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Actionable Ideas for Diversification

Staying the course is not easy



Disclaimer

WARNING This publication is general information only, which means it does not take into account your investment objectives, financial situation or needs. You should therefore consider whether a particular recommendation is appropriate for your needs before acting on it, seeking advice from a financial adviser or stockbroker if necessary.

DISCLAIMER This publication has been prepared from a wide variety of sources, which InvestSMART Pty Ltd, to the best of its knowledge and belief, considers accurate. You should make your own enquiries about the investments and we strongly suggest you seek advice before acting upon any recommendation.

PERFORMANCE Past performance is not a reliable indicator of future results. Our performance figures are hypothetical and based on recommendations from Intelligent Investor using stock prices at date of publication. Brokerage costs have not been included. As stocks rise and fall, returns may be negative. We encourage you to think of investing as a long-term pursuit.



PAUL CLITHEROE
CHAIRMAN

Opening Address

Paul Clitheroe



RON HODGE
CEO & MANAGING DIRECTOR



Staying the course is not easy



Our Mission

To help our members grow and protect their wealth by providing affordable investment advice and solutions.

WHY?

Because we believe people should be able to take control of their financial future. And it shouldn't be hard or expensive to do so.

HOW?

By providing innovative tools, research and advice that people can trust, empowering them to make better investing decisions.





Our Ethos

We believe in transparency and honesty.
Central to our philosophy are our three core principles:



Diversification

We recognise over the long-term, no one asset class is guaranteed to deliver consistent returns. Instead, we offer solutions to build a diversified portfolio to minimise risk without sacrificing returns.



Lower Fees

Compounded over time, even a small difference in fees can result in substantial differences to your return. That's why our goal is to develop low cost investment solutions.



Transparency

You can see what's in your portfolio at any time and track changes made by us.



Affordable Investment Advice

S.M.A.R.T



Assets on Platform

Total Value of Shares: **\$9,181,836,626**

Total Value of Funds: **\$2,068,419,538**

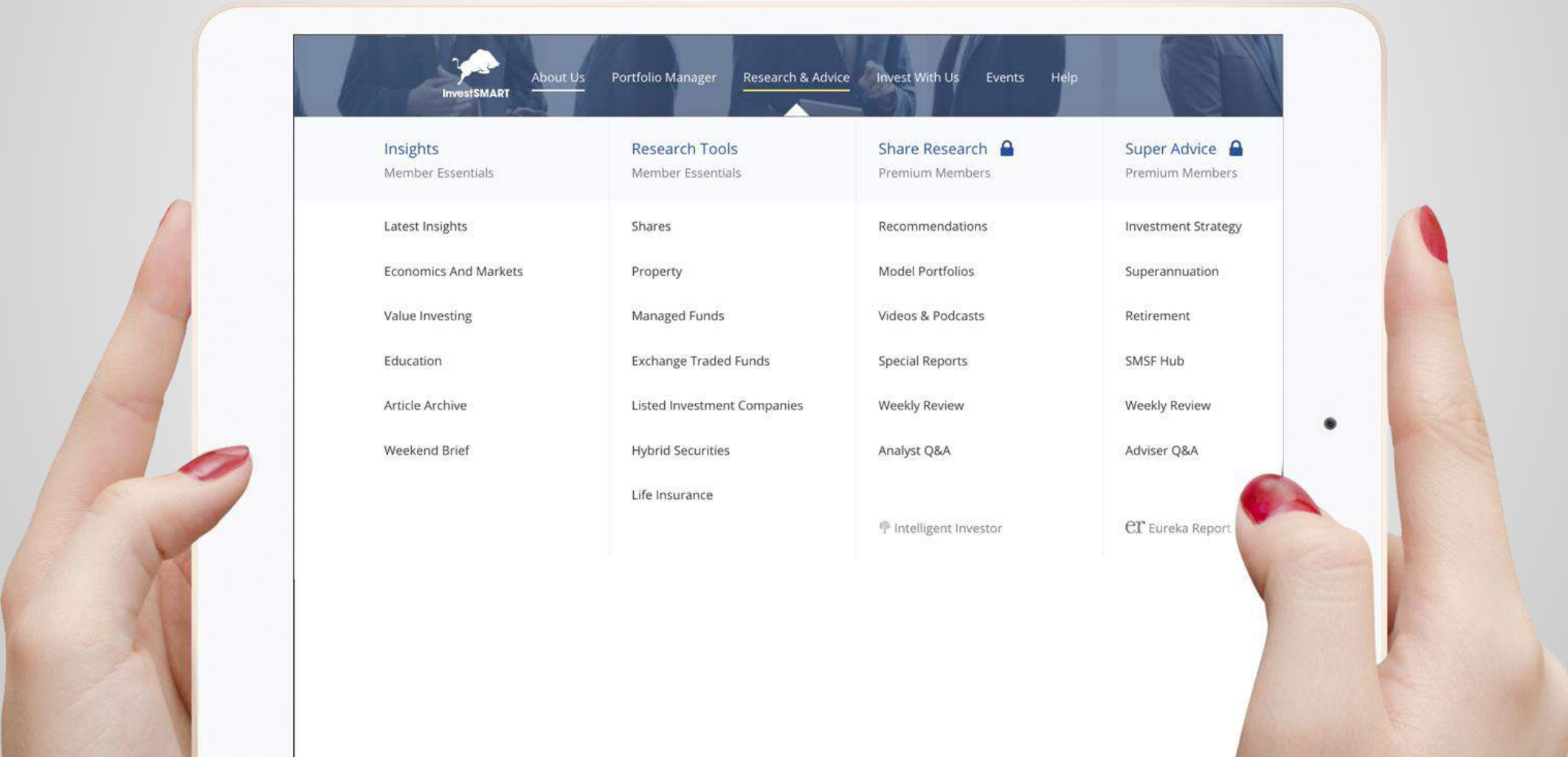
Total Value of Cash: **\$1,956,991,914**

Total Value of Property: **\$7,883,347,175**



Research & Advice

Benefit from independent advice and research from our team of analysts and advisers.





My Portfolio Manager – October 2017

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My Portfolio

Net worth

Superannuation

\$365,208.25

Growth 7 - 10 years

[Add assets](#)[Settings](#)**HealthCheck**

Your score

70%

Performance (last 12 months)

[View more](#)

Dividends

[View more](#)

Company	Dividend	Franking	Ex-div Date
No upcoming dividends found.			

Asset allocation

[View more](#)

Research

[View more](#)

Title	Author	Date
Woolworths: Result 2017	James Greenhalgh	24 Aug 2017
ASX: Result 2017	James Carlisle	23 Aug 2017
Amazon and the Aussie hit list - ...	James Greenhalgh	27 Jul 2017
What Holds should you Buy? Pt 2	John Addis	20 Jun 2017
What Holds should you Buy? Pt 1	John Addis	15 Jun 2017

HealthCheck

[View more](#)

Announcements

[View more](#)

Company	Announcement	Date
INW	Chairman's Address to Sharehol...	22 Nov 2017 8:21AM
INW	Change in substantial holding	16 Nov 2017 10:51AM
ASX	ASX Group Monthly Activity Rep...	3 Nov 2017 9:10AM
ASX	Appendix 3Y - Ken Henry	23 Oct 2017 4:26PM
INW	Proposed Constitution	20 Oct 2017 11:26AM



My Health Check – October 2017

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My Portfolio

Superannuation

Net worth

\$365,208.25

Growth 7 - 10 years

HealthCheck

[Add assets](#) [Settings](#) 

HealthCheck

Your score



HEALTHCHECK

IMPROVE YOUR PORTFOLIO

Summary



Portfolio Health Check

Score is out of a possible 100%

Your investment goal for this portfolio is

7 - 10 years : Growth

Try another investment goal

7 - 10 YEARS : GROWTH

Investment Comparison

Asset class	Is your portfolio over/under weight?
AUSTRALIAN EQUITIES (58.9%)	29.6% 
INTERNATIONAL EQUITIES (23.7%)	5.9% 
PROPERTY (4.1%)	9.8% 
CASH (7.8%)	0.7% 
FIXED INTEREST (5.4%)	13.2% 
ALTERNATIVES (0%)	0% 

