



Our investment philosophy





Our investment philosophy sets out our investment beliefs and principles that guide the strategies we use to invest your funds.

It is a strategic way of thinking about markets and provides us with direction and a framework for guiding how we invest your money.

What is our view about financial markets and investing?

- We believe that in Australia and other developed countries, financial markets broadly operate efficiently to ensure that asset prices accurately reflect available information.
- We believe that it is extremely difficult for an investment professional to consistently outperform these markets with active investing after fees, and that the longer the investment time horizon, the more difficult this task becomes.
- We acknowledge there are **small pockets** within these markets where opportunities exist for a skilled investment professional to identify mispriced assets and offer the potential for outperformance.
- We believe that the performance of an investment program depends mostly on a few key ideas:
 - I. Asset allocation is of primary importance. A portfolio's mix of shares, bonds, property and other assets is the main driver of its long-term returns and the variability of those returns.
 - II. Diversification moderates risk. Diversifying within and across asset classes reduces a portfolio's exposure to the risks associated with a particular company, market segment or asset class.
 - III. Lower costs mean higher returns. The lower your costs, the greater your share of an investment's return.

As a result of our beliefs, we focus on a low-cost, tax-efficient, asset-allocation-based approach to building wealth. We use this to construct the core component of each client's investment portfolio.

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

| Fund Category | Comparison Index | 1-Year (%) | 3-Year (%) | 5-Year (%) | 10-Year (%) | 15-Year (%) |
|--|--|------------|------------|------------|-------------|-------------|
| Australian Equity General | S&P/ASX 200 | 57.56 | 65.32 | 81.18 | 78.22 | 83.57 |
| Australian Equity Mid-and Small-Cap | S&P/ASX Mid-Small | 76.62 | 68.53 | 68.12 | 66.67 | - |
| International Equity General | S&P Developed Ex-Australia LargeMidCap | 56.29 | 80.78 | 86.25 | 95.00 | 94.30 |
| Australian Bonds | S&P/ASX Australian Fixed Interest o+ Index | 69.23 | 52.94 | 66.13 | - | - |
| Australian Equity A-REIT | S&P/ASX 200 A-REIT | 41.18 | 61.54 | 65.67 | 79.22 | 79.12 |

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 30, 2022. 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 respected benchmark indices were live.

We take an indexed approach to investing across markets.

When constructing an investment portfolio for you, low-cost index funds serve as the foundation for your investment strategy.

Since index funds seek to track market returns, establishing a performance expectation with you is much simpler. That's just one of many benefits. Index-based investment strategies are typically low in their portfolio turnover, relative to active strategies, which can help reduce your tax burden and trading costs.

Since its inception, low-cost index investing has proven to be a successful strategy over the long term and has become increasingly popular globally.

We take a core/satellite approach to investing your funds.

Core/satellite is an investment approach that combines the benefits of index funds—lower cost, broader diversification, tax efficiency and lower volatility— with alternative investments offering potential for outperformance.

This core satellite approach allocates the majority portion of your investment to this broadly diversified “**core**” of index funds.

It is possible to combine the best aspects of a broadly well diversified investment of index funds (the **core**) with a smaller allocation (**satellite**) to alternative investments to bring stability and returns to your total core/satellite investment portfolio.

The selection of the “**core**” investments and the blending of “**satellite**” investments is undertaken by our investment committee.

A core/satellite approach will be more beneficial to some clients than others. To this extent we segment those clients into one category, while clients who this approach may not suit will have their investment portfolio made of the **core** element only.

Exchange Traded Funds (ETFs)

As mentioned, when we invest your money, we do so, typically, via index funds traded on the Australian Securities Exchange (ASX). These are called Exchange Traded Funds (ETF).

An ETF is simply a managed fund which is traded on the stock exchange. ETFs cover all asset classes, including equities, fixed interest and cash. They can be broad, covering Australian and international markets, or more specific, covering individual sectors such as property, commodities, gold, oil, and banks.

Smart Beta

Your investment portfolio will include ETFs managed by Betashares that are broad market, passive index funds. In addition, however, your portfolio may include smart beta ETFs.

Most traditional indices, such as the S&P/ASX 200 Index or the MSCI World Index, are designed to weight their securities according to their market capitalisation, which is a function of both a security's price and the number of securities on issue.

Smart Beta is simply any passive investment strategy that uses some measure other than market capitalisation to determine weightings in a portfolio. For example, factor exposures are strategies that weight securities on attributes that are associated with forms of investing such as momentum, value or quality.

We systematically rebalance client portfolios on a quarterly basis.

The primary goal of us rebalancing your portfolio is to minimise risk relative to a target asset allocation. Over time, each asset class produces different returns that can materially change your portfolio's asset allocation which was originally aligned to your investment risk profile.

To recapture your portfolio's original risk-and-return characteristics, your portfolio is therefore rebalanced to return it to its original asset allocation.

This has the added advantage of taking advantage of market cycles by buying when assets are relatively cheaper and conversely selling other assets whose price has risen and to lock some gains away.

We utilise state-of-the-art-technology via our Netwealth managed account structure to rebalance your portfolio.

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The key reasons why we use ETFs are:

Low cost

They typically cost less than traditional managed funds

Diversification

They provide investors with broad exposure to entire markets, asset classes or multi-asset class investments which offer an all-in-one investment solution.

Tax efficiency

Due to their 'buy and hold' approach, index ETFs generally have a low turnover, improving long-term performance and tax efficiency.

