Investment Philosophy

This document articulates the investment philosophy of Cruz. It is designed to assist all stakeholders including clients, advisers, staff and partners in understanding how we help clients invest their money with confidence.

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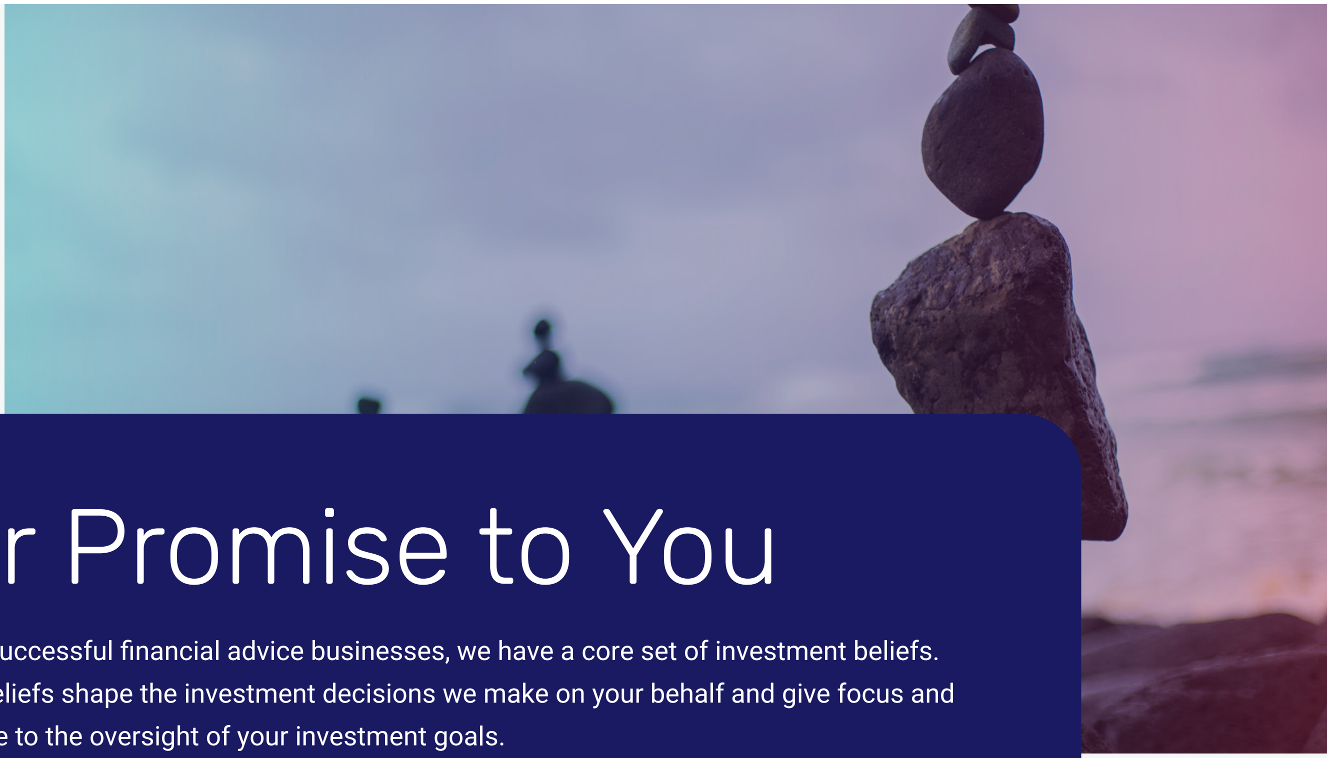


Our Promise to You

Like all successful financial advice businesses, we have a core set of investment beliefs. These beliefs shape the investment decisions we make on your behalf and give focus and discipline to the oversight of your investment goals.

We are guided in the decisions we make on your behalf by some fundamental investment principles that assist you to stay focused on your investment goals and build wealth over time.

