

InvestSMART International Equities Portfolio

Monthly update

PERFORMANCE TO 31 MAY 2019	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	-3.88%	1.89%	6.87%	6.06%	7.50%	9.20%	6.13%	10.22%
Peers	-3.85%	1.20%	6.40%	6.04%	7.30%	9.10%	N/A	N/A
MSCI World (ex-Australia) Index, unhedged	-4.43%	1.42%	6.67%	8.82%	9.31%	10.63%	N/A	12.43%

May in Review: Good and Bad ‘Surprises’

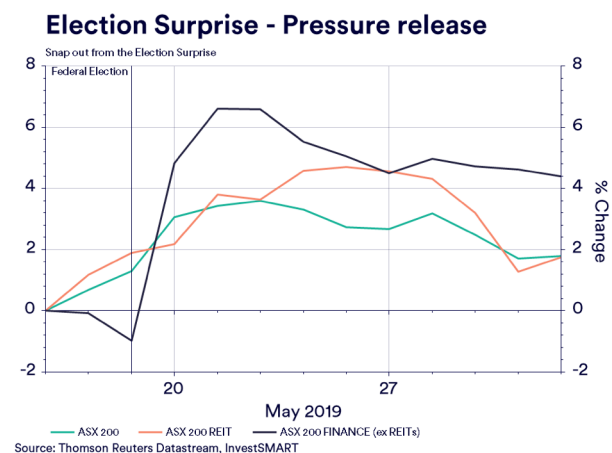
‘Surprise’ was the word of the month in May:

- **A returned Coalition Government**
- **The Reserve Bank of Australia (RBA) Governor Phillip Lowe telling the market in mid-May that the RBA would cut rates in June (and now has)**
- **Australian unemployment increasing to 5.2% in May**
- **The US hitting over US\$500 billion worth of Chinese imports with a 25% tariff**
- **Global bond yields sliding to new record lows, or below their respective central bank cash rates to foretell a global recession**
- **The European Parliamentary Elections seeing far Left and Right parties monstering centralists (not that surprising actually)**

These surprises had both positive and negative impacts on markets.

Let's start with the Federal Election. There was a very sharp market ‘release’ in sectors forecasted to be directly impacted by a possible Labor Government. We are not here to be political, but it's clear the market had

priced in the possible impacts of Labor's franking credit, negative gearing and capital gains tax changes rather significantly.



The reaction from the REIT and financial services sectors post-election was telling. In the 24 hours after the election, the Big Four banks, private health insurers and mortgage brokers had moved at least 8%, with the likes of Mortgage Choice jumping 14%.

However, the Federal Election probably spared the ASX from what was actually a very lacklustre May. In fact,

the deeper into the month we went, the further global markets fell. 'Warning signs' on the state of global growth ramped up and geopolitical tensions escalated.

Sell in May Go Away

Main Exposures in InvestSMART portfolios

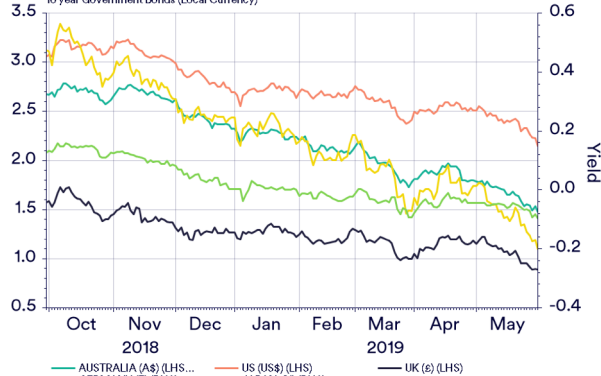


Source: Thomson Reuters Datastream, InvestSMART

The May 'warning signs' are leading. It does make us sit up and look at how managers are realigning themselves as markets move into a 'trickier' period. Bond yields the world over plummeted in May suggesting global rates are now locked in at these record low levels for another decade. The declines in yields are also a sign that markets are becoming increasingly concerned about 'risk' investment.

Bond Yield Gloom - Global Weakness

10 year Government Bonds (Local Currency)



Source: Thomson Reuters Datastream, InvestSMART

These 'warnings signs' were not lost on the RBA, leading Governor Lowe to actually tell the market 2 weeks in advance that it would now cut rates. This was a surprise, and officially put Australia on notice that we are slowing.

Yes, the Federal Election boosted Australian equities with a small sugar hit, but the overall outlook is becoming anaemic. Economic growth is falling below trend on declines in the household sector, unemployment is ticking up, and retail sales are contracting.

This isn't just an Australian phenomenon. The economic 'shining light' of the past decade, the US, was forecasted to be hiking rates in 2019, but is now facing recession risk. The 'recession forecaster', which is the inversion of the US 10-year bond to the US 3-month T-bill, flashed red in March. But in May, the 'flash' turned into a full-blown siren, revealed by the steep drop below the line in the next chart.

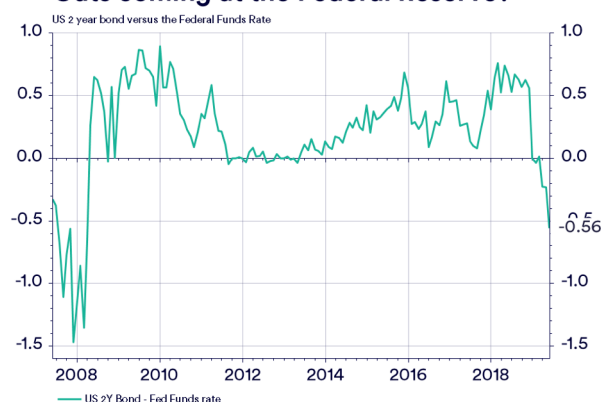
US Recession here we come?



