Ventura Morningstar Diversified Income 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	–	13.3%
International Equities	0.8	24.7%
Property & Infrastructure	–	1.9%
Australian Bonds	2.0	29.4%
International Bonds	–	15.1%
Alternatives/Other	–	3.9%
Cash	-2.8	11.6%

Growth vs Defensive splits[1]

Assets	Change	New Split
Growth	0.8	41.9%
Defensive	-0.8	58.1%

[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.
- With sharemarkets now generally offering better value, we have increased our weighting to broad global equities with further, and more targeted, allocations to European shares.
- We've also made a number of changes to the Australian equities' component of the portfolio. All in all, the portfolio's weighting to growth assets has increased, as has our allocation to Australian bonds, all of which has been funded from cash.

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 much better value in share and bond markets courtesy of the recent sell off. With this in mind, we have increased our allocation to growth assets (funded from cash), via a higher weighting to global shares in the portfolio, while also making a number of changes to the portfolio's Australian sharemarket investments.

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Lastly, we have increased our investment in Australian bonds, again funded from cash.

Portfolio action

Security	Security/ APIR Code	Current Weighting	New Weighting	Increase / Decrease[2]
Australian Equities		**13.3%**	**13.3%**	**0.0%**
CSL Limited	CSL-AU	0.0%	**0.9%**	**0.9%**
Westpac Banking Corporation Limited	WBC-AU	1.4%	**1.0%**	**-0.4%**
Woodside Petroleum Limited	WPL-AU	1.7%	**1.3%**	**-0.5%**
International Equities		**23.9%**	**24.7%**	**0.8%**
Vanguard FTSE Europe Shares ETF	VEQ-AU	0.0%	**0.8%**	**0.8%**
Australian Bonds		**27.4%**	**29.4%**	**2.0%**
Vanguard Australian Fixed Interest ETF	VAF-AU	2.0%	**4.0%**	**2.0%**
Cash		**14.4%**	**11.6%**	**-2.8%**
iShares Core Cash ETF	BILL-AU	5.2%	**3.2%**	**-2.0%**
Platform Cash	CASH_AUD	3.5%	**2.9%**	**-0.8%**

[2] May not sum due to rounding.

Rationale

We have added **CSL** 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.

