TRUWEALTH Investment Philosophy

External Investment Management

TruWealth recognises the value of engaging a dedicated and specialist investment manager for portfolio construction and day to day management of client portfolios. A dedicated investment manager can take a total portfolio view and optimise portfolios from a risk/return perspective. We believe the selection of the right investment manager can lead to better long-term performance outcomes for our clients. We currently recommend Resonant Asset Management for this role.

Resonant is an investment consultant/manager with views strongly aligned with our own on investment philosophy and portfolio construction. Resonant's team is made up of a number of investment specialists with significant institutional markets experience gained at top tier global investment banks and/or fund managers. All Resonant team members have highly regarded industry related qualifications at the postgrad level, including Masters degrees. Their full biographies can be found here: https://www.resonantam.com.au/executive-team.

Resonant's core focus is Managed Accounts. Resonant is also very cost competitive, with the "all in" costs of their portfolios in the bottom quartile vs competitor products based on figures obtained from Morningstar. Importantly, TruWealth engages in significant two-way communication with the investment manager, so we always have high levels of knowledge about your portfolio at all times. For these reasons we feel Resonant is a strong group to partner with to manage your portfolio.

Asset Allocation & Investment Approach

Both TruWealth and Resonant strongly believe in diversification as a means to manage risk. Consequently your portfolio will be diversified across a number of asset classes, including Australian Equities, International Equities, Global and Domestic Fixed Interest (bonds), Cash and Alternatives. The percentage allocation to each asset is determined based on the desired portfolio risk level and return target. Generally speaking, portfolios with a higher risk tolerance will have a higher allocation to equities, while more conservative portfolios will be more heavily weighted towards Fixed Interest.

In addition to the risk target, the asset allocation mix is also determined by the expected return of each asset class and the current investment environment. Resonant will tactically manage the asset allocation weights with the aim of achieving the optimal mix from a risk/return perspective. Resonant will continually reassess the long term and short-term return expectations and adjust accordingly. For the most part rebalances to the portfolio will be made quarterly, however when required, some changes will be made intra-quarter, usually for risk management purposes or where time sensitive investment opportunities arise.

When constructing or rebalancing portfolios, Resonant employs a "Quantamental" approach. Quantamental investing blends both "fundamental" and "quantitative" investment techniques with the aim of producing superior risk adjusted returns. This "best of both worlds" approach allows for human judgement to handle qualitative inputs, whilst streamlining processes that benefit from a more systematic approach, particularly those subject to human biases.

Risk management is also an important component of the investment approach, which TruWealth feels is enhanced by Resonant being in a position to take a "total portfolio view". For example Resonant will measure the cross-asset correlations within the portfolio on an ongoing basis and adjust to reduce risk where necessary.

When it comes to decisions such as currency hedging on international equities, Resonant has the flexibility to switch between hedged and unhedged exposure, and will determine this mix taking into account not just the expected outlook for the currency, but also its impact on overall portfolio risk. This is also the case with bond duration exposure in the allocation to fixed interest.

Underlying Investments

TruWealth and Resonant also share a similar philosophy to the underlying investments. Client portfolios are typically invested into a mix of listed exchange traded funds (ETFs), listed direct equities and active unlisted managed funds, although the majority of the holdings will be listed securities:

- **Australian Equities** – For Australian equities the portfolios will be invested in ASX listed direct shares.
- **International Equities** – Primarily ETF's, but potentially may include unlisted managed funds when deemed beneficial.
- **Fixed Interest** – A mix of ETF's and unlisted managed funds
- **Alternatives –** Primarily unlisted managed funds

Direct securities (Direct equities)

The use of direct listed investments is favoured for Aussie equities due to the greater transparency they provide, as well as the ability generate alpha (active vs passive or index management) through careful stock selection. Active management involves stock picking and market timing. This means that the fund manager puts their skills to the test in trying to pick securities that will outperform the market. Passive or Index management is when a fund manager attempts to mimic the performance of a particular index. For example, a fund tracking the ASX200 index would own the same stocks as those in the ASX200.

Listed holdings are also more liquid, enabling the portfolios to be managed more nimbly. The additional transparency also has risk management benefits in that the manager has greater visibility over the exposures. Transparency also provides advantages when it comes to management of tax outcomes, namely tax planning and capital gains tax optimisation. Finally, the use of direct equities and the availability of Resonant's in-house expertise, removes the need to pay expensive third party funds management fees.

Direct investments are selected using both fundamental and quantitative research metrics. Fundamental metrics includes things such as quality of management, industry dynamics and take into account external broker research. Quantitative metrics include measurable and comparable "factors" such as earnings growth, company balance sheet ratios etc. Resonant uses top rate institutional data providers to feed its proprietary models.

Direct listed holdings are limited to members of the ASX200 index and will comprise of somewhere between 15-30 stocks. The aim of the Australia equities component is to beat the ASX200 index, however the asset class is risk managed to ensure the portfolio does not track too far away from index returns (on average around 3-5% difference) which helps ensure adequate diversification and alignment with investor expectations. Investment style is broadly neutral (no growth or yield bias), with factor exposure primarily selected based on market conditions (risk) and expected alpha.

Listed ETF's

The use of Exchange Traded Funds (ETF's) is the favoured exposure for asset classes outside of Australian Equities and Alternatives. ETF's provide a cheap and highly diversified way of gaining exposure to market indices in asset classes where the use of direct investments would not provide adequate diversification, or where the alpha expectation is below the cost of active investment. ETF's also come with considerable liquidity and transparency benefits, enhancing the "total portfolio approach" and risk management employed by Resonant.

ETF's are selected on the basis of exposure type (underlying index), quality of provider, cost and market spreads. External research is also utilised in the selection process.

Index Funds

Listed ETF's are the preferred way to gain exposure to index funds. Index selection is based on the desired exposure in the portfolio from a risk vs return perspective. As a general rule the indices used are industry standard cap weighted indices, often global, as these provide the maximum amount of diversification and the widest exposure. However in some cases more granular indices will be selected. For example, country/region specific indices will be used in the allocation to international equities, if it is felt that the outlook for some regions is superior to others. Significant macroeconomic research and capital market calculations are used as part of this process. A combination of mean-variance optimisation (which takes into account both track record and risk) and qualitative factors are then used to weight the relative index exposures. Synthetic index exposures are avoided in favour of funds backed by real assets.

Active Managed Funds

For a small part of the portfolio active fund managers will be used. However this will only be the case where there is a high degree of confidence that the alpha contribution to the overall portfolio will be greater than the cost, and where the exposure cannot be replicated via ETF's (beta exposure) or Direct Securities. The main asset class where this is the case is in Alternatives.

An Alternative investment is a financial asset that does not fall into one of the conventional equity/income/cash categories. Private equity or venture capital, hedge funds, real property, commodities, and tangible assets are all examples of alternative investments.

Manager selection is made using the research of external consultants and the managers on research. Resonant will also meet with these fund managers regularly to monitor performance and test their investment thesis.

Discretionary Management

TruWealth typically recommends management of your portfolio on a discretionary basis. This gives the investment manager the ability to quickly and efficiently implement changes to your investment portfolio. This reduces the time it takes to move your portfolio to a better position where investment portfolio changes are required.

Without discretion, there can be delays in communicating our advice to you and seeking your approval on each investment decision. This can adversely impact your portfolio returns as there are delays in the time it takes to enter new investment opportunities or your exit from existing investments.

The discretionary structure also allows the Manager to treat all clients fairly, as changes can be made immediately and in unison with other client portfolios, rather than requiring formal advice which can result in one client being prioritised over another.