

# InvestSMART Professionally Managed Portfolios

## InvestSMART's PMA Essentials

Insights to keep you on track to reach your investing goals.

### Introducing a new format for our reports

You may notice the format of the quarterly performance reports has changed. We're amalgamating the performance of all our diversified ETF portfolios into one document so that you can now see the performance of our portfolios in one place.

We're also making a shift in our focus. There will be less coverage of short-term market movements, which tend to be irrelevant to long-term investing, and more explanation of different aspects of our investment philosophy and how the portfolios are designed to work. With the aim that through a deeper understanding of mechanics and philosophy you will see the logic behind our commonsense investment approach. This understanding will help you get the most out of your investment.

We'll still cover major events and what's driving positive or negative returns, but we hope for this to be seen in the broader context of a long-term approach to investing.

### The Risk / Return Tradeoff

The risk/return tradeoff is a fundamental principle of investing. Essentially the higher the potential return from your investments, the higher the level of risk you are likely to face. Conversely, investments with lower risk tend to offer lower returns.

Riskier investments are more likely to lose value, but they also have the potential to generate higher returns. For example, stocks are generally riskier than bonds, but they have the potential to generate higher returns over the long term.

### What is your risk / return profile?

Your 'risk / return' profile is largely dictated by a) your stage of life, b) your financial goals and c) your level of comfort with risk and volatility in your portfolio.

For example, if you have a conservative risk appetite, or a shorter-term investment timeframe you may want to invest a larger proportion of your wealth in asset classes lower on the risk curve.

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**Risk profiles:**  
**Low - Very High**

Our portfolios cater to a wide range of risk profiles



**3 - 15**

The indicative minimum and maximum securities held in each portfolio



**2 - 7+ yrs**

Suggested investment timeframe varies between portfolios



Management fees

**0.55% p.a.**

Capped at

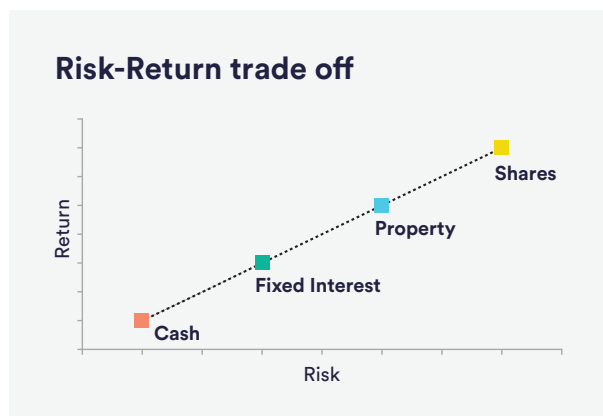
**\$550 p.a.**

For those with a conservative risk appetite, who lose sleep over falls in their portfolio, a balanced or growth approach may be more suitable than high growth, despite having a 10+ year investment timeframe. The reason for this is, if you are uncomfortable with short term volatility, you are more likely to do the wrong thing at the wrong time e.g., panic sell and locking in losses rather than riding them out.

For those with a shorter-term investment timeframe, (e.g., two years away from a housing deposit goal), despite being young and comfortable with risk, you don't want to expose your savings to short-term market fluctuations.

## Diversification and risk / return

The importance of diversification in your investments is central to getting the right balance of risk and return. This is where your InvestSMART portfolio comes into play. An appropriate allocation between both growth and defensive assets in your portfolio can help to reduce your overall risk and improve your chances of achieving your investment goals.



An InvestSMART portfolio is built for long term wealth creation and each portfolio has a different risk / return profile to choose from.

Each InvestSMART portfolio has carefully set weight for each asset class. The higher growth portfolios have a higher weighting towards shares. The more

conservative portfolios have a higher weighting of defensive assets like bonds.

It's important to hold both growth and defensive investments in your portfolio. The growth investments like the international and Australian share ETFs ensures your portfolio grows when share markets are growing. While the defensive assets such as bonds soften the impact of losses in your portfolio when the share market drops.

## Should I change my portfolio to aim for better returns?

There may be some good reasons to change your investment strategy for a portfolio with more growth investments to aim for higher returns. However, you need to remember the risk / return payoff.

