Ventura Morningstar High Growth Managed Account Portfolio Trade Update

VMAPS

06 2022

All data and information as at 20/06/2022
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Asset Allocation themes[1]

Asset class	Change	New AA
Australian Equities	–	18.1%
International Equities	2.0	66.1%
Property & Infrastructure	–	0.8%
Australian Bonds	1.0	6.1%
International Bonds	–	0.8%
Alternatives/Other	-1.5	5.8%
Cash	-1.5	2.5%

Growth vs Defensive splits[1]

Assets	Change	New Split
Growth	1.3	87.8%
Defensive	-1.3	12.2%

[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.
- Elsewhere, having experienced falls of around 20% calendar-year-to-date, global shares (in aggregate) now also represent much better value and we have increased our weighting accordingly.

Portfolio action

We have increased our allocation to broad international sharemarkets and Australian bonds, funded, in part, by a reduced allocation to the Morningstar Multi Asset Real Return Fund, alongside some cash.

Security	Security/ APIR Code	Current Weighting	New Weighting	Increase / Decrease[2]
International Equities		**64.1%**	**66.1%**	**2.0%**
iShares Core MSCI World (Ex Australia) ESG Leaders ETF	IWLD-AU	4.8%	6.8%	2.0%
Australian Bonds		**5.1%**	**6.1%**	**1.0%**
iShares Core Composite Bond ETF	IAF-AU	5.1%	6.1%	1.0%
Alternatives/Other		**7.3%**	**5.8%**	**-1.5%**
Morningstar Multi Asset Real Return Fund	INT0011AU	7.3%	5.8%	-1.5%
Cash		**4.0%**	**2.5%**	**-1.5%**
Platform Cash	CASH_AUD	4.0%	2.5%	-1.5%

[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.

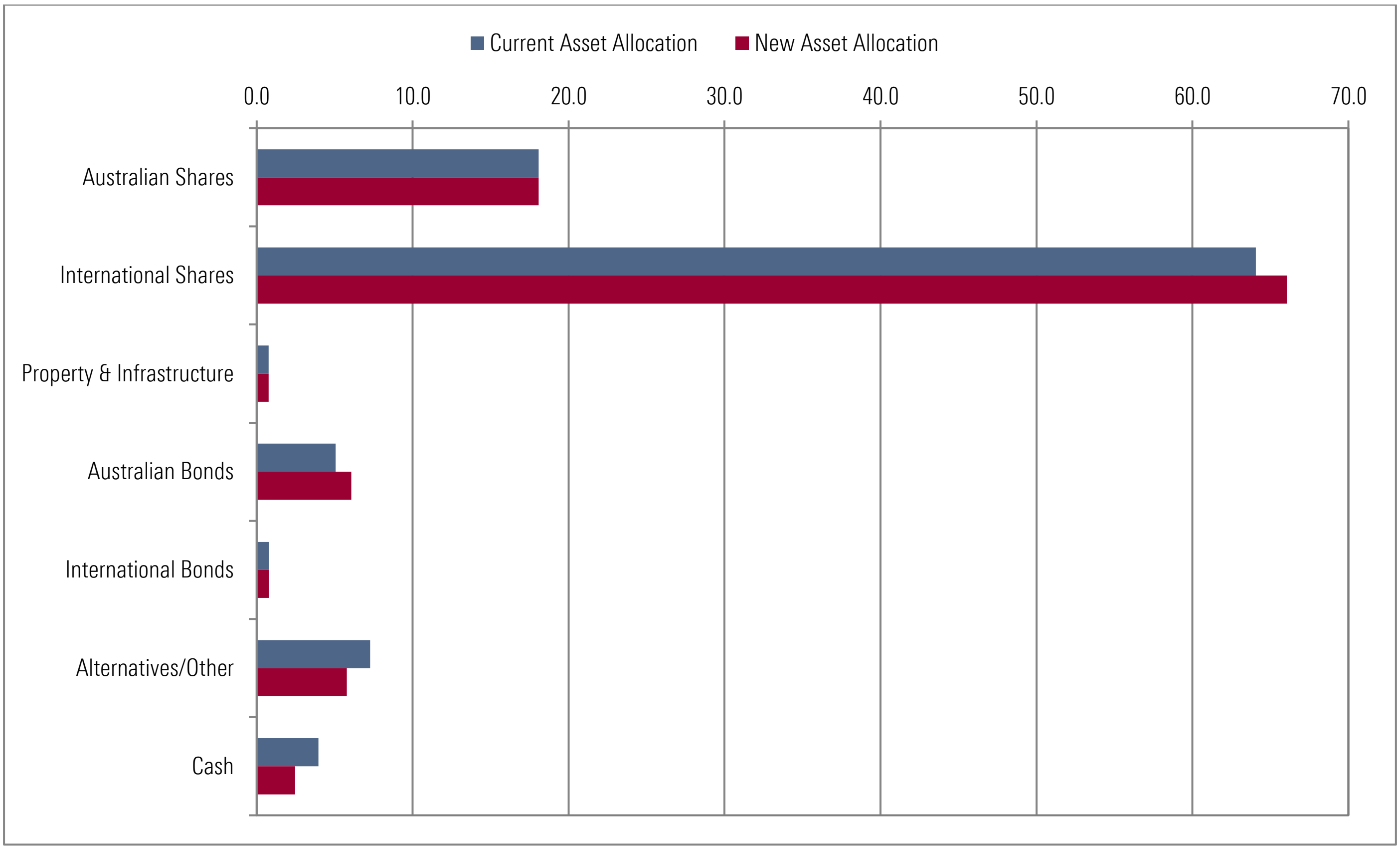
In recent weeks, the risks (and fears) of a more dire economic scenario appear to have intensified, both globally and locally. The narrative goes that, should we be in for a period of higher inflation, for longer, then Central Banks may need to raise interest rates so aggressively (to try and control 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.

