



Ventura Morningstar

Conservative

Managed Account Portfolio

Trade Update

11 2022

All data and information as at 03/11/2022
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Asset Allocation themes¹

Asset class	Change	New AA
Australian Equities	—	9.5%
International Equities	-2.0	15.8%
Property & Infrastructure	2.0	2.0%
Australian Bonds	—	29.4%
International Bonds	5.5	22.1%
Alternatives/Other	—	4.7%
Cash	-5.5	16.5%

Growth vs Defensive splits¹

Assets	Change	New Split
Growth	—	29.7%
Defensive	—	70.3%

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

Share and bond markets continue to experience elevated volatility, amid an environment of rising interest rates and heightened economic and geopolitical concerns. However, despite these significant headwinds, the portfolio continues to hold up relatively well, with the current period of uncertainty providing us with the opportunity to selectively add attractively priced assets to the portfolio.

Portfolio action

We have initiated an investment in global listed property (G-REITs). As part of this, the level of currency hedging in the portfolio has been increased, while the portfolio's allocation to global (and especially U.K.) sharemarkets has been reduced. We have also added to our international bond investments, and, in particular, to high yield credit, which we have funded from cash:

Security	Security/ APIR Code	Current Weighting	New Weighting	Increase / Decrease ²
International Shares		17.8%	15.8%	-2.0%
BetaShares FTSE 100 ETF	F100-AU	5.2%	4.2%	-1.0%
Morningstar International Shares Fund	INT0017AU	1.0%	0.0%	-1.0%
Property & Infrastructure		0.0%	2.0%	2.0%
VanEck FTSE International Property (AUD Hedged) ETF	REIT-AU	0.0%	2.0%	2.0%
International Bonds		16.6%	22.1%	5.5%
Morningstar International Bonds (AUD Hedged) Fund	INT0082AU	15.2%	18.7%	3.5%
iShares Global High Yield Bond (AUD Hedged) ETF	IHHY-AU	0.0%	2.0%	2.0%
Cash		22.0%	16.5%	-5.5%
BetaShares Australian High Interest Cash ETF	AAA-AU	5.5%	0.6%	-4.8%
Platform Cash	CASH_AUD	3.2%	2.5%	-0.7%

² May not sum due to rounding.

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Rationale

Notwithstanding a decent rally for many sharemarkets in October, 2022 continues to be a challenging period for investors more broadly as they struggle to navigate a world of strongly rising interest rates, soaring (and very persistent) inflation and escalating geopolitical tensions. Indeed, key sharemarkets still remain significantly underwater year-to-date, while bond losses are hovering around all-time lows. Pleasingly, however, the portfolio has held up relatively well under these circumstances, with this heightened volatility continuing to provide opportunities to purchase assets at prices that haven't been seen for some time.

In this regard, it is worth highlighting just how profound the upward movement in global interest rates has been, as central banks attempt to reign in surging inflation. The U.S. Federal Reserve, for example, recently delivered its *fourth* consecutive hike of 0.75%, bringing their target cash rate to 3.75 – 4.00% (for comparison, it was effectively zero during the COVID-19 pandemic). Other central banks, too, are following a similar path, with both the European Central Bank and Bank of England lifting rates by 0.75% at their latest meetings (the latter while also flagging the increasing likelihood of a recession).

On this, we appreciate that the thought of central banks raising rates so aggressively that they suffocate economic growth, thereby tipping economies into recession, may be unsettling. However, it's worth noting that in practice, it is very difficult to predict interest rate and inflation movements in the short term, let alone forecasting the timing, severity, and duration of any recession. And that's before we consider how governments and central banks may or may not react to these changing circumstances (we just need to look at the U.K.'s disastrous mini-budget for a recent example of a major policy mistake). That said, while we don't have a crystal ball, we can absolutely build robust portfolios that we think are well equipped to handle these and many other scenarios, through our valuation driven framework. Through this lens, we recognise that fears around the economic outlook (alongside broader geopolitical concerns) are having a meaningful impact on investor sentiment, which has translated into us being much more attractively compensated to invest.