### Reasons to consider a change:

- Your financial goals have changed
- Your investment timeframe is now longer than it was previously
- You've become more comfortable with risk

### Reasons not to change:

Chasing higher returns is tempting and you may think you're happy to take on more risk. However, you need to consider how you'll feel if the returns fall. Losses feel worse than our wins do. Consider these important factors before switching:

- You have shorter term financial goals, or you know you'll need your investments soon
- Your investment timeframe hasn't changed
- Ask yourself how you'd feel if your portfolio fell 3+%. Are you willing and able to wait for your portfolio to start growing again?

## Does conflict impact your portfolio?

We want to address the recent events in Israel and express our deep sympathy to our clients who have family caught in the situation.

Conflict can have a significant impact on the economy and stock market. However, for long-term investors, the impact of war is typically much less severe. The stock market has a long history of recovering from even the most devastating conflicts. For example, the S&P 500 index fell 14% in the first week of trading after the 9/11 terrorist attacks, however, the index recovered its losses within a year. 22 years on and the US stock market has risen four-fold, this period encompasses both the Iraq and Afghanistan wars and the global financial crash of 2008.

There are a few reasons why wars tend to have a limited impact on long-term investors. First, the average length of a war in the modern era is typically short lived, yes there are outliers, but investment markets tend to adjust and move on.

Second, the stock market is forward-looking. Investors are more concerned about the long-term prospects of companies than current events. The stock market generally starts to recover from the impact of a war even before the war is over. Finally, wars can boost some sectors of the economy.

The diversified nature of our portfolios is designed to lessen the volatility in your portfolio. Also, this is why it is important to consider your timeframe as mentioned above. Macro-economic events are inevitable but unpredictable. For shorter-term investors you do not want these events delaying you reaching your goal. For the long-term investor, macro-economic events can be a potential opportunity to add funds to your investment, lowering your average purchase price.

None of this takes away from the devastation and loss caused by war. In terms of the recent conflict in Israel, there's been minimal impact to the diversified InvestSMART portfolios.

## ETF Market Insights

A snapshot of the latest ETFs to hit the market in the last quarter.

Latest ETFs launched			
Code	Name	Asset Class	Type
1GOV	Vaneck 1-5 Year Australian Government Bond ETF	Fixed Interest	Passive ETF
5GOV	Vaneck 5-10 Year Australian Government Bond ETF	Fixed Interest	Passive ETF
BCOM	Global X Bloomberg Commodity ETF (Synthetic)	Commodities	Passive ETF
BUGG	Global X Cybersecurity ETF	Intl Shares	Passive ETF
IMLC	Investors Mutual Concentrated Australian Share Fund	Aus Shares	Passive ETF
IUSG	Ishares Us Treasury Bond (Aud Hedged) ETF	Fixed Interest	Passive ETF
N100	Global X Us 100 ETF	Intl Shares	Passive ETF
US10	Betashares Us Treasury Bond 7-10 Year Currency Hedged ETF	Fixed Interest	Passive ETF
UTIP	Betashares Inflation Protected Us Treasury Bond Currency Hedged	Fixed Interest	Passive ETF
XGOV	Vaneck 10+ Year Australian Government Bond ETF	Fixed Interest	Passive ETF

10 ETFs were launched on the ASX last quarter ranging from active ETFs to a cyber security themed ETF. InvestSMART invests in broad based, large, low cost, passive Index tracking ETFs, so none of these new ETFs are appropriate for our portfolios. Several new bond ETFs were also launched this quarter, we are happy with our current diversified bond ETFs of IAF and VBND and unlikely to consider these ETFs in the future.

# InvestSMART Diversified ETF Portfolios

**Breaking down the performance of the Diversified and Single Asset Class Portfolios, acknowledging recent events but with a focus on the long-term.**

The InvestSMART diversified portfolios fell slightly for the July 2023 – September 2023 quarter with returns down between -0.61% to -1.08%. The falls this quarter were largely driven by US uncertainty around if inflation is coming under control and rate hikes in Australia starting to bite.

