Quarterly Update

30 June 2023

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

Professionally Managed Accounts
ARSN 620 030 382

InvestSMART High Growth Portfolio

Financial Year 2023 review

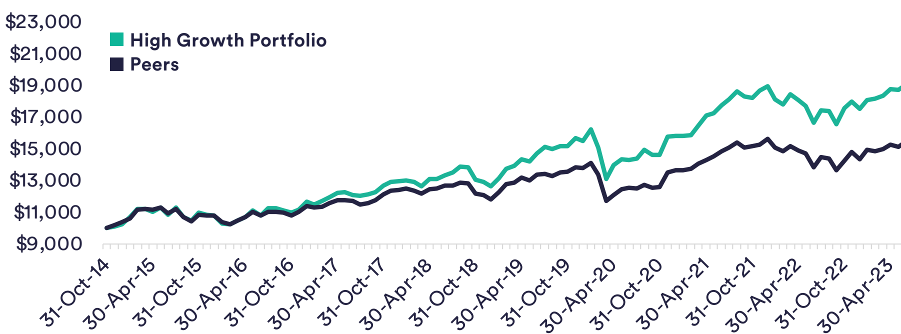
The High Growth Portfolio finished the financial year up 14.64 per cent after fees on a further surge in international equities lead by the US. This saw the portfolio outperform its peers by 3.0 per cent over the financial year.

We should also highlight that in the post-COVID era the portfolio has increased 10.1 per cent on a total return basis highlighting why we continue to ignore short term issues and invest for the long term.

For the final quarter of the financial year the portfolio added 3.94 per cent after fees outperforming peers by 0.8 per cent. Since inception the portfolio is averaging 7.7 per cent after fees per annum which is a full 2.6 per cent better than our peers.

The quarterly review of the portfolio was conducted by the Investment Committee on the 28th of June 2023. It was agreed that all current ETFs used in the High

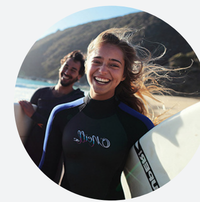
Peformance of $10,000 since inception



Performance vs Peers

	1 yr	3 yrs p.a	5 yrs p.a	7 yrs p.a	SI p.a
High Growth Portfolio	14.6%	10.1%	7.4%	8.5%	7.7%
Peers	11.6%	7.3%	4.0%	5.3%	5.2%
Excess to Peers	3.0%	2.8%	3.4%	3.2%	2.5%

InvestSMART High Growth fees are 0.55% p.a. vs average of 341 peers at 1.14% p.a.
Grow your returns, not your fees with InvestSMART Capped fees.



Portfolio mandate

The High Growth Portfolio is all about helping you build long term wealth and achieve goals with a timeframe of 7-years-plus to ride out the ups and down of markets.

The objective is to invest in a portfolio of 5-15 exchange traded funds (ETFs), predominantly focused on growth assets (shares and property) though nicely rounded out with exposure to a little bit of fixed income investments like bonds and cash.

$10,000
Minimum initial investment

7+ 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 Aggressive Target Allocation Net Return (NR) AUD
Benchmark

Growth Portfolio were fit for purpose and no changes apart from any rebalancing changes below were recommended.

The Investment Committee has reviewed the launch of two new ETFs from Betashares: Betashares Global Shares ETF (BGBL) and Betashares Global Shares Currency Hedged ETF (HGBL).

BGBL replicates the MSCI World Index ex Australia, which is a broad measure of the global equity market. HGBL is a similar ETF, but it is currency hedged, which means it is designed to minimise the impact of currency fluctuations.

As hedging can be expensive, and the Australian dollar is stable, the committee does not see the value of HGBL at this time. However, the committee does see that BGBL may present an opportunity in the future, as it is a direct competitor to Vanguard MSCI Index International Shares ETF.

The committee uses five criteria for selecting the ETFs in the diversified portfolios. These are:

1. **MER (Management Expenses Ratio)**: The management fee charged by all ETF providers. The lower the fee, the less you pay for your investment.
2. **High liquidity on exchange**: The ease of which an ETF can be bought or sold due to there being a large number of buyers and sellers.
3. **Price point**: The price paid for each ETF unit. Used to better manage weightings in the portfolios.
4. **Market capitalisation**: The size of the ETF. A higher market capitalisation generally means an ETF has high liquidity and lower fees.
5. **Tracking error:** The difference between the performance of an ETF and the index it tracks. The lower the tracking error, the more closely the ETF tracks the index.

BGBL has a price point and management fee that is better than VGS. The committee noted that it needed a quarter's worth of data and free trading before it could vote to exchange BGBL for VGS.

This will be the priority of the next Investment Committee meeting as there will be 3 months of trading to evaluate.

