Quarterly Update

30 September 2022

Issued by
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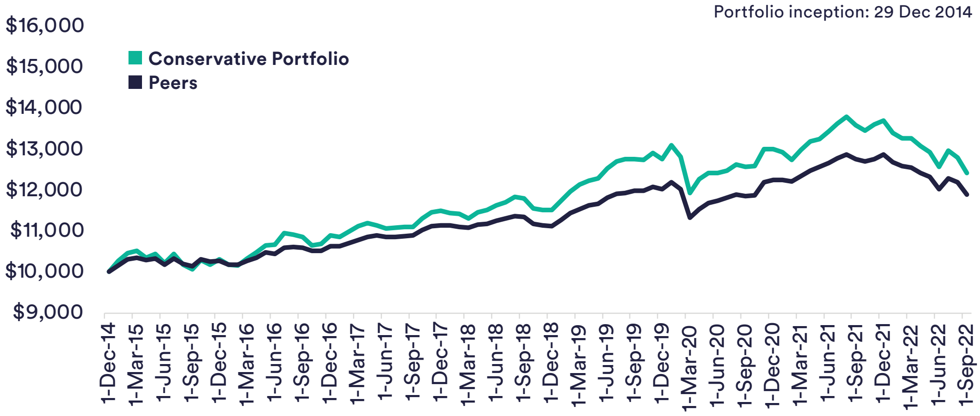
InvestSMART Conservative Portfolio

September Quarter 2022

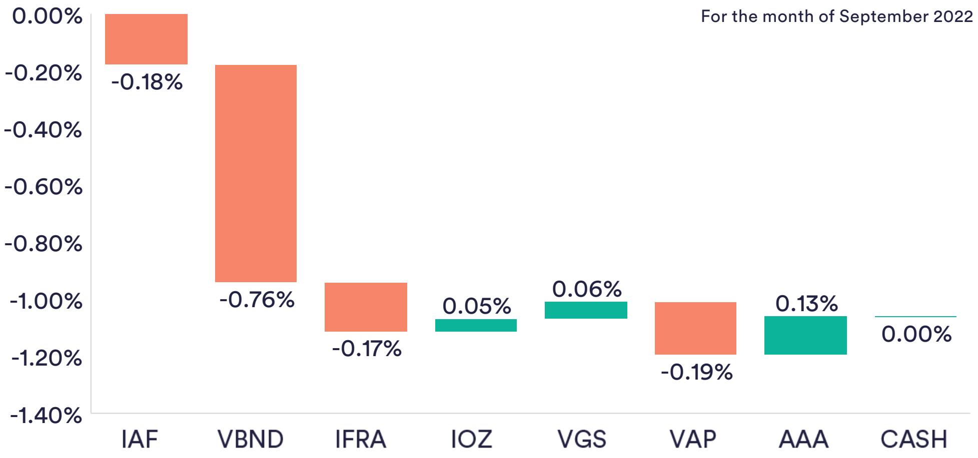
Despite all the doom and gloom in September the Conservative portfolio managed to buffer itself from the worst of the market declines falling only 1.17 per cent after fees for the quarter.

There were no changes to the portfolio over the quarter 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 conservative risk profile and is meeting its long term stated goals.

Peformance of $10,000 since inception



Attribution of returns



Portfolio mandate

The Conservative Portfolio is the ideal option if you have short term goals (2+ years) and your focus is on protecting capital while earning higher return than cash.

The objective is to Invest in a portfolio of 5-15 exchange traded funds (ETFs), with an emphasis on investments like bonds and cash that deliver regular, reliable income still with some exposure to equities to help beat inflation.

$10,000
Minimum initial investment

2+ yrs
Suggested investment timeframe

5 - 15
Indicative number of securities

Risk profile: Low - Medium
Expected loss in 1 to 2 years out of every 20 years

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

Performance of Individual Holdings

AAA – Betashares Australian High Interest Cash ETF – 27 per cent weighting

AAA continued to power ahead as interest rate rises from the Reserve Bank of Australia (RBA) translated into higher yields for money markets. The interest on AAA has now jumped to 2.73 per cent, having started the calendar year at 0.2 per cent. This is pushing the total returns on AAA to levels not seen in its history. This much-needed return from an asset class that has suffered over the last decade is good to see and is providing a solid defensive asset in your portfolio during this period.

IAF – iShares Core Composite Bond ETF – 26 per cent weighting

If it wasn't for the UK's government's decision to implement their unfunded tax cuts using UK government debt, Australian bonds would have probably finished the quarter in the black.

Having priced in the risk of rapid rate rises from the Reserve Bank of Australia (RBA) and other central banks in June, Australian bonds recovered solidly in July and August.