Improve My Portfolio



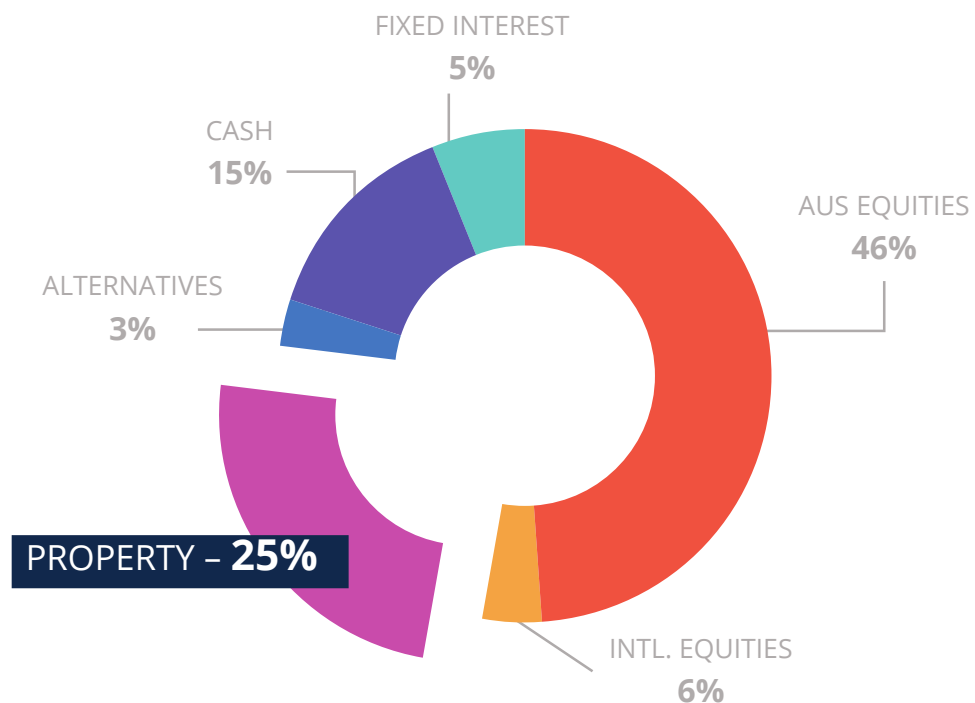
Use our portfolio simulator to see how investing in our expertly managed low cost models could improve your overall portfolio health.

[Improve my portfolio](#)



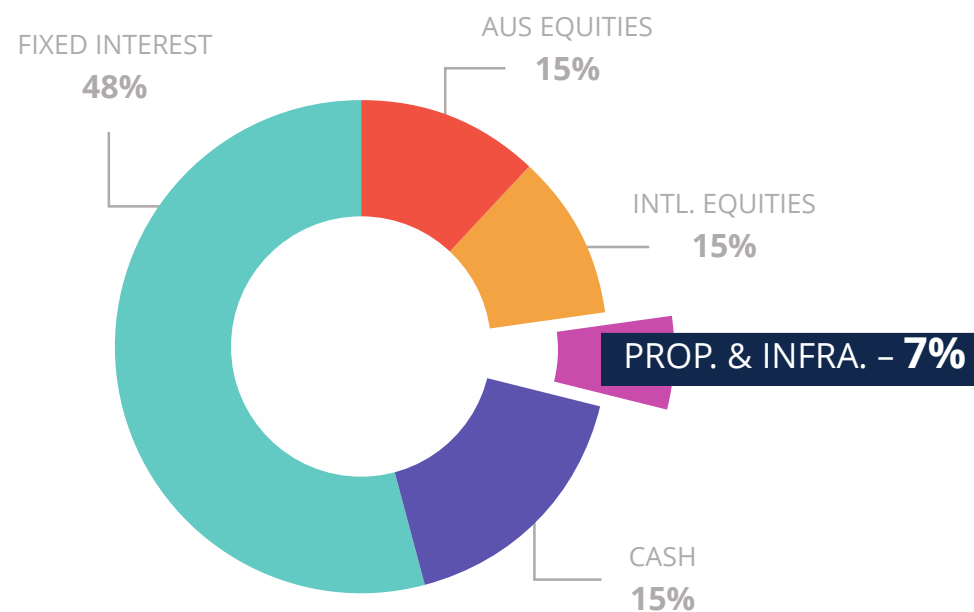
Asset Allocation – Conservative

INVESTSMART
MEMBERS' CONSERVATIVE PORTFOLIO



Biggest moves in 6 months: 3% out of Aus Equities into Property and a little into International Equities

INVESTSMART
CONSERVATIVE PORTFOLIO

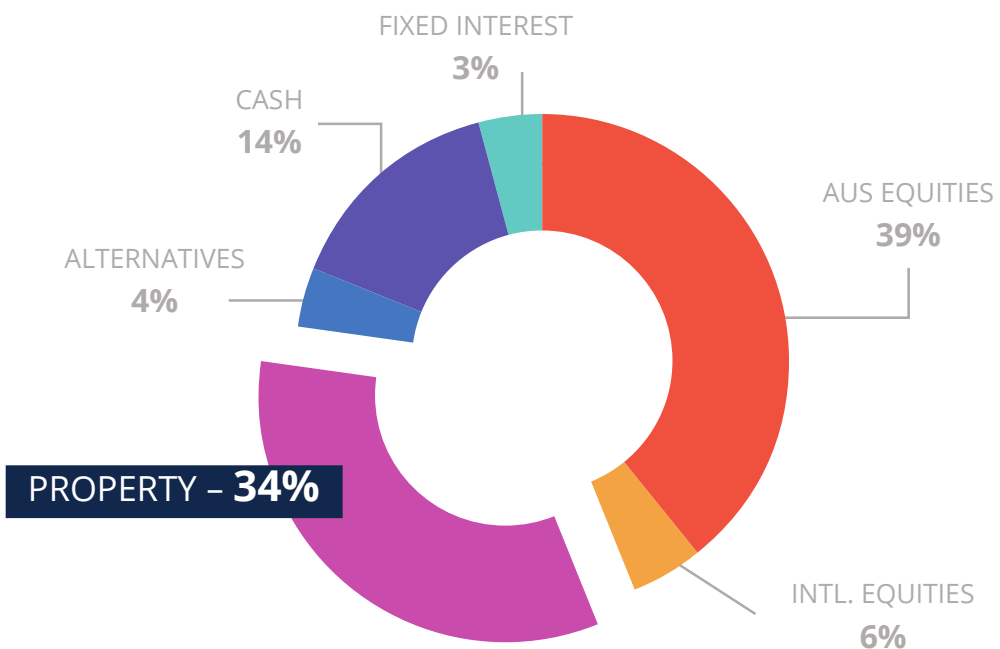


Biggest moves in 6 month: 15% out of cash into Fixed Interest and a small allocation of nearly 5% to Global Infrastructure



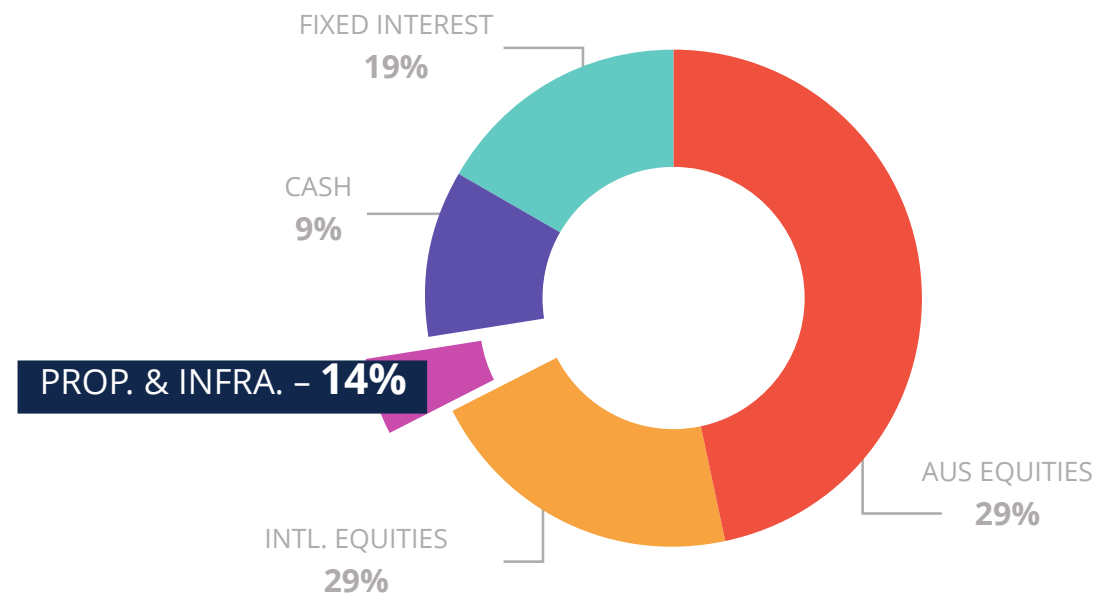
Asset Allocation – Core Growth

INVESTSMART
MEMBERS' GROWTH PORTFOLIO



Biggest moves in 6 months: not much

INVESTSMART
GROWTH PORTFOLIO



Biggest moves in 6 months: 9% out of Australian Equities and into Fixed Interest and a small allocation of nearly 7% to Global Infrastructure



Diversification Still Misunderstood



37%

of Australian adults or **6.9 million** people hold investments that are available through a financial exchange

31%

of Australian adults hold shares

7%

of Australian adults hold derivatives

11%

hold other on-exchange investments



Diversification is still not well understood

46%

of investors claim to be diversified and hold **2.7** investment products

40%

of investors say they do not have diversified portfolios. They hold **1.6** investment products

15%

of investors don't know if they're diversified

75%

of share owners hold only Australian shares



Modern Portfolio Theory

NOBEL PRIZE 1990

"Adding assets to a diversified portfolio that have correlations of less than one with each other can decrease portfolio risk without sacrificing returns."

