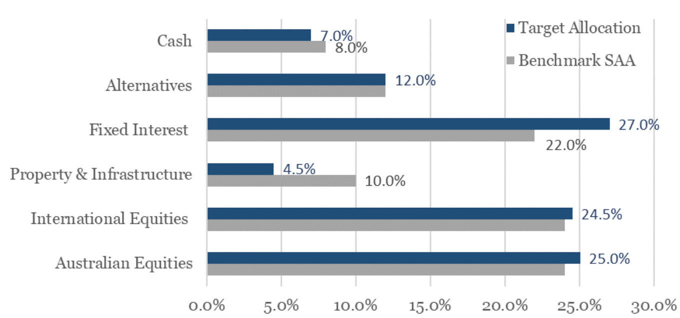
Balanced Funds **Peer Group** Performance[2]	-9.4%	-10.4%	-9.7%	-4.8%
Excess Returns	***0.2%***	***1.3%***	***2.4%***	***2.9%***

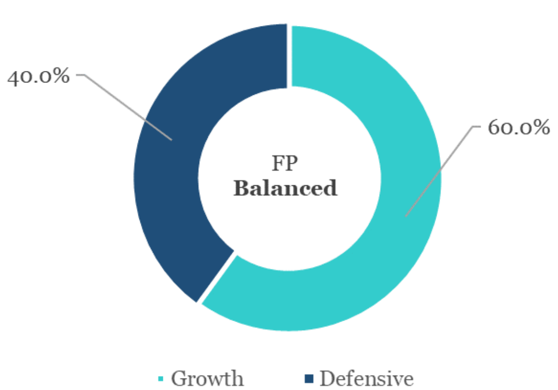
(2) Based on Morningstar Multisector Balanced Category

FP **Balanced** Model | *Monthly Performance*
January 2019 - March 2020



FP **Balanced** Asset Exposures | 31 March 2020





Portfolio Objective |

To produce long term returns and volatility levels **consistent with the stated balanced risk profile of the portfolio** via investment in active managers with an active asset allocation overlay that is expected to produce returns in excess of equivalent passive market benchmarks over the longer term.

Primary Benchmark |

Morningstar **Aus Msec Growth** TR AUD

Return Objective |

To exceed the Morningstar Aus Msec **Growth** TR AUD benchmark over a rolling 5-year period

Platform Availability |

- Hub 24
- XPLORE Wealth

Quarterly Performance Overview |

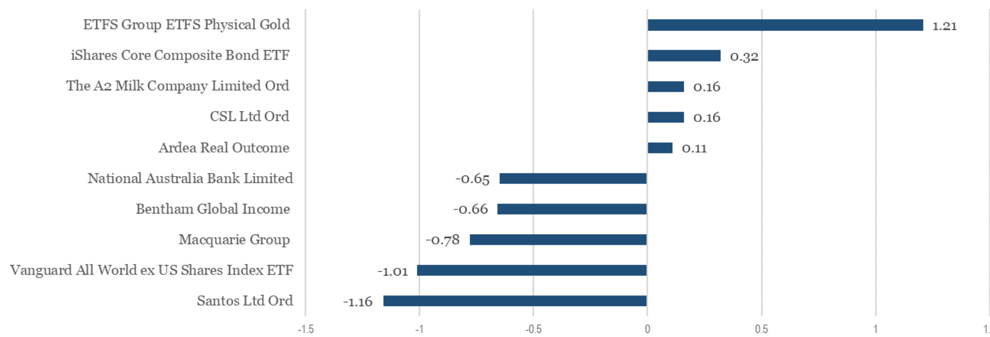
The First Point Balanced Model lost -9.2% in the first quarter of 2020, a negative result in an extremely difficult quarter as the Coronavirus swept the world which in turn caused one of the fastest & deepest pullbacks in equity markets in modern history. **The domestic ASX 200 index declined -36.5% in 23 days from the 20th of February to the 23rd of March.** The speed and magnitude of the markets decline was the worst since the GFC with correlations among all asset classes rising significantly & adding to overall risk.