Source: Thomson Reuters Datastream, InvestSMART

Since 1900, this metric has forecasted a US recession over 95% of the time. What is 'blurring' the view of a US recession is US unemployment is at its lowest level since the 1960s, wage growth is the highest it has been in 25 years, and inflation is near enough to the Federal Reserve's 2% target. But, as the chart below shows, US markets are now pricing in 2 rate cuts from the Federal Reserve in the next 12 months. This is the difference between the US 2-year bond yield and the Federal Funds rate.

Cuts coming at the Federal Reserve?



Source: Thomson Reuters Datastream, InvestSMART

May's biggest surprise has to be the rapid ramp-up in global pessimism. Yes, the old market adage of 'sell in May, go away' could explain some of this movement.

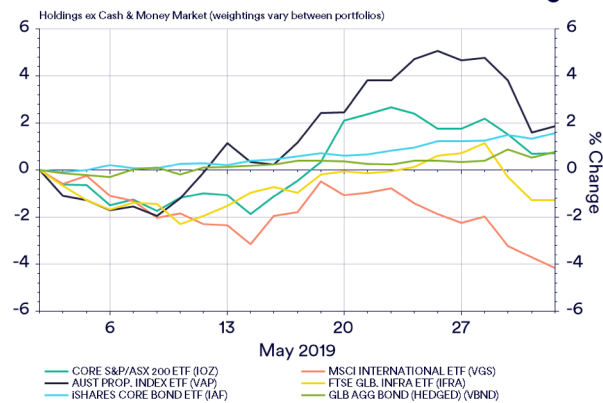
And, one month does not make a market, and it certainly doesn't make an investment timeframe. But we are aware that some risk-off trading has formed.

We have always pointed out that, over the life of your total investment, there will be periods of volatility and market contraction. Look through this, and even think about using these periods as a chance to continue to add to your holding to smooth out returns and average down your holding price for the longer term.

Diversified Portfolios

Individual capital performance of the securities held by the Diversified Portfolios, with weightings varying depending on risk appetite.

InvestSMART Diversified Portfolio Holdings



InvestSMART International Equities Portfolio

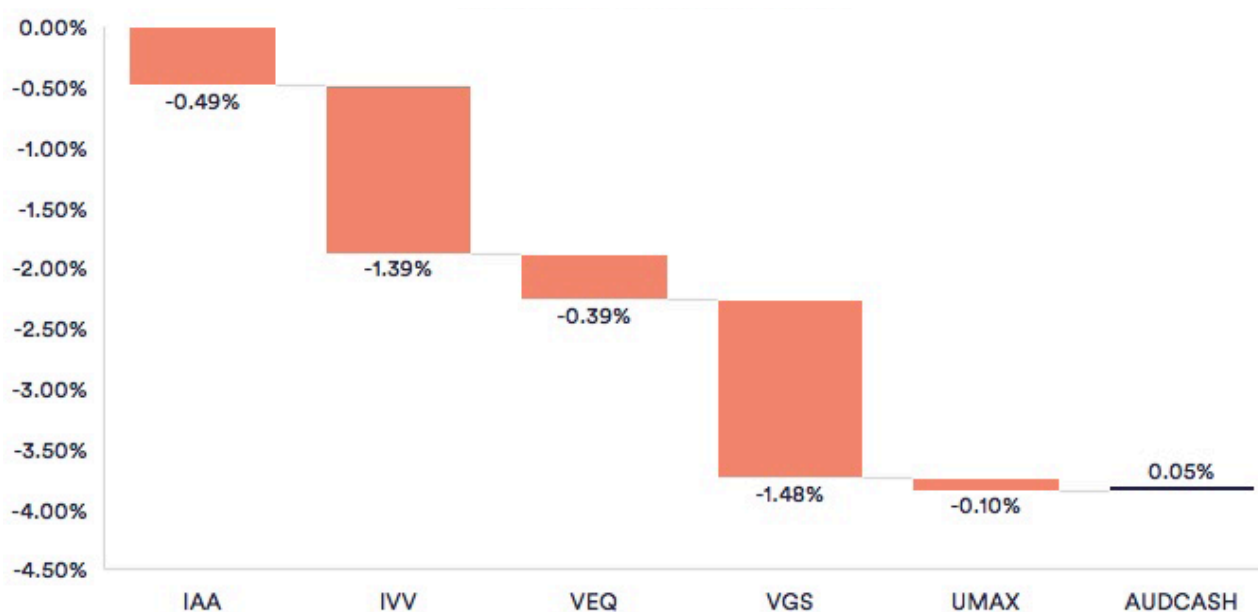
- Declined 3.88% after fees in May cutting into the rolling three-month performance however since inception the portfolio is still averaging 10.22% p.a.
- The S&P 500 (IVV) subtracted 1.39%, the global index (VGS) subtracted 1.48% while Asia subtracted 0.49%
- June has seen all international equities return to black

Portfolio allocation

TOP 5 HOLDINGS	
Security	Weighting
Vanguard MSCI Index International Shares ETF (VGS)	39.63%
iShares S&P 500 ETF (IVV)	36.06%
Vanguard FTSE Europe Shares ETF (VEQ)	12.04%
iShares Asia 50 ETF (IAA)	5.76%
BetaShares S&P 500 Yield Maximiser Fund (UMAX)	3.37%

ASSET ALLOCATION	
Sector	Weighting
International Equities	96.97%
Cash	3.03%

Attribution – Performance



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 May 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.

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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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.

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