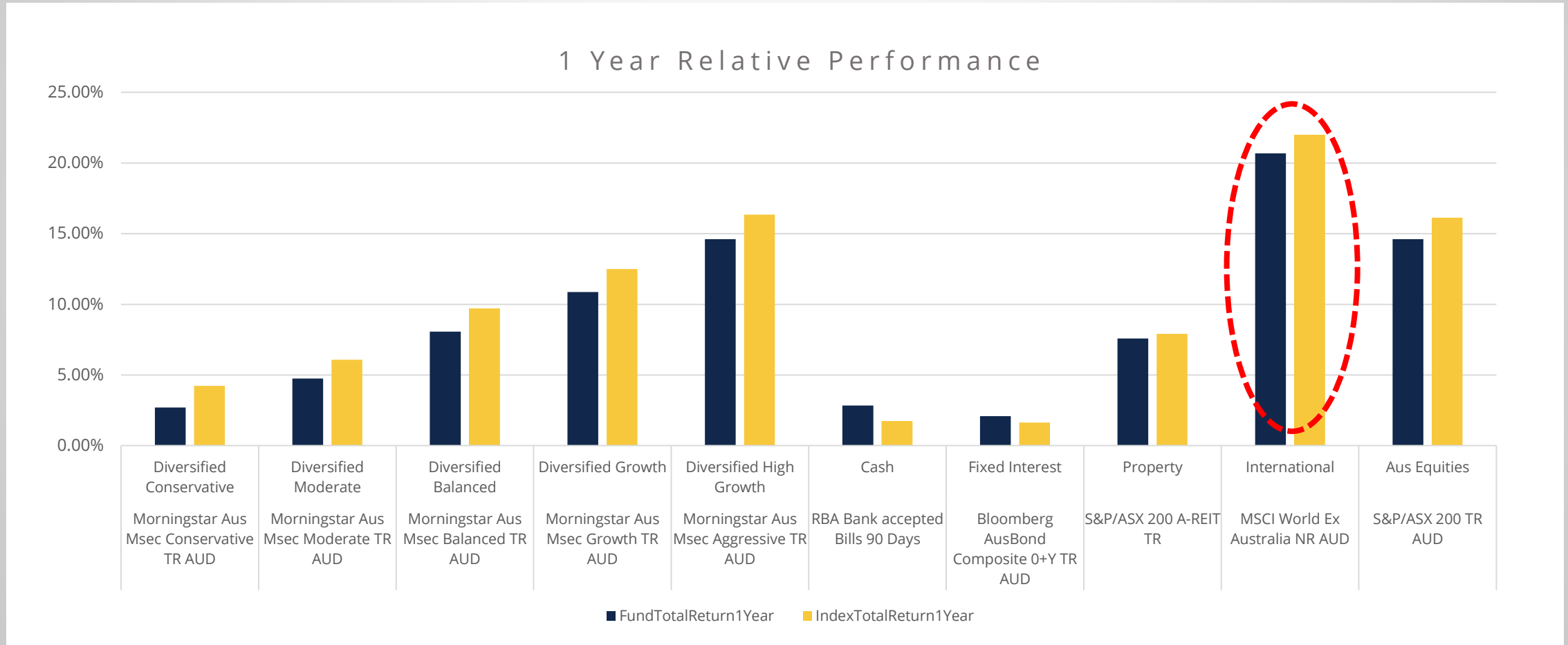
– Markowitz, Sharpe and Miller





1 Year Relative Performance

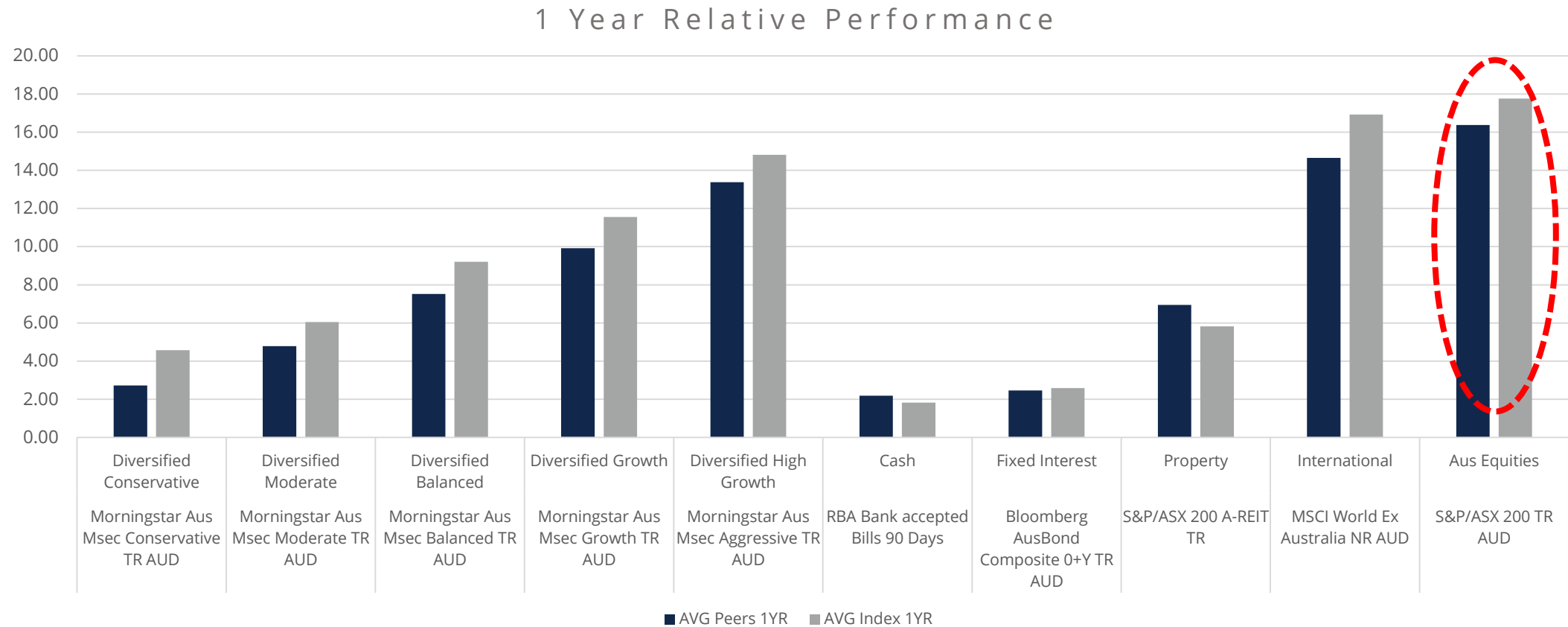
OCTOBER 2017





1 Year Relative Performance

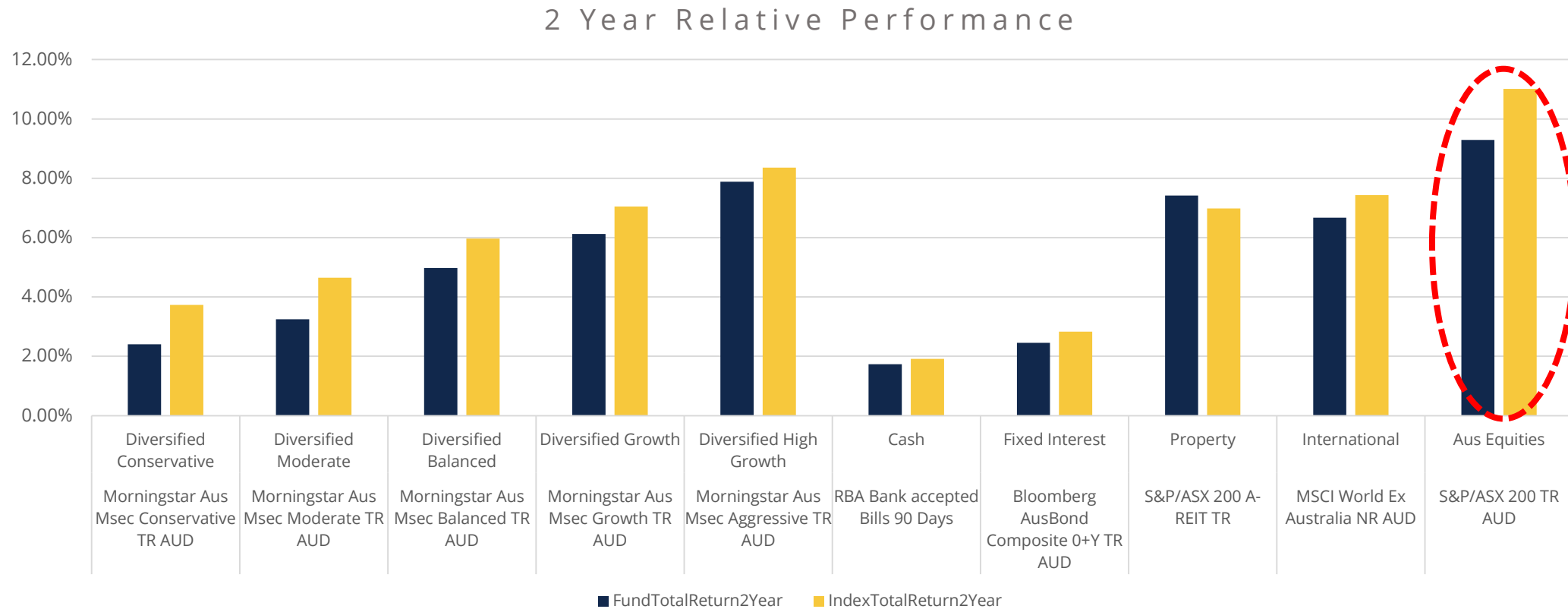
APRIL 2017





2 Year Relative Performance

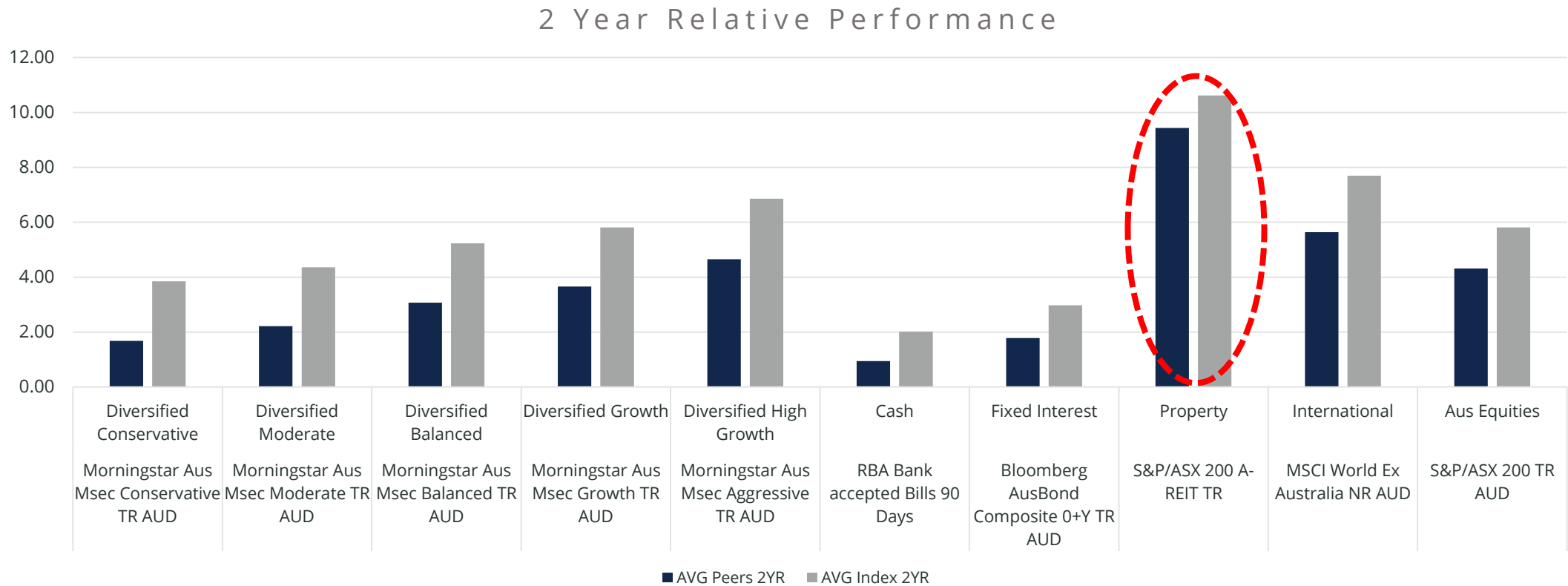
