Quarterly Update

31 December 2022

Issued by
InvestSMART Funds
Management Limited
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Professionally Managed Accounts
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InvestSMART International Equities Portfolio

International Equities Portfolio: 2022 in review

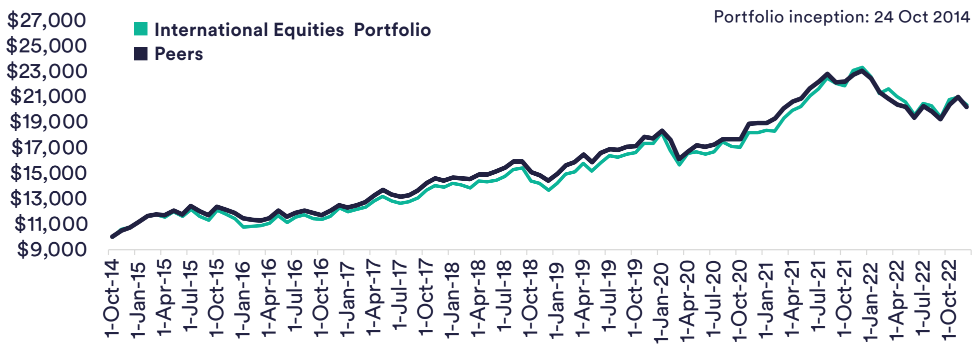
The International Equities portfolio finished out a difficult year with a solid gain in the final quarter up 5.1 per cent after fees and beat its peers by 0.2 per cent.

For the calendar year 2022, the portfolio declined 12.6 per cent after fees on global inflation issues, higher global interest rates, the war in Ukraine and recession fears, 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 International Equities portfolio were fit for purpose, no changes apart from any rebalancing changes below were recommended.

Over the December quarter there were no rebalances in the International Equities portfolio.

Peformance of $10,000 since inception



Performance vs Peers

	1 yr	2 yrs p.a.	3 yrs p.a.	5 yrs p.a.	SI p.a.
International Equities Portfolio	-12.6%	5.9%	5.6%	7.9%	9.1%
Peers	-12.3%	3.6%	4.4%	7.0%	9.0%
Excess to Peers	-0.3%	2.3%	1.2%	0.9%	0.1%

Fees: InvestSMART International Equities fees are 0.55% Vs Average of 1005 peers 1.40%
Note: Our Our InvestSMART International Equities is benchmarked against MSCI World (ex-Australia) Total Return Index, unhedged. Portfolio inception (SI): 24 Oct 2014

Portfolio mandate

The International Equities Portfolio is designed to let you access global share markets in an easy, low-cost way. The portfolio invests in some of the world's biggest companies across Europe, Asia and the US.

The objective is to invest in a portfolio of 1-10 exchange traded funds (ETFs), to provide broad exposure to international equities, and across different market sectors and/or regions to lower volatility, minimise overall risk, and increase the potential for long term growth.

$10,000
Minimum initial investment

7+ yrs
Suggested investment timeframe

5 - 15
Indicative number of securities

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

MSCI World (ex-Australia) Total Return Index, unhedged^
Benchmark

Balance Portfolio weightings as of 31 Dec 2022			
Security	**Sep**	**Dec**	**Change**
IAA	6.00%	6.00%	**0.00%**
IVV	35.20%	35.20%	**0.00%**
VEQ	11.00%	11.00%	**0.00%**
VGS	43.80%	43.80%	**0.00%**
UMAX	3.00%	3.00%	**0.00%**
CASH	1.00%	1.00%	**0.00%**
	100.00%	100.00%	

Performance of Individual Holdings

IVV – iShares S&P 500 ETF

2022 was the worst year for the S&P 500 since the peak of the Global Financial Crisis. Back in 2008 the S&P declined 37 per cent on a total return. 2022 was nowhere near that figure, declining 18.1 per cent on a total return basis.

The reason for the US's terrible performance is obvious: the highest level of inflation since the 1980s, the fastest and steepest increases in the US's Federal Funds rate (their cash rate) since the tenure of Paul Volcker in the 70s and 80s and investors abandoning growth assets such as tech and "new world" industries.

