

InvestSMART International Equities Portfolio

QUARTERLY UPDATE

Quarterly Video Update

Evan Lucas,
Portfolio Manager



This quarter Evan discusses:

- The years contrasting quarters
- US growth in 2018
- The deep value found in Asian equities

InvestSMART International Equities Portfolio

PERFORMANCE TO 31 DEC 2018	1 mth	3 mths	6 mths	1 yr	2 yrs (p.a.)	3 yrs (p.a.)	4 yrs (p.a.)	Since Inception (p.a.)
InvestSMART International Equities	-4.14%	-11.80%	-5.77%	-2.02%	5.65%	6.25%	6.19%	8.47%
MSCI World Ex Australia NR AUD	-4.27%	-11.10%	-4.56%	1.52%	7.28%	7.49%	-	10.84%
Peers	-3.18%	-9.56%	-5.02%	-0.56%	6.73%	6.13%	-	-

KEY POINTS

- **Portfolio produced a return of -11.80% (after fees) during the December quarter**
- **No changes have been made**
- **Estimated yield is 1.77%**
- **Since inception, the International Equities portfolio has returned 8.47% p.a. (after fees)**

Last quarter saw the unravelling of the gains made during the prior three quarters. International markets logged their worst quarter in over 10 years. The contrast from the beginning to the end of 2018 is quite remarkable. In January 2018, we saw the strongest open to a year for global markets in 30 years. By the end of December 2018, we were crossing off the worst December that US markets have seen in over 50 years, and over a decade in most other regions.

The declines in the quarter reflected apprehension around the deterioration in global growth and further restrictions in monetary policy. The InvestSMART International Portfolio is heavily weighted to the US market, and as such, suffered a large decline in December as the growth/policy concerns hit US markets. The iShares S&P 500 ETF (IVV) and the Vanguard MSCI Index International Shares ETF (VGS) were both heavily impacted by these concerns, detracting -4.24% and -4.75% of overall performance from the portfolio. However, both are unhedged, and the fact the Australian dollar fell to its lowest levels in over 2.5 years allowed IVV and VGS to both experience FX tailwinds. This mitigated some of the falls felt in US and European markets.

It should be pointed out that, at the start of 2018, US growth was running at around 4% in real terms. The fact

the US Federal Reserve increased rates by 250 basis points (2.50%) since December 2015 means this above-trend growth should be moderating, and that is indeed the case. However, US GDP remains strong, and US employment and output remains at some of its strongest levels since 1960. This suggests the US economy is still in good shape.

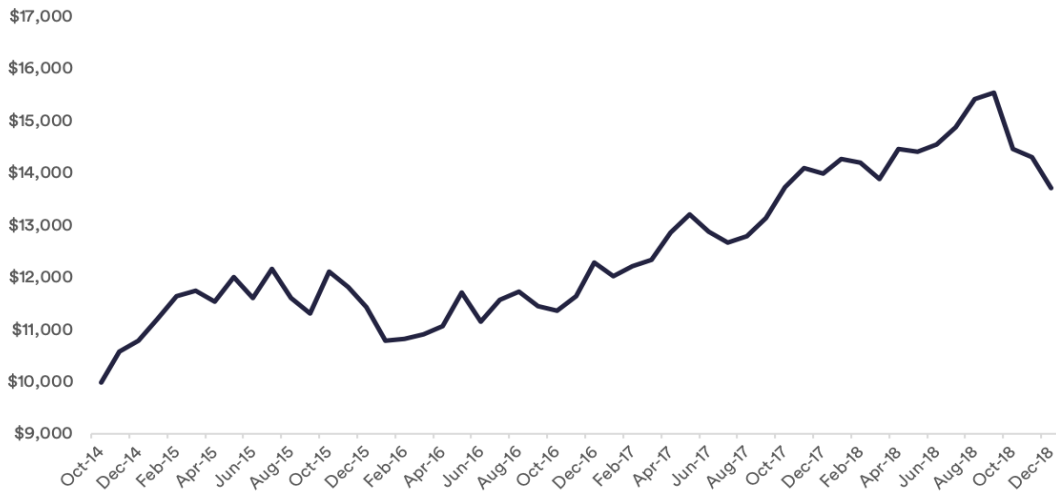
“INTERNATIONAL MARKETS LOGGED THEIR WORST QUARTER IN OVER 10 YEARS.”

