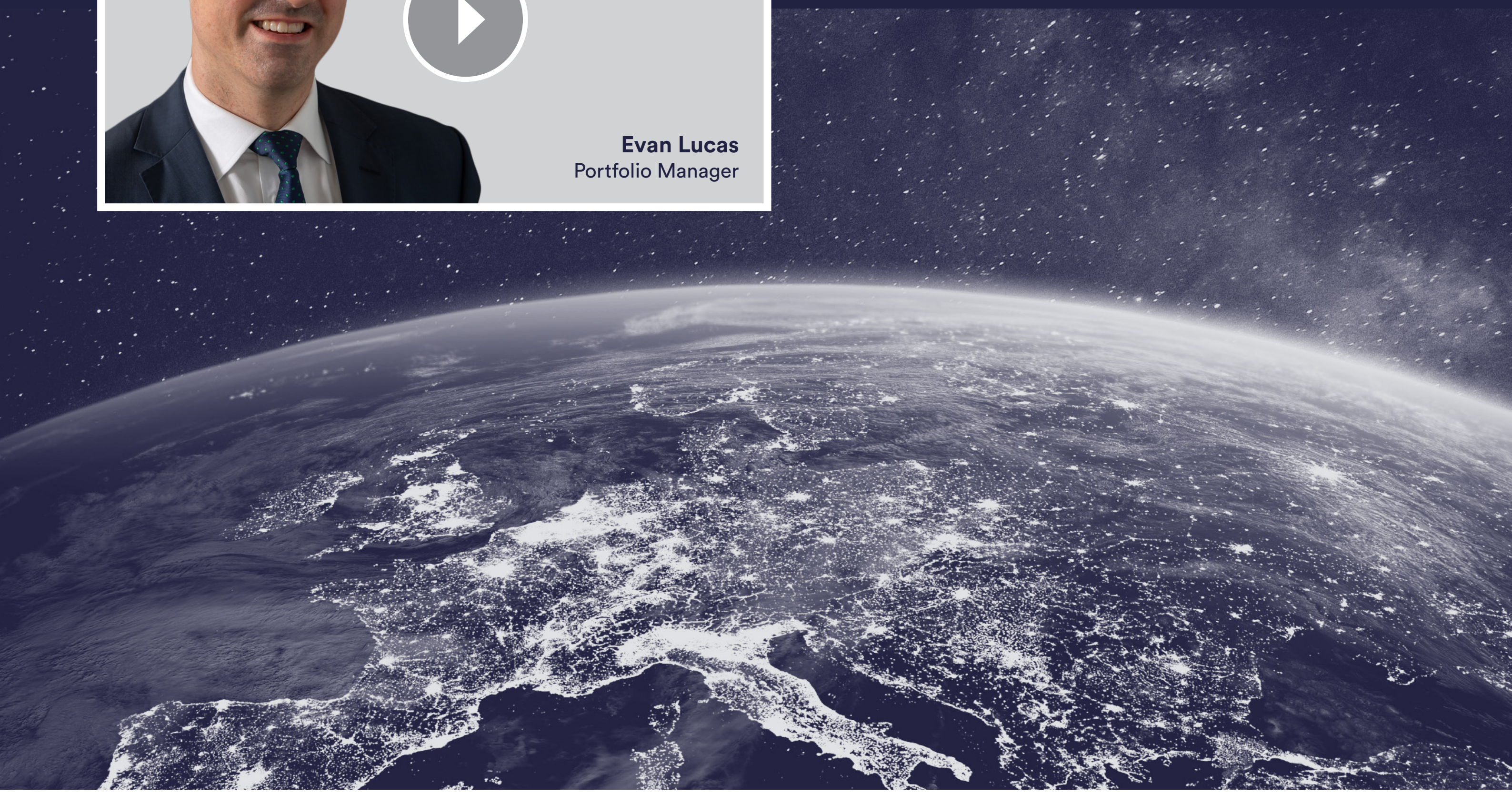
InvestSMART International Equities Portfolio