The market response to the pandemic event tested our investment process & exposures. Pleasingly, diversification across different asset classes as well as superior underlying investment selections within equities helped mitigate the overall negative returns in the portfolio. As a result, the **Balanced model outperformed both its primary Morningstar Growth benchmark by approximately 3.0% over the quarter and the Morningstar Balanced Peer Group Category by about 1.3%.**

From an asset allocation perspective, **our relative over-weight exposure to Fixed Income and zero exposure to Global (-30%) & Domestic Property (-34%) helped us achieve the better outcome**. Further, our **superior investment selections within both International & Domestic Equities** contributed to the better result.

The **Australian Direct Equity (AE)** (-21.8%) model ended up only slightly ahead of the ASX 200 index for the quarter by c. +1.3%. The portfolio exposures to **A2 Milk (+16%) & CSL (+8%) were the only ones to post positive absolute returns,** while Woolworths (-1.7%) and Northern Star (-6.4%), albeit ending in negative territory, also had a positive contribution to the asset class return in a relative sense.

FP **Balanced** Model | Top 5 Contributors & Detractors
3-Months to 31 March 2020



Adding new positions to Coles and Transurban towards the end of March, while reducing exposures to Amcor & Macquarie, also helped increase the defensive positioning of the AE exposure. Our positions in Santos (-57%), which fell precipitously in line with the collapse of the oil price, NAB (-32%) & Aristocrat Leisure (-36%) detracted the most on a relative and absolute basis.

Superior investment selections in **International Equities (IE) (-12.5%)** resulted in the asset class outperforming the passive MSCI ex Australia 50/50 Hedged/Unhedged benchmark by c. +8.0%. The IE exposures to the US share market **via the iShares Core S&P 500 ETF (-8.06%)** and the unhedged exposure to Asia via **Vanguard FTSE Asia ex-Japan ETF (-9.4%) contributed** to the outperformance, while our hedged exposure to **Vanguard International Share Index Fund (-20.6%)** declined the most. With most of the IE exposures unhedged over the quarter, the decline in the A$ provided a much-needed protection on the downside.

Fixed Income (FI) (-1.81%) held up relatively well from a diversification and overall portfolio perspective with the **iShares Composite Bond ETF (+2.5%)** ending higher over the quarter, however our exposure to corporate credit via **Bentham Wholesale Global Income Fund (-9.4%)** disappointed as credit spreads widened and liquidity dried up. In order to reduce the overall interest rate beta risk within FI exposures, we added a new position to the Ardea Real Outcome fund ('Ardea') to the asset class. Ardea is a relative value FI strategy exploiting potential inefficiencies in the government bond sector with no systematic equity beta risk thus expected to reduce volatility in this asset class and the overall portfolio.

Finally, our **allocation to Alternatives paid off with positive contributions from ETFS Gold & JP Morgan Macro fund** which outweighed lackluster results from Harvest Lane & Partners Group over the quarter. Due to the deteriorating outlook for M&A we decided to exit our position in Harvest Lane in the beginning of March which contributed positively to the overall portfolio return.

The investment committee believe the market will remain volatile for the short term but will try & position the portfolio through this volatility to both preserve capital & also set it up positively for the eventual recovery.

Markets Commentary & Portfolio Positioning

The C-19 pandemic triggered **indiscriminate selling across all markets.** Notably, some countries and sectors that used to be leaders in risk – such as China and Information Technology – ended up being the least risky over the quarter.

Equity Valuations remained challenged as both short-term pricing and earnings estimates were distorted. Significant EPS downgrades, dividend cuts and capital raising announcements are expected over the coming months. Managers remain cautious on using PE multiples alone in their valuations and highlight the importance of taking into consideration balance sheet strength & longer-term industry prospects when making investment decisions.

Fixed income was the only asset class to post positive returns with government bonds largely supported by the extraordinary global monetary policy response in the form of interest rate cuts, increased liquidity & bond buying (QE) which pushed yields lower. **The Australian longer-dated government yields remained slightly above the US 10-year yields at the end of March.** Credit spreads widened with investment grade corporate debt yielding 180bps in Australia and 250bps globally at the end of the quarter.

Unemployment rates began to rise and are expected to lead many economies into recession. Looking ahead, the coordinated policy response will lead to recovery **however global government deficits as % of GDP will increase as well as their role in the financial eco-system potentially leading to slower productivity and growth**. From a portfolio positioning & growth perspective, we will be looking for selective opportunities to position the portfolio for growth by investing in strategies that are better equipped to adapt to the changing environment.