AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

SelfWealth Limited

(ASX Code: SWF)

December 2018

INDEPENDENT
INVESTMENT RESEARCH

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Contents

SelfWealth Limited

(ASX Code: SWF)

Note: This report is based on information provided by the Issuer as at December 2018.

Key Facts	
Entity Name	SelfWealth Limited
ASX Code	SWF
ASX Listing Date	23 Nov 2017
Total Shares	165.2m
Options (out of the money)	9.5m
Total Shares (fully diluted)	165.2m
Market Capitalisation	$13.2m
FY19F Dividend Yield	N/a
Net Debt	$0.0m
Valuation (fully diluted)	$0.23/shr

Major Shareholders	
Andrew Ward	13.7%
Ron Lesh	7.5%
Acorn Capital	5.9%
JM Financial Group	5.7%
Washington H Soul Pattinson	4.8%
Total	37.6%

Key Management & Directors	
Andrew Ward	CEO, Executive Director
Andrew Dick	Chief Technology Officer
Jarrod Purchase	GM Marketing
Brendan Mutton	Head of Sales
Tony Lally	Non-executive Chairman
John Gaffney	Non-executive Director
John O'Shaughnessy	Non-executive Director

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

OVERVIEW

SelfWealth Limited ('SWF' or the 'Company') listed on the ASX on 23 November 2017 and provides Australian investors with a range of investment services. Specifically, the Company provides: a flat fee online brokerage service at $9.50 per trade, irrespective of trade size, representing Australia's lowest cost retail brokerage service; a Peer to Peer (P2P) network for clients to track the portfolio performance of other clients (in real time) on a depersonalised-basis as well as a Leaders Model Portfolio based on a select slice of the portfolios of the top 10 best performing clients; SelfWealth Adviser Platform (SWAP), currently in beta testing with a select group of financial advisers and due for commercial rollout at the beginning of 2Q 2019, and; the imminent launch (scheduled for first half 2019) of Australia's first representative SMSF ETF (the SelfWealth SMSF Leaders Fund (ASX code: SELF)), powered by data from 55,000+ SMSF portfolios through a commercial agreement with BGL Corporate Solutions. Importantly, in what is a very strong endorsement of the underlying construction methodology and appeal of the product, the ETF will receive an anticipated A$100m seeding from ETFS Capital (originally ETFS Securities, founded by Graham Tuckwell). The ETF, which is the Company's largest strategic play to date, is based on SelfWealth's core IP that generates its Leaders Model Portfolio and in back-tested performance has generated 411 basis points of outperformance per annum over the S&P/ASX 200 Total Returns Index over a four-year period. SelfWealth was founded by current CEO and largest shareholder Andrew Ward and its service offering evolution has remained faithful to the original and founding concept of providing self-directed investors, notably Self Managed Super Funds (SMSFs), an affordable and empowering solution to track the performance of any and/or high performing SMSF investors. With a rapidly declining quarterly cash burn rate, expectations of continued growth in key earnings metrics, a refocused marketing direction, improved functionality, and a capital raise / rights issue announced in December 2018 for an expected $2.46m, we believe the Company is well positioned to capitalise upon what is a globally unique product and service offering.

INVESTMENT VIEW

SelfWealth is undoubtedly a high risk, high return investment proposition. We believe the Company's core IP provides a compelling and unique value proposition. We expect the solution and the ETF - an ETF powered by SMSFs for SMSFs - will resonate strongly with the target market. However, notwithstanding these positives, there is substantial uncertainty regarding the degree of commercial traction of both the ETF and the core model portfolio software solution. Calendar year 2019 will prove a particularly important year in providing indications of the degree of market receptivity. The seed investment by Graham Tuckwell's ETFS Capital not only provides immediate FUM scale for the ETF but, given the significant due diligence undertaken by and experience of ETFS Securities, provides reassuring third-party confirmation of the strength of the underlying methodology and ability to outperform the S&P/ASX 200 index. Our valuation of $0.23 per share implies considerable upside risk, but investors should note that there is a high degree of inherent risk in earnings forecasts for the Company, irrespective of the fact that we believe we have erred on the conservative side. On account of this, SelfWealth is inherently a speculative investment but certainly one, in IIR's view, that has strong investment merit.

KEY POINTS

- **Unique Model Portfolio IP -** Partly through a strategic and commercial relationship with BGL Corporate Solutions and its in-house developed IP, SelfWealth offers a unique model portfolio IP, with the ability to track top performing SMSF investors (on an anonymous basis). We believe the fundamental basis of the underlying IP as an investment strategy is sound. Successful SMSF investors are typically smart, highly self-interested, risk averse, and long-term investors, all of which provides a sound underpinning for any investment strategy.

- **Unique ETF Offering** - The soon to be launched SelfWealth SMSF Leaders Fund will be constructed based on SelfWealth's core IP and will be based on the top 1% of the 55,000+ SMSF portfolios that utilise BGL Corporate Solutions SMSF accounting solution. With the addition of the Company's WealthCheck Score methodology, applying an S&P/ASX 200 index filter and quarterly rebalancing, the ETF is expected to comprise a portfolio of 80-90 S&P/ASX 200 Index stocks. Historic backtesting, which investors must recognise has limitations, indicates 411 basis points per annum of outperformance over the S&P/ASX 200 Total Returns Index. For a strategy that has such a large slice of the underlying index, this is an extraordinary degree of outperformance, and can be attributed to several factors including periodic rebalancing, the exclusion / inclusion of underperforming / outperforming securities, and the inherent merit of the underlying methodology.
- **Strengthening Financial Position** - SelfWealth has recorded a marked decline in quarterly cash burn rate on the basis of a more attractive wholesale brokerage pricing structure with OpenMarkets, more disciplined and targeted marketing spend, and continued trade volume growth. The latter is partly based on an improved product proposition and, consequently, higher conversion rates of signed up users progressing to Active Trader status. On our expectations, the Company should hit a break-even position in the 2H CY2019 period. The recent capital raise in December 2018 and the expected high take up of the rights issue to close in January 2019 strengthens the Company's balance sheet, providing a cash buffer and the financial resources to pursue a concerted marketing push of the SelfWealth core IP, including the imminently launched ETF.
- **Improved Online Brokering Product Proposition** - By the Company's own admission, the online broking service had previously lacked key functionality, including live pricing, market depth and stop loss functionality. These have now been added and have been a key contributor to higher conversion rates, up from 20% previously to now 40% of all signed up users. The addition of international share trading functionality scheduled for 2Q CY2019 is seen as the final piece of the puzzle in this regard. With approximately 25,000 signed up users who have not progressed to Active Trader status, this can be viewed as a hidden asset for SelfWealth in the context of this improved functionality (removing often cited reasons for not progressing) in addition to the spotlight the ETF launch will likely shine on the Company (potentially reminding such users of the service offering).
- **Australia's Only Flat-rate Retail Brokerage Offering** - SelfWealth remains Australia's only flat-rate retail brokerage service and is substantially cheaper than competing participants. While SelfWealth is much more than purely an online brokerage service, the low rate has been an important 'hook' for many users and is also a necessary prerequirement to implementing periodic rebalancing in an affordable manner, and which represents a core component of the Company's model portfolio methodology.
- **CY 2019 - A Big Year for SelfWealth** - The upcoming calendar year will arguably be the most important yet for the Company. The ultimate vision of founder and CEO Andrew Ward will come to commercial fruition with the launch of the ETF, rolling out international share trading functionality, a refocused marketing push on the Company's core model portfolio IP, and the supporting financial resources. Progress on commercial traction should be carefully watched. Investors today have the potential to be handsomely rewarded, but they will need to be as there is currently little visibility on the degree of commercial traction on these strategically important products and services.