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2 Year Relative Performance

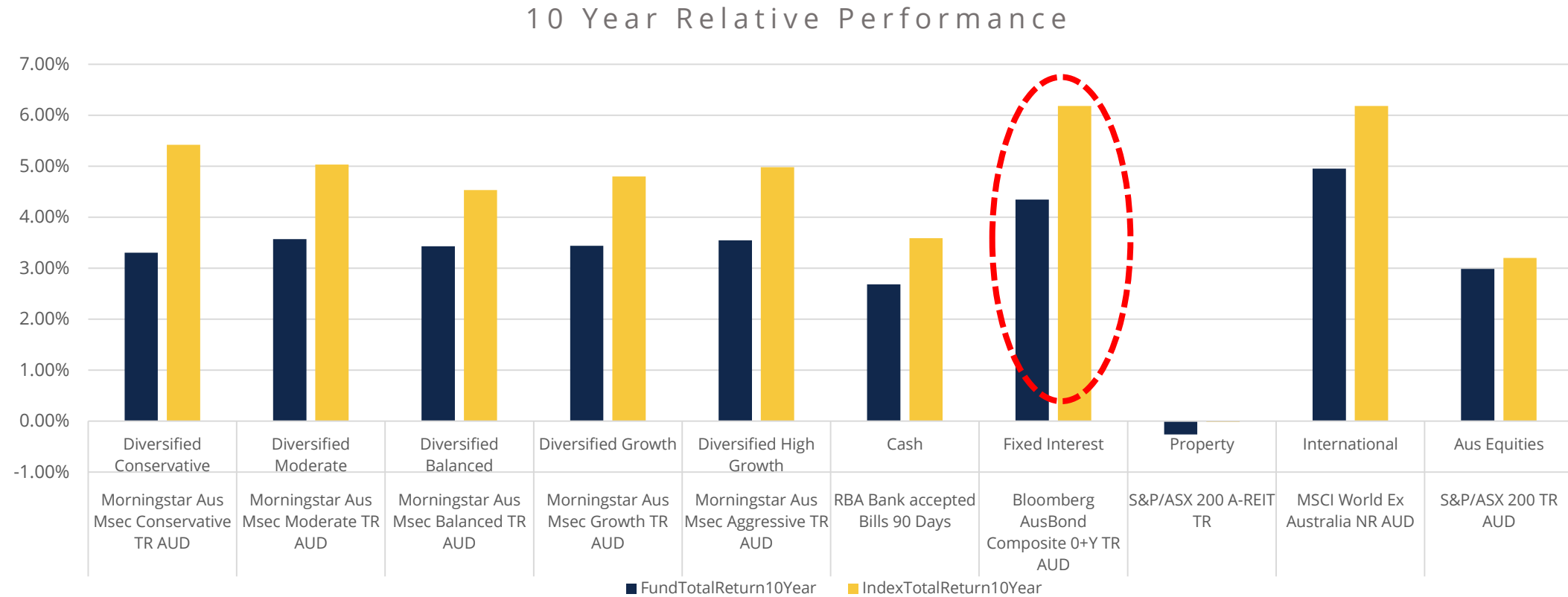
APRIL 2017





10 Year Relative Performance

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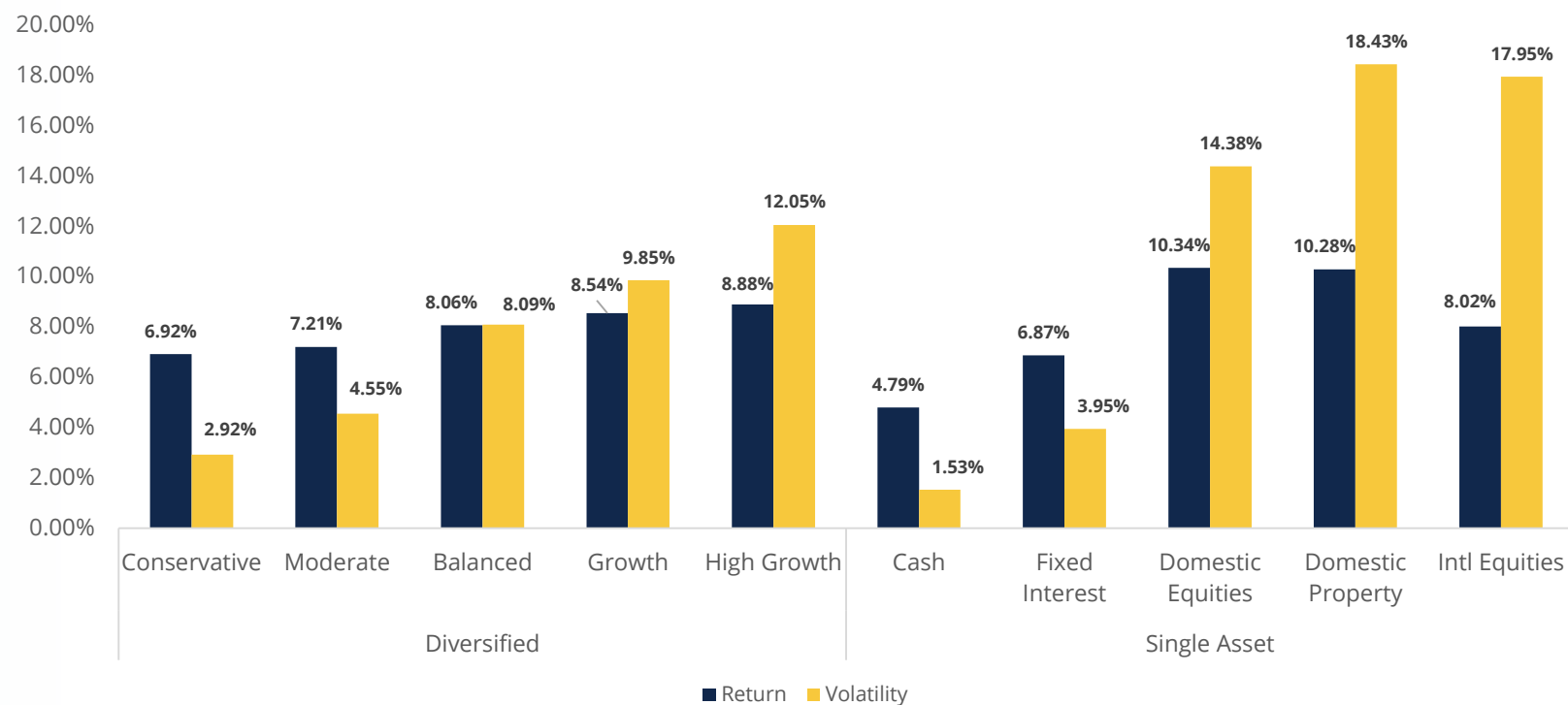
Sequencing risk?