InvestSMART Diversified Portfolios					
Performance (%) as at 30 September 2023					
	1 yr	2 yr	3 yr	5 yr	S.I. p.a
High Growth	14.4	1.8	9.1	6.5	7.4
Growth	10.5	0.2	6.1	5.0	6.1
Ethical Growth	10.8	-1.2	N/A	N/A	5.0
Balanced	7.9	-0.9	3.9	3.7	4.6
Conservative	5.0	-2.1	1.2	2.0	3.1

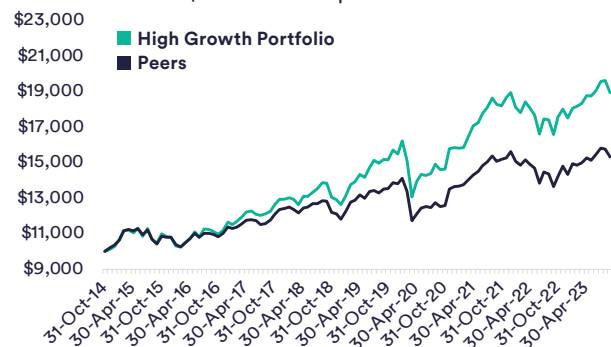
It's important to note that for the last 12 months InvestSMART Portfolios have delivered positive returns between 4.95% - 14.36%. As we've mentioned in previous reports international markets and the technology sector in particular has been the main catalyst for growth in the portfolios this year.

## High Growth Portfolio

The High Growth Portfolio finished the quarter slightly down 0.54%. In the 12 months to September 30 the portfolio returned 14.36% after fees and outperformed peers (ie: similar funds) by 1.97%.

Since inception the High Growth Portfolio has averaged a 7.42%pa return, beating its peers by 2.51%pa. In real money terms this means \$10,000 with InvestSMART when the portfolio was launched, would now be worth \$3,628 more than if you'd invested with a competitor. Small percentages make a difference.

### Performance of \$10,000 since inception



### Performance vs Peers (% per annum)

	1 yr	3 yrs	5 yrs	Since Incep.
High Growth Portfolio	14.4	9.1	6.5	7.4
Peers	12.4	6.9	3.6	4.9
Excess to Peers	2.0	2.2	2.9	2.5

Inception: 27 Oct 2014

The slight fall in performance in this quarter can be attributed to market concerns about bond yields and the US Federal Reserve signaling interest rates could remain higher for longer to combat stubborn inflation. This does not alter the risk profile or the long-term outlook and objective for the High Growth Portfolio.

## Growth Portfolio

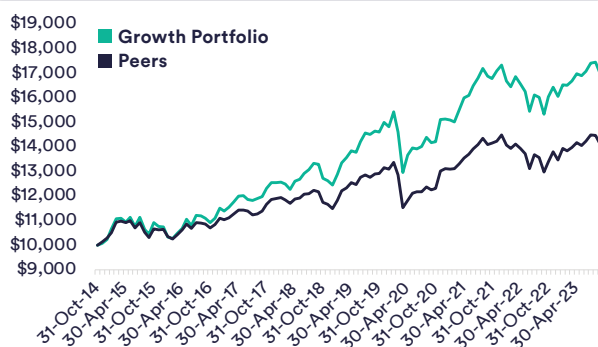
The Growth Portfolio finished the quarter slightly down 0.68%. In the 12 months to September 30 the portfolio returned 10.52% after fees and outperformed peers by 1.94%.

Since inception the Growth Portfolio has averaged a 6.09%pa return, beating its peers by 2.15%pa. In real money terms this means \$10,000 with InvestSMART when the portfolio was launched, would now be worth \$2,851 more than if you'd invested with a competitor. Small percentages make a difference.

The slight fall in performance in this quarter can be attributed to market concerns about bond yields and

the US Federal Reserve signaling interest rates could remain higher for longer to combat stubborn inflation. This does not alter the risk profile or the long-term outlook and objective for the Growth Portfolio.

### Performance of \$10,000 since inception



### Performance vs Peers (% per annum)

	1 yr	3 yrs	5 yrs	Since Incep.
<b>Growth Portfolio</b>	10.5	6.1	5.0	6.1
<b>Peers</b>	8.6	4.8	3.0	3.9
<b>Excess to Peers</b>	1.9	1.3	2.0	2.2

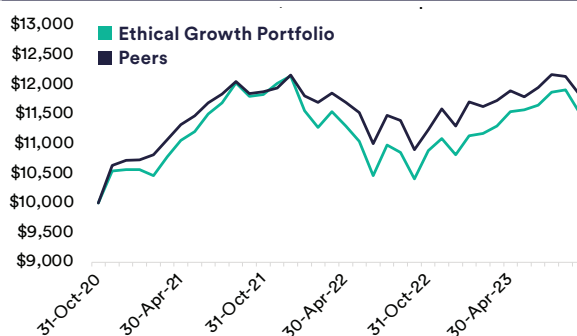
Inception: 24 October 2014

There were no significant changes to the portfolio over the quarter.

