

# 2022 Market wrap and SmartShield™ portfolio performance

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Following the strong bull market of 2021 and in the aftermath of the COVID-19 market crisis, 2022 saw a very different scenario play out, with both equity and fixed income markets performing poorly as central banks across the globe implemented aggressive rate hike measures, to curb rising inflation.

## Executive summary

The Australian equity market, as measured by the ASX 200 Total Return index, fared well compared to other economies, posting a -1% return. However, throughout the year, the Australian equity market was choppy and experienced multiple distinct V-shapes (See red box in Fig5) in response to wavering sentiment around monetary policy and inflation, as well as geopolitical events.

In comparison, the global equity markets experienced a far deeper sell-off driven by more aggressive tightening by the US Fed and the European energy crisis, leading to a -18.1% return in MSCI World ex Australia Total Return AUD Hedged index. The depreciating Aussie dollar provided a significant buffer, leading to currency unhedged MSCI World ex Australia Total Return posting a -12.5% return for the year. Similar to the Australian equity market, 2022 was characterised by multiple distinct V-shape events.

The fixed income market experienced an unprecedented decline, with Australian fixed income and global fixed income posting returns of –

9.7%<sup>1</sup> and -12.3%<sup>2</sup> (see red box in Fig6) respectively, due to steep rate hikes. This marked the largest fixed income decline in over 30 years, catching investors off-guard and as a result, the

usual diversification benefits between equities and fixed income were absent. This also led to some of the more defensive investment options, performing worse than growth oriented portfolios.

## SmartShield™ performance 2022 review

SmartShield portfolios are designed to reduce the severity of large and sustained equity market drawdowns, across the medium to long-term. In 2022, the SmartShield portfolios continued to exceed their respective benchmarks across all risk profiles.

The Australian equities and unhedged global equities exposures within the SmartShield portfolios saw limited drawdowns in both depth and duration. Coupled with fast V-shaped recoveries, this made it a challenging environment for any risk management strategy. In these environments hedges are typically put on in response to market declines or volatility spikes to minimize the impact of a further drawdown and are often reversed out as markets follow a V-shape recovery, negating some of the gains made during the sell-offs.

Furthermore, the unprecedented sell-off in fixed income across the year, had a significant impact on the portfolios as a whole – in particular, for the more defensively positioned portfolios that have a larger allocation to fixed income.

Despite the challenging equity environment for risk management strategies, and the significant fixed income sell-off which remains a passive allocation within the SmartShield portfolios, each one achieved returns that exceeded their benchmark by between 30 to 170 basis points, net of fees.

This was achieved with materially lower volatility and maximum drawdowns compared to the benchmark, leading to a stronger Sharpe ratio across the board.

FIG1: PERFORMANCE TABLES

PERFORMANCE	1 month	3 months	6 months	1 year	2 year
SmartShield High Growth	-2.40%	3.91%	3.39%	-8.13%	4.59%
Benchmark: Morningstar Australia Aggressive Benchmark*	-4.07%	5.78%	4.36%	-10.03%	4.02%

PERFORMANCE	1 month	3 months	6 months	1 year	2 year
SmartShield Growth	-2.16%	2.37%	1.45%	-9.43%	2.38%
Benchmark: Morningstar Australia Growth Benchmark*	-3.50%	4.69%	3.15%	-9.93%	1.97%

PERFORMANCE	1 month	3 months	6 months	1 year	2 year
SmartShield Balanced	-2.03%	1.94%	0.77%	-9.70%	0.10%
Benchmark: Morningstar Australia Balanced Benchmark*	-3.01%	3.27%	1.59%	-10.14%	-0.32%

PERFORMANCE	1 month	3 months	6 months	1 year	2 year
SmartShield Moderate	-1.77%	1.51%	0.30%	-9.20%	-1.67%
Benchmark: Morningstar Australia Moderate Benchmark*	-2.37%	2.13%	0.52%	-9.39%	-2.45%

\*Morningstar Australia Aggressive Benchmark (Blend) consist of the Morningstar Aus Multi-sector Aggressive Total Return Index from inception to 28th Feb 2022, before it was retired by Morningstar and replaced by the Morningstar Aus Aggressive Target Allocation Index, which is used as the benchmark from 1st March 2022 onwards.

## Longer-term summary

Since the COVID-19 crisis started in March 2020, the portfolios have increased their level of hedging leading to a significant reduction in drawdown. During the subsequent market recovery and bull market of 2021, SmartShield has systematically and dynamically adjusted its hedges towards zero, which enabled the portfolios to participate in most of the market's upside gains, while minimising the implied costs of the hedging.

