Quarterly Update

30 June 2022

Issued by
InvestSMART Funds
Management Limited
ACN 067 751 759
AFSL 246441

Professionally Managed Accounts
ARSN 620 030 382

InvestSMART Growth Portfolio

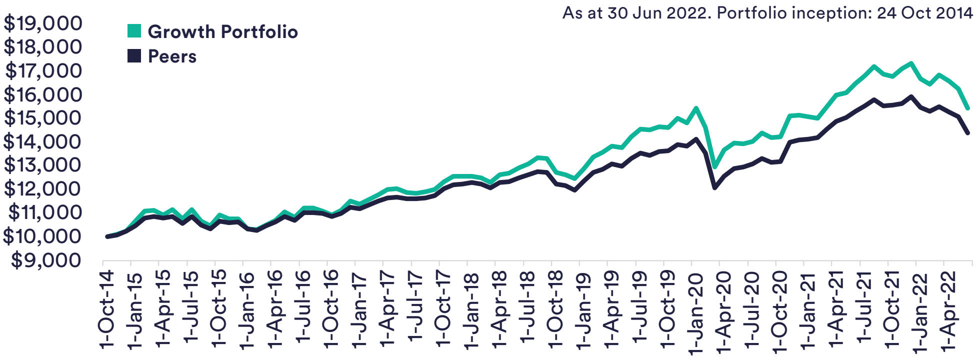
Financial Year 2022

Financial year 22 was unfortunately the worst year for the Growth portfolio since the start of the pandemic.

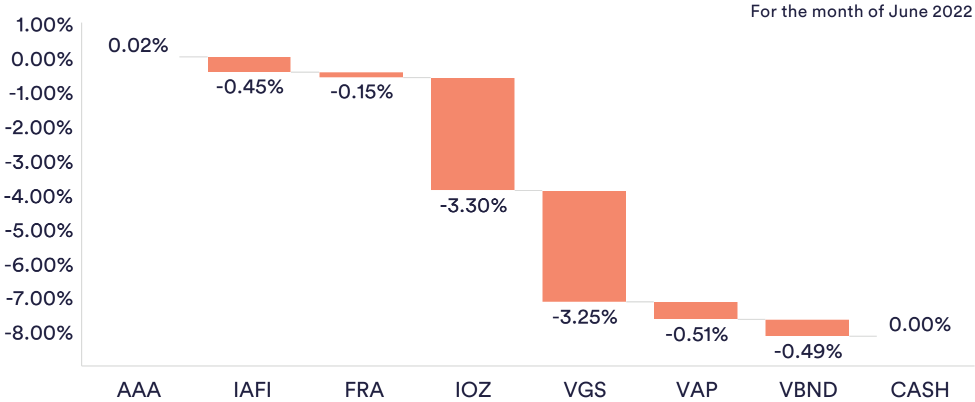
The portfolio fell by 6.4 per cent after fees. However, it is still averaging 5.8 per cent since inception.

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 growth risk profile and is meeting its long term stated goals.

Peformance of $10,000 since inception



Attribution of returns



Portfolio mandate

The Growth Portfolio is an exciting choice if you're saving for long term goals (5-years-plus) or you want 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 shares and property 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: 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.

VGS – Vanguard MSCI Index International Shares ETF – 32 per cent weighting

VGS finished the Financial Year (FY) FY22 down 7.1 per cent on a total returns basis to close at $88.61. This fall was due to the rising inflation problem and recession risks in VGS' highest geographic exposure, the United States.

The US market has fallen over 19.9 per cent in the six months to June 30 on a total returns basis seeing it down 11.1 per cent for the financial year. Falls in European, Japan and UK markets also contributed to VGS's 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 VGS. 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 normally leads to a rally in US equities. The main reasoning for these rallies is the market's belief things can only improve. Whether that trend continues into the future is something we are watching very closely.

IOZ – iShares S&P/ASX 200 ETF – 28 per cent weighting

IOZ had an unfortunate end to the financial year, falling 8.9 per cent on a total returns basis in June, to close at $27.10. This decline was due to falls in banking and technology stocks.

However, one month does not make an investment and for the Financial Year (FY) 22 the iShares S&P/ASX 200 ETF finished down 6.1 per cent on a total returns basis, just its third loss of the past ten financial years.

The biggest contribution to IOZ was the utilities, energy and resource sectors on the ASX 200. The biggest contractions were the technology and consumer discretionary sectors.

Despite the negative month and negative year, the ASX 200 outperformed almost all developed markets and most emerging markets in FY22. In fact, it was the ASX 200's first major outperformance of global peers since 2005.

Looking to FY23, rate rises, and a slowing global economy will remain the biggest headwind to equities. However, with elevated commodity prices and demand for goods and services remaining robust, the ASX 200 may continue its outperformance this financial year as well.

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.

VBND – Vanguard Global Aggregate Bond Index ETF – 9 per cent weighting

With the rise of global inflation central banks around the world have been forced to act to rein in this surge with mass interest rate rises. VBND is heavily dominated by US bonds as they are the largest weightings in the global bond market.

With the US Federal Reserve taking an aggressive approach to curbing inflation by raising the Federal Funds rate (the US equivalent of Australia's cash rates) from a pandemic low of 0.25 per cent to 1.75 per cent in the space of four months, bond markets reacted accordingly and sold off. It is also clear that the Federal Reserve is far from finished and is likely to raise the Federal Funds rate further to start the new financial year.

This situation is also not unique to the US. Canada, New Zealand and the UK have also hiked rates to rein in inflation, all of which impacted the performance of VBND.

Over the financial year VBND fell 11.2 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.

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.

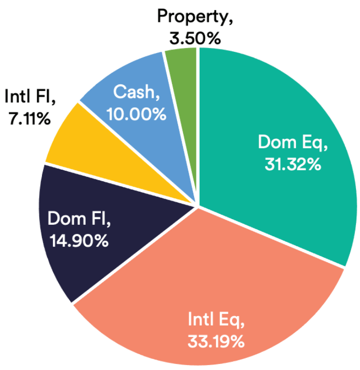
Performance vs Peers

	1 yr	2 yrs	3 yrs	5 yrs	SI p.a
Growth Portfolio	-6.4%	5.3%	2.8%	5.4%	5.8%
Peers	-5.9%	5.3%	2.6%	4.4%	4.9%
Excess to Peers	-0.5%	0.0%	0.2%	1.0%	0.9%

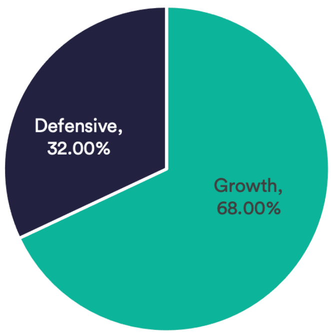
Fees: InvestSMART Growth fees are 0.55% Vs Average of 684 peers 1.56%
Note: Our InvestSMART Growth is benchmarked against Morningstar® Australia Growth Target Allocation NR AUD+
As at 30 Jun 2022. Portfolio inception (SI): 24 Oct 2014

Attribution of returns

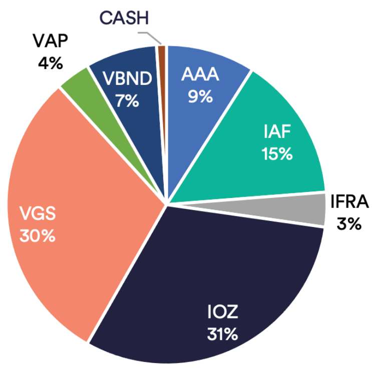
By class



By profile



By holdings



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