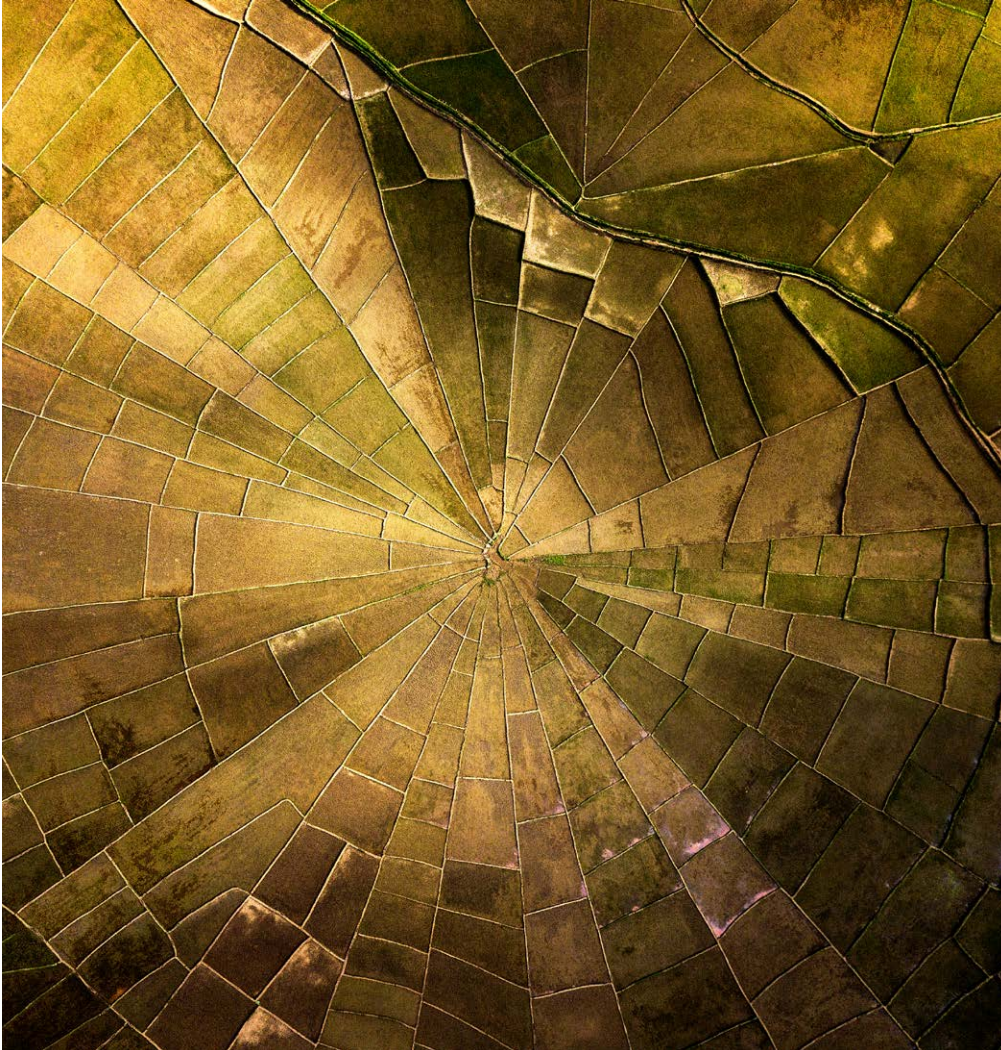


**JBWere**

# Investment Strategy Group Equities

July 2024



Prepared by the Equities Team

**PUTTING WEALTH TO WORK FOR GENERATIONS**



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# Our investment philosophy

At JBWere, our investment philosophy is simple – we’re here to preserve and enhance our clients’ wealth.

With this goal always top of mind, we focus on the processes that help us to achieve this outcome in order to deliver trusted investment advice.

The purpose of this document is to outline in detail how the firm’s strategic asset allocation investment philosophy is implemented in each asset class. More specifically, each asset class handbook defines the philosophy, investment selection process and portfolio construction approach followed to realise optimal investment outcomes for our clients. This document should be read in conjunction with the JBWere Investment Philosophy.

Our equities investment philosophy focuses on three core beliefs.



