JBWere

Portfolio Review

National ELT Accreditation Scheme Limited

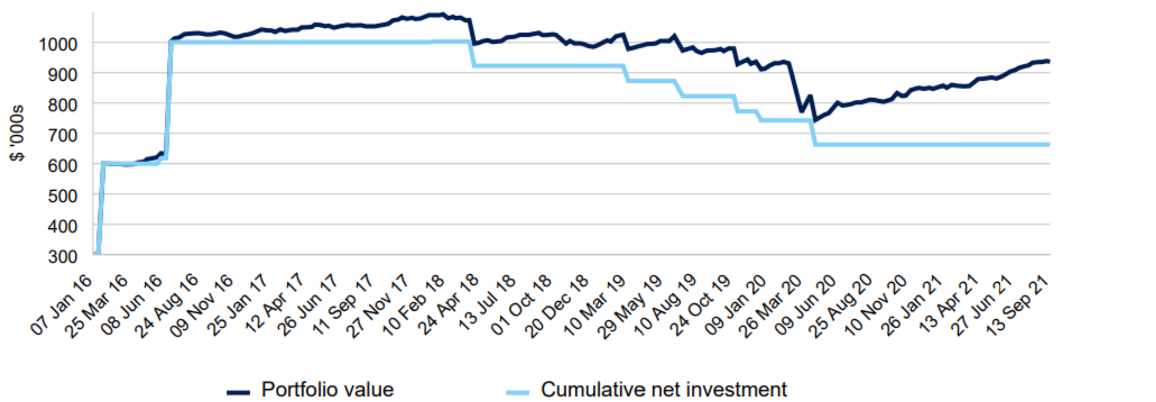
September 2021

Portfolio Performance

	13 September 2021
Portfolio Valuation	$932,180

	3 months	6 Months	1 Year	2 Years	Since Inception
Portfolio returns	**4.6%**	**9.5%**	**17.2%**	**8.2%**	**6.1%**
ABS AUS CPI+3%	*1.1%*	*2.6%*	*6.0%*	*4.7%*	*4.7%*
Excess return	***+3.5%***	***+6.9%***	***+11.2%***	***+3.5%***	***+1.4%***

Value versus cumulative net investment



The portfolio continues its solid performance, returning 6.1% a year since inception, comfortably ahead of the inflation + 3% target over the same time. The particularly strong performance in the last year reflects the rebound since the market's drawdown last year due to COVID-19. This recovery has been stronger and sharper than we expected due to the unprecedented fiscal and monetary support globally.

We believe the market strength and the economic recovery will persist, however we expect volatility to remain, both from a health perspective, with new variants and news regarding vaccine rollouts; and economically, as we watch inflation closely and governments start to signal their plans to slowly reduce support.

Portfolio Attribution for FY 21

Contributors:

- FY 21: ANZ (64%), Westpac (52%), NAB (51%), CBA (50%) and Bennelong ex-20 (47%)

Detractors:

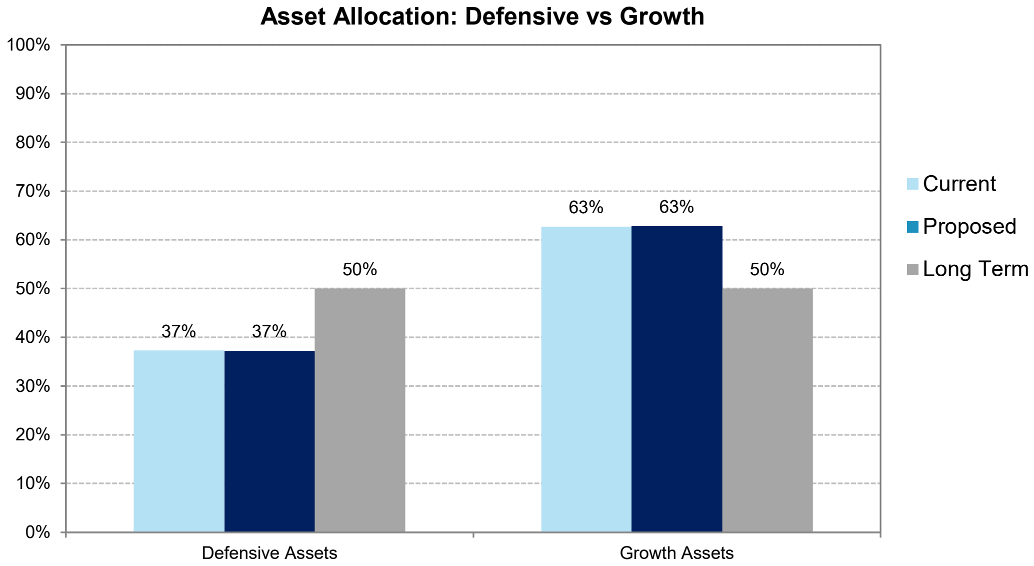
- FY 21: Magellan Global Trust (-14%), Gold (-10%) & Janus Henderson Australian Fixed Interest (-4%)