SmartShield has performed as expected, providing investors with a much smoother ride and a more stable investment experience and by stabilising volatility and reducing the impact of market drawdowns, it has led to stronger risk adjusted returns. This has presented investors with the confidence they need, to stay invested.

The SmartShield portfolios have been designed to excel in uncertain markets. The risk management strategy is expected to systematically kick in as conditions deteriorate and as markets recover and volatility subsides, to take a step back to enable up to full participation in growth.

Looking ahead, we are concerned about potential deterioration in the economy due to sustained inflation pressures, as well as the delayed impacts of monetary policy feeding through this year. Domestically, forward looking surveys such as the NAB's business conditions index and labour capacity utilisation rate, (typically linked to future increases in unemployment rates), have started to fall. The domestic business activity indicator Composite PMI also remains in contraction territory. In addition, we could see compression of corporate margins and a lacklustre US earnings outlook in 2023 which may dent the risk sentiment later in the year, making a strong correction more likely.

FIGURE 2: 2022 RISK STATISTICS

		High Growth	Growth	Balanced	Moderate
Net Return	SmartShield	-8.13%	-9.43%	-9.70%	-9.20%
	Morningstar Target Allocation Benchmark	-9.85%	-9.66%	-10.04%	-9.49%
Volatility	SmartShield	10.83%	8.57%	7.54%	6.40%
	Morningstar Target Allocation Benchmark	14.90%	12.70%	10.20%	7.80%
Max Drawdown	SmartShield	-13.89%	-12.96%	-12.36%	-11.19%
	Morningstar Target Allocation Benchmark	-16.47%	-14.90%	-13.57%	-11.70%

