Ventura Morningstar All Growth Managed Account Portfolio Trade Update

VMAPS

03 2022

All data and information as at 18/03/2022
For Financial Adviser Use Only

Asset Allocation themes[1]

Asset class	Change	New AA
Australian Equities	–	34.6%
International Equities	–	53.4%
Property & Infrastructure	–	0.6%
Australian Bonds	–	0.0%
International Bonds	–	0.0%
Alternatives/Other	–	7.7%
Cash	–	3.7%

Growth vs Defensive splits[1]

Assets	Change	New Split
Growth	–	92.5%
Defensive	–	7.5%

[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 fundamental 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 ....

- Conflict between Russia and Ukraine, and ongoing uncertainty around the impact of inflation (and the potential for rising interest rates), have led to falls across key share and bond markets across the first quarter of 2022. Pleasingly, however, the portfolio continues to perform well under these challenging circumstances.
- We've made a number of changes to the Australian equities' component of the portfolio, to reflect where we see the best opportunities moving forward.

A volatile start to 2022 has continued throughout the quarter, as investors try and understand the potential implications of rising inflation and an escalation in hostilities between Russia and Ukraine. This is no easy feat! For example, one might typically expect interest rates to rise sharply in response to soaring inflation but, on the other hand, envisage them softening as a consequence of geopolitical conflict (with bonds typically doing well in times of uncertainty). In terms of sharemarkets, investors are usually able to tolerate moderate inflation, particularly when it is accompanied by growth in corporate profitability (less so, with persistently higher inflation, or a lack of growth), with sharemarkets understandably coming under pressure when the macroeconomic or geopolitical environment appears more challenged.

So where are we now? Interestingly, we have seen losses across broad share and bond markets over the course of 2022. To put some numbers around this, broad global sharemarkets are down around 6% in 2022, with the rising Australian dollar further impacting returns for unhedged investors, while domestic and global bonds are down in excess of 4%, over this same period. This defies the theoretical principles of diversification, i.e., in normal markets we would look for bonds to buffer the portfolio from sharemarket losses and vice versa. In part, this reflects expectations around interest rates moving higher although we also note that many key share and bonds markets previously appeared overvalued, on our analysis, making it more difficult for the typical relationships between assets to hold in this uncertain environment. Pleasingly, however, the portfolio has held up well under these circumstances.

As with COVID-19, we cannot predict what the ultimate humanitarian and financial cost of the escalating Russia/Ukraine situation will be. Inflation remains similarly difficult to forecast, although it seems reasonable to assume that it will settle at a level that many would not have considered possible 18 months ago. However, we can recognise changes in the value of assets that may come about as a result of these, and other, issues. With this in mind, we have made a number of changes to the portfolio's Australian sharemarket investments.

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Portfolio action

Security	Security/ APIR Code	Current Weighting	New Weighting	Increase / Decrease[2]
Australian Equities		**34.6%**	**34.6%**	**0.0%**
CSL Limited	CSL-AU	0.0%	**1.8%**	**1.8%**
Resmed Inc.	RMD-AU	0.0%	**1.3%**	**1.3%**
The a2 Milk Company Limited	A2M-AU	0.6%	**0.0%**	**-0.6%**
Appen Limited	APX-AU	0.4%	**0.0%**	**-0.4%**
Newcrest Mining Limited	NCM-AU	2.1%	**1.7%**	**-0.4%**
Westpac Banking Corporation Limited	WBC-AU	2.8%	**2.1%**	**-0.7%**
Woodside Petroleum Limited	WPL-AU	2.8%	**1.9%**	**-0.9%**

[2] May not sum due to rounding.

