

# GSS Index Models

Quarterly report as at 30/06/2022

## Model performance snapshot

	3 mths %	6 mths %	1 year %	2 years % p.a.	3 years % p.a.	Inception % p.a.
Portfolio - GSS Conservative Index Model	-5.8	-10.2	-8.4	-0.4	0.5	2.8
Benchmark - Morningstar Aus Moderate Target Allocation NR A\$	-5.7	-9.6	-7.4	-0.1	0.5	2.8
Portfolio - GSS Balanced Index Model	-7.0	-11.3	-7.8	2.5	2.0	4.2
Benchmark - Morningstar Aus Balanced Target Allocation NR A\$	-7.4	-11.0	-7.2	2.9	2.2	4.6
Portfolio - GSS Growth Index Model	-8.3	-12.5	-7.4	5.3	3.3	5.5
Benchmark - Morningstar Aus Growth Target Allocation NR A\$	-8.9	-12.0	-6.6	5.6	3.5	6.0
Portfolio - GSS High Growth Index Model	-9.2	-13.3	-7.2	7.3	4.3	6.5
Benchmark - Morningstar Aus Aggressive Target Allocation NR A\$	-10.3	-13.2	-6.7	7.8	4.9	7.3
Portfolio - GSS Total Growth Index Model	-10.1	-14.2	-7.1	9.1	5.1	6.0
Benchmark - Morningstar Aus Aggressive Target Allocation NR A\$	-10.3	-13.2	-6.7	7.8	4.9	7.3

Managed Model returns are net of fees and costs. Benchmark returns are before fees and costs.

The GSS Index Managed Models were re-balanced back to their strategic asset allocation in July 2022 in line with the six-monthly scheduled rebalance cycle.

## Market Overview

### Global Overview

The second quarter of the year was marked by volatility, with equities and fixed income selling off on the back of recessionary concerns, high inflation, and tightening financial conditions. Global equities (MSCI ACWI Index) finished the quarter down 15.5%, with Emerging Markets outperforming Developed Market counterparts. Fixed income markets were challenged by higher yields particularly at the start of the quarter, before reclining downwards towards the end of June amidst concerns that policy tightening may hurt the economy.

### United States

In the US, the S&P 500 Index declined by 16.1% over the quarter, and by 8.3% over the month of June (in local currency terms). All major sectors, including Energy, declined over the month as growth concerns weighed on investor sentiment.

The Federal Reserve (Fed) increased the policy rate by 125bps over the second quarter, as the Fed continued to battle with tightening labour markets and elevated inflationary readings. Headline inflation accelerated further,

rising 8.6% over the year, with gasoline, food and shelter prices contributing to the increase. While the US unemployment rate remained low at 3.6%, the consumer confidence index fell sharply as consumer resiliency was tested by the future prospect of persistent inflation. Meanwhile, the Manufacturing PMI index declined from 57 to 52.7 in June, marking the slowest growth in US factory activity since July 2020. Market-based interest rate expectations moved higher over the quarter before repricing downwards toward the end of June, as recessionary fears started to emerge.

## Europe

European equity markets represented through the Euro Stoxx 600 Index declined by 10.1% in the second quarter, and by 9.3% in June (in local currency terms) as ongoing concerns around Europe's heavy reliance on Russian oil and natural gas continued to raise risks of economic deceleration.

Within the European block, annual flash headline inflation hit an all-time high of 8.6% in June. Rising food and energy prices, alongside growing core inflation readings, have continued to add to concerns that high inflation may become entrenched in the region. The Euro Area economic sentiment slipped over the quarter as consumers saw increasing headwinds to the outlook. The European Central Bank (ECB) further reiterated the possibility of a rate hike in July and an exit to negative interest rates by the end of Q3.

While the UK equity market outperformed most other major Developed markets, it still declined by 3.7% over the quarter and 5.5% over June (in local currency terms). The Bank of England (BoE) hiked rates by 50bps over the period as UK inflation soared to 9.1% in May, the highest reading in more than 40 years. The unemployment rate rose slightly to 3.8% in the three months through April, marking the first increase in over a year. Meanwhile, consumer confidence fell to its lowest historic levels as consumers battled with renewed economic fears and experienced the squeeze from negative real wage growth. The deterioration in sentiment is in spite of the Chancellor's announced fiscal measures to help offset rising household costs alongside a '25% Energy profits Levy' on UK energy firms to ease the cost of living crisis. The UK manufacturing PMI fell further to 52.8 in June, as new orders contracted at the fastest rate in two years.

## Asia

Asian equities rebounded over the quarter, driven by the rebound in activity across China. Specifically, Chinese equities, as represented by the CSI 300, rose 7.3% in the second quarter, after declining by over 15% in the first quarter. Economic indicators within China have appeared to

bottom, with recent retail sales and industrial production figures surprising on the upside. The official manufacturing PMI rose to 50.2 in June, marking the first time it has crossed the 50 expansionary threshold since February. Chinese banks cut key interest rates for long-term loans with the five-year loan prime rate reduced to 4.45% alongside more than 140 billion yuan in tax relief offered to companies and consumers to offset the heavy impact of COVID lockdowns.

