

**JBWere**

# Investment Strategy Group JBWere Investment Philosophy

May 2024



Prepared by the Investment Strategy Group

**PUTTING WEALTH TO WORK FOR GENERATIONS**



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# | Executive Summary

## What are the 5 foundational beliefs for our investment philosophy?

At JBWere, our most important belief is that we are here to serve our clients. This principle is core to our investment philosophy. Our investment philosophy is based on five foundational beliefs:

### Each client is unique

We are committed to providing trusted and tailored investment advice that stands the test of time and reflects our understanding that each client is unique.

### Strategic asset allocation drives investment returns over the long term

We believe diversification across asset classes reduces your overall portfolio risk and maximises your returns over the long term.

### Active management enhances value

We believe full cycle investing with tactical tilts maximises your returns.

### Capital preservation is ensured by risk awareness

We embed risk management across every stage of the investment journey.

### Responsible investing matters

We recognise the privilege and importance of our role in responsible investing, whether it be enhancing performance through the integration of ESG factors, or aligning the portfolio with your ethics and values.

## Who provides investment advice at JBWere?

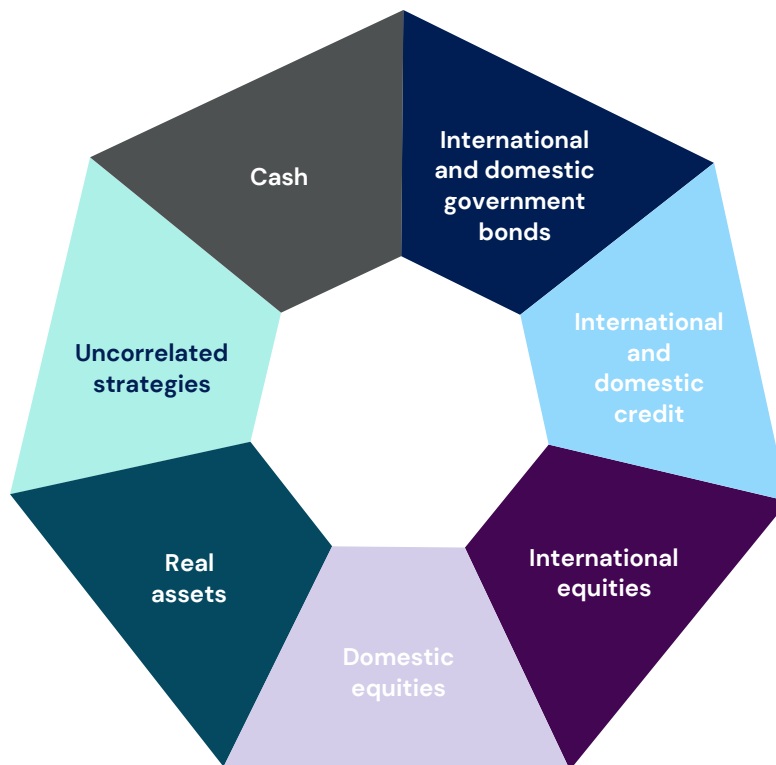
Investment advice at JBWere is undertaken by our Investment Strategy Group (ISG). The ISG's primary ambition is to provide our clients with consistently high quality and insightful investment advice that stands the test of time. The ISG is a team of highly experienced investment strategists and analysts and is the driving force behind our investment recommendations and asset allocation strategies.

The 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, fund managers 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.

## What is the investment process at JBWere?

Our investment process is the framework that overlays our foundational investment principles and is key to our ambition to provide our clients with consistently high quality investment advice. Our starting point for the investment process is strategic asset allocation (SAA). Broadly speaking, this process seeks to find the optimal allocation of capital over a longer-term horizon within an investor's portfolio across various asset classes, for a given risk profile or target return. At JBWere, our strategic asset allocation process allocates an investor's capital across seven asset classes:

### Asset Classes



The ultimate allocation between each asset class will differ depending on an investor's risk tolerance and/or desired return target.

