

February 2025

# Portfolio Changes Update

## Implemented Portfolio Changes

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### Partners Short Term Portfolio

Several enhancements were made to help the portfolio deliver its RBA Cash Rate plus 1% investment objective with less volatility and without an over-reliance on significant underlying manager outperformance (alpha). These enhancements included exiting **Franklin Australian Absolute Return Bond**, reducing **Yarra Enhanced Income**, and increasing the allocation to **Daintree Income Trust**. Daintree Income Trust invests in Australian high-quality investment-grade credit (corporate bonds) and cash-like securities and seeks to outperform the RBA Cash Rate by 1.5-2.0% with low volatility.

### Partners Medium Term Portfolio

At ~62c, the AUD appears undervalued against the USD, presenting an opportunity to increase AUD hedging. In the near term, stronger growth prospects and rising interest rate expectations in the US create headwinds for the AUD. Consequently, we modestly increased hedging to a mild overweight position, with the flexibility to raise it further if Australia's relative growth outlook improves. Within the international shares component of the portfolio, **GQG Partners Global Equity**, **Aoris International** and **Fiera Atlas Global Companies** were trimmed, with the proceeds reallocated to **iShares Hedged International Equity Index**.

To neutralise a mild overweight to *value* strategies within international shares and increase the portfolio's exposure to the diversified and higher yield offered by Australian credit, **Pzena Global Focused Value** was exited and replaced with an increased allocation to **Realm Short Term Income**.

### Partners Long Term Portfolio

We hold concerns about elevated valuations in the Australian market, particularly given the weak domestic economy and subdued growth outlook. These concerns are most pronounced in the Australian banking sector, which represents a substantial portion of the ASX 200 Index. Given these dynamics, sector and security selection will be key to near-term returns, warranting particular caution on index allocations heavily exposed to Australian banks.

To reduce exposure to Australian shares, shift index exposure away from Australian banks toward active management, move from a mild overweight to neutral in international *value* strategies, and increase AUD hedging, we trimmed allocations to **Macquarie True Index Australian Shares**, **Evidentia Quality Core**, and **Fiera Atlas Global Companies**, while exiting global value manager **Pzena Global Focused Value**. The proceeds were reallocated to introduce **Chester High Conviction** and **Life Cycle Global Share Hedged**, along with increasing the allocation to **iShares Hedged International Equity Index**.

### Partners Multi-Asset Income Portfolio

No changes.

## New Funds

### Chester High Conviction Fund



The Chester High Conviction Fund offers a differentiated strategy with exposure to a concentrated portfolio of 25-40 outstanding Australian companies. The Fund aims to deliver long-term risk-adjusted returns of 5% more than the S&P/ASX 300 Accumulation Index over rolling three-year periods, with a secondary focus on capital preservation. Benchmark unaware, the strategy instead seeks to exploit inefficient markets by investing in only high-conviction ideas exhibiting sustainable earnings with an ability to generate free cash flow and dividend growth.

The Fund is managed by the highly experienced investment team at boutique Australian fund manager Chester Asset Management. The firm was formed in 2017 by portfolio managers Rob Tucker and Anthony Kavanagh, who had previously worked together at SG Hiscock & Company, where they ran a similar high-conviction Australian equity strategy. Rob and Anthony are joined by portfolio manager Luck Howard, also from SG Hiscock & Company, and two investment analysts. The Fund is the team's only strategy, meaning it is always given their undivided attention.

The team's investment philosophy, which underpins its portfolio construction process, is based on ten principles: take a high conviction approach, mid-cap bias, cash flow growth, back owners of capital, concentration on few ideas, focus on insights, take a contrarian view, keep it simple, invest with humility, and stay curious. A well-disciplined and repeatable portfolio construction process begins with idea generation based on top-down, thematic trends, and sector themes, cross-checked against bottom-up surveillance. Next, the team undertakes fundamental research on approximately 80 companies out of a universe of 300, focusing on three core factors - qualities that underpin predictable cash flows, valuation with a margin of safety, and edge or insight into an earnings surprise or another catalyst for a re-rate higher. Portfolio construction is the final step in the process and involves assessing the interaction between company lifecycle weightings, sector allocations and underlying company selection.

### Life Cycle Global Share Fund

# Life Cycle

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combined into a concentrated portfolio with relatively balanced style characteristics where stock-picking success is the primary driver of relative returns.

The Life Cycle Global Share Fund is a core-style global equity portfolio of 150-250 companies with the aim of outperforming the MSCI World Net Total Return Index by 1-1.25% p.a., after fees, across multiple market conditions. Companies are selected using a distinctive and proven Corporate Life Cycle-inspired investment approach and

Life Cycle Investment Partners is a London-based boutique investment manager established in 2024 by the same investment team that previously managed the same strategy at Royal London Asset Management. Life Cycle Investment Partners is majority employee-owned and supported by Pinnacle Investment Management Group, a leading Australian multi-affiliate asset manager based in Sydney. The investment team is headed up by senior portfolio managers Peter Rutter, Will Kenney, and James Clarke, each with over 20 years of experience successfully managing global equities and over a decade of working together. The three are joined by portfolio managers Chris Parr, Joseff Thomas, and Niko de Walden, all previously portfolio managers at Royal London, and one analyst.

The team's investment philosophy is built on four principles: 1) business fundamentals are the most important driver of share prices over the long term; 2) different fundamentals matter at different stages of a company's life cycle; 3) enduring inefficiencies cause temporary mispricing of these fundamentals; and 4) by taking advantage of its differentiated investment process, it is possible to identify and exploit these mispricings repeatedly. A proven and rigorous investment process refined over 20 years is based on bottom-up, fundamental analysis but also utilises quantitative tools to prioritise research and assist with portfolio construction and risk management. Idea generation starts by putting 5,000 companies through a proprietary quantitative screen to filter out all low-quality companies and classify those remaining according to their position in the corporate life cycle – accelerating growth, compounding, slowing and maturing, mature and turnaround – and determine those companies with wealth creation potential. Stock selection involves using an in-house qualitative process to assess each company's internal, external, and management factors. Detailed fundamental research and valuation analysis is conducted on the best companies to determine those suitable for inclusion in the portfolio.

## Asset Allocation Positioning

Asset Class	Outlook & Positioning Negative ← → Positive				
<b>Growth Assets</b>			Yellow		
Australian Shares			Yellow		
International Shares			Yellow		
Emerging Markets Shares			Yellow		
Property			Yellow		
Infrastructure				Light Green	
Value vs Growth Style Factor (Shares)			Yellow		
Quality vs Cyclical Style Factor (Shares)			Yellow		
Small vs Large Cap Shares					Dark Green
FX Hedging (AUD view)				Light Green	
<b>Defensive Assets</b>			Yellow		
Australian Duration (Government Bonds)				Light Green	
International Duration (Government Bonds)			Yellow		
Australian Credit				Light Green	
International Credit			Yellow		
Absolute Return (Fixed Interest)		Red			
Absolute Return (Diversified)		Red			
Cash		Red			

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