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Investment Philosophy

and

Investment Models Strategy

DATE: 19 January 2024 VERSION 2.2

Contents

Executive Summary

At a fundamental level, there are only two ways to earn money: **people at work**, or **money at work**.

We spend a great deal of our time helping people put their money to work so that one day they can put the people at work phase of life behind them.

There are of course many elements that go into achieving this goal, but for the purposes of this document we're focussing on the money at work.

Just as there are a vast number of ways people work, so too there are many ways to put money to work. However, just like some people seem to need to work harder for their money than others and could benefit from being more efficient and effective, the same is true for money at work.

Our Investment Philosophy and the way it drives our Investment Models Strategy is all about helping achieve this for you.

Traditionally, funds management has focused on picking stocks, and timing trade decisions in order to "beat the market." As we will explore, we do not believe this approach is likely to add value to clients' portfolios in the long term.

A popular alternative, particularly in recent years, is to passively match the market's return while keeping costs low. We believe this approach can make sense for many investors.

However, our preferred strategy goes further and leverages evidence established by decades of academic research, structuring portfolios around factors of higher expected return. This increases diversification and allows clients to pursue higher expected returns, while minimising overall costs.

This document aims to summarise the evidence and thought processes at the foundation of this investment philosophy.

We believe that to have a successful investing experience, investors should:

1. Start with a plan.
    - An effective investment solution can't exist in isolation. It must work to support you and your goals.
2. Recognise that markets work.
    - Extensive evidence says you can't outguess the market.
    - Nonetheless, markets have rewarded investors over time.
3. Manage the risk-return trade-off.
    - Strike the right balance for you. Some investors are more willing and able to accept risk than others.
    - Diversification is key: across securities, asset classes, and drivers of returns.
4. Remain disciplined.
    - Manage your emotions. Look beyond the headlines. Maintain a long-term perspective.
    - Focus on what you can control.

Historical Background

Why did we adopt the use of investment models for clients?

- Focus groups indicated that clients did not sufficiently value the full range of bespoke investment management work we did
- Clients valued the relationship, and our deep understanding of them and their circumstances and the way which it was reflected in our advice and services
- There was also occasional anxiety that our process was highly key person dependent which created a potential risk for clients

We undertook a project to look at a wide range of options that we could use as the basis of the investment advice component of our services:

- We wanted to establish a process (either build or adopt) that was able to address the issues identified
- We wanted to establish a process that provided structural strength and discipline and could achieve defined and measurable outcomes for clients, both in terms of risk and returns
- We wanted to establish a process that could reasonably be explained and understood by clients
- We wanted to establish a process that could be clearly defined and implemented into the paraplanning process
- We wanted to establish a process that could be managed by other staff in the absence of their portfolio manager, so that it could operate continuously.

The culmination of this project was to implement a series of investment models based on ongoing research and support from Godfrey Pembroke's research team Threesixty. We have followed and applied these models for client portfolios, and guided clients as the models evolved over almost 15 years.

In late 2022 ThreeSixty research began a project to consolidate several of their supported investment models into a groupwide strategy. Ultimately this would result in a significant change to many of the portfolios followed by our clients.

Given the significance of these proposed changes, we took the opportunity to take stock of the wide range of alternative solutions available to clients.

Our fundamental principles and processes remain unchanged. However, a review of the current marketplace identified several investment solutions which better aligned with our philosophy. We considered that the advantages of adopting these solutions offered significant benefits to clients, which prompted the current iteration of this document.

So, this document represents the latest evolution of our Investment Philosophy and the Investment Models Strategy that give form and structure to that philosophy.

An Evidence Based Approach

There are almost unlimited theories on what works. However, we have built our approach on what has been proven by hard evidence over time.

Our investment framework is grounded in principles established by decades of academic research. The following is a brief summary of some of the significant advances which we aim to consider when constructing client portfolios.

Modern Portfolio Theory (1952)

Harry Markowitz's Modern Portfolio Theory (MPT) presented the idea that diversification across different types of assets reduces risk. Therefore, investors should consider assets based on their correlation with (and subsequent impact on) the entire portfolio, rather than in isolation.

Doing so, investors can construct an optimal portfolio to maximize expected returns for a given level of risk, or minimize risk for a given level of expected return (Markowitz, 1952).

In short, MPT provides a framework for understanding how to create a balanced and diversified portfolio that meets an investor's goals.

Harry Markowitz was later awarded the Nobel Prize in Economic Sciences for his work on portfolio theory.

The Capital Asset Pricing Model (1964)

Building on the work of Markowitz, John Lintner, William Sharpe, and Jack Treynor introduced the Capital Asset Pricing Model (CAPM). This was the first asset pricing model to precisely define risk and explain how it drives expected returns.

The model defined risk as "market beta", or the sensitivity (covariance) of a of a security relative to the broader market. It demonstrated that an investment's expected return is proportional to the stock's market beta (Sharpe, 1964).

This provided a lens through which to evaluate the performance of an active fund manager. It could now be shown whether performance was driven by manager skill, or simply through greater exposure to market beta – an exposure which could be obtained at a lower fee.

William Sharpe later received the Nobel Prize in Economic sciences for this work.

Efficient Markets Hypothesis (1970)

Efficient Markets Hypothesis (EMH) states that markets are an efficient price setting system, and that as such, all publicly available information is reflected in the market price of a security (Fama, 1970). Therefore, it is difficult (if not impossible in the long term) to "beat the market" by outguessing market prices.

The EMH has three main forms: weak, semi-strong, and strong. The weak form suggests that past market prices cannot be used to predict future prices, the semi-strong form suggests that all publicly available information is reflected in current prices, and the strong form suggests that all information, including insider information, is reflected in prices.

The EMH is controversial, with some experts arguing that inefficiencies in financial markets can provide opportunities for investors to earn above-average returns.

The Intertemporal Capital Asset Pricing Model (1973)

Nobel Laureate Robert Merton's Intertemporal Capital Asset Pricing Model (ICAPM) built upon the Capital Asset Pricing Model (CAPM) recognising that investors typically participate in markets over long time horizons, such as when saving for retirement. Therefore, they are concerned with return opportunities over time, as well as risks outside of investment markets such as inflation and the value of their human capital (Merton, 1973). This has significant implications for tailored financial planning strategies.

The Size Effect (1981)

Rolf Banz identified that smaller companies had higher risk adjusted returns than their larger peers, as measured by the Capital Asset Pricing Model (CAPM). This called into question the specificity of the CAPM, and identified a need for further research on the size effect (Banz, 1981).

