Advice to position investments to track the performance of the ASX 200 into year-end for 'YourSuper' Fund of AUM (AUD $1bn)

High-Level Summary

Considering how YourSuper typically manages clients 75-and-over, they should create a relatively low-risk portfolio that will attempt to track the ASX200, with the intention to slightly outperform the market on long-term investments.

Customer Risk Profile

75+ aged clients typically match a low-risk risk profile. Under this type, an investor prefers a stable investment and focuses less on capital growth. Stable investments grow gradually in value and are less volatile. Debt-oriented mutual funds suit this type as it gives a steady income stream and moderate capital growth, even as high yield sectors and dividend investments are popular due to the opportunity for pay-out. Most such investors desire notable diversification to protect against sector-specific fluctuations.

Strategy

To achieve the target of successfully tracking ASX200 performance and outperforming the index in the coming years, I have suggested several alterations to the investment portfolio allocation of the YourSuper Fund.

To address the investor profile of low-risk and to secure the investments against the growing risk of a financial crisis, I have recommended an overweight in several key defensive sector investments with overweight in Consumer Staples, Materials. To outperform the index, I have recommended slight underweight in Financials, Energy, Telecommunications, Utility and slight overweight in Consumer Discretionary and Information Technology – which are high performing sectors. Finally, I have advised an increased uptake of non-equity investments into Bonds, Commodities and Currencies, in the distributions indicated below

Allocations Summary

Predominantly, investment holdings should be in equities **(92.02%)** spread across the given 10 sector classes with higher weight given to Healthcare, Consumer Discretionary to increase returns and Materials, Utilities and Consumer Staples to prevent exposure to the potentially impending financial crisis in the US. This re-allocation will be made possible by a decrease in the holding of Financial Sector equity to *25.32%* and Energy Sector to *5%*.

I advise YourSuper to invest the total fund (AUD$1 billion) as per the below:

Type of Investment	Sector	Weighting	Rationale
Equity	Financials	25.32% (down 3.28%) **253.2m**	While it will be risky to drastically change the financial sector allocation of the index, this sector is the most exposed to international crisis-related risks

			and thus re-allocation is necessary.
Equity	Materials	17.6% (up 0.4%) **176.0m**	The material sector is a large part of the index and provides a high dividend yield. Trade War conflicts between the US and China have inflated the supply of unsanctioned products and this is driving up the price of Metal outputs.
Equity	Healthcare	12.9% (up 2.7%) **129.0m**	Healthcare is a fast-growing industry and is one of few rapidly expanding industries that aren't as severely hit in times of recession (as healthcare is an essential good). With Australia considered one of the top 5 global centres for healthcare technology development, this sector is likely to drive strong capital and dividend-based gains.
Equity	Real Estate	7% (up 0.02%) **70.0m**	Real Estate returns are relatively high and there is great consumer confidence in this sector. The client, however, is likely to be wary of investments in real estate following the 2008 financial crisis and thus only infinitesimal increased allocation is made.
Equity	Consumer Discretionary	7.7% (up 0.3%) **77.0m**	While this sector has a 26% annual return, this sector is also at risk of greatest exposure to supply shocks.
Equity	Energy	5% (down 0.6%) **50.0m**	This sector, while important as protection against a potential financial crisis, is performing badly with 10% annual return.
Equity	Consumer Staples	8% (up 2.1%) **80.0m**	This sector has a very strong annual performance (25.5%) and is also a strong defensive investment against crises.
Equity	Information Technology	4.05% (up 0.15%) **40.5m**	While this sector is rapidly growing, the information technology sector doesn't usually provide high dividend

			yields and is thus suitable to a low-risk investor profile.
Equity	Telecommunication Services	2.95% (down 0.15%) **29.5m**	This sector is set to experience steady low growth. Re-allocation is thus minimal as this growth outlook suits the investor profile, even if returns are lower than index or other sectors.
Equity	Utilities	1.6% (down 0.2%) **16.0m**	This sector is set to experience steady low growth. Re-allocation is thus minimal as this growth outlook suits the investor profile, even if returns are lower than index or other sectors.
Alternate Funds (ETFs)	N/A (ETFs likewise tracking ASX200)	1% **10.0m**	A further part of the portfolio **(1%)** should be invested in the SPDR® S&P®/ASX 200 Fund, which tracks the ASX 200 via an ETF-investment vehicle. This would allow the YourSuper Fund to pick up on industry discrepancies which may see a higher risk, higher return bring your investment above the ASX200 index.
Bonds	N/A (AU Government Bonds)	0.3% **3.0m**	A further segment **(0.3%)** should be invested in AU Government Bonds. This would strike closely with the client – a 75-year old gentleman in Australia, who would be happy that his future is partially tied with that of the government of the land 'down under', even as it would be a low-risk investment.
Currencies	N/A (USD/EUR/JPY/CHF)	4% **40.0m**	To reduce the volatility of the portfolio, a further portion **(4%)** should be held in currencies distributed across a 4:3:2:1 ratio among USD/EUR/JPY/CHF (the 4 safest currencies globally) as this will allow for compensation against rapid movements of the AUD with other currency pairs. A series of Put-Call options can be put in place around the time of