## Ethical Growth Portfolio

The Ethical Growth Portfolio finished the quarter slightly down  $-1.08\%$ . In the 12 months to September 30 the portfolio returned  $10.77\%$ pa after fees and outperformed peers by  $2.18\%$ . Since inception the Ethical Growth Portfolio has returned  $4.98\%$ pa. This return has been lagging peers which have returned  $5.93\%$ pa, however when you compare the InvestSMART Professionally Managed Account fee of  $0.55\%$ pa capped at \$550 to the average of the peer group of  $1.33\%$ pa, we anticipate over the long-term a similar gap to peers will emerge.

### Performance of \$10,000 since inception



### Performance vs Peers (% per annum)

	6 mths	1 yr	2 yrs	Since Incep.
<b>Ethical Growth Portfolio</b>	2.0	10.8	-1.2	5.0
<b>Peers</b>	0.9	8.6	-0.1	5.9
<b>Excess to Peers</b>	1.1	2.2	-1.1	-0.9

Inception: 1 November 2020

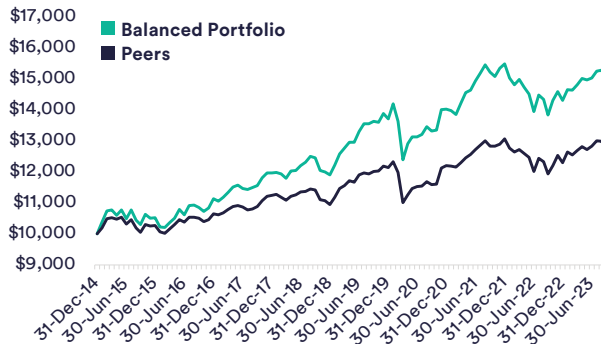
In August we replaced the iShares Core Composite Bond ETF (IAF) with the Betashares Sustainability ETF (GBND). This change closer aligns the Ethical Growth Portfolio with its ethical mandate with GBND being certified by the Responsible Investment Association Australasia.

## Balanced Portfolio

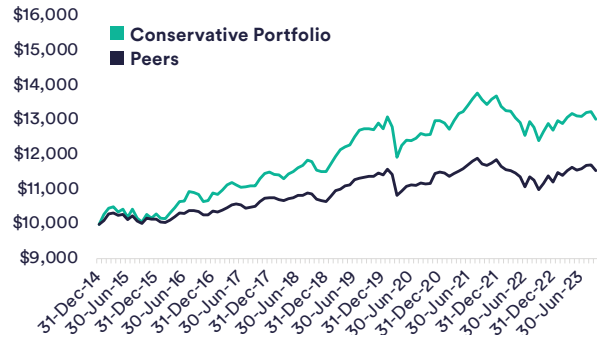
The Balanced Portfolio finished the quarter slightly down  $-0.65\%$ . In the 12 months to September 30 the portfolio returned  $7.87\%$  after fees and outperformed peers by  $1.04\%$ .

Since inception the Balanced Portfolio has averaged a  $4.58\%$  return p.a., beating its peers by  $1.77\%$  p.a. In real money terms this means \$10,000 invested in this portfolio when it was launched, would now be worth \$2,179 more than if you'd invested with our competitors. Even in a balanced portfolio a small percentage difference equates to a lot over the longer term.

**Performance of \$10,000 since inception**



**Performance of \$10,000 since inception**



**Performance vs Peers (% , per annum)**

	1 yr	3 yrs	5 yrs	Since Incep.
Balanced Portfolio	7.9	3.9	3.7	4.6
Peers	6.8	3.2	2.2	2.8
Excess to Peers	1.1	0.7	1.5	1.8

Inception: 29 Dec 2014

The Balanced Portfolio is typically used by people nearing retirement or with shorter term goals like a holiday or a house deposit.

**Conservative Portfolio**

The Conservative Portfolio finished the quarter slightly down -0.61%. In the 12 months to September 30 the portfolio returned 4.95% after fees and outperformed peers by 0.02%.