Multifactor Asset Pricing Model & the Value Effect (1993)

Nobel laureate Eugene Fama and Kenneth French expanded on the Capital Asset Pricing Model with their three-factor model which included size and "value" in addition to market beta (Fama & French, 1993).

The size factor: small companies tend to have higher expected returns than large companies.

The value factor: Firms with a high book to market ratio (value) tend to have higher expected returns than those with a low book to market (growth).

The Carhart Four Factor Model & Momentum (1997)

Mark Carhart added the momentum factor to the existing Fama and French three factor model, further improving the model's explanatory ability (Carhart, 1997).

The momentum factor: In the short term, securities which have performed well in the recent past tend to continue performing well, while those in decline are likely to continue their underperformance.

The Profitability Effect (2012)

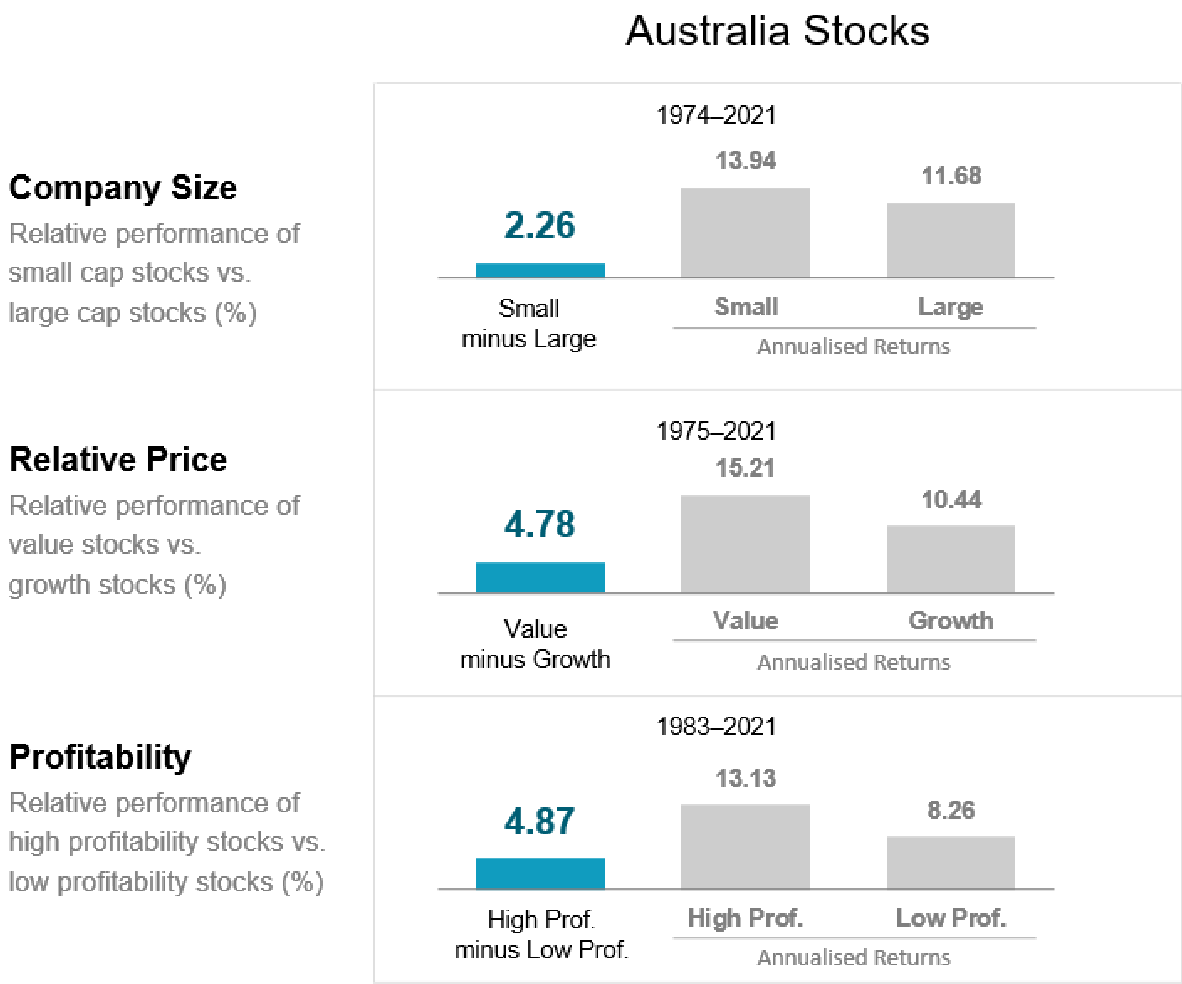
Further research by Eugene Fama, Kenneth French, and Robert Novy-Marx identifies profitability as a new factor of expected returns (Novy-Marx, 2013).

The profitability factor: Firms with robust profitability tend to exhibit higher returns than those with weak profitability.

Factor Premiums Through Time

This document will go on to further develop the concept of using the various factors discussed above in an investment process in order to earn higher returns (premiums) over those offered by the broader market.

The chart below illustrates the premiums Australian investors have received for investing in the factors identified by the research summarised above.



[1]

[1] Source: Dimensional Fund Advisors

Application of Factors

The research cited in this paper has identified a number of "factors" which have been shown to drive expected returns. However, there are a great number of factors which have been documented in the academic literature. Which of these should investors consider?

Larry Swedroe, Director of Research at Buckingham Strategic Wealth and prolific author argues that to be considered, a factor must be (Swedroe & Berkin, 2016):

- Persistent - holding across time and different economic regimes.
- Pervasive - holding across countries, sectors, and asset classes.
- Robust - holding across various definitions.
- Investable - holding up in the real world, after implementation costs.
- Intuitive - it must have a logical basis for existing.

The table below illustrates the mean return, volatility, and overall risk-adjusted return of the factors we believe clear these practical hurdles.

	Mean Return (%)	Standard Deviation (volatility / risk)	Sharpe ratio (Risk adjusted return)
Market Beta	8.3	20.6	0.40
Size	3.3	13.9	0.24
Value	4.8	14.1	0.34
Momentum	9.6	15.7	0.61
Profitability	3.1	9.3	0.33
P1	6.5	8.8	0.74
P2	5.3	5.5	0.96

[2]

P1: 25% each to market beta, size, value, momentum
P2: 20% each to market beta, size, value, momentum, profitability

There is debate as to whether the higher expected return of these factors is driven by a commensurate increase in risk, or whether there might be a behavioural explanation for their systematic mispricing.

