Independent Wealth Partners Investment Philosophy

Independent Wealth Partners believes that there are a number of return drivers that provide the bulk of return to clients. These are defined as

- Strategic Asset Allocation
- Fee Load, Investment Diversification and individual asset selection.

Strategic Asset Allocation

We follow a **strategic asset allocation approach** with allocations to specific asset allocations being varied based on long term expected returns (10 + years).

Independent Wealth Partners draws on the strategic expertise of the WTW Australia Investment Team to help with both the Asset Allocation and the underlying investment selection. WTW utilise their Global Asset Model to help us understand the risk and return profiles of various asset classes/investment strategies, and this helps to inform the asset allocation decisions. We recognise that investment decisions need to balance quantitative analysis with expert judgement to reflect considerations which cannot be fully captured within a model and therefore also incorporate qualitative factors into the process, based on the knowledge and judgement of WTW's experienced investment team.

WTW's Investment Assumptions Committee ("IAC"), which comprises senior specialist asset allocation consultants from around the world, is responsible for developing a set of forward-looking assumptions for all the major markets. In Australia, WTW's Investment Strategy team work closely with the IAC to arrive at a robust set of assumptions for Australian investors. The IAC formally reviews and recalibrates the asset class assumptions and models on a quarterly basis and conducts a more thorough review of all assumptions annually.

The approach taken to assumption setting is generally based around a belief that markets are broadly efficient with the aim to estimate what future investment returns might be achieved in a central or neutral scenario, taking into account current conditions. The assumptions are derived through a blend of economic theory, historical analysis, views of investment managers and inevitably contain an element of subjective judgement. The factors taken into account in annual and quarterly reviews are:

- Economic conditions, market yields, price-to-earnings ratios and other market data;
- Historical data on investment returns, correlations and volatilities;
- Central banks' forecasts and objectives;
- WTW annual survey of investment managers' asset class risk and return expectations;
- Meetings with economic commentators and investment managers;

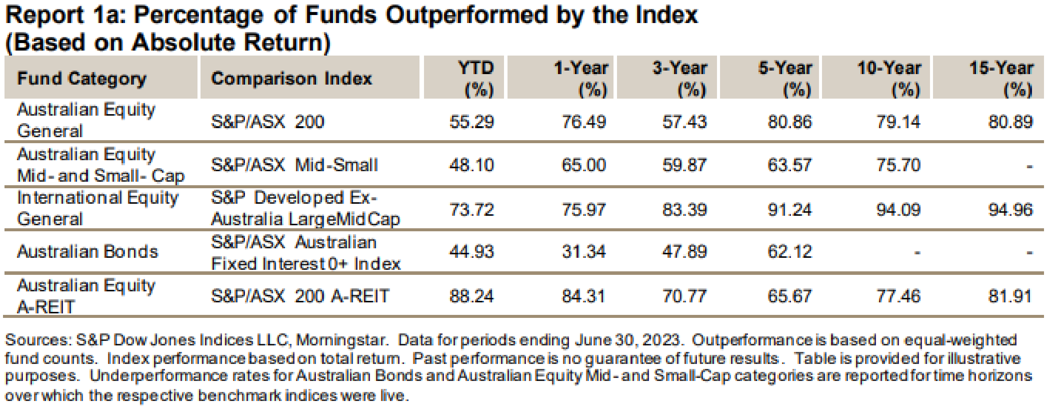
- Feedback from clients and their advisers;
- The latest trade/academic papers on the subject.

Overall, we, in collaboration with the WTW Australia Investment team, aim to draw together as many different sources of information as possible into the process, recognising that it is unlikely that any single input or formula will consistently provide a reasonable estimate for future returns.

Individual Asset Selection Views, Diversification and Fee Load

Index Investing will beat Active Investing most of the time : We take an evidenced based approach to investment selection by using the SPIVA data to support our findings.

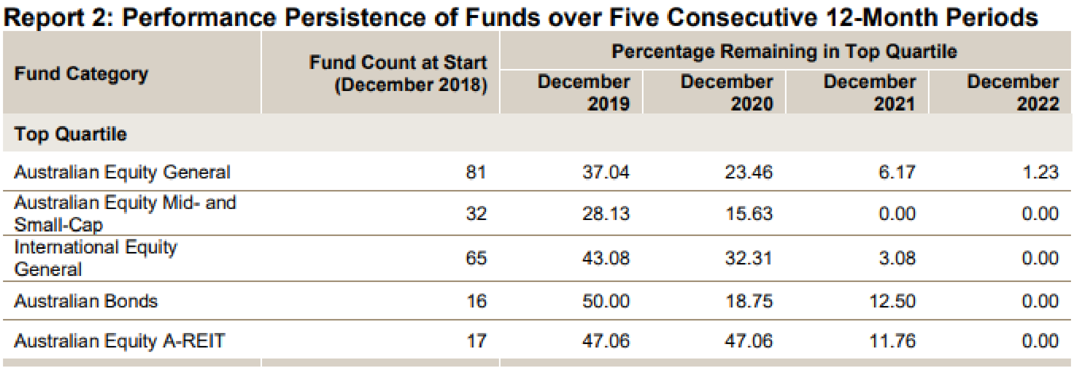
Over the last 5 years the index has beaten the active fund managers 80% of the time, whilst over the last 15 years, the index beats active managers 81% of the time. [1] Importantly, the active managers that outperform in any one year, do not necessarily do this year on year. In fact, of the 75% of fund managers that were in the top quartile in June 2014, only 1.2% of those same managers have remained top quartile to December 2022.)[2]



Report 1a: Percentage of Funds Outperformed by the Index (Based on Absolute Return)