Rationale

We have added **CSL** and **Resmed** to the portfolio. Narrow moat rated, CSL is Australia's third-largest company (by market capitalisation) and is a leader in the global biotechnology industry. They develop, manufacture and distribute a range of high-quality medicines, that treat people with rare and serious diseases, and influenza vaccines, which help prevent and control the spread of influenza. Shares in CSL have fallen over the course of 2022, extending a difficult final period of 2021, as investors digested the sizeable acquisition (and subsequent capital raising) of Swiss pharmaceutical company, Vifor Pharma. While not necessarily cheap, we view this acquisition as logical, with Vifor's focus on renal disease and iron deficiency expected to complement CSL's existing interests. As such, the recent share price weakness has provided us with a rare opportunity to buy the company for less than we believe it to be worth, and we have moved accordingly.

Narrow moat rated, Resmed, is a global leader in sleep technology, sleep medicine and non-invasive ventilation products. They, too, have had a weak start to the year, delivering slower earnings growth than expected, given the impact of the global chip shortage on their ability to supply product to their market. Nonetheless, the long-term growth profile for the company appeals, underpinned by favourable demographic and healthcare trends. In this regard, the sleep apnea market remains significantly underpenetrated, with Resmed well positioned to capitalise on expected future demand for cloud-connected respiratory devices, in our view. At current levels, Resmed appears reasonably priced, and we have made an investment for the portfolio.

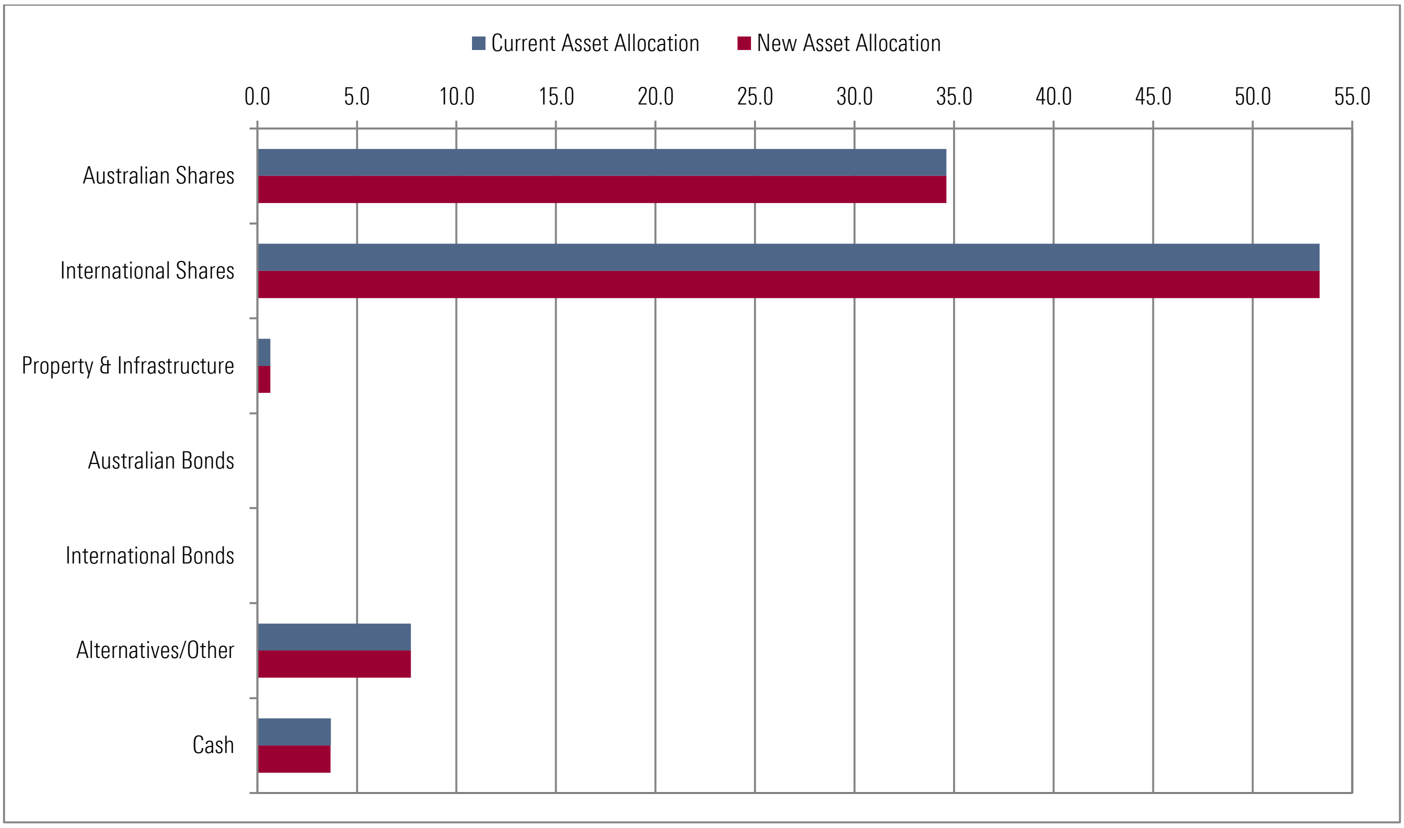
Elsewhere, we have exited our investments in **a2 Milk** and **Appen**. We accept that these trades have not gone to plan. While they operate in completely different industries (a2 Milk produces dairy products and infant formula, while Appen collects and labels text, speech, images and other data for use in the development and continuous learning of artificial intelligence (AI) systems), there are many similarities in how their investment theses have played out. For a2 Milk, restrictions on the movement of global citizens, aimed at containing the spread of COVID-19, have disrupted the lucrative Chinese distribution channel. To be fair, a2's brand is strong and much of the original investment case assumed relatively modest sales growth, but even so, earnings uncertainty has increased, and we no longer feel that we are being appropriately compensated for this range of outcomes.

