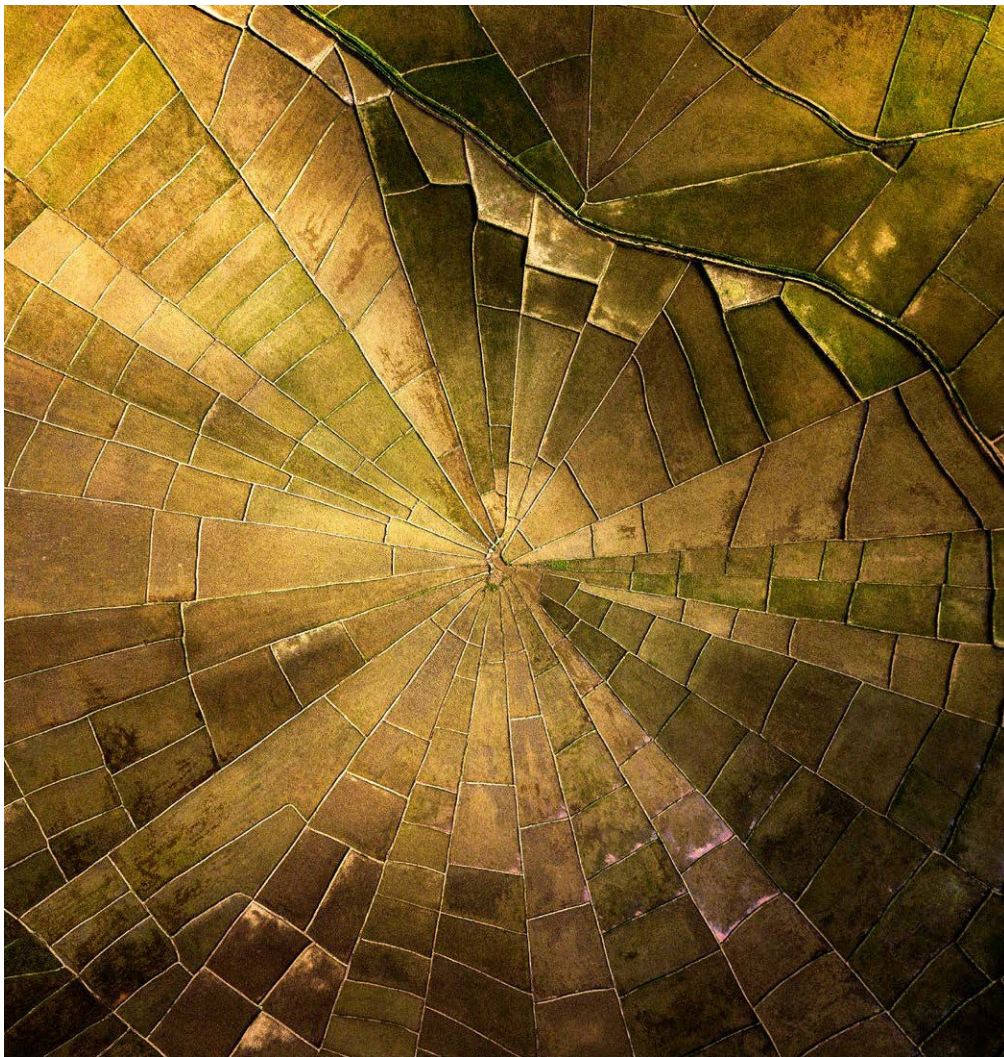


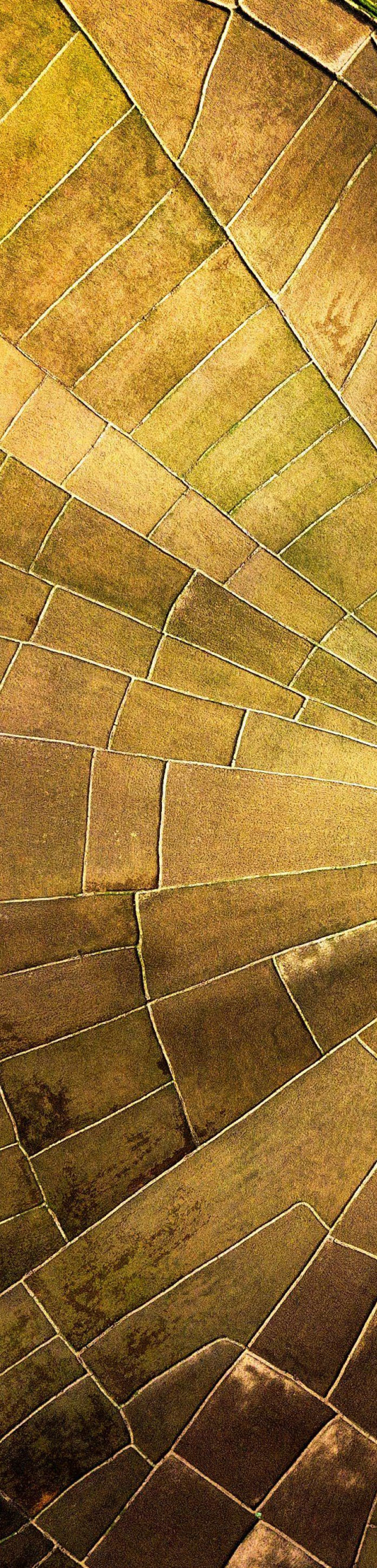
JBWere

Investment Strategy Group Equities Investment Process

October 2022



Prepared by the Equities Team



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Our investment philosophy

At JBWere, our investment philosophy is simple – we’re here to preserve and enhance our clients’ wealth.

With this goal always top of mind, we focus on the processes that help us to achieve this outcome in order to deliver trusted investment advice.

The purpose of this document is to outline in detail how the firm’s strategic asset allocation investment philosophy is implemented in each asset class. More specifically, each asset class handbook defines the philosophy, investment selection process and portfolio construction approach followed to realise optimal investment outcomes for our clients. This document should be read in conjunction with the JBWere investment philosophy.