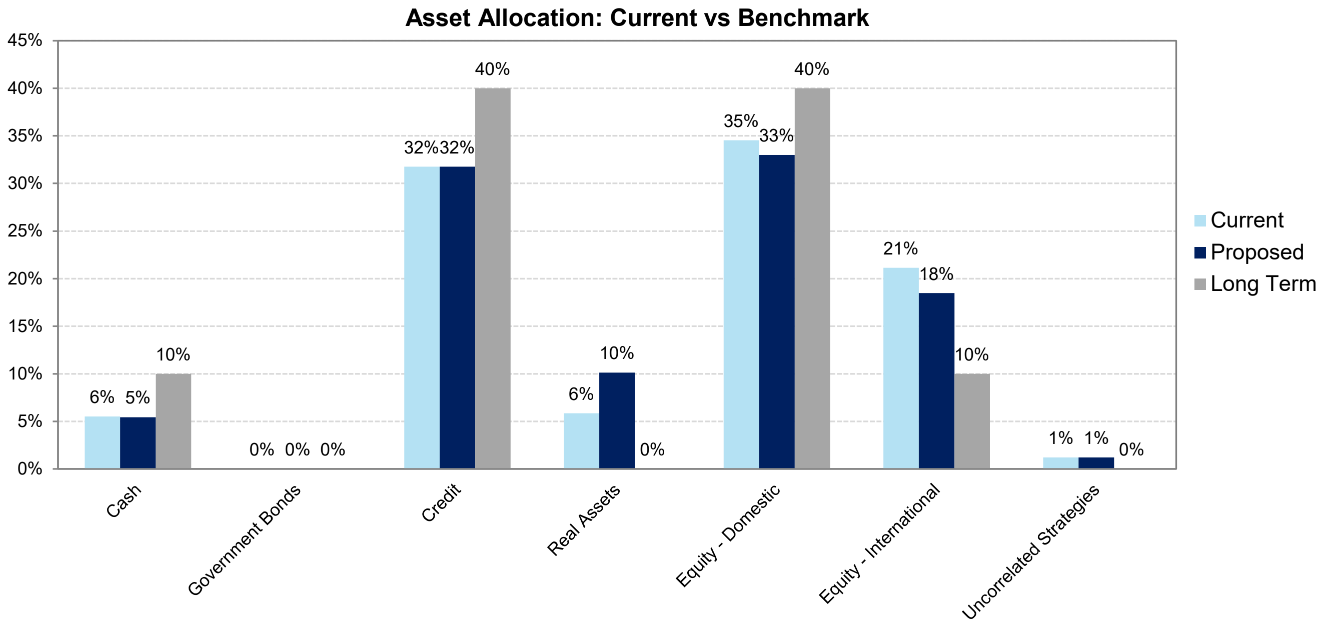
Comparison of returns

Asset class	Benchmark	Investments return[a] %	Benchmark return[a] %
Cash	Bloomberg AusBond Bank Bill Index	0.11	0.06
Government Bonds	Bloomberg Barclays Global Aggregate Treasuries Total Return Index Hedged AUD	NA	-1.44
Credit	Bloomberg Barclays Global Aggregate - Credit Total Return Index Hedged AUD	4.05	2.74
Real Assets	50% FTSE EPRA/NAREIT Gl Tot Ret & 50% FTSE Dev Core Infr 50/50 Tot Ret AUD	6.61	14.95
Equity - Domestic	S&P/ASX 200 Accumulation Index	35.56	27.80
Equity - International	MSCI ACWI Gross Total Return AUD Index	23.49	28.55
Uncorrelated Strategies	ABS AUS CPI + 2% p.a.	-9.73	5.85
Composite index return [b]			14.94
Portfolio return before expenses [c]			16.92