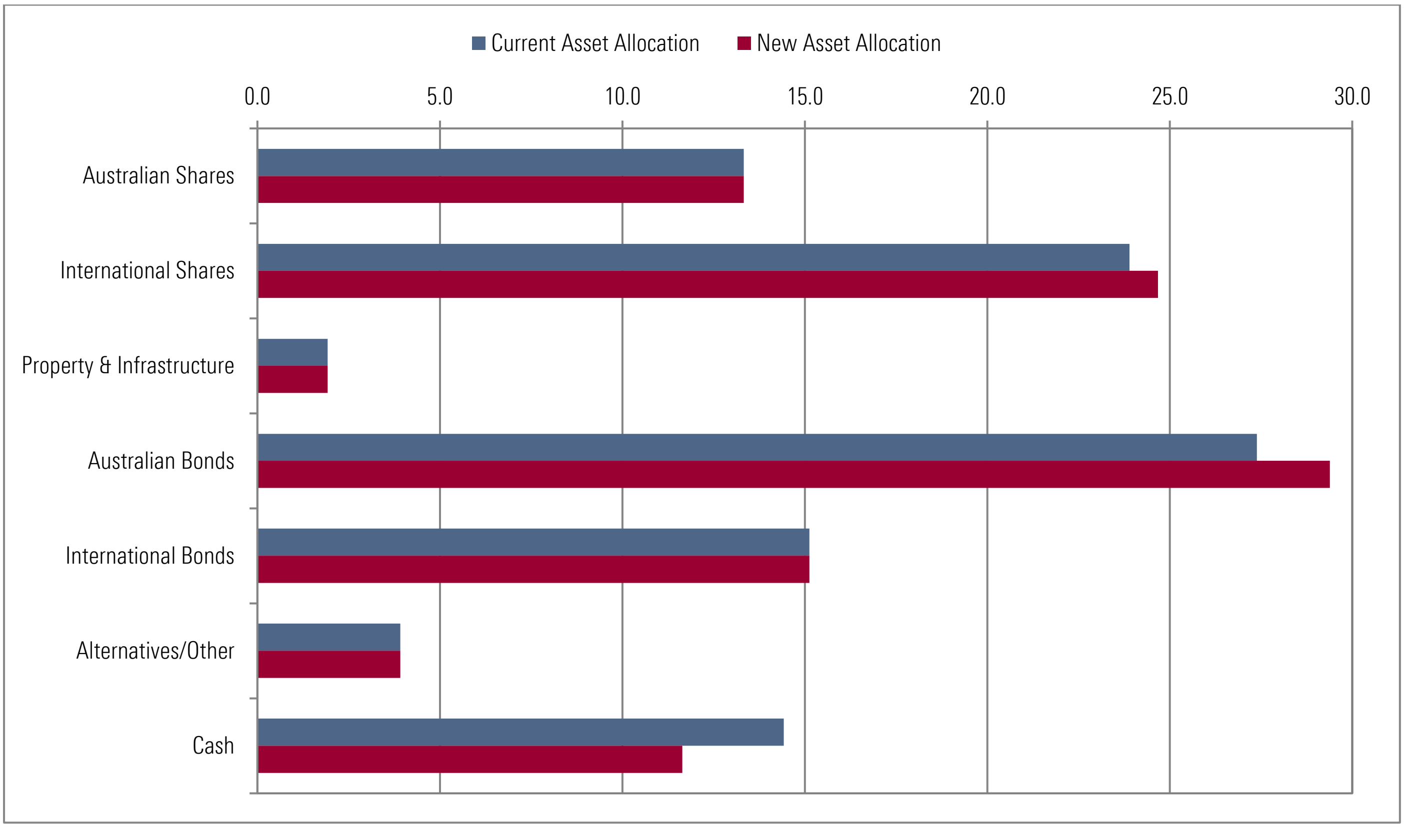
More broadly, the Australian sharemarket has outperformed global peers of late. Key behind this has been surging commodity prices (notably oil & gas, nickel, iron ore and wheat) which have rallied as a result of rising inflation and/or in response to escalating Russia/Ukraine uncertainty (with Russia 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, **Westpac** (Australia's second biggest bank) has also delivered positive returns and we similarly have trimmed our investment. That said, both companies remain significant investments in the portfolio.

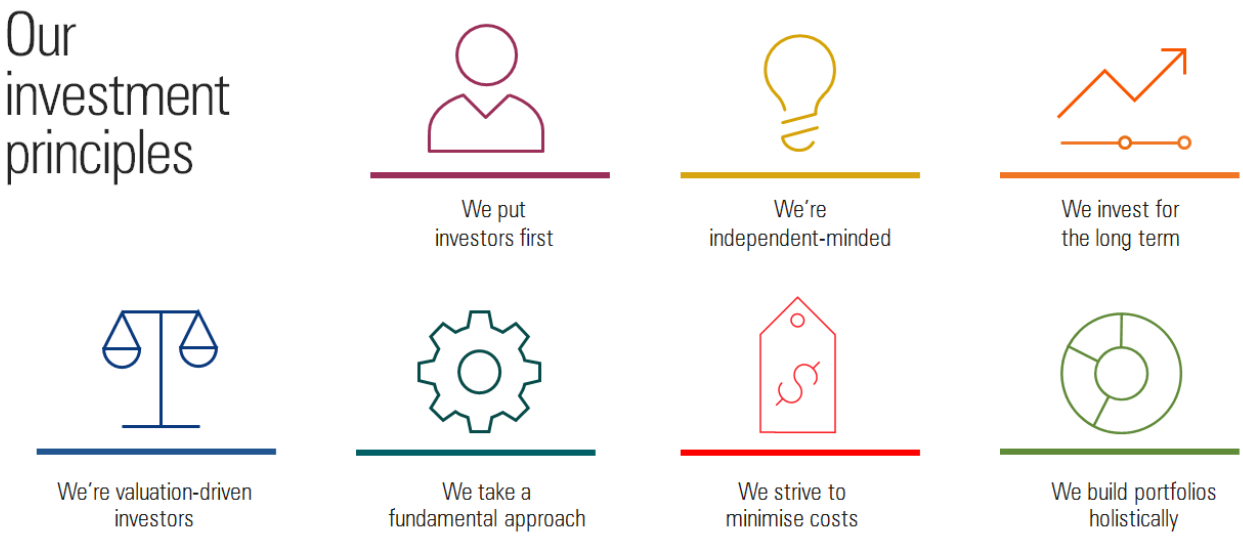
In terms of global shares, the commencement of combat between Russia and Ukraine saw European shares tumble. This is an understandable if predictable investor response – humans don't like to invest when challenged by fear and uncertainty – and, while we cannot predict how this geopolitical event will play out, we can recognise (and take advantage of) the opportunity to buy quality European businesses (via the **Vanguard FTSE Europe Shares ETF**) at a better price than was previously available.

