MeDirect

QUARTERLY REPORT

July - September 2018

Your partner for smarter investments for the last 5 years

Philippe Delva
CEO MeDirect

In 2014 we shook up the investment market in Belgium: wealth management need not be expensive Rigid cost control, a purely independent management of your portfolio, a collaboration with the world leader in the field of selection and risk control, and all this within reach of anyone's budget. We have become a great alternative to traditional banks and expensive investment solutions.

It is becoming increasingly clear that we need to look out for our financial health ourselves. Many studies have shown that the costs are a determining factor for your yield and that an investor's biggest enemy is his own behaviour. MeDirect offers the solution with Online Wealth Management, and you are the winner. For the last five years already. So even if financial markets have slight hiccups, we are still on track to achieve your objectives.

And we continue to innovate and grow to provide even better support in the future. With a customer-friendly website, with new partners and products, but always with your success in mind. Because your success is ours too. We look forward to the next 50 years. Thank you for the trust.

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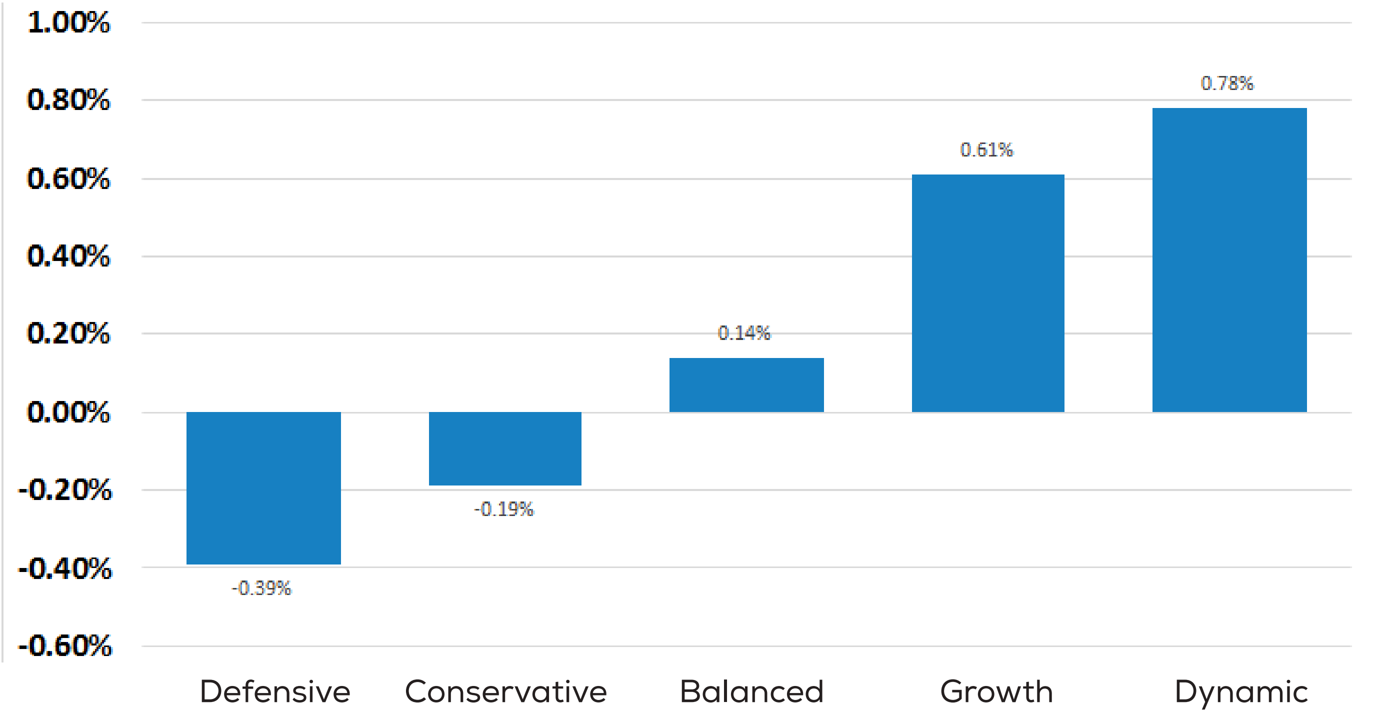
Third quarter performance overview



*The above returns mention the gross returns (excluding management fees and possible taxes) from 01/07/2018 - 30/09/2018. Past performances are no guarantee for future results, but they do provide an insight into the quality of the Portfolios.