- We know that investors can't control short-term market movements. So instead, we focus on factors that are in your control.
- Understanding your attitude towards risk and return to develop a detailed risk profile.
- Allocating your investments across a wide range of assets—shares, bonds, property, and cash.
- Reducing the cost of investing wherever possible by implementing tax-effective investment strategies.
- Rebalancing your investments back to your target asset allocation to keep you on track to achieve your goals.

We don't focus on the markets, the economy, manager ratings or the performance of individual securities. Instead, we focus on the fundamental principles that we believe can give our clients the best chance of success.

- We will help you create specific and measurable investment goals.
- We will help you develop a suitable asset allocation using broadly diversified funds.
- We will help you minimise costs.
- We will help you maintain perspective and long-term discipline.

These principles are embedded in our culture and guide the investment decisions we help our clients make.

Principles for Investment Success

Our guidance to ‘focus on those things within your control’ gives clarity to our investment choices and encourages our clients to look past the markets, manager ratings, and the performance of individual securities to focus on the fundamental principles we believe can give them the best chance for investment success.

01

Goals: Create clear, appropriate investment goals.

An appropriate investment goal should be measurable and attainable. Success should not depend upon out-sized investment returns, or upon impractical saving or spending requirements.

Without a goal or a plan an investor may build their portfolio bottom-up, focusing on each investment holding rather than on how the portfolio as a whole is serving the objective.

02

Balance: Develop a suitable asset allocation using broadly diversified funds.

The most powerful tool for managing risk is diversification. By balancing your investments across a range of asset classes you can protect against large losses resulting from the underperformance of one portion of the portfolio.

03

Cost: Minimise cost.

Markets are unpredictable. Costs are forever. The lower your costs, the greater your share of an investment's return. And research suggests that lower-cost investments have tended to outperform higher-cost alternatives.

04

Discipline: Maintain perspective and long-term discipline.

Investing can provoke strong emotions. The temptation to time the market—or alter a portfolio's asset allocation in response to short-term market developments—is strong. Investors should arm themselves with a long-term perspective and a disciplined approach.

Goals

> We believe that investors should set measurable and attainable investment goals and develop plans for reaching those goals.

Without a plan, investors commonly construct their portfolios from the bottom up, paying more attention to choosing and buying investment products than to the process of achieving their goals. Investors without a plan often construct their portfolios by evaluating the merits of each investment individually. If the evaluation is positive, they add the investment to their portfolio, often without considering whether it fits. This process can lead to a mismatch between the portfolio and its objectives, and avoidable mistakes such as performance chasing and market timing.

So, before we look at asset allocation, before we look at investment styles, before we look at fund managers, securities or strategies—we sit down with our clients and ask one simple question.

What sort of investor are you?

Are you prepared to ride out market ups and downs in search of higher returns? Or would you rather sleep well at night and sacrifice returns for safer investments? Or— like many of us—are you somewhere in between?