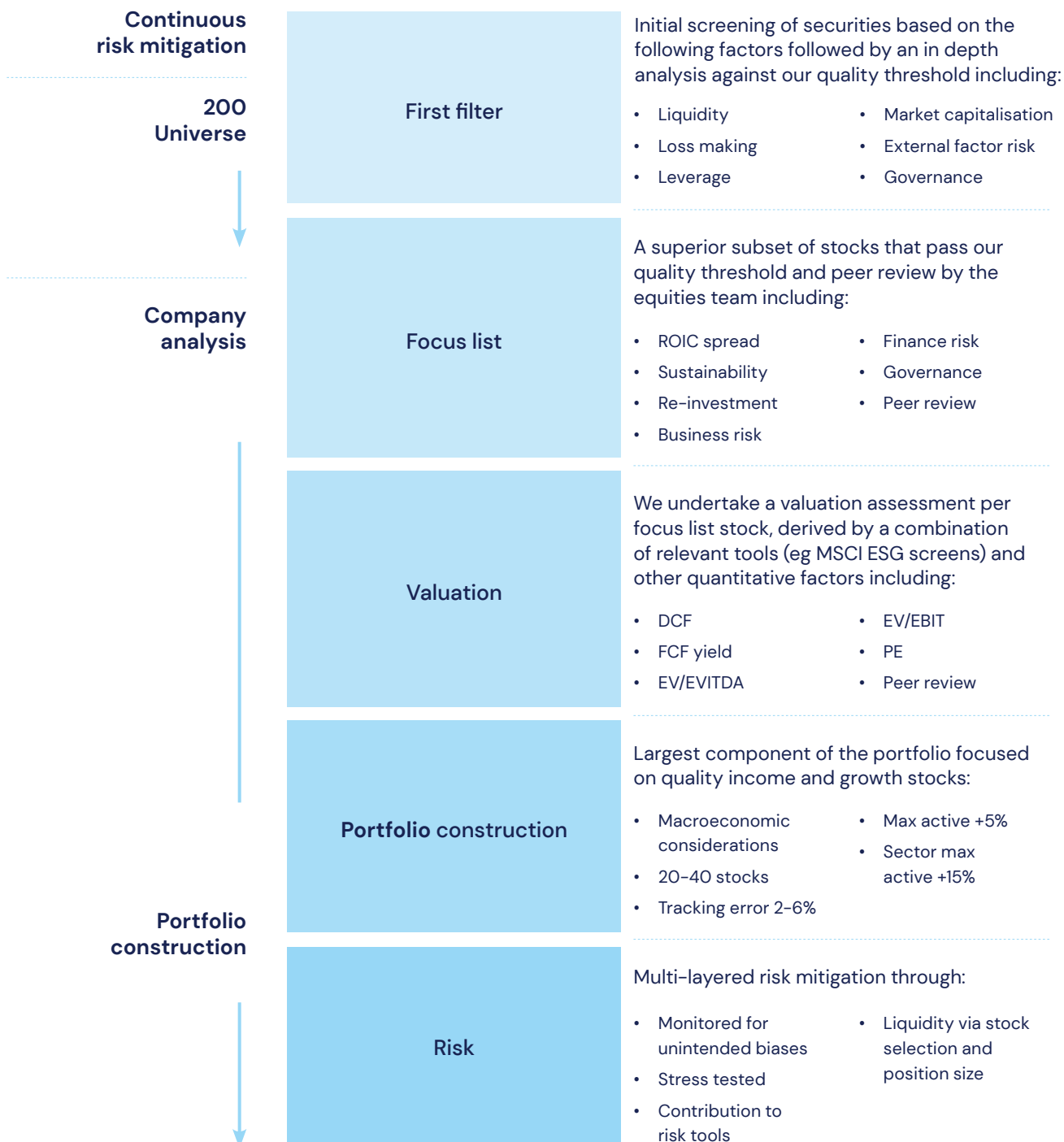
The process involves initial screening of securities based on liquidity, profitability, leverage, market capitalisation, governance and outsized external factor risks. Once these filters have been applied, we conduct in-depth analysis of the remaining stocks to assess whether a company meets our quality threshold. We discuss these in further detail below.



# Australian equities investment process

As part of our stock selection process, we use a systematic form of analysis to determine whether a particular stock will make a good investment and, therefore, should be added to our focus list.