STRENGTHS & WEAKNESSES

STRENGTHS

- A unique Peer to Peer online network with a strong user experience that enables clients to track the performance of high performing clients of the SelfWealth network on a depersonalised-basis. The strategic agreement with BGL Corporate Solutions is critically important in this regards and represents a very substantial barrier to entry for any participant potentially seeking to emulate the Company's core model portfolio IP.
- Australia's only flat-rate retail brokerage service of only $9.50 per trade, irrespective of trade size. This is attractive not only in itself but an important prerequirement to implementing periodic rebalancing which is one of a number of core principles underpinning the model portfolio IP.

- A unique soon to be launched ETF offering based on a unique and fundamentally attractive underlying investment approach, particularly strong backtested performance, and which has received a very strong endorsement from one of the most experienced global ETF participants in the form of ETFS Capital. We believe the message of 'an ETF powered by SMSFs for SMSFs' will resonate strongly with the target market.
- Unlike alternative SMA platform solutions, SelfWealth provides advisers with a HIN based solution, as distinct from a custodial solution. Some advisers still harbour an inherent distrust of the latter based on experiences during the GFC.
- Perhaps an absence of a previous weakness more so than a strength, financial momentum is moving in the favour of the Company, with quarterly cash burn declining materially. On our expectations, which do of course incorporate risk, we expect SelfWealth to have reversed its cash burn position by 2H CY2019.

WEAKNESSES

- The uniqueness and novelty of the of the ETF construction methodology is ultimately its key strength. However, it also introduces considerable uncertainty around market reception and FUM growth. Indications of commercial traction over CY2019 will be an important guide to the ETF's ultimate potential.
- The MER of the ETF is 88 basis points. While this is not dissimilar to a host of ASX-listed mFunds, actively managed ETFs and LICs / LITs, it is notably higher than many of the larger and better known (passive) ETFs. It remains to be seen how the investing public will react to the 88 basis point MER.
- While the online brokerage service is a crucial component of the broader model portfolio solution, SelfWealth's ultimate goal is to be a successful business based on its core IP offering, rather than just an online broker per se. In relation to its core IP, commercial uptake is either in relatively early stages or, in the case of the ETF, the product has yet to be launched. There is material uncertainty about the ultimate degree of commercial traction.
- The ETF's backtested outperformance is impressive. However, backtested performance should not necessarily be viewed as indicative of future performance. The relative performance of the ETF over its first full year will bear monitoring - substantially different performance to the backtested analysis may compromise growth potential.

KEY RISKS

- **ETF Uptake Risk -** We view the SelfWealth SMSF Leaders Fund (SELF) as a fundamentally attractive and unique investment proposition which we expect will resonate strongly with the SMSF community. The $100m seeding by Graham Tuckwell's ETFS Capital provides a very strong endorsement of the investment merit and appeal of the product. However, the uniqueness of the ETF also introduces uncertainty in relation to the degree of uptake by the investor community. SELF could ultimately be anything from a $200m to $2bn FUM ETF, in our view. The first 6 to 12 months of operations will be an important indicator of its ultimate potential. Actual relative performance will also likely be important to FUM inflow potential.
- **Core IP Commercial Traction Risk** - The Company remains a relatively new entrant in the financial services industry with an innovative business model. While the latter, specifically its core IP, represents SelfWealth's strength, it introduces uncertainties in relation to commercial traction risk. The CY 2019 period will prove an important year in this regard, with the Company planning on shifting its branding and marketing focus away from the flat fee brokerage to the value proposition of the core IP. The imminent launch of the ETF should help in this regard, serving to shine a light on SelfWealth and its IP (which is also the basis of the ETF portfolio construction methodology).
- **Trading Volume Risk -** Trading volumes are subject to the common market risks that impact all brokerage firms. More specifically in relation to SelfWealth, a greater risk relates to the adoption of the core IP in the form of the model portfolios and implementing periodic rebalancing. Should the Company have a meaningful uptake of the core IP model portfolio functionality, with users applying the rebalancing discipline, trading volumes, average revenue per user (ARPU) and, in turn, revenues could be expected to increase materially.

- **Earnings and Valuation Risk -** Financially, quarterly cash burn levels have declined materially. This is partly on the basis of lower brokerage rates (reflecting higher trading volumes and a tiered price wholesale brokerage structure), increasing trading volumes and lower marketing spend. Financially, we believe the Company is now on a clear road to profitability, with the recent capital raise more about adding financial resources to support the imminent launch of the ETF and the refocused branding initiatives, rather than out of financial necessity. However, the risks identified above in turn translate into earnings and valuation risk. We believe we have adopted conservative forecasts in relation to the key earnings drivers but investors must recognise that SelfWealth is inherently a high risk, high return investment proposition.
- **Competition Risks** - The FinTech and online brokerage industries are highly competitive and facing rapid change. New software and service offerings are regularly developed by other companies. As a consequence, the Company's current software products / online service offering may become obsolete or uncompetitive, resulting in loss of clients, with resulting adverse effects on revenue, margins and potential profitability. While SelfWealth is far more than just an online brokerage provider, the flat rate $9.50 brokerage has been an important 'hook' in attracting customers. Should other participants adopt a similar pricing structure this would likely have an adverse impact on client numbers and trading volumes.
- **Key Personnel Risk -** The Company currently employs a number of key management personnel. The loss of any of these people's services, and most notably in the form of CEO Andrew Ward, could materially and adversely affect the Company and may impede the achievements of its research, product / service development and commercialisation objectives.
- **Contractual and Counterparty Risk** - The contract with BGL Corporate Solutions is critically important for SelfWealth. Any potential re-contracting risks have been substantially mitigating by the relatively long-dated remaining six year term as well by way BGL Corporate Solution's founders material shareholding in SelfWealth.
- **Data Privacy Breach -** SelfWealth's business operations involve the storage of its clients' confidential, personal and sensitive information (including portfolio composition and security trading). It also involves the utilisation of BGL Corporate Solutions client data. The Company's business could be materially disrupted by privacy breaches which may impact the security of client information / data, particularly if client confidentiality was compromised.
- **Financial Resources**- Following the conclusion of capital raise and rights issue announced on 12 December 2018, SelfWealth is expected to have approximately $3.8m in cash. The Company believes, and which is consistent with our view, it will have sufficient capital resources to fulfil the requirements for funding for the foreseeable future. This is based on its now cashflow positive starting point and the expectation of ongoing profitable growth. However, the risk remains that in certain circumstances, the Company's ability to successfully operate may be subject to factors beyond the control of the Company (including without limitation cyclical factors affecting the economy, financial and share markets generally). This could potentially require the Company to seek to raise additional funding.