JBWere is an active stock picker and our equities investment philosophy focuses on three core beliefs.

Shareholder value is driven by long term investment in quality companies

Superior companies with sustainable returns and quality

Market inefficiencies and mispricing create alpha opportunities

Disciplined investment approach that limits behavioural biases

One poor investment decision can undo many good ones

Continuous risk mitigation throughout the investment process to address capital preservation

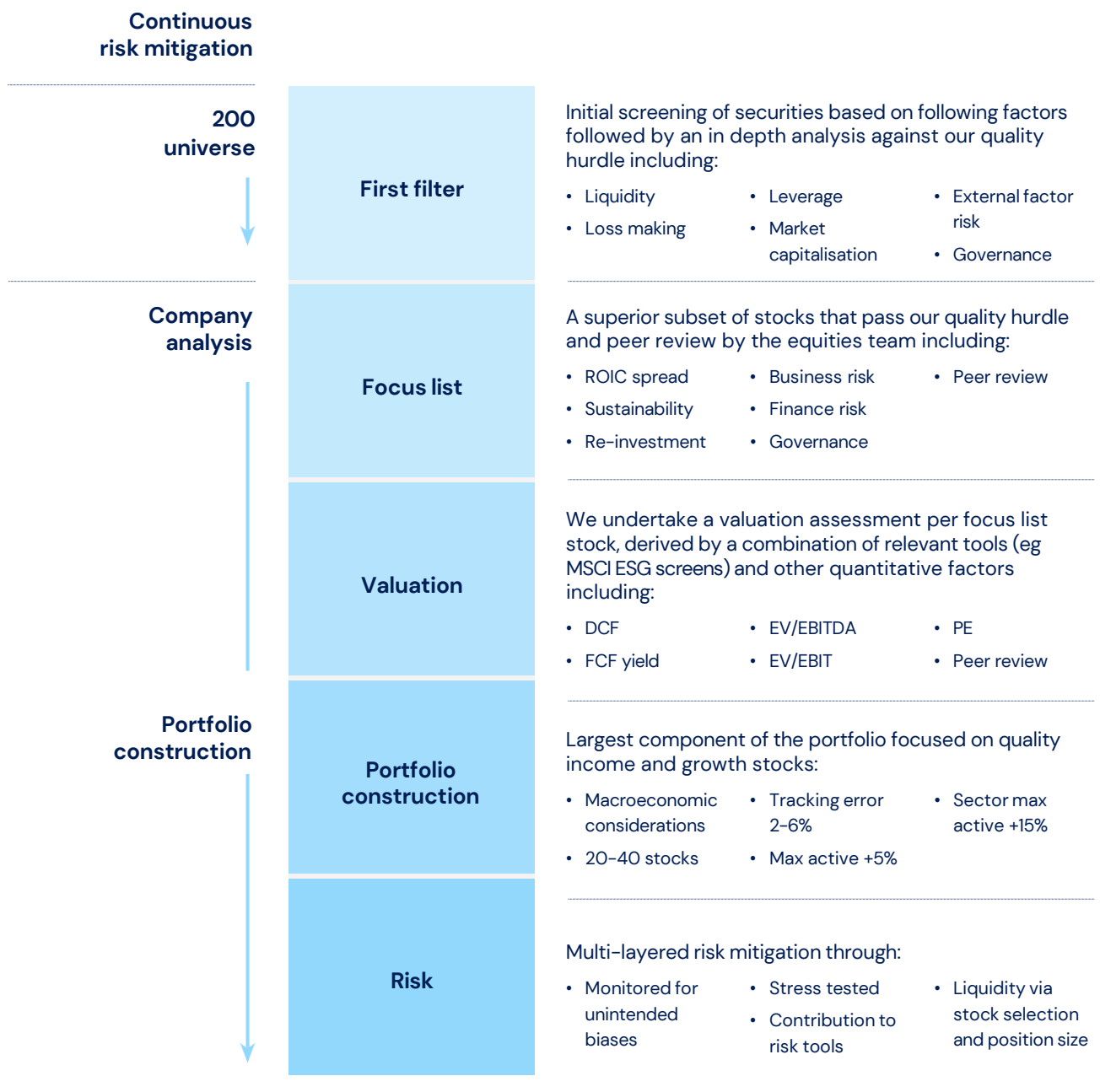
The process involves initial screening of securities based on liquidity, profitability, leverage, market capitalisation, governance and outsized external factor risks. Once these filters have been applied, we conduct in-depth analysis of the remaining stocks to assess whether a company meets our quality hurdle. We discuss these in further detail below.