With this in mind, we have initiated an investment in global listed property (otherwise known as global real estate investment trusts, or G-REITs) via the VanEck FTSE International Property ETF. This ETF provides exposure to a diversified portfolio of REITs across the commercial, office, industrial, retail and residential property sectors, globally. Most recently, this asset class has incurred substantial losses, with sharply rising interest rates impacting REITs cost of debt. Indeed, the index is down in excess of 25% year-to-date, which is well beyond the losses seen among developed world sharemarkets. This is perhaps counter-intuitive, with REITs commonly perceived as having a lower risk profile than shares (i.e., sitting somewhere between shares and bonds on the risk spectrum), given their supposedly more defensive, and income-focused, earnings profile. Curiously, this asset class also materially underperformed global sharemarkets in the initial period of COVID-19 uncertainty in early 2020. While the reasons behind these periods of loss are different (COVID-19 versus rising interest rates) in each case the asset class was simply too expensive, on our analysis, with investors bidding up prices to unsustainable levels in their search for yield.

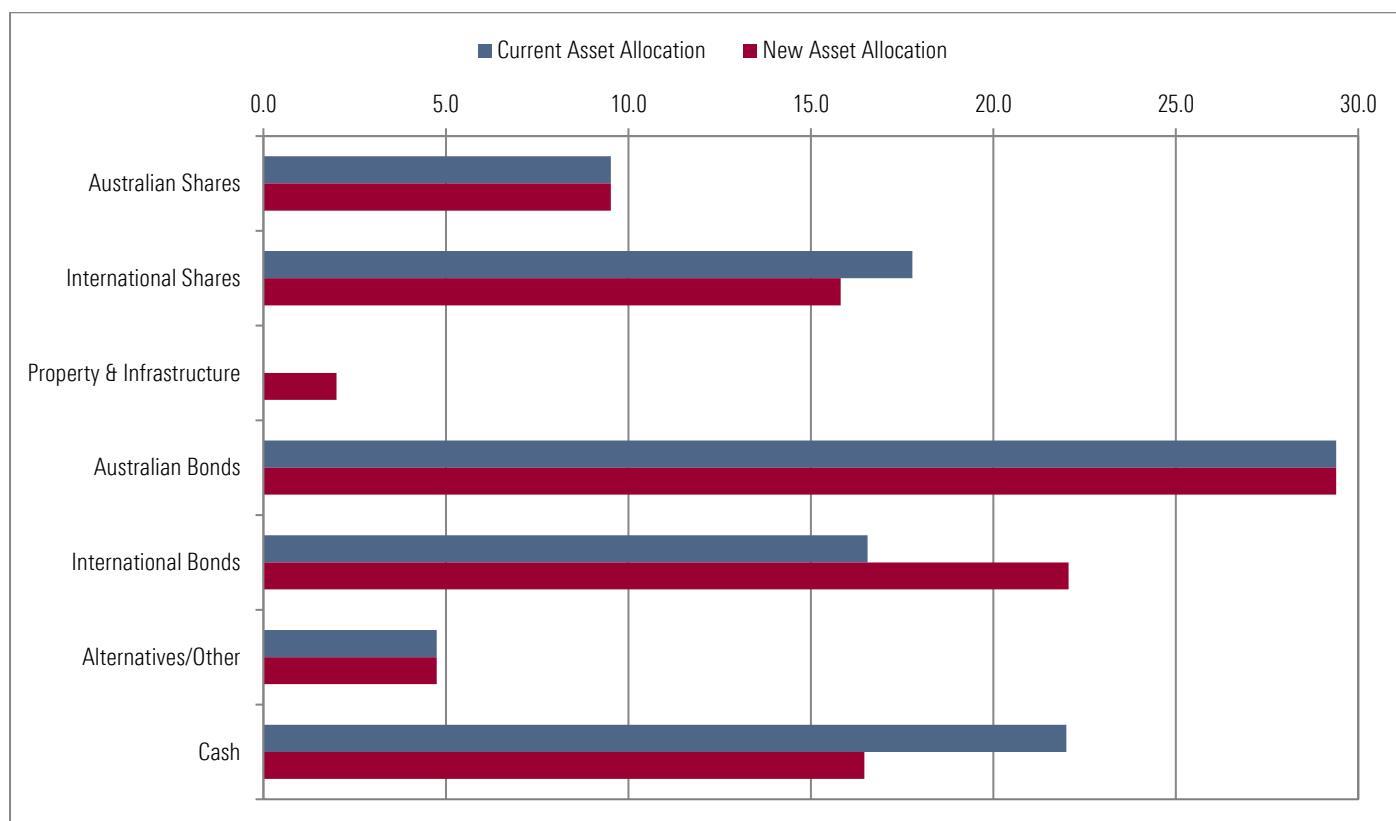
Now, however, valuations are much improved. In addition, we have gained greater clarity around the potential for structural changes in revenues in this asset class, as a consequence of COVID-19 (in terms of what office demand might look like, given the shift toward working from home, and how foot traffic might bounce back in retail malls now that COVID-19 restrictions are being progressively relaxed). With this, we have greater confidence in the quality, and sustainability, of cash flows from these assets. Notably, this investment is also currency hedged, allowing us to further take advantage of recent weakness in the Australian dollar. With the relative appeal of G-REITs improving compared to international shares, we have decreased our investment in broad-based global shares, and in particular, to U.K. shares (given the latter's sizeable exposure to the energy sector, which has done exceptionally well of late).