Beyond SAA, we believe that active management can enhance portfolio returns. Thus another aspect of our investment process is the framework we adopt to assess such opportunities. These opportunities are more tactical in nature and are represented by sleeve strategy within an asset class in our liquid model portfolios. Economic analysis and valuation metrics are key inputs to this process; a combination of noteworthy macro indicators and compelling valuation metrics usually represents a solid foundation for identifying a particular opportunity for sleeve strategy.

While our strategic asset allocation is undertaken with a 5–7 year horizon in mind, sleeve strategies or tactical tilts tend to be shorter in duration. We believe the majority of these opportunities should have a life span of one year at most, and 1–2 months at a minimum. However, we note that longer term trends and thematic opportunities can also be implemented through more illiquid strategies. While the SAA should keep investors in an asset allocation aligned with their longer-term financial objectives (the beta aspect to a portfolio), seeking alpha allows the investor to make tactical tilts within asset classes to monetise shorter-term opportunities. This is consistent with our belief that active management of a portfolio enhances portfolio returns.

## How does JBWere approach Responsible Investing?

JBWere is a leader in Responsible Investing (RI) in private wealth across Australia, demonstrated through a long history of high-quality RI insights and thought leadership, investment research, and advocacy. Accordingly, no investment philosophy would be complete without an articulation of a RI framework. At JBWere, our RI framework includes:

1. the integration of ESG factors;
2. stewardship of capital;
3. impact investing; and
4. ethical and values-based investing. JBWere's RI belief framework is fully embedded into the investment process at an asset class level, as well as in the fund selection process.

## How does JBWere approach Risk Management?

One poor investment decision can undo many good ones. Accordingly, portfolio risk management is embedded in our portfolio construction process from our fund selection process to our refining of tracking error, thematic, sector and liquidity considerations. Risk management is an ongoing discipline, covering many aspects of portfolio construction and includes (but is not limited to):

- real time monitoring of market conditions and the themes our portfolio has exposure to;
- regular monitoring of portfolio risk characteristics;
- an ongoing review process for funds;
- regular, formal ISG meetings to ensure requirements are being retained; and
- ongoing rebalancing of portfolios.

## Summary

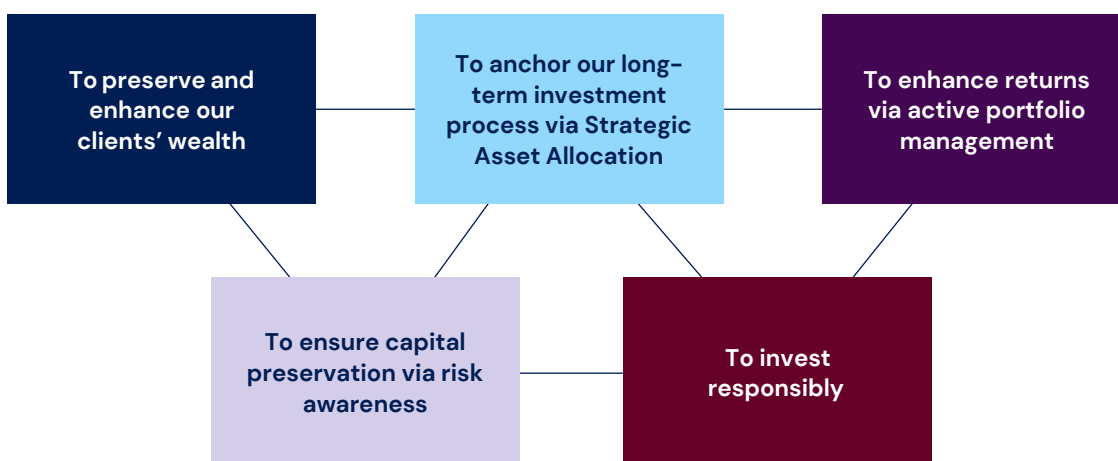
The most important component of our investment philosophy is our ambition to preserve and enhance our clients' wealth. This core ambition underpins our commitment to provide trusted investment advice that stands the test of time. The remaining principles of our investment philosophy pertain to the process that we believe best delivers trusted investment advice for our clients. These beliefs focus on the importance of the strategic asset allocation process, the desire to actively seek value-add opportunities for client portfolios and the understanding that risk mitigation is at all times critical to the investment process. In addition, JBWere's RI beliefs are a critical component of our investment philosophy.