COMPANY OVERVIEW

SelfWealth was established in 2012 by Andrew Ward, who remains the CEO and largest shareholder in the Company. Mr Ward started the company after his experience in the wealth management and financial planning industries. Due to frustrations with the standard advice-driven fee model, he was looking to provide a platform styled approach that would allow clients to be more self-directed, and to do so at substantially lower cost.

In 2013, the Company established a strategic agreement with BGL Corporate Solutions after Andrew approached the principal owner, Ron Lesh, and outlined his concept of providing self-directed investors insight into what other self-directed investors are doing, particularly SMSF investors.

In 2014, the core IP of re-balancing portfolios to the relevant client's target portfolio was introduced and subsequently the concept of the WealthCheck score was developed. The WealthCheck score provided a means of ranking the different portfolios based on a risk-adjusted return ranking. The methodology assesses returns generated over shorter and longer term periods as well as incorporating diversification and valuation measures.

The Company received strong positive feedback from its user base but who also expressed a desire to stay in the SelfWealth solution to execute trades in order to implement the necessary model portfolio changes. In order to maintain consistency with the core principle of providing an affordable investment solution, Andrew was intent on establishing a flat fee brokerage structure. In 2015 a strategic agreement with Pershing was secured to facilitate trading and in September 2016 SelfWealth launched Australia's first flat fee retail brokerage solution. The wholesale brokerage agreement was subsequently moved to OpenMarkets.

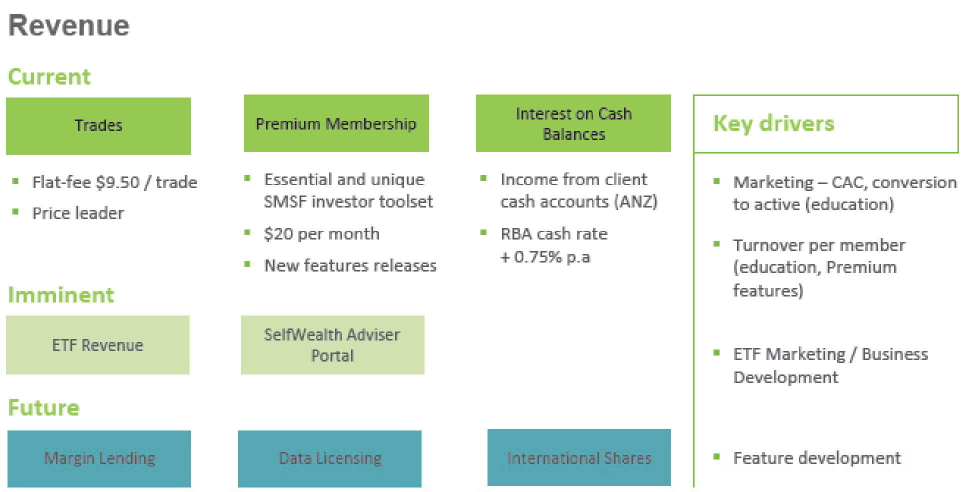
Other notable milestones since have included winner of the Optus My Business Award – FinTech Business of the Year and winner of the Australian Business Awards – Software Innovation. In 2017 the SelfWealth Premium Membership offer and the SelfWealth TRADING App were both officially released.

Since 2012, SelfWealth has raised a total of approximately $20.5 million in paid up capital through several financing rounds, including the IPO in 2017 and the conclusion of the recently announced $2.5m capital raise and rights issue in December 2018.

PRODUCT & SERVICE OVERVIEW

SelfWealth is a fintech service provider that provides Australian investors with a range of services. Specifically, the Company provides:

- A flat fee online brokerage service at $9.50 per trade, irrespective of trade size, representing Australia's lowest cost retail brokerage service;
- A Peer to Peer network for clients to track the portfolio performance of other clients (in real time) on a depersonalised-basis as well as a Leaders Model Portfolio based on a select slice of the portfolios of the top 10 best performing clients;
- SelfWealth Adviser Platform (SWAP), currently in beta testing with a select group of financial advisers and due for commercial rollout at the beginning of 2Q 2019;
- Australia's first representative SMSF ETF (the SelfWealth SMSF Leaders Fund), powered by data from 55,000+ SMSF portfolios through a commercial agreement with BGL Corporate Solutions, scheduled for release in 1H 2019 with an anticipated A$100m seeding from ETFS Capital.



SelfWealth.

ONLINE BROKING SERVICE

SelfWealth was conceived first and foremost as a P2P investor platform. However, in response to client feedback and specifically to facilitate the implementation of the portfolio IP that is the essence of the service it was deemed necessary to introduce an online brokerage service as well.

To be consistent with the intention of providing a low cost solution, the Company was intent that the solution be based on a low-cost, flat-fee brokerage cost structure which, if successful in delivering, would represent a first for the Australian retail market.

In 2015, the Company signed an agreement with Pershing and, subsequently just prior to the IPO in 2017, retendered and signed a three year agreement with OpenMarkets under a flat fee contract pricing structure. The cost per trade incurred by SelfWealth is structured on a tiered volume basis. As from the September 2018 quarter and based on ongoing trading volume growth, SelfWealth have moved down to a lower cost tier and is now earning a healthy profit margin on each trade. This has contributed to a lower cash burn rate. Prior to the September quarter trade execution was virtually a profitless service for SelfWealth.

The Company has progressively improved the functionality of the online trading service over the course of 2018 which, as it concedes, was previously a competitive weakness. Importantly, the Company has added market depth and stop-loss functionality, both of which are generally viewed as essential features by more active trading participants. This improved functionality is expected to contribute to converting more active traders, which had been somewhat lacking previously.

