Quarterly Update

30 June 2022

Issued by
InvestSMART Funds Management Limited
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Professionally Managed Accounts
ARSN 620 030 382

InvestSMART Ethical Growth Portfolio

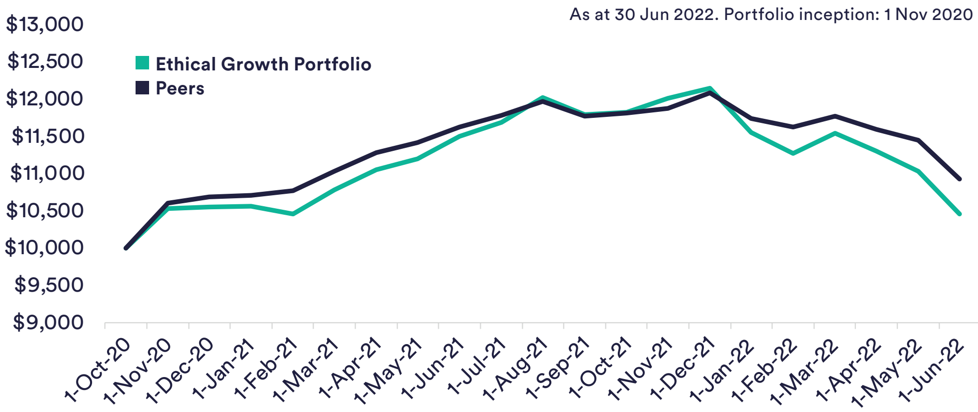
Financial Year 2022

Financial year 22 was unfortunately the worst year for the Ethical Growth portfolio since the start of the pandemic. The portfolio fell by 9 per cent after fees.

There were no changes to the portfolio over the financial year and InvestSMART continues to review and evaluate the portfolio's holdings and performance to assure each one is providing the correct allocation you require for a high growth risk profile and is meeting its long term stated goals.

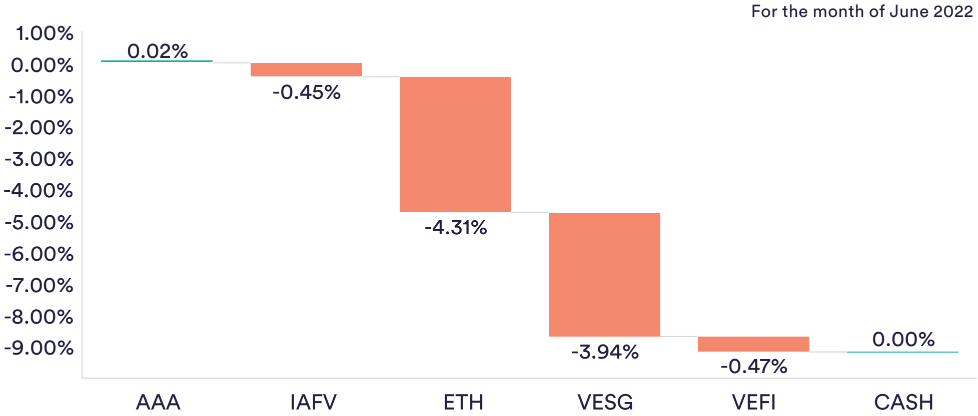
Peformance of $10,000 since inception

As at 30 Jun 2022. Portfolio inception: 1 Nov 2020



Attribution of returns

For the month of June 2022



Portfolio mandate

The Ethical Growth portfolio invests in sustainable, responsible, and/or ethical investments providing you an ethical portfolio that looks to grow wealth for the future.

The objective is to invest in a portfolio of 5-15 exchange traded funds (ETFs), with more of an emphasis on 'growth' assets like Australian and international shares that have the potential to appreciate in value over time.

$10,000
Minimum initial investment

5+ yrs
Suggested investment timeframe

5 - 15
Indicative number of securities

Risk profile: Medium - High
Expected loss in 4 to 6 years out of every 20 years

Morningstar AUS Growth Target Allocation Net Return (NR) AUD
Benchmark

Performance of Individual Holdings

VETH – Vanguard Ethically Conscious International Shares Index ETF – 31 per cent weighting

VETH had an unfortunate end to the financial year, falling 9.9 per cent on a total returns basis in June. This fall was due to falls in banking and technology stocks.

However one month does not make an investment and for the financial year 22 the Vanguard Ethically Conscious Australian Shares ETF finished down 10 per cent on a total returns basis.

With VETH's ethical filter removing most energy and resource holdings it did underperform its full index peer as these sectors were the biggest contributors to the ASX 200. The biggest contractions were the technology and consumer discretionary sectors, something VETH is exposed to.

Despite the negative month and negative year, the VETH outperformed almost all developed markets and most emerging markets in FY22. In fact, it was the local market's first major outperformance of global peers since 2005.