Financial Year Update

30 JUNE 2019

- Return of 9.48% (after fees) for FY19
- No changes were made to the portfolio during the June quarter
- Estimated portfolio yield is 2.14%



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InvestSMART International Equities Portfolio

PERFORMANCE TO 30 JUNE 2019 (AFTER FEES)	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS (P.A.)	3 YRS (P.A.)	4 YRS (P.A.)	S.I. (P.A)
InvestSMART International Equities	4.11%	4.51%	15.93%	9.48%	11.11%	12.47%	8.14%	10.99%
MSCI World Ex Australia NR AUD	5.27%	5.19%	17.29%	11.95%	13.66%	14.01%	10.45%	13.43%
Excess to Benchmark	-1.16%	-0.68%	-1.36%	-2.47%	-2.55%	-1.54%	-2.31%	-2.45%

Financial Year Highlights

- **The InvestSMART International Equities Portfolio produced a return of 9.48% (after fees) for FY19**
- **Since inception the International Equities portfolio has returned 10.99% per annum (after fees)**
- **Q2 was the worst quarter in the US since GFC, and Q3 the best quarter since 2009**
- **Geo-political and credit risks were the two biggest impactors on performance in FY19**

Quarterly Highlights

- **The InvestSMART International Equities Portfolio produced a return of 4.51% (after fees) during the June quarter.**
- **No changes were made to the portfolio during the June quarter**
- **Estimated yield on the portfolio is currently 2.14%**
- **All facets of the portfolio attributed to the quarter's performance**

One of the biggest questions of the financial year has been the trade-off between risk and defensive assets. Global bond markets have been surging to levels not seen in a half-decade. It's even more dramatic in US bond markets, where we have actually seen inversions for the first time since May 2007. It would seem that in FY19 investors have been diving into safety at any price.

Equity markets have, however, continued to see very strong capital inflows in FY19. Again, if we concentrate on the US, three of the four quarters in FY19 were positive.

Equities did reflect some of the economic risks seen in the bond market with the second quarter of FY19 being the worst quarter in the US since the GFC. December was actually the worst month in over 50 years. Risks in credit and growth began to surface.

> **"EQUITY MARKETS HAVE, HOWEVER, CONTINUED TO SEE VERY STRONG CAPITAL INFLOWS IN FY19. AGAIN, IF WE CONCENTRATE ON THE US, THREE OF THE FOUR QUARTERS IN FY19 WERE POSITIVE.**

This was immediately countered by performance in the third quarter, which was the best quarter in US equity markets since the third quarter of 2009.

Why? We have been looking at this phenomenon in terms of the economic 'malaise'. This is causing the bond market to react in a certain way. The possible 'cure' is further monetary policy stimulus. If we look at the global macro-economic drivers over the financial year it crystallises this point:

- The US Federal Reserve shifting from its hiking cycle in the first half of FY19 to a neutral, even dovish, standpoint to close out the financial year. In FY20, the market believes the Federal Reserve will cut rates four times. This shift was most pronounced in Q3 when the pressure building in the flow of credit, which had hit 'restrictive' levels at the end of November 2018, opened up again on this change in outlook.
- The US-China trade war, which was officially enacted in August 2018, before moving into a constructive phase in Q3. This collapsed in April, before the financial year was rounded out with a meeting between President Trump and President Xi at the G20. This meeting appears to have the two powerhouses back at square one. It remains a clear event risk for FY20.
- New global monetary policy stimulus started in the final quarter of the financial year with the Reserve Bank of New Zealand firing first, cutting its cash rate to 1.5%. The Reserve Bank of Australia was next, cutting rates for the first time since August 2016. Looking at the start of FY20, the RBA has followed up its cut in June to be the first central bank to cut in FY20.

It is clear the RBA won't be alone in this endeavour with market forecasting the Federal Reserve is likely to cut rates in the first quarter of FY20. The market believes the Federal Reserve will do this four times by the close of the financial year in June next year.

Global markets appeared to have been driven by these factors in FY19. Will these factors continue to play a part into FY20? The current outlook suggests they will.