The final 'piece of the puzzle' for a truly competitive online trading functionality is the addition of international shares. The introduction is scheduled for the first half of CY2019 and, depending on which service provider is selected by the Company, will cover US shares or potentially US, European, and Japan shares. A flat rate $9.50 per trade will also most likely apply.

The key features of the SelfWealth online trading service include:

- Flat fee of $9.50 per trade, regardless of trade size;
- Real-time share market prices, market depth, stop-loss functionality;
- Thomson Reuters Stock Analysis tools;
- EOFY year reporting: dividends, interest paid, holding balances and trades;
- Trade on the go with the SelfWealth TRADING App;
- International shares trading functionality scheduled for 1HCY2019.

With the prior functionality shortcomings now, or imminently to be, addressed, we believe the low cost brokerage will further accelerate active trader growth and, in turn, trading volume growth. It is also a particularly important aspect to an efficient means in which to implement SelfWealth's model portfolio IP given the periodic rebalancing. In this respect, the two features are highly complementary.

The table below illustrates how competitive the offering is relative to larger incumbents.

Price Comparison of Online Traders

Trade Size	**SelfWealth**	CommSec	ANZ	Bell Direct
<$1,000	**$9.50**	$10.00	$19.95	$15.00
$5,001	**$9.50**	$19.95	$24.95	$15.00
$10,001	**$9.50**	$29.95	$29.95	$25.00
$100,001	**$9.50**	$120+	$110+	$100
$1,000,000	**$9.50**	$1,200+	$1,100+	$1,000

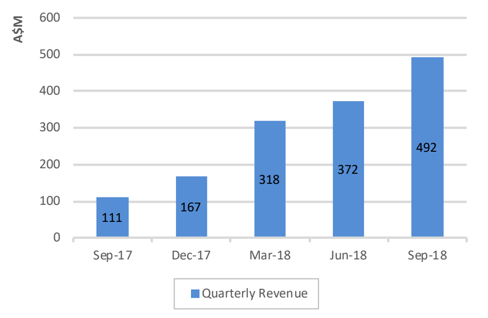
Source: SelfWealth

In addition to a margin on trade execution, the other major revenue stream from the online trading service is net interest margin SelfWealth retains on client cash balances. In order to trade clients have to lodge securities and cash. Of the active trader base, which now numbers approximately 8,000 at the date of this report, the average cash balance is approximately $8,000 per trader. While the interest paid is on a tiered basis, SelfWealth earns approximately 1.62% on the total client cash balances which currently sit at around $70m (and growing materially each month). Similar to other online trading services and SMA platform providers, net interest margin is expected to be a material contributor to earnings.

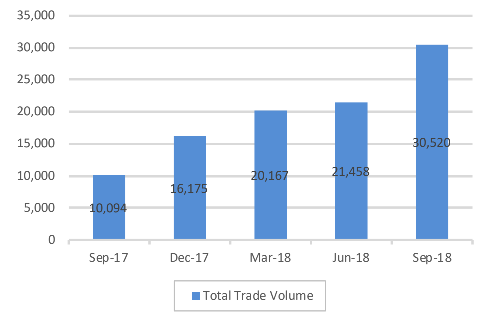
The four charts below diagrammatically present the quarterly growth in SelfWealth's online trading activities, specifically total Active Traders (defined as traders the Company has derived revenue from through trading and/or the transfer of cash balances), total trading volumes, member's securities and cash balances, and quarterly revenues (across all sources of revenue).

In the case of all four key metrics, SelfWealth has recorded accelerating absolute and relative growth, attracting regular trading investors while simultaneously increasing trades and members cash holdings. Specifically, from the Q1FY19 to Q4 FY18 period, Active traders were up 48% to 6,965 up from 4,694 Q4 FY18, trading volumes up 42% to 30,520, the value of client cash and stock held up 32% to $715m, while the Cost Per Acquisition (CPA) of new active trader declined 43% over the June quarter, with marketing efficiencies continuing to deliver CPA savings while not negatively effecting acquisition volumes.

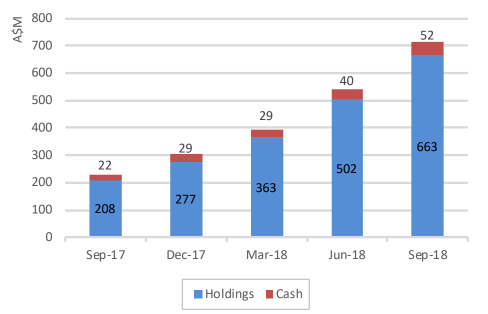
Total Active Traders (by Quarter)



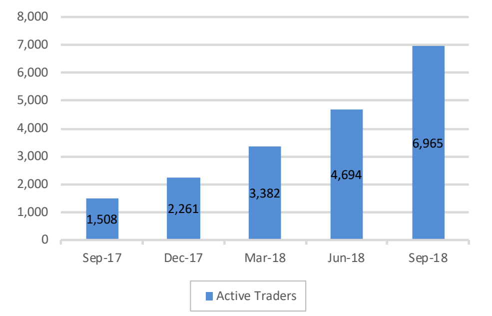
Total Trade Volume (by Quarter)



Members Securities & Cash Holdings ($m)



Quarterly Revenue ($000)



The Australian online trading market is reported at approximately 700,000 active traders. At 8,000 active traders, SelfWealth currently has roughly a 1% market share. As a comparative point, we note that Bell Direct, a company that has a relatively long history and has had considerable investment, occupies around a 5% market share. What is particularly encouraging is that the combination of the lowest cost brokerage, improved functionality and unique data driven portfolio features now appears to be delivering. According to SelfWealth, the Company is capturing 15% of the online trader market churn pool and new share trader pool collectively. That is, the Company is attracting attention from the consumer base, represents the fastest growing online broker by market share in Australia, and continuing to hit new records both in terms of number of new active traders and the volume of trades each month. This is testament to the service offering having appeal in the market.

We note that primarily on the basis of improved functionality and a more effective sign-up process (specifically in relation to AML and KYC requirements), conversions from those who sign-up to progressing to Active Trader status has increased from 20% to 40% over 2H2019. Furthermore, 30% of those that have signed up have stated that the reason for not utilising the services in a commercial sense was the absence of international share trading functionality. Given the planned launch of the latter in 1H 2019, both dynamics augur well for a further acceleration in absolute growth numbers over the 2019 period.

In another strong positive, the percentage of new Active Traders by way of word of mouth referrals has increased from 15% to 25%. This is the strongest endorsement a product / service provider can receive and clearly the most cost effective form of marketing. We expect that given functionality improvements, the imminent launch of international shares, and the spotlight the ETF will shine on SelfWealth that this virtuous cycle of growing use and referrals is likely to continue to increase over time.