			impending US/China Trade War announcements to avoid unexpected currency-driven losses from the dollar.
Commodities	N/A (Metals and Precious Minerals)	2% **20.0m**	Another portion of the investment portfolio **(2%)** should be invested across a variety of widely globally demanded commodities like Metal and Minerals, as global demand for these will not follow due to machinery and electronics sector demand for these two raw goods and Australian supply of such goods is high.
Unassigned (initially)	N/A	0.68% **6.8m**	The remaining **0.68%** will not be assigned. While this is a larger unassigned part of the fund than is the case with the benchmark ASX 200 index, this will allow for additional short term distributions in any sectors that experience a more regulatory business-easy climate at the start of the next year, whereupon the fund allocation can be adjusted greater towards that sector. If indicators suggest that a financial crisis is indeed looming, **5.0m (0.5%)** should be invested in Gold as a safe anti-crisis asset

Sector Analysis[1]

Below find further detail on recent macro and micro-economic trends further explaining the given ratings for each of the 10 dominant ASX200 Sectors

S&P/ASX 200 (XJO) has a 17.90% 1-year Return[2]

- **Financials (XFJ)** **Rating = Overweight**
  ASX Weight: 28.6% vs 7.2% 1-year Return

1. **Underperforming the XJO**

[1] https://www.marketindex.com.au/asx-sectors
[2] https://www.marketindex.com.au/asx200

Relevant Macroeconomic trends or factors[3]:

- Continued entry of new international financial services players into the domestic market seeking to establish new funds targeted at Australian and/or New Zealand investors

- Increased disruption due to the accelerating rate of technological change is impacting the ways financial services are structured, delivered and consumed in Australia and the Asia-Pacific region. Examples include new FinTech market entrants, use of mobile devices, online lending, credit ratings, robo-advice, blockchain, fraud detection and data analytics.

Relevant Microeconomic trends or factors:

- The ongoing rise of 'bespoke' products to address differing client needs or market conditions.

- Consolidation of players in the market, particularly in the superannuation/pensions area.

Companies involved in the financial services industry. E.g. Banking, asset management and insurance.

- **Materials (XMJ)** **Rating = Neutral**
- ASX Weight: 17.2% vs 21.1% 1-year Return

2. Outperforming the XJO

Relevant Macroeconomic trends or factors:

- The US government bond yield experienced an inverted curve where the yield for 10-year bonds fell below short-term bond yield.
  - If the Global Economy rises - global industrial production also rises, the materials sector will also rise, given its link to commodity prices.
  - If Global Economy goes into a recession - the strong balance sheets of the Australian Mining Firms will provide some shelter from the market storm as the group has a strong cash surplus of cash from stubbornly high commodity prices and years of cost-cutting.

Relevant Microeconomic trends or factors:

[3] https://hivelegal.com.au/australias-financial-services-sector-snapshot-trends-and-our-work/

- ASX mining stocks have been running hard over the past two years with the S&P/ASX 200 Materials (Index:^AXMJ) (ASX: XMJ) index surging over 30% compared to the S&P/ASX 200 (Index:^AXJO) (ASX:XJO) at less than 5%.

Companies involved in commodity-related manufacturing industries. E.g. Glass, paper and steel producers.

- **Healthcare (XHJ)** **Rating = Underweight**
- ASX Weight: 10.3% vs 43.2% 1-year Return

3. Outperforming the XJO

Relevant Macroeconomic trends or factors[4]:

- With the Government set to deliver more than $30 billion in additional public hospital funding under a five-year National Health Agreement, Australia is set to see a boom in hospital infrastructure development with funding increasing for every state and territory.