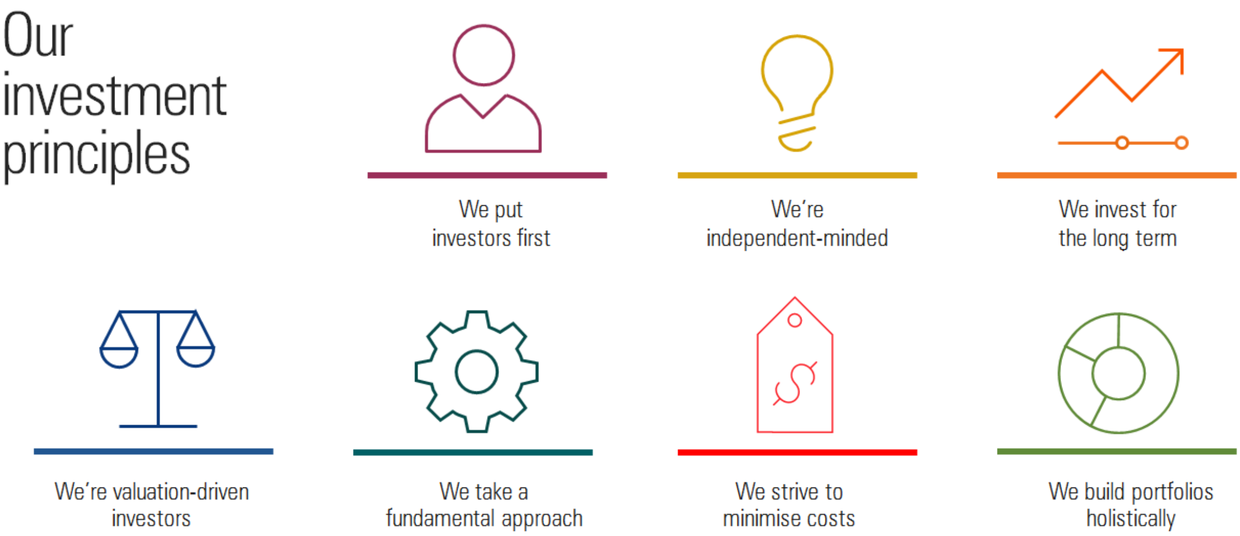
As it relates to Appen, the company has missed or downgraded earnings guidance repeatedly over the course of our investment. In part, and certainly initially, this reflected the impact of COVID-19 but, more recently, earnings have failed to meet expectations due to changes in the customer and project mix. In this regard, a deep analysis of their earnings led us to materially downgrade our assessment of the company's fundamental worth in the second half of last year. At the time, we felt that the lower share price adequately reflected this new estimate (and so made no change to our investment) but management's recent decision to no longer provide earnings guidance has exacerbated a loss of confidence among investors around current management's ability to deliver on its strategy. It is these concerns, along with persisting headwinds, that underscore an increasingly uncertain earnings outlook for the company, one which we no longer believe is accurately being captured in the current share price.