PREMIUM MEMBERSHIP OFFERING

The Premium Membership offering represents the original component and the core of SelfWealth's IP. Through the service offering, charged at a rate of $20 per month, SelfWealth provides a benchmarking tool enabling self-directed clients to benchmark their portfolio construction and performance against the portfolios of other SelfWealth clients (on a depersonalised basis).

Clients can follow other clients, and see how they are invested, based on portfolio performance, risk profile (e.g. balanced or growth), performance preference, investor type (SMSF, Individual) and access online software tools such as SafetyRating and WealthCheck Score. Clients can see how other clients (on a depersonalised basis) with a similar stated risk profile are investing and what returns those other clients are achieving.

This Premium feature has two key tailored software tools designed with the objective to provide clients with specific historical data to assist them to make more informed portfolio / trading decisions. The SafetyRating is a measure of a portfolio's diversification and the WealthCheck Score indicates the performance of a portfolio relative to the SelfWealth Premium investing group as a whole.

The SafetyRating Score is based on a score out of 40 and measures the diversification of a client's portfolio. The WealthCheck Score is a score from F to A+ which measures the "health" of a client's portfolio against metrics such as performance, SafetyRating and valuation.

Integrally important to the provision of the Premium service and the soon to be launched SMSF ETF is the 7 year distribution agreement (expiry March 20 2024) the Company entered with BGL Corporate Solutions Pty Ltd (the 'BGL Distribution Agreement'). BGL Corporate Solutions is a leading Australian SMSF software provider to SMSF Accountants and Administrators. In 2014, BGL released its first cloud-based software solution Simple Fund 360, which is now the preferred software for over 2,900 SMSF accountants and administrators representing over 160,000 SMSFs. As part of the agreement, BGL Corporate Solutions also become a major shareholder in SelfWealth, currently owning 7.5% of issued capital.

Under the BGL Distribution Agreement, BGL's SMSF clients have the ability to gain access to the SelfWealth Premium service through this SMSF Accountants and Administrators distribution channel. The BGL Distribution Agreement also provides SelfWealth Premium clients with access to investment data from 55,000+ BGL SMSF portfolios via it's Simple Fund 360 solution against which to benchmark their own portfolios.

The BGL relationship is a critically important for SelfWealth as it provides the data foundation which powers several of SelfWealth's diagnostic tools and is the basis of its differentiating core IP. It also establishes relationships for SelfWealth with Australia's accountancy industry. In terms of the stability of this relationship, again we note the vested interest that founder and 90% BGL shareholder Ron Lesh has in the success of SelfWealth through his 7.5% equity stake in the Company.

The key features of the SelfWealth Premium Membership include:

- Ability to view portfolios of other clients (on a depersonalised basis);
- Track high performing clients, which includes alerts every time followed clients execute trades;
- Ability to re-align portfolios to match the top-weighted holdings of the best 10 performing SelfWealth clients;
- Advanced Portfolio Analysis Access to Analytics, Statistics and Indexes to assist clients analyse their own portfolios.

To date, the penetration of Active Traders adopting the Premium Membership and utilising SelfWealth's core IP has been low, specifically 8%. This could be viewed as disappointing or, conversely, as an opportunity given the significant scope to raise this. The Company, and IIR for that matter, view it as the latter. SelfWealth believes there are a number of reasons for this and over 2019 will embark on a significant push to raise awareness and, in turn, the level of penetration.

SelfWealth will endeavour to do this by pursuing a range of initiatives. Firstly, the production of educational material (such as instructional videos and white papers) highlighting the use and benefits of its various features and the empirical benefits of periodic rebalancing. This material has been lacking to date and the Company recognises this has been a shortcoming. Secondly, a more targeted, digital marketing focus, with experienced personnel now on board to pursue this. Thirdly, the ETF is expected to shine a light both on SelfWealth and its core IP, given the ETF adopts the same underlying IP as the Leaders Model Portfolio to generate outperformance. Fourthly, a more concerted marketing push into the IFA sector. Finally, should these initiatives prove successful, then we would also anticipate the virtuous cycle of word of mouth referrals start to become a meaningful contributor to numbers signing up for the service.

The success, or otherwise of these initiatives and the growth in Premium Membership will be an important metric to watch over the full course of 2019. Meaningfully increasing traction will be a strong market endorsement of the Company's core IP and which the future success of SelfWealth ultimately depends on, and vice versa. We believe the Company is now well positioned to pursue meaningful growth in its Premium Membership solution.

SELFWEALTH ADVISER PLATFORM

The SelfWealth Adviser Platform (SWAP) is in a beta stage of testing with a select segment of the financial adviser community. It is scheduled for commercial roll-out in 1H FY2019 subsequent to the launch of the ETF and inclusion of international share trading functionality, the latter of which is viewed as a necessary prerequirement.

The SelfWealth Adviser Platform is a wholesale offering that will be directed to the planner community, IFAs and non-aligned dealer groups. The platform provides the full model portfolio and rebalancing functionality of the SelfWealth Premium Membership, the $9.50 flat fee trading and provides a HIN based solution where all holdings are Chess sponsored and where legal and beneficial ownership is in the name of the adviser's client (as distinct from a custodial solution provided by SMA platform providers, such as Netwealth, OneView, and Hub24).

The key benefits of the solution for advisers include:

- Flat $9.50 brokerage rate per $70,000 block of trades. This presents two key benefits. Firstly from a business model perspective, the ability for the adviser to charge a margin on top of this, as agreed upon the adviser and its client base, without necessarily moving beyond the realms of market competitive brokerage levels. Secondly, the low flat brokerage structure enables periodic portfolio rebalancing without prohibitively expensive brokerage adversely impacting returns;
- Model portfolio and rebalancing functionality, utilising the adviser's own and/or a SelfWealth P2P crowd-sourced portfolio, with the ability to implement whole of portfolio changes for each client with the press of button;
- A HIN based model portfolio rebalancing solution in which the advisers' clients have full legal and beneficial ownership of portfolio holdings. SelfWealth believes the HIN based solution fills a major gap in the market. Specifically, at one end of the spectrum model portfolio rebalancing functionality provided by the predominant SMA platforms (such as Netwealth, OneVue and Hub24) yet which are based on a custodial solutions. At the other end of the spectrum, the financial advisers that simply use online broking services to implement portfolios for their client base. With respect to the former, some advisers still harbour reservations about custodial solutions based on experiences during the GFC (for example, where clients' assets where held in a single omnibus account or there were 'expectation gaps' between the legal duties of financial sector gatekeepers and those of investors). The latter simply suffers from a time consuming and cumbersome process for advisers. SelfWealth believes its solution provides the best of both worlds for advisers.