The impact of volatility of investment returns on the value of your investment, called **sequencing**.

Sequencing is the order and timing of investment returns.

The **risk** with **sequencing** and retirement income is that unfavourable investment returns close to retirement can result in less money for retirement.

RISK VS RETURN - 23 YEARS





Does rebalancing work?

Without rebalancing

Total capital = **\$217,814**

Rebalancing only 4x over 20yrs

Total capital = **\$250,666**

CGAR over 20 years without
rebalancing **7.64%**

CGAR over 20 years with
rebalancing **8.39%**

Rebalancing Works				Starting Balance			\$50,000	
		Cash	Fixed Interest	Australia	International	Property	Total	
Rebalance		\$ 4,450	\$ 9,650	\$ 14,700	\$ 14,600	\$ 6,600	\$ 50,000	
YES/NO	Year	RBA Bank	Bloomberg Aus	S&P/ASX All Ord	MSCI World E	S&P/ASX 300	Total	Health Check
0	1997	4,725	10,956	17,214	18,358	7,981	59,235	97.93%
0	1998	4,964	12,182	18,672	25,282	9,611	70,712	93.05%
0	1999	5,210	12,608	21,364	29,660	9,843	78,685	91.51%
0	2000	5,514	13,239	23,619	35,967	10,757	89,096	88.83%
1	2001	8,375	18,892	27,770	23,564	13,556	92,158	96.37%
0	2002	8,767	19,876	27,971	18,673	15,440	90,726	91.38%
0	2003	9,191	21,345	28,280	15,437	17,134	91,387	87.69%
0	2004	9,682	22,293	34,454	17,080	20,626	104,136	87.20%
0	2005	10,225	23,721	43,060	18,627	24,367	120,000	85.94%
1	2006	11,301	24,201	43,923	41,347	19,298	140,070	97.15%
1	2007	13,271	28,109	52,177	43,082	22,512	159,150	95.67%
0	2008	14,237	30,047	43,081	35,389	14,081	136,835	93.75%
0	2009	14,896	32,791	37,623	29,759	8,598	123,668	88.62%
0	2010	15,539	34,648	43,858	30,625	9,942	134,612	87.74%
0	2011	16,315	37,260	44,873	30,345	10,073	138,866	86.71%
1	2012	12,889	29,551	41,208	42,029	21,196	146,873	97.95%
0	2013	13,289	30,732	50,160	55,123	25,748	175,051	96.20%
0	2014	13,645	32,436	55,520	67,740	28,844	198,185	93.67%
0	2015	13,990	34,731	58,877	83,926	35,502	227,026	89.79%
0	2016	14,308	36,226	60,152	84,022	40,874	235,582	89.38%
0	2017	14,502	36,352	66,860	91,501	41,452	250,666	89.36%

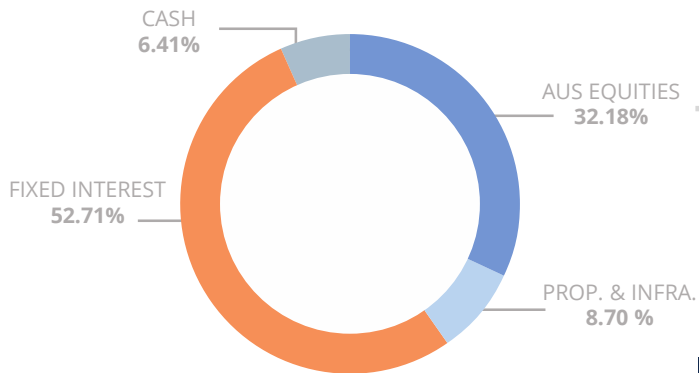
Assumption: Growth Portfolio asset allocation



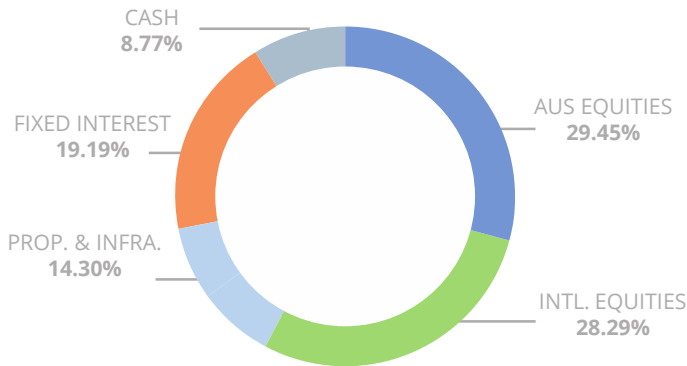
Portfolio Optimisation

DIVERSIFIED

DIVERSIFIED INCOME

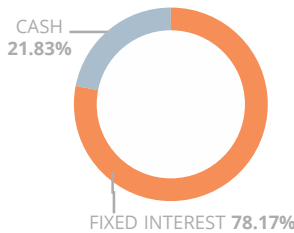


CORE GROWTH

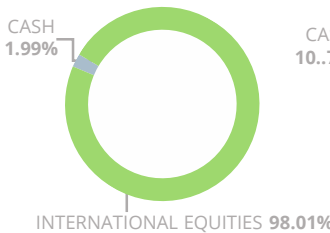


Active asset class allocation, using a mix of ETF's and managed funds

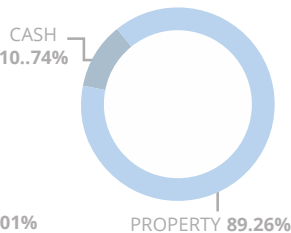
INTEREST INCOME



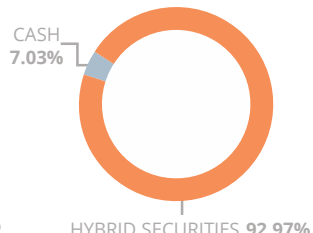
INTERNATIONAL EQUITIES



PROPERTY



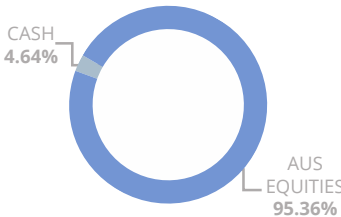
HYBRID INCOME



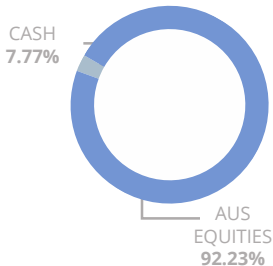
Active asset class allocation, using a mix of ETF's and managed funds

Active management of ASX Hybrid Securities

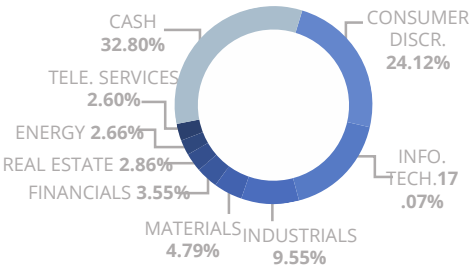
EQUITY INCOME



EQUITY GROWTH



SMALL COMPANIES



Active management of Australian Equity portfolio



InvestSMART Core Growth

OCTOBER 2017

ACTIVE ASSET ALLOCATION

BENCHMARK:

Morningstar Aus Msec Growth TR AUD

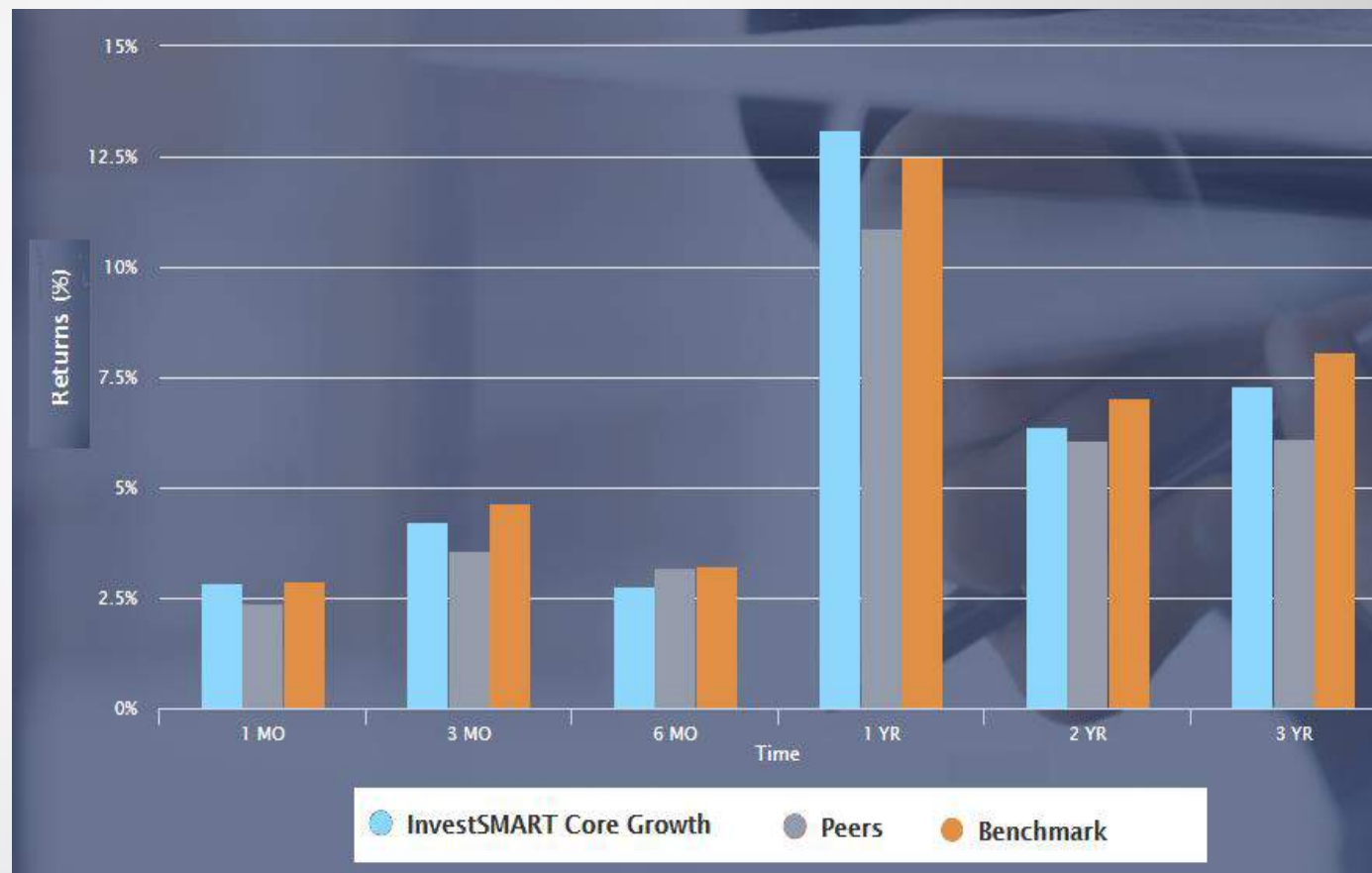
AVERAGE RELATIVE PERFORMANCE:

vs 847 peers

RELATIVE FEE COMPARISON:

Core Growth Fees: 0.77%

Average peer fees: 1.80%





Staying the course is not easy

Our 5 SMART step plan to help

1. Set achievable goals
2. Manage and research
3. Assess & diversify across asset classes
4. Rebalance from time to time
5. Track to stay on course





GAURAV SODHI
DEPUTY HEAD OF RESEARCH

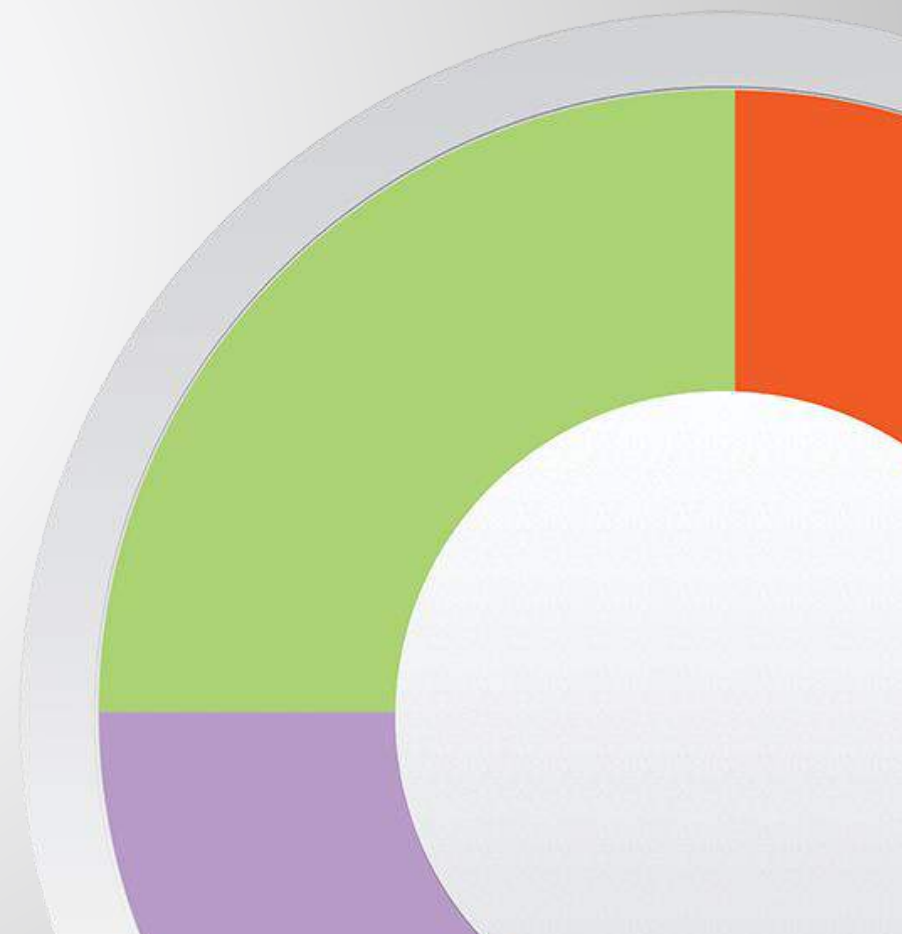
Putting the Value into Your Portfolio





Focus on Portfolio

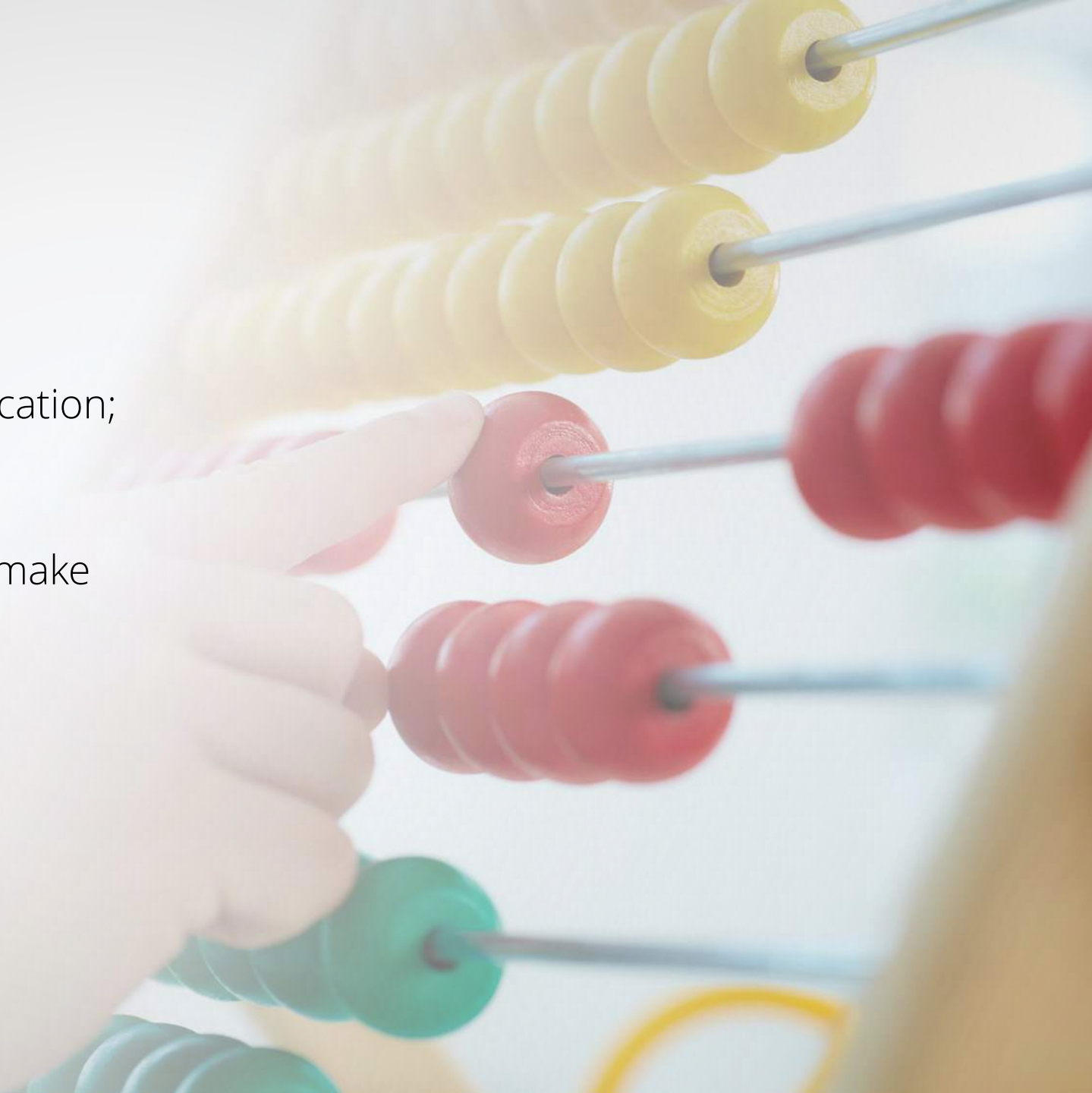
- Portfolio defines the stocks you're holding
- The mission: maintain portfolio that's as undervalued as possible within acceptable levels of risk
- The method: Hold. Buying and selling just a means to an end