While we appreciate the frustration and disappointment that these investments may have caused, it's important to note that we have not deviated, at any point, from our robust investment process that seeks to identify undervalued assets that we think will deliver longer term returns to client portfolios. That said, and despite having what we believed to be a sufficient margin of safety to invest in these companies, there may be occurrences like this, however rare, where an investment thesis does not play out as expected – and we must act accordingly. This is especially the case when superior opportunities exist elsewhere in the investment universe, as they do now. For additional context, it's worth highlighting that Appen and a2 Milk make up a relatively small component of the portfolio (combined around 1%) and, while the performance of these investments has been unsatisfactory, the ultimate impact to the portfolio's returns has been relatively minor. Indeed, the positive contribution to 2022 returns from another portfolio holding, in Woodside, is more than double the losses incurred on Appen. We further note that, while Appen's falls calendar year-to-date have been stark, Meta (previously known as Facebook, and a key client of Appen) is also down by around the same amount (circa 37%), reflecting the broader shift in sentiment away from some previously loved U.S. 'big tech' names.

More broadly, the Australian sharemarket has outperformed global peers of late. Key behind this has been surging commodity prices (notably oil & gas, nickel, iron ore and wheat) which have rallied as a result of rising inflation and/or in response to escalating Russia/Ukraine uncertainty (with Russia and/or Ukraine accounting for a meaningful amount of global supply in these commodities). This has flowed through into extraordinary returns for some individual stocks. **Woodside** (Australia's largest oil and gas producer), for example, is up by more than 50% in 2022 alone, leading us to move to lock in some profits at this level. Elsewhere, **Newcrest** (Australia's largest gold producer) and **Westpac** (Australia's second biggest bank) have also delivered positive returns and we similarly have trimmed our investment. That said, all three companies remain significant investments in the portfolio.

Current versus New Asset Allocation





Portfolio Post Changes

Security	Security/APIR Code	GICS Industry Group	New Weighting[3]
Australian Equities			**34.6%**
Brambles Limited	BXB-AU	Industrials	2.4%
Westpac Banking Corporation Limited	WBC-AU	Financials	2.1%
Woodside Petroleum Limited	WPL-AU	Energy	1.9%
CSL Limited	CSL-AU	Pharmaceuticals, Biotechnology & Life Sciences	1.8%
Newcrest Mining Limited	NCM-AU	Materials	1.7%
Australia & New Zealand Banking Group Limited	ANZ-AU	Financials	1.5%
Commonwealth Bank of Australia Limited	CBA-AU	Financials	1.5%
Medibank Private Limited	MPL-AU	Financials	1.5%
Resmed Inc.	RMD-AU	Health Care Equipment & Services	1.3%
Insurance Australia Group Limited	IAG-AU	Financials	1.3%
Ramsay Healthcare Limited	RHC-AU	Health Care Equipment & Services	0.9%
Amcor PLC	AMC-AU	Materials	0.8%
QBE Insurance Group Limited	QBE-AU	Financials	0.7%
BHP Group Limited	BHP-AU	Materials	0.7%
Morningstar Australian Shares Fund	INT0002AU		14.7%
International Equities			**53.4%**
Morningstar International Shares Fund	INT0017AU		10.6%
BetaShares FTSE 100 ETF	F100-AU		8.2%
iShares MSCI Japan ETF	IJP-AU		7.8%
Morningstar International Shares Fund (AUD Hedged)	INT0016AU		6.1%
iShares Europe ETF	IEU-AU		4.8%
BetaShares Global Energy Companies ETF (AUD Hedged)	FUEL-AU		3.7%
iShares China Large-Cap ETF	IZZ-AU		3.3%
iShares MSCI South Korea ETF	IKO-AU		2.9%
Vanguard FTSE Emerging Markets Shares ETF	VGE-AU		2.0%
iShares Global Consumer Staples ETF	IXI-AU		1.4%
Morningstar International Shares Active ETF	MSTR-AU		1.3%
Vanguard FTSE Europe Shares ETF	VEQ-AU		1.2%
Property & Infrastructure			**0.6%**
GPT Group	GPT-AU		0.6%
Alternatives/Other			**7.7%**
Morningstar Multi Asset Real Return Fund	INT0011AU		7.7%
Cash			**3.7%**
Platform Cash	CASH_AUD		3.7%
		Total	**100.0%**