Market overview Q3 2018

2018 has not been a vintage year for investors, although the equity markets were still largely positive at the end of the third quarter – with the exception of emerging markets. Only investors in the US stock market enjoyed strong increases. We also saw sovereign bond yields gently rise as both the Bank of England and the US Federal Reserve began the slow process of normalising interest rates. And closer to home, the European Central Bank signalled the end of its bond buying programme. That pattern changed over the last few weeks of Q3. The 10-year US Treasury yield rose to 3.25%, which triggered a wave of selling among equity investors. At the time of writing, regional stock markets have registered losses of 5% and more (in Euro terms).

Why the sudden change?

As ever with financial markets, there is no one single reason for the bout of volatility. The most oft-quoted explanation is that the higher bond yields increase the discount rate upon which stocks are valued. This in turn has an effect on equity multiples (such as price/rate, price/earnings, etc.), which in some sectors are trading at cyclical highs. However, it is difficult to attribute the sharp stock falls to any obvious economic or geopolitical news, which typically drive markets lower. Global trade is clearly under pressure in the Trump-led era and the Brexit negotiations are bringing uncertainty to Europe, but we have yet to see any signs of a global recession. In fact, the US economy – the backbone of financial markets - is growing well and the higher interest rates there reflect this long-term optimism.

It is important to put this slight dip into context Market moves of this kind are normal and drops are to be expected. 2017, when market volatility reached an all-time low, was not a normal environment. Moreover, this drop is rather limited, and the MSCI Europe is back to levels last seen in April of this year. That is not to say that financial markets won't fall further; corrections are always possible and are even a good moment to intervene. But it is very difficult to predict short-term market movements and at MeDirect we believe investors should therefore not try this.

Earlier this year, we reduced equity exposure across our portfolios and lowered duration for bonds to protect against rising interest rates. Both moves illustrated our conviction that valuations across both equity and bond markets are somewhat stretched. But we would caution against shifting entire savings allocations to cash. Bond markets are still delivering slightly better coupons, equity markets a dividend and earnings growth, and over the long-term, a well-diversified portfolio will grow in real terms. We are maintaining the global diversification of our portfolios, which has served us so well with a bias to emerging market assets, which are trading on ever better multiples. US bonds are favoured over European due to the significant higher yield.

A final feature of our portfolios we would like to draw your attention to is the value versus growth positioning. This division between value and growth has become embedded over time in the way people think about investment. Value investors typically seek cheap shares and growth investors are prepared to pay a higher price for higher earnings growth. Currently, value stocks are very cheap relative to growth stocks compared to the last 20 years and over the last year, growth stocks have continued to outpace value stocks at an incredible rate. Our portfolios have a healthy exposure to funds which invest predominantly in value to harness these premia (the undervaluation) for you. This is why we want lag the growth market slightly in the short term, but target a nice yield in the long term with less volatility.

Performance MeDirect Portfolios third quarter 2018

In the second quarter, our MeDirect Online Wealth Management delivered returns between -0,39% for the Defensive profile and 0,78% for the Dynamic profile.

Start date End date	1-Jul-18 30-Sep-18
Defensive	-0,39%
Conservative	0,19%
Balanced	0,14%
Growth	0,61%
Dynamic	0,78%

The above returns indicate the gross returns (excluding management fee (0,90% and possible taxes) from 01/07/2018 - 30/09/2018.