The SelfWealth Advisery Platform, or SWAP, is not a new revenue stream. Rather, it draws on the flat fee brokerage service combined with SelfWealth's core P2P model portfolio rebalancing IP. However, what it is likely to do, assuming a material uptake, is materially increase the average trades per Active Trader, the total volume of trades, ARPU measures and, hence, revenues and earnings. Cash balances must also be held in a SelfWealth ANZ account.

In terms of potential impact, SelfWealth characterises the target financial adviser market as having on average 100 clients. Assuming a 20 stock portfolio and the periodic rebalancing of this, then the impact has the potential to be material.

Marketing efforts will led by the GM of Sales, Brendan Mutton, who was previously at Macquarie bank and has strong relationships with the IFA community. We understand that the reception from advisers involved in beta stage trials has been resoundingly positive.

SELFWEALTH SMSF LEADERS FUND

The SelfWealth SMSF Leaders Fund is potentially the Company's biggest strategic play and the one that has the potential to deliver the greatest economic value to shareholders in the Company.

The methodological basis for the portfolio construction of the ETF is the same as that of the Leaders Model Portfolio, utilising a combination of time weighted performance, diversification and valuation. Additionally, there is an S&P/ASX 200 filter, with all stocks outside the ASX 200 excluded. The construction methodology will be based on the Top 1% of the circa 55,000 SMSF portfolios currently under BGL, equating to around 550 SMSF portfolios. It is expected the ETF portfolio will comprise 80-90 S&P/ASX 200 securities, and which will be rebalanced on a quarterly basis.

The methodology has been backtested for a four year period, during which it delivered a substantial 411 basis points of outperformance over the S&P/ASX 200 Index. The backtesting and methodology has been independently scrutinised and verified by two separate parties, one being ETFS Capital.

On first glance, the degree of outperformance may seem hard to reconcile given the portfolio consists of almost half of the ASX 200. However, it is driven by a combination of factors. Specifically, the periodic quarterly rebalancing, the fact that within the Index there is typically outliers of underperformance and outperformance (more of the former excluded and more of the latter included is the design of the methodology), and finally the portfolio is based on the investment acumen of the best performing investors within a pool (SMSF investors) that in itself have generally successfully accumulated wealth.

IIR finds the basis of the methodology as having fundamental underlying merit. The typical SMSF investor may have anything from $1m to $3m in assets. That is, they have been reasonably successful financially speaking and it is reasonable to assume exhibited a degree of investment acumen. Tied to this, this investor group has a high degree of vested interest and a strong focus on preserving capital. On top of this, the Top 1% of this group is selected, and then SelfWealth's diversification, valuation, and S&P/ASX 200 filters are applied.

In what we understand to be the largest ETF seeding ever in Australia, Graham Tuckwell's ETFS Capital will seed SELF with $100m (and for which ETFS Capital will receive a component of the MER as effectively a return on the seed capital component). This seeding and investment by Graham Tuckwell is an extremely strong endorsement of the ETF and the underlying methodology. The seeding was also deemed important in getting scale, as IFAs tend to have less trust in small scale ETFs (currently the majority of those listed on the ASX).

The Company, Graham Tuckwell, BGL and, potentially the ASX will embark on a national roadshow accompanying the launch of the ETF. There will also be promotion through the BGL distribution channels to its accounting and financial adviser base. Through prior participation in BGL's twice yearly conferences, which are well attended by its client base, we understand there was a very encouraging level of interest shown by this client base, with the 'SMSF based portfolio for SMSFs' message having strong resonance.

The ETF will also shine a light on SelfWealth and its core IP, through which we would anticipate a broader adoption of its services. While the ETF and the core IP that underpins the Premium Membership service are the same, the adoption of one should not preclude the use of the other. The two products could be adopted as a sort of 'core-alpha' approach. At 80-90 stocks, the ETF provides substantial (alpha-seeking) diversification without what would be prohibitive rebalancing costs. An adviser may then choose to combine that with a high-conviction, concentrated portfolio utilising the IP of the Premium Membership service.

Globally, this is a unique concept and a unique ETF. In turn, its uniqueness stems from the unique aspects of the Australian superannuation market. Furthermore, the high degree of concentration that BGL has of the Australian SMSF market provides a unique data set. On the flipside, however, with that uniqueness comes a high degree of uncertainty of market uptake. In IIR's view, the SelfWealth SMSF Leaders ETF could have FUM of anything from $200m to $2bn in a number of years. Inflows over the first full 12-months of operations will bear watching as a guide to the ultimate potential.

The MER is 0.88%. By ETF standards, this is high, albeit less so for fundamental alpha seeking and 'smart beta' ETFs. However, it is generally in-line with other ASX-listed investment vehicles, such as mFunds and LICs / LITs. Given the proprietary and unique nature of the core IP of the ETF and its inherent potential for material alpha, we believe the MER should be compared to the latter peer group. However, it remains to be seen whether to what degree investors may baulk at the MER of 0.88% given it is an ETF.

Of the 0.88% MER, SelfWealth derives 0.48%. The residual is split between the Responsible Entity (ETFS Australia Pty Ltd) and effectively a return to ETFS Capital on the $100m in tied up seed capital. In relation to the latter, investors should note that they are effectively paying an ongoing fee for the benefit of the $100m in seed capital. However, the other way to look at this is that a highly experienced participant in the global ETF sector has not only 'approved' the methodology and ETF on the basis of detailed due diligence but that approval has been backed up by a significant proportion of its own money and that ETFS Capital has a strong vested interest in the success and FUM growth of SELF. Investors can take a high degree of comfort from that, and which effectively represents a mitigation of investment risk. A payment of a small component of the overall fee for this makes investment sense, in IIR's view.

GROWTH DRIVERS

Over the medium term, we view the following as the key growth drivers for SelfWealth:

- Improved online trading functionality;
- Effective targeted marketing spend, increasing word of mouth referrals and cross promotion (BGL, ASX);
- The ETF launch in itself and the broader awareness of the SelfWealth service offering;
- Educational collateral to raise awareness and provide a better understanding of the SelfWealth functionality;
- Commercial rollout of the SelfWealth Adviser Platform (SWAP).

EDUCATIONAL COLLATERAL

To date, there has been a lack of educational material on how to use and understand the virtues of the SelfWealth platform. From the sampling of the customer base undertaken by the Company it has become apparent this has been a shortcoming, and partly responsible for the low penetration rates in relation to the Premium Membership offering.