How Many Stocks?

- *Passive approach*: maximum diversification; an index tracker
- *Active approach*: 12–30 holdings will make sense for most active investors





Why Diversify?

- The Rumsfeld Principle
- Think in probabilities
- It's OK to lose money
- Investing is about process not prediction





What Are We Trying To Do?

- Buy something for less than it's worth
- Hunt for mispricings
- Look where others aren't
- Employ second order thinking





amaysim

- Recommended as a Buy below \$2.00
- Telco with \$400m market cap



DISCLOSURE

- RECOMMENDED AS A BUY
- I I GROWTH FUND OWNS IT
- I OWN IT PERSONALLY



What The Consensus Says ...

- PER of 34x; expensive
- It's just a reseller
- No competitive advantage
- Hostage to Optus





Our Investment Case

- High incremental margins
- Low capex, high cash
- Cost advantage
- Vital to Optus





Our Insight

- Not being priced for its potential
- Capital light
- High ROE, high FCF model
- Economics improve as it grows





Woodside Petroleum

- LNG, oil and gas producer
- \$22bn market cap
- PER 18x

DISCLOSURE

- RECOMMENDED AS A BUY
- II EQUITY GROWTH FUND OWNS IT
- II EQUITY INCOME FUND OWNS IT





What The Consensus Says ...

- No production growth
- Dwindling resources
- Low oil price leverage
- Not cheap on earnings basis





Our Investment Case

- Changes in LNG market make WPL assets more valuable
- Can pursue production growth cheaply
- Potential resources not counted
- Payoff structure is attractive
- High option value





Our Insight

- Reserve replacement an imperfect measure
- LNG market is changing
- Assets worth more than book
- Low production costs are an advantage





Summary

- We need to work to become better investors
- All investing is the hunt for mispricings
- Look for opportunity where others aren't





ALEX HUGHES
SENIOR ANALYST

Smaller Companies

Can play a part in achieving your goals



Fewer Analysts Means More Opportunity

MARKET CAP RANGE (\$M)	NO. OF COMPANIES	ANALYSTS	AVERAGE NO. OF ANALYSTS
>100,000	4	84	21
50,000–99,999	3	55	18
25,000–49,999	5	81	16
10,000–24,999	29	438	15
5,000–9,999	35	432	12
1,000–4,999	134	1,239	9
500–999	98	451	5
250–499	121	322	3
100–249	224	339	2
<100	1,175	300	0.3



Finding Ideas

- No concept stocks or 'specy' explorers
- Focus on competitive advantage or deep mispricing
- Independent thinking, psychology, time horizon





Case Study

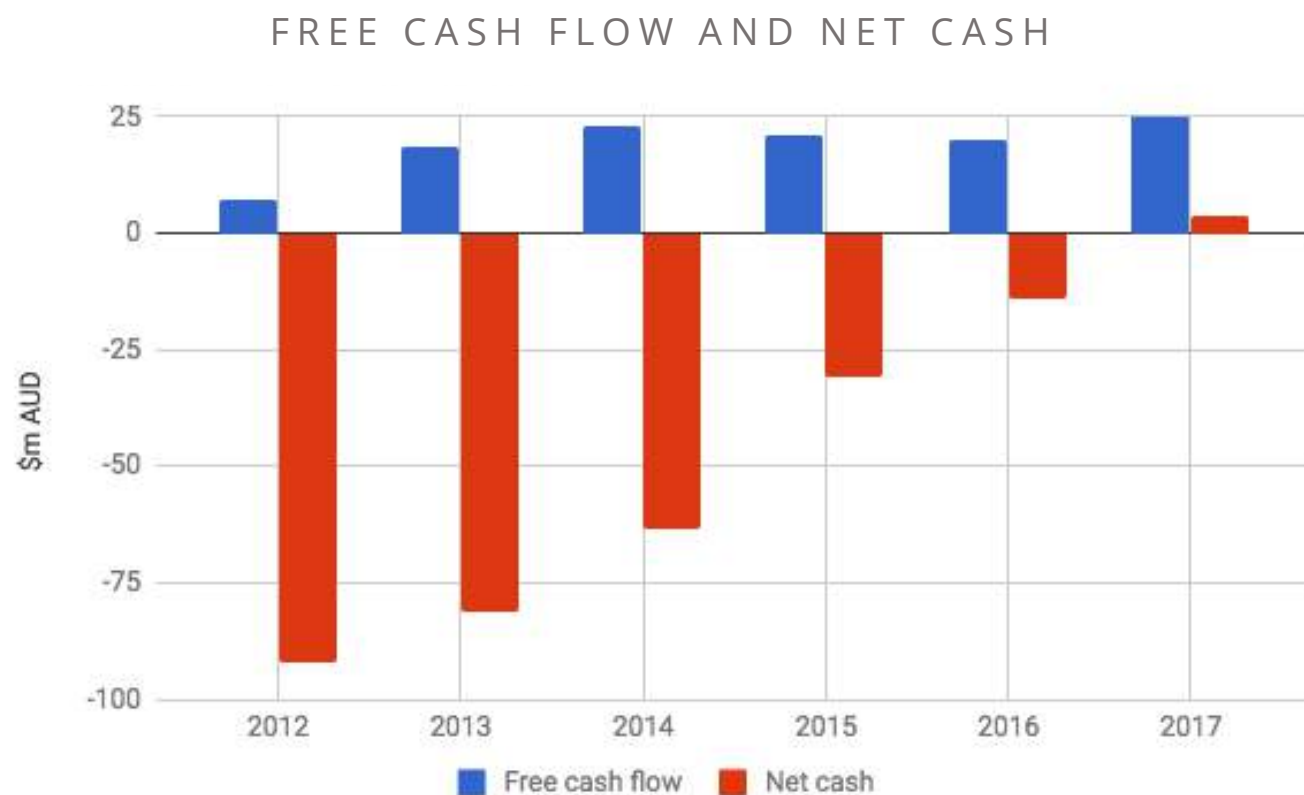
GLOBAL CONSTRUCTION SERVICES (ASX:GCS)

- A Western Australian scaffolding business
- Utilisation is name of the game.
Paid per tonne per day for installed kit
- Commercial, mining and residential construction





Cash Generation & Balance Sheet Repair Overlooked





What Happened After Buying?