A disciplined investment process with in-depth analysis, peer review and quality thresholds allows us to identify a superior subset of companies for consideration into our equity portfolios. Please refer to the glossary on page 12 for the meaning of any acronyms set out in the below table.



# How we define quality

- **Return analysis;** can a business earn above its cost of capital? Return on invested capital, and whether historically it has been above or below the company's cost of capital.
- **Sustainability of returns;** the sustainability of these returns by considering the structure and dynamics of the industry and whether there is the existence of a competitive advantage.
- **Re-investment potential<sup>1</sup>;** the ability of a company to invest its capital going forward at above the cost of capital coupled with the size of the growth opportunity.
- **Business risk;** considers risks specific to the company like execution or key person risk as well as regulatory, legal, environmental, and social risks.
- **Financial risk;** looks to the leverage of the balance sheet in concert with predictability of earnings and cash conversion.
- **Corporate governance;** includes management track record and transparency but goes further and considers board structures, incentive structures, diversity, and alignment consistency.

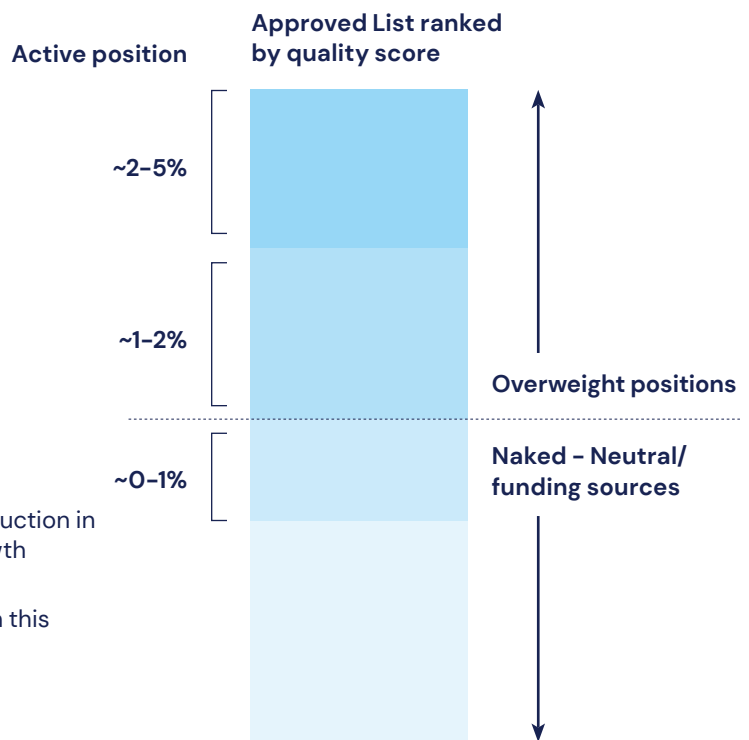
# Valuation and position sizing

## Valuation

- Focus list stocks are first valued using a discounted cash flow (DCF).
- Valuation is compared to multiples (e.g. PE ratio) of comparable firms.

## Position sizing

- Quality scores and returns guide active positions.
- Other considerations include macroeconomic outlook, correlation between positions, and liquidity constraints.



# Portfolio construction

## Macroeconomic influence

- Macroeconomic views are considered in portfolio construction in multiple ways, including bond yield direction, global growth (commodity pricing) and cyclical exposures.
- Bond and commodity proxy exposures are considered in this context, as are cyclical exposures.