Making the conservative assumption that the factors do *not* have higher risk-adjusted returns in isolation, the low correlation between them produces a diversification benefit within a portfolio (Ilmanen & Kizer, 2012).

This means that a portfolio comprising several factors will have a higher risk-adjusted return than any one factor in isolation. This is reflected above by the performance of the notional portfolios P1 & P2 both of which exhibit higher risk-adjusted returns than any individual factor.

Therefore, we believe that diversifying across drivers of expected return (factors) in addition to asset classes, countries, and individual securities improves portfolios, and further increases the reliability of investment outcomes.

[2] US data, 1927-2015. Source: Swedroe, L. & Berkin, A., 2016. Your Complete Guide to Factor-Based Investing.

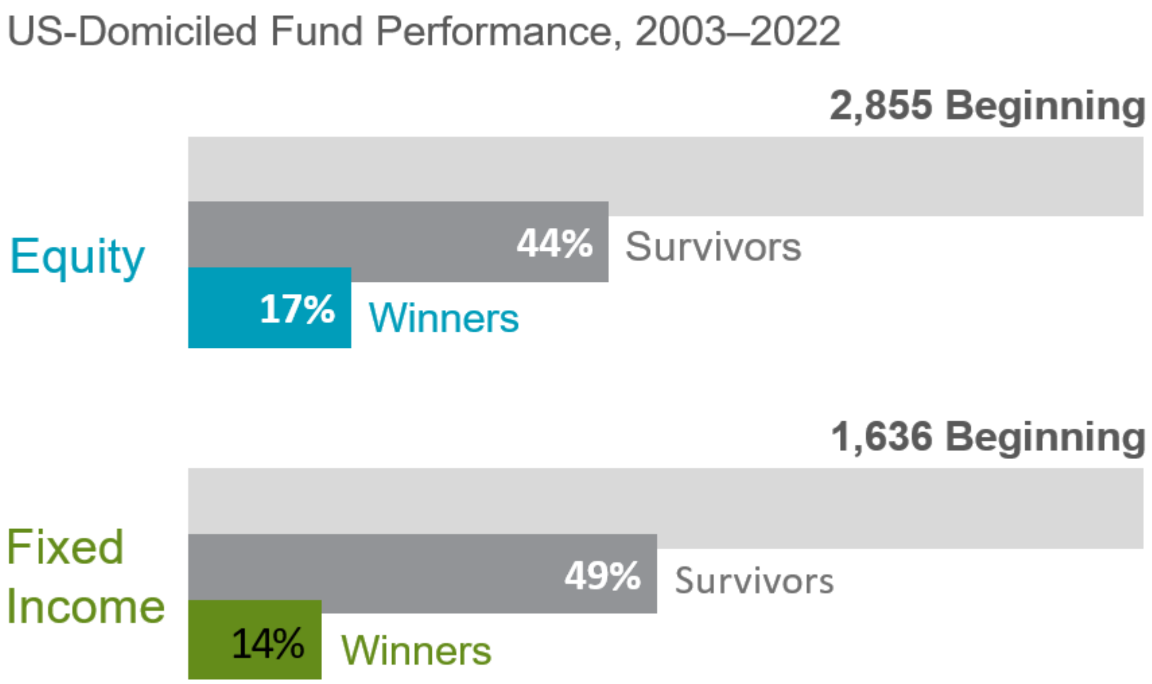
Active versus Passive Management

Active Management means investing in funds whose portfolio managers select investments based on an independent assessment of each investment's worth—essentially, trying to choose the most attractive investments in pursuit of the best possible portfolio. The goal of active managers is to "beat the market," or outperform certain standard benchmarks. For example, if you're an Active investor, your goal may be to achieve better returns than the ASX200 index.

In contrast, a Passive investor wouldn't go through the process of assessing the virtue of any specific investment. Your goal would be to match the performance of certain market indices rather than trying to outperform them.

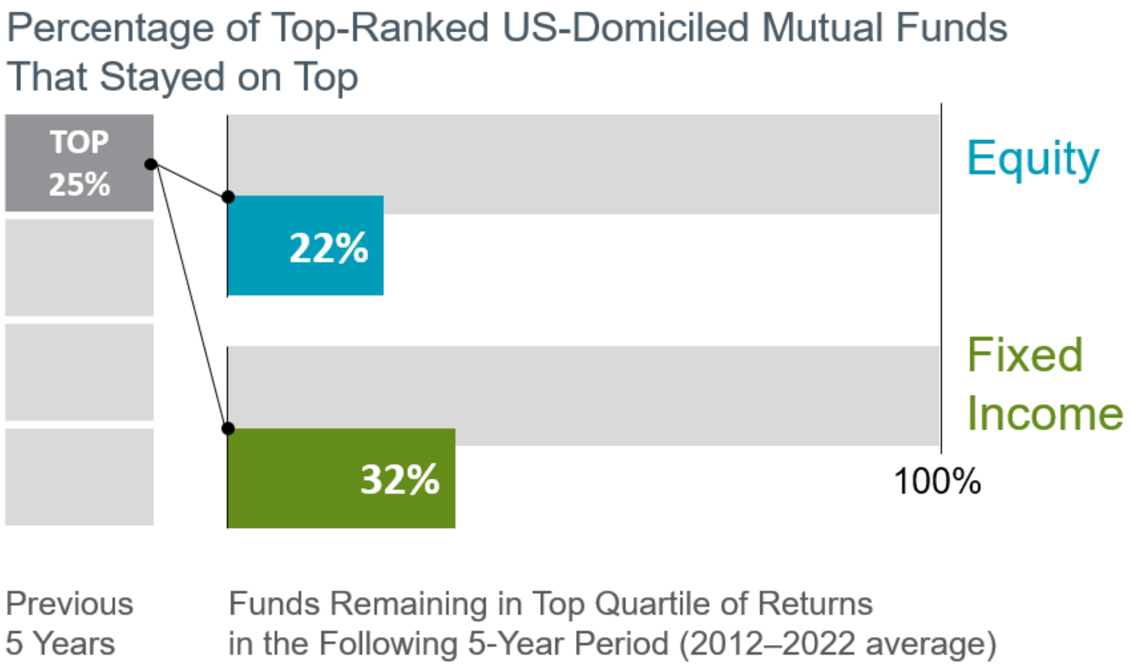
Passive managers simply seek to own all the stocks in a given market index, in the proportion they are held in that index (generally market capitalisation weighted). Because Active investing is generally more expensive (you need to pay research analysts and portfolio managers, as well as additional costs due to more frequent trading), Active managers need to earn higher returns to be successful. Many Active managers fail to beat the index after accounting for expenses—in those cases, Passive investing has typically outperformed because of its lower fees.

