Quarterly Update

30 June 2023

Issued by
InvestSMART Funds
Management Limited
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Professionally Managed Accounts
ARSN 620 030 382

InvestSMART International Equities Portfolio

Financial Year 2023 review

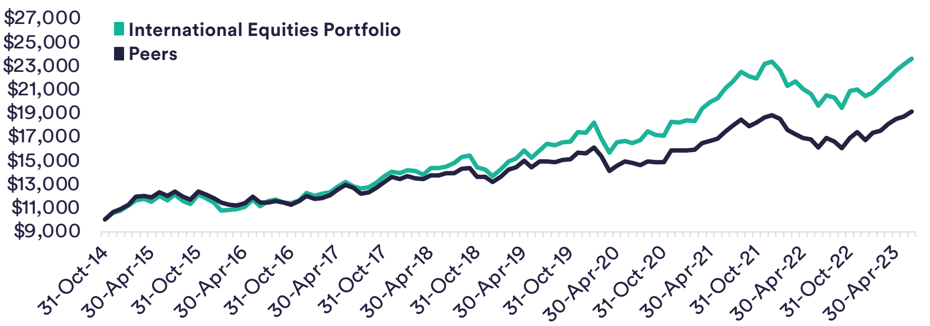
The International Equities portfolio logged its best ever financial year up 20.3 per cent after fees as Europe and the US markets worked together to benefit the portfolio. This saw the portfolio outperform peers by 1 per cent over the financial year.

For the final quarter of the financial year the portfolio added 15.5 per cent outperforming peers by 1.1 per cent. Since inception, the portfolio is averaging 10.4 per cent after fees per annum which is 2.6 per cent better than our peers.

Most importantly, since inception in 2014, the portfolio is over 39 per cent better off compared to peers on a cumulative basis.

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 International Equities portfolio were fit for purpose and no changes were recommended.

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
International Equities Portfolio	20.3%	12.7%	10.3%	11.3%	10.4%
Peers	19.2%	9.0%	6.6%	7.7%	7.8%
Excess to Peers	1.1%	3.7%	3.7%	3.6%	2.6%

InvestSMART International Equities fees are 0.55% p.a. vs average of 834 peers 1.28% p.a.
Grow your returns, not your fees with InvestSMART Capped fees.

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

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 no changes or rebalances where made to the International Equities portfolio.

International Equities weightings
as at 30 June 2023

Security	Dec	Mar	Change
IAA	5.00%	5.00%	**0.00%**
IVV	36.20%	36.20%	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

VGS – Vanguard MSCI Index International Shares ETF

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

IVV – iShares S&P 500 ETF

FY22 was the worst year for the S&P 500 since the peak of the Global Financial Crisis. By worst we mean a 9.7 per cent decline over FY22. For the S&P 500 you have to go back to FY08 for the next negative financial year.

FY23, however has returned to normal operations as the AI 'third digital age' drove investors back to the world's largest market. What has also been pleasing to see from a market-wide perspective is that in the final quarter of the financial year, the strength in tech stocks spread to other sections of the market seeing the S&P 500 up 18.3 per cent on a total return basis.

An added kick for IVV is that it is denoted in Australian dollars (AUD) which fell further over FY23 and, so, this has enhanced your investment returns from the S&P 500. For the financial year 23 IVV returned 22.8 per cent on a total return basis.

Looking to FY24 the AI story is likely to remain one of the biggest talking points while the US Federal Reserve is also likely to dominate the landscape. Both are likely to be positives for the market rather than negatives over the full year.

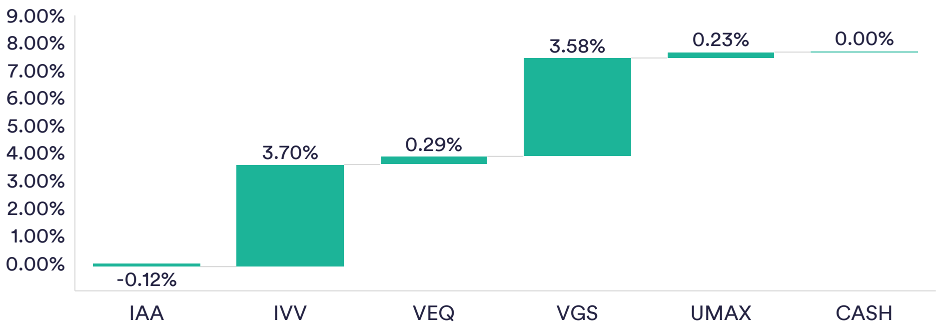
VEQ – Vanguard FTSE Europe Shares ETF

Like their counterparts across the Atlantic, European equities had a very strong final nine months of the financial year.

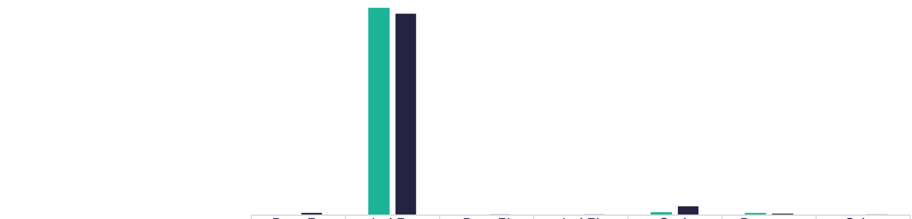
Interestingly, there is a large divide between Europe and the UK. The markets on the continent boomed while the FTSE 100 was a laggard, although the FTSE added 9.1 per cent on a total return basis. But compared to the CAC, DAX and MIB (Italy) it trailed in their wake. The MIB for example jumped 38.6 per cent on a total return basis in FY23, its best year since FY14 when the Euro debt crisis finally ended.

This surge in European equities culminated in VEQ adding 24.9 per cent in FY 23 on a total return basis. What FY24 holds for European equities will come down to how the contentinent deals with inflation and the Ukrainian war. Any positive steps on either of these issues will see Europe legging back up to international peers, having lagged over the past 5 to 7 years.

Monthly attribution of returns



Asset allocation vs Peers



	Dom Eq	Intl Eq	Dom FI	Intl FI	Cash	Property	Other
InvestSMART International Equities	0.00%	97.67%	0.00%	0.00%	1.34%	0.99%	0.00%
Peers	0.71%	94.69%	0.00%	0.00%	3.91%	0.55%	0.14%

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Our Investment Committee

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