FIGURE 3: 2022 PERFORMANCE CHARTS

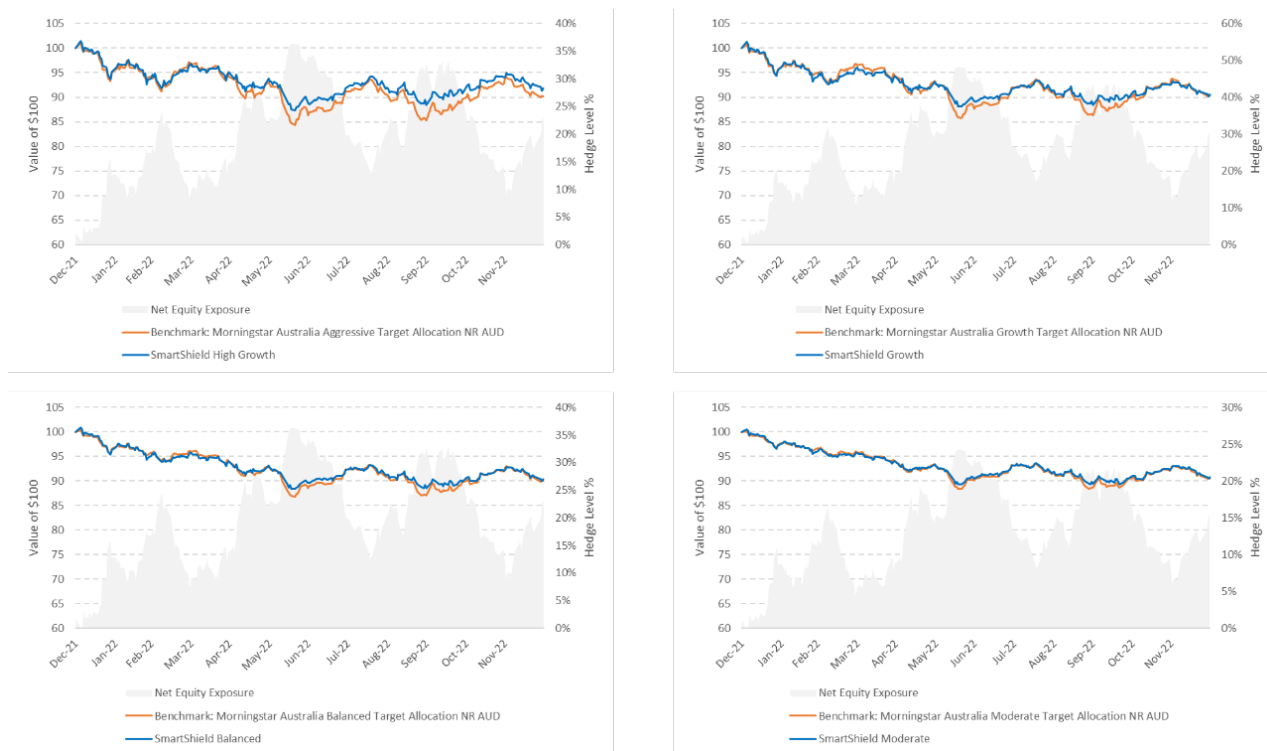
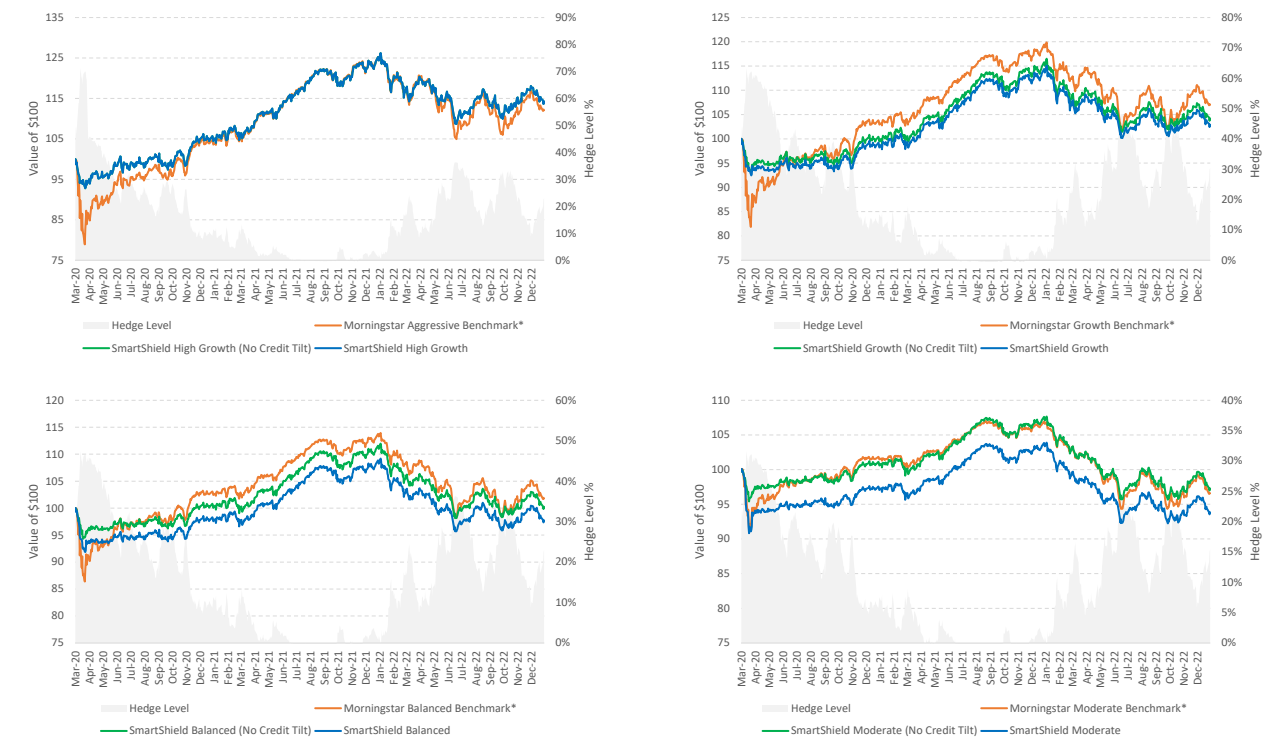


FIGURE 4: SINCE INCEPTION CHARTS



\*Morningstar Australia Aggressive Benchmark (Blend) consist of the Morningstar Aus Multi-sector Aggressive Total Return Index from inception to 28th Feb 2022, before it was retired by Morningstar and replaced by the Morningstar Aus Aggressive Target Allocation Index, which is used as the benchmark from 1st March 2022 onwards.

\*\*Representative of the current SmartShield portfolios without allocation tilt towards credit. The credit allocation tilt was implemented in the initial SmartShield portfolios back in the month of March 2020, but was subsequently reversed at the end of March 2020.

FIGURE 5: S EQUITIES - ASX 200 CUMULATIVE PERFORMANCE CHART (RED BOX = 2022 PERFORMANCE)



FIGURE 6: FIXED INCOME – BLOOMBERG GLOBAL-AGGREGATE INDEX AUD HEDGED (RED BOX = 2022 PERFORMANCE)



<sup>1</sup>As represented by the Bloomberg AusBond Composite 0+ Yr Index

<sup>2</sup>As represented by the Bloomberg Global-Aggregate Total Return index value Hedged AUD

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