Ventura Morningstar High Growth Managed Account Portfolio Trade Update

VMAPS

11 2022

All data and information as at 03/11/2022
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Asset Allocation themes[1]

Asset class	Change	New AA
Australian Equities	–	20.1%
International Equities	-3.5	61.1%
Property & Infrastructure	3.5	4.3%
Australian Bonds	–	5.9%
International Bonds	–	0.7%
Alternatives/Other	–	5.1%
Cash	–	2.8%

Growth vs Defensive splits[1]

Assets	Change	New Split
Growth	–	88.1%
Defensive	–	11.9%

[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 sharemarkets has been reduced (with us further taking profits in energy companies in favour of an increased allocation to Chinese and Korean shares).

Security	Security/ APIR Code	Current Weighting	New Weighting	Increase / Decrease[2]
International Shares		**64.6%**	**61.1%**	**-3.5%**
BetaShares Global Energy Companies (AUD Hedged) ETF	FUEL-AU	4.3%	2.6%	-1.8%
Morningstar International Shares Fund	INT0017AU	12.2%	8.2%	-4.0%
Morningstar International Shares Active (AUD Hedged) ETF	MSTR-AU	4.7%	5.7%	1.0%
iShares MSCI South Korea ETF	IKO-AU	3.1%	3.8%	0.8%
iShares China Large-Cap ETF	IZZ-AU	2.8%	3.3%	0.5%
Property & Infrastructure		**0.8%**	**4.3%**	**3.5%**
VanEck FTSE International Property (AUD Hedged) ETF	REIT-AU	0.0%	3.5%	3.5%

[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.

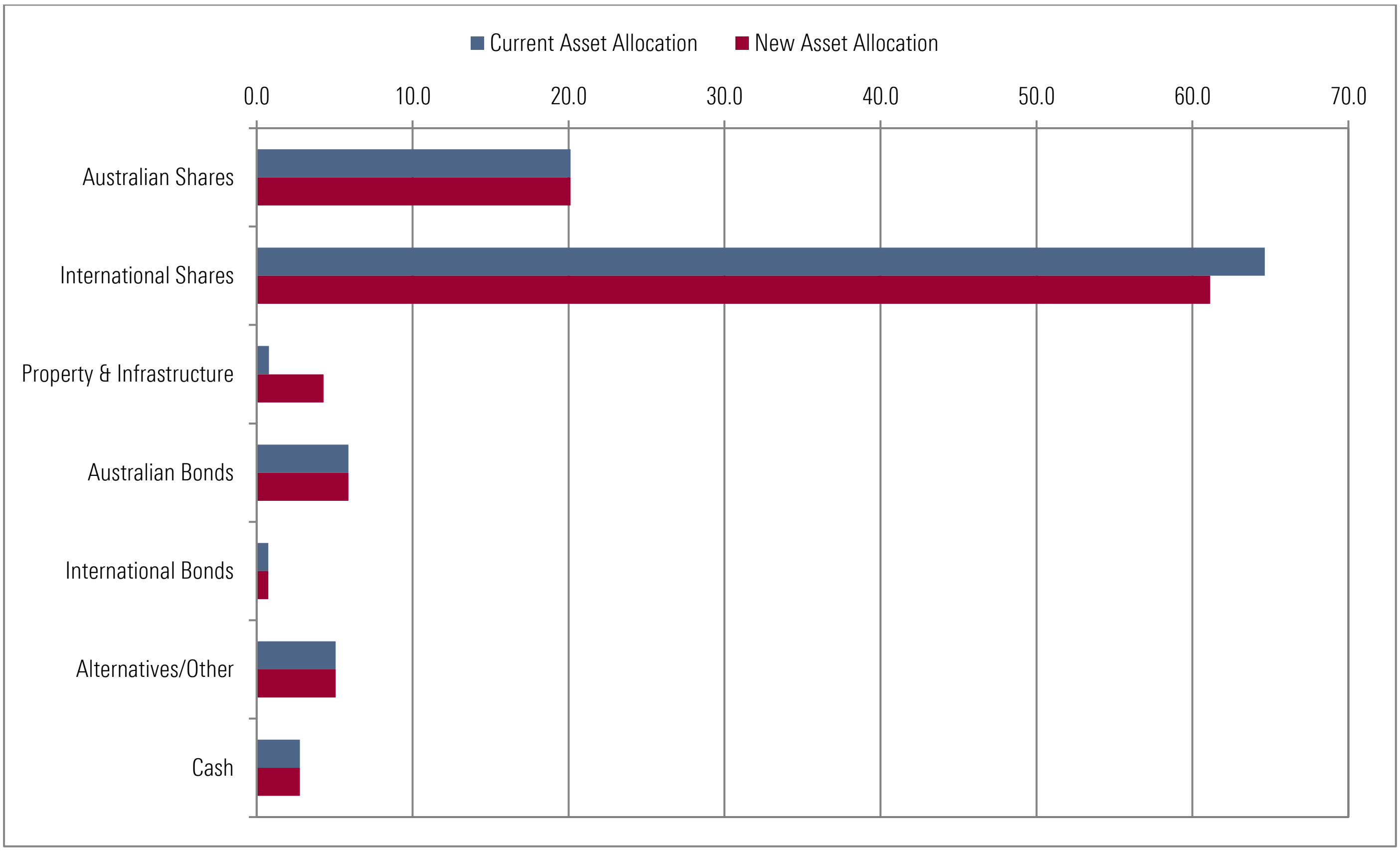
With this in mind, we have initiated an investment in global listed property (otherwise known as global real estate investment trusts, or G-REITs) via the VanEck FTSE International Property ETF. This ETF provides exposure to a diversified portfolio of REITs across the commercial, office, industrial, 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.