“ The most important component of our investment philosophy is our ambition to preserve and enhance our clients' wealth. ”

# Introduction

At JBWere, we believe wealth management requires a highly bespoke approach that entails working alongside and in partnership with clients. Standardised offerings may promote short-term performance, but can do so at the risk of leaving longer-term objectives unfulfilled. In contrast, a well-constructed portfolio based on a clearly articulated investment philosophy and process has the best prospect of producing outcomes which meet or exceed future requirements. At JBWere, we believe that a transparent, disciplined and consistent investment framework provides a solid foundation for repeatable investment performance. We favour simplicity over complexity, and believe that long-term asset allocation is fundamental to the achievement of our clients' investment goals.

In very general terms, an investment philosophy is a set of principles and foundational beliefs that guide the investment process. At JBWere, our most important belief is that we are here to serve our clients. This principle is core to our investment philosophy. Our investment philosophy is based on five foundational beliefs:



1. **Preserving and enhancing our clients' wealth;** we are committed to providing trusted and tailored investment advice that stands the test of time and reflects our understanding that each client is unique.
2. **Strategic asset allocation is a fundamental driver of investment returns over the long-term;** we believe diversification across asset classes is key to reducing overall portfolio risk and maximising returns over the long-term.
3. **Active management enhances value;** we believe full cycle investing maximises client returns.
4. **Capital preservation is ensured by risk awareness;** we embed risk management across every stage of the investment process.
5. **Responsible investing;** we recognise both the privilege and importance of the role we play in responsible investment. We include the identification and analysis of ESG factors, stewardship of capital, impact investing, and ethical and values-based investing as part of our approach to responsible investing.

Investment advice at JBWere is undertaken by our Investment Strategy Group (ISG). The ISG's primary ambition is to provide our clients with consistently high quality and insightful investment advice that stands the test of time. The ISG at JBWere is a team of highly experienced investment strategists and analysts and is the driving force behind our investment recommendations and asset allocation strategies. The 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, fund managers 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.

We value research independence highly at JBWere. Importantly, all investment decisions and recommendations are formulated on the basis of the potential to add value to client portfolios, regardless of any relationship JBWere or its related entities may have with the provider of the investment selected. JBWere's senior management recognises and actively supports ISG's research objectivity and to this end it has no oversight responsibilities or input into investment recommendations.

# | The Investment Process

Our investment process is the framework that overlays our foundational investment principles. At JBWere, the investment process is key to our ambition to provide our clients with consistently high quality investment advice. Our starting point for the investment process is strategic asset allocation (SAA). Broadly speaking, this process seeks to find the optimal allocation of capital within an investor's portfolio across various asset classes, for a given risk profile or target return. The SAA process is fundamental to maximising investment returns over the longer run; it is widely accepted in academic literature that the strategic asset allocation process can account for around 80% of overall investment performance over the long term.

The fundamental principle behind SAA is diversification – by allocating capital to assets with different risk and return profiles and low correlation to each other, then the overall risk of an investor's portfolio can be reduced over the long run. Moreover, there is strong empirical evidence to suggest that the standard error of returns (that is, volatility of returns) in a given asset class declines, the longer the investment period. This is largely due to the fact that there is strong mean reversion in long-term returns and implies that it is easier to forecast the average annual return for an asset class over a decade than over one year. For these reasons, we devote much time and intellectual effort to our strategic asset allocation process.

At JBWere, we offer four asset allocation models for clients, each with a different risk and return profile. These models are listed below, in order of most defensive to least defensive, with target returns in parentheses: <sup>1</sup>

1. Capital defensive (CPI + 1.5% p.a.);
2. Balanced income (CPI + 2.5% p.a.);
3. Balanced growth (CPI + 3.0% p.a.); and
4. High growth (CPI + 4.0% p.a.).

