BLUEBIRD PORTFOLIO SERVICES

Quality Portfolios at a low cost

Australian Equity Model Portfolio Performance

Rolling returns to 29 February 2020

Bluebird Portfolio	1M	3M	6M	9M	12M	Inception (% p.a.)
High Growth TR (%)	**-3.6**	**-3.4**	**2.9**	**13.7**	**20.5**	**29.6**
S&P/ASX 200 TR (%)	-7.7	-5.2	-0.6	3.6	8.6	12.9
Excess Return (%)	4.1	1.8	3.5	10.1	11.9	16.7
Growth TR (%)	**-5.2**	**-4.6**	**0.7**	**13.9**	**21.7**	**9.1**
S&P/ASX 200 TR (%)	-7.7	-5.2	-0.6	3.6	8.6	2.4
Excess Return (%)	2.5	0.6	1.3	10.3	13.1	6.7
Core TR (%)	**-5.6**	**-3.8**	**1.6**	**12.7**	**19.1**	**21.6**
S&P/ASX 200 TR (%)	-7.7	-5.2	-0.6	3.6	8.6	12.9
Excess Return (%)	2.1	1.4	2.2	9.1	10.5	8.7
Income TR (%)	**-6.4**	**-1.5**	**-0.2**	**8.5**	**19.4**	**13.1**
S&P/ASX 200 Industrials TR (%)	-6.3	-3.7	0.6	6.0	12.3	2.5
Excess Return (%)	-0.1	2.2	-0.8	2.4	7.1	10.6

Yield	FY20F
Cash yield (%)	2.5
Franking (%)	56.8
Gross yield (%)	3.2
Cash yield (%)	3.6
Franking (%)	53
Gross Yield (%)	4.4
Cash yield (%)	4.2
Franking (%)	60
Gross Yield (%)	5.4
Cash yield (%)	5.5
Franking (%)	62
Gross Yield (%)	6.9

TR = Total Return (before franking credits). Growth and Income inception 31/08/18, Core and High Growth inception 30/11/18. Performance figures are audited annually. Past performance is not a reliable indicator of future performance.

Portfolio return commentary

All four portfolios held-up reasonably well in February (and continue to do so in March), demonstrating the defensive qualities of the Bluebird investment approach. Each portfolio is generally overweight Consumer staples, Healthcare and AREITS (which are outperforming during the market correction) and underweight Banks, Resources and Energy (which are underperforming).

Portfolio performance over the rolling year is very strong with the portfolios adding significant value over the benchmark AND with a similar or lower risk profile than the market. Many fund managers like to talk about strong risk-adjusted returns, at Bluebird we actually deliver. The market has fallen further in March and the Bluebird portfolios continue to hold-up reasonably well. Our quality and value approach and a high weighting to defensive stocks is paying off during the market crash. We even have Gold equity exposure but unfortunately gold stocks are not performing as well as the Gold price, which has been a major frustration for us (to say the least). Overall, we are doing as well as can be expected in very volatile times.

Market commentary

2020 has not started very well! First, we had bushfires, wild weather and now the Coronavirus outbreak. The market started to become worried about the Coronavirus impact on China in February and that worry has since spread globally as the virus has spread. Containment procedures are very disruptive to business and there is great uncertainty over economic growth and company earnings in 2020.

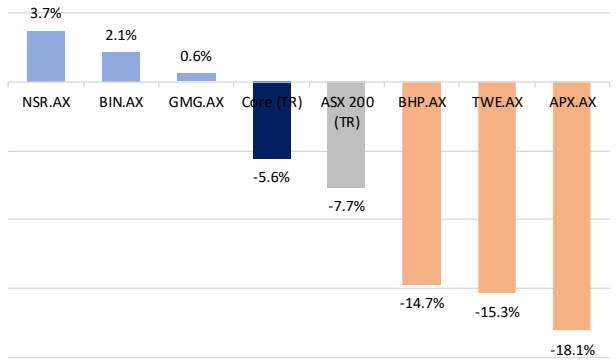
While we expect the impact of the virus to be transitory, markets have seemingly priced in a global recession, with the Australian market down over 30% from its high by mid-March 2020. We think this is highly likely to be an overreaction and that investors should only be thinking about buying at current levels. We expect the market to retrace around 50% of its losses, at least, and recover to the 6,000-6,200 level fairly quickly. While Australia is likely to experience two quarters of negative growth in the March and June 2020 quarters, the market can recover much more quickly as investors "look through the valley".