The Company will address this over the 2019 period with education videos, promotional material and white papers (highlighting the benefits of periodic rebalancing, for example). The virtue of this, given the focus on the core IP regarding model portfolios and the virtues of periodic rebalancing, is it expected to increase the average turnover per Active Trader (which currently sits at 1.8 trades per month) in addition to increasing penetration rates for the Premium Membership service.

For example, the typical SMSF portfolio is likely to have between 20 and 40 stocks. Rebalancing four times would generate in the range of about 80 trades per annum, or a little over six trades per month. This represents a substantial uplift from the two trades a month average at the moment.

HIGHER CONVERSION RATES

A total 33,000 investors have registered on the SelfWealth website. Of this, 8,000 have become Active Traders. The conversion rate has been increasing materially, previously around 20% of all registered users up to now close to 40%. The improved product online trading functionality, such as market depth, stop losses, live market pricing, are believed to be the primary driver of that. The introduction of international shares, scheduled for 1H 2019 will only provide further stimulus, particularly in the context that some 30% of those who registered but did not transition to Active Trader status stating the lack of international shares was the primary reason not to do so.

Additionally, improvements in the sign-up process, specifically the AML / KYC requirements, have likely also partly, albeit less significantly, contributed to improving conversion rates.

The 25,000 registered but non active status investors are a potential hidden asset for the Company. These investors have shown enough interest to register, so they could be considered as 'hot leads' in a marketing sense. It is now up to the Company to undertake the initiatives to convert these investors.

From the survey work the Company has undertaken there have been three principal reasons. The first was online trading functionality (stop loss, market depth, live pricing, international shares primarily). The second was a lack of understanding of the functionality and core IP. The third reason was the previously cumbersome final activation process, specifically the AML / KYC requirements. The improved functionality and final activation process, the imminent launch of international shares, the plans to produce educational material have and or will address these issues. Additionally, the spotlight the ETF launch is likely to shine on SelfWealth and its underlying IP should further facilitate this conversion.

EFFECTIVE MARKETING

A critical financial KPI is the Customer Acquisition Cost (CAC) of each Active Trader. The Company spent a considerable amount over the FY18 financial year on marketing, including a material amount on above the line spend (non targeted marketing spend), the most obvious being in relation to the Essendon AFL team. In hindsight, this was not the most effective use of financial resources. While probably providing brand recognition, it did not yield a material increase in sign ups.

During the FY18 period, the Company was spending close to $500 per Active Trader that they ultimately acquired. The above the line spend has ceased, with the Company now largely focused on digital advertising. Additionally and importantly, there has been a significant increase in word of mouth referrals. Approximately 25% of sign ups now are attributing their reason to signing up as word of mouth referrals, and which also generally have a higher rate of conversion to Active Trader status. Word of mouth referral sign-ups are effectively free for the Company, except for some free trades issued to both the referring party and the newly signed-up Active Trader.

As a consequence of the shift to more targeted spend and the increase in word of mouth referrals, the Company's CAC figure is now down to around $160 per Active Trader. Sitting along side of that, the Average Revenue per User (ARPU) from each Active Trader is now between $400 and $500 (comprising approximately $240 on trades and $160 on the interest margin on average cash balance). As such, the payback is less than half a year now on each Active Trader signed up.

Spearheading the more targeted and effective marketing initiatives is the GM of Marketing, Jarrod Purchase, who was appointed in April 2018. Jarrod has a consumer marketing background with a strong understanding of effective digital marketing channels and how to further optimise the other channels, like radio, and also not to spend marketing dollars in less effective channels.

Additionally, beginning from Q1 2019, the Company will start to shift the branding focus. To date, the focus has largely been on promoting the $9.50 flat rate brokerage, which has been effective hook to build the Active Trader numbers to date. The focus will shift to promoting the core IP of the business - effectively the message being "do you want to be part of the top 1%". The ETF launch should assist this by putting such a spotlight on the core IP proposition.

IMPROVED FUNCTIONALITY

A key to the business is continuing to improve the platform, or improve the user experience. The Company has a strong internal development team that will drive that process, under the guidance of management. This five-person team has been in place since the IPO, and is technically strong, with most members having worked previously together at Australia Post.

The good news for the Company and shareholders is that much of the hard work to develop the core model portfolio IP is complete. There was considerable work required to work through tens of thousands of SMSF portfolios, and this in itself represents a barrier to entry to any other potential participants that may seek to emulate the IP (assuming gaining access to the necessary underlying SMSF data). Moving forward, we are confident SelfWealth will continue to respond to market demand in terms of adding any necessary features.

MANAGEMENT & BOARD

The key team members of the management team and Board are detailed below.

- **Andrew Ward, CEO** - Andrew has over 25 years' experience in the financial services industry and is the founder and Managing Director of SelfWealth. Prior to founding SelfWealth, Andrew was an Executive Manager for Commonwealth Private leading a team of private bankers and private wealth managers in the disciplines of financial planning, insurance and stock broking. Andrew also worked at Austock Group as National Sales Manager, responsible for distribution across various business divisions and as a Business Development Manager at St George Bank gaining extensive exposure to administration platforms. Previous roles at major financial institutions include Colonial First State, RetireInvest and AMP. Andrew holds a Bachelor of Economics degree from Sydney University, as well as a Diploma in Financial Services (Financial Planning) and is passionate about providing tools and information to help self-directed investors.
- **Andrew Dick, Chief Technology Officer** - With over 25 years' experience in IT, Andrew has been driving the development of the SelfWealth platform since 2013. Having come from a technical background Andrew brings with him the skills and knowledge gained from working in large IT corporations such as Fujitsu and Australia Post to steer the team to success. Andrew's experience covers a variety of industries (including mining, telecommunications and delivery services), and accordingly he brings the best of those industries to SelfWealth. Andrew believes in creating a team passionate about the product they develop to produce an innovative system that engages members.
- **Jarrod Purchase, General Manager Marketing**- Jarrod is a data-driven marketer with a track record of success over his 11 years of experience, working in a variety of industries including consumer finance, pharmaceuticals and gaming. Jarrod spent 5 years in London for an LSE-listed company, delivering year on year substantial revenue growth through intelligent customer targeting and marketing, before moving back to Australia, working with a Melbourne-based betting start-up almost two years ago. Jarrod brings a large suite of both modern and traditional marketing skills, which are being used to grow the SelfWealth name into a strong challenger brand worthy of its ambitions. Jarrod holds a Bachelor of Business (eCommerce) degree from Swinburne University.
- **Brendan Mutton, Head of Sales** - Brendan is a senior leader with over 20 years' experience in the financial services industry. He has a proven track record in delivering revenue growth, leading successful sales teams and growing internal platforms and businesses within the Intermediary and Third-Party distribution channels. Prior to joining SelfWealth, Brendan was a Business Development Manager at NAB in the Investor Sales and Markets business. He was responsible for distributing a range of listed and unlisted investment opportunities into the Independent Financial Adviser market, including ETF's, LIC's. He was also responsible for their internal Bond and Fixed Income platforms. During his nine years at Macquarie Bank, as a Division Director he specialised in Third-Party distribution within Macquarie's Wealth Management business. He was responsible for distributing the Macquarie Cash Management Account to Advisers and Accountants, as well as the Macquarie Online Trading platform. He also held Key Account responsibilities and managed a Sales team. Brendan is highly experienced and has a strong network of relationships in the Financial Planning, IFA and platform market, and a has a proven track record of driving new Business initiatives. Brendan holds a Bachelor of Business from RMIT University and a Diploma of Financial Services (Financial Planning) and is passionate about building sustainable business relationships to drive mutually beneficial outcomes.