The Vanguard FTSE Europe Shares ETF (VEQ) followed its US counterparts to detract -1.47% from performance. This would have been larger, but we decreased our exposure to Europe in Q3. The German Q3 GDP figures were a major drag for European performance with quarter-on-quarter growth contracting for the first time since Q1 2015. The fact Europe's largest economy is contracting leads markets to conclude that European growth will remain sluggish into 2019 despite the European Central Bank forecasting rate hikes this year on a forecasted jump in European growth.

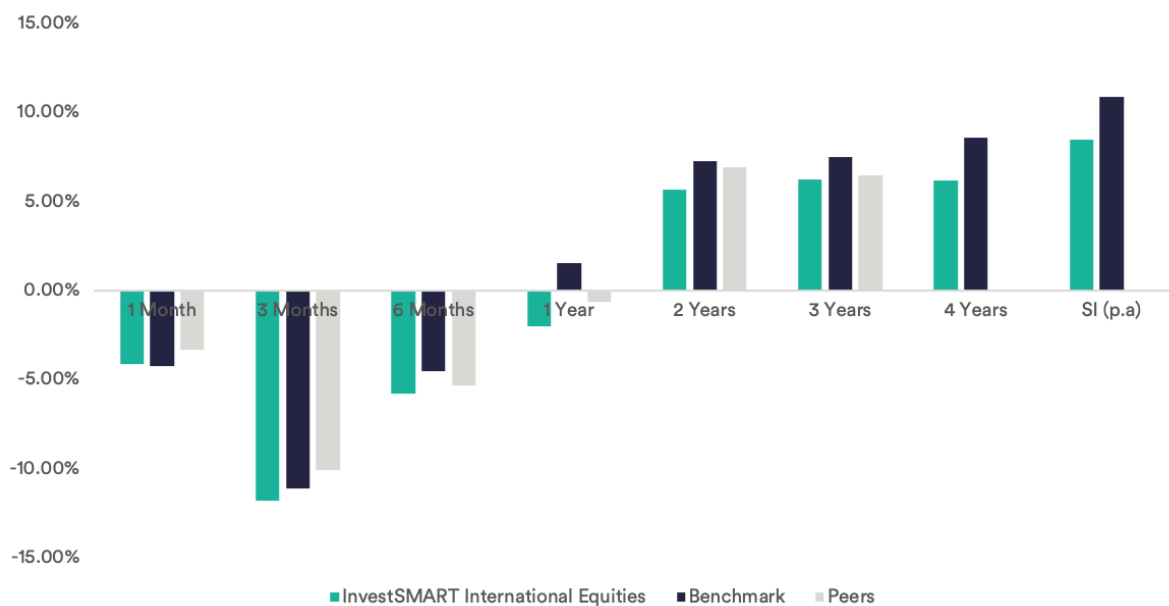
Finally, to Asia. The iShares Asia 50 ETF (IAA) was actually the best performing asset in the portfolio for the quarter as emerging markets (EM) saw some buying in November after large sell-offs during the first three quarters of 2018. There is deep value in Asian equities currently, and with Beijing recently undertaking large-scale stimulation measures to try and mitigate the slowdown, the markets appear to be reversing their views on the A50. We still expect short-term risk in the coming quarter for the A50, however, over the year the A50 may in fact outperform as investors look for markets with deep value and growth.