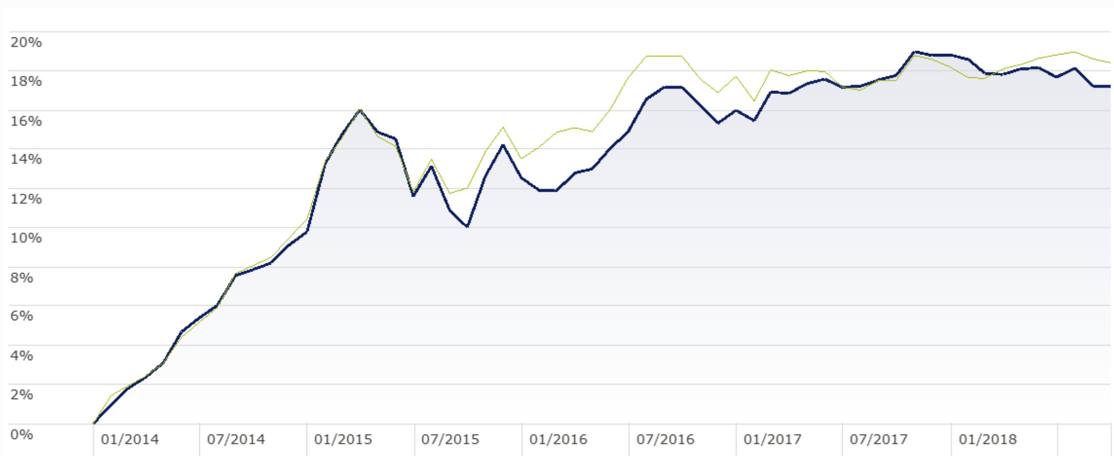
The Defensive Portfolio

Asset allocation

Portfolio date: 30/09/2018

The Defensive portfolio brought stability in a difficult quarter and was able to keep its value with a restricted loss of -0.39%, in line with the benchmark over the last three months to September 2018. Over the past years, this portfolio has achieved its objective nicely, and this slowdown in growth does not give cause for panic. Forecasts are in line with the expected yields.

Equity	7,45
Bonds	78,08
Cash	12,26
Others	2,19
Total	100,00



In this third quarter of 2018, financial markets wavered around a handful of much talked-of themes. First and foremost, we saw the introduction of import levies and trade tariffs, which severely dented investor confidence, except in President Trump's home country where US equities spiked (8.3%). The emerging markets particularly suffered (shares -0.6% and bonds-local currency -1.3% in the conversion to euro) and this drop was exacerbated by the strong dollar (+1.1% compared to the euro), the tightening of the monetary policy of the central banks in the US and the UK and idiosyncratic woes in Turkey, Argentina and Venezuela.

Besides the weakening of emerging markets, we also saw further weakness in Europe. The lack of progress surrounding the Brexit saga (Mrs May's Chequers plan did not meet the EU's approval) saw the UK's assets come under pressure (-1.5%). It really feels like two steps forward, two steps back as investors seemingly ignore positive fundamentals and await some certainty. Even on the European continent, Italian and Greek risks resurfaced, not to mention the additional risks of a Turkish banking crisis.

Despite the above, fixed income markets were quite muted over the quarter (-0.4%), with corporate debt performing slightly better than government securities. Inflation-linked bonds (-1.5%) also performed reasonably in the end as investors grapple with ever-undulating inflation expectations.
Currency markets also moved quickly, although a slight drop of the US dollar at the end of the quarter alleviated the worst pain for emerging markets. Sterling (-0.2% relative to the euro) continued its rollercoaster, although the end result of all these ups and down is neither here nor there for this quarter.

In terms of fund performance,...

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The Conservative Portfolio

Asset allocation

Portfolio date: 30/09/2018

The Conservative Portfolio remained stable in a difficult quarter and was able to more or less retain its value subject to a slight drop of -0.19%, whereas the benchmark over these three months to the end of September still just about managed to stay positive with +0.24%. Over the past years, this portfolio has achieved its objective nicely, and the current slowdown in growth does not give cause for panic. The forecasts remain in line with the expected yields.

	%
Equity	18,28
Bonds	69,15
Cash	10,55
Others	1,97
Total	100,00

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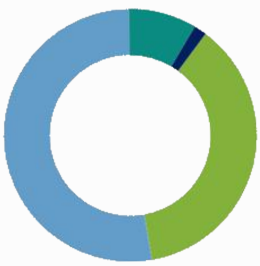
The Balanced Portfolio

