

Managed Portfolios

Australian Equity Stock selection methodology

The Australian Equity component of our Managed Portfolios is a concentrated portfolio of Australian large cap stocks. The portfolio is designed to outperform a passive top-20 portfolio over the long term by selecting stocks that are consistent with our strategic factor beliefs—those we believe will outperform the Australian market over the long run.

Methodology

1

We believe that certain factors will provide long run tailwinds. Developed by our global strategist team, our firm-wide factor beliefs capture the exposures we expect to provide an excess return premia over a market cycle.

2

These beliefs are tailored to the Australian marketplace and form the basis for our Australian Large Cap Strategic Benchmark—an ~80 stock portfolio designed to capture the long-term risk premia embedded in our factor beliefs.

3

Drawing on the top 40 stocks in the strategic benchmark (those that drive most of the portfolio exposure) we further optimise stock selection and sector weights, refining to the 25–30 stocks that make up the Australian Equity portfolio.

FACTOR BELIEFS

- **Value:** over a full market cycle, value stocks will generate higher returns than growth stocks;
- **Momentum:** stocks with positive medium-term momentum will generate higher returns than stocks with negative momentum;
- **Quality:** higher quality stocks will generate higher returns than lower quality stocks;
- **Low volatility:** low volatility stocks will outperform high volatility stocks over a market cycle;
- **Growth:** systematic growth strategies do not outperform in the long run, however growth is an important risk factor and represents a material part of the equities opportunity set.

STRATEGIC BENCHMARK

The Australian Large Cap (ASX100) Strategic Benchmark allocations:

- 35% Momentum
- 30% Value
- 15% Low Volatility
- 10% Growth
- 10% Quality

Reconstituted semi-annually, the strategic benchmark is a multi-factor portfolio designed to capture our factor beliefs. The benchmark is refined by each regional equity team to incorporate local nuances—for example, Australian markets have more momentum and less value exposure relative to global equities as the Australian market tends to be more momentum driven.

EXPOSURE VS THE ASX100

Banks	2.60%
Communication Services	-0.22%
Consumer Discretionary	-0.26%
Consumer Staples	-1.10%
Energy	-0.65%
Financials	2.86%
Health Care	-0.57%
Industrials	-0.70%
Information Technology	-0.60%
Materials	1.84%
Real Estate	-0.08%
Utilities	-0.52%

STOCK LIST

AGL Energy Ltd	Australia and NZ Banking Group	Fortescue Metals Group Ltd	Orica Ltd	Transurban Group
Altium Ltd	BHP Group Ltd	Goodman Group	Rio Tinto Ltd	Wesfarmers Ltd
Ancor PLC-CDI	Coles Group Ltd	James Hardie Industries-CDI	Sonic Healthcare Ltd	Westpac Banking Corp
Ampol Ltd	Commonwealth Bank of Australia	Macquarie Group Ltd	South32 Ltd	Woodside Petroleum Ltd
Aristocrat Leisure Ltd	CSL Ltd	National Australia Bank Ltd	Suncorp Group Ltd	Woolworth Group Ltd
Aurizon Holdings Ltd	Dexus	Newcrest Mining Ltd	Telstra Corp Ltd	Xero Ltd

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