Quarterly Update

31 December 2022

Issued by
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InvestSMART Ethical Growth Portfolio

Ethical Growth Portfolio: 2022 in review

The Ethical Growth portfolio finished the year well, adding 3.9 per cent after fees in the final quarter of the calendar year.

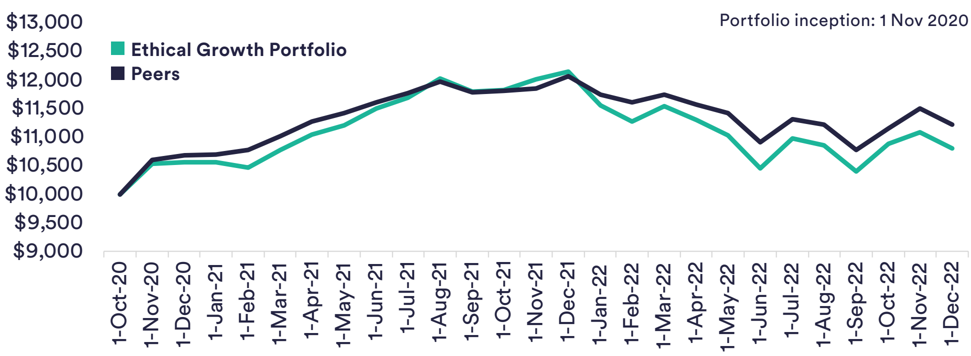
For the calendar year 2022, the portfolio declined 11.0 per cent after fees as global and domestic issue took hold and ethical funds miss out on the commodities and energy boom, more on this below.

The quarterly review of the portfolio was conducted by the Investment Committee on the 14th of November 2022. It was agreed that all current ETFs used in the Ethical Growth portfolio were fit for purpose no changes apart from any rebalancing changes below were recommended.

Over the December quarter the Ethical Growth portfolio was rebalanced to meet weighting obligations in the following way:

VEFI increased by 1 per cent to a 10 per cent weighting from 9 per cent. AAA

Peformance of $10,000 since inception



Performance vs Peers

	3 mths	6 mths	1 yr	SI p.a.
Ethical Growth Portfolio	3.9%	3.4%	-11.0%	1.2%
Peers	4.2%	2.9%	-7.0%	2.4%
Excess to Peers	-0.3%	0.5%	-4.0%	-1.2%

Fees: InvestSMART Ethical Growth fees are 0.55% Vs Average of 735 peers 1.42%
Note: Our InvestSMART Ethical Growth is benchmarked against Morningstar® Australia Growth Target Allocation NR AUD+
Performance shown is theoretical from 1 November 2020 and includes management fees but excludes brokerage and other trading costs. Portfolio inception (SI): 1 Nov 2020

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

was reduced by 1 per cent 12 per cent weighting. All other holdings remained the same.

Ethical Growth Portfolio weightings as of 31 Dec 2022			
Security	Sep	Dec	Change
AAA	13.00%	12.00%	-1.00%
IAF	11.00%	11.00%	0.00%
VETH	31.00%	31.00%	0.00%
VESG	35.00%	35.00%	0.00%
VEFI	9.00%	10.00%	1.00%
CASH	1.00%	1.00%	0.00%
	100.00%	100.00%	

Performance of Individual Holdings

VETH – Vanguard Ethically Conscious International Shares Index ETF

VETH has been stung by its own mandate unfortunately in 2022 with next to no exposure to resources, energy and nuclear which significantly outperformed in 2022. Higher than normal exposure to sectors such as technology, health and finance which underperformed in 2022 led VETH to underperform non-ethical peers.

VETH finished calendar year 2022 down 8.1 per cent and it's clearly its worst year since inception (having only being offered since October 2020). However, even in this short period of time and even with last year's performance, VETH is still up 12.9 per cent on a total returns basis for those that have invested since it began. We would also point out that investing in any equity fund should have a minimum investable timeframe of 5 years.

2022 was a disappointing year for VETH. However looking at 2023 and beyond, the demand for ethically-led investments and companies is only going to grow and that should mean better returns and growth for ethically-mandated funds such as VETH.

VESG – Vanguard Ethically Conscious Australian Shares ETF

International equities were under huge strain in 2022. Inflation was, and is rife, in the US, Europe and even Japan, cost-of-living pressures, slowing economies and national cash rates rising at the fastest pace since the 1990s and 1980s all impacted global markets.

What made it harder for VESG is its higher than peer exposures to sectors such as technology, health, new world industries and consumer discretionary all sectors that underperformed in 2022 as these sectors have higher sensitivities to rising interest rates and inflation.

