

Suggested SOA Text & Appendices

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**The text on the following pages are suggestive in nature and for your reference only.**

We advise that you amend the text to suit your needs.

In adapting this text, you will need to ensure this section is relevant to your clients’ goals, objectives and personal

circumstances.

Please check with your licensee’s pre-vet and/or compliance team regarding the appropriateness of the wording for the relevant section of the SOA before using the suggested wording.

**(Updated July 2023)**

Morningstar CFS First Choice Core Portfolios

# Rationale for Morningstar Managed Accounts

The investment landscape is complex and evolving, so it’s important to consider a portfolio choice that is able to meet current and future investor requirements.

In order to recommend a portfolio that best matches your needs and maximises the chance of you achieving your goals I am recommending a Morningstar Managed Account available through Colonial First State FirstChoice administration platform.

Managed accounts are an efficient way to deliver diversified portfolio of assets covering cash, fixed interest, equities property & infrastructure that is pro-actively managed over time with a minimum of administrative burden and delay on you.

By choosing this managed account portfolio, I am able to access on your behalf portfolios that are constructed and monitored by professional investment researchers from Morningstar Australasia Pty Limited (AFSL 240892). I am able to leverage Morningstar’s extensive capability for your benefit.

Any portfolio changes are implemented and administered over time by Colonial First State. Changes by Morningstar that are required, are able to be acted on, and will be reflected on your account, without having to wait for our next advice review.

In addition, these managed account portfolios are provided to you without any additional fee over and above the fees of the underlying investment options within FirstChoice.

Morningstar Australasia is a subsidiary of Morningstar, Inc. a leading provider of independent investment research in North America, Europe, Australia, and Asia, with operations in 29 countries. Morningstar Australasia offers an extensive line of products and services for individual investors, financial advisers, asset managers and institutional investors. Established in 1999, Morningstar Australasia provides Stock, Fund, ETF, LIC, and Credit data & research, and software solutions to financial services professionals and individual investors.

# Portfolio Strategy

## Morningstar CFS FC High Growth Core

The Morningstar CFS FC High Growth Core portfolio is an actively managed portfolio which aims to beat the Morningstar Category Average – Australia Superannuation Multisector Aggressive Benchmark over a rolling 9 year period. Morningstar Core portfolios use a combination of passive and active investments.

Passive investments are cost effective but are susceptible to performing in line with markets, particularly falling markets. Active investments seek to beat performance benchmarks and should provide some protection in falling markets at the cost of higher investment fees.

The strategic asset allocation of this portfolio is:

* 90% allocation to growth assets (Australian and International Shares, Property and Infrastructure)
* 10% allocation to defensive assets (Cash and Fixed Interest)

This portfolio is suitable for investors seeking high potential investment performance and can accept higher levels of investment value volatility. The minimum investment period is 9 years.

This portfolio is managed by Morningstar Australasia who has extensive experience in managing and advising on model portfolios and managed accounts. The team leverages the institutional-grade asset allocation approach, manager research and portfolio construction capabilities of the global Morningstar business. Underlying funds are selected based on Morningstar’s Analyst Rating and how well they complement each other within each portfolio.

## Morningstar CFS FC Growth Core

The Morningstar CFS FC Growth Core portfolio is an actively managed portfolio which aims to beat the Morningstar Category Average – Australia Superannuation Multisector Growth Benchmark over a rolling 7 year period. Morningstar Core portfolios use a combination of passive and active investments.

Passive investments are cost effective but are susceptible to performing in line with markets, particularly falling markets. Active investments seek to beat performance benchmarks and should provide some protection in falling markets at the cost of higher investment fees.

The strategic asset allocation of this portfolio is:

* 70% allocation to growth assets (Australian and International Shares, Property and Infrastructure)
* 30% allocation to defensive assets (Cash and Fixed Interest)

This portfolio is suitable for investors seeking higher potential investment performance and can accept higher levels of investment value volatility. The minimum investment period is 7 years.