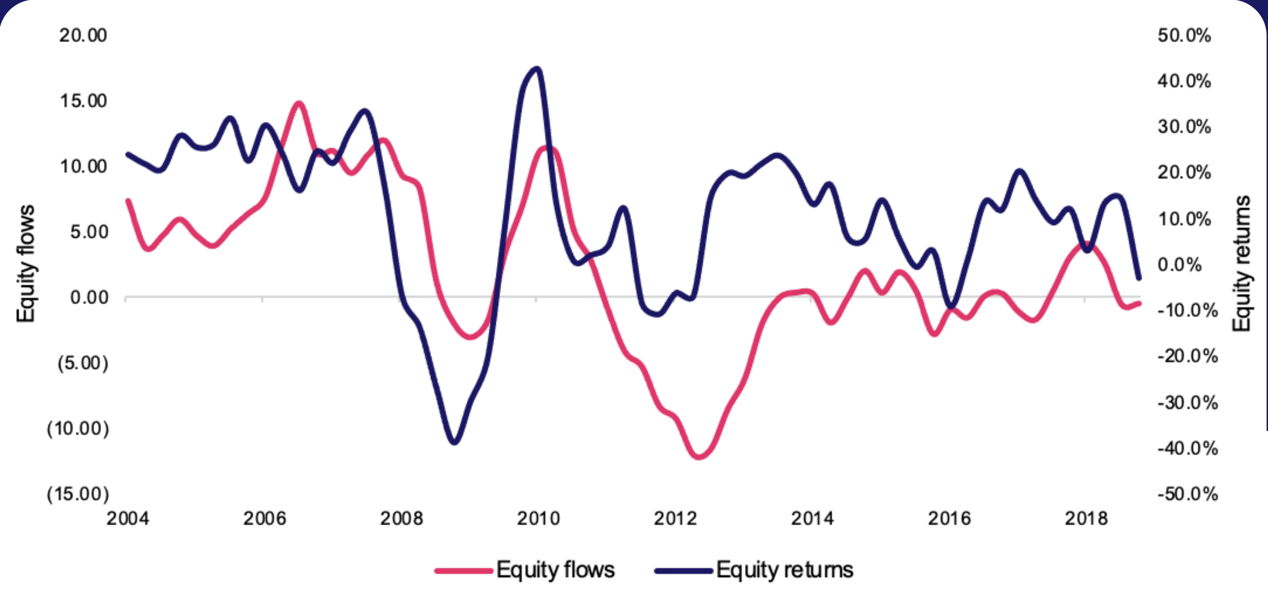
And of course, things change over time. Earlier in life with more time to invest you may be prepared to take on more risk. Later on, as you get nearer to retirement with less time to recover from setbacks, you may look to safer investments. But of course, it's important to remember that all investments carry some sort of risk—even cash, where the risk is that your portfolio won't even keep pace with inflation and deliver your desired standard of living in retirement.

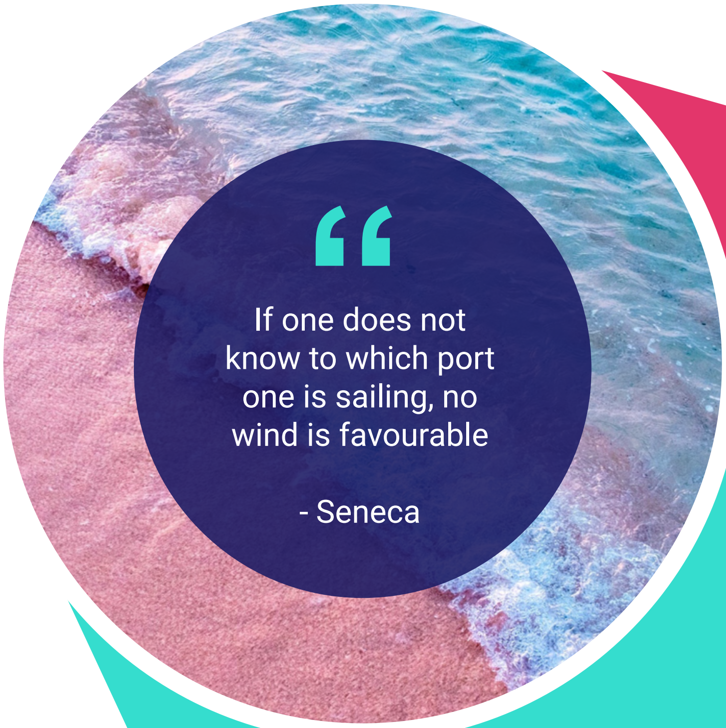
So, working out your risk profile – how much risk you're prepared to take on to achieve your desired level of return – is a fundamental building block of your investment strategy.

We'll then use your risk profile to allocate your investments across different types of assets—from defensive assets like cash and fixed interest to more growth assets like shares and property that offer higher potential returns for investors prepared to take on more risk.