Fund Category	Comparison Index	YTD (%)	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)	15-Year (%)
Australian Equity General	S&P/ASX 200	55.29	76.49	57.43	80.86	79.14	80.89
Australian Equity Mid- and Small- Cap	S&P/ASX Mid-Small	48.10	65.00	59.87	63.57	75.70	-
International Equity General	S&P Developed Ex-Australia LargeMidCap	73.72	75.97	83.39	91.24	94.09	94.96
Australian Bonds	S&P/ASX Australian Fixed Interest 0+ Index	44.93	31.34	47.89	62.12	-	-
Australian Equity A-REIT	S&P/ASX 200 A-REIT	88.24	84.31	70.77	65.67	77.46	81.91

Sources: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2023. Outperformance is based on equal-weighted fund counts. Index performance based on total return. Past performance is no guarantee of future results. Table is provided for illustrative purposes. Underperformance rates for Australian Bonds and Australian Equity Mid- and Small-Cap categories are reported for time horizons over which the respective benchmark indices were live.



Report 2: Performance Persistence of Funds over Five Consecutive 12-Month Periods

Fund Category	Fund Count at Start (December 2018)	Percentage Remaining in Top Quartile			
		December 2019	December 2020	December 2021	December 2022
Top Quartile					
Australian Equity General	81	37.04	23.46	6.17	1.23
Australian Equity Mid- and Small-Cap	32	28.13	15.63	0.00	0.00
International Equity General	65	43.08	32.31	3.08	0.00
Australian Bonds	16	50.00	18.75	12.50	0.00
Australian Equity A-REIT	17	47.06	47.06	11.76	0.00

[1] https://www.spglobal.com/spdji/en/documents/spiva/spiva-australia-mid-year-2023.pdf

[2] https://www.spglobal.com/spdji/en/documents/spiva/persistence-scorecard-australia-year-end-2022.pdf

This data confirms that you only really have advantage in any one year if your style (Growth, Value, Trading) outperforms in that year. As such, being able to pick the state of the market consistently and invest to outperform the index is almost impossible. As we consistently say – no-one can predict the future. However, note from the data above that the SPIVA data shows that active managers do outperform in the small/mid cap Australian Equity markets. This is simply because that end of the market it is far easier to determine quality stocks (ie. Companies making consistent profits) from companies that either aren't profitable or don't perform consistently.

As such, by using an index approach, you will receive index level returns for the asset class you are invested in and you are more likely to outperform active funds managers over time as per the SPIVA research attached.

The evidence shows (as per the SPIVA report) that it is highly unlikely that you will receive a return which outperforms that index over the longer term by investing in active fund managers. This is due to the following set of factors

1. Active Fund management fees – most active fund managers are charging 1.0%+ per annum, whereas we can access index funds management as low as 0.04% per annum, meaning there is a 0.96% differential in the level of return.
2. Active fund managers are so large that they often move the stock against themselves when they are either buying or selling making it incredibly difficult to buy enough of the stock at their preferred price.

3. The ASX20 makes up approximately 72% of the ASX200. That is the majority of the companies in the top 20 provide around 72% of the return of the ASX200. There are numerous broking houses/family offices/research houses providing research on those top 20 companies so its fair to say that pretty well all the information is known about the top 20 stocks in Australia. As such, the market moves before anyone can take advantage of extra knowledge about a particular stock anyway. As such, its incredibly difficult for any fund manager to pick a better stock than the other and then to do this on a consistent basis.

4. The people risk and the behavioural complexities are removed – Humans are not infallible and often make mistakes (that's what makes us human). In fact there is a field of behavioural finance that seeks to address behavioural biases and I list some of the biases that professional investment managers suffer from below
    - Anchoring or Confirmation Bias – Investors whose thinking is subject to confirmation bias would be more likely to look for information that supports their view about an investment. Ie. They will look for the good stuff and not the bad stuff.
    - Loss Aversion bias – This explains a persons reluctance to sell a losing investment to avoid confronting the fact that they have made a poor decision. For example, the portfolio manager wont sell a stock because there is currently a loss against it, irrespective of whether the future prospects for the stock are less than bright or not.
    - Disposition bias – This refers to the tendency to label investments as winners or losers. Disposition effect bias can lead an investor to hang onto

an investment that no longer has any upside or sell a winning investment too early to make for previous losses.
- Hindsight bias – This leads an investor to believe after the fact that the onset of a past event was predictable and completely obvious, whereas, in fact, the even could not have been reasonably predicted. An example of this would be the GFC.
- Self Attribution bias - Investors who suffer from self-attribution bias tend to attribute successful outcomes to their own actions and bad outcomes to external factors. They often exhibit this bias as a means of self-protection or self-enhancement. Investors affected by self-attribution bias may become overconfident.

There are a number of other biases that all investors suffer from, however, importantly an indexing methodology does not suffer from these biases, simply because they take a rules-based approach to investing.

Additional considerations when making investment decisions.
Importantly, we review each of the asset classes quarterly, taking into account the current and future economic environment including where we believe asset classes are expensive or inexpensive. When managing asset classes we use the following as a basis for making decisions:

- Diversification (by investing in a number of different asset classes), but not overdiversification, is important and protects against uncertain futures
- Minimising investment costs improves the chance of better long term outcomes
- We have a preference for passive over active management, with a strong belief that index investing will beat active investing most of the time
- We invest with a long term mindset, aiming to meet the long term cash flow needs of its clients
- We prioritises the achievement of a desired level of return, rather than targeting a level of risk
- We define risk as ‘market risk’, with the ultimate need being to minimise risk for a given level of return, as measured by volatility and downside risk
- We utilises a long term Strategic Asset Allocation *(*SAA), rather than aiming to add value via shorter term dynamic asset allocation decisions
- We recognises the responsibility to invest ethically and sustainably
- Liquidity is important, with a maximum liquidity timeframe of 30 days

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