Since inception the Conservative Portfolio has averaged a 3.06% return p.a., beating its peers by 1.41% p.a. In real money terms this means \$10,000 invested in this portfolio when it was launched, would now be worth \$1,485 more than if you'd invested with our competitors. Even in a balanced portfolio a small percentage difference equates to a lot over the longer term.

**Performance vs Peers (% , per annum)**

	1 yr	3 yrs	5 yrs	Since Incep.
Conservative Portfolio	5.0	1.2	2.0	3.1
Peers	4.9	1.1	1.2	1.6
Excess to Peers	0.1	0.1	0.8	1.5

Inception: 29 Dec 2014

Since inception the Conservative Portfolio has averaged a 3.06% return p.a., beating its peers by 1.41% p.a. In real money terms this means \$10,000 invested in this portfolio when it was launched, would now be worth \$1,485 more than if you'd invested with our competitors. Even in a balanced portfolio a small percentage difference equates to a lot over the longer term.

**Single Asset Class Portfolios**

The fortunes of the Single Asset Class Portfolios for the quarter and the last twelve months are a lesson in the importance of diversification. An overreliance on one asset class at the expense of another can increase a portfolio's risk and opportunity cost.

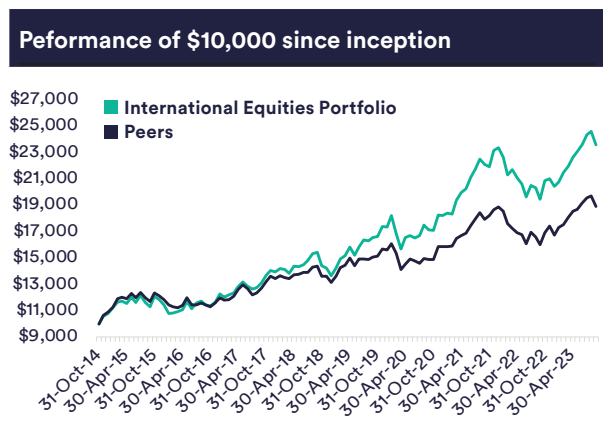
These portfolios are designed to provide investors with diversified exposure to a single asset class. The purpose of these portfolios is to complement an investor's existing portfolio and add diversification to an asset class they are underweight in providing balance.

InvestSMART Single Asset Class Portfolios as at 30 September 2023 (% , per annum)					
	1 yr	2 yr	3 yr	5 yr	Since Incep.
International Equities	21.3	3.3	11.2	8.8	10.1
Property and Infrastructure	4.3	-3.5	3.8	2.4	3.0
Interest Income	0.9	-6.0	-4.8	-1.0	0.0
Hybrid Income	6.1	4.3	4.9	4.4	4.4

The single asset class portfolios follow the same principles as the InvestSMART Diversified Portfolios, using the lowest cost, index tracking ETFs to provide pure exposure to the long-term returns of each asset class.

### International equities portfolio

The International Equities Portfolio finished the quarter slightly down 0.09%. In the 12 months to September 30 the portfolio returned 21.26% after fees and outperformed peers by 3.19%.



Performance vs Peers (% , per annum)				
	1 yr	3 yrs	5 yrs	Since Incep.
Intl. Equities Portfolio	21.3	11.2	8.8	10.1
Peers	18.1	8.3	5.6	7.4
Excess to Peers	3.2	2.9	3.2	2.7

Inception: 24 Oct 2014

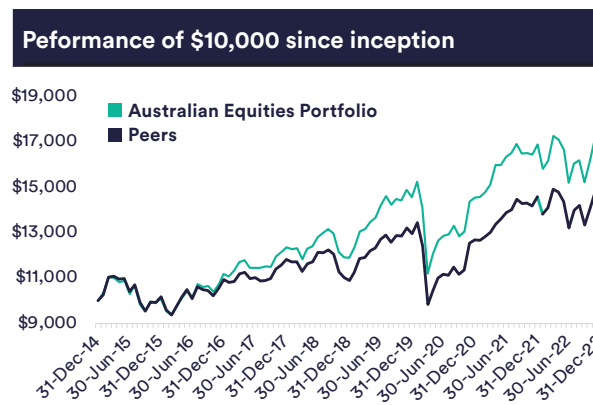
Since inception the International Equities Portfolio has averaged a 10.07%pa return, beating its peers by 2.66%pa. In real money terms this means \$10,000 with InvestSMART when the portfolio was launched, would now be worth \$4,662 more than if you'd invested with a competitor. Small percentages make a difference.