The danger of lacking a plan

Managed funds cash flow often follow performance





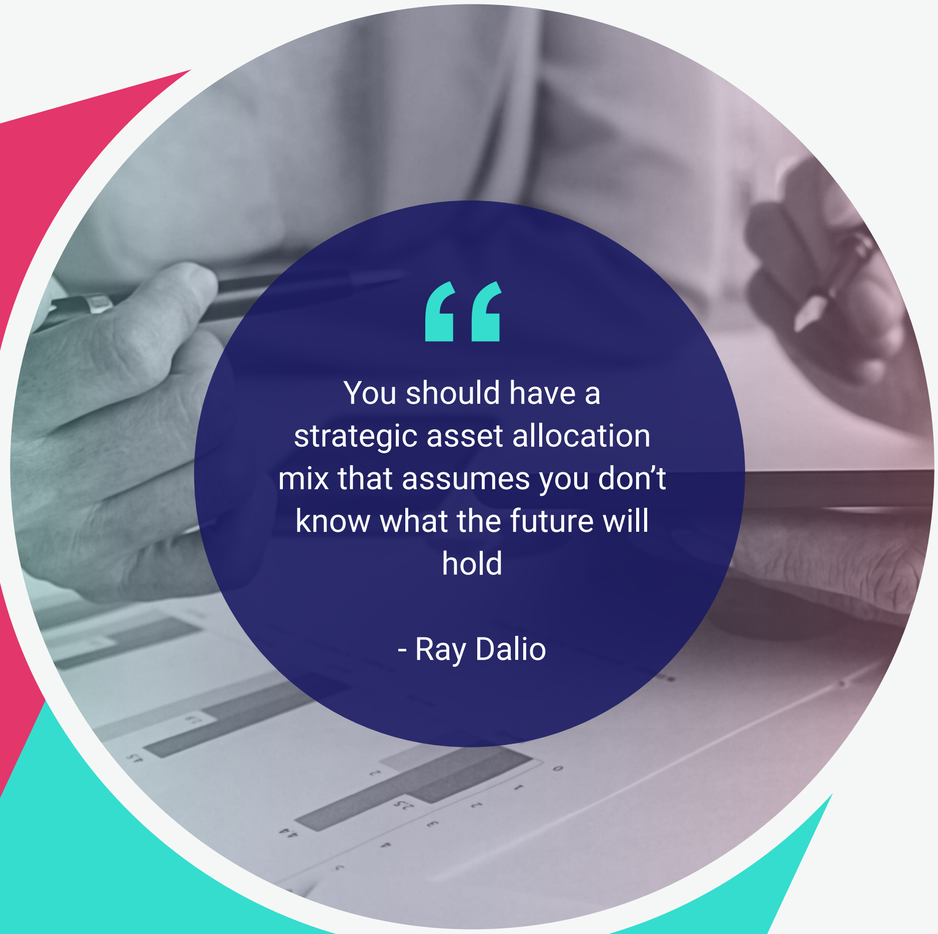
Balance

> The way you allocate your money across different types of investments – shares, bonds, property, and cash – is one of the most important decisions you'll make as an investor.

Studies have shown that asset allocation drives the majority of long-term investment outcomes. So, we believe every successful investment strategy should start with an asset allocation suitable for its objective.

Every investor is different, with individual circumstances and individual goals.

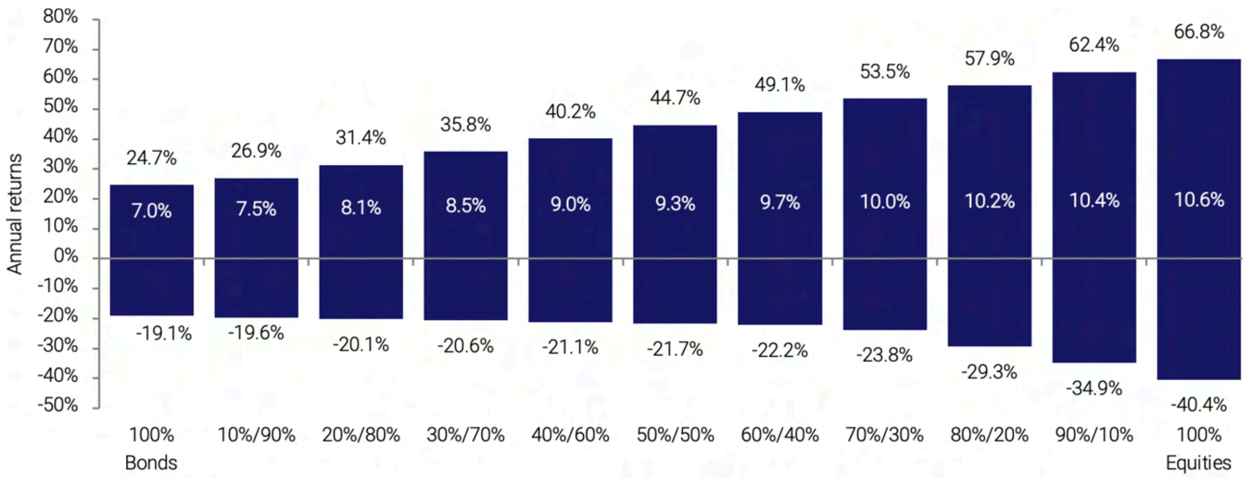
We discover what you're looking to achieve, how long you have to invest and how much risk you're prepared to take on. Then we allocate your funds across broad asset classes—shares, bonds, property and cash—before going into each asset class to choose specific investments.