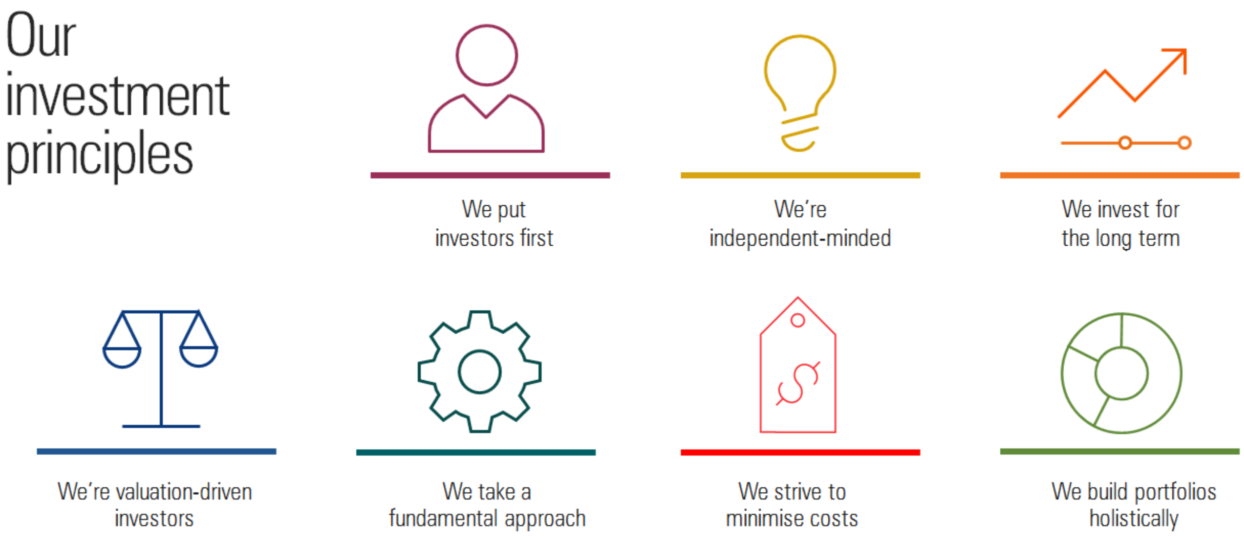
The challenge is that inflation and interest rates are notoriously difficult to predict, as are the actions of Central Banks, and so while it is natural to focus on the worst potential outcome, the reality may be very different. For this reason, the portfolio is constructed in such a way that it holds 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.

Higher inflation and interest rates have similarly impacted sharemarket investors too, both through a potential impairment to profits (should higher costs not be able to be passed on to consumers) but also in terms of the way that investors value companies (because the future earnings and dividends of a company are worth less in today's dollars, when you use a higher interest rate in the calculation). Following their recent weakness, global shares are also more attractively priced (especially shares in the United States), and we have increased our investment in this asset class.

Current versus New Asset Allocation





Portfolio Post Changes

Security	Security/APIR Code	GICS Industry Group	New Weighting[3]
Australian Equities			**18.1%**
Brambles Limited	BXB-AU	Industrials	2.4%
Woodside Energy Group Limited	WDS-AU	Energy	1.8%
Westpac Banking Corporation Limited	WBC-AU	Financials	1.5%
CSL Limited	CSL-AU	Pharmaceuticals, Biotechnology & Life Sciences	1.5%
Medibank Private Limited	MPL-AU	Financials	1.4%
Insurance Australia Group Limited	IAG-AU	Financials	1.2%
Newcrest Mining Limited	NCM-AU	Materials	1.2%
Resmed Inc.	RMD-AU	Health Care Equipment & Services	1.0%
Commonwealth Bank of Australia Limited	CBA-AU	Financials	0.9%
Amcor PLC	AMC-AU	Materials	0.9%
BHP Group Limited	BHP-AU	Materials	0.7%
Morningstar Australian Shares Fund	INT0002AU		3.7%
International Equities			**66.1%**
Morningstar International Shares Fund	INT0017AU		12.1%
BetaShares FTSE 100 ETF	F100-AU		8.7%
iShares MSCI Japan ETF	IJP-AU		6.9%
iShares Core MSCI World (Ex Australia) ESG Leaders ETF	IWLD-AU		6.8%
Morningstar International Shares Fund (AUD Hedged)	INT0016AU		6.5%
Morningstar International Shares Active ETF	MSTR-AU		4.9%
iShares China Large-Cap ETF	IZZ-AU		4.1%
BetaShares Global Energy Companies ETF (AUD Hedged)	FUEL-AU		4.1%
iShares Europe ETF	IEU-AU		3.6%
iShares MSCI South Korea ETF	IKO-AU		2.9%
Vanguard FTSE Europe Shares ETF	VEQ-AU		2.7%
Vanguard FTSE Emerging Markets Shares ETF	VGE-AU		2.2%
iShares MSCI Emerging Markets ETF	IEM-AU		0.8%
Property & Infrastructure			**0.8%**
GPT Group	GPT-AU		0.8%
Australian Bonds			**6.1%**
iShares Core Composite Bond ETF	IAF-AU		6.1%
International Bonds			**0.8%**
Morningstar International Bonds Fund	INT0082AU		0.8%
BNY Mellon Global Aggregate Bonds			
Colchester Global Sovereign Bonds			
Ashmore Emerging Market Bonds			
Alternatives/Other			**5.8%**
Morningstar Multi Asset Real Return Fund	INT0011AU		5.8%
Cash			**2.5%**
Platform Cash	CASH_AUD		2.5%
		Total	**100.0%**

[3] May not sum to 100.0% due to rounding.