The market's pricing power works against fund managers who try to outperform through stock picking or market timing. As evidence, not only did a significant number of Active investment firms not survive the period shown, only 18% of US-domiciled equity funds outperformed their benchmarks over the past 20 years[3].



[3] Source: Dimensional Fund Advisors

A logical consideration might be to invest in those funds which have demonstrated a history of outperformance. However, past performance offers little insight into a fund's future returns. For example, most funds in the top quartile of previous five-year returns did not maintain a top-quartile ranking in the following five years.



This trend is also followed by Standard and Poors, who regularly publish their Index versus Active (SPIVA) scorecard, including analysis specific to the Australian market. The below table shows the findings of their latest report:

Percentage of funds that underperformed their benchmark (as at 30 June 2023)

Fund Category	Comparison Index	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)	15-Year (%)
Australian Equity General	S&P/ASX 200	76.49	57.43	80.86	79.14	80.89
Australian Equity Mid- and Small- Cap	S&P/ASX Mid-Small	65	59.87	63.57	75.7	-
International Equity General	S&P Developed ExAustralia LargeMidCap	75.97	83.39	91.24	94.09	94.96
Australian Bonds	S&P/ASX Australian Fixed Interest 0+ Index	31.34	47.89	62.12	-	-
Australian Equity A-REIT	S&P/ASX 200 A-REIT	84.31	70.77	65.67	77.46	81.91

[4]

[4] Source: SPIVA Australia Scorecard, Mid-Year 2023

On this basis, we do not believe that a traditional active stock picking approach is likely to add long term value to clients' portfolios. However, we recognise the desire of some investors to accept a greater distribution of outcomes in order to target outperformance, and we can accommodate this preference if desired.

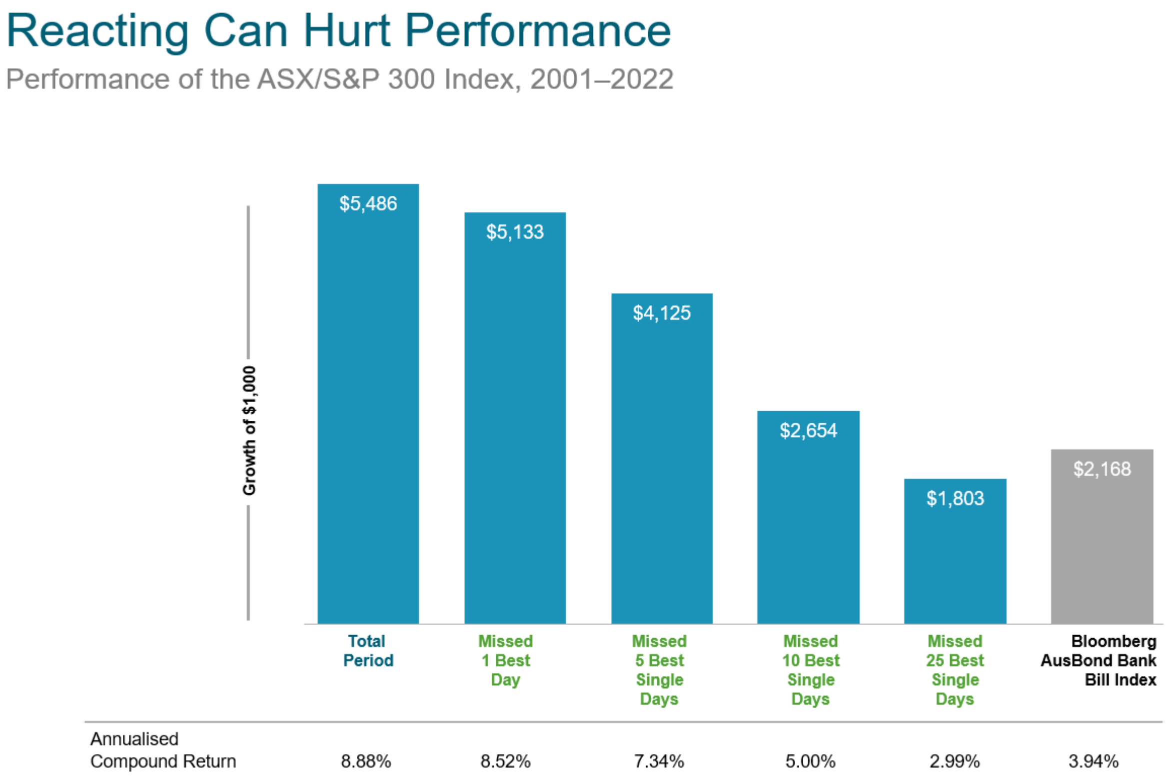
A passive approach is more attractive by contrast, particularly for investors whose top priority is to reduce fees. However, it can be overly rigid in its implementation, and neglect diversifying drivers of higher expected returns identified by financial science.

Our preferred strategy starts with the index, diversifies into areas of the market with higher expected returns, and maintains flexibility around implementation to minimise overall cost.

Timing The Market

Attempting to "pick the bottom" during a period of market volatility can quickly set investors back. Markets move quickly to reflect changes in forward looking expectations. Consequently, missing just a handful of the best trading days can significantly hurt performance – even over a 20 year investment horizon.

The example below illustrates this by showing the result of investing $1,000 in the Australian share market for 20 years, and then showing the impact on the value of the investment of those few missing days.



