

CFS FirstChoice Portfolio Update

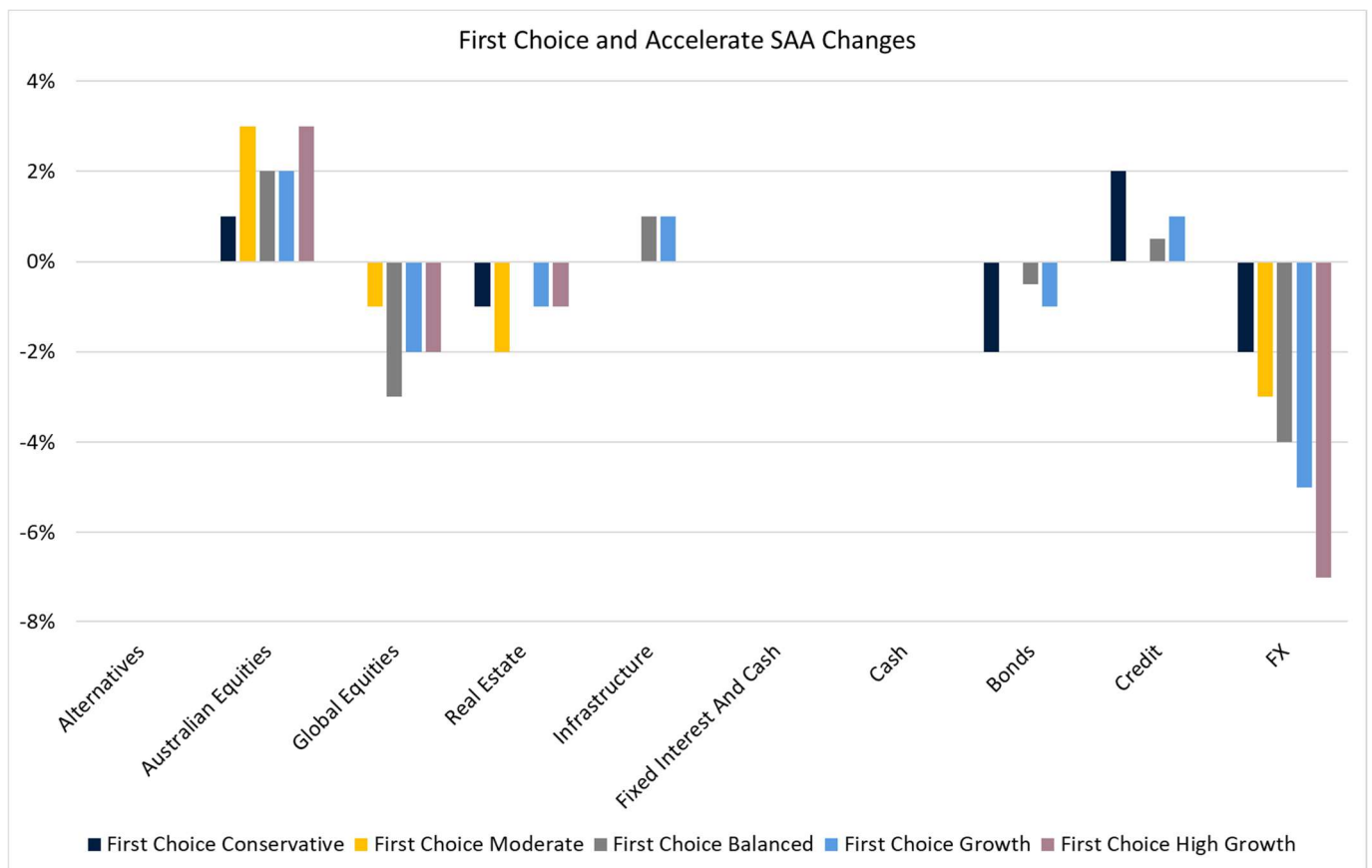
22 JULY 2025

Our Investment Committee (IC) has approved the 2025 Strategic Asset Allocation review. Four long term scenarios were considered this year including the introduction of Extreme Deglobalisation given the potential impact of the Trump Administration's trade policies.