This meant VESG fell 17.4 per cent compared to its non-ethical peer VGS which fell 12.3 per cent which benefitted from exposure to materials, utilities and energy.

Like VETH, VESG was impacted by its ethical mandate, and we understand that is disappointing. However, like VETH since inception, VESG is up 7.1 per cent on a total returns basis over that period despite last year's return. And once again we would point to the suggested investment timeframes for equities of 5 years or more.

Looking into 2023 and we expect international markets to experience similar issues in the near term however the longer-term investment horizon is strong as the world comes out of the inflation lead slowdown.

AAA – Betashares Australian High Interest Cash ETF

Cash had something of a renaissance in 2022 as interest rate rises saw cash yield at their highest levels in a decade. This led AAA to power ahead in 2022, with its interest jumping from low a 0.2 per cent in January to 3.2 per cent by the close.

This is pushing the total returns on AAA to levels not seen in its history and helped offset some of the decline seen in its defensive fixed income peers. It is good to see cash is providing a solid defensive asset in your portfolio during this period.

IAF – iShares Core Composite Bond ETF

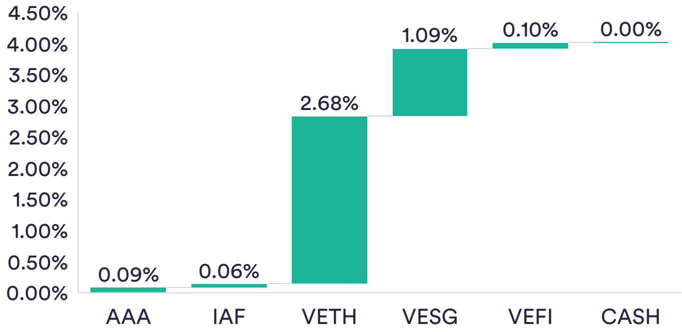
It needs to be pointed out that 2022 was one of the most difficult and unrelenting years for bonds in recent memory.

2022 had to price in the risk of rapid rate rises from the Reserve Bank of Australia (RBA) and other central banks. Bonds also had to deal with inflation levels not seen since the 80s and increases to the Australian cash rate faster and harder than any time in its history going back to 1990.

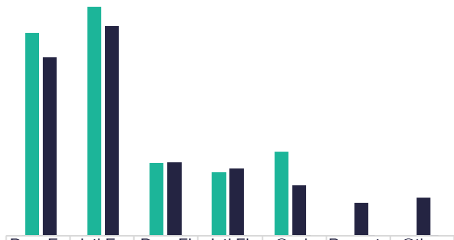
The Australian Commonwealth Government Bond (ACGB) 10-year bond yield started 2022 at 1.61 per cent and finished the year at 4.04 per cent. This movement was not exclusive to the ACGB 10 year either -- similar appreciation in yields were seen across all maturities, which collectively hindered IAF in 2022 and it logged its worse year since its inception in 2012.

Looking forward, the very large and dramatic declines seen in the first half of 2022 are unlikely to recur in 2023 as rate rises are now priced in, which should limit further downsides. There is also an argument to be made that with bond pricing at a discount to face values, conservative investors looking to hold to maturity will see the benefit of a higher yield and a capital return at a future point in time.

Attribution performance

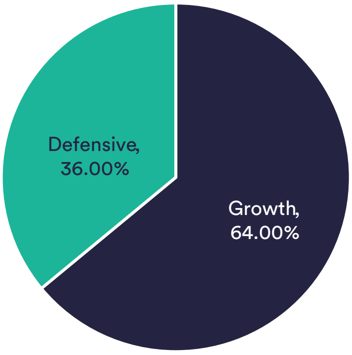


Asset allocation vs Peers

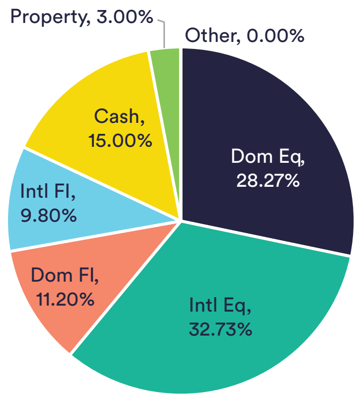


	Dom Eq	Intl Eq	Dom FI	Intl FI	Cash	Property	Other
InvestSMART Ethical Growth	31.00%	35.00%	11.20%	9.80%	13.00%	0.00%	0.00%
Peers	27.31%	32.06%	11.30%	10.44%	7.77%	5.18%	5.92%

Asset allocation



Asset allocation



Our Investment Committee

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Important information

All table and chart data is correct as at 31 December 2022.