The table above compares the portfolio's performance to a personalised benchmark. The portfolio has outpaced index returns, in the last financial year. These gains have been notable in your Equity – Domestic and Credit portfolios, with a lag due to the performance of your Uncorrelated Asset weightings in the portfolio, which is symptomatic of the market's strength over the last year. The only uncorrelated investment currently held in the portfolio is GOLD, which is typically weak in strong markets, but it is for characteristic, negative correlation, that we hold it in the portfolio.

Asset Allocation





The above charts outline your asset allocation. The LIGHT BLUE colour depicts your current asset allocation and **DARK BLUE** is what the asset allocation will move to if the recommended changes are implemented. Lastly in **GREY** is the asset allocation benchmark as outlined in your Investment Policy Statement (IPS).

Your portfolio is well positioned so the proposed changes are not a portfolio overhaul. There will be minimal effect on your overall asset allocation, however it will ensure our preferred themes and exposures are well represented. We have deliberately held Australian Equities underweight to balance an overweight to international equities as well as allow for an increase in Real Assets. This diversification will reduce the risk of the portfolio, while remaining comfortably within the ranges outlined in the IPS.

Recommendations

We want to incorporate exposures that align with these two key themes:

1) **Small Capitalisation Companies:** we are in an ‘expansion’ phase in the market where small caps historically have outperformced their larger cap peers. This is a theme we believe offers good value buying;

2) **Real Assets** – offer an inflation hedge, as well as sustainable income (typically CPI+4%) and in our view good growth prospects.

We have outlined the details of the investments below and included the JBWere Quarterly Updates for each new managed fund in the review email.

Real Assets

Real Assets include property and infrastructure; these are important in the current environment given their attractive risk reward trade-off. To continue to build this preferred asset class we suggest **adding Resolution Capital Global Property Fund ($40,000).**

Resolution Capital Global Property Fund

Last year we added an infrastructure exposure, Atlas Infrastructure; to further build out your Real Asset sleeve we suggest now adding Resolution, a global property fund.

The onset of COVID-19 resulted in a significant divergence within the property sector. Retail, hotels and office global real estate investment trusts are facing considerable challenges compared to the likes of data centres and warehouses, which have been beneficiaries of the accelerated take-up of digital infrastructure and e-commerce. Accordingly, we believe the current and future environment will be more conducive to active management in this sector, making Resolution Capital Global our preferred exposure for global property. This would establish an initial 4% exposure.

Recommendation: $40,000

A copy of the PDS can be found at
https://rescap.com/wp-content/uploads/Resolution-Capital-Global-Property-Securities-Fund-PDS.pdf

Equity – Domestic

To allow for the diversification into other asset classes, we suggest trimming profits both **Macquarie Group** and **Sonic Healthcare** following their strong performance over the last year. We also suggest selling your holding of **ANZ**, as it has reached our estimate of fair value, and the earnings outlook from here looks more challenging. Recent lending data from APRA shows that ANZ has continued to lag the other major banks, both in new home lending and business lending, and it is increasingly apparent that issues with loan processing and turnaround times are having an impact.

Commonwealth Bank has recently announced an off market buy back, which offers an attractive opportunity for zero tax entities like NEAS. We will recommend in the coming weeks submitting your shares for this buyback to harvest the benefit as we expect significant scaling.

QVG Opportunities Fund

QVG Opportunities provides exposure to the small to micro-cap end of the Australian market, with a focus on growth stocks. Establishing a position in your portfolio will be complementary to the existing mangers that focus on larger listed companies. They specialise in the $200m-$800m market capitalisation companies, which is usually outside the realm of traditional managers. Smaller companies have shown over time that they are well positioned to outperform large caps throughout the 'recovery' phase and the 'expansionary' phase of markets. Post the clear recovery from COVID-19's initial impact in 2020, we are now in the expansion phase and believe the growth from the smaller companies in Australia will be rewarding for the portfolio and outperform the more mature 'top 20' names that have resulted in a narrow market spread domestically.