That said, we have adjusted our market view from a bullish view to a more neutral view. We expect the equity market to rally back strongly but then lose momentum. It is likely we will face a sideways trending market or slowly down-trending market. Therefore, passive investing will be less effective and an active approach will become more important to make sustainable returns.

Very low interest rates remain supportive of equity markets and we believe we can sustain an expected return of 8.5% p.a. by investing in quality companies, with sustainable earnings and low gearing. We have a bias to quality financials, industrials, infrastructure and AREITs. We also have some gold equity exposure.

Core Portfolio

Portfolio and stock performance, February 2020



Portfolio TR Month: -5.6%

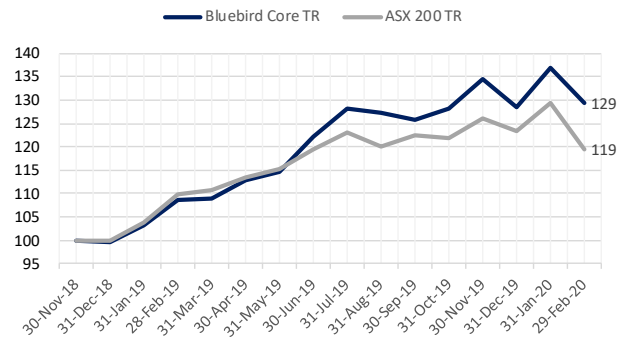
Benchmark TR Month: -7.7%

The Core portfolio held-up reasonably well in February with our quality AREIT, Industrial and Healthcare exposure outperforming during a volatile month.

China-related exposure like TWE and SYD fell heavily during the month, while Resources and Technology sectors also underperformed.

Post reporting season, a number of stocks are going ex-dividend. CBA and TLS were notable stocks to go ex-dividend in February.

Portfolio return vs benchmark, since inception (30/11/18)



Portfolio TR (since inception): 21.6% p.a.

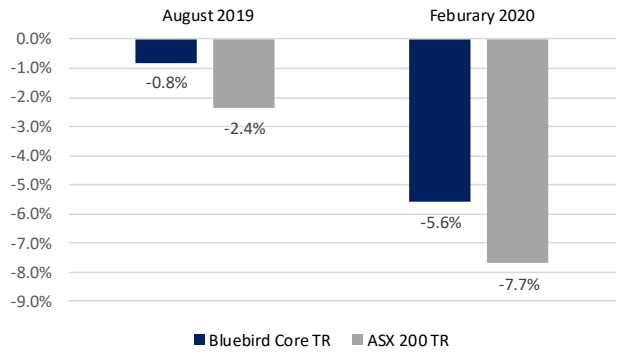
Benchmark TR (since inception): 12.9% p.a.

Yield: 4.2% cash, 5.4% gross

The Core portfolio is now in its 2nd year of operation and is adding significant value over the benchmark. The portfolio is generally underweight Banks and Resources and overweight Consumer Staples, Healthcare, Industrials, Infrastructure and Property.

Post reporting season, TWE is really the only concern we have but the stock price has already been hit hard and the company has a stable balance sheet, so we have elected to HOLD the position.

Portfolio performance in down markets



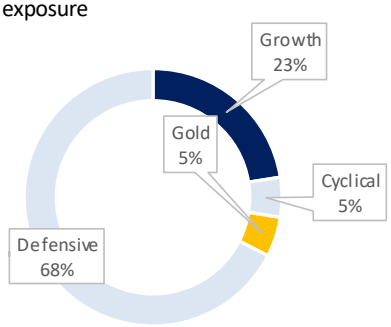
Portfolio Beta: 1.0

Portfolio Vol: 12.6%

Worst monthly drawdown: -5.6%

The Core portfolio is exhibiting excellent defensive qualities by holding up well in down markets. The portfolio is adding significant value over the benchmark but portfolio risk is in-line with market. This means the portfolio is delivering strong risk-adjusted returns.

