

Asset Allocation themes¹

Asset class	Change	New AA
Australian Equities	—	9.3%
International Equities	—	6.9%
Property & Infrastructure	—	0.0%
Australian Bonds	2.5	40.5%
International Bonds	—	19.3%
Alternatives/Other	—	2.2%
Cash	-2.5	21.8%

Growth vs Defensive splits¹

Assets	Change	New Split
Growth	—	17.2%
Defensive	—	82.8%

¹ May not sum to 100.0% due to rounding.
Morningstar Investment Management considers Alternatives/Other to be 50% Growth / 50% Defensive assets.

About Morningstar Investment Management Australia

Morningstar Investment Management Australia is a global leader in asset allocation and multi-asset portfolio construction.

Morningstar's long-term, valuation-driven approach is underpinned by an emphasis on preserving capital and undertaking analysis of global asset classes and securities. We invest with the client in mind, delivering holistic and cost-effective investment solutions, helping them to meet their investment goals.

At a glance

- Higher-than-expected inflation has led to significant losses in key share and bond markets throughout 2022. Despite this, the rigour built into the portfolio has seen it hold up relatively well over this period.
- As part of this, expectations around the level of future interest rates have moved sharply higher. Recognising this improvement in value, we have increased our allocation to longer-dated Australian bonds, with rising bond yields meaning that these assets now provide a higher level of income and could be better expected to help diversify our sharemarket investments.

Portfolio action

We have increased our allocation to Australian bonds, which we have funded from cash.

Security	Security/ APIR Code	Current Weighting	New Weighting	Increase / Decrease ²
Australian Bonds		38.0%	40.5%	2.5%
Vanguard Australian Fixed Interest ETF	VAF-AU	12.4%	14.9%	2.5%
Cash		24.3%	21.8%	-2.5%
iShares Enhanced Cash ETF	ISEC-AU	16.8%	14.8%	-2.0%
Platform Cash	CASH_AUD	3.0%	2.5%	-0.5%

² May not sum due to rounding.

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Rationale

2022 has proven to be an increasingly challenging period for investors, amid a backdrop of rising inflation, increasing interest rates, and ongoing geopolitical tensions. In recent weeks, inflation headwinds have worsened, with the latest U.S. inflation data fuelling concerns that we may be in for an inflationary period that is both more severe, and of longer duration, than previously anticipated. While this is important from an increased cost of living perspective, the knock-on implications on the outlook for interest rates have had a profound impact on both share and bond markets. Global shares, for example, are down around 20% (in aggregate) calendar-year-to-date, while losses in key Australian and global bond markets, (which are in excess of 10%, over the same timeframe), are among the greatest falls seen in these asset classes in the past 80 years! Despite this uncertainty, pleasingly, the portfolio has held up relatively well.

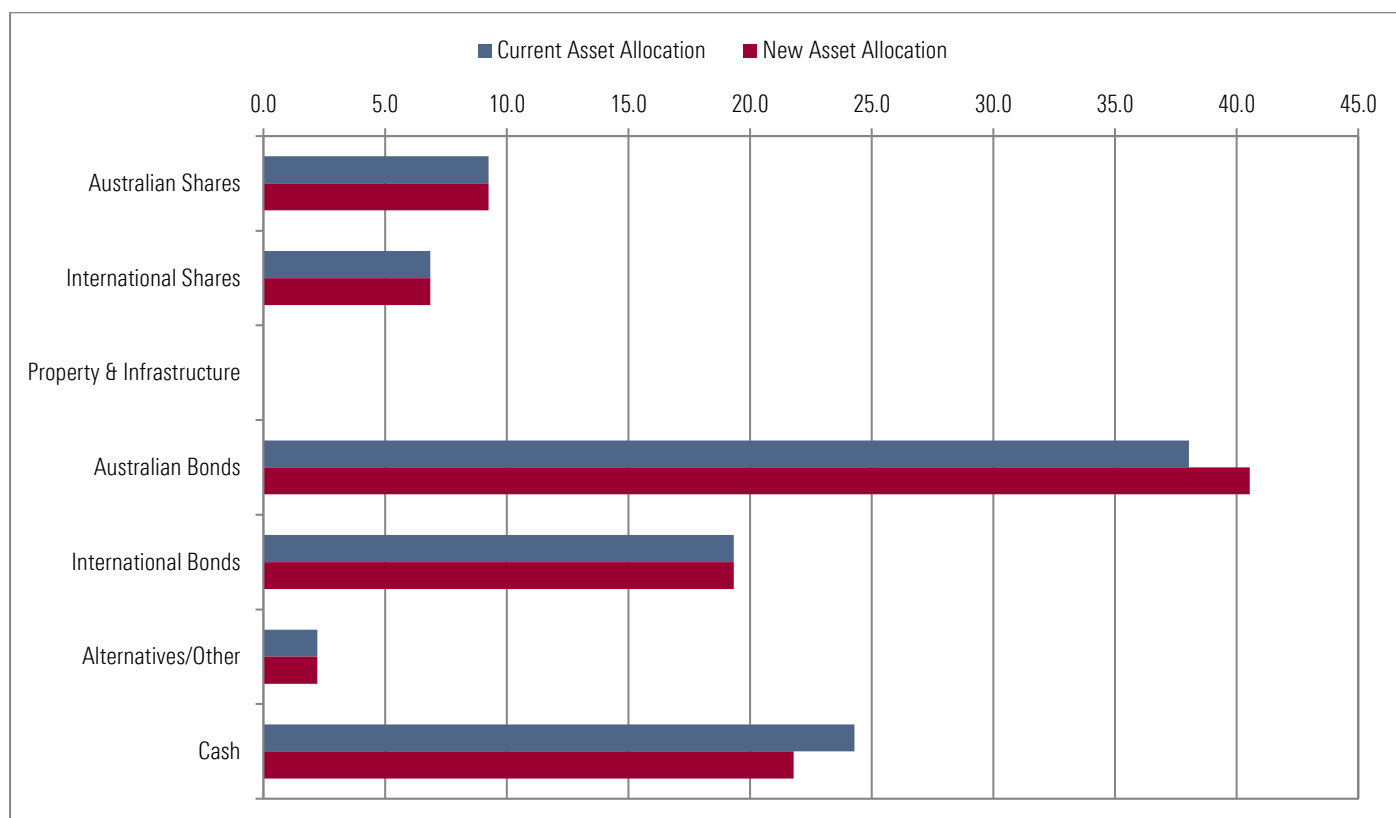
In recent weeks, the risks (and fears) of a more dire economic scenario appear to have intensified, both globally and locally. The narrative goes that, should we be in for a period of higher inflation, for longer, then Central Banks may need to raise interest rates so aggressively (to try and control inflation) that they actually suffocate economic growth, thereby tipping economies into recession. Worse still, is the potential for a return to a 1970's style 'stagflation' scenario, characterised by high inflation, high unemployment and no economic growth, which would understandably be a very difficult situation for the Reserve Bank of Australia (and the Australian government) to manage domestically.