QVG have had an exceptional year, returning 48% and are already soft closed. JBWere still has access to the fund so we suggest you take the opportunity to initiate a small position in NEAS' portfolio.

Recommendation: $15,000

Equity – International (Listed)

Within international equities we suggest a rebalance, thus the overall allocation to international equities only marginally decrease.

We suggest trimming **Magellan Global Fund (MGF)** based on their ongoing underperformance to allow the addition of iShares Small Cap ETF to leverage our preference for smaller companies at this point in the cycle and these are underrepresented in the portfolio. We are preferentially maintaining **Generation Global Fund** which is the ethically minded global fund which returned more than 40% in the last year.

iShares S&P Small-Cap ETF

This exchange traded fund (EFT) aims to provide investors with the performance of the S&P Small-Cap 600®, before fees and expenses. It is a low-cost flexible means of adding exposure to the small companies in the US. Globally the US's economic recovery has been the swiftest and thus we believe the small companies are well positioned to take advantage of this strong momentum. This is a section of the market that is underrepresented in the portfolio given the mega-cap and large-cap bias of the existing managers.

This position will complement QVG in the domestic portion of the portfolio.

Recommendation: $25,000

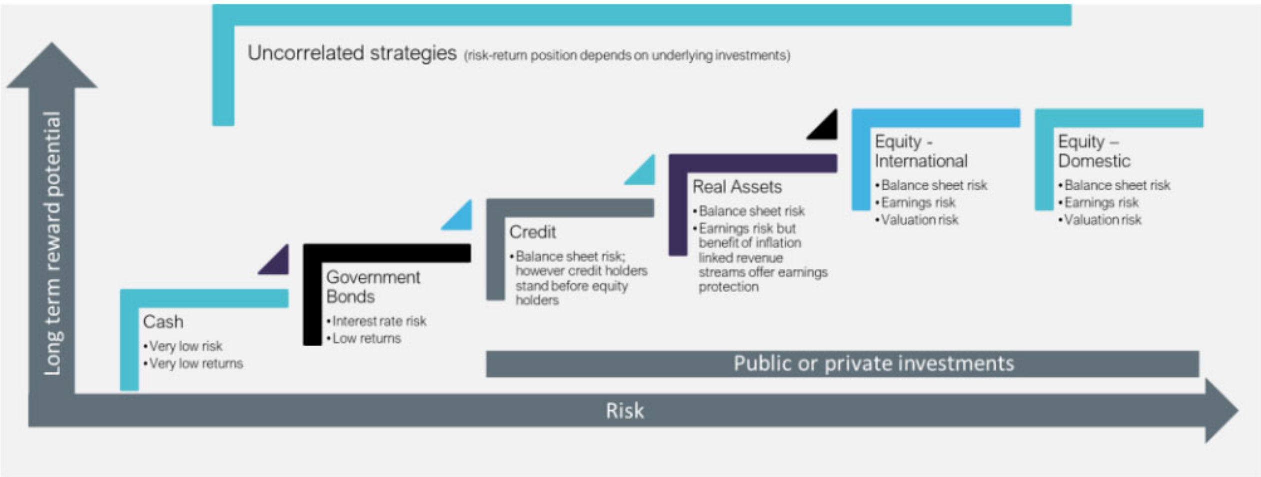
A copy of the PDS can be found at
https://www.blackrock.com/au/individual/literature/product-disclosure-statement/ishares-international-equity-product-disclosure-statement-en-au.pdf

Cash

The above recommendations will maintain the existing cash balance on the basis that you have advised you will need this for strategic activity this year. Furthermore, we expect cash levels will lift with the proceeds from the proposed CBA buyback application.

APPENDIX
Asset Allocation Blueprint

Persistently low yields, historically stretched valuations and slower global growth have in our view reduced return expectations for most traditional asset classes in the years ahead. As such, we see the need for investors to increasingly shift up the risk curve into credit, real assets, equities or alternative strategies.