Lastly, Australian bond yields have risen sharply of late (the 10-year Australian government bond yield is sitting around 2.7%), driven higher by inflation concerns and expectations that central banks, globally, will look to unwind the stimulus programs that have been in place, in some cases, for many years. With this improvement in value, we are much more confident in the ability of longer-dated bonds to deliver income and diversification benefits to the portfolio and have increased our allocation to this asset class (by adding to our investment in the **Vanguard Australian Fixed Interest ETF**).

Portfolio cash levels fall as a result of these trades.

Current versus New Asset Allocation





Portfolio Post Changes

Security	Security/APIR Code	GICS Industry Group	New Weighting[3]
Australian Equities			**13.3%**
Brambles Limited	BXB-AU	Industrials	2.0%
Medibank Private Limited	MPL-AU	Financials	1.5%
Woodside Petroleum Limited	WPL-AU	Energy	1.3%
Insurance Australia Group Limited	IAG-AU	Financials	1.0%
Westpac Banking Corporation Limited	WBC-AU	Financials	1.0%
National Australia Bank Limited	NAB-AU	Financials	1.0%
Commonwealth Bank of Australia Limited	CBA-AU	Financials	0.9%
CSL Limited	CSL-AU	Pharmaceuticals, Biotechnology & Life Sciences	0.9%
Amcor PLC	AMC-AU	Materials	0.6%
Morningstar Australian Shares Fund	INT0002AU		3.3%
International Equities			**24.7%**
Morningstar International Shares Active ETF	MSTR-AU		6.3%
Morningstar International Shares Fund	INT0017AU		5.3%
BetaShares FTSE 100 ETF	F100-AU		5.3%
BetaShares Global Energy Companies ETF (AUD Hedged)	FUEL-AU		3.0%
iShares MSCI Emerging Markets ETF	IEM-AU		1.7%
iShares MSCI South Korea ETF	IKO-AU		0.9%
Vanguard FTSE Emerging Markets Shares ETF	VGE-AU		0.9%
Vanguard FTSE Europe Shares ETF	VEQ-AU		0.8%
iShares MSCI Japan ETF	IJP-AU		0.5%
Property & Infrastructure			**1.9%**
SPDR Dow Jones Global Real Estate ETF	DJRE-AU		1.0%
GPT Group	GPT-AU		0.9%
Australian Bonds			**29.4%**
iShares Core Composite Bond ETF	IAF-AU		18.4%
BetaShares Australian Bank Senior Floating Rate Bond ETF	QPON-AU		6.9%
Vanguard Australian Fixed Interest ETF	VAF-AU		4.0%
International Bonds			**15.1%**
Morningstar International Bonds Fund	INT0082AU		12.1%
BNY Mellon Global Aggregate Bonds			
Colchester Global Sovereign Bonds			
Ashmore Emerging Market Bonds			
iShares Global High Yield Bond (AUD Hedged) ETF	IHHY-AU		1.5%
Vanguard International Credit Securities (Hedged) ETF	VCF-AU		1.5%
Alternatives/Other			**3.9%**
Morningstar Multi Asset Real Return Fund	INT0011AU		3.9%
Cash			**11.6%**
BetaShares Australian High Interest Cash ETF	AAA-AU		5.6%
iShares Core Cash ETF	BILL-AU		3.2%
Platform Cash	CASH_AUD		2.8%
		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.