This portfolio is managed by Morningstar Australasia who has extensive experience in managing and advising on model portfolios and managed accounts. The team leverages the institutional-grade asset allocation approach, manager research and portfolio construction capabilities of the global Morningstar business. Underlying funds are selected based on Morningstar’s Analyst Rating and how well they complement each other within each portfolio.

## Morningstar CFS FC Balanced Core

The Morningstar CFS FC Balanced Core portfolio is an actively managed portfolio which aims to beat the Morningstar Category Average – Australia Superannuation Multisector 50% Balanced/50% Growth Benchmark over a rolling 6 year period. Morningstar Core portfolios use a combination of passive and active investments.

Passive investments are cost effective but are susceptible to performing in line with markets, particularly falling markets. Active investments seek to beat performance benchmarks and should provide some protection in falling markets at the cost of higher investment fees.

The strategic asset allocation of this portfolio is:

* 60% allocation to growth assets (Australian and International Shares, Property and Infrastructure)
* 40% allocation to defensive assets (Cash and Fixed Interest)

This portfolio is suitable for investors seeking moderate levels of investment value volatility in return for corresponding potential investment performance. The minimum investment period is 6 years.

This portfolio is managed by Morningstar Australasia who has extensive experience in managing and advising on model portfolios and managed accounts. The team leverages the institutional-grade asset allocation approach, manager research and portfolio construction capabilities of the global Morningstar business. Underlying funds are selected based on Morningstar’s Analyst Rating and how well they complement each other within each portfolio.

## Morningstar CFS FC Moderate Core

The Morningstar CFS FC Moderate Core portfolio is an actively managed portfolio which aims to beat the Morningstar Category Average – Australia Superannuation Multisector Balanced Benchmark over a rolling 5 year period. Morningstar Core portfolios use a combination of passive and active investments.

Passive investments are cost effective but are susceptible to performing in line with markets, particularly falling markets. Active investments seek to beat performance benchmarks and should provide protection in falling markets at the cost of higher investment fees.

The strategic asset allocation of this portfolio is:

* 50% allocation to growth assets (Australian and International Shares, Property and Infrastructure)
* 50% allocation to defensive assets (Cash and Fixed Interest)

This portfolio is suitable for investors seeking medium levels of investment value volatility in return for corresponding potential investment performance. The minimum investment period is 5 years.

This portfolio is managed by Morningstar Australasia who has extensive experience in managing and advising on model portfolios and managed accounts. The team leverages the institutional-grade asset allocation approach, manager research and portfolio construction capabilities of the global Morningstar business. Underlying funds are selected based on Morningstar’s Analyst Rating and how well they complement each other within each portfolio.

## Morningstar CFS FC Conservative Core

The Morningstar CFS FC Conservative Core portfolio is an actively managed portfolio which aims to beat the Morningstar Category Average – Australia Superannuation Multisector Moderate Benchmark over a rolling 3 year period. Morningstar Core portfolios use a combination of passive and active investments.

Passive investments are cost effective but are susceptible to performing in line with markets, particularly falling markets. Active investments seek to beat performance benchmarks and should provide some protection in falling markets at the cost of higher investment fees.

The strategic asset allocation of this portfolio is:

* 30% allocation to growth assets (Australian and International Shares, Property and Infrastructure)
* 70% allocation to defensive assets (Cash and Fixed Interest)

This portfolio is suitable for investors seeking medium to low levels of investment value volatility and therefore accepts lower potential investment performance. The minimum investment period is 3 years.

This portfolio is managed by Morningstar Australasia who has extensive experience in managing and advising on model portfolios and managed accounts. The team leverages the institutional-grade asset allocation approach, manager

research and portfolio construction capabilities of the global Morningstar business. Underlying funds are selected

based on Morningstar’s Analyst Rating and how well they complement each other within each portfolio.