Performance

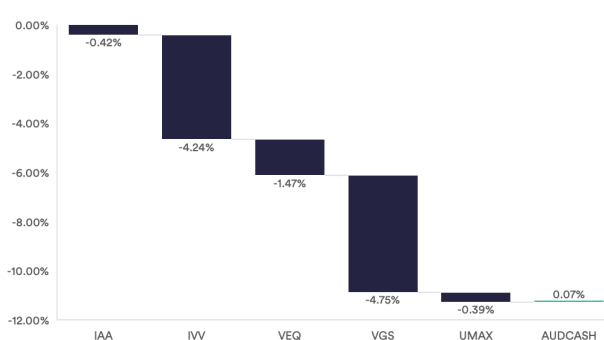
PERFORMANCE OF \$10,000 SINCE INCEPTION



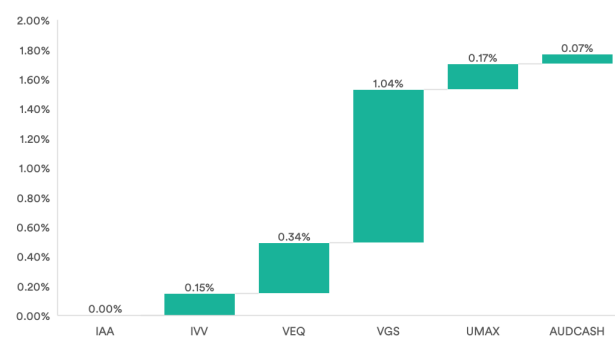
PERFORMANCE RELATIVE TO BENCHMARKS



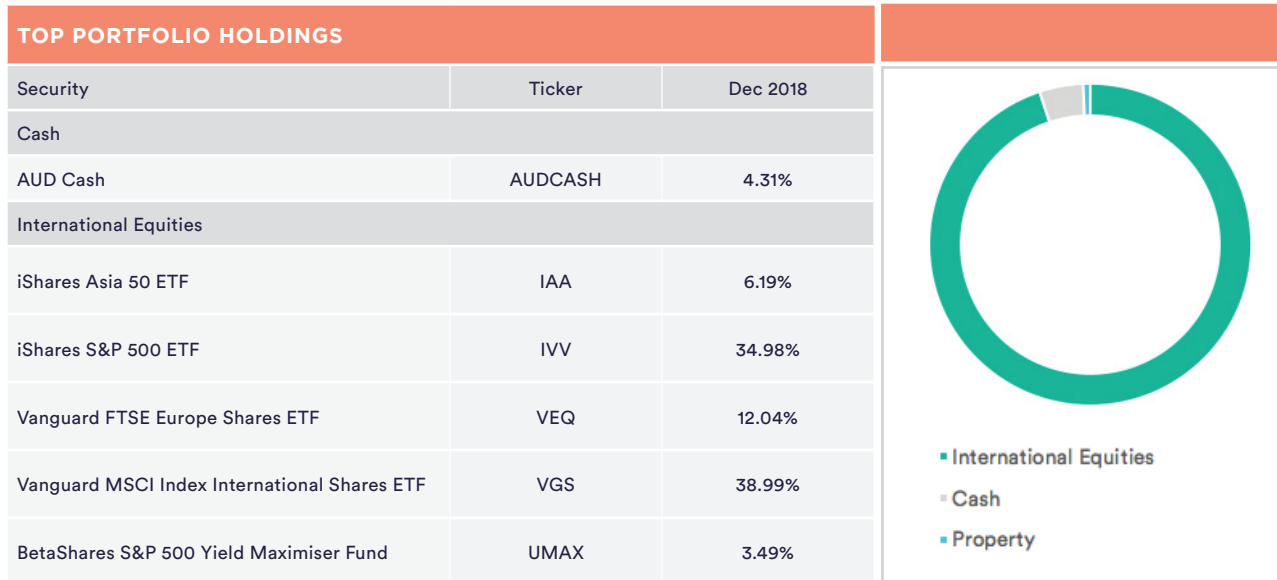
PERFORMANCE ATTRIBUTION - BEFORE FEES



YIELD ATTRIBUTION



Portfolio Holdings



Live Webinar with Evan Lucas

Thursday, 24 January @ 12.00pm

Join Evan as he provides an update on the Diversified and Strategy Portfolios and discuss how we're positioning ourselves in the current environment