The other interesting development of 2022 was the threat of recession. Rapidly rising interest rates, a clampdown on lending and debt, coupled with cost-of-living issues are expected to see consumption and private investment in the US slow and in some cases contract, hence the threat of recession. Earnings for the third and fourth quarter of 2022 certainly suggest the slowdown is coming. Consumption barometers Amazon, FedEx and UPS also suggest a contraction is coming by laying off employees in October and November despite November and December, both peak consumption months.

All this can explain the S&P's performance and its replication in our ETF holding IVV.

However, IVV is denoted in Australian dollars (AUD), the S&P 500 is in US dollars. With the AUD falling against the greenback in 2022, your returns benefited from this exchange rate change. This explains why Australian investors in IVV lost 12.5 per cent on a total returns basis.

Looking to 2023, there are plenty arguing that the Fed's actions are overdone and that inflation is already moderating. There are also plenty arguing that 2022 trading was overdone and was trading on 'peak doom'. US earning seasons to come may show that US corporates are coping better than expected with higher rates and a slowing economy and that overall there is value in the world's largest index and economy.

VGS – Vanguard MSCI Index International Shares ETF

Difficult year for international equities. 2022 saw the first war on the European continent since the World War II, global inflation hit its higher levels since the 1980s and central banks increased their respective cash rate to levels not seen since before the GFC in some cases.

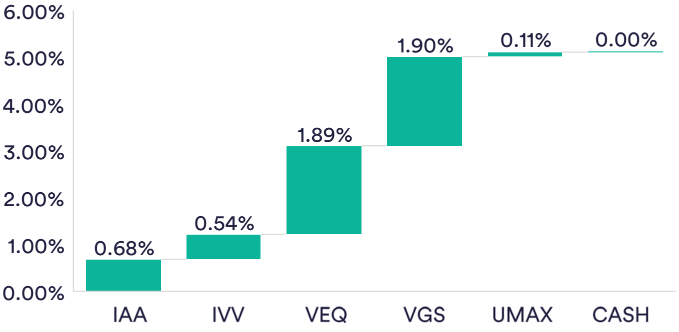
With VGS representing the weighted average of global markets excluding Australia, it is dominated by the US S&P 500. 2022 was unfortunately the worst year for US markets since 2008, down 18.5 per cent. However, that overlooks the fact the S&P 500 rose 28.7 per cent in 2021, 18.4 per cent in 2020 and has returned 56.9 per cent over the past five years, all on a total returns basis.

The interesting components of VGS have been Japan and the UK. Both had negative years but outperformed both the US and Europe despite these markets having several negative domestic issues facing them.

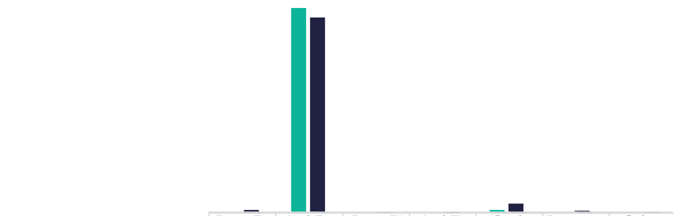
Overall VGS finished 2022 down 12.3 per cent on a total returns basis, but just like its other equity peers, that ignores your investment timeframe for something like VGS which should be at a minimum three years but more likely five. On these timeframes VGS on a total returns basis has given you 20.2 per cent and 55.6 per cent respectively.

Looking to 2023, the legacy themes of 2022 will linger to start 2023 for global markets, this being the high probability of recession in Europe and America. However, recessions have historically signed the bottom of short term sell offs, something that could occur this year. It is something we watch with keen interest.

Attribution performance



Asset allocation vs Peers



	Dom Eq	Intl Eq	Dom FI	Intl FI	Cash	Property	Other
InvestSMART International Equities	0.00%	98.97%	0.00%	0.00%	1.03%	0.00%	0.00%
Peers	0.91%	94.23%	0.00%	0.00%	4.10%	0.55%	0.20%

Our Investment Committee

Alastair Davidson
Head of Funds Management

Effie Zahos
Independent Director

Alan Kohler
Editor-in-Chief

Paul Clitheroe
Chairman

Ron Hodge
Managing Director

Important information

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