There is another way of looking at it. Why are equity markets powering ahead when bond markets and the like flagging global risk is on the radar? 'Lower for longer' may be the answer here. Global markets expect central bank policy to remain at current levels for the next decade, which should give the corporate world some confidence to invest, to grow and to look at debt as an opportunity. Equity markets are clearly expecting corporate growth to expand over this period, and thus, FY20 is likely to follow a similar path to that of FY19 internationally.

Portfolio Performance

Looking at the individual holdings in the portfolio, performance in FY19 was predominately driven by iShares S&P 500 ETF (IVV) and the Vanguard MSCI Index International Shares ETF (VGS). These have strong relationships with the points mentioned above. IVV attributed 1.92% VGS 1.97% in the final quarter. We continue to see the benefits of VGS, which has a versatility that continues to fulfil our mandate for international market replication. Its ability to 'flex' across global markets by following market capitalisation allows the international portfolio to achieve its goal of high growth with a very low fee structure.

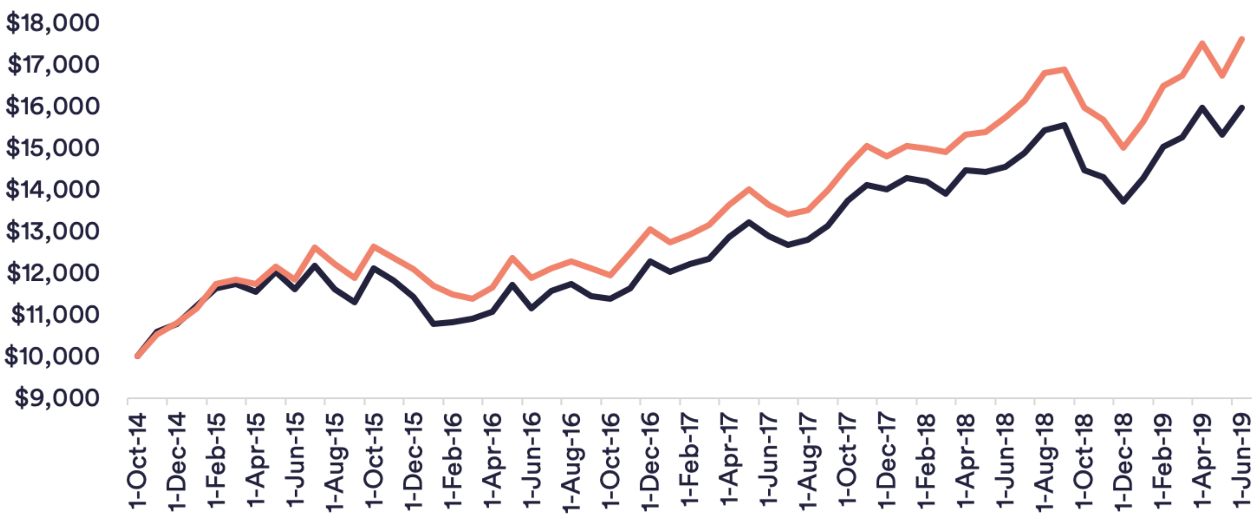
> **"WHY ARE EQUITY MARKETS POWERING AHEAD WHEN BOND MARKETS AND THE LIKE FLAGGING GLOBAL RISK IS ON THE RADAR? 'LOWER FOR LONGER' MAY BE THE ANSWER HERE.**

The Vanguard FTSE Europe Shares ETF (VEQ) finished rather flat in FY19 compared to its US counterpart. However, it did finish the year strongly, which is impressive considering the economic risks building in Europe (VEQ attributed 0.54% in the final quarter).