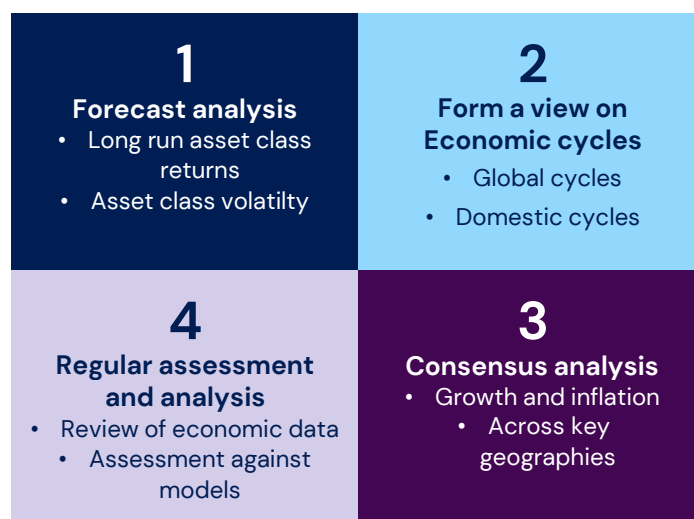
It is also worth noting at this juncture that the four asset allocation models listed above may be viewed by some clients as simply a starting point. JBWere's ISG ensures our advisers have the right information and tools to enable them to tailor advice for each and every client portfolio. For those more familiar with the particulars of asset allocation, our four asset allocation models represent four locations on the efficient frontier (that is, four optimal combinations of risk vs. return). In theory, a client portfolio can sit anywhere on the efficient frontier. Our ability to tailor client portfolios at an individual level reflects the JBWere philosophy of placing our clients at the centre of all that we do.

“JBWere's ISG ensures our advisers have the right information and tools to enable them to tailor advice for each and every client portfolio.”

From a quantitative perspective, the SAA process requires forecasts for both long run asset class returns, and asset class volatility. At JBWere, the ISG uses quantitative models to forecast this set of variables. We also form a view on the state of the global and domestic economic cycles, given the importance of the economic cycle to asset allocation decisions. We analyse consensus forecasts for growth and inflation, recent changes in forecasts and the underlying pulse of the economic data flow to gauge cycle dynamics across key geographies. Changes in the distribution of risks around the modal (consensus) forecasts for growth and inflation can be important for both the level and direction of asset prices, which underscores the need for regular assessment and analysis of incoming economic data.

<sup>1</sup> For more detail on the construction of these portfolios and the strategic asset allocation process, please see *Asset Allocation Blueprint*, by G. Bertram and A. Oh, 17 February 2021.

Finally, we assess the output of these models in order to ensure that our results are consistent with the impact of less quantifiable structural influences on the global economy and financial markets. This gives us confidence that our forecasts are produced by sound quantitative processes, but that they also reflect the reality of the world in which we invest. In summary, we cannot ignore the structural forces that drive longer-term asset returns, and assessing their progress and relevance in a qualitative fashion is an important component of our SAA process. Once a quarter, our team sits down for an in-depth discussion about the quantitative inputs into the SAA process. This meeting is the main forum at which inputs into the SAA process are debated, discussed and agreed upon.



This combination of quantitative and qualitative analysis speaks to the natural tension that exists between rules and discretion in the investment process. At JBWere, we are of the opinion that both are needed. Relying solely on rules-based investing ignores the fact that regime changes occur (that is, economic structures and markets alter), and that such changes are usually unable to be captured by simple rules. In addition, the greater the number of assumptions required by an investment process, the higher the probability of being required to input numbers for which there is less conviction in their robustness.

By definition, changes to the SAA shouldn't occur very often. Usually the driver of these changes will be a shift in the business cycle; for example, if it becomes clear that the economy is late cycle and the probability of recession is rising, then this would necessitate a shift towards a relatively more defensive asset allocation. Alternatively, changes to the SAA could arise via an unexpected shock (for example, a global pandemic) or unanticipated changes in the expected return of an asset class. For example, an unprecedented period of out-performance by equities relative to our forecast could drive a downward revision to future expected returns from this asset class, hence forcing a rebalancing of the strategic asset allocation.