Over the June quarter the High Growth portfolio was rebalanced to meet weighting obligations of a High Growth profile in the following way:

AAA decreased 1.0 per cent to a 7.5 per cent weighting this change was offset in VGS which moved from a weighting of 44.5 per cent to 45.5 per cent.

All other holdings remained the same.

High Growth weightings
as at 30 June 2023

Security	Dec	Mar	Change
IAF	3.00%	3.00%	**0.00%**
IFRA	2.50%	2.50%	0.00%
IOZ	35.00%	35.00%	0.00%
VAP	2.50%	2.50%	0.00%
VBND	3.00%	3.00%	0.00%
VGS	44.50%	45.50%	1.00%
AAA	8.50%	7.50%	**-1.00%**
CASH	1.00%	1.00%	0.00%
	100.00%	100.00%	

Performance of Individual Holdings

VGS – Vanguard MSCI Index International Shares ETF

After a very difficult financial year for international equities in in financial year 2022, financial year 2023 has been almost the complete opposite.

Led by the US, Japan and European equities, VGS's performance can be put down to several things:

First, the AI 'revolution' – with major stocks such as Apple, Microsoft, Meta (Facebook) and now Nvidia all riding the AI wave. The impact on the S&P 500 has been astonishing. Since its low in October last year the S&P 500 was up 24.4 per cent at the close of the financial year.

Second, Japan. The Nikkei 225 has had its best six months since the mid-90s, up as much at 30 per cent since its low in January. Over the financial year the 225 returned 28.6 per cent to be the second-best performer inside VGS.

Third is the European big two: Both the DAX (Germany) and the CAC (France) surged in FY23 as the effects of the Ukrainian war and inflation moderated. Over the financial year, the CAC was the best performing market up 28.9 per cent and the DAX was third, adding 26.3 per cent.

Put this together with the S&P 500's 17.5 per cent and VGS finished FY23 up 20 per cent and is a major reason for the strong performance of the portfolio.

Looking to FY24, international equities are still facing similar concerns to that of FY23: high interest rates, falling economic activity and a constrained household budget. We would also point out that FY23 returns are abnormal – the average return since inception for VGS is 12.3 per cent.

IOZ – iShares S&P/ASX 200 ETF

The Australian market has once again shown why investing with a short-term mindset will lead to missed opportunity and mistakes. In FY22 the ASX 200 replicated by IOZ in the portfolio fell 6.16 per cent on a total return basis. In FY23 the ASX 200 has returned 14.2 per cent on a total return basis.

Like its international peers, the ASX 200 looked through the concerns around higher rates, high inflation and the pressure on the household. We should point out that the sectors responsible for the returns of FY23 are growth sectors, with IT and materials the stand outs. In fact, all sectors gained in FY23, even consumer discretionary which did start to forecast a slowdown was looming heading into FY24.

Since inception IOZ has averaged 7.8 per cent on a total return basis suggesting this financial year was abnormal and looking into FY24 we would expect something closer to average rather than the returns of the last financial year.

AAA – Betashares Australian High Interest Cash ETF

With interest rates climbing nine times in FY23 and 11 times since the RBA started hiking rates in early 2022, total returns on AAA surged in the financial year. Yield hit a record high of 4.2 per cent to close out the financial year.

We need to point out that the total return on AAA is still well below fixed interest and equities which is why we hold it for its defensive qualities not its overall return.

IAF – iShares Core Composite Bond ETF

FY22 was the most difficult year in IAF's history, and it was unlikely to be repeated in FY23. Having seen the fastest increase in the cash rate by the RBA in its history, bonds had to deal with inflation levels not seen since the '80s and the persistent threat to the household.

Although inflation has started to ease, it still remains stubbornly high, and this remained a drag on bond performance.

For example, the Australian Commonwealth Government Bond (ACGB) 10-year bond yield started FY23 at 3.63 per cent before rising to 4.24 per cent in October. It fell all the way back to 3.19 per cent in April before surging again to finish the financial year at 3.99 per cent on signs the RBA was far from finished with raising rates. This movement was not exclusive to the ACGB 10 year, either - similar moves were seen across all maturities.

This explains IAFs performance which finished the financial year up 1.3 per cent on a total return basis having peaked at 5.25 per cent in April. Looking to FY24 it should be noted that interest rate rises are near or at their peaks and the pressure this put on IAF in FY23 will be less in FY24.

VBND – Vanguard Global Aggregate Bond Index ETF

VBND, like its domestic peer, was coming off a particularly bad year and had a much better start to FY23 than FY22.

However, VBND is heavily dominated by US bonds and the US Federal Reserve's inflation-busting program that has seen the Federal Funds Rate move from record lows to 5.00 to 5.25 per at the close of the financial year and put a dent in VBNDs overall performance.