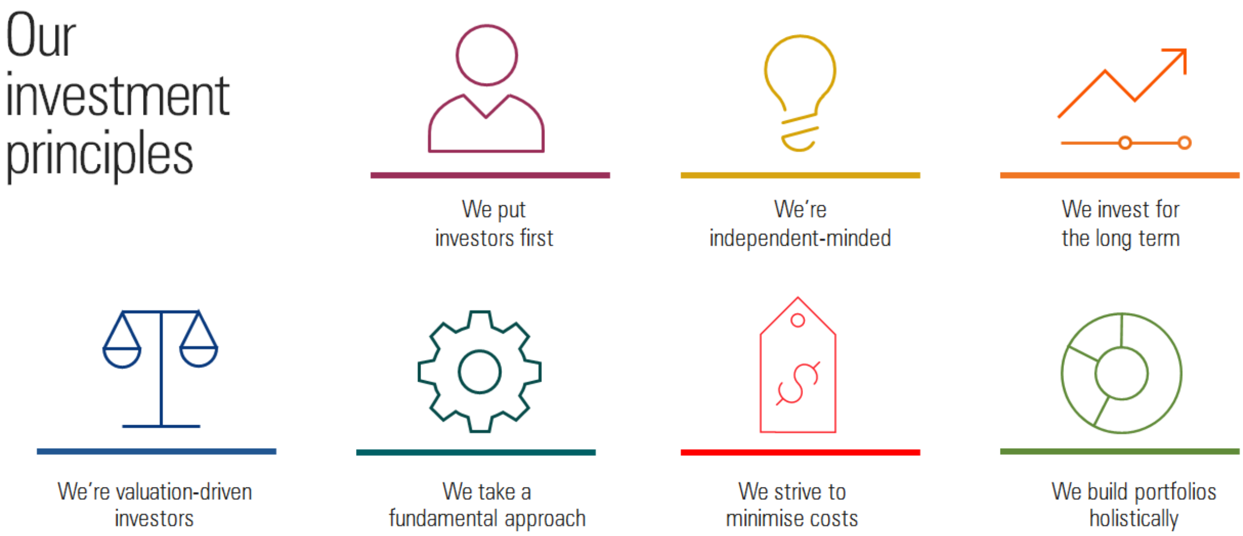
Now, however, valuations are much improved. In addition, we have gained greater clarity around the potential for structural changes in revenues in this asset class, as a consequence of COVID-19 (in terms of what office demand might look like, given the shift toward working from home, and how foot traffic 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, quality oriented, global shares. However, we continue to see value at a country and sector level. Following recent outperformance, we have taken additional profits from our investments in global energy companies (the energy sector is up more than 50% in 2022!), with the proceeds being primarily used to top up our holdings in Chinese and Korean shares. Chinese shares remain unloved with the recent extension of President Xi's term exacerbating fears around prolonged regulatory uncertainty, not to mention the implications of other government policy, including a zero-tolerance approach to COVID-19. Nonetheless, even after applying a considerable margin of safety to account for these risks, Chinese shares still look to offer significant long-term value (even though we acknowledged the potential for ongoing volatility in the short-term). Korean shares, too, have underperformed of late, in part given Korea's proximity to China but also given its position as a key global manufacturing hub at a time of increasing economic uncertainty. Similarly, current pricing in Korean shares appeals, providing an attractive opportunity to increase our investment in this market.