[REGISTER | FIND OUT MORE](#)

Performance numbers exclude franking, after investment and admin fees; excludes brokerage. All yield figures include franking. All performance figures, graphs and diagrams are as at 31 December 2018. Performance figures are based on the portfolio's previous investment structure, a Separately Managed Account (SMA). This portfolio is now offered as a Professionally Managed Account (PMA), as of 1 November 2018. The underlying securities remain the same between the SMA and PMA structures. The inception date refers to the SMA. Please see the Investment Menu for full PMA fee details. Peers indicated in the performance table is a Morningstar data feed based on similar underlying securities per portfolio.

InvestSMART Group Limited (INV)

was founded in 1999 and is a leading Australian digital wealth advisor which has over 32,000 clients and over \$1.4B in assets under advice. InvestSMART's goal is to provide quality advice and low cost investment products, free from the jargon and complexities so commonly found in the finance industry, to help you meet your financial aspirations.

The Portfolio

The InvestSMART International Equities Portfolio provides Australian investors the ability to tap into the high potential growth of global markets and aid in portfolio diversification. The Portfolio is invested in a blend of our preferred ETFs, where each ETF invests in a different market sector to the others, thereby lowering volatility, minimising overall risk, and increasing the potential for long-term growth.

Investment objective

The Portfolio's investment objective is to provide investors returns in line with the benchmark minus our fees by investing in a blend of our preferred Exchange Traded Funds (ETFs).

Why the InvestSMART International Equities Portfolio?

Australia represents less than 2% of the world's total share market value, with over 50% of our market made up of only 20 companies. Investing overseas however is often considered too expensive, or complicated. The InvestSMART International Equities Portfolio is designed to give investors access to globally known brands & mega-cap companies like Apple and Microsoft at a low cost managed by our investment team.

Who manages the investment?

Evan Lucas, has been investing and researching global markets for over 10 years and is supported by our Investment Committee, chaired by Paul Clitheroe. After getting his Masters in Finance from Flinders University, Evan started his career in Amsterdam with ABN Amro before moving to the Royal Bank of Scotland. He returned to Australia with RBS Morgans where he developed his top down approach, joining InvestSMART as our Chief Market Strategist in 2018.

Key Details

INVESTMENT CATEGORY

A blend of our preferred Exchange Traded Funds (ETFs)

INVESTMENT STYLE

Low cost Active Asset Allocation

BENCHMARK

MSCI World (ex-Australia) Index, unhedged

INCEPTION DATE

24 October 2014

SUGGESTED INVESTMENT TIMEFRAME

7+ years

NUMBER OF SECURITIES / STOCKS

5 - 15 securities

INVESTMENT FEE

\$99 - \$451 p.a. capped

PERFORMANCE FEE

N/A

MINIMUM INITIAL INVESTMENT

\$10,000

STRUCTURE

Professionally Managed Account (PMA)

SUITABILITY

Suitable for investors seeking international exposure at a low cost

PORTFOLIO MANAGER

Evan Lucas

Appendix

Portfolio Holdings

INTERNATIONAL EQUITIES PORTFOLIO	
International Equities	
iShares Asia 50 ETF [IAA]	Issuer: Blackrock iShares Management fee: 0.50% Benchmark: S&P Asia 50 Investment case: Provide exposure to Asian equity markets.
iShares S&P 500 ETF [IVV]	Issuer: Blackrock iShares Management fee: 0.04% Benchmark: S&P 500 Investment case: Provide US equity market exposure.
Vanguard FTSE Europe Shares ETF [VEQ]	Issuer: Vanguard Management fee: 0.35% Benchmark: FTSE Developed Europe All Cap Index Investment case: Provide exposure to European equity markets.
Vanguard MSCI Index International ETF [VGS]	Issuer: Vanguard Management fee: 0.18% Benchmark: MSCI World ex-Australia Investment case: Provide core to portfolios diversified international equity exposure
BetaShares S&P 500 Yield Maximiser Fund [UMAX]	Issuer: BetaShares Management fee: 0.79% Benchmark: S&P 500 Index Investment case: Provide exposure to US equities, with a focus on enhancing yield using covered call writing activity.