Liquidity

ETFs provide exposure to broad investments in liquid markets. The open-ended structure of an ETF means that it can be as liquid as the underlying securities that it invests in.

Transparency

Most are highly transparent investments that provide you with full visibility of what you are investing in.

Simplicity

As ETFs are traded on regulated exchanges, just like individual shares, the process of investing in them is more efficient and straightforward than investing in traditional managed funds.

Separately Managed Accounts (SMA)

As a boutique financial advisory practice, we bring large company systems to our back office to ensure our systems manage our client portfolios in the safest, most efficient way.

We do this by having appointed a managed account provider, Netwealth. Netwealth is an Australian public company that specialises in providing infrastructure that manages and reports on investment portfolios.

Your investment portfolio is created and managed on the basis of our investment philosophy and the investment decisions of our professional investment manager, Betashares.

The assets in your investment portfolio will be reviewed and rebalanced (bought/sold) based on investment manager (Betashares) decisions, contributing to the overall performance of your portfolio and reducing the need for day-to-day trading of your investments.

A significant benefit of arranging investments in this managed account structure is that it enables us, and you, to see where your money is invested. This means you may be able to also provide Netwealth with instructions to substitute, hold or lock a specific asset within your portfolio to meet your specific needs.

The key benefits of using the SMA structure are:

1. Optimised tax outcomes for you.
2. Instructions from Betashares are implemented automatically ensuring your account is kept up to date.
3. Rebalancing instructions from the portfolio manager are implemented automatically.
4. Enhanced transparency of your underlying holdings, providing you with a clearer understanding of your investments.
5. We can select a portfolio (5 Financial Conservative, Moderate, Balanced, Growth or High Growth portfolio) to suit your needs, goals and risk preferences.
6. No need to separately authorise each trade – this will prevent trading lags.

Investment manager: Betashares

The role of Betashares, our Australian based investment manager, is to determine the on-going investment holdings for your portfolio. One of the primary reasons we selected Betashares to be our investment manager is that their investment philosophy is aligned with ours.

More specifically, Betashares focuses on:



Low cost

Paying attention to fees is highly important. High investment fees can negate the benefits of returns. Using lower cost investment structures such as ETFs means more of the returns will end up with you, the investor.



Diversification

Returns in any market are unpredictable and as a result diversification across asset classes is important. Assets that outperform one year may underperform the next. Using diversification in asset allocation strategies reduces risk.



Tax efficiency

ETFs tend to have lower portfolio turnover, which has tax benefits to holders.

Betashares is an Australian-based fund manager, specialising in ETFs, with over \$30bn in assets under management.*

The service is based on several underlying principles. Firstly, the service focuses on only a core set of major asset classes. Betashares believes this provides a sufficient level of diversification and opportunity for attractive returns without undue complexity and – once implemented within an actual investment portfolio – trading costs.

Your portfolio is managed by Betashares with a **Dynamic asset allocation** style. Dynamic Asset Allocation (DAA) involves tilting the mix of assets in a portfolio based on prevailing market conditions. This form of asset allocation relies upon an asset manager's judgement of how best to position a portfolio for changes in each asset class. Consideration is given to factors such as inflation, interest rates and investment factors. DAA will use a base level of longer-term strategic asset allocation as its starting point and looks to enhance the risk/return profile through these shorter-term tilts.

Generally, this approach involves reducing overall portfolio risk after a period when returns of risky assets have been abnormally high, leading to valuations that are judged to be in excess of fair value.

In making these risk and return asset class assessments, Betashares believes that both quantitative and qualitative (i.e. expert judgement) factors should play an important role, especially as structural changes in asset valuations over time may undermine the reliability of estimates produced by quantitative models alone.

* As at November 2023.

5 Financial Investment Committee

We continually monitor the performance of our preferred SMA providers and have the capacity to change your SMA operator and investment manager if the need arises.

Our internal investment committee consists of:

| Name | Position | Location | Started at 5 Financial | Started in Industry |
|--|-----------------------------------|----------|---------------------------|------------------------|
| Jason Petersen Certified Financial Planner (CFP®), BA (Info Systems), Graduate Diploma of Financial Planning Tax (Financial) Adviser | Head of Advice, Senior Adviser | Sydney | 2004 | 2004 |
| Gillian Witham M Applied Finance, Bachelor of Engineering (Civil) Tax (Financial) Adviser Accredited Aged Care Professional™ | Senior Adviser | Sydney | 2016 | 2016 |
| Rod Gardner Certified Financial Planner (CFP®), Bachelor of Business, Grad Dip Financial Planning Tax (Financial) Adviser Accredited Aged Care Professional™ | Senior Adviser | Sydney | 2020 | 1998 |
| Daniel Cohen Certified Financial Planner (CFP®) Bachelor of Financial Advising (Financial Planning) Tax (Financial) Adviser Cert IV in Finance & Mortgage Broking Cert III in Accounting | Senior Adviser | Sydney | 2023 | 2019 |

This committee meets at least quarterly to review existing approved investment managers and their specific investment products as well as undertaking due diligence of potential investments that may be suitable for our clients.

In addition to our internal investment committee, we utilise the service of two independent external research providers in Lonsec and Morningstar to ensure thoroughness in our investment due diligence undertakings.

These external research companies provide insights into the performance of our preferred investment manager, Betashares.

5 Financial



5 Wealth Management Pty Ltd

Part of the 5 Financial Group

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