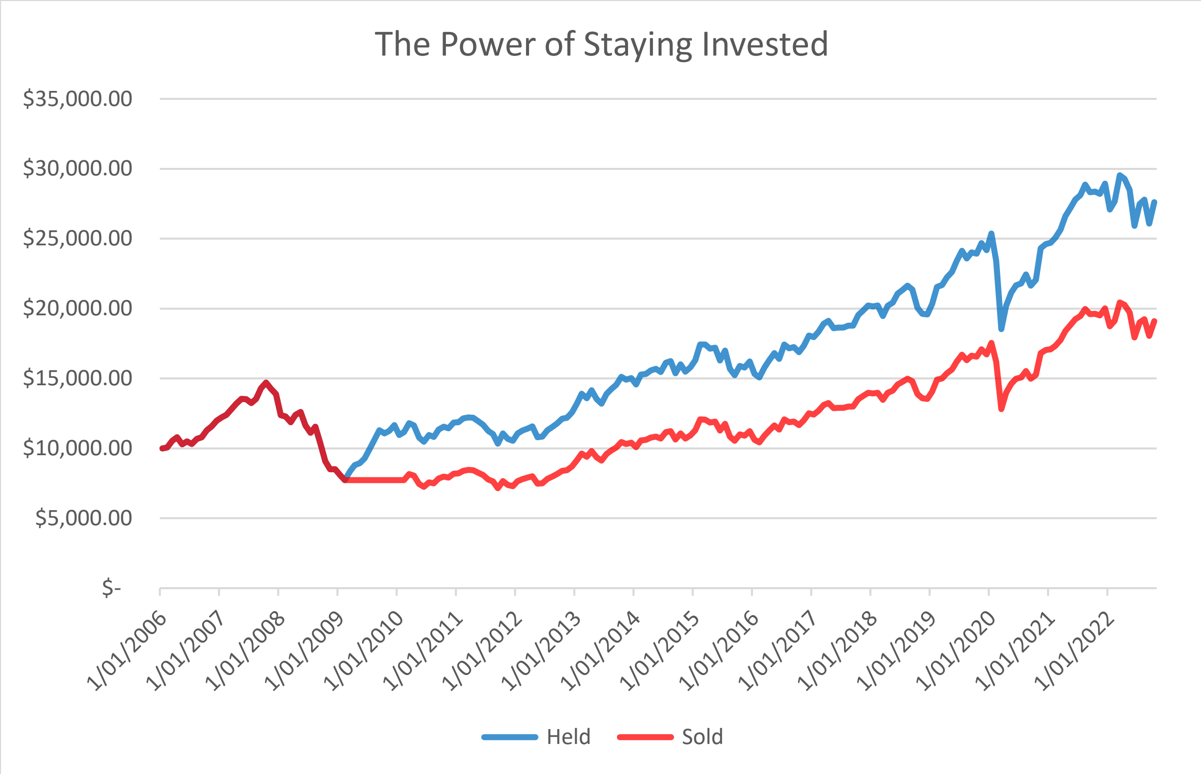
[5]

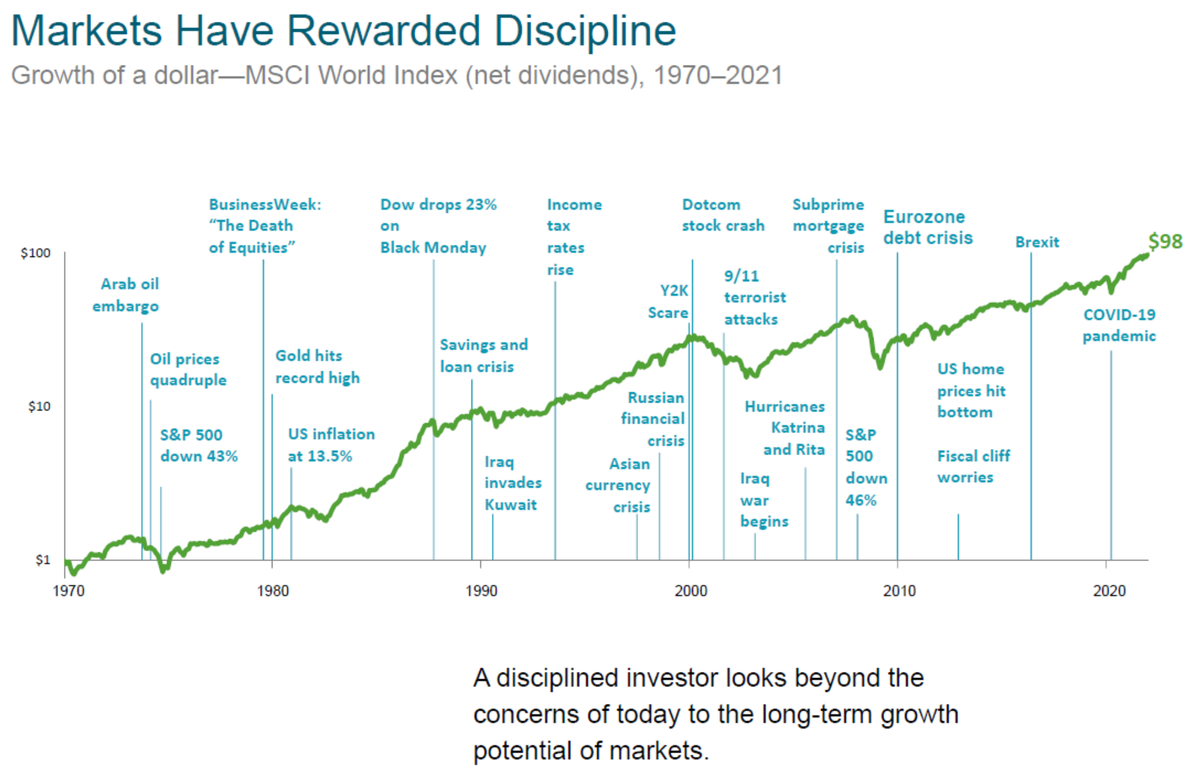
Fortunately, it is not necessary to time the market in order to find success. The following chart contrasts the investment experience of two Australian Shares index fund investors between 2006, and 2022 – a period covering two of the biggest market downturns in recent decades (the 2008 GFC and 2020 COVID-19 pandemic).

In blue, an investor who stayed disciplined through the market's ups and downs. In red, an investor who sold at the peak of market despair during the GFC, re-entering the market only once its recovery looked more assured.

The investor who maintained a long-term perspective and stuck with their plan ended the period with more than 40% more wealth than their reactive counterpart. In the US market over the same period this gap would have exceeded 70% (Rogers, 2021).

[5] Source: Dimensional Fund Advisors





[6]

There will always be something happening, but having a plan and the discipline to stick to it works!

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[6] Source: Dimensional Fund Advisors

Our Investment Framework

What are the key elements in the process?

In approaching any investment exercise with clients, we stepped back to first principles.

Key to this is having an understanding of Growth and Defensive investment assets.

Growth investment assets and Defensive investment assets are two distinct categories of investment vehicles, each with its own unique characteristics and risk/return profile.

Growth investment assets are characterized by a focus on capital appreciation and long-term growth potential. Examples of growth investments include, but are not limited to, shares and real estate. These investments often have higher volatility and greater potential for loss, but also offer the potential for higher returns over time.

Defensive investment assets, on the other hand, are focused on preserving capital and providing stability and income. Examples of defensive investments include interest bearing investments such as term deposits, bonds and money market funds. These investments typically have lower volatility and lower potential returns compared to Growth investments, but they offer a measure of stability and protection in turbulent markets.