# Risk

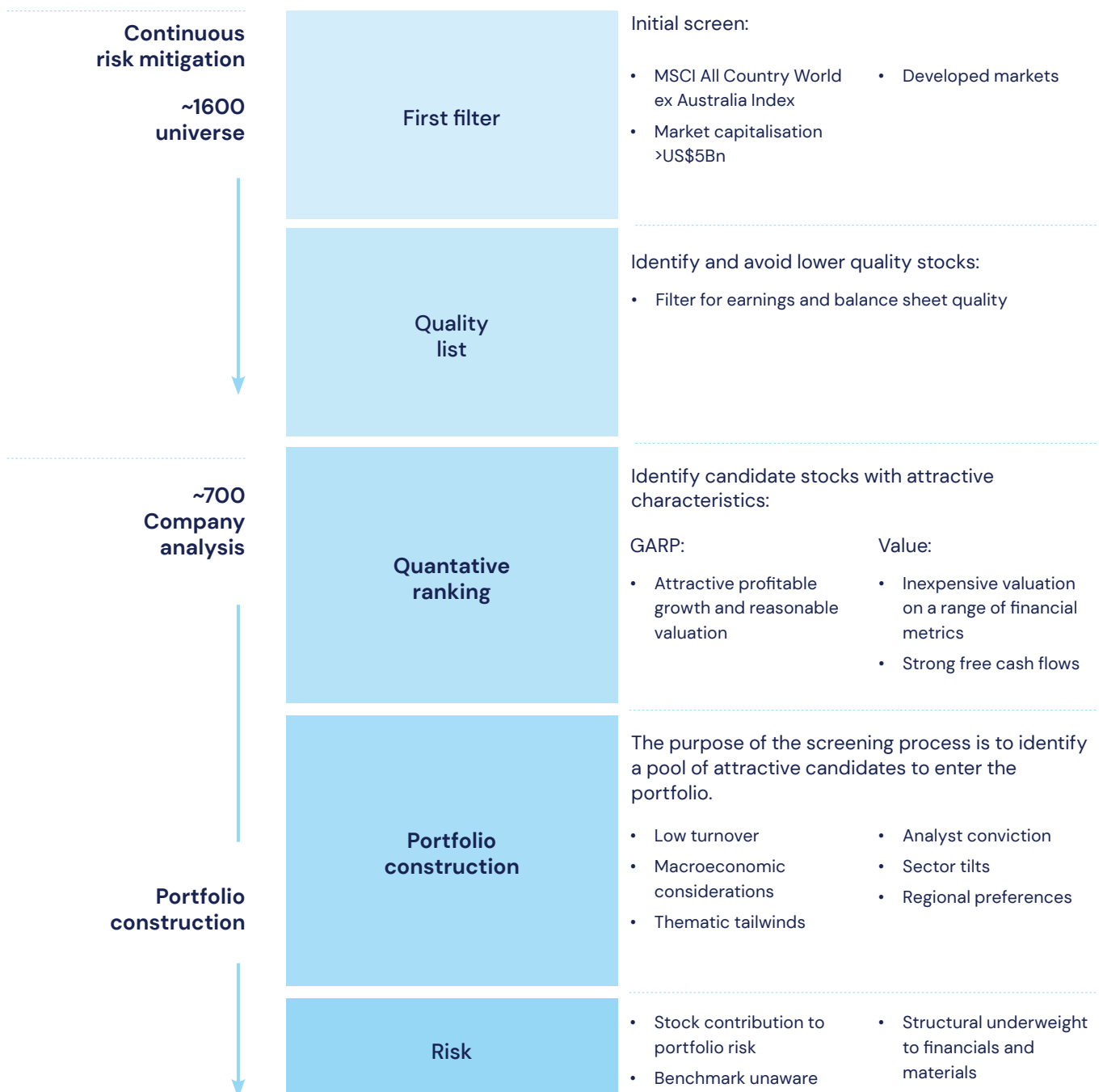
## Multi-layered risk mitigation through each stage of the investment process to:

- seek to bypass poor quality companies
- ensure valuation discipline so as to avoid overpaying for good quality companies
- minimise negative surprises
- avoid excessive exposure to any one factor
- stress testing is utilised, and
- contribution to risk per stock is considered

<sup>1</sup> This step considers Porter's Five Forces analysis, business model, business strategy and an assessment of competitive advantage to consider how these dynamics translate into the future earnings of the business.

# International equities investment process

The JBWere International Equity Portfolio is structured with Australian investors in mind and is intentionally inclined towards sectors that are not well-represented on the ASX. It is designed to be highly complementary to a domestic equity portfolio and to also provide diversification for investors seeking offshore exposure. Industries such as banks and resources, which Australian investors have abundant exposure to, are very small components of this portfolio.



