Managed Global Cautious (USD)

As of 2018/12/31

PROVIDENCE WEALTH MORNINGSTAR®

INVESTMENT OBJECTIVE

The cautious portfolio is managed to provide investors with conservative US$ capital growth. The portfolio aims to beat a composite benchmark of 35% equities (MSCI ACWI) and 65% fixed income (Barclays Global Aggregate) using a blend of both active and passive funds. The portfolio may be suitable for an investor primarily concerned with short term capital security.

UNDERLYING FUND MANAGERS

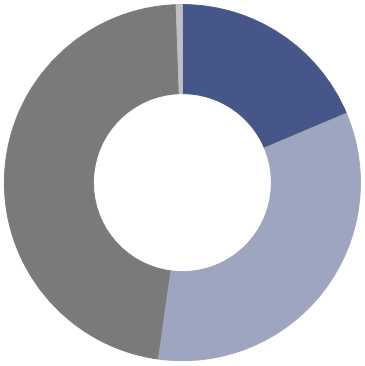
Equity	Fixed Income
BlackRock	BlackRock
Satrix	Investec Asset Management
Investec Asset Management	Franklin Templeton
Fidelity Investments	PIMCO

PORTFOLIO DETAILS

Benchmark	35% MSCI ACWI / 65% Barclays Global Aggregate
Maximum Equity	40%
Inception Date	1 November 2015
Total Investment Charge**	0.52
Discretionary Management fee	0.20
Platform Availability	Investec Global Select
.	Glacier International
.	Momentum Wealth International

ASSET ALLOCATION

Portfolio Date: 2018/12/31



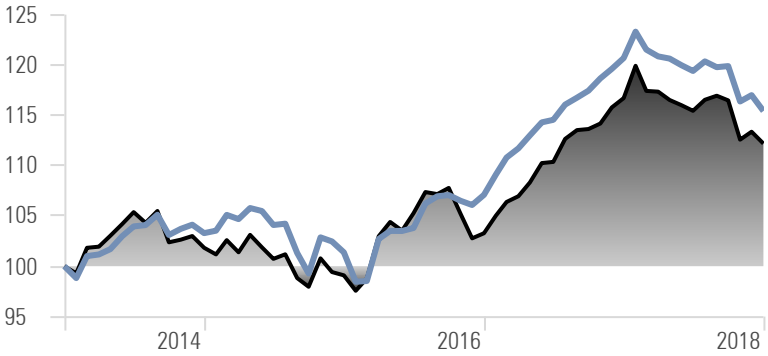
	%
Equity	18.6
Bond	33.6
Cash	47.2
Other	0.6
Total	**100.0**

TRAILING RETURNS

	YTD	1 Year	3 Years	5 Years
Managed Global Cautious	**-4.36**	**-4.36**	**4.42**	**2.91**
Custom Benchmark	-3.87	-3.87	4.22	2.33
MSCI ACWI	-9.42	-9.42	6.60	4.26

INVESTMENT RETURNS

Time Period: 2014/01/01 to 2018/12/31



Managed Global Cautious 115.4 Custom Benchmark 112.2

MONTHLY RETURNS %

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	**Year**
2018	2.2	-1.4	-0.6	-0.2	-0.5	-0.5	0.8	-0.5	0.1	-2.9	0.5	-1.3	**-4.4**
2017	1.9	1.6	0.8	1.2	1.1	0.2	1.3	0.6	0.6	1.0	0.8	0.9	**12.7**
2016	-2.9	0.1	4.2	0.8	0.0	0.3	2.3	0.7	0.1	-0.5	-0.4	1.0	**5.6**
2015	0.2	1.5	-0.4	1.1	-0.3	-1.3	0.1	-2.8	-2.0	3.6	-0.4	-1.1	**-1.8**
2014	-1.2	2.2	0.2	0.5	1.3	0.9	0.1	1.0	-1.9	0.6	0.4	-0.8	**3.3**

MORNINGSTAR EQUITY STYLE BOX

Portfolio Date: 2018/12/31

	Value	Blend	Growth
Large	26.2	25.3	33.8
Mid	4.4	4.7	3.8
Small	0.6	0.4	0.7

Market Cap	%
Market Cap Giant	51.3
Market Cap Large	33.3
Market Cap Mid	13.3
Market Cap Small	2.1
Market Cap Micro	0.0

RISK STATISTICS

Time Period: 2014/01/01 to 2018/12/31

	Global Cautious	Custom Benchmark
Max Drawdown	**-6.93**	**-7.52**
# of Periods	9.00	17.00
Recovery # of Periods	6.00	6.00
% Positive Months	63.33	58.33
Best Quarter	4.31	3.92
Worst Quarter	-4.63	-4.18
Annualised Return	2.91	2.33

*Returns are simulated and based on the underlying funds at the initial weightings and are net of published asset manager fees. Returns greater than a year have been annualised.