Then the basic process was typically broken down into the following framework:

1. Investment Risk Profile

Determine the client's tolerance for risk and establish a quantitative basis for measuring that and expressing that as an agreed Investment Risk Profile. Ultimately, that is expressed as the portion of the portfolio allocated to Growth assets.

So, for example a client may have an Investment Risk Profile that is described as "Balanced", representing a long-term target asset mix of 70% Growth assets, and 30% Defensive assets or "G70".

We have established processes that we are required to follow to determine this for each client.

2. Strategic Asset Allocation

Having determined the Investment Risk Profile, the target mix of growth and defensive assets needs to be distilled into asset classes i.e. the target asset allocation. This provides the specific mix of investment types sought. So, a process is required to determine the ideal mix and to review it and adapt for changes in the financial outlook.

3. Investment Solution

Once it is established how much should be invested into each asset class, a process is required to determine how individual investments will be selected to form a client's exposure in line with their long-term asset allocation.

Investment Risk Profile

First, we determine your tolerance for investment risk.

In this step we are aiming to assess the ideal balance between your desire for higher investment returns and your need for investment security.

This assessment will help us to understand:

Your Risk Capacity

The extent to which you can withstand the impact of unexpected, negative events, such as a loss of capital or a decline in asset value, based on your situation. This will generally be influence by factors such as:

- how long you will continue to generate an income from employment or business (the longer you are generating an income, the more time you have to recover from negative events),
- how much you could reduce your expenses before this has an unacceptable impact on your lifestyle (you may be able to give up some items but not what you need or want the most),
- how far away your needs and objectives are and when you are likely to need access to income or your savings to pay for them – your investment timeframe.

Your Risk Tolerance

A very important part of giving you appropriate advice is assessing how willing you are to tolerate changes in asset values in the short term. These changes, known as "volatility", represent one type of investment risk. Investors take risk because they may need or want to trade-off short-term stability in asset values for the possibility of higher investment returns in the long term.

Your risk tolerance has a lot to do with how you feel about these short-term changes in value. Ultimately, your risk tolerance is the amount of risk that you are prepared to take and the degree of uncertainty or volatility that you are willing to accept when investing to achieve your needs and objectives.

Given the defined manner in which this has to be determined, we have not explored alternatives for establishing a client's Investment Risk Profile.

We are using a licensee approved range of 1-7 investment risk profiles (i.e. there are a range of Investment Risk Profiles, across the spectrum, ranging from exceptionally Defensive or Conservative to High Growth) which set out basic targets as a starting point.

This is illustrated in the table below (as at October 2022):

	Cash	**Defensive G00**	**Conservative G30**	**Moderate G50**	**Balanced G70**	**Growth G85**	**High Growth G100**
Growth assets	0%	0%	30%	50%	70%	85%	100%
Defensive assets	100% (Cash)	100%	70%	50%	30%	15%	0%

Strategic Asset Allocation

Secondly, we establish what proportion of investments should be assigned to each asset class.

This is termed Strategic Asset Allocation (SAA).

It had been widely established by research, that over long periods of time, the key driver to good investment returns is not individual security selection, but rather good asset allocation. i.e., having the correct proportions of assets in each investment sector, rather than trying to pick high performing individual investments (Brinson, et al., 1986).

- So, we sought out a regularly reviewed, consistently constructed, and transparently explained asset allocation research source
- We looked at offerings from the various research houses that we had access to, as well as material from fund managers with a strong research base.

Ultimately, the logical choice was to use the strategic asset allocation provided by Godfrey Pembroke (MLC SAA). However, we also utilised strategic asset allocation advice provided by Dimensional Fund Advisors (DFA). Though the two organisations take their own approach in this respect, the extent to which they align demonstrates the robustness of the result.

As can be seen in the table below, the MLC and Dimensional Strategic Asset Allocations:

MLC SAA	**Cash**	**Defensive G00**	**Conservative G30**	**Moderate G50**	**Balanced G70**	**Growth G85**	**High Growth G100**
Property & Infrastructure	0	0	2	3	4	4	2
Australian Equities	0	0	10	19	29	33	40
International Equities	0	0	16	24	30	38	48
Alternatives - Growth	0	0	2	4	7	10	10
Growth - Total	0	0	30	50	70	85	100
Cash	100	30	13	5	2	0	0
Australian Fixed Interest	0	42	35	26	14	10	0
International Fixed Interest	0	28	22	19	14	5	0
Defensive - Total	100	100	70	50	30	15	0
DFA		**Defensive G00**	**Conservative G30**	**Moderate G50**	**Balanced G70**	**Growth G85**	**High Growth G100**
Property & Infrastructure		0	0	0	0	0	0
Australian Equities		0	10.8	18	25.2	30.6	36
International Equities		0	19.2	32	44.8	54.4	64
Alternatives - Growth		0	0	0	0	0	0
Growth - Total		0	30	50	70	85	0
Cash		0	0	0	0	0	0
Australian Fixed Interest		0	0	0	0	0	0
International Fixed Interest		100	70	50	30	15	0
Defensive - Total		100	70	50	30	15	0

Investment Solutions

Finally, how do we choose the specific investments in your portfolio?

There are so many different investments available, that once you have determined the asset allocation, it is vital to have a process in place to select the specific investments. Such an approach is not only intended to help ensure that suitable, good investment recommendations are made, but also to help ensure that investments are combined in a way where their characteristics complement each other. Importantly too, it's critical that this process can be applied consistently.

To this end, we reviewed a number of the investment solutions available in the marketplace. All reasonably available options were considered. Again, we looked at offerings from the various research houses that we had access to (some of the most highly regarded firms available, plus our own in-house team at ThreeSixty), as well as material from fund managers with a strong research base.

We sought solutions that ideally did not require us to partner the investment solution with any particular administration platform, so that clients wouldn't be tied into a particular facility. However, where indicated, pairing these together can significantly reduce overall cost and we have not ruled out this approach.

Our analysis has led to the view that no single investment will consistently outperform over time, and that asset allocation is the key driver of long term performance. Therefore, we sought options which are effectively diversified in order to improve the risk and return profile of the portfolio as a whole.

Ultimately, we arrived at a series of criteria and reviewed and compared solutions. These ranged from industry super fund solutions and diversified wholesale solutions for those desiring simplicity, to professionally constructed models with direct equity exposure.