# | JBWere International equity portfolio

- The investment process involves initial screening of securities in the MSCI All Country World – ex Australia Index with a market capitalisation above US\$5 billion with stocks listed on developed market exchanges.
- Stocks are then excluded if they have poor or deteriorating quality which is based on quantitative ranking of scores for measures such as profitability, financial health and price momentum/volatility. This reduces the investment universe to around 700 securities.
- Stocks are scored for Growth-At-A-Reasonable Price (GARP) characteristics; and separately for value characteristics, with an emphasis on free cash flow. The portfolio has a greater emphasis on GARP, with value providing some diversification.
  - The GARP screen looks for stocks with strong growth, that are not excessively priced. The screen rewards stocks with attractive 3-year forecast growth in EPS, EBIT, EBITDA, FCF and sales, provided that the cost per unit of growth is not expensive compared with peers. The screen also rewards high ROIC and other profitability metrics.
  - The value screen looks for inexpensive cash generative stocks. Criteria include forward estimates of FCF yield, PE and EV/EBITDA (compared with the universe, and regional sector peers); and trailing P/B. Emphasising forward cash flow highlights companies with capacity for capital returns.

## | Portfolio construction

The portfolio aims to be low turnover. Stocks are most commonly removed from the portfolio because the investment thesis has deteriorated; or occasionally on valuation if there is an extremely attractive alternative. The purpose of the screening process is to identify a pool of attractive candidates to enter the portfolio. New additions are selected from a short list of stocks that demonstrate high earnings quality and a high score on either the GARP or value screens. These scores are not used as a definitive ranking of stocks, but simply to distil the large universe down to a manageable pool of attractive candidates upon which further analysis is undertaken. We have a preference for stocks generating structural earnings growth driven by a competitive advantage in industries with secular tailwinds as we believe growth and cash generation is more likely to be sustainable for these companies.

### **Macroeconomic influence**

Portfolio changes take account of top down views (macroeconomic, sector, style and region), catalysts and technical factors, while Bloomberg portfolio optimisation tools provide insight into the impact of positions on portfolio risk characteristics.

# JBWere Equity Portfolios

Portfolio	Investment objective	Investment strategy	Purpose	Stock count	Tracking error
<b>Income Equity Portfolio</b>	The Income Equity Portfolio seeks to preserve and enhance the value of capital with a focus on income returns that exceed the rate of inflation over the long term of five years or more.	<p>We manage the portfolio relative to the S&amp;P/ASX200 Total Return Index benchmark.</p> <p>This aims to produce a consistent income stream, with a dividend yield target of 70-100bps per annum higher than the dividend yield of the S&amp;P/ASX 200 Total Return Index.</p> <p>With this portfolio we seek to deliver a greater income return component relative to capital gains in comparison to the S&amp;P/ASX 200 Total Return Index.</p> <p>Our process seeks to identify high quality companies and acquire them at reasonable prices.</p>	<p>The Income Equity Portfolio can sit within an asset allocation framework operated on a standalone basis.</p> <p>The purpose of the Income Equity Portfolio is to provide a quality focused Australian equity portfolio that may be suitable for those who seek a greater income return component relative to capital gains in comparison to the S&amp;P/ASX200 Total Return Index.</p>	20-30	2-6%
<b>Balanced Equity Portfolio</b>	The Balanced Equity Portfolio seeks to preserve and enhance the value of investment capital by generating combined capital and income returns with a focus of outperforming the S&P/ASX 200 Total Return Index over the long term (five years plus).	<p>The portfolio is managed relative to the benchmark and seeks to deliver above market long-term EPS growth with a dividend yield in line with the market.</p> <p>The process seeks to invest in high quality companies within the ASX200 acquired at reasonable prices.</p> <p>Macroeconomic risks are considered during model portfolio construction.</p>	<p>Within an asset allocation framework or on a standalone basis.</p> <p>The purpose of the Balanced Equity Portfolio is to provide clients with a quality focused Australian equity portfolio that may be suitable for a client seeking a balance of income and capital growth returns, and to support advisers with a basis of advice to clients.</p>	30-40	2-6%
<b>International Equity Portfolio</b>	<p>The International Equity Portfolio is benchmark unaware. It is structured with Australian investors in mind and is intentionally inclined towards sectors not well represented on the ASX200.</p> <p>It invests in large and mega- cap stocks listed on developed market exchanges. The International Equity Portfolio return objective is to outperform the MSCI World ex Australia Accumulation GR \$A Index over rolling three to five year periods.</p>	<p>Stock selection screens out companies with poor earnings quality, and then highlights companies that are expected to generate attractive earnings growth at a reasonable price.</p> <p>This is complemented with some exposure to cash generative companies trading on inexpensive multiples. The strategy identifies stocks with high quality earnings, thematic tailwinds and strong industry positioning as we believe earnings and cash flow are more likely to be sustainable for these companies.</p> <p>Macroeconomic risks and opportunities are also considered.</p>	<p>Within an asset allocation framework.</p> <p>The purpose of the International Equity Portfolio is to provide clients with a theoretical example of a portfolio that may be suitable for a client wishing to diversify domestic equity holdings and to support advisers with a basis of advice to clients.</p>	30-40	Benchmark unaware (4-6% (soft target))