Once the respective asset allocations have been decided, the asset class heads within ISG then decide the appropriate investment strategy for each asset class. For more detail on the investment philosophy and process underpinning the approach our ISG team takes to each respective asset class, please see the following link:

- **Equities**
- **Fixed Income**
- **Managed Research**
- **Alternative Investments**

We noted above that one of our key investment beliefs is that market inefficiencies and mispricing create alpha opportunities, or put another way, active management can enhance portfolio returns. Thus another aspect of our investment process is the framework we adopt to assess such opportunities. This process differs from the strategic asset allocation process in a number of ways, but perhaps the most important difference is time horizon. While our strategic asset allocation is undertaken with a 5–7 year horizon in mind, alpha opportunities tend to be shorter in duration. We believe the majority of alpha opportunity trades should have a life span of one year at most, and 1–2 months at a minimum.<sup>2</sup> While the SAA should keep investors in an asset allocation aligned with their longer-term financial objectives, seeking alpha allows the investor to take tactical deviations within or across asset classes and securities to exploit shorter-term opportunities. An actively managed portfolio is thus the sum of an investor's strategic holdings and the tactical deviations from them. Another way in which to think of this construction is that the SAA represents the beta of a portfolio, while the sleeve strategy represents the alpha.

<sup>2</sup> We also note that longer term trends and thematic opportunities can be implemented through more illiquid strategies.

In theory, there are a number of different ways in which these opportunities can be assessed and implemented. For example, an investor might choose to implement shorter-term deviations from the SAA, by over- or under-weighting a particular asset class. Alternatively, an investor might leave asset allocation unchanged, but instead choose to implement sleeve strategy within a particular asset class. For example, the sleeve strategy might reflect a bias to global over domestic fixed income securities in credit portfolios, or a bias to cyclicals over defensives in equity portfolios.

Within the Investment Strategy Group at JBWere, our preference, particularly for the liquid asset classes of equities and fixed income, is for the latter (that is, within asset class sleeve strategy). In the main, this approach is reflected in our liquid model portfolios, where we can tilt the exposure of an asset class in order to reflect tactical opportunities. Alternative investments, in contrast, span JBWere's seven SAA asset classes and are implemented through individual funds as opposed to a dedicated 'Alternative investments' portfolio. Alternative investments, by their nature, are highly diverse in both types of sub asset classes they include, but also by the level of liquidity they can provide. For this reason, the Alternative Investments team within ISG look to implement tilts through the more liquid Alternative strategies within the liquid model portfolios, but will also seek to capture longer term trends and thematic opportunities across the less liquid (typically private market strategies) they cover.

One of the key differentiating features of the JBWere Managed Research process is that when reviewing any strategy, the Managed Research analysts usually work very closely with other asset class specialists in the broader research team. Not only does this ensure we have a thorough understanding of any strategy we consider, but also ensures we build a complete understanding of the market in which we invest. This process also provides another avenue for our research team to gather information from professional investment management organisations to feed into the ISG. Indeed, we employ an open architecture model for fund selection, and believe that it is important to seek out best-of-breed investment products rather than relying on a single product distributor or fund manager. This approach allows us to utilise a broad range of asset classes, investment types, product providers and styles of management, including direct and managed options for the major asset classes of equities, fixed income and alternative investments. Importantly, this approach maximises the opportunities for tactical tilts to the portfolio.

“ While the SAA should keep investors in an asset allocation aligned with their longer-term financial objectives, seeking alpha allows the investor to take tactical deviations within or across asset classes and securities to exploit shorter-term opportunities. ”

At JBWere, our process for identifying these opportunities begins with a monthly meeting of the ISG team. The purpose of this meeting is to analyse, discuss and debate the following topics: (by no means an exclusive list):

- performance and tracking of our SAA,
- developments in the macro-economic,
- policy and geo-political environments,
- developments in specific asset classes over the past month, and
- valuation metrics across various financial assets.

This monthly meeting forms the framework from which sleeve strategy opportunities are identified and assessed, and also provides a forum for active risk management of current alpha trades. We start with a macro-economic framework, in order to identify economic trends across different geographies that may support the basis for over-weighting or under-weighting assets in a particular region. Our economic cycle and momentum indicators are critical inputs to this process. Once a particular geography screens as interesting, we then consider a range of valuation metrics across asset markets to identify potential opportunities. A combination of noteworthy macro indicators and compelling valuation metrics usually represents a solid foundation for discussion of a particular tactical opportunity. Note that such opportunities do not need to be region specific (for example, a tilt to cyclical vs. defensives in domestic and international equities).

