

InvestSMART International Equities Portfolio

Monthly Update - February 2019

PERFORMANCE TO 28 FEB 2019	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	5.02%	4.88%	-2.81%	5.70%	10.72%	11.37%	6.48%	10.36%
MSCI World (Ex-Australia) Index, unhedged	5.56%	5.18%	-1.78%	10.06%	12.99%	12.78%	8.86%	12.83%
Peers	4.77%	5.18%	-2.10%	6.37%	11.56%	11.18%	-	-

February in Review: Santa keeps on giving

US equities continued their tear-away appreciating in February adding a further 2.95%. In fact, since December 24th 2018 the S&P 500 has added over 18% as at February 28th 2019.

Santa has just kept on giving.

However, US data in February showed that its earning season was below standard. The headline data would suggest the US earnings season was a standout with over 69% of US firms beating consensus expectations on the earnings-per-share (EPS) line. The historical data shows that on average over 72% of US firms beat expectations on the EPS line every reporting season. We would argue this is a miss.

So, we again ask the question, what's changed to cause the 18% rally in equities? Why are investors continuing to pile into US equities despite the soft reporting season?

It appears to be the fact the US Federal Reserve is losing its nerve around its rate hike path and has almost completely backed away from hiking rates in 2019. In just 9 weeks from Mid-December 2018 to the first few weeks of February, the US Federal Reserve has gone from forecasting three rate rises in 2019 to two but this quote from Chair Jay Powell suggest its realistically zero:

"While we view current economic conditions as healthy and the economic outlook as favourable, over the past few months we have seen some crosscurrents and conflicting signals...Financial markets became more volatile toward year-end, and financial conditions are now less supportive of growth than they were earlier last year."

This has taken a lot of pressure off possible declines in US growth and future US corporate earnings. The US market in our view remains the strongest global equity market. However, it is likely to moderate in the interim as the recovery loses some momentum.

Asia continued its resurgence as the US-China trade war moved into a more 'constructive' phase in February easing the trade impacts on both countries. Concurrent to this news is that Beijing has continued to stimulate its economy by reducing financial constraints on its banks but cutting the reverse they have to hold. We watch this with interest for both the International Portfolio and our other PMAs as Asian stimulus directly feeds into our Australian equity exposures.

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What remains a big disappointment is Europe, its 2018 growth 'renaissance' is now a distant memory as Brexit, populist governments and falling confidence drag on its performance. This has seen its equity markets continue to underperform global peers (although they did rise in February). All this forced the European Central Bank (ECB) to once again stimulate the zone using its version of quantitative easing (QE).

We would normally view QE as a support for equities however, if we look at the previous QE programs from the ECB we note that European investors and business just don't embrace QE

like their US peers. Thus, we don't expect a strong rally in the coming period for Europe. The International Portfolio has around 14% exposure to Europe which is align with its Benchmark, no changes are likely.

International Equities Portfolio

- Added 5.02% after fees in February and beat peers by 0.24% over this period
- The largest contributors were IVV - iShares S&P 500 ETF (+2.09%) and VGS -Vanguard MSCI World ex Australia ETF (+2.12%) which has a 63% weighting to US markets.
- All holdings contributed positively to the portfolio in February

For more information on our International Equities Portfolio, [click here](#).

PORTFOLIO ALLOCATION

ASSET ALLOCATION	
Sector	Weighting
International Equities	95.80%
Property	0.71%
Cash	3.49%

TOP 5 HOLDINGS	
Security	Weighting
Vanguard MSCI Index International Shares ETF	39.67%
iShares S&P 500 ETF	35.71%
Vanguard FTSE Europe Shares ETF	12.05%
iShares Asia 50 ETF	6.08%
Betashares S&P 500 Yield Maximiser Fund	3.36%

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 28 February 2019. 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

Important information

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