Appendix

Glossary

Attribution highlights the proportion of the total return that was generated by a given security.

Peers are defined as retail investment funds that share the same benchmark as the portfolio, as determined by MSCI's peer grouping methodology. Regarding the InvestSMART International Equities Portfolio, these are multi asset class funds with an asset allocation that is weighted higher toward growth assets. Not all retail investment funds have been included in Morningstar data. Number of peers is 1043.

The Indirect Cost Ratio is the weighted management fee of the underlying ETFs and Managed Funds held within the portfolio.

The **Risk Ratings** that InvestSMART Group assigns to our investment products is based on an industry standard, The Standard Risk Measure (SRM). The SRM is a guide developed by the Financial Services Council (FSC) and The Association of Superannuation Funds of Australia (ASFA) that outlines the likely number of negative annual returns expected over any 20 year period. The purpose of the SRM is to provide a standardised labelling system to assist investors in comparing investment options across providers.

Performance numbers exclude franking, after investment and admin fees. All yield figures include franking. Performance Attribution graph only relates to the 3-month performance figure for the quarter. All performance figures, graphs and diagrams are as at 31 December 2018.

Important information

While every care has been taken in preparation of this document, InvestSMART Funds Management Limited (ABN 62 067 751 759, AFSL 246441) ("InvestSMART") makes no representations or warranties as to the accuracy or completeness of any statement in it including, without limitation, any forecasts. Past performance is not a reliable indicator of future performance. This document has been prepared for the purpose of providing general information, without taking account of any particular investor's objectives, financial situation or needs. An investor should, before making any investment decisions, consider the appropriateness of the information in this document, and seek professional advice, having regard to the investor's objectives, financial situation and needs. This document is solely for the use of the party to whom it is provided.

This document has been prepared by InvestSMART. Financial commentary contained within this report is provided by InvestSMART. The information contained in this document is not intended to be a definitive statement on the subject matter nor an endorsement that this model portfolio is appropriate for you and should not be relied upon in making a decision to invest in this product.

The information in this report is general information only and does not take into account your individual objectives, financial situation, needs or circumstances. No representations or warranties express or implied, are made as to the accuracy or completeness of the information, opinions and conclusions contained in this report. In preparing this report, InvestSMART has relied upon and assumed, without independent verification, the accuracy and completeness of all information available to us. To the maximum extent permitted by law, neither InvestSMART, their directors, employees or agents accept any liability for any loss arising in relation to this report.

The suitability of the investment product to your needs depends on your individual circumstances and objectives and should be discussed with your Adviser. Potential investors must read the Product Disclosure Statement (PDS) and Investment Menu (IM), and FSG along with any accompanying materials.

Investment in securities and other financial products involves risk. An investment in a financial product may have the potential for capital growth and income, but may also carry the risk that the total return on the investment may be less than the amount contributed directly by the investor.

Past performance of financial products is not a reliable indicator of future performance. InvestSMART does not assure nor guarantee the performance of any financial products offered.

Information, opinions, historical performance, calculations or assessments of performance of financial products or markets rely on assumptions about tax, reinvestment, market performance, liquidity and other factors that will be important and may fluctuate over time.

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. As Responsible Entity, InvestSMART is the issuer of the product through the Managed Investment Scheme (ARSN: 620 030 382).

InvestSMART Funds Management Limited
PO Box 744
Queen Victoria Building
NSW 1230 Australia

Phone: 1300 880 160
Email: invest@investsmart.com.au

www.investsmart.com.au