Australian equities investment process

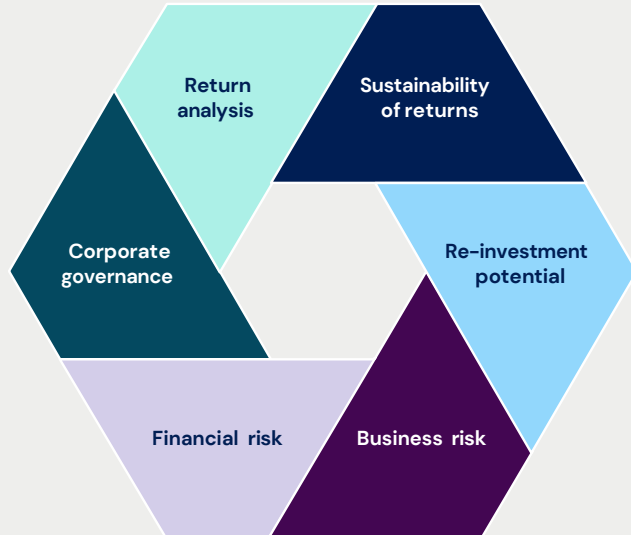
As an active stock picker, we use a systematic form of analysis to determine whether a particular stock will make a good investment and, therefore, should be added to our focus list.

A disciplined investment process with in-depth analysis, peer review and quality hurdles allows us to identify a superior subset of companies for consideration into our model portfolios.



How we define quality

The six key factors we use to determine quality are:



Return analysis

Can a business earn above its cost of capital?

Return on invested capital and whether through history it is above or below cost of capital.



Sustainability of returns

- Industry dynamic
- Economic moat

The **sustainability of these returns** by considering the structure and dynamics of the industry and whether there is the existence of a competitive advantage.



Re-investment potential*

- Direction of returns/growth available

Re-investment potential which is essentially the ability of a company to invest its capital going forward at above cost of capital returns coupled with the size of the growth opportunity.



Business risk

- Specific risk
- Regulatory, legal, environmental and social

Business risk considers risks specific to the company like execution or key man risk and also regulatory, legal, environmental and social risks.



Financial risk

- Leverage
- Predictability
- Cash conversion

Financial risk looks to the leverage of the balance sheet in concert with predictability of earnings and cash conversion.