# | How we operate Equity Portfolios

- Prior to 1 July 2024, performance of model portfolios showed returns based on a theoretical model portfolio – in other words, these were ‘paper based’ simulated portfolios. As of 1 July 2024, the portfolios are ‘seeded’ with capital funded by JBWere Limited. The purpose of seeding the portfolios is to reflect the outcome more accurately for a client who follows the portfolios. The portfolios reflect fees and expenses in relation to operating the portfolios, such as custody and platform fees. Expenses do not include ongoing Advice fees.
- Franking credits are fully valued and reported in both portfolios and associated benchmarks, where applicable. Performance is reported pre investor taxes, except in the case of foreign withholding taxes that are withheld at source.

# | Portfolio performance updates

We provide regular, concise, updates and communications. Performance reports for each of the equity portfolios to keep investors informed of portfolio performance, drivers of performance, key characteristics, exposures, and risks.

# Equities team organisational structure

Name	Role	Responsibilities	Years in Industry	Years in Team (JBWere)
Aidan Kerr	Head of Australian Equities	Portfolio Manager of domestic equity portfolios	12	5
Andrew Hudson	Head of International Equities	Portfolio Manager, International Equity Portfolio	27	13
Harsh Bardia, CFA	Senior Analyst, Equities	Equities research	17	3
Virad Mathur	Senior Analyst, Equities	Equities research	14	2
Chris Town	Senior Analyst, Equities	Equities research	24	6
Andrea Chu	Senior Analyst, Equities	Equities research	15	8
Lincoln Valentine, CFA	Senior Analyst, Equities	Equities research	17	5
Sinan Dilber	Senior Analyst, Equities	Equities research	8	6

# Glossary of terms

Term	Description
<b>Active position</b>	Portfolio weight of a security relative to its weight in the benchmark
<b>Bench mark aware</b>	When constructing a portfolio, a reference is made to the composition of the benchmark and the weighting of individual securities within the benchmark
<b>Contribution to risk</b>	A risk measure that is defined as the contribution of each component in the portfolio to the total value at risk of the portfolio
<b>DCF</b>	Discounted cash flow
<b>Downside volatility</b>	The risk of negative returns or returns that fall below a minimum threshold
<b>EV/EBIT</b>	Enterprise value to earnings before interest, tax, depreciation and amortisation
<b>EV/EBITDA</b>	Enterprise value to earnings before interest, tax, depreciation and amortisation
<b>FCF Yield</b>	Free cash flow yield
<b>GARP</b>	Foreign exchange risk exists when company transactions or investments are denominated in a currency other than the domestic currency
<b>FX Risk</b>	Growth at a reasonable price
<b>PE</b>	Price to earnings ratio
<b>PB</b>	Price to book ratio
<b>PEG</b>	Price/earnings to growth ratio
<b>ROIC</b>	Return on invested capital
<b>Equity Portfolio</b>	A portfolio financed with seed capital funded by JBWere post 1 July 2024. Performance calculations are based on the actual prices realised for the respective purchase or sale of securities.

# About JBWere Investment Strategy Group

Our Investment Strategy Group (ISG) is a team of highly experienced investment strategists and analysts; the driving-force behind our investment recommendations and asset allocation strategies. The ISG group undertakes in-house research across a diversified suite of asset classes, including international and domestic equities, international and domestic fixed income, and alternative investments. Supporting the team's research is a wide range of views including those from our domestic and global research partners and other well-respected external industry research bodies.

Drawing on these insights, the ISG provides the intellectual property, insights and tools for JBWere's Advisory Team to manage clients' portfolios including:

- The economic outlook;
- Analysis of global investment trends, opportunities, challenges and investment markets;
- Strategic asset allocation and the identification of tactical portfolio tilts;
- Direct model portfolio and advice; and
- In-depth managed strategies research.

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