

InvestSMART International Equities Portfolio

QUARTERLY UPDATE

Quarterly Video Update

Evan Lucas,
Portfolio Manager



This quarter Evan discusses:

- What's changed in risk assets
- Key performance factors
- Headwinds in global markets

InvestSMART International Equities Portfolio

PERFORMANCE TO 31 MAR 2019	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS (P.A.)	3 YRS (P.A.)	4 YRS (P.A.)	SINCE INCEP.
InvestSMART International Equities	1.50%	10.91%	-2.12%	9.59%	10.95%	11.64%	6.65%	10.53%
MSCI World Ex Australia NR AUD	1.49%	11.50%	-0.87%	12.30%	12.81%	13.71%	9.03%	12.94%
Peers	1.29%	10.14%	-0.85%	8.79%	11.27%	11.93%	-	-

Key Points

- **The InvestSMART International Equities produced a return of 10.91% (after fees) during the March Quarter.**
- **No changes were made to the portfolio during the December quarter.**
- **Estimated yield on the portfolio is currently 1.94%.**
- **Since inception the International Equities portfolio has returned 10.53% per. annum (after fees).**
- **All facets of the portfolio attributed to the quarter's performance.**

Best start to an investment year since 1998 for the S&P 500 and the best quarter since Q3 of 2009. The UK might be going through one of the biggest political and social upheavals since WWII as it tries to 'finalise' its Brexit withdrawal agreement, yet the FTSE 100 managed to return 8.1% in the first quarter. Europe ex-UK also performed strongly, up 10.4%, despite European growth stalling and Germany reporting that it suffered a technical recession at the end of last year. However, it was Asia that really stood out, with the CSI 300 surging 28.6% as the risk in emerging markets appeared to abate.

The question we have been asking all quarter is, what has changed in risk assets? What is causing international equities to treat the performance we saw in Q4 2018 as

irrational? The answers can be distilled into three key points:

- The US Federal Reserve backing away from this rate hiking cycle which released the pressure building in the flow of credit that had hit 'restrictive' levels (which was a clear drag on economic growth).
- The US-China trade war moving into a constructive phase released the concern that geo-political risk was going to accelerate the issue around slowing global growth.
- Expectations of global monetary stimulus in the second half of 2019 has accelerated.

International equities are likely to continue to benefit from these points in Q2. The mere suggestion of the monetary policy taps being turned on again has been enough to attract funds into equities. We are aware, however, that during the quarter the US bond market flashed its 'recession signal' with the differential between the US 3-month bond and US 10-year bond inverting. This has foretold all bar one (1966) US recessions since 1950. We are aware there are headwinds in global markets, however, cyclical growth has also accelerated in recent times and should support growth in the interim.

The portfolio's performance was driven then by iShares S&P 500 ETF (IVV) and the Vanguard MSCI Index International Shares ETF (VGS) which have a strong correlation to the points above. IVV attributed 4.6%, and VGS 4.7%. We need to highlight the versatility just how VGS 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.

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The Vanguard FTSE Europe Shares ETF (VEQ) added 1.15%, which was impressive considering the economic and geo-political risks building in Europe. The second quarter will be interrupted by the European Parliamentary Elections, and the possible announcement of the next European Central Bank Governor, with both having the potential to interrupt European trading.

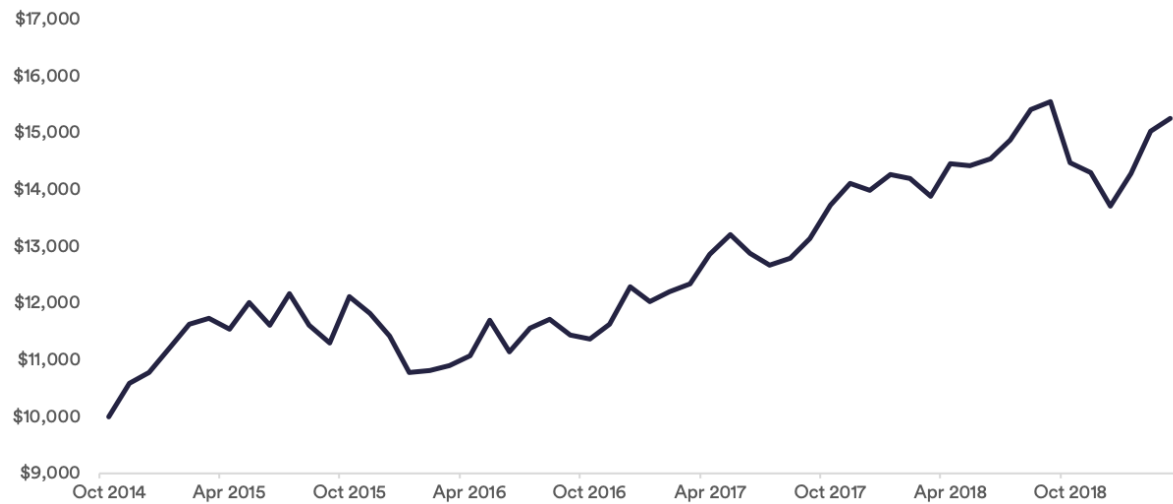
However, our exposure to Europe is moderate, making it easier for the portfolio to absorb any short-term gyrations here.