Corporate governance

- Management
- Board
- Remuneration

Corporate governance includes management track record and transparency but goes further and considers board structures, incentive structures, diversity and alignment consistency.

* This step considers Porter's Five Forces analysis, business model, business strategy and an assessment of competitive advantage to consider how these dynamics translate into the future earnings of the business.

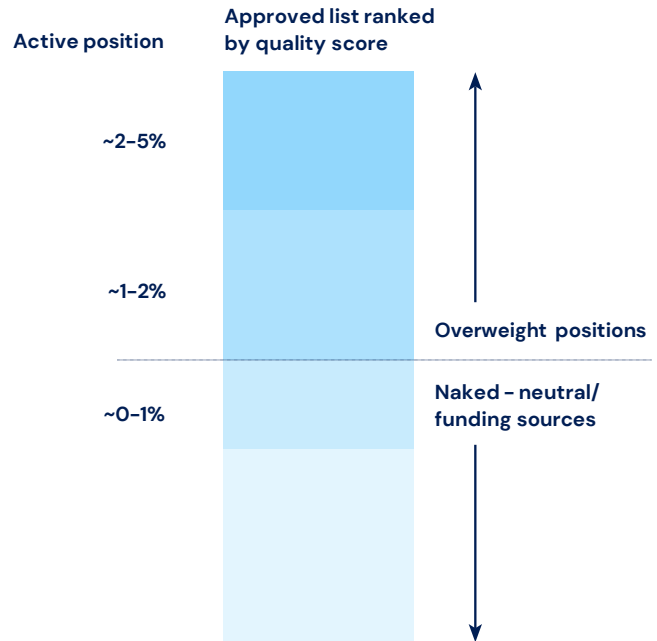
Valuation and position sizing

Valuation

- Focus list stocks are valued through DCF, EV/EBITDA, EV/EBIT, PE ratio and other quantitative factors
- We then conduct peer review around valuation assumptions

Position sizing

- Quality scores and returns guide active positions
- Macroeconomic views
- Our analysts' conviction
- The impact on the overall model portfolio
- Liquidity considerations
- Lower quality scores are generally not owned however some consideration is given to lower quality companies, subject to dividend yield targets for the model portfolio



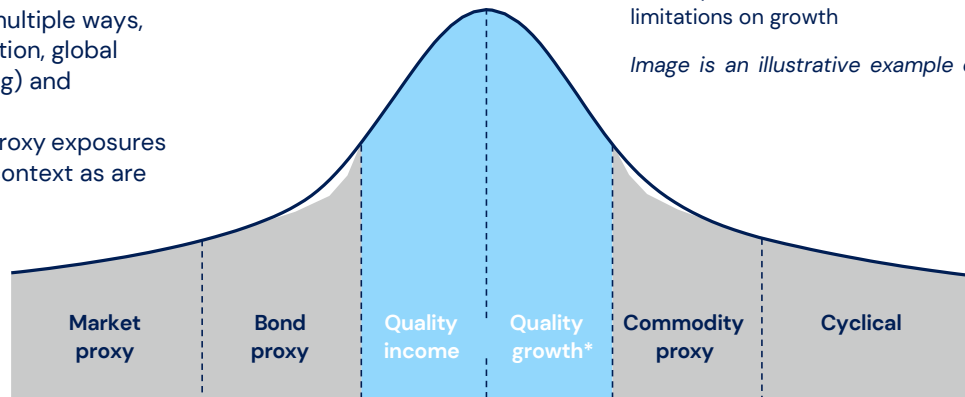
Portfolio construction

Macroeconomic influence

- Macroeconomic views are considered in portfolio construction in multiple ways, including bond yield direction, global growth (commodity pricing) and cyclical exposures.
 - Bond and commodity proxy exposures are considered in this context as are cyclical exposures
- Largest component of the portfolio focused on quality income and growth stocks

*We aim to limit exposure to structural decliners, governance risks, or companies that are too small with limitations on growth

Image is an illustrative example only.