Relevant Microeconomic trends or factors[5]:

- A trend towards greater financial sustainability through the adoption of new care delivery models like "Hospital in the Home" and "Virtual Healthcare"

- Transparency and conduct may lead to greater transparency of costs which will improve ease of doing business for private health insurance and private hospital providers

Companies involved in the supply or production of health care services and pharmaceuticals. E.g. Drug developers and healthcare facilities.

- **Real Estate (XRE)** **Rating = Neutral**
- ASX Weight: 6.98% vs 19.04% 1-year Return

4. Relatively Constant with XJO

Relevant Macroeconomic trends or factors:

[4] iqpc.com/events-austhealthweek/blog/state-of-the-australian-healthcare-industry-report-the-top-trends-driving-australias-healthcare-sector-in-2019-and-beyond
[5] https://www.themandarin.com.au/105460-the-future-of-health-2/

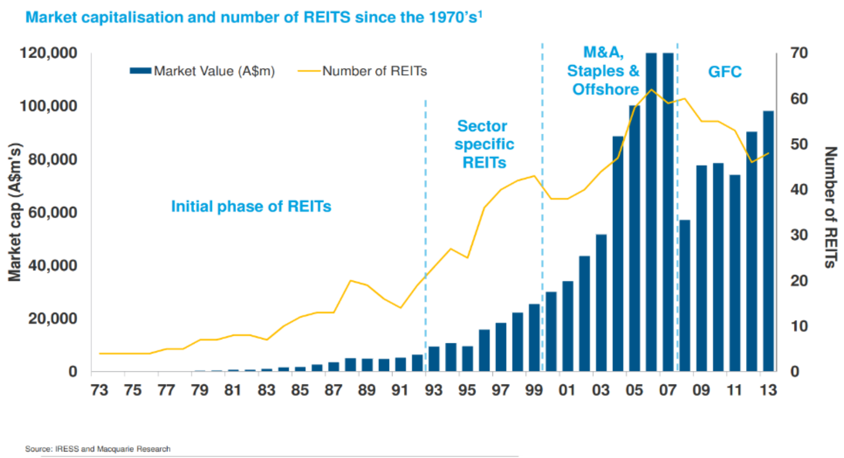
- Non-traditional assets such as mixed-use properties and new business models such as properties with flexible leases and spaces are expected to attract an increased allocation of investment dollars.
- Many surveyed investors from a global survey run by Deloitte[6] expect to prioritize their investments in existing and potential investee companies that respond rapidly to changes in business models and adopt a variety of technologies to make buildings future ready.
- Prop-techs are increasingly popular with investors and are expanding their coverage across the real estate value chain with 9/10 respondents to Deloitte Surveys in the Asia Pacific expressing optimism about prop-tech influence

Relevant Microeconomic trends or factors:

- Retail sector within Australia is projected to increase over the next five years (2019-2023) at a positive CAGR of over 1.8% in terms of the total transaction value.

- Co-working spaces and large technology firms in Australia are further set to drive office demand over the long term.

- Oversupply of new residential dwellings, coupled with a shift in Australians' preferences towards luxury living terrace houses and apartment living is set to see the market experience a CAGR of 2.7% in terms of new residential dwellings supply in the forecast period of 2019-2023, which, while lower than past 5-year estimates, is still quite high



As shown above[7], the REIT market has been rising since the 1980s, and, despite a setback post-2008's financial crisis, the market is once more on the rise.

Equity Real Estate Investment Trusts (REITs)

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6 http://app.content.deloitte.com.au/e/er?s=1192815365&lid=3483&elqTrackId=069599F7A7AE7ED4C32E091F3E2F53F7&elq=&elqaid=1223&elqat=2

7 http://www.asco.or.th/uploads/articles_attc/1404361742.pdf

- **Consumer Discretionary (XDJ)** **Rating = Underweight**
- ASX Weight: 7.4% vs 26% 1-year Return

5. Outperforming the XJO

Relevant Macroeconomic trends or factors:

- Supply Chain Risks are High
    - Australia has become increasingly reliant on imports, with a decrease in domestic manufacturing between 2003 and 2012[8] accompanied by an increase in imports of 91 per cent over the same period. Moreover, a breakdown of trade composition shows that by 2012, goods imports from (poorer) non-OECD countries exceeded that of imports from OECD countries
    - Out-sourcing of services to emerging markets is growing almost as fast as product sourcing, encompassing service areas beyond 'well-known' services, such as call centres and back-office processing - now including global logistics and professional services.
- Increased uptake of Backoffice technology and 5G across Australia[9]
- Market globalisation is continuing to increase competition from overseas retailers (both online and bricks and mortar stores) who are looking to Australia as an opportunity to capture market share.