## Morningstar CFS FC Defensive Core

The Morningstar CFS FC Defensive Core portfolio is an actively managed portfolio which aims to beat the Morningstar Category Average – Australia Superannuation Multisector Conservative Benchmark over a rolling 3 year period. Morningstar Core portfolios use a combination of passive and active investments.

Passive investments are cost effective but are susceptible to performing in line with markets, particularly falling markets. Active investments seek to beat performance benchmarks and should provide some protection in falling markets at the cost of higher investment fees.

The strategic asset allocation of this portfolio is:

* 15% allocation to growth assets (Australian and International Shares, Property and Infrastructure)
* 85% allocation to defensive assets (Cash and Fixed Interest)

This portfolio is suitable for investors seeking low levels of investment value volatility and therefore accepts lower potential investment performance. The minimum investment period is 3 years.

This portfolio is managed by Morningstar Australasia who has extensive experience in managing and advising on model portfolios and managed accounts. The team leverages the institutional-grade asset allocation approach, manager research and portfolio construction capabilities of the global Morningstar business. Underlying funds are selected based on Morningstar’s Analyst Rating and how well they complement each other within each portfolio.

# Benefits & Risks

## Benefits

* Access to professional investment management and portfolio monitoring from Morningstar, a market leading global investment research & portfolio management company
* Morningstar selects its best ideas for investment fund options to include in each portfolio, and actively monitors these over time
* Morningstar utilises Strategic Asset Allocation, an approach which aims to maximise return over the long term
* Portfolio changes automatically implemented on your behalf, without additional paperwork required
* Significant oversight and governance over the portfolio to assist in ensuring the portfolio remains within its investment mandate

## Risks

* Investment risks which include but are not limited to market risk, interest rate risk, currency risk, credit risk & geo-political risk. Each of the underlying investment fund options may experience poor or negative returns from time to time.
* Manager risk which includes the risk that the investment selections that Morningstar makes do not perform as intended or that Morningstar may lose key portfolio management and/or research staff.
* Administrative risk which includes the risk that the administration of your managed account may mean that your holdings not exactly match the model manager’s chosen selections from time to time. Transactions and the cost of transactions may impact your portfolio’s performance.

# Appendix 1 – Morningstar CFS FC Core Managed Accounts – Core Portfolios

### Australian Equities

* **Schroder Wholesale Australian Equity. Rated Gold.**

Experienced portfolio managers with an impressive research team. Stability, reliability and dependability are the hallmarks of the team, process and strategy. Another quality core Australian equity allocation with a portfolio that is value-oriented.

### Fidelity Wholesale Australian Equities: Rated Gold.

Our preferred core Australian equity allocation. An outstanding portfolio manager with a thoughtful investment process and well-structured portfolio methodology sets this strategy consistently ahead of competitors.

### Realindex Wholesale Australian Share: Rated Gold.

Bringing a value-tiled systematic exposure to Australian equites at a reasonable price. Realindex uses a long standing factor based approach, first commercialised by US based Research Affiliates, to uncover undervalued stocks. Realindex, now part of First Sentier Investments, have added a number of enhancements to the original process and continue to apply a disciplined investment process.

### First Sentier Wholesale Australian Small Companies: Rated Gold.

An exceptional team and strong process make this one of our favourites for small cap Australian equity exposure. The team has remained remarkably stable and consistently produced strong outcomes off the back of insightful differentiated research, which we believe will continue.

### Global Equities

* **Colonial First State Wholesale Index Global Share – Hedged. Rated Bronze.**

Allocating to the hedged version to take into out our overall SAA and CMA views. Low cost, efficient core exposure to Australian Bond benchmark. CFS utilising the expertise of State Street Global Advisers for this strategy.

### Realindex Wholesale Global Share Value: Rated Bronze.

Bringing a value-tiled systematic exposure to Global equites at a reasonable price. Realindex uses a long standing factor based approach, first commercialised by US based Research Affiliates, to uncover undervalued stocks. Realindex, now part of First Sentier Investments, have added a number of enhancements to the original process and continue to apply a disciplined investment process.