The challenge is that inflation and interest rates are notoriously difficult to predict, as are the actions of Central Banks, and so while it is natural to focus on the worst potential outcome, the reality may be very different. For this reason, the portfolio is constructed in such a way that it holds some assets that typically do well in an inflationary environment and others that we would expect to prosper should inflation expectations soften. Of course, the lens through which these assets are added to the portfolio is valuation – or simply said, "are we getting a good deal to invest in these assets?" This is particularly relevant right now, given the magnitude of recent falls that sees many assets representing much better value.

It is worth highlighting just how significant the change in interest rate expectations has been. The yield on an Australian government 10-year bond, for instance, has soared to be 4.1% (it was barely 1.5% at the start of 2022!), with much of this adjustment coming in the last fortnight. This has resulted in investors now pricing in a substantial lift in interest rates, leading us to increase our allocation to longer-dated bonds, given their continued improvement in value. Said another way, prices for Australian bonds are now reflecting a much more balanced range of outcomes, and we are more confident in the ability of these assets to deliver income and diversification benefits to the portfolio.

All in all, while it remains an uncertain investment environment, we continue to find opportunities to add attractively priced assets to the portfolio and believe that the portfolio is appropriately positioned to achieve its investment objective, over time.

Current versus New Asset Allocation



Our investment principles



We put investors first



We're independent-minded



We invest for the long term



We're valuation-driven investors



We take a fundamental approach



We strive to minimise costs



We build portfolios holistically

Portfolio Post Changes

Security	Security/APIR Code	GICS Industry Group	New Weighting ³
Australian Equities			9.3%
Brambles Limited	BXB-AU	Industrials	2.0%
Medibank Private Limited	MPL-AU	Financials	1.4%
Woodside Energy Group Limited	WDS-AU	Energy	1.3%
CSL Limited	CSL-AU	Pharmaceuticals, Biotechnology & Life Sciences	1.0%
Insurance Australia Group Limited	IAG-AU	Financials	0.9%
Newcrest Mining Limited	NCM-AU	Materials	0.9%
Commonwealth Bank of Australia Limited	CBA-AU	Financials	0.9%
Westpac Banking Corporation Limited	WBC-AU	Financials	0.9%
International Equities			6.9%
BetaShares FTSE 100 ETF	F100-AU		2.9%
iShares Core MSCI World (Ex Australia) ESG Leaders ETF	IWLD-AU		1.4%
Morningstar International Shares Fund	INT0017AU		0.9%
iShares Europe ETF	IEU-AU		0.9%
iShares MSCI Japan ETF	IJP-AU		0.7%
Property & Infrastructure			0.0%
Australian Bonds			40.5%
iShares Core Composite Bond ETF	IAF-AU		22.9%
Vanguard Australian Fixed Interest ETF	VAF-AU		14.9%
BetaShares Australian Bank Senior Floating Rate Bond ETF	QPON-AU		2.7%
International Bonds			19.3%
Morningstar International Bonds Fund	INT0082AU		17.0%
<i>BNY Mellon Global Aggregate Bonds</i>			
<i>Colchester Global Sovereign Bonds</i>			
<i>Ashmore Emerging Market Bonds</i>			
Vanguard International Credit Securities (Hedged) ETF	VCF-AU		2.3%
Alternatives/Other			2.2%
Morningstar Multi Asset Real Return Fund	INT0011AU		2.2%
Cash			21.8%
iShares Enhanced Cash ETF	ISEC-AU		14.8%
BetaShares Australian High Interest Cash ETF	AAA-AU		4.4%
Platform Cash	CASH_AUD		2.5%
Total			100.0%

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