With these changes, 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





Portfolio Post Changes

Security	Security/APIR Code	GICS Industry Group	New Weighting[3]
Australian Equities			**20.1%**
Westpac Banking Corporation Limited	WBC-AU	Financials	1.8%
Brambles Limited	BXB-AU	Industrials	1.6%
CSL Limited	CSL-AU	Pharmaceuticals, Biotechnology & Life Sciences	1.6%
Woodside Energy Group Limited	WDS-AU	Energy	1.4%
Australia & New Zealand Banking Group Limited	ANZ-AU	Financials	1.4%
Insurance Australia Group Limited	IAG-AU	Financials	1.4%
Newcrest Mining Limited	NCM-AU	Materials	1.4%
Resmed Inc.	RMD-AU	Health Care Equipment & Services	1.1%
Amcor PLC	AMC-AU	Materials	0.9%
Medibank Private Limited	MPL-AU	Financials	0.9%
James Hardie Industries PLC	JHX-AU	Materials	0.8%
BHP Group Limited	BHP-AU	Materials	0.6%
Morningstar Australian Shares Fund	INT0002AU		5.2%
International Equities			**61.1%**
BetaShares FTSE 100 ETF	F100-AU		8.5%
Morningstar International Shares Fund	INT0017AU		8.2%
iShares Core MSCI World (Ex Australia) ESG Leaders ETF	IWLD-AU		7.1%
iShares MSCI Japan ETF	IJP-AU		6.8%
Morningstar International Shares (AUD Hedged) Fund	INT0016AU		6.3%
Morningstar International Shares Active (AUD Hedged) ETF	MSTR-AU		5.7%
iShares MSCI South Korea ETF	IKO-AU		3.8%
iShares Europe ETF	IEU-AU		3.5%
iShares China Large-Cap ETF	IZZ-AU		3.3%
Vanguard FTSE Europe Shares ETF	VEQ-AU		2.6%
BetaShares Global Energy Companies ETF (AUD Hedged)	FUEL-AU		2.6%
Vanguard FTSE Emerging Markets Shares ETF	VGE-AU		2.0%
iShares MSCI Emerging Markets ETF	IEM-AU		0.7%
Property & Infrastructure			**4.3%**
VanEck FTSE International Property (AUD Hedged) ETF	REIT-AU		3.5%
GPT Group	GPT-AU		0.8%
Australian Bonds			**5.9%**
iShares Core Composite Bond ETF	IAF-AU		5.9%
International Bonds			**0.7%**
Morningstar International Bonds (AUD Hedged) Fund	INT0082AU		0.7%
BNY Mellon Global Aggregate Bonds			
Colchester Global Sovereign Bonds			
Ashmore Emerging Market Bonds			
Alternatives/Other			**5.1%**
Morningstar Multi Asset Real Return Fund	INT0011AU		5.1%
Cash			**2.8%**
Platform Cash	CASH_AUD		2.8%
		Total	**100.0%**

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