Evidence Based Investment Model Portfolios

This is our preferred solution, because it is the one that most closely aligns with our Investment Philosophy. As the name makes clear, this investment model is built on the evidence based investment approach that sits at the heart of our Investment Philosophy.

We believe that this approach is the most likely to achieve the objectives of our Investment Philosophy, because the entire investment process behind this model is driven by the key elements discussed in this document, especially factor based investing.

The model has been constructed using portfolios managed by Dimensional Fund Advisors (DFA) and offers a research driven, systematic framework for pursuing a wide range of investment goals.

The strategy provides low-cost access to a range of sector funds, offering broad diversification across multiple asset classes and drivers of expected returns.

The portfolios combine the benefits of indexing (broad diversification and low cost) with those of systematic active investing (in pursuit of higher expected returns, robust portfolio management, and flexible trading).

This investment solution is entirely platform independent.

Simplicity Investment Model Portfolios

Life often presents situations where what we may ideally choose to do will be prioritised after what we know is the most practical to do. It is also often the case when it comes to investment.

We do our best to understand you and the things that are important to you. So, we take care to consider the many elements that go in to constructing an effective financial solution. Sometimes the best solution for you will be the one that is likely to work best at a practical level. Perhaps this will be driven by the need to accommodate someone starting out, or needing extra flexibility and adaptability or convenience of using a particular facility.

This model comprises two alternative solutions, depending upon your situation.

The **Simplicity SMA** solution offers ultra-low-cost exposure to a portfolio of index funds, professionally managed by Macquarie.

Through Separately Managed Accounts (SMAs), investors maintain ownership of the underlying assets, while the account manager has discretion to make tactical decisions to vary the portfolio from its long-term allocation in response to developing market conditions.

This investment solution is available through the Macquarie Consolidator (Engage) platform.

Active Investment Model Portfolios

One of the key tenets of our practice that we explain to clients, is “that our role is to provide the advice, but the decisions are always yours.”

So, whilst we may have strong convictions around our Investment Philosophy and Evidence Based Investment Models, we can offer clients access to an Active investment approach through our research team’s Listed Specialist Portfolio Series (LSPS). Predominantly comprised of ASX listed securities along with a blend of wholesale managed funds with specific sector portfolios, this investment model employs active management techniques relying upon our ThreeSixty Research team and specialist input from research house Lonsec.

We consider the minimum portfolio size for ASX listed models is circa $500,000. The practical limit is nearer to $1m, so that an asset with a weighting as low as, say, 0.5% ($5,000) could be transacted viably and rebalanced from time to time without uneconomic transaction costs.

Generally we adopt a guideline of not doing transactions for <$500 for wholesale funds or <$1,000 for ASX assets.

This investment solution is entirely platform independent.

Sustainable ESG Investment Solutions

In a world where people are increasingly conscious of the vulnerability of our planet and the impact human civilisation upon it, interest in sustainable investment solutions is growing.

In responding to this need, our Sustainable ESG Investment Solutions target Environmental, Social, and Governance (ESG) outcomes alongside financial performance.

Portfolios following this approach seek to invest in companies with positive ESG characteristics and practices and avoid (or underweight) companies with negative ESG records.

Broadly speaking, sustainability scores are applied to evaluate exposure to variables such as greenhouse gas emissions, controversial weapons, tobacco, and gambling. We recognise that individual investors have specific preferences when it comes to defining a sustainable investment strategy, and so we can make further material available upon request.

Accordingly, we can now offer Sustainable ESG Investment focussed versions of our Evidence Based Investment Model Portfolios and Simplicity Investment Model Portfolios.

These investment strategies are available through a fully constructed portfolios managed by Dimensional Fund Advisors (DFA) and offers the same research driven, systematic framework used in our Evidence Based Investment Model Portfolios. Also, for clients following our Simplicity SMA investment model, a Separately Managed Account (SMA) managed by Dimensional Fund Advisors (DFA) available through the Macquarie Consolidator (Engage) platform offers the benefits of the Simplicity SMA, the factor based investment approach and a Sustainable ESG investment solution.

Managing your Portfolio

No matter how your portfolio is established in the first instance, over time it is certain that things will change. Changes in the value of individual investments, distributions of income and/or capital gains, and cash flows in or out of the investment facility, can all lead to the portfolio drifting from its target benchmarks.

The practical means of correcting this is to rebalance or reweight the investments within your investment portfolio. However, the process to achieve this will vary depending upon the type of Investment Solution you have chosen.

Rebalancing

Evidence Based Investment Model Portfolios

This approach sees the client fully invested in the appropriate portfolio comprising a range of sector-based investment options, blended together to match their Investment Risk Profile and Strategic Asset Allocation.

Typically, a portion of the account balance will be held in a Cash based investment to provide liquidity necessary for cashflow, meeting costs or anticipated future needs, or for tactical purposes.

Rebalancing, liquidity management or adjustments are likely to be required from time to time to ensure that your portfolio is still within tolerance of its benchmark weighting to each of its investments.

This approach is based around holding a number of discrete underlying investments. These investments are combined into a portfolio with the size of each investment determined as a target percentage of the portfolio. This will require rebalancing from time to time to ensure that the desired ratios are maintained.

Where the chosen investment facility offers the capacity for us to establish automated rebalancing of the portfolio assets back to the agreed benchmark, then this will occur quarterly, half yearly, or when the portfolio exceeds its guidelines by a set percentage.

Note that the transactions may be subject to minimum transaction sizes imposed by facilities.

Additionally, where assets are being sold, there may be taxation consequences, including capital gains tax. Clients with particularly tax sensitive circumstances may choose to opt out of rebalancing except as part of a formal review. This then carries other potential risks regarding what we would call “portfolio drift”, where your portfolio will progressively move away from the targets established to meet your needs. It also creates other potential risks such as liquidity.

A check to reconfirm that the chosen strategy matches the client’s risk profile also occurs when a formal review is conducted.

Simplicity Investment Model Portfolios

The **Simplicity SMA** approach sees the client fully invested in the appropriate investment option matching their Investment Risk Profile and Strategic Asset Allocation. Typically, a portion of the account balance will be held in a Cash based investment to provide liquidity necessary for cashflow, meeting costs or anticipated future needs, or for tactical purposes.

The account manager will have discretion as to the allocation of assets that comprise each overarching SMA, and when employed with an auto-rebalancing strategy can be largely self-sufficient. But clients that have chosen this option should continue to review their portfolio from time to time to ensure that their investments are continuing to meet their needs. A check to reconfirm that the chosen strategy matches the client's risk profile also occurs when a formal review is conducted.