One of the most significant outcomes of this review was the currency (FX) exposure across the portfolios. The USD appears to have entered a multi-year decline versus major currencies following the trade war (as discussed in our recent quarterly webinar). Given the starting point of a relatively overvalued USD, consideration of long-term capital flows and a specific mandate from the US administration to weaken the currency, we factor in a weaker currency and vis-à-vis a stronger AUD into our forecasts. This results in a much lower neutral setting for FX exposure across all portfolios.

The other major change is an increase in Australian equities versus global equities. This reflects an expected reduction in US dominance in global capital markets in an increasingly protectionist world and a widening of the range of potential economic outcomes from these policies. Given the increasing exposure in the SAA to domestic equities, the large existing allocation to large caps, and the current valuation of the Australian market, we are adding a small allocation to Australian small caps (Longwave Australian Small Companies Fund) to diversify the domestic equity exposure.

The changes to our neutral SAA for each portfolio are presented in the chart below.



While we establish the SAA changes, we are also taking the opportunity to moderately increase the growth exposures in the portfolios via the Dynamic Plus Fund (though they remain a little underweight). The immediate risk of a dramatic slowdown in the global economy due to tariff announcements has faded after the US again demonstrated resilience to shocks. While the drag from tariffs is expected to take many quarters to be fully felt, it seems that with some offset from fiscal stimulus (the One Big Beautiful Bill), the most likely outcome is a period of slow growth, rather than a contraction in the economy and corporate earnings.

As we introduce Australian small caps across all portfolios as exposure to Australian equities increases, in CFS FirstChoice portfolios we are adding Longwave Australian Small Companies Fund. We are also adding Pental Australian Share Fund to the portfolios whilst we are removing Sage Equity Plus Fund.

Pental Australian Share Fund

The Pental Australian Share Fund is an active Australian equity fund comprising approximately 25-50 stocks. The strategy follows a style-neutral approach, investing in both value and growth companies without a predetermined bias. The fund is managed by Crispin Murray who has over 34 years' investment experience and leads a team of 18 highly experienced investment professionals. Performance has been consistently strong through multiple cycles. As such, we believe the fund is a highly attractive, style-neutral, core exposure within an Australian equity allocation.

Longwave Australian Small Companies Fund

The Longwave Australian Small Companies Fund is an actively managed, diversified portfolio of 100-120 Australian small-cap stocks. Established in 2018, the firm is owned by staff and Pinnacle Investment Management. We believe a key strength is the highly experienced investment team and differentiated blend of quantitative and fundamental research that they apply, underpinned by the belief that quality is the long-term driver of small cap excess returns. We view the fund as an attractive Australian small-cap exposure within a broader Australian equity allocation.

ClearBridge RARE Infrastructure Value Fund (Hedged)

The ClearBridge RARE Infrastructure Value Fund (Hedged) is an actively managed, benchmark unaware portfolio of 30-60 global listed infrastructure stocks. The Sydney-based 11-person investment team is led by Nick Langley, who is a highly experienced and skilled investment professional within infrastructure markets, with a career spanning over 30 years. Over the long term, the fund has been able to provide superior risk-adjusted returns relative to many peers and we believe the team is well equipped to continue to do this.

ASSET CLASS POSITIONING

The table below shows the tactical positioning compared to the new SAA upon completion of these changes. Growth assets are a little underweight, driven by Australian equities, with property now neutral and infrastructure only a little above neutral. We retain our large overweight to corporate debt and are still underweight government bonds.

	Strong Underweight	Underweight	Neutral	Overweight	Strong Overweight
Australian Equities	○	●	○	○	○
Global Equities	○	○	●	○	○
Property	○	○	●	○	○
Infrastructure	○	○	○	●	○
Government Bonds	○	●	○	○	○
Corporate Debt	○	○	○	○	●
Cash	○	○	●	○	○
Total Growth vs Defensive	○	●	○	○	○

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