The iShares Asia 50 ETF, although small in holdings, also added value. The question now is, what could be the next catalyst for Asia? Judging by the reaction to market rumours, Washington and Beijing are close to finalising their trade issues so a 'deal' in Q2 would likely be it.

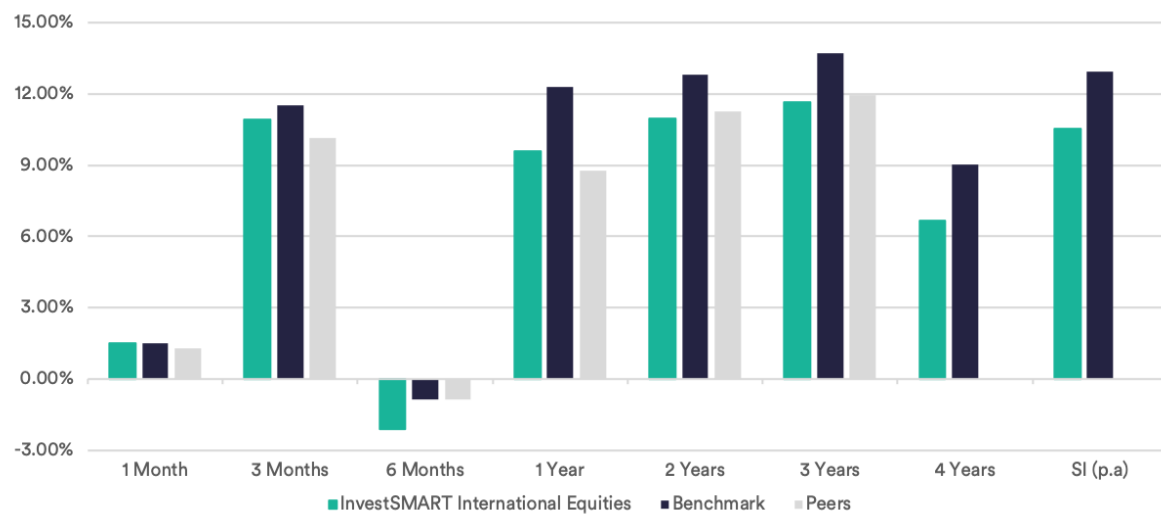
For more information on our Diversified Portfolios, [click here](#).

Performance

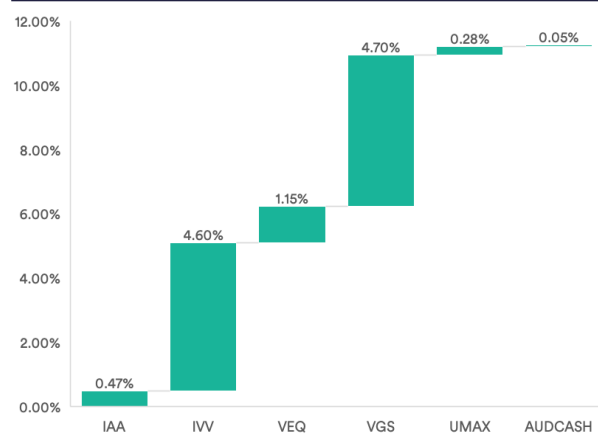
Performance of \$10,000 since inception



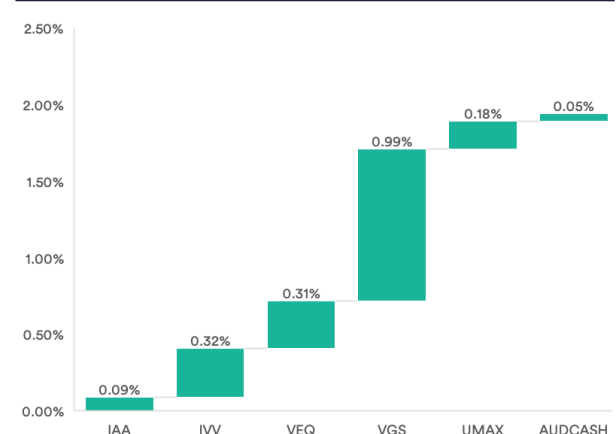
Performance relative to benchmarks



Performance attribution – before fees



Yield attribution



Portfolio Holdings

TOP PORTFOLIO HOLDINGS		
SECURITY	TICKER	MAR 2019
Cash		
AUD Cash	AUDCASH	3.24%
International Equities		
iShares Asia 50 ETF	IAA	6.01%
iShares S&P 500 ETF	IVV	35.72%
Vanguard FTSE Europe Shares ETF	VEQ	12.02%
Vanguard MSCI Index International Shares ETF	VGS	39.61%
BetaShares S&P 500 Yield Maximiser Fund	UMAX	3.39%

ASSET ALLOCATION		
INTERNATIONAL EQUITIES	CASH	PROPERTY
96.75%	3.24%	0.00%

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 March 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

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 1049.

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.

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