With the US Fed indicating interest rates may stay higher for longer, the strong run of international equities finally slowed this quarter. Still, investors underweight international equities have left returns on the table. Even in a conservative portfolio, international equities plays a role, for example, the InvestSMART Conservative Portfolio currently has an 11% allocation to international equities via the Vanguard All World MSCI ex-Australia ETF.

You can read more on the role of international equities in a portfolio here and here.

### Australian Equities Portfolio

The Australian Equities Portfolio finished the quarter slightly down 0.96%. In the 12 months to September 30 the portfolio returned 12.47% after fees and outperformed peers by 1.23%.



Performance vs Peers (% , per annum)				
	1 yr	3 yrs	5 yrs	Since Incep.
Aus. Equities Portfolio	12.5	10.1	5.7	6.3
Peers	11.2	10.0	4.3	4.6
Excess to Peers	1.3	0.1	1.4	1.7

Inception: 31 Dec 2014

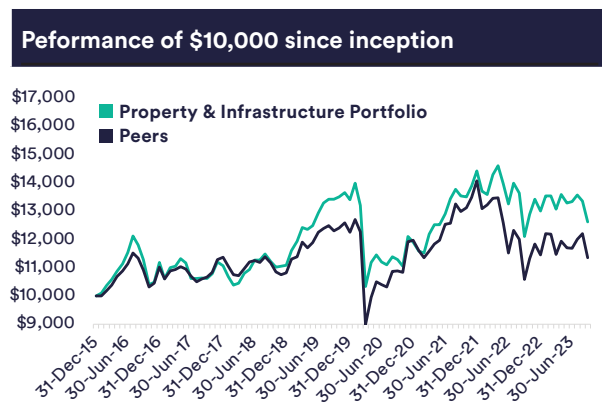
Since inception the Australian Equities Portfolio has averaged a 6.33%pa return, beating its peers by 1.72%pa. In real money terms this means \$10,000 with InvestSMART when the portfolio was launched, would now be worth \$2,278 more than if you'd invested with a competitor. Small percentages make a difference.

The last twelve months the heavy lifting in the Australian market has been done by the materials sector. The ASX 200 Materials Index increased over 18% in the last twelve months.

This stands out when you compare the performance of a pure index tracking ETF such as the one we use, iShares S&P/ASX 200 compared to an ethical ETF tracking the Australian market.

### Property & Infrastructure Portfolio

The Property and Infrastructure Portfolio finished the quarter down 5.42%. In the 12 months to September 30 the portfolio returned 4.27% after fees and underperformed peers by 3.00%.



Performance vs Peers (% , per annum)				
	1 yr	3 yrs	5 yrs	Since Incep.
Property & Infra. Portfolio	4.3	3.8	2.4	3.0
Peers	7.3	1.4	0.3	1.6
Excess to Peers	-3.0	2.4	2.1	1.4

Inception: 23 Dec 2015

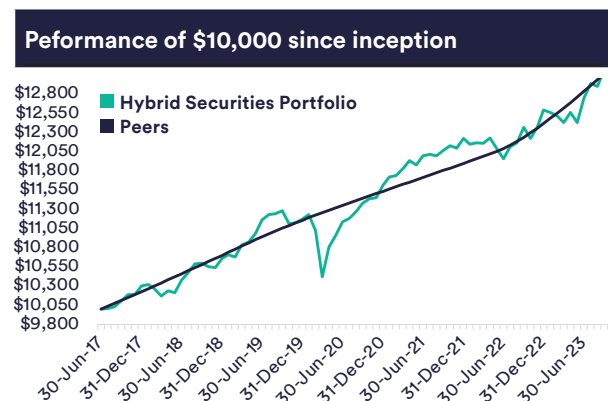
Since inception the Property and Infrastructure Portfolio has averaged a 3.03%pa return, beating its peers by 1.39%pa. In real money terms this means \$10,000 with InvestSMART when the portfolio was

launched, would now be worth \$1,269 more than if you'd invested with a competitor. Small percentages make a difference.