Portfolio defensive exposure



Defensive exposure: 68%

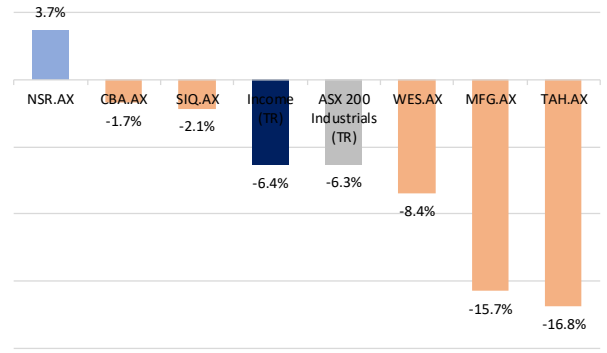
Gold equity exposure: 5%

Bluebird build's capital protection into the portfolios via our quality and value process and sector diversification. We also identify stocks that demonstrate defensive qualities against those with cyclical and growth characteristics. Each portfolio has a heavy exposure to defensive stocks, which help the portfolios hold-up well in down markets.

In addition, three of the four portfolios have a small exposure to gold equity, which tends to perform well as central banks ease policy or when market volatility increases.

Income Portfolio

Portfolio and stock performance, February 2020



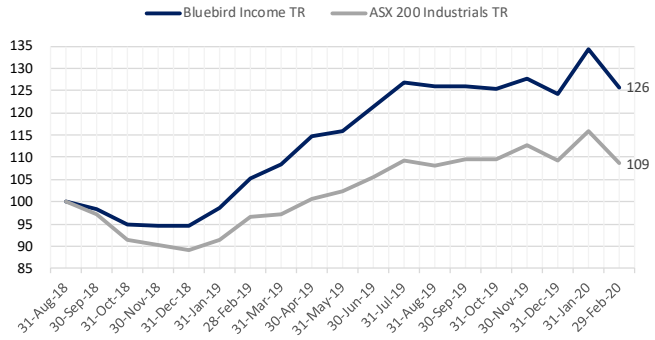
Portfolio TR month: -6.4%

Benchmark TR month: -6.3%

The Income portfolio was in-line with benchmark over the month. The portfolio was not able to hold up as well as we expected primarily due to a weak 1H20 result from TAH, which led to significant weakness in the stock. In addition, the market correction has seen Magellan retreat. The balance of the portfolio did hold up reasonably well and this led to the portfolio performing in-line with the benchmark.

Post reporting season, we reviewed SIQ closely and elected to HOLD the position. However, we now have concerns over TAH and its underperforming wagering and pokies divisions.

Portfolio return vs benchmark, since inception (31/08/18)



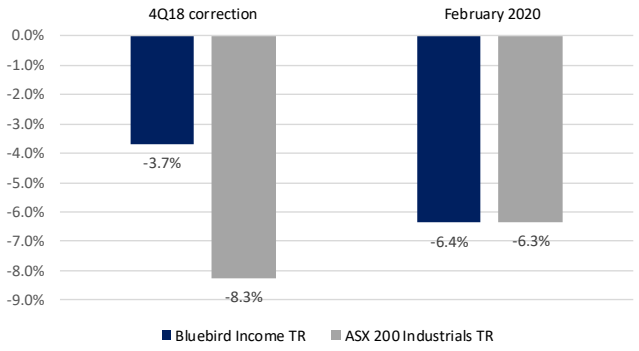
Portfolio TR (since inception): 13.1% p.a.

Benchmark TR (since inception): 2.5% p.a.

Yield: 5.5% cash, 6.9% gross

The Income portfolio is now into its 2nd year of operation and is performing very well in absolute terms and relative to the benchmark. The strong performance of the portfolio has been driven by a bias to stocks that offer income and growth. Many Income funds make the mistake of focusing on income alone but we don't let 'the tail wag the dog'. It is EPS that matters first and foremost and we consider DPS only as a function of EPS.