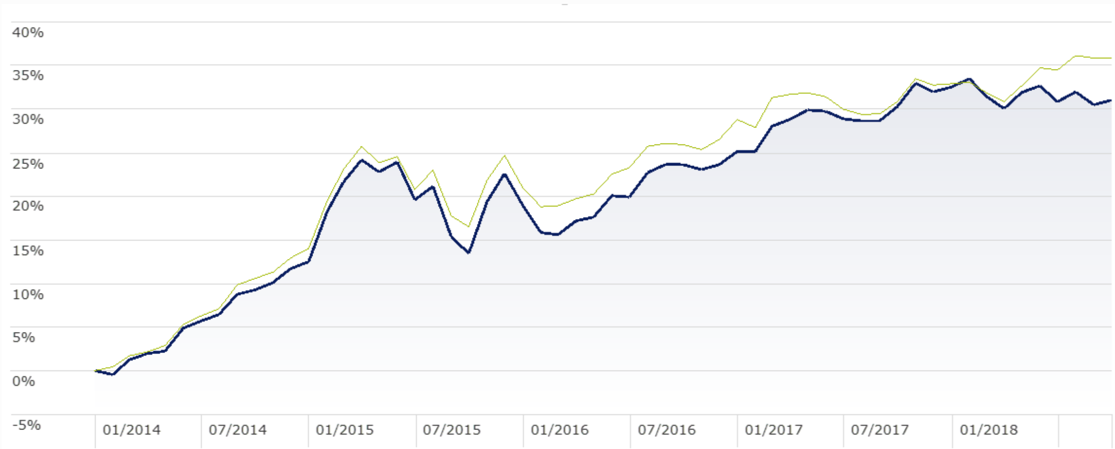
Asset allocation

Portfolio date: 30/09/2018

The Balanced Portfolio grew 0.14 % over the three months to the end of September 2018, and underperformed 0.9% compared to its benchmark. Over the past years, this portfolio has achieved its objective nicely, and the current slowdown in growth does not give cause for panic. The forecasts remain in line with the expected yields.



	%
Equity	37,06
Bonds	52,55
Cash	8,67
Others	1,62
Total	100,00



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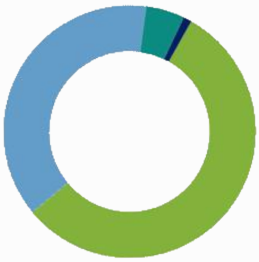
The Growth Portfolio

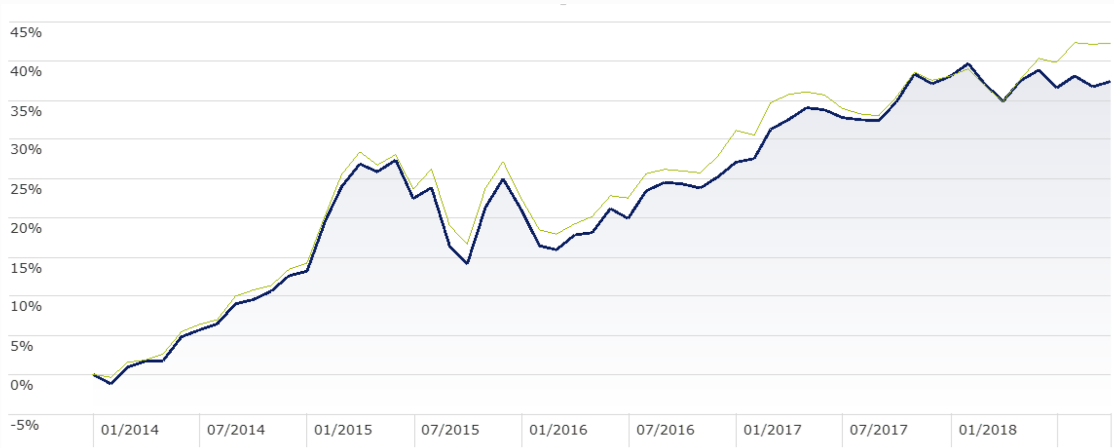
Asset allocation

Portfolio date: 30/09/2018

The Growth portfolio returned 0.61% over the three months to the end of September 2018, underperforming its benchmark by 1.18%. Over the past years, this portfolio has achieved its objective nicely, and the current slow-down in growth does not give cause for panic. The forecasts remain in line with the expected yields.



	%
Equity	55,79
Bonds	38,08
Cash	4,95
Others	1,06
Total	100,00



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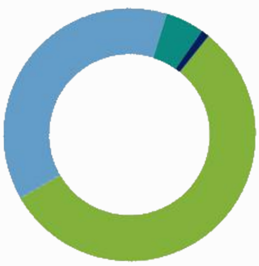
The Dynamic Portfolio