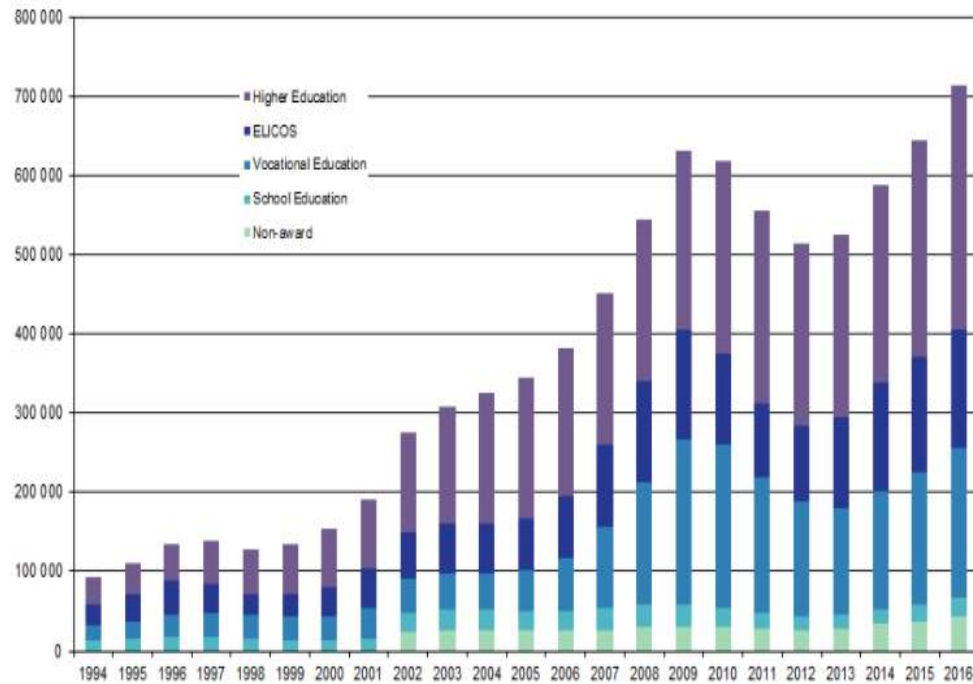
- Non core assets sold for \$42.5m, boosting cash flow and unlocking tax losses
- Reinstated semi-annual dividends, paid a special dividend
- Expanded east at very low cost/risk
- Grenfell tower disaster provides big opportunity



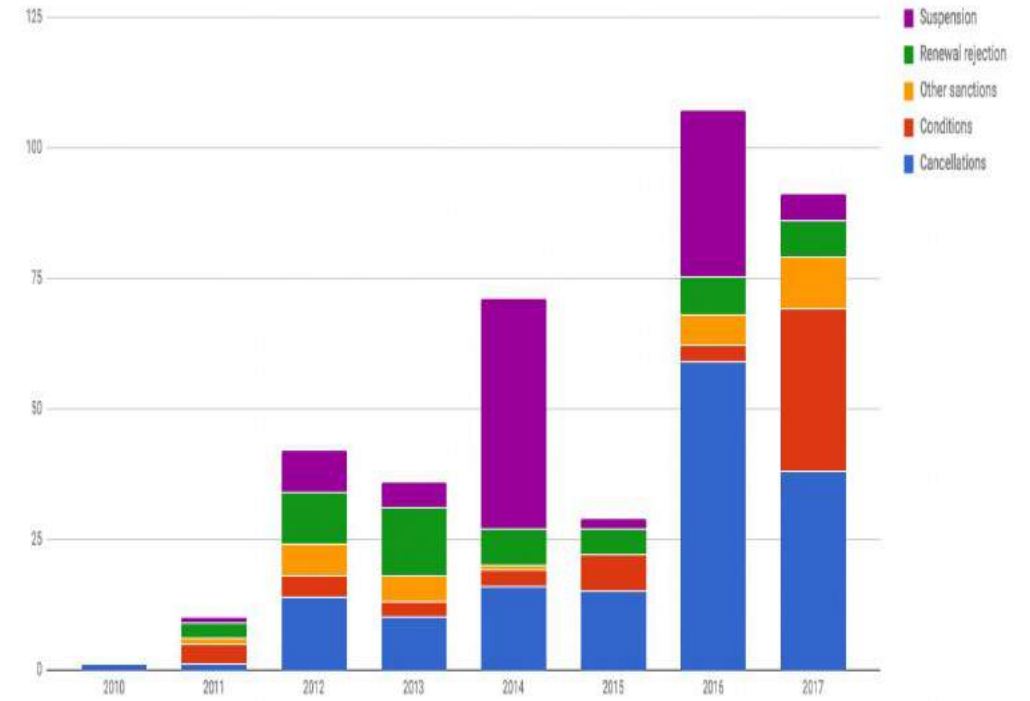


For Profit Education: Industry Tailwinds But Many Shonks

INTERNATIONAL STUDENT ENROLMENTS IN AUSTRALIA 1994-2016



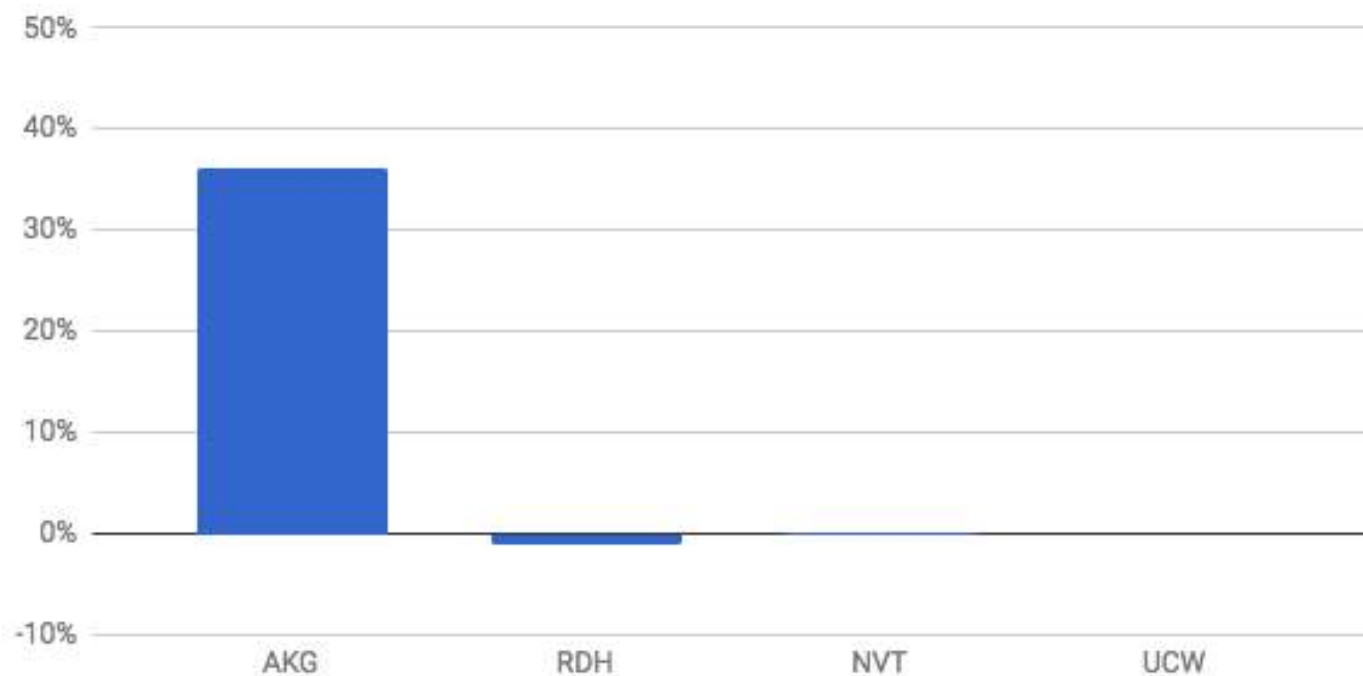
ASQA REGULATORY ENFORCEMENTS





Which Insiders Have Conviction in Their Company?

% of shares on issue purchased by insiders since onset of crisis



Since Aug 2014 (inception of VET crisis)



Live Idea

ACADAMIES AUSTRALIA (ASX:AKG)

- A mini Navitas
- Founded in 1908. Listed in 1977
- Pathway courses, English & vocation across 18 colleges
- Predominantly full fee paying international students
- Owns 7.8% of competitor Redhill Education (ASX:RDH)
- \$45m market cap
- EV/EBITDA of ~5x (for context Navitas is 13.5x)





Live Idea

REDFLEX (ASX:RDF)

- Red light, speed and school bus arm photo enforcement
- \$65m market cap
- USA (57%) and international (43%)
- Owns ~1,000 cameras in USA. 70% on fixed fee per camera
- Voted down \$2.75 takeover bid by Macquarie in 2011.
- 2012 bribery scandal torpedoed share price to \$0.22.





The Litigation Anchor

- Significant leadership time spent addressing legal issues
- Capital stockpiled for settlements instead of invested for growth
- Contract tenders lost due to client concerns over insolvency
- Difficulties attracting talent
- General reputational damage





The Value Proposition

- Sunk costs ensure Redflex is the cheapest on re-tenders
- US camera network worth more than market cap
- 2017 saddled with one-offs. Strong reversion likely
- Takeover target (watch for ATS or Conduent)





InvestSMART Australian Small Companies Fund

PERFORMANCE TO 30 SEP 2017	1 MTH	3 MTHS	6 MTHS	1 YR	S.I. (P.A)*
InvestSMART Australian Small Companies Fund	3.50%	9.24%	11.50%	N/A	21.48%
S&P/ASX Small Companies Accumulation Index	1.31%	4.41%	4.04%	2.98%	8.21%
Excess to Benchmark	2.19%	4.83%	7.46%	N/A	13.27%

* Inception date = 1 February 2017



Questions & Answers

We'd love to hear your thoughts,
please hand in your feedback forms at the end of the session.