The Australian Commonwealth Government Bond (ACGB) 10-year bond yield moved from 3.77 per cent at the end of June to 3.34 per cent at the end of August. This movement was not exclusive to the ACGB 10 year either and similar declines in yields were seen across all maturities, helping IAF appreciate.

However, as mentioned, the release of the UK's unfunded tax policy coupled with sharper and harder rate rises from the US Federal Reserve riled global and domestic bond markets, leading to a complete reversal of fortunes for IAF and seeing it lock in its second consecutive quarter of losses, finishing down 1.26 per cent for the quarter.

Looking forward, the very large and dramatic declines seen in the first half of 2022 are unlikely to recur in the final quarter as rate rises are now priced in, which should limit further downsides.

VBND – Vanguard Global Aggregate Bond Index ETF – 17.5 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.

VGS – Vanguard MSCI Index International Shares ETF – 12.5 per cent weighting

International equities have been under huge strain. Inflation is rife in the US, Europe and even Japan. Respective cash rates are rising at the fastest paces since the 1990s and 1980swhile the globe is also facing an energy crisis not seen since the 70s, which is leading to the cost of living skyrocketing.

Yet despite all this international event risk, VGS finished the quarter down just 0.13 per cent. July and August were very positive months. There were expectations that global inflation was peaking, that energy prices may return to more manageable levels and that the US Federal Reserve in particular would moderate its rate hiking path.

This, however, was proven to be incorrect and lead to a repricing of the global markets in September, which lead to VGS having its worst month since the start of the pandemic..

Looking forward, markets are currently dealing with a high probability of recession in Europe and America. Markets are also grappling with rate increases that are bigger and sharper than most have experienced in living memory, which is making pricing difficult.

What should be noted about US recessions in modern history is: once 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 – 11 per cent weighting

IOZ was not immune from the tumultuous trading in the final month of the quarter. With financial risk rising, global concerns about inflation and every month of the quarter seeing a 0.5 per cent rate rise by Reserve Bank of Australia, IOZ could not hold on to the gains it made in July and August, finishing the quarter down 1.8 per cent.

That should be put into context. September was the worst month for global markets since March 2020 - the peak of COVID. Yet IOZ? finished the quarter down just 1.8 per cent.

IOZ also had to deal with the majority of its holdings going ex-dividend which added to the downward pressure. That said, October will see those dividends actually returning to shareholders. It is a record amount, over AU$43 billion. A significant amount of this will return to the market through dividend reinvestments which should support the ASX 200 and, by extension, IOZ to start the final quarter of the year

How the remainder of 2022 will play out will come down to how pessimistic the global situation gets. But it should be noted, markets are always trying to price themselves 12 months ahead and October 2023 is likely to be much rosier than the situation we have now.

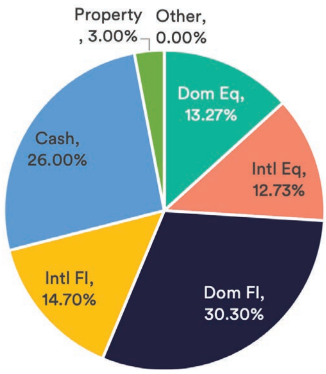
Performance vs Peers

	1 yr	2 yrs	3 yrs	5 yrs	SI p.a
Conservative Portfolio	-8.7%	-0.6%	-0.9%	2.2%	2.8%
Peers	-6.8%	0.1%	-0.3%	1.7%	2.3%
Excess to Peers	-1.9%	-0.7%	-0.6%	0.5%	0.5%

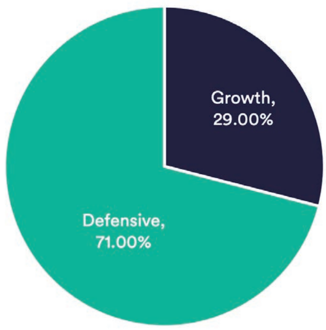
Fees: InvestSMART Conservative fees are 0.55% Vs Average of 433 peers 1.46%
Note: Our InvestSMART Conservative is benchmarked against Morningstar® Australia Conservative Target Allocation NR AUD+
Portfolio inception (SI): 29 Dec 2014

Attribution of returns

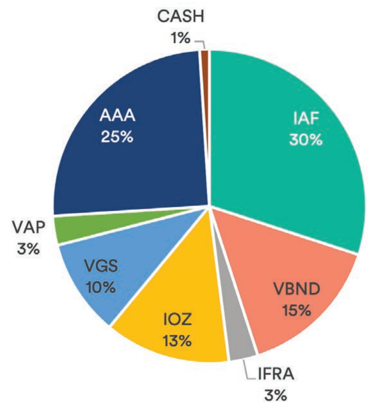
By class



By profile



By holdings



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Important information

All table and chart data is correct as at 30 September 2022.