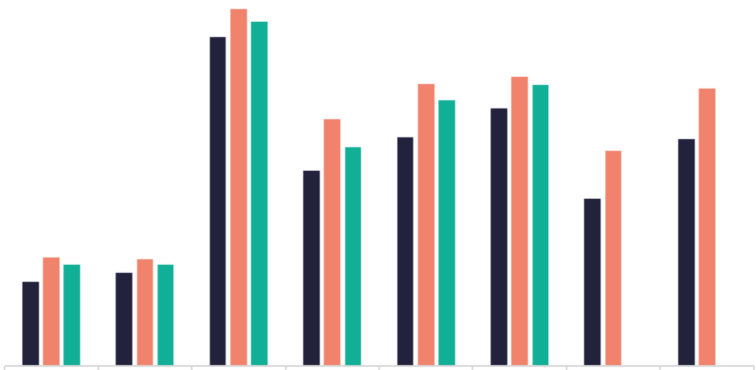
The iShares Asia 50 ETF (IAA) was significantly impacted by the US-China trade war in the first half of FY19. However, as the financial year progressed and Asian growth held firm, IAA closed out the year with a reasonable gain. Performance in FY20 will likely be governed by US-China trade again, and thus, could see some volatility in the holding. However, we note that the holding forms a small part of the overall portfolio allocation, so the volatility should be smoothed out.

Performance of $10,000 since inception

■ InvestSMART International Equities Portfolio ■ Benchmark

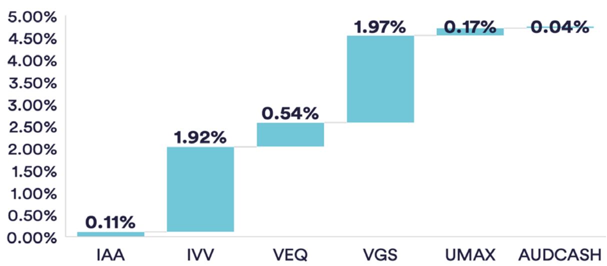


Performance relative to benchmarks

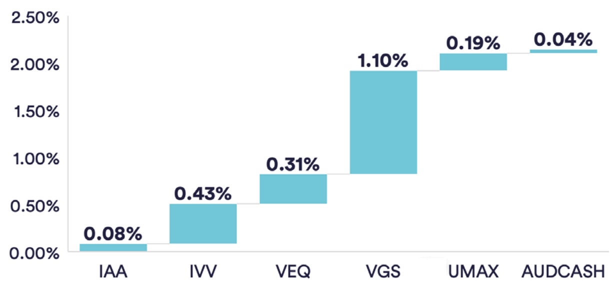


	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	4 Years	SI (p.a)
■ InvestSMART International Equities	4.11%	4.51%	15.93%	9.48%	11.11%	12.47%	8.14%	10.99%
■ Benchmark	5.27%	5.19%	17.29%	11.95%	13.66%	14.01%	10.45%	13.43%
■ Peers	4.91%	4.92%	16.69%	10.62%	12.89%	13.62%	0.00%	

Performance attribution – before fees



Yield attribution



TOP 5 HOLDINGS	
Security	**Weighting (%)**
iShares Asia 50 ETF (IAA)	5.87%
iShares S&P 500 ETF (IVV)	36.12%
Vanguard FTSE Europe Shares ETF (VEQ)	11.99%
Vanguard MSCI Index International Shares ETF (VGS)	39.64%
BetaShares S&P 500 Yield Maximiser Fund (UMAX)	3.36%

ASSET ALLOCATION	
Sector	**Weighting (%)**
International Equities	96.98
Cash	3.02

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 30 June 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. Table 1 performance figures; after investment and admin fees, includes brokerage. Unit pricing taken at the end of each month.

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
Low-cost ETF Portfolio

INVESTMENT STYLE
Low cost Active Asset Allocation

BENCHMARK
MSCI World (ex-Australia) Total Return Index, unhedged

INCEPTION DATE
24 October 2014

SUGGESTED INVESTMENT TIMEFRAME
2+ years

NUMBER OF SECURITIES / STOCKS
5 - 15 securities

INVESTMENT FEE
$99 - $451 p.a. capped

PERFORMANCE FEE
N/A

MINIMUM INITIAL INVESTMENT
$10,000

PORTFOLIO MANAGER
Evan Lucas

Important information

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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