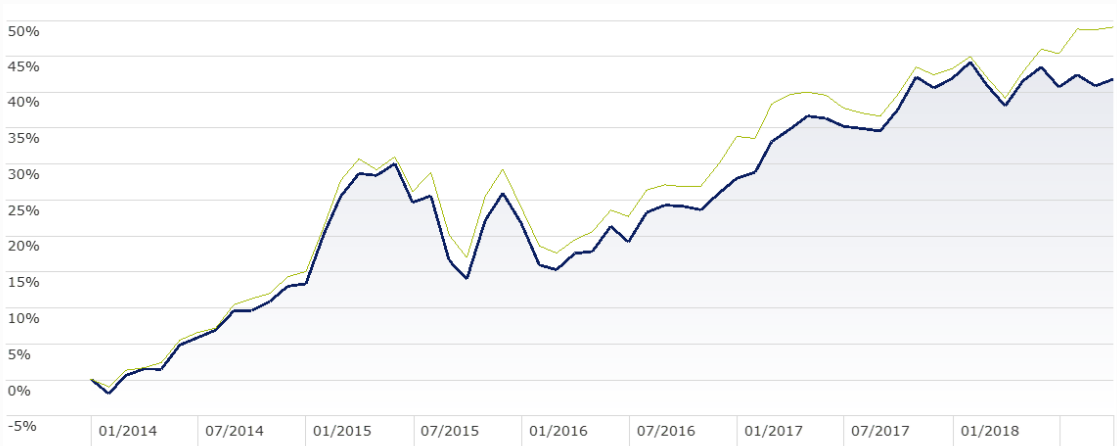
Asset allocation

Portfolio date: 30/09/2018

The Dynamic portfolio returned 0.78% over the three months to the end of September 2018, underperforming its benchmark by 1.77%. Over the past years, this portfolio has achieved its objective nicely, and the current slowdown in growth does not give cause for panic. The forecasts remain in line with the expected yields, and the portfolio is well positioned.



	%
Equity	74,45
Bonds	21,49
Cash	3,61
Others	0,29
Total	100,00



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This is translated in the performance of the portfolio...

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On the page 14 of this quarterly report you will find an overview of all funds and links to the corresponding fund reports on the website.

The above rates indicate the gross returns (excluding management fees and possible taxes). MeDirect doesn't charge exit- entry or redemption fees. Management fees, administrative fees and other costs taken out of the fund assets have been taken into account, but are already included in the NAV that is calculated by the fund management groups of the underlying funds, and supplied to MeDirect by Morningstar. Funds or ICB's are mutual investments, depending on the investment objective of the ICB. An ICB can invest in stock, fixed income products or property or in a combination of these categories (source: Morningstare.be). The value of these ICB's can fluctuate and the capital is not guaranteed. You must read the KIID and prospectus available on www.medirect.be/mutual-funds/search. Investing in Financial markets and securities involves risk. Past performance is not a guarantee of future results. Investment losses may occur and investors could lose some of their investments in the Fund. The division of Morningstar which supplies the asset allocation, risk tolerance questionnaire and fund selection for the MeDirect Wealth Management solution is Morningstar Investment Management Europe. The following rates of withholding will apply to amounts received in respect of investments in funds: 30% withholding on dividend payments and 30% withholding on capital gains from disposal of units in funds that invest more than 10% of their net asset value in debt securities. Capital gains on such funds will be calculated based on (A) the difference between (i) the net asset value of the units on the date of sale and (ii) the net asset value of such units on the date of purchase multiplied by (B) the percentage of assets of such fund invested in debt securities (asset test).

Historical performance over one, three, five and 10 years

The MeDirect Wealth Management portfolios are designed as medium to long-term investments. By holding the portfolios for the long-term, it helps to avoid price fluctuations that can influence your returns in the short term. Below you can find the returns of our five portfolios (defensive to dynamic).

	1 year	3 year	5 year	10 year
Start date *End date*	*1-Jan-17* *31-Dec-17*	*1-Jan-15* *31-Dec-17*	*1-Jan-13* *31-Dec-17*	*1-Jan-08* *31-Dec-17*
Defensive Benchmark defensive	2,29% 0,41%	2,62% 2,29%	3,94% 3,81%	5,13% 4,53%
Conservative Benchmark conservative	4,41% 1,65%	4,14% 3,77%	5,72% 5,52%	5,58% 5,21%
Balanced Benchmark balanced	5,81% 3,18%	5,58% 5,24%	7,54% 7,34%	6,37% 5,86%
Growth Benchmark growth	8,55% 5,28%	6,82% 6,52%	8,93% 8,91%	6,65% 5,91%
Dynamic Benchmark dynamic	10,81% 7,05%	7,78% 7,60%	9,94% 10,33%	6,58% 6,06%

MeDirect Portfolios Performance

The performance shown is the annualised total return. The MeDirect Portfolios were constructed on 31-03-2014. The performance shown before this date is based on back tested data and is calculated using the weighted average of the current funds in the portfolio (as of 31-03-2014) going back one, three, five and 10 years; for those funds with a shorter history than this, an index was used to complete the annualized return. Fund weights were rebalanced back to their target every quarter. The asset allocation remains static throughout the simulated back test. The returns are gross of fees except the fees charged by the underlying fund managers. The performance is provided for illustrative purposes only and should not be viewed as actual portfolio results. Past performance is not a guarantee of future results. For the composition of each Custom Benchmark, please visit https://www.medirect.be/wealth-management/performance-record