Japanese equities, as represented by the TOPIX Index, declined by 3.7% over the quarter and by 2.1% in June (in local currency terms), as the economy battles with slowing manufacturing growth and rising inflation. The Bank of Japan (BOJ) continued to maintain its stance of defending its yield target despite core consumer prices rising 2.1% y/y in May, ahead of the BOJ's 2% target.

## Australia

The S&P/ASX 300 Accumulation Index declined by 12.2% over the quarter, and by 9.0% over June, underperforming most other developed markets amid ongoing uncertainty around the domestic inflation and policy outlook. The Reserve Bank of Australia (RBA) increased the cash rate by 75bps over the second quarter. There are initial signs of increasing wage growth in Australia after a decade of low growth, with a growing share of businesses reporting larger wage payouts amid a tightening labor market.

## Fixed Income

Fixed Income markets were challenged over the second quarter, as investors priced in more aggressive expectations for monetary tightening. The US 10 year yield rose by 67bps to end the quarter at 3.0%, and the Australian 10 year yield rose by 82bps to finish the quarter at 3.7%. The rise in rates created a drag on fixed income returns, with the Australian composite bond index declining by 3.8% and Global Agg index declining by 4.7% over the quarter. Riskier parts of the fixed income markets, such as emerging markets debt and high yield indices also declined meaningfully over the period as spreads widened.

## Commodity Markets & FX

Energy retraced some of its gains in June following strong performance at the start of the quarter, as global demand began showing signs of weakening. Within currencies, the USD trade-weighted index strengthened by 2.9% in June, whilst the Australian trade-weighted index depreciated by 2.2% over the period.

## Performance Commentary – Underlying fund returns (quarterly)

### GSS Unhedged International Equity Index Fund:

- International equities experienced a tumultuous quarter amid ongoing uncertainty in the geopolitical, economic and policy outlook. The unhedged international equity index fund was down by 8.3% over the quarter, bringing year-to-date performance to -16.0% as equity markets experienced their worst first half of the year in over 50 years.
- The depreciation of the Australian dollar provided some buffer to international woes, with unhedged returns outperforming their currency hedged equivalent.
- US and European equities were the main detractors from performance in the second quarter, with the S&P 500 and Euro Stoxx declining by 16.1% and 10.1% (in local currency terms) respectively in Q2.

### GSS Hedged International Equity Index Fund:

- Relative to the currency unhedged equivalent index, the hedged international equity index declined by a more significant -15.0% over the second quarter, as the drawdown in global equity markets was compounded by a negative currency return coming from the weakening of the Australian dollar.

### GSS Australian Equity Index Fund:

- Australian equities outperformed the broad market earlier in the quarter, before retracing downwards to underperform in May and June amid elevated uncertainty around the domestic policy outlook. Over the second quarter, the Australian equity index fund was down -12.2%, slightly higher than the hedged international equity index but ultimately underperforming unhedged international equities.
- Energy and Utilities were the only major sectors posting positive performance for the quarter, while growth sectors continued to detract.
- Markets have increasingly turned their attention to the RBA's reaction function, with further hikes expected following the 75bps hike seen over the second quarter.

### GSS Global Bond Index Fund:

- Global fixed income markets continued to be characterized by significant volatility in the second quarter of the year, as investors sought to balance between more aggressive policy to contain inflation on the one hand and the detrimental impact that policy tightening might have on the economy on the other hand.
- Notably, global bond yields rose at the start of the quarter before stabilizing towards the end of June amid concerns that policy tightening may hurt the economy. The net result was still an overall repricing higher in yields, with the 10 year yield rising by 67bps to end the quarter at 3.0% and the Global Bond Index Fund declining by -4.7% over the quarter.

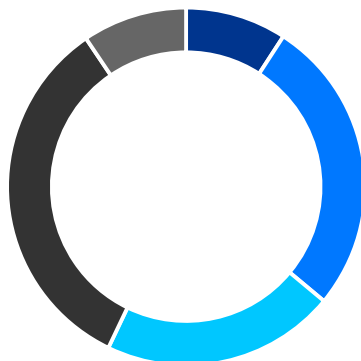
### GSS Australian Bond Index Fund:

- Australian bonds outperformed their global counterparts, but nonetheless still declined by -3.8% over the quarter.
- Strong upside pressure on both short-end and long-end yields were driven respectively by expectations for faster monetary tightening and inflationary concerns.