* **GQG Partners Wholesale Global Equity. Rated Gold.**

GQG Partners has a go-anywhere approach run by a highly talented manager in Rajiv Jain. Jain describes himself as quality-growth, but the portfolio has had many different characteristics over time with a wide range of different stocks depending on where they see opportunities. This go-anywhere approach compliments the index and Realindex allocations.

### Pendal Global Emerging Market Opportunities. Rated Silver.

Portfolio managers James Syme and Paul Wimborne have worked together since 2006 joining J O Hambro (part of Pendal) in 2011. Ada Chan, who joined in 2016 as an analyst was promoted to portfolio manager in early 2022. Unique in this space the trio take a top-down approach evaluating all the countries that make up the MSCI Emerging Markets Index using quantitative and qualitative factors such as growth, liquidity, currency, political risks, and valuation. Once a country is deemed investable, they look for companies with high return on capital and return on equity.

### Property and Infrastructure

* **Colonial First State Wholesale Index Global Property Securities. Rated Neutral.**

Low cost, efficient core exposure to global REITs. CFS utilising the expertise of State Street Global Advisers for this strategy.

### Magellan Wholesale Infrastructure Fund: Rated Silver.

An experienced team run a conservative, patient yet detailed process meaning that it’s one of our top idea in infrastructure sector. And it has the runs on the board to prove it with long running returns coming with extremely low risk metrics.

### Colonial First State Wholesale Index Property Securities. Rated Bronze.

Low cost, efficient core exposure to AREIT benchmark. CFS utilising the expertise of First Sentier Investments for this strategy.

### Cash and Fixed Interest

* **First Sentier Wholesale Strategic Cash.**

We have opted for an ‘enhanced‘ cash option noting that the portfolio consists of high-quality money market securities including asset backed securities), with predominantly short maturities, to achieve a very stable income stream.

### Colonial First Sate Wholesale Index Global Bond. Rated Neutral.

Low cost, efficient core access to global bonds. CFS utilising the expertise of State Street Global Advisors as the underlying manager for this option.

### Bentham Wholesale Global Income: Rated Silver.

A boutique fixed income manager focused on credit. The portfolio does show breadth of global fixed income exposures across cash and cash equivalents, syndicated loans, collateralised loan obligations and bank capital securities.

### Colonial First State Wholesale Index Australian Bond. Rated Bronze.

Low cost, efficient core exposure to Australian Bond benchmark. CFS utilising the expertise of First Sentier Investors for this strategy.

### Janus Henderson Tactical Income. Rated Silver.

A value -oriented process applied in a more flexible absolute return manner. The strategy offers more flexibility and less interest rate risk relative to a typical Australian bond offering, courtesy of a split bank bill and Australian bond index.

# Appendix 2 –Fees

### Investment Fees

|  |  |  |  |
| --- | --- | --- | --- |
| **Portfolio** | **Benchmark** | **Fee Super**  **Accumulation** | **Fee Super Pension** |
| Morningstar Defensive | Morningstar Category Average  Australia Fund Multisector Conservative | 0.54% | 0.54% |
| Morningstar Conservative | Morningstar Category Average Australia Fund Multisector Moderate | 0.57% | 0.57% |
| Morningstar Moderate | Morningstar Category Average Australia Fund Multisector Balanced | 0.65% | 0.65% |
| Morningstar Balanced | Morningstar Category Average Australia Fund Multisector  50% Balanced/50% Growth Category Average | 0.71% | 0.71% |
| Morningstar Growth | Morningstar Category Average Australia Fund Multisector Growth | 0.75% | 0.74% |
| Morningstar High Growth | Morningstar Category Average Australia Fund Multisector Aggressive | 0.83% | 0.82% |

*Fees include: administration fees and costs, investment fees and costs, estimated performance fees (where applicable) as per the CFS FirstChoice Wholesale Personal Super and Pension PDS dated 22 May 2023..*