Finally, and on a more philosophical note, we think it worth stating a couple of operating principles that sit behind our approach to the investment process.

- The first is that more complexity is not always a good thing; while the world is undeniably complex, there are advantages to focusing on fundamental drivers and removing clutter from the thought process.
- The second is that we try to embrace our mistakes; as human beings we know we learn more from being wrong than we do from being right. Markets are a constantly evolving and adapting system; this system is perpetually learning too.
- The third is that models and quantitative analysis are necessary, but not entirely sufficient. All good investment analysts should have a toolbox from which they draw to form an opinion. Models should only be one tool in the box, and not the only tool.
- Lastly, we have courage in our convictions. Thought leadership is not always easy, but following the consensus is definitely less interesting.

“ Thought leadership is not always easy, but following the consensus is definitely less interesting. ”

# | Risk Management

Portfolio risk management is embedded in our portfolio construction process. From our fund selection process to our refining of tracking error, thematic, sector and liquidity considerations. Risk management is an ongoing discipline, covering many aspects of portfolio construction and includes:

- Real time monitoring of market conditions and the themes to which our portfolio has exposure
- Regular monitoring of portfolio risk characteristics. In addition to our internal management tools, JBWere makes use of external resources from data service providers, such as Bloomberg and Morningstar
- An ongoing review process for funds
- Regular, formal ISG meetings to ensure requirements are being retained
- Ongoing rebalancing of the portfolio

# | Responsible Investment

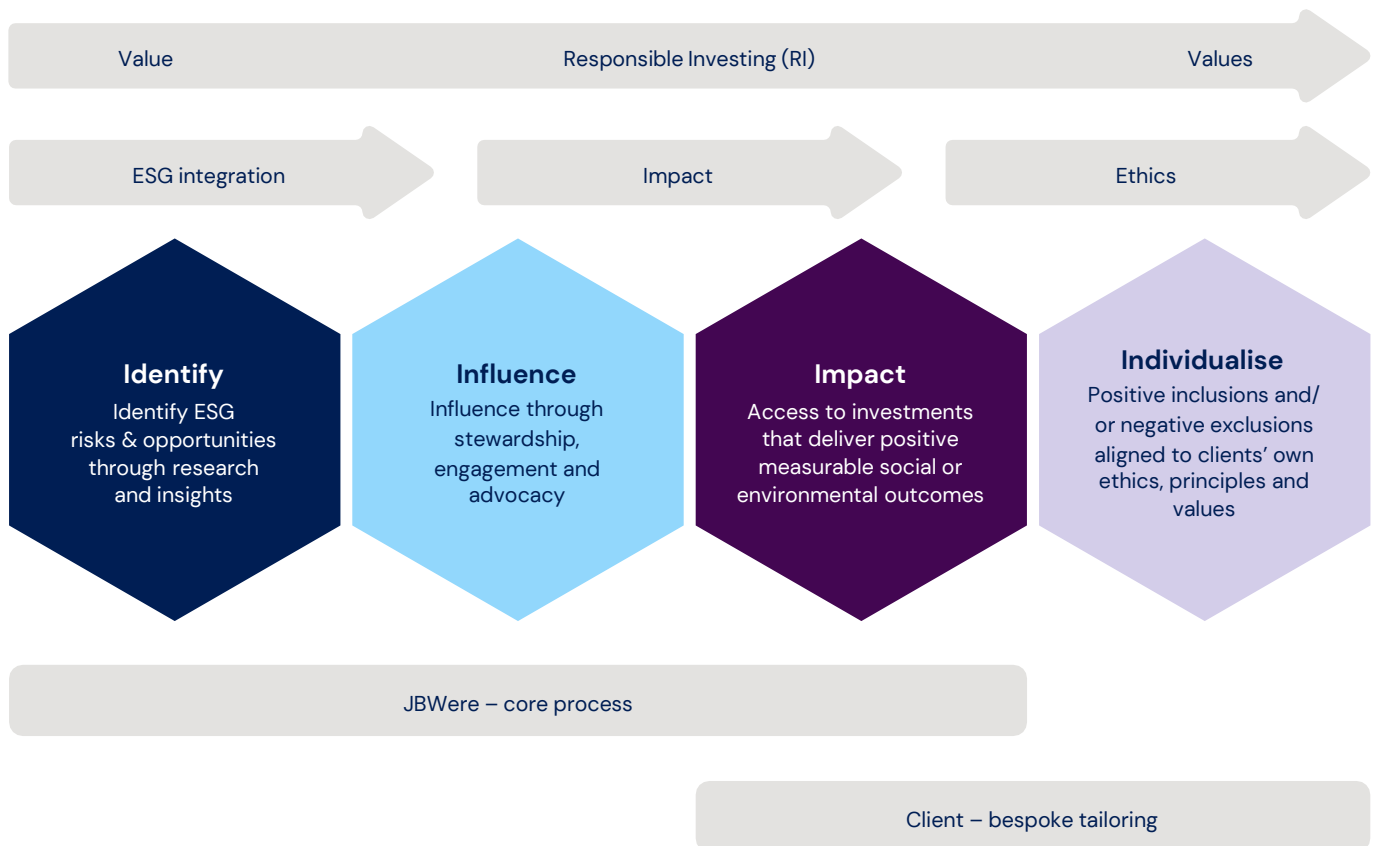
As one of Australia’s largest stewards of private client capital we recognise both the privilege and importance of the role we play in Responsible Investment (RI). At JBWere, RI is a broad umbrella term, covering a range of approaches including:

- The identification and analysis of ESG factors;
- Stewardship of capital;
- Impact investing; and
- Ethical and values-based investing.

JBWere is a leader in RI in private wealth across Australia, demonstrated through a long history of high- quality RI insights and thought leadership, investment research, and advocacy. Accordingly, no investment philosophy would be complete without an articulation of a RI framework. Our RI framework comprises four main pillars:

1. We use our research and expertise to **(1) Identify** and provide insight into ESG risks and opportunities across the full range of asset classes and related investments to help our clients make more informed investment decisions. ESG analysis is also integrated into our client model portfolios.
2. We aim to use our ESG insights to positively **(2) Influence** company and fund manager behaviour, and outcomes on behalf of our clients, through developing an approach to stewardship, engagement and advocacy.
3. For clients looking beyond ESG integration, JBWere also offers investing for **(3) Impact** with clear and measurable social or environmental outcomes. This is a small but rapidly growing investment segment.
4. And finally, clients can **(4) Individualise** their portfolios through positive inclusions or negative exclusions aligned to their unique ethics, principles and values using leading insights from both JBWere’s ISG and specialist local and global partners.

A pictorial representation of our RI framework is below:



Source: JBWere

For more detail on how these pillars are adopted at an asset class level, please see JBWere’s Responsible Investing Policy.

# | Summary

JBWere's Investment Strategy Group (ISG) is a team of well qualified, experienced and dedicated professionals. The Group constantly strives to produce high quality research, investment recommendations and market insights. ISG's research forms the basis of JBWere's capacity to deliver trusted investment advice to our clients. Our investment philosophy comprises the set of foundational beliefs and principles upon which this advice is based.

The most important component of our investment philosophy is our ambition to preserve and enhance our clients' wealth. This core ambition underpins our commitment to provide trusted investment advice that stands the test of time. The remaining principles of our investment philosophy pertain to the process that we believe best delivers trusted investment advice for our clients. These beliefs focus on the importance of the strategic asset allocation process, the desire to actively seek value-add opportunities for client portfolios and the understanding that risk mitigation is at all times critical to the investment process. In addition, JBWere's RI beliefs play a critical role in forming our investment philosophy.

JBWere has actively protected and enhanced clients' wealth for 180 years. Our longstanding ethos is to put the client at the centre of all that we do. Our proud track record reflects our desire to approach our clients' needs with responsibility, care and a deep knowledge of the wealth management process. Our investment philosophy is fundamental to this process, and is truly embedded in our ability to consistently deliver outstanding outcomes for clients.

# 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. Members of ISG undertake 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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Further information about the Conflicts of Interest related to research reports, and how JBWere maintains integrity of research, please refer to the [Managing Conflicts of Interest and Maintaining the Integrity of Research Policy](#).

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