

**Newcastle Bridge Club  
Recommended Investments  
November 2019**

Investments are proposed to be placed via the Australian stock market, through the purchase of shares in ETF (exchange traded funds) style stocks. Investing via the stock market, makes it far easier to invest administratively, the products generally incur lower annual management fees, and liquidity is enhanced.

**Specific Investments Proposed**

**Vanguard Diversified Conservative Index ETF (CDCO)**

This investment fund is part of the huge investment platform offered by Vanguard. VDCO itself has a market capitalization of \$74 million. When established late 2017, it was a 'spin off' from a long-established Vanguard unlisted fund with the same structure of holdings and a current value of \$2.1 billion. Investment are structured to hold 70% of assets in 'income' asset classes, and 30% of assets in 'growth' asset classes.

CDCO has only been available on the stock market since November 2017, so does not itself have a lengthy earnings history. However, it is structured to closely replicate earnings of the unlisted, Vanguard product, the Vanguard Life Strategy Conservative Fund (VLSCF). While history is not necessarily a predictor of the future, comparable historic returns, before fees, have been:

	<b>CDCO</b>	<b>VLSCF</b>
1 year	8.72%	8.70%
3 years pa	na	6.10%
5 years pa	na	6.56%
10 years pa	na	7.14%

The ETF product is available at an annual fee cost of 0.27% of the investment current value, whereas the unlisted product would be available at a higher fee of 0.90% annually.

Over the longer term, it is reasonable to expect returns, after fees, of around 6-7% pa. In the shorter term, with bond rates around the world pushing lower, returns around 4.5% are more likely. Distributions are made quarterly. Market turnover is around \$300,000 daily so liquidity is okay and should only increase. If committee agrees to acquire \$40,000 in value of these shares, it is probably best done in two purchases.

**iShares Core Composite Bond ETF (IAF)**

This investment is run by Black Rock (formerly known as Barclays Bank), one of the largest providers of such products in world markets. IAF has a market capitalization of \$1 billion and invests in 'investment grade' Australian fixed interest bonds. It holds 100% of assets in 'Income' asset classes. Investments are predominantly in government issued paper, but it currently holds just less than 10% of its portfolio in corporate issues

IAF has been in operation since 2012 and has earnings history as follows:

1 year	10.98%
3 years	4.41%
5 years	5.10%

Management fees of 0.20% are allowed for in the above earnings rates, and distributions are made quarterly. In the shorter term, returns are likely to be around 3.5% but, over the longer term, should be close to the five-year annualized returns historically achieved. The stock is very liquid with an average daily turnover of around \$2 million.

**Vanguard Australian Government Bond Index ETF (VGB).**

This Vanguard fund is \$362 million in size, and is part of an overall portfolio of \$861 million comprising 116 holdings of Australian government or treasury bonds. Its earnings performance has been:

1 year	11.95%
3 years	4.55%
5 years	5.30%

This fund did have negative earnings of 0.38% in 2017. Its annual management fee is 0.20% and distributions are made quarterly. Market daily turnover is around \$1 million, so liquidity is satisfactory. The outlook for this investment is similar to that for IAF.

**Vanguard Australian Property Securities Index ETF (VAP).**

This Vanguard product is \$1,534 million in size and is part of an overall portfolio of \$5,882 million comprising of 28 holdings of companies operating in the Australian property industry. This fund does not hold property itself, so it may promptly switch investments as opportunities or risks arise. Its earnings performance has been:

1 year	19.70%
3 years	8.87%
5 years	13.11%

This fund did have negative earnings over July 2015 to June 2016. Due to its relative volatility, a lower investment amount is suggested. Market turnover is around \$4.5 million daily.

**Summary**

It is proposed that investments be placed as follows:

	<b>Invest</b>	<b>Inc/Grth</b>	<b>Description</b>
CDCO	\$40,000	70/30	Conservative mix of asset classes
IAF	\$25,000	100/0	Income class of securities held
VGB	\$25,000	100/0	Income class of securities held
VAP	\$10,000	0/100	Property securities
Term Deposit	\$30,000	100/0	Cash

Investment style, in aggregate, would be 83% 'income' assets, and 17% 'growth' assets. Over the longer term, this mix of investments could be expected to yield around 5% pa.

Tony Wagstaff  
 Treasurer  
 November 4, 2019