Portfolio performance in down markets



Portfolio Beta: 1.0

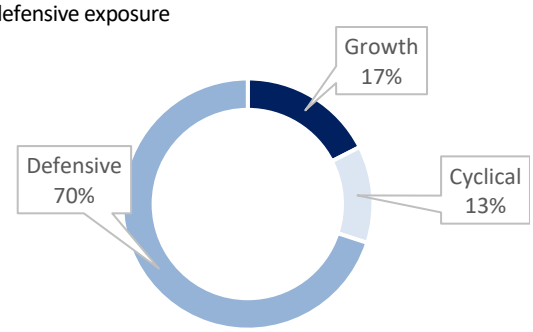
Portfolio Vol: 12.9%

Worst drawdown: -6.4%

Our Quality, Value and Momentum process seeks to add value, without additional risk. In fact, we seek to reduce portfolio risk via high defensive weightings.

Pleasingly, the Income portfolio has been holding up well in the down markets experienced to date (December quarter 2018 and March quarter 2020). The portfolio beta is 1.0, indicating portfolio risk is similar to the market, despite portfolio performance being well above the benchmark.

Portfolio defensive exposure



Defensive exposure: 70%

Gold equity exposure: 0%

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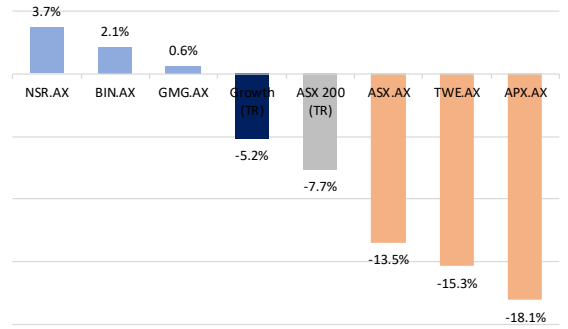
In addition, three of the four portfolios have a small exposure to gold equity, which tends to perform well as central banks ease policy or when market volatility increases.

Growth Portfolio

Portfolio and stock performance, February 2020



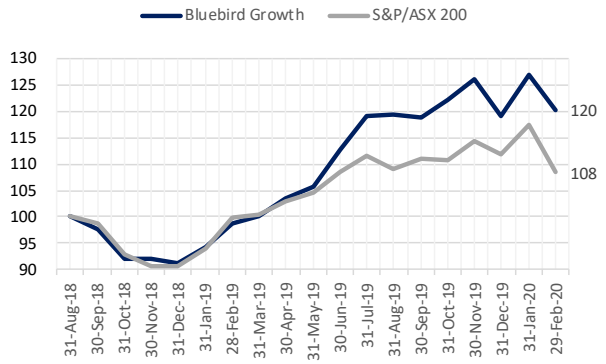
Portfolio TR month: -5.2%

Benchmark TR month: -7.7%

The Growth portfolio held-up well in February with its quality AREIT, Industrial and Healthcare exposure performing well. The portfolio has no exposure to Banks and Energy sectors, which have underperformed during the market correction.

That said, it does have some China-related exposure in SYD, SEK and TWE and these stocks have been hit fairly hard over the past two months. However, all three companies are quality companies, with stable balance sheets, and we will take a long-term view with each.

Portfolio return vs benchmark, since inception (31/08/18)



Portfolio TR (since inception): 9.1% p.a.

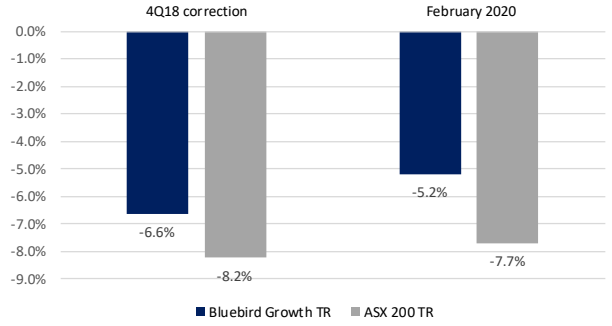
Benchmark TR (since inception): 2.4% p.a.

Yield: 3.6% cash, 4.4% gross

The Growth portfolio is well into its 2nd year of operation and is performing very well in absolute terms and relative to the benchmark. Portfolio performance has really picked up since March 2019.

Post reporting season, we have elected to HOLD three underperforming exposures in TWE, RRL and SIQ. We expect RRL and SIQ to recover reasonably quickly, while TWE is going to be a gradual recovery story, with both its US and China units having issues at the moment.