Interest rates and inflation have not only dominated headlines for the past 18 months but have also been the major drag on these two asset classes. Increasing interest rates means increased borrowing costs and decreasing valuations. While rising inflation sees cost blow outs on infrastructure projects putting a dent in earnings.

### Hybrid Securities Portfolio

The Hybrid Securities Portfolio finished the quarter up 2.93%. In the 12 months to September 30 the portfolio returned 6.09% after fees and outperformed peers by 1.60%.



Performance vs Peers (% per annum)				
	1 yr	3 yrs	5 yrs	Since Incep.
Hybrid Securities Portfolio	6.1	4.9	4.4	4.4
Peers	6.8	4.5	4.3	4.4
Excess to Peers	-0.7	0.4	0.1	0

Inception: 1 Jul 2017

Since inception the Hybrid Securities Portfolio has averaged a 4.44%pa return, beating its benchmark by 0.07%pa. Since inception peer comparison is not available due to there not being a sufficient peer group at the time.

Over the quarter the labour market displayed resilience, with the unemployment rate remaining

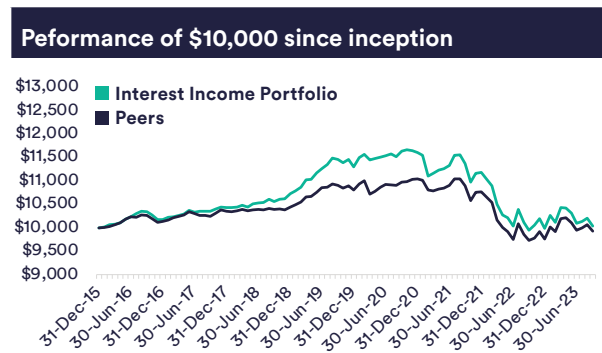


stable and an increase in the workforce participation rate. The Reserve Bank of Australia maintained the existing interest rate but expressed a cautious stance, contemplating a potential interest rate hike. Notably, major bank hybrids are viewed as offering relative downside protection in the face of higher bond and swap rates due to their floating rate nature.

Bonds have faced a perfect storm over the last 24 months and continue to do so with the US Fed indicating they may remain higher for longer. Despite this, bonds remain an important component of a diversified portfolio as a defensive asset class.

### Interest Income Portfolio

The Interest Income Portfolio finished the quarter slightly down 0.64%. In the 12 months to September 30 the portfolio returned 0.93% after fees and underperformed peers by 1.16%.



Performance vs Peers (% per annum)				
	1 yr	3 yrs	5 yrs	Since Incep.
Interest Income Portfolio	0.9	-4.8	-1.0	0.0
Peers	2.1	-3.3	-0.9	-0.1
Excess to Peers	-1.2	-1.5	-0.1	0.1

Inception: 23 Dec 2015

Since inception the Interest Income Portfolio has averaged a 0.04%pa return, beating its peers by 0.14%pa. In real money terms this means \$10,000 with InvestSMART when the portfolio was launched, would now be worth \$107 more than if you'd invested with a competitor.

**IMPORTANT INFORMATION:** This document has been prepared by InvestSMART Funds Management Limited (ABN 62 067 751 759, AFSL 246441) (InvestSMART), the responsible entity of the InvestSMART Professionally Managed Accounts (Fund) and issuer of the Fund. While every care has been taken in the preparation of this document, InvestSMART makes no representations or warranties as to the accuracy or completeness of any statement in it. To the maximum extent permitted by law, neither InvestSMART, its directors, employees or agents accept any liability for any loss arising in relation to this document. This document is not an endorsement that this portfolio is appropriate for you and should not be relied upon in making a decision to invest in this product. You should always consider the relevant disclosure document (including Product Disclosure Statement, Investment Menu, Target Market Determination and Financial Services Guide along with any accompanying materials) and/or seek professional advice before making any investment decision. Disclosure documents for financial products offered by InvestSMART can be downloaded from the InvestSMART website or obtained by contacting 1300 880 160. The document provides general financial information only. InvestSMART has NOT considered your personal objectives, financial situation and needs when preparing this document. You should consider your individual objectives, financial situation and needs and seek professional advice where necessary before making any investment decision. Past performance is not a reliable indicator of future performance. InvestSMART does not assure nor guarantee the performance of any financial products offered. InvestSMART, its associates and their respective directors and other staff each declare that they may, from time to time, hold interests in securities that are contained in this investment product.