Looking to FY23, rate rises, and a slowing global economy will remain as the biggest headwind to equities. However, there are already signs these headwinds may dissipate sooner than some are forecasting due to low costs and the return of normality to supply chains.

VESG – Vanguard Ethically Conscious Australian Shares ETF – 35 per cent weighting

VESG finished the Financial Year FY22 down 10 per cent on a total returns basis. This fall was due to the rising inflation problem and recession risks in VESG's highest geographic exposure, the US.

The US market has fallen over 19.9 per cent in the 6 months to June 30 on a total returns basis, down 11.1 per cent for the financial year. Falls in European, Japan and UK markets also contributed to VGS financial year decline as investors weighed up global risk and the threat of a recession

Looking to FY23, recession risk is likely to be the biggest factor for VESG. Interestingly enough, looking at all the recessions that have occurred in the US all the way back to 1945, each time a recession is confirmed it is normally followed by a rally in US markets. The main reasoning for these rallies is the market's belief things can only improve. Whether that trend will continue in the future is something we are watching very closely.

AAA – Betashares Australian High Interest Cash ETF – 13 per cent weighting

AAA finished the financial year in the black , up 0.3 per cent on a total return basis. This return was aided by interest rate rises in the final few months of the financial year, a trend that is likely to continue into the new financial year. We do note however that cash returns are still below historical norms as rates remain soft even after the recent rate rises but still give some much needed returns from an asset class that has suffered over the last decade.

IAF – iShares Core Composite Bond ETF – 11 per cent weighting

Over the past six months the markets' expectations of interest rate rises has dramatically risen due to inflation surging to levels not seen in decades. This led the Reserve Bank of Australia (RBA) to raise rates by 0.75 per cent in the final two months of the financial year and it has already added a further 0.5 per cent to the cash rate to start the new financial year. It is warning of further steep interest rate rises to come.

All this has led to Australian Commonwealth Government Bond (ACGB) yield repricing. For example, ACGB 10-year bond yield has moved from 1.79 per cent in December 2021 to 4.07 per cent as of late June 2022 before closing the financial year at 3.62 per cent.

This rise in the yield is not exclusive to the ACGB 10 year either. All bond timeframes have seen this kind of appreciation in their yield component.

This has caused a very sharp and painful decline in the price of ACGBs and all bar 2 ACGBs currently on offer are trading at discounts to their face value of $100.

IAF replicates the ACGB market and invests across all time maturities weighted according to the market capitalisation. This explains why over the financial year the value of IAF has fallen 10.7 per cent on a total returns basis. We note that this is highly unusual and is well above the normal movements either up or down in a standard year. We do not expect to see a movement of this magnitude in FY23 even with the expected headwinds.

The InvestSMART Funds Management Ltd , as Responsible Entity for the Professionally Managed Accounts, has amended the investment process such that we may elect to participate in Distribution Reinvestment Plans for securities held in your account.

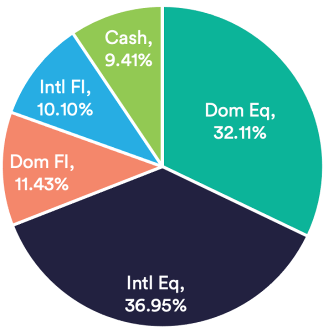
Performance vs Peers*

	3 mths	6 mths	1 yr	SI p.a
Ethical Growth Portfolio	-9.4%	-13.9%	-9.0%	2.7%
Peers	-7.0%	-9.4%	-5.9%	5.5%
Excess to Peers	-2.4%	-4.5%	-3.1%	-2.8%

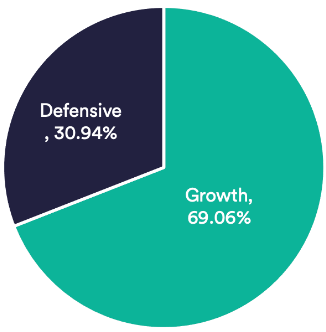
Fees: InvestSMART Ethical Growth fees are 0.55% Vs Average of 684 peers 1.56%.
Note: Our InvestSMART Growth is benchmarked against Morningstar® Australia Growth Target Allocation NR AUD+
As at 30 Jun 2022. Portfolio inception (SI): 1 Nov 2020
* Performance shown is theoretical from 1 November 2020 and includes management fees but excludes brokerage and other trading costs.

Attribution of returns

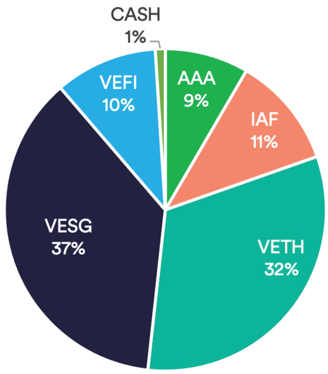
By class



By profile



By holdings



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