Portfolio performance in down markets



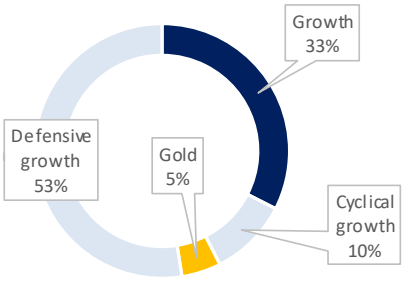
Portfolio Beta: 0.9

Portfolio Vol: 13.2%

Worst quarterly drawdown: -6.6%

The Growth portfolio is exhibiting strong defensive qualities in down markets. The portfolio is adding significant value over the market and lowering portfolio risk. While fund managers like to talk about strong risk-adjusted returns, Bluebird actually delivers.

Portfolio defensive exposure



Defensive exposure: 53%

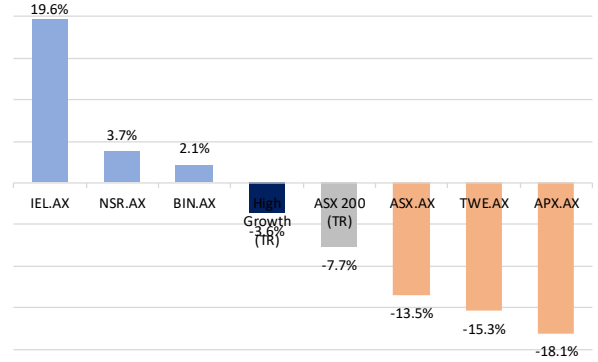
Gold equity exposure: 5%

Bluebird build's capital protection into the portfolios via our quality and value process and sector diversification. We also identify stocks that demonstrate defensive qualities against those with cyclical and growth characteristics. Each portfolio has a heavy exposure to defensive stocks, which help the portfolios hold-up well in down markets.

In addition, three of the four portfolios have a small exposure to gold equity, which tends to perform well during periods of negative real interest rates and central banks engaging in quantitative easing.

High Growth Portfolio

Portfolio and stock performance, February 2020



Portfolio TR month: -3.6%

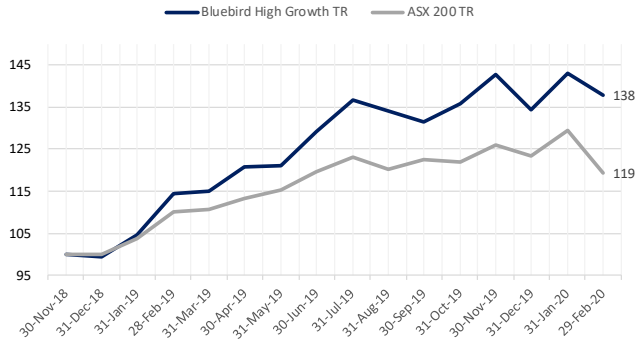
Benchmark TR month: -7.7%

The High Growth portfolio held up very well in February, supported by a strong rally in IDP Education (IEL) and the resilience of its AREIT exposure (NSR and GMG).

The portfolio has no exposure to Banks, Resources (excluding Gold) and Energy and this was also a major reason for the outperformance during the month.

Technology stocks have hit some weakness in the past two months, while any China-related exposure like TWE and SEK have also retreated. We hold quality positions and are taking a longer-term view.

Portfolio return vs benchmark, since inception (30/11/18)



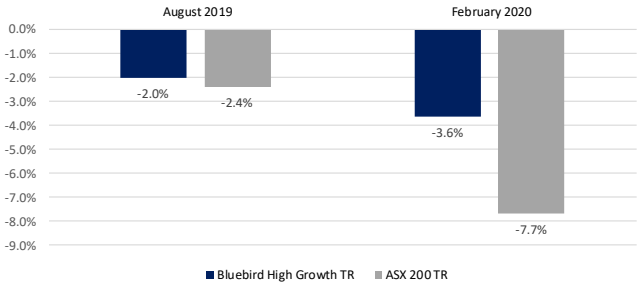
Portfolio TR (since inception): 29.6%

Benchmark TR (since inception): 12.9%

Yield: 2.5% cash, 3.2% gross

The High Growth portfolio is into its 2nd year of operation and is performing very well in absolute and relative terms. The portfolio has added significant value over the benchmark. We note that the portfolio has not had a change for over a year now and we still have no proposed changes, although we are watching TWE closely. The portfolio has a bias towards Financials (ex-Banks), Healthcare, AREITs and Technology and we remain positive on the outlook for these sectors.