**Please note: the average weighted cost of the underlying funds is merely an indication as the underlying fund fees may vary from one platform to another. The average weighted cost varies daily as the weightings of the funds vary. The abovementioned fees exclude Financial Advisor fees, platform fees and VAT.

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PORTFOLIO COMMENTARY

Morningstar Global Cautious Portfolio Update

We delivered negative performance for investors in the fourth quarter, despite positive outcomes relative to peers. Concluding the most challenging year since the 2008 global financial crisis, the Portfolio delivered -3.7% for the quarter, taking annual performance to -4.4%. Of note, the longer-term numbers remain healthy, with annualised performance since inception of 4.7%.

Under the hood, we were relatively well positioned leading into the final quarter of 2018. We held less exposure to equities than considered "normal" and held healthy allocations to many of the more resilient parts of the market. Examples include U.S. Treasuries, emerging market debt and high levels of cash —all helping to offset some of the broader market pain.

The positive side to the market setback is that valuations continue to improve. That is, the downside risk is falling at the same time as expected returns are rising. We have cited heightened risk and stretched valuations for some time now, so perversely, the drawdown helps to alleviate such pressures. As such, we'll be paying attention to any meaningful price weakness, seeking opportunities to improve the reward-for-risk across the Portfolio.

Asset Allocation

In order to find and capture investment opportunities, asset allocation is likely to have the biggest impact on returns. In this regard, we are focused on the fundamental drivers of returns as well as how much upside/downside investors are pricing in.

Despite carrying a low weight in the Portfolio, it was the sharp reduction in equity markets that had the most meaningful impact on outcomes. Investors continue to remain cautious towards U.K. equities, with Brexit a widespread concern. We can understand this apprehension—however, patience and fortitude should see U.K. companies (and multi nationals listed in the U.K.) move meaningfully higher 10 years from now according to our analysis. As such, we have given considerable thought to the "right" level of U.K. exposure (we have stress tested the various Brexit scenarios to ensure we aren't taking unreasonable risk), and think the current level is appropriate given what we can and can't know. Of note, our U.K. equity position fell in the final quarter, although held up much better than many other regions.

To offset risk, we invest a meaningful portion of the Portfolio in defensive assets like bonds and cash—both of which helped protect capital. In fact, two of our preferred fixed income markets—namely U.S. Treasuries and emerging market debt—performed well, helping reduce the burden of falling equity markets. In a forward-looking sense, low yields continue to mute our expectations in this space, however, we were pleased to see the defensive characteristics holding up when it counts.

In aggregate, we believe we are well positioned for the conditions ahead and maintain fundamental diversification in line with our objectives.

Fund Selection

Fund selection was neutral over the period. Notably, the 16% exposure to U.S. Treasuries via the Franklin U.S. Government Bond fund which we introduced in August 2018 was the second largest contributor to performance with the fund returning 1.25% for the quarter. In addition to this, the Portfolio's high allocation to cash and emerging market debt via the Investec Emerging Market Local Currency Debt fund produced positive returns. However, this was offset by the sharp correction in equity markets which impacted the equity managers in the Portfolio. The U.S. equity exposure via iShares North America Equity Index fund and the exposure to Japanese equities via the iShares Japan Equity Index fund were the main detractors from performance. More broadly, we continue to review the current line-up of managers, imposing stringent criteria to ensure our expectations are met or exceeded over the long term. Importantly, we are focused on managers that can help us deliver excellent risk-adjusted outcomes over a full market cycle.

Summary

The Portfolio delivered a negative return over the quarter, however, this was better than most peers. Notably, the shift in market sentiment was relentless in the final quarter of 2018—marking a challenging year more broadly—with bonds reasonably flat and equity markets falling meaningfully. In line with our principles, we will continue to apply a fundamentally-diversified approach that seeks to maximise reward for risk over the long term. In this sense, the Portfolio continues to perform within the expected risk/return and drawdown framework, with asset allocation and investment selection playing important roles for investors.