Relevant Microeconomic trends or factors:

- Consumer awareness and media interest in supply chain transparency appears to be on the rise in Australia[10]
- Australian dominance on Chinese imports has grown at one of the fast OECD levels. The largest increases in imports were recorded from Bangladesh, Cambodia and Vietnam: Imports from Bangladesh increased 15-fold between 2006 and 2012, imports from Cambodia increased six-fold and imports from Vietnam increased by a factor of approximately 2.7.
- Australian Retail Sector is shifting to a community-building focus and away from scale production & sales
- Increase in 'private label growth' as part of a trend in Retail of greater brand and customer focus
- Australian consumers are demanding greater flexibility in purchase methods with ~90% of shoppers saying they use multiple devices to make online purchases and ~46% of smartphone owners using peer-to-peer payment apps regularly.[11]

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[8] Australian Bureau of Statistics, 5206.0 National Accounts and External Account
[9] https://www.vendhq.com/au/retail-trends-and-predictions
[10] abc.net.au/cm/lb/4796294/data/australian-council-of-superannuation-investors27-report-data.pdf
[11] https://www.vendhq.com/au/retail-trends-and-predictions

- Retailers in Australia are experiencing a skills shortage resulting in significant availability of career opportunities – from retail sale assistants to CEOs.
- Bricks and mortar retailers are feeling the pressure to extend trading hours to meet consumer demand.
- Significant Growth Registered by the Apparel and Footwear Market[12]

Companies that tend to be most sensitive to economic cycles. E.g. Media, retailing and household durable goods.

- **Energy (XEJ)** **Rating = Overweight**
- ASX Weight: 5.6% vs 10% 1-year Return

6. **Underperforming the XJO**

Relevant Macroeconomic trends or factors:

- Australia is experiencing a longer-term trend towards imported refined products, following the closure of several domestic refineries and continued growth in demand
- The profitability of the agricultural sector will increase as relative costs of energy decrease via greater use of renewable energy
- Increased uptake of energy use can create free-standing farms and reduce reliance on government energy supply, limiting the volatility of energy prices

Relevant Microeconomic trends or factors:

- 68 % of Australian and foreign investors will increase their investments in Australian renewables in the year ahead[13]
- Renewables developers will be the most active investor group according to 100% of Minter Ellison industry-survey respondents although 90% of respondents say funds will also play a large role in investment/deal-making

Companies whose primary business centres around oil, gas and coal. E.g. Drilling equipment, energy exploration and transportation.

- **Consumer Staples (XSJ)** **Rating = Underweight**
- ASX Weight: 5.9% vs 25.5% 1-year Return

7. **Outperforming the XJO**

[12] https://www.bdo.com.au/en-au/industries/retail/retail-issues-trends
[13] https://www.theworldlawgroup.com/writable/documents/news/Australian-Renewable-Energy_Investment-trends-and-Outlook.pdf

Relevant Macroeconomic trends or factors:

- As an economically sensitive sector, Retail sector companies are likely to have constructive implications when central banks around the globe are taking accommodative and easing stance in a bid to restore prosperity to economic growth.[14]
- As the sector is alternatively known as consumer defensive, the market participants tend to push valuations to higher levels due to the sector's relative safety amid increasing prospects of slow economic growth. This is likely to happen again with low global business confidence

Relevant Microeconomic trends or factors:

- It is being said that the continuing drought conditions and additional deterioration in the Australian milk production have resulted in an escalated competition in Q1 FY 2020. As a result of the competition, Australian producers are facing an ongoing higher cost of milk across the industry.

Companies that are resilient to economic cycles. E.g. Food, beverage and non-durable household goods.

- **Information Technology (XIJ)** **Rating = Underweight**
- ASX Weight: 3.9% vs 35% 1-year Return

8. Outperforming the XJO

Relevant Macroeconomic trends or factors:

- Demand for ICT professionals will remain strong across Oceania: Companies see the slowdown in the economy as the time to upskill with quality professionals to address the challenge of increasing efficiency.[15]

Relevant Microeconomic trends or factors:

- Hardware is the main casualty of the recession: Slower sales and refresh cycles will get longer. As CIOs are under pressure on budgets and spending- PCs, servers and storage will be heavily scrutinized to ensure that costs are kept to a minimum.
- Software spending will generally grow, but slowly: Spending on software such as databases, ERM and CRM is expected to continue to grow at a slower rate.
- IT Services are partly recession-proof and will benefit from the crisis: Spending on outsourcing services is expected to increase in the short term.

