

Portfolio Update

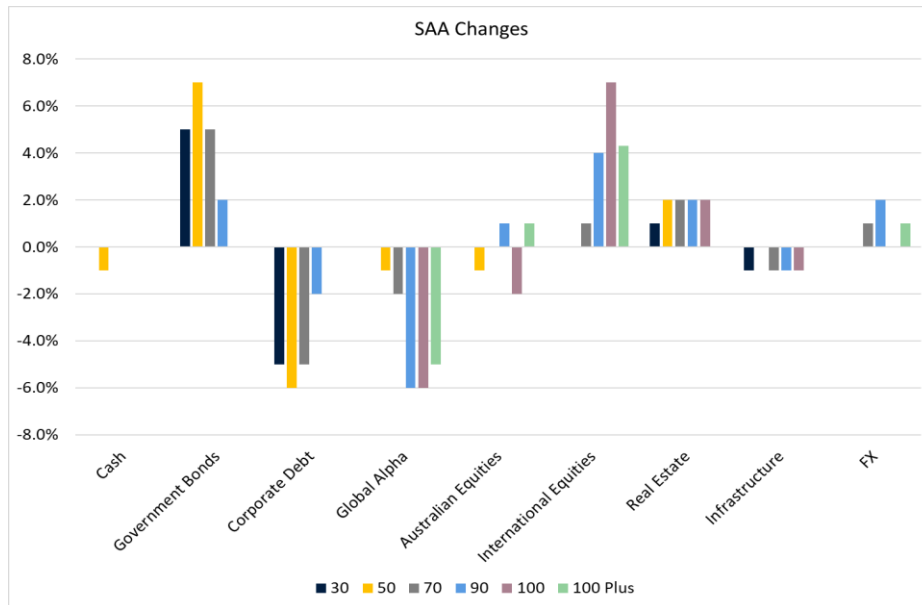
22 JULY 2024

PORTFOLIO CHANGE AND RATIONALE

Each year we conduct a review of our Strategic Asset Allocation. It is a lengthy, iterative process conducted by the Drummond team and the external Investment Committee. Our scenario based approach to our long-term forecasts enables us to capture multiple possible outcomes across asset classes that are reviewed and assessed by each member of the investment team and external committee. This year, we removed a scenario which was characterised by persistent low inflation and interest rates. We are now more confident that the post Financial Crisis period was an aberration reflecting the magnitude of the recession and the balance sheet repair which needed to occur following it. War, climate change adaptation, poor demographics and fiscal profligacy all suggest higher inflation going forward. Overall, the modelled changes are fairly minor versus last year.

The key asset class changes are as follows:

- Exposure to equities, particularly offshore, has gone up in the higher risk portfolios.
- Exposure to global alpha has fallen, largely as a result of the improved return to defensives and some changes to optimisation constraints (100 Plus). This has generally moved to government bonds and international equities.
- Infrastructure and real estate exposure has generally been switched to a small degree.
- Government bonds have been increased from credit, reflecting higher expected bond returns.



Whilst the changes now implemented at the portfolio level do contain some minor adjustments to align portfolios, broadly they consist of reducing Totus Alpha Fund within global alpha, adding to Quay Global Real Estate at the expense of ClearBridge Infrastructure, and adding to Arrowstreet Global Equities, American Century Global Small Cap and iShares Hedged Global Equities whilst reducing global value manager Barrow Hanley Global Share Fund. The summary is shown below.

PORTFOLIO CHANGES

| Fund | Change | Dynamic | DS30 | DS50 | DS70 | DS90 | DS100 | DS100+ |
|--|--------|---------|-------|-------|-------|-------|-------|--------|
| iShares Hedged International Equity Index Fund | ▲ | | | 2.0% | 1.0% | 3.5% | 4.4% | 3.5% |
| Arrowstreet Global Equity Fund | ▲ | | | | 1.5% | 1.0% | 1.5% | |
| Quay Global Real Estate Fund | ▲ | 1.0% | | 1.0% | 1.0% | 1.0% | 2.0% | |
| American Century Global Small Cap Fund | ▲ | | | | 0.5% | 0.5% | 1.5% | |
| Betashares Geared Australian Equity Fund | ▲ | | | | | | | 1.0% |
| ClearBridge Rare Income (Hedged) | ▼ | | 1.0% | | -1.5% | -2.0% | -1.0% | |
| iShares Australian Equity Index Fund | ▼ | | | -1.0% | -0.5% | | -4.2% | -2.5% |
| Barrow Hanley Global Share Fund | ▼ | | -1.0% | -2.0% | -2.0% | -2.0% | -2.1% | |
| Totus Alpha Long Short Fund | ▼ | -1.0% | | | | -2.0% | -2.0% | |
| Quest Long Short Australian Equities Fund | ▼ | | | | | | | -2.0% |

ASSET CLASS POSITIONING

| | Strong Underweight | Underweight | Neutral | Overweight | Strong Overweight |
|---------------------------|--------------------|-------------|---------|------------|-------------------|
| Australian Equities | ○ | ○ | ○ | ● | ○ |
| Global Equities | ○ | ○ | ○ | ● | ○ |
| Property | ○ | ○ | ● | ○ | ○ |
| Infrastructure | ○ | ○ | ● | ○ | ○ |
| Global Alpha | ○ | ● | ○ | ○ | ○ |
| Government Bonds | ● | ○ | ○ | ○ | ○ |
| Corporate Debt | ○ | ○ | ○ | ○ | ● |
| Cash | ○ | ○ | ○ | ● | ○ |
| Total Growth vs Defensive | ○ | ○ | ○ | ● | ○ |

Following the changes, the portfolios remain overweight growth exposure.

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