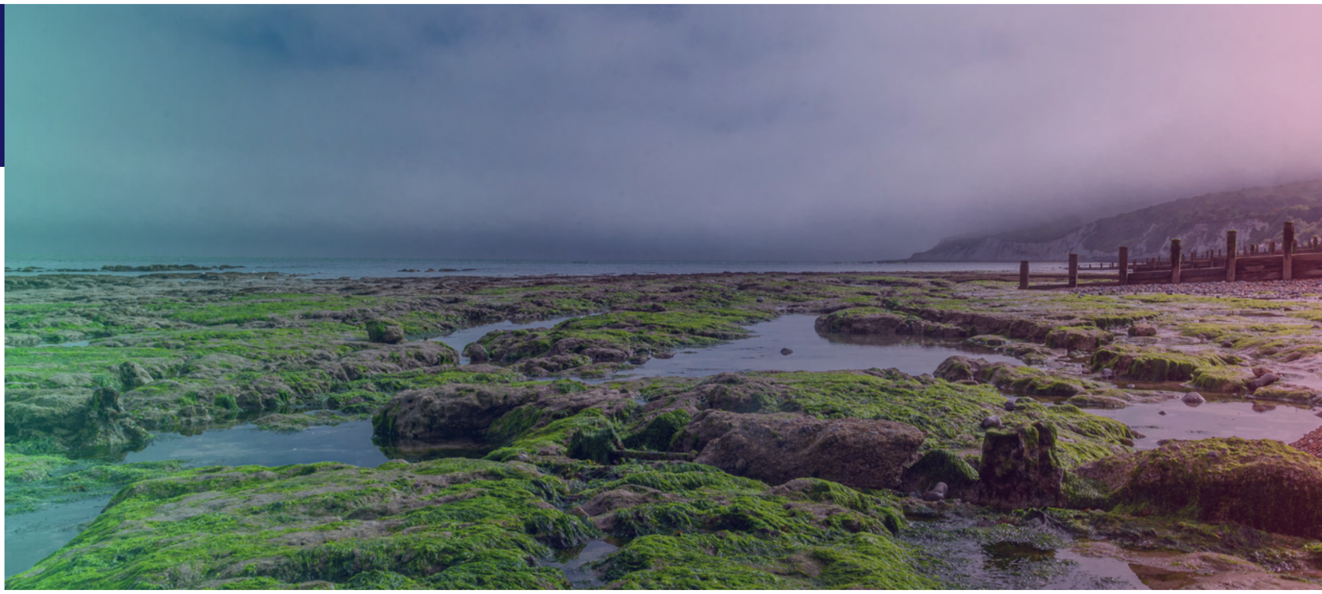
> You should have a strategic asset allocation mix that assumes you don't know what the future will hold
>
> \- Ray Dalio

Asset allocation defines return and risk.

Research shows that about 90% of return variation is explained by asset allocation. It varies slightly from country to country – 91.1% in the US, 89.3% in Australia