Portfolio performance in down markets



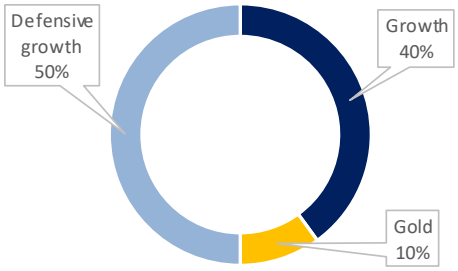
Portfolio Beta: 1.0

Portfolio Vol: 14.7%

Worst monthly drawdown: -5.7%

The portfolio has shown surprising resilience, for a high growth portfolio, and continues to hold up well in down markets. With the portfolio adding significant value over the benchmark, without any additional risk, it doesn't get much better than this when talking about strong risk-adjusted returns.

Portfolio defensive exposure



Defensive exposure: 50%

Gold equity exposure: 10%

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In addition, three of the four portfolios have a small exposure to gold equity, which tends to perform well as central banks ease policy and market volatility increases.

Australian Equity Portfolios

	High Growth	Growth	Core	Income
Growth exposure / Income exposure				
Description	A concentrated portfolio focused on capital growth	A concentrated portfolio focused on capital growth first and income second	A more diversified portfolio focused on a balance of income and capital growth	A concentrated portfolio focused on income first and capital growth second
Inception date	30/11/18	31/08/18	30/11/18	31/08/18
Objective	Benchmark +>5% p.a.	Benchmark + 3-5% p.a.	Benchmark +2-4% p.a.	Benchmark +2-4% p.a.
Risk target	Portfolio Beta ~1.3	Portfolio Beta ~1.1	Portfolio Beta ~1.0	Portfolio Beta <1.0
Number of stocks	14	19	20	14
Universe	S&P/ASX 200	S&P/ASX 200	S&P/ASX 200	S&P/ASX 200
Benchmark	S&P/ASX 200 Total Return	S&P/ASX 200 Total Return	S&P/ASX 200 Total Return	S&P/ASX 200 Industrials Total Return
Current ASX 100 exposure	62.5%	75.0%	82.5%	90.0%
Current Cash Yield	2.5%	3.6%	4.2%	5.5%
Current Gross Yield	3.2%	4.4%	5.4%	6.9%
Maximum stock target weight	10.0%	10.0%	10.0%	10.0%
Minimum stock target weight	2.0%	2.0%	2.0%	2.0%
Maximum cash limit	10%	10%	10%	10%
Maximum gold equity hedge	10%	10%	10%	0%
Expected Turnover	1-3 changes per annum	1-3 changes per annum	1-3 changes per annum	1--3 changes per annum
Stock weight inputs	Sector diversification, Growth vs Income characteristics, Portfolio defensiveness, Portfolio Yield, Market cap/liquidity, Quality and Risk score, Portfolio manager conviction, Portfolio expected return vs expected risk			
Capital protection measures	Quality and value investment process, Portfolio diversification, Defensive stock exposure, Gold equity weighting up to 10%, Cash weighting up to 10%			

Investment Philosophy and Process

Bluebird employs a 'Quality, Value and Momentum' investment philosophy and process. Bluebird has a proven track record of adding value and lowering risk by investing in quality companies, that offer value and have positive momentum. Bluebird avoids quality companies that are expensive and poor-quality companies that are 'cheap'.

About Bluebird Portfolio Services (Bluebird)

Bluebird is a listed portfolio specialist that provides high performing, quality portfolios at a low cost. Bluebird has a small but highly experienced team, with a proven track record of adding value and lowering risk. Bluebird's investment philosophy and process has been developed over the past 20 years (at Bluebird and at major companies like Lonsec and IOOF).

Disclaimer, Warnings and Disclosures

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