## GSS Conservative Index Model

### Asset allocation

- Australian Equities (9.14%)
- Australian Fixed Interest (26.88%)
- International Equities (21.16%)
- International Fixed Interest (33.34%)
- Cash (9.48%)



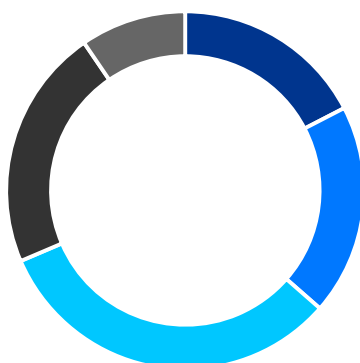
### Current holdings

Code	Name	Weight %
NET5702AU	netwealth Global Bond Index Fund	33.34
NET0023AU	netwealth Australian Bond Index Fund	26.88
NET0009AU	netwealth Unhedged International Eq Index Fund	19.13
NET0001AU	netwealth Australian Equities Index Fund	9.15
NET0034AU	netcash	8.07
NET2119AU	netwealth Hedged International Eq Index Fund	2.03
MACASH	Managed Account Cash	1.40

## GSS Balanced Index Model

### Asset allocation

- Australian Equities (17.39%)
- Australian Fixed Interest (19.05%)
- International Equities (32.12%)
- International Fixed Interest (21.86%)
- Cash (9.58%)



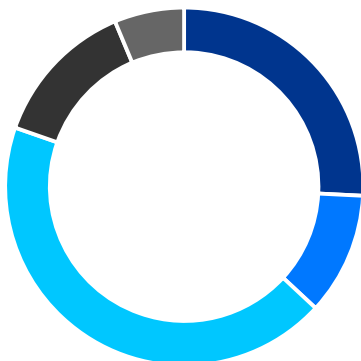
### Current holdings

Code	Name	Weight %
NET0009AU	netwealth Unhedged International Eq Index Fund	28.87
NET5702AU	netwealth Global Bond Index Fund	21.86
NET0023AU	netwealth Australian Bond Index Fund	19.04
NET0001AU	netwealth Australian Equities Index Fund	17.39
NET0034AU	netcash	8.18
NET2119AU	netwealth Hedged International Eq Index Fund	3.25
MACASH	Managed Account Cash	1.41

## GSS Growth Index Model

### Asset allocation

- Australian Equities (25.80%)
- Australian Fixed Interest (11.07%)
- International Equities (43.49%)
- International Fixed Interest (13.33%)
- Cash (6.31%)



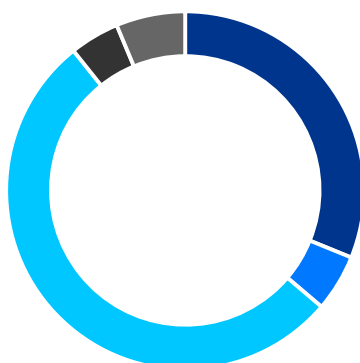
### Current holdings

Code	Name	Weight %
NET0009AU	netwealth Unhedged International Eq Index Fund	39.03
NET0001AU	netwealth Australian Equities Index Fund	25.81
NET5702AU	netwealth Global Bond Index Fund	13.33
NET0023AU	netwealth Australian Bond Index Fund	11.07
NET2119AU	netwealth Hedged International Eq Index Fund	4.46
NET0034AU	netcash	4.93
MACASH	Managed Account Cash	1.37

## GSS High Growth Index Model

### Asset allocation

- Australian Equities (31.10%)
- Australian Fixed Interest (5.15%)
- International Equities (53.02%)
- International Fixed Interest (4.48%)
- Cash (6.25%)



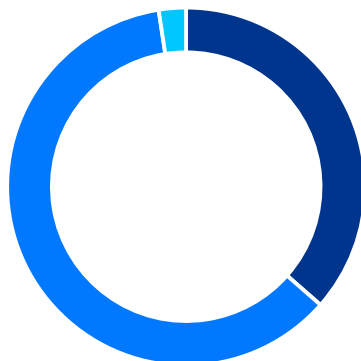
### Current holdings

Code	Name	Weight %
NET0009AU	netwealth Unhedged International Eq Index Fund	47.63
NET0001AU	netwealth Australian Equities Index Fund	31.10
NET2119AU	netwealth Hedged International Eq Index Fund	5.38
NET0023AU	netwealth Australian Bond Index Fund	5.15
NET0034AU	Netcash	4.89
NET5702AU	netwealth Global Bond Index Fund	4.48
MACASH	Managed Account Cash	1.37

## GSS Total Growth Index Model

### Asset allocation

- Australian Equities (36.49%)
- International Equities (61.03%)
- Cash (2.48%)



### Current holdings

Code	Name	Weight %
NET0009AU	netwealth Unhedged International Eq Index Fund	54.82
NET0001AU	netwealth Australian Equities Index Fund	36.49
NET2119AU	netwealth Hedged International Eq Index Fund	6.21
MACASH	Managed Account Cash	1.39
NET0034AU	Netcash	1.09

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Source: FactSet financial data and analytics.

#### Performance disclaimer

Managed Model data has been prepared by Netwealth. Investment performance is simulated based on an investment made in the model at inception of the model. The investment performance shown in this table is unlikely to exactly match your actual investment returns. This is because the investments you hold in your managed account do not always exactly match those of your chosen models (for example, due to your personal investment preferences or the amount invested in the model). Managed Model returns are net of fees and transaction costs. Benchmark results presented are before fees and a combination of two indices. Morningstar Multisector Index was used prior to 31 December 2021; Morningstar Target Allocation Index is used subsequently. Returns for periods greater than 1 year have been annualised.



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