Where a client has chosen to utilise more than one investment option, combining two or more SMAs, then this will also require rebalancing from time to time to ensure that the desired ratios are maintained within an acceptable range.

Note that as the account manager has discretion as to when assets are sold and purchased, there may be undesired taxation consequences, including capital gains tax. Clients with particularly tax sensitive circumstances may not be suited to this investment style.

At this point in time, we only offer SMAs through a Macquarie Wrap facility that provides a limited investment menu in order to reduce costs. This may not be suitable for clients with complex investing needs.

Active Investment Model Portfolios

These individual investments and portfolio model as a whole, are subject to an extensive semi-annual review by our investment research team at ThreeSixty, in conjunction with analysts at Lonsec.

Other factors can see these investments reviewed during the year. These factors could see the rating of the investments change. If an investment's rating is downgraded and the downgrade may have implications for clients, then our licensee requirements determine an appropriate course of action.

If changes in the researched view of the investment warrant action, then we will offer to recommend changes accordingly. For instance, a recommendation may be made to sell a particular investment and replace it with another. This will typically occur where there is either a concern that the investment may no longer have the potential to meet expectations or that another now offers superior prospects. Refer to the Rebalancing section above for an explanation of the rebalancing process.

In addition, given the relatively high number of investments typically in the portfolio and the ASX listed nature of most, there will be other events that may see action required or recommended in relation to individual investments within the portfolio.

Where changes are proposed, a manual, out of cycle rebalance of the portfolio may be recommended if it appears appropriate. Refer to the Rebalancing section above for an explanation of the rebalancing process.

Ultimately, it is up to clients to decide if they wish to obtain specific recommendations and act upon that advice.

This function can only be performed manually, such as with ASX listed securities, then we can't simply inform you of the adjustments, but rather we are required to draft a piece of advice regarding this. Note that where a client has chosen to engage our firm to provide this advice, an Advice Fee meets the cost of this type of Portfolio Change Advice and will vary commensurate with the Investment Solution. This will typically take place via a written offer to you, so that clients always understand the costs and that prior informed consent has been obtained.

A check to reconfirm that the chosen strategy matches the client's risk profile also occurs when a formal review is conducted.

Portfolio Changes

Over time our portfolios are refined and evolve. This process varies according to your model.

Evidence Based Investment Model Portfolios

The Strategic Asset Allocation underpinning these models is subject to extensive review by Godfrey Pembroke. We may also receive external asset allocation advice from Dimensional Fund Advisors regarding the allocation of their managed funds.

Other factors can see these investments reviewed during the year. These factors could see the rating of the investments change. If an investment's rating is downgraded and the downgrade may have implications for clients, then our licensee requirements determine an appropriate course of action.

If changes in the researched view of the investment warrant action, then we will offer to recommend changes accordingly. For instance, a recommendation may be made to sell a particular investment and replace it with another. This will typically occur where there is either a concern that the investment may no longer have the potential to meet expectations. Refer to the Rebalancing section above for an explanation of the rebalancing process.

Where changes are proposed, a manual, out of cycle rebalance of the portfolio may be recommended if it appears appropriate.

Ultimately, it is up to clients to decide if they wish to obtain specific recommendations and act upon that advice.

Simplicity Investment Model Portfolios

In the case of the **Simplicity SMA** investment model, Macquarie Asset Management follow a true index and hedging approach for their passive funds management, so underlying funds will see a rebalance of their assets, as the index changes. The account manager undertakes quarterly and annual reviews into their Strategic and Tactical Asset Allocation and alter their portfolio accordingly.

Dimensional Fund Advisors employ an indexed based (passive) approach to their asset allocation, followed by negative screening for Environmental, Governmental and Social (ESG) considerations. The **Simplicity SMA investment model ESG** options portfolio changes occur at the discretion of Dimensional Fund Advisors.

A check to reconfirm that the chosen strategy matches the client's risk profile also occurs when a formal review is conducted.

Actively Managed Portfolios (Listed SPS)

These investments and portfolio model as a whole, are subject to an extensive semi-annual review by our investment research team at ThreeSixty, in conjunction with analysts at Lonsec.

Other factors can see these investments reviewed during the year. These factors could see the rating of the investments change. If an investment's rating is downgraded and the downgrade may have implications for clients, then our licensee requirements determine an appropriate course of action.

If changes in the researched view of the investment warrant action, then we will offer to recommend changes accordingly. For instance, a recommendation may be made to sell a particular investment and replace it with another. This will typically occur where there is either a concern that the investment may no longer have the potential to meet expectations or that another now offers superior prospects. Refer to the Rebalancing section above for an explanation of the rebalancing process.

In addition, given the relatively high number of investments typically in the portfolio and the ASX listed nature of most, there will be other events that may see action required or recommended in relation to individual investments within the portfolio.

Where changes are proposed, a manual, out of cycle rebalance of the portfolio may be recommended if it appears appropriate. Refer to the Rebalancing section above for an explanation of the rebalancing process.

Ultimately, it is up to clients to decide if they wish to obtain specific recommendations and act upon that advice.

Note that where a client has chosen to engage our firm to provide this advice, an Advice Fee meets the cost of this type of Portfolio Change Advice and will vary commensurate with the Investment Solution. This is agreed with clients so that clients always understand the costs and that prior informed consent has been obtained.

Reporting

Each of the investment solutions discussed in this paper involve us reporting on the operation of the investment solution on a regular basis and comparing the results against benchmarks. Typically this will occur quarterly where a client has chosen to engage our firm to provide this via a Client Service Agreement.

This regular reporting details specifics of the investments in the portfolio and provides relevant information on the investments and overall portfolio performance. It is intended to provide clients with an understanding of the performance of their investments and the major factors behind these results.

The extent and depth of the reporting information will be commensurate with the nature of the investment solution chosen by the client. For example:

- Clients that have chosen Evidence Based Investment Model portfolios will receive information regarding the portfolio's exposure to factors or higher expected returns pursued by this strategy.
- Clients that have chosen the ThreeSixty Listed SPS (Specialist Portfolio Series) will receive more extensive information appropriate to this type of Investment Solution, comprising both information around the constituent investments and the performance and characteristics of the portfolio as a whole.

Note that where a client has chosen to engage our firm to provide this service, our Client Service Agreement meets the cost of this reporting and will vary commensurate with the Investment Solution. This is agreed with clients so that clients always understand the costs and that prior informed consent has been obtained.

VERSION – 2.2 19 January 2024

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This document was last updated and was considered current as at the date above.

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