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

Glossary

Credit spreads

This relates to the difference in yield between two bonds that are identical in all respects (e.g. maturity, fixed/floating payments) except for creditworthiness. Generally, this refers to the premium that a corporate bond investor expects to receive over the 'risk-free' benchmark (e.g. a treasury bond, which is considered 'risk free'), as he/she needs to be compensated for taking on additional risk. Widening credit spreads generally indicate growing concerns about the ability of 'non-government borrowers' to service their debt. On the other hand, tightening credit spreads generally indicate the opposite – improving creditworthiness.

Valuation driven asset allocation

Our asset allocation process focuses on identifying 'undervalued', 'under-owned' quality assets that we believe will offer the greatest potential for strong returns over the longer term. Importantly, this process includes not only an assessment of return expectations for each asset class, but also a strong focus on capital preservation, with the aim to avoid losing money that can't be made back during an investor's investment timeframe. If the reward isn't worth the risk, we will avoid that asset class. Once we have identified the preferred asset classes through this disciplined approach, we apply portfolio construction principles to ensure that the resulting portfolio is adequately diversified.

Intrinsic value

This relates to what we perceive as the actual or true value of a company or an asset based on all aspects of our analysis (in terms of both tangible and intangible factors). We consider an asset to be mispriced (that is, trading at a premium or discount) if the intrinsic value does align with the current price in the market.

Morningstar® Economic Moat Rating

The idea of an economic moat refers to how likely a company is to keep competitors at bay for an extended period. One of the keys to finding superior long-term investments is buying companies that will be able to stay one step ahead of their competitors, and it's this characteristic – think of it as the strength and sustainability of a firm's competitive advantage, or a company being like a castle – a moat is better than no moat, and a wide moat is even better.

The Underlying Sources of Economic Moats:

- Network effect, i.e. the more people use a product or service, the more valuable it becomes
- Intangible assets, e.g. brands, patents, or regulatory licenses
- Cost advantage, e.g. from economies of scale or access to a unique asset
- Switching costs, i.e. it would be costly for customers to stop using the product or service
- Efficient scale, i.e. a limited market effectively served by one or a small handful of companies.

Yield curve

A line on a graph that plots interest rates (y-axis) of bonds (of equal credit quality) against different maturity dates (x-axis). The yield curve is considered a 'lead indicator' because it conveys investor expectations of future economic growth and inflation. There are three main types of curves:

- Normal: lower yields for shorter term bonds – investors generally expect normal economic conditions and require higher yields to compensate for time.
- Flat: shorter and longer-term yields are very close (e.g. there is little benefit in holding the longer-term bonds) – generally, this indicates that investors are uncertain of the economic environment and are willing to tie up their money for longer periods with little additional compensation.
- Inverted: higher yields for shorter term bonds – investors generally expect poor economic growth (e.g. recession) and lower inflation (and thus lower interest rates). Essentially, investors are willing to tie up their capital for the longer term as they expect shorter term yields to fall significantly in the near term.