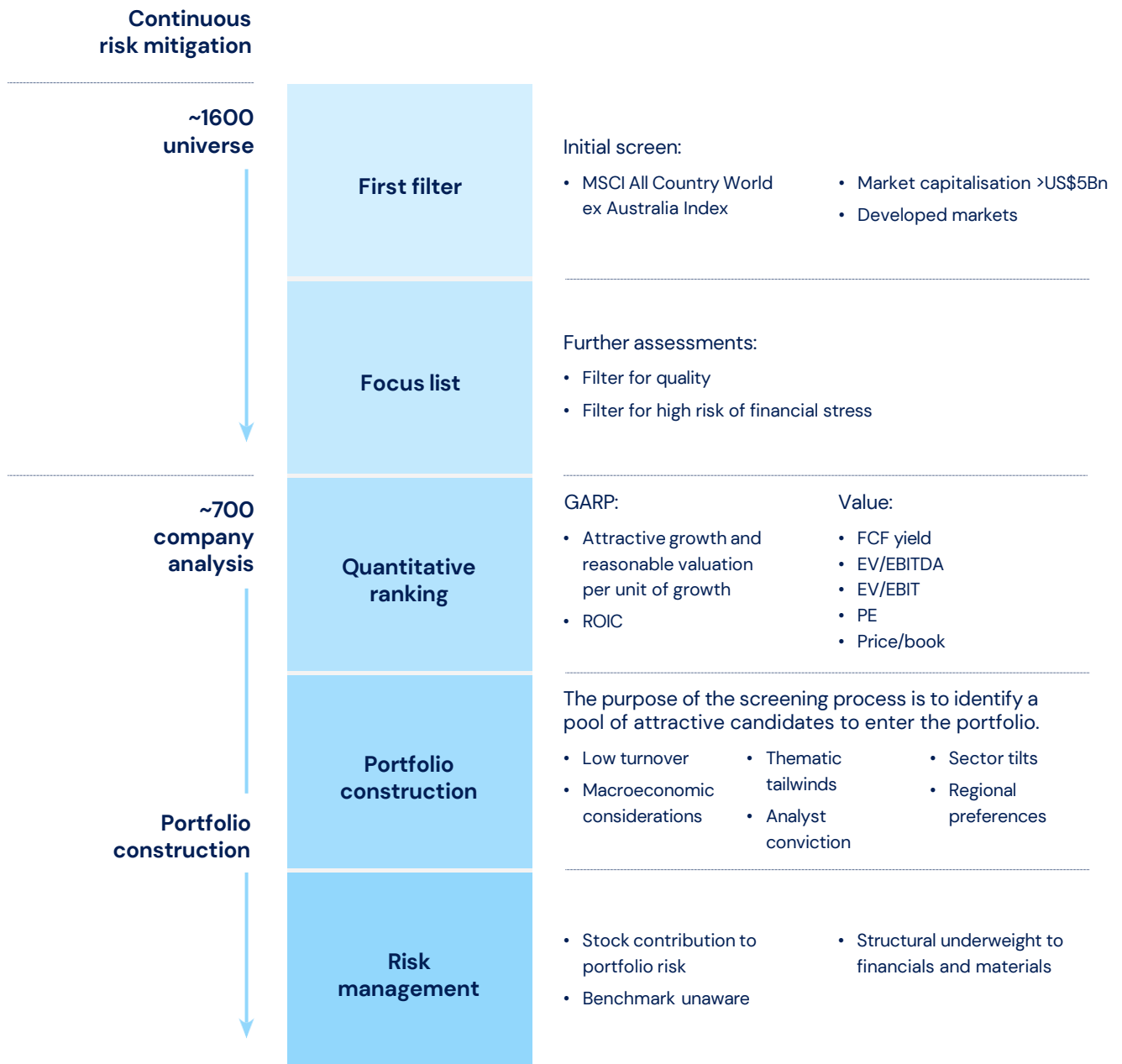


Risk

Multi-layered risk mitigation through each stage of the investment process to:

- Seek to bypass poor quality companies
- Ensure valuation discipline so as to avoid overpaying for good quality companies
- Minimise negative surprises
- Avoid excessive exposure to any one factor
- Stress testing utilised
- Contribution to risk per stock considered

International equities investment process



JBWere International Model Portfolio

- The JBWere International Model Portfolio is structured with Australian investors in mind and is intentionally inclined towards sectors that are not well-represented on the ASX. It is designed to be highly complementary to a domestic equity portfolio and to also provide diversification for investors seeking offshore exposure. Sectors such as financials and resources, which Australian investors have abundant exposure to, are very small components of this portfolio.
- The investment process involves initial screening of securities in the MSCI All Country World – ex Australia Index with a market capitalisation above US\$5 billion with stocks listed on developed market exchanges.
- Stocks are then excluded if they have poor or deteriorating quality which is based on quantitative ranking of scores for measures such as profitability, financial health and price momentum/volatility. This reduces the investment universe to around 700 securities.
- Stocks are scored for Growth-At-A-Reasonable Price (GARP) characteristics; and separately for value characteristics, with an emphasis on free cash flow. The portfolio has a greater emphasis on GARP, with value providing some diversification.
 - The GARP screen looks for stocks with strong growth, that are not excessively priced. The screen rewards stocks with attractive 3-year forecast growth in EPS, EBIT, EBITDA, FCF and sales, provided that the cost per unit of growth is not expensive compared with peers. The screen also rewards high ROIC and other profitability metrics.
 - The value screen looks for inexpensive cash generative stocks. Criteria include forward estimates of FCF yield, PE and EV/EBITDA (compared with the universe, and regional sector peers); and trailing P/B. Emphasising forward cash flow highlights companies with capacity for capital returns.
- The portfolio aims to be low turnover. Stocks are most commonly removed from the portfolio because the investment thesis has deteriorated; or occasionally on valuation if there is an extremely attractive alternative. The purpose of the screening process is to identify a pool of attractive candidates to enter the portfolio. New additions are selected from a short list of stocks that demonstrate high earnings quality a high score on either the GARP or value screens. These scores are not used as a definitive ranking of stocks, but simply to distil the large universe down to a manageable pool of attractive candidates upon which further analysis is undertaken. We have a preference for stocks generating structural earnings growth driven by a competitive advantage in industries with secular tailwinds.
- Portfolio changes take account of top down views (macroeconomic, sector, style and region), catalysts and technical factors; while Bloomberg portfolio optimisation tools provide insight into the impact of positions on portfolio risk characteristics.

JBWere model portfolios

Portfolio	Investment objective	Investment strategy	Purpose	Stock count	Tracking error	Turnover
Income	With the Income Model Portfolio we seek to preserve and enhance the value of capital with a focus on income returns that exceed the rate of inflation over the long term of 5 years or more.	<p>We manage the model portfolio relative to the S&P/ASX200 Total Return Index benchmark.</p> <p>This aims to produce a consistent income stream, with a dividend yield target of 70-100bps per annum higher than the dividend yield of the S&P/ASX 200 Total Return Index.</p> <p>With this model portfolio we seek to deliver a greater income return component relative to capital gains in comparison to the S&P/ASX 200 Total Return Index.</p> <p>Our process seeks to identify high quality companies and acquire them at reasonable prices.</p>	<p>The Income Model Portfolio can sit within an asset allocation framework or operated on a standalone basis.</p> <p>See below for other key information.</p>	20-30	2-6%	20-40%

Key information on Income Model Portfolio

- The purpose of the JBWere Income Model Portfolio is to provide a quality focused Australian equity model portfolio that may be suitable for those who seek a greater income return component relative to capital gains in comparison to the S&P/ASX200 Total Return Index.
- Performance shows returns for a theoretical model portfolio.
- The model portfolio is based on theoretical holdings of securities, with sales and purchases of securities implemented on a notional basis to rebalance the model portfolio in line with its investment objectives.
- Actual returns experienced by investors following this model are likely to be lower due to timing differences for the purchase or sale of securities, expenses such as fees, transaction costs, such as bid-offer spreads or brokerage commissions, and taxes.
- Model portfolio changes announced:
 - before 9am are executed at the closing price on the ASX on date of the announcement
 - after 9am are executed at the closing price of the subsequent trading session on the ASX.
- Dividends and interest received are allocated to cash until actively rebalanced.
- No interest on notional cash balances is accrued.
- No value is ascribed to franking credits.
- Payments received from model portfolio companies (include but not limited to dividends) in currencies other than Australian dollars (AUD) are exchanged for AUD at the Australian Financial Markets Association (AFMA) spot AUD final settlement price on the last clear transaction day of the month.

JBWere model portfolios

Portfolio	Investment objective	Investment strategy	Purpose	Stock count	Tracking error	Turnover
Balanced	The JBWere Balanced Model Portfolio seeks to preserve and enhance the value of capital by generating combined capital and income with a focus on outperforming the S&P/ASX 200 Total Return Index over the long term (5 years plus).	<p>The model portfolio is managed relative to the benchmark and seeks to deliver above market long-term EPS growth with a dividend yield in line with the market.</p> <p>The process seeks to invest in high quality companies within the ASX200 acquired at reasonable prices.</p> <p>Macroeconomic risks are considered during model portfolio construction.</p>	<p>Within an asset allocation framework or on a standalone basis.</p> <p>See below other Key information.</p>	30–40	2–6%	20–40%

Key information on Balanced Model Portfolio

- The purpose of the JBWere Balanced Model Portfolio is to provide clients with a quality focused Australian equity portfolio that may be suitable for a client seeking a balance of income and capital growth returns, and to support advisers with a basis of advice to clients.
- Performance shows returns for a theoretical model portfolio.
- The model portfolio is based on notional holdings of securities, with sales and purchases of securities implemented on a notional basis to rebalance the model portfolio in line with its investment objectives.
- Actual returns experienced by investors following this model are likely to be lower due to timing differences for the purchase or sale of securities, expenses such as fees, transaction costs (bid-offer spreads or brokerage commissions) and taxes.
- Model portfolio changes announced:
 - before 9am are executed at the closing price on the ASX on date of the announcement
 - after 9am are executed at the closing price of the subsequent trading session on the ASX.
- Dividends and interest received are allocated to cash until actively rebalanced. No interest on notional cash balances is accrued.
- No value is ascribed to franking credits.
- Payments received from model portfolio companies (include but not limited to dividends) in currencies other than Australian dollars (AUD) are exchanged for AUD at the Australian Financial Markets Association (AFMA) spot AUD final settlement price on the last clear transaction day of the month.

JBWere model portfolios

Portfolio	Investment objective	Investment strategy	Purpose	Stock count	Tracking error	Turnover
International	<p>The Model Portfolio is benchmark unaware. It is structured with Australian investors in mind and is intentionally inclined towards sectors not well represented on the ASX200.</p> <p>It invests in large and mega-cap stocks listed on develop market exchanges. The Model Portfolio return objective is to outperform the MSCI World ex Australia Accumulation GR \$A Index over rolling 3-5 year periods.</p>	<p>Stock selection screens out companies with poor earnings quality; and then highlights companies that are expected to generate attractive earnings growth at a reasonable price.</p> <p>This is complemented with some exposure to cash generative companies trading on inexpensive multiples.</p> <p>The strategy identifies stocks with high quality earnings, thematic tailwinds and strong industry positioning as we believe earnings and cash flow are more likely to be sustainable for these companies.</p> <p>Macroeconomic risks and opportunities are also considered.</p>	<p>Within an asset allocation framework.</p> <p>The purpose of the model portfolio is to provide clients with a theoretical example of an model portfolio that may be suitable for a client wishing to diversify domestic equity holdings and to support advisers with a basis of advise to clients.</p>	15-30	4-6% (soft target)	10-30%

Key information on International Model Portfolio

Performance shows returns for a theoretical model portfolio. Realised returns are likely to be lower due to expenses such as fees, taxes, transaction costs and bid-offer spreads. The model portfolio assumes positions are rebalanced to recommended weights when model portfolio changes are made and at month end. Model portfolio changes announced prior to 5pm AEST are implemented at the closing price of the subsequent trading session. The model portfolio assumes offshore holdings are unhedged, with FX pricing based on 4pm London time. Dividends are assumed to be reinvested when shares go ex-dividend. The model portfolio can have a zero cash balance, or can choose to hold cash in major currencies.

Model portfolio performance and security updates

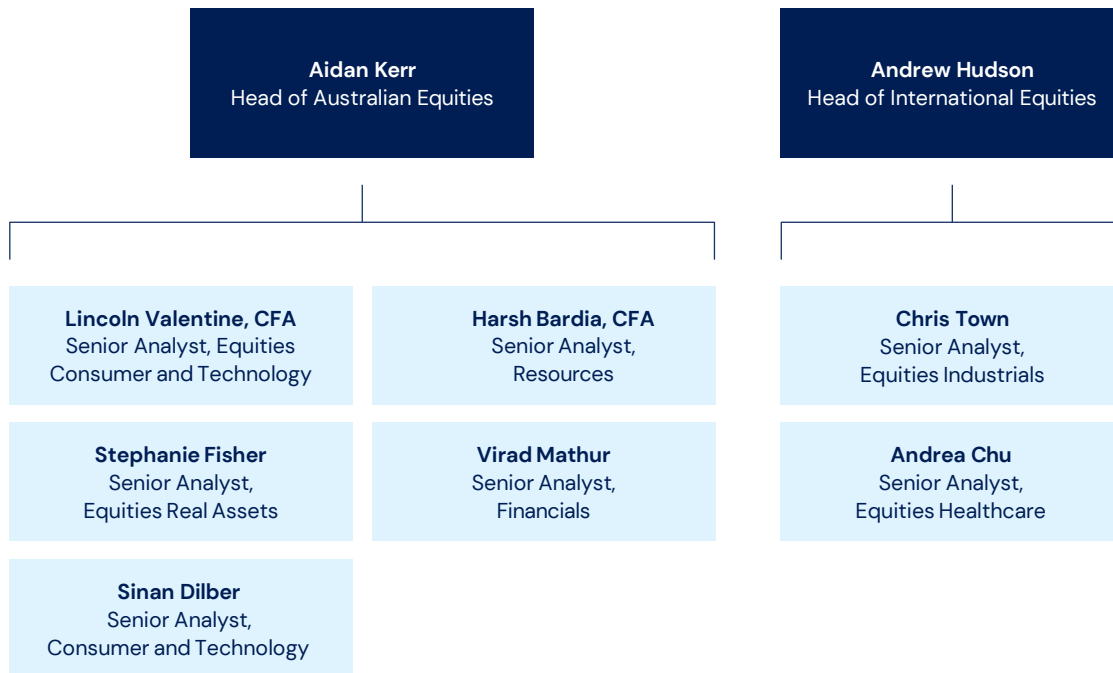
We provide regular, concise, forward-looking communications.

- Performance reports for each of the model portfolios to keep investors informed of portfolio performance, drivers of performance, key characteristics, exposures, and risks.
- Commentary and analysis of individual securities held within the model portfolios, being investment views held by JBWere's equities team.
- Commentary and analysis of individual securities where those securities have passed through JBWere's equity research process, but which are not currently held in a model portfolio.

It is important to note that JBWere will not disclose a spread of ratings as its analysis is limited to securities within a model portfolio or securities being added to or removed from a model portfolio.

This research is only current as at the date of publication and may not be updated according to a defined frequency or schedule.

Equities team organisational structure



Name	Role	Responsibilities	Years in industry	Years in JBWere team
Aidan Kerr	Head of Australian Equities	Portfolio management of domestic portfolios and equities strategy	10	3
Andrew Hudson	Head of International Equities, Portfolio Manager, International Portfolio	Portfolio management of International portfolio, some consumer and technology stocks	25	11
Harsh Bardia, CFA	Senior Analyst, Equities	Resources	15	1
Virad Mathur	Senior Analyst, Equities	Financials	12	0
Chris Town	Senior Analyst, Equities	Industrials	22	4
Stephanie Fisher	Senior Analyst, Equities	Real Assets	18	3
Andrea Chu	Senior Analyst, Equities	Healthcare	13	6
Lincoln Valentine, CFA	Senior Analyst, Equities	Consumer and Technology	15	3
Sinan Dilber	Senior Analyst, Equities	Consumer and Technology	6	4

Glossary of terms

Term	Description
Active position	Portfolio weight of a security relative to its weight in the benchmark
Benchmark aware	When constructing a portfolio, a reference is made to the composition of the benchmark and the weighting of individual securities within the benchmark
Contribution to Risk	A risk measure that is defined as the contribution of each component in the portfolio to the total value at risk of the portfolio
DCF	Discounted cash flow
Downside volatility	The risk of negative returns or returns that fall below a minimum threshold
EV/EBIT	Enterprise value to earnings before interest and tax
EV/EBITDA	Enterprise value to earnings before interest, tax, depreciation and amortisation
FCF Yield	Free cash flow yield
FX Risk	Foreign exchange risk exists when company transactions or investments are denominated in a currency other than the domestic currency
GARP	Growth at a reasonable price
PE	Price to earnings ratio
PB	Price to book ratio
PEG	Price/earnings to growth ratio
ROIC	Return on invested capital

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. The ISG 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 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
- In-depth managed strategies research

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