Elsewhere, the size and speed of interest rate movements has flowed through into a strong uplift in bond yields. The yield on the U.S. Government 10-year bond (otherwise known as a Treasury Bill or 'T-Bill'), for instance, has rocketed to well over 4%! Remember that as yields rise, bond prices fall (and vice versa), all things being equal, and so the rally in bond yields has resulted in meaningful losses for popular bond indexes. Indeed, the global benchmark is now down more than 13% in 2022, which is particularly concerning given that bonds typically form part of the defensive allocation of a portfolio. Having not previously held as much in international bonds as we otherwise might have, we recognise that they represent much better value now and we are more confident in both their ability to deliver income to the portfolio and also to help us diversify sharemarket exposure.

As it relates to credit spreads (the additional yield above a treasury bond that an investor requires to invest in a corporate bond), credit spreads on high yield credit have improved markedly of late, with the heightened economic uncertainty seeing investors demand a greater premium to invest in these bonds. With better value now on offer, we introduce an allocation to these assets, for this more defensive portfolio.

With these changes, cash levels fall, although we note that the overall growth/defensive split is largely unchanged, remaining close to 'neutral' versus the portfolio's long-term asset allocation target.

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			9.5%
Brambles Limited	BXB-AU	Industrials	1.3%
Australia & New Zealand Banking Group Limited	ANZ-AU	Financials	1.2%
Newcrest Mining Limited	NCM-AU	Materials	1.2%
Insurance Australia Group Limited	IAG-AU	Financials	1.1%
Westpac Banking Corporation Limited	WBC-AU	Financials	1.1%
Woodside Energy Group Limited	WDS-AU	Energy	1.1%
CSL Limited	CSL-AU	Pharmaceuticals, Biotechnology & Life Sciences	1.0%
James Hardie Industries PLC	JHX-AU	Materials	0.9%
Medibank Private Limited	MPL-AU	Financials	0.8%
International Equities			15.8%
BetaShares FTSE 100 ETF	F100-AU		4.2%
Morningstar International Shares Active (AUD Hedged) ETF	MSTR-AU		2.6%
iShares Core MSCI World (Ex Australia) ESG Leaders ETF	IWLD-AU		2.3%
iShares MSCI Japan ETF	IJP-AU		1.7%
Vanguard FTSE Europe Shares ETF	VEQ-AU		1.4%
iShares MSCI Emerging Markets ETF	IEM-AU		1.2%
iShares China Large-Cap ETF	IZZ-AU		0.9%
iShares Europe ETF	IEU-AU		0.9%
Vanguard FTSE Emerging Markets Shares ETF	VGE-AU		0.6%
			2.0%
VanEck FTSE International Property (AUD Hedged) ETF	REIT-AU		2.0%
Australian Bonds			29.4%
iShares Core Composite Bond ETF	IAF-AU		18.5%
Vanguard Australian Fixed Interest ETF	VAF-AU		8.9%
BetaShares Australian Bank Senior Floating Rate Bond ETF	QPON-AU		2.0%
International Bonds			22.1%
Morningstar International Bonds (AUD Hedged) Fund	INT0082AU		18.7%
<i>BNY Mellon Global Aggregate Bonds</i>			
<i>Colchester Global Sovereign Bonds</i>			
<i>Ashmore Emerging Market Bonds</i>			
iShares Global High Yield Bond (AUD Hedged) ETF	IHHY-AU		2.0%
Vanguard International Credit Securities (AUD Hedged) ETF	VCF-AU		1.4%
Alternatives/Other			4.7%
Morningstar Multi Asset Real Return Fund	INT0011AU		4.7%
Cash			16.5%
iShares Enhanced Cash ETF	ISEC-AU		11.6%
iShares Core Cash ETF	BILL-AU		1.7%
BetaShares Australian High Interest Cash ETF	AAA-AU		0.6%
Platform Cash	CASH_AUD		2.5%
Total			100.0%

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