Source: JBWere

Defensive Portfolio

Cash

- Cash is the easiest asset class to forecast, as returns are essentially known. By definition, this asset class proxies the 'risk-free' asset in portfolios.
- Current cash yields are near zero and the main benefit of holding cash today is the optionality it provides to take advantage of other opportunities as they arise, providing a stable 'liquidity-buffer' in portfolios.

Government Bonds

- A government bond is a debt security issued by a government to support their spending and obligations, paying periodic interest payments.
- Traditionally, defensive investments such as Government Bonds are utilised in portfolios to offer liquidity at an enhanced yield to cash and diversification benefits in the event of a drawdown in more risky markets.
- A combination of large-scale central bank bond market intervention pushing yields close to the lower bound and cash rates at or near zero has essentially changed the dynamics of the Government Bond market and led to JBWere provisioning a 0% allocation to this asset class.

Credit

- Credit is generally defined as an agreement between a lender and a borrower. A fixed income portfolio at JBWere is typically made up of 3 instruments:
    - *Bonds:* a security which pays a defined coupon for any given term and repays the face at maturity.
    - *Hybrid Securities:* features a combination of debt (bond) and equity (share) characteristics, hence the name hybrid. Hybrids are considered fixed interest investments as investors receive known distributions, set at the time of issue. This, coupled with its fixed maturity generally consider it a lower risk investment to ordinary shares.
    - *Term Deposits:* A loan to a financial institution for a defined period of time, typically at a fixed rate.
- While credit adds some economic risk to a portfolio, it also adds enhanced yield, some capital preservation and diversification benefits relative to other risk assets.
- Investors must however be aware of credit quality, relative value and the liquidity of these investments.

Growth Portfolio

Uncorrelated Assets

- Within our Asset Allocation, we consider investments that deliver low or uncorrelated returns, which are introduced for diversification and return benefits. These strategies are evaluated on a case by case basis and it is the way each uncorrelated asset complements each other that drives the contribution to overall portfolio returns.
- These strategies generally target 8%-12%pa through the cycle, with risk levels lying between bonds and equities, but may range up to equity like volatility.
- A rise in volatility and difficult market conditions will generally favour uncorrelated asset strategies – these are the conditions we find ourselves in following the outbreak of the Coronavirus. With traditional asset classes expensive and uncertainty around the spread of the virus, we expect volatility to remain heightened and believe non-correlated strategies remain attractive
- This asset class includes Gold, in addition to other alternative investments including but not limited to commodities, currencies, and truly uncorrelated hedge funds and other managed fund strategies.

Real Assets

- An investment in Real Assets is an investment in physical assets with intrinsic value. Real Assets include but are not limited to;
  - *Real estate*: typically characterised by heavy building costs, long duration and are backed by hard assets (e.g. high-quality Real Estate Investment Trusts (REITS), data centres and residential)
  - *Infrastructure:* assets which provide an essential service to the community, typically characterised by high barriers to entry, economies of scale, inelastic demand, long duration and inflation sensitivity (e.g. transportation, utilities, energy, and communications).
  - Some Renewables/Natural Resources investments may also feature here
- Real Assets can provide relatively stable income with overall lower volatility than Equities, adding diversification and inflation sensitivity benefits. This are compelling factors in the low growth, low interest rate environment that we are faced with in 2021.

Equities

- Given our significant capabilities covering research, analysis, advice and facilitation of direct equities, we endorse an allocation to these across the portfolio. Individual direct equity positions that we recommend are selected from stocks held in the JBWere model portfolios with sector weightings also closely aligned with the models.
- The JBWere asset allocation promotes diversifying across a base of both domestic and international equities
  - *Domestic:* The selection of our preferred Australian equity exposures provide diversification across sectors and company size. We ensure the mix of managers and direct holdings complement each other in style bias as well as sector and thematic exposure.
  - *International:* investing in global stocks allows us to generate geographic diversification, as well as diversification across sectors. Importantly, we focus on gaining exposure to sectors not readily available in Australia, or where the Australian landscape is limited compared to offshore peers (e.g. Technology).