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Overview of funds and weightings in the portfolio on 30/09/2018

Category	Mutual Funds	Defensive	Conservative	Balanced	Growth	Dynamic

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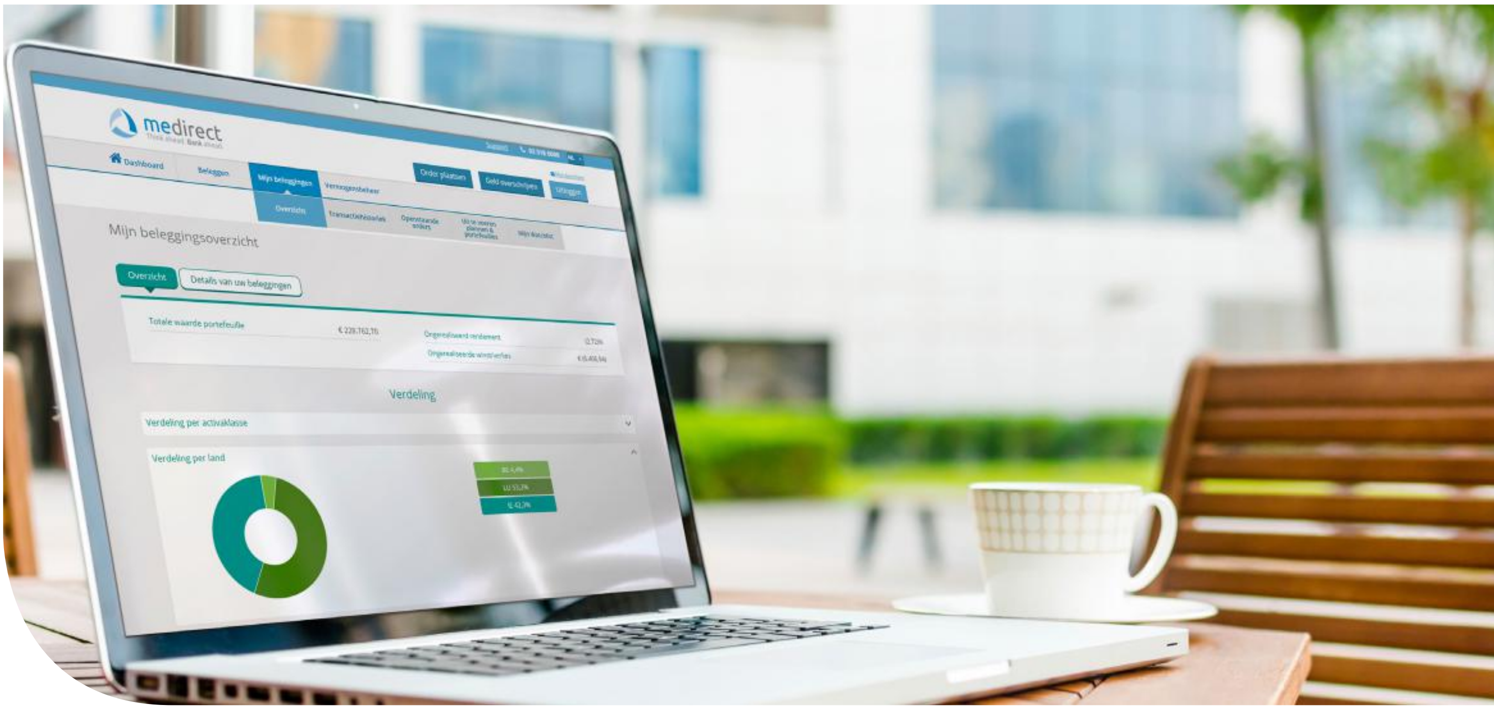

You don't have to wait for the digital quarterly report. You can always access the most recent details of your Portfolio on our online platform, whenever it suits you. 24 hours a day, 7 days a week. You'll find detailed information such as the composition and the total returns of your portfolio, but also the returns and details of each fund.

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CONTACT US

Please contact us with any questions or comments you may have on MeDirect Online Wealth Management. You can reach us at 02 518 00 00 From Monday to Friday 09h00 - 20h00 and on Saturday from 09h00 - 14h00 or send an email via info@medirect.be

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