It is not only US bond yields that have shifted higher on interest rate increases, European, UK and Canadian bonds have all suffered similar fates and all fell into the close of the financial year.

This saw VBND finishing down 1.7 per cent on a total return basis for the financial year.

VAP - Vanguard Australian Property Securities Index ETF

A tough year for Australian property: Property's exposure to high funding costs plus the fact commercial rents in the post-COVID world have not returned to pre-pandemic levels lead to large fluctuations throughout FY23.

VAP is well diversified and holds high quality assets in a range of property fields, from industrial to commercial to residential. This diversification was being ignored with the threat of further rate rises in 2023. But with migration on the up and rental properties now few and far between, the end of FY23 saw an increase in demand for property which offset some of the other issues the sector has faced.

Thus, by the end of the financial year VAP had added 6.5 per cent on a total return basis. This is slightly below its yearly average but is a solid result considering the environment property finds itself in.

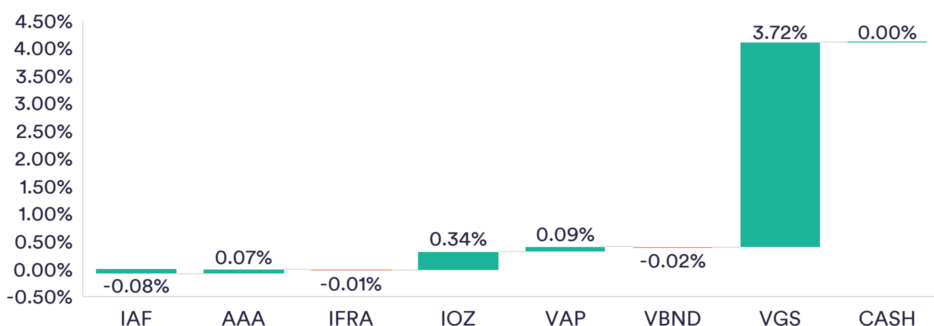
FY24 is likely to be similar to FY23 and we watch VAP's performance as rates not only peak in FY24 but possibly fall at the end of the financial year and into FY25.

IFRA - VanEck FTSE Global Infrastructure (Hedged) ETF

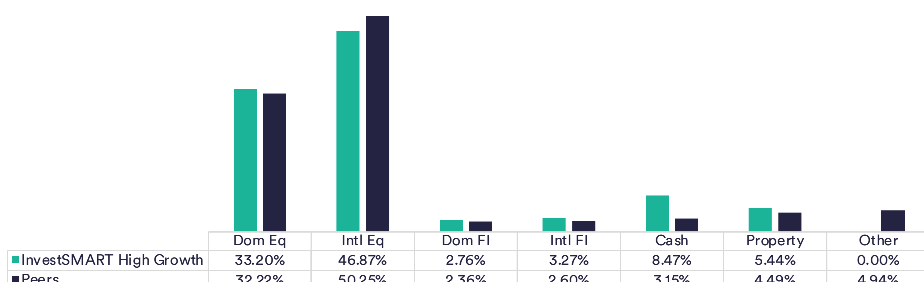
A tough year for infrastructure assets. When you look at the breakdown of sector weightings, 30 per cent of global infrastructure is devoted to electric utilities which is facing a generational change as the world moves to renewable and alternative energy sources. The next sector is transport which makes up 21 per cent which has faced elevated pricing as a fallout of the Ukrainian war and OPEC's continued influence on oil prices.

IFRA experienced a choppy year on the back of these issues and finished the financial year down 3.1 per cent on a total return basis.

Monthly attribution of returns

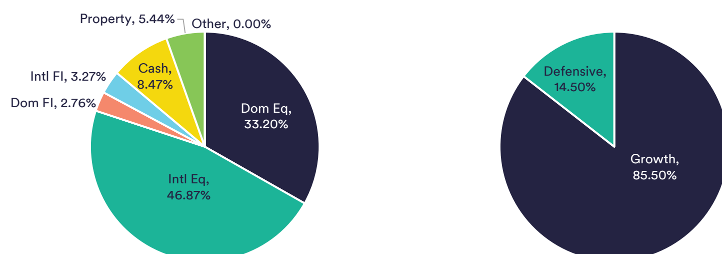


Asset allocation vs Peers



	Dom Eq	Intl Eq	Dom FI	Intl FI	Cash	Property	Other
InvestSMART High Growth	33.20%	46.87%	2.76%	3.27%	8.47%	5.44%	0.00%
Peers	32.22%	50.25%	2.36%	2.60%	3.15%	4.49%	4.94%

Asset allocation breakdown



Our Investment Committee

Effie Zahos
Independent Director

Paul Clitheroe
Chairman

Alastair Davidson
Head of Funds Management

Alan Kohler
Editor-in-Chief

Ron Hodge
Managing Director

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