Board Members		
Name, Position	**Industry Exp**	**Previous Experience**
Andrew Ward, CEO and Non-Independent Director	>25 years	As above
Tony Lally, Non-executive Chairman		Chair and Director of the Association of Superannuation Funds of Australia (ASFA), Chief Executive Officer of Sunsuper (2007- 2013) which provide superannuation, life insurance and retirement incomes for 1 million members across Australia and Executive Director of the four subsidiaries of the Commonwealth Bank which provided funds management, life insurance and custody services.
John Gaffney, Non-executive Director		John was Legal Counsel for the Australian Financial Ombudsman Service providing internal legal advice on financial services. He was a member of the Victorian Bar practising in commercial litigation. Prior to joining the Bar John was a senior member of the Victorian Law Institute internal compliance group.
John O'Shaughnessy, Non-executive Director		John is a former Director of A T Kearney and is currently a director of Alpha Vista Financial Services. He was formally a Non- Executive Director of the Centrepoint Alliance and Chairman of Forticode. John served as Chairman of University of Adelaide's International Centre for Financial Services Advisery Board and was a member of the Macquarie University Faculty of Science and Engineering Advisery Council.

CAPITAL RAISE

On 12 December 2018, the Company announced the details of an equity capital raise. The details are as follows:

- The Company raised $1.46m through a placement and the issue of 20.9m shares at 7.0 cents per share.
- A 1:6 entitlement offer at 7.0 cps. The assumed rights issue proceeds are $1.0m, involving the issue of 14.3m new shares;
- At the date of this report, the Company's expectation is to raise a total $2.46m through the placement and the Rights offer, the latter of which will be completed in January 2019.

The purpose of the capital raise is two-fold. The first is to strengthen the Company's balance sheet and provide a cash buffer. While the cash burn rate is going down significantly every quarter, the expectation is that it will not be until 2H CY2019 when the Company achieves break-even. The Company could most likely have progressed without undertaking the raise, but there would likely not be much in the way of a cash buffer. We also note that the market has generally been assuming the Company is cum capital raise (one reason the share price has been adversely impacted over the last few months). The removal of this perceived risk could act as a share price catalyst.

The second reason relates to the ETF requirement to broaden the team, so the capital raise provides the financial resources to do so. A component of the additional capital will support the GM of Sales, Brendan Mutton, by enabling additional resources to be added. It will also support a heavier investment in the technology team to produce what's required for them generating the portfolio and maintaining all the underlying data required in the index provider role.

FINANCIALS

Our key earnings assumptions are forecasts are contained below:

- Annual Active Traders acquired in FY19 equal to the annualised equivalent of 85% of the members acquired in the last actual quarter period in 1QFY19. This equates to approximately 7,700 new Active Traders in FY19. We then assume annual growth of 3% p.a. over this base amount. We believe both represent a realistic basis, with the annual growth rate arguably erring on the conservative side.
- The SelfWealth Adviser Platform (SWAP) is assumed to attract one client firm (one independent financial adviser) per month with each adviser having on average one-hundred clients (1,200 clients per annum). With SWAP based on utilisation of the model portfolio functionality, we have assumed an average of six trades per month for each

client's model portfolio. Given the service is yet to be commercially released there is a high degree of inherent risk in these forecasts, notwithstanding the strongly positive feedback during beta testing.

- Net interest margin assumes an average cash balance per client of $8,000 and a NIM to SelfWealth set at 1.5% per annum. Both assumptions are consistent with historical actuals.
- The ETF is assumed to grow at $50m FUM per annum. Again, given the product is yet to be commercially released there is a high degree of inherent risk in these forecasts, notwithstanding the strongly positive feedback from accountants at a half yearly BGL conference and the strong endorsement from ETFS Capital's investment.

P&L & Cashflow Forecast (A$M)

	FY2019F	FY2020F	FY2021F	FY2022F	FY2023F
Revenue					
Brokerage - retail direct	1.522	3.127	5.001	7.179	9.702
Brokerage - wholesale	0.000	0.192	0.553	0.957	1.407
NIM - retail	1.283	2.459	3.670	4.917	6.201
NIM - wholesale	0.000	0.075	0.165	0.255	0.345
Premium subscriptions	0.154	0.492	1.027	1.770	2.729
ETF fees	0.000	0.750	1.250	1.750	2.250
Total Revenue	**2.960**	**7.094**	**11.666**	**16.828**	**22.633**
COGS	(0.905)	(2.037)	(3.388)	(4.937)	(6.707)
Gross Profit	2.055	5.057	8.278	11.891	15.927
Total Overheads	(3.329)	(3.519)	(4.293)	(4.502)	(4.722)
Total Opex	(5.204)	(5.557)	(6.433)	(6.749)	(7.081)
EBITDA	**(3.150)**	**(0.499)**	**1.845**	**5.142**	**8.846**
Financing & Investment	2.351	0.067	0.089	0.197	0.413
Net Cashflow	**(0.798)**	**(0.432)**	**1.934**	**5.339**	**9.258**
Cash at the beginning of period	3.290	2.492	2.060	3.994	9.332
Ending cash balance	2.492	2.060	3.994	9.332	18.591

VALUATION

Our key valuation assumptions are contained below:

- A DCF methodology based on the above forecasts;
- A WACC of 25% to factor in considerable earnings and strategy execution / commercial traction risk;
- A terminal value calculation based on a PE multiple of 8 times;
- A fully diluted number of shares equivalent of 165.2 million ordinary shares post the capital raise announced in December 2018. Approximately 9.5 million options outstanding as at December 2018.
- IIR derives a current valuation target of $0.23 per share (fully diluted).

Valuation Assumptions	
NPV forecast period NPBT	6.6
TV (using PE Ratio of 8x):	31.1
SWF current & future valuation (ex options)	**$0.24**
SWF current & future valuation (fully diluted)	**$0.23**

DISCLAIMER

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