[14] https://kalkinemedia.com/2019/10/30/three-aspects-consumer-staples-stocks-should-vouch-for-growth-bega-cheese-and-elders/
[15] https://investinaustralia.com/industry/ict/ict-industry-australia

Companies that develop software and computer equipment. E.g. Internet businesses, semiconductors and online applications.

- **Telecommunication Services (XTJ)** **Rating = Neutral**
- ASX Weight: 3.1% vs 13.9% 1-year Return

9. Underperforming the XJO

Relevant Macroeconomic trends or factors:

- The mobile broadband market is predicted to grow a steady rate of 2019 – 2023.

Relevant Microeconomic trends or factors:

- Fixed-line DSL broadband is declining as fibre and fixed-wireless broadband services become more widely available.
- A concern for 2020 is the growing global antitrust backlash against large tech companies, especially originating in the US[16]

Companies that provide communication services through fixed-line, wireless or cable. E.g. Phone carriers.

- **Utilities (XUJ)** **Rating = Neutral**
- ASX Weight: 1.8% vs 9.8% 1-year Return

10. Underperforming the XJO

Relevant Macroeconomic trends or factors:

- Environmental factors are driving change within the subsectors. The energy sector collectively will face significant challenges and opportunities to reduce greenhouse gas emissions to the levels pledged in the Paris Climate Agreement.

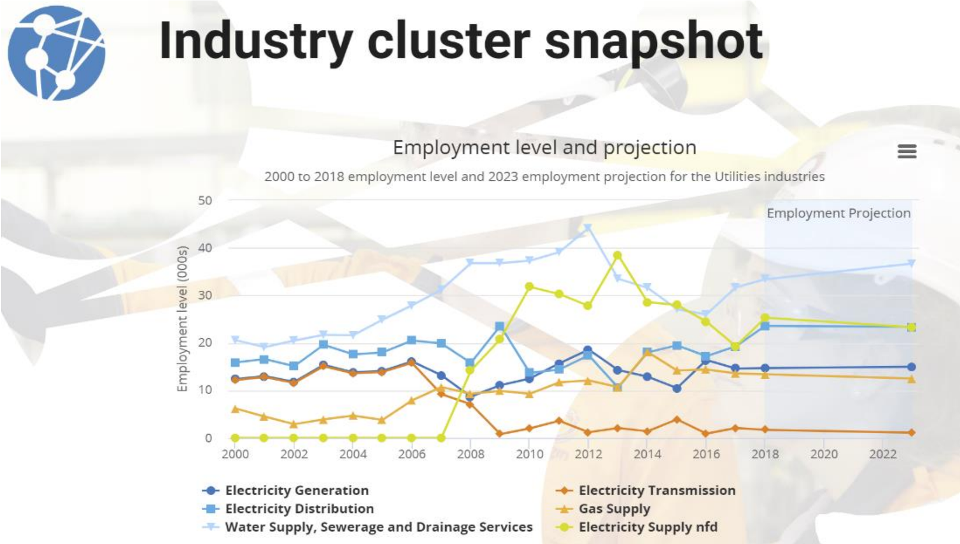
Relevant Microeconomic trends or factors:

- New technologies including automation, smart technologies, remote operations and data analytics will require investment in educational programs to train the future, and upskill the existing, workforce in digital literacy.
    - The uptake of new digital technologies increases exposure to cybersecurity threats, making it imperative to have a tailored cybersecurity training

[16] https://www2.deloitte.com/us/en/pages/technology-media-and-telecommunications/articles/telecommunications-industry-outlook.html

program that provides the industry workforce the skills and knowledge to be able to resolve them.

- Soft skills and lifelong learning will be integral to having a resilient workforce ready to adapt to change.



- Water-Related Services are set to see an increase of 5000+ jobs by 2022, even Electricity Supply & Transmission and Gas Supply will see decreased employment as greater automation reduces the need for mobile through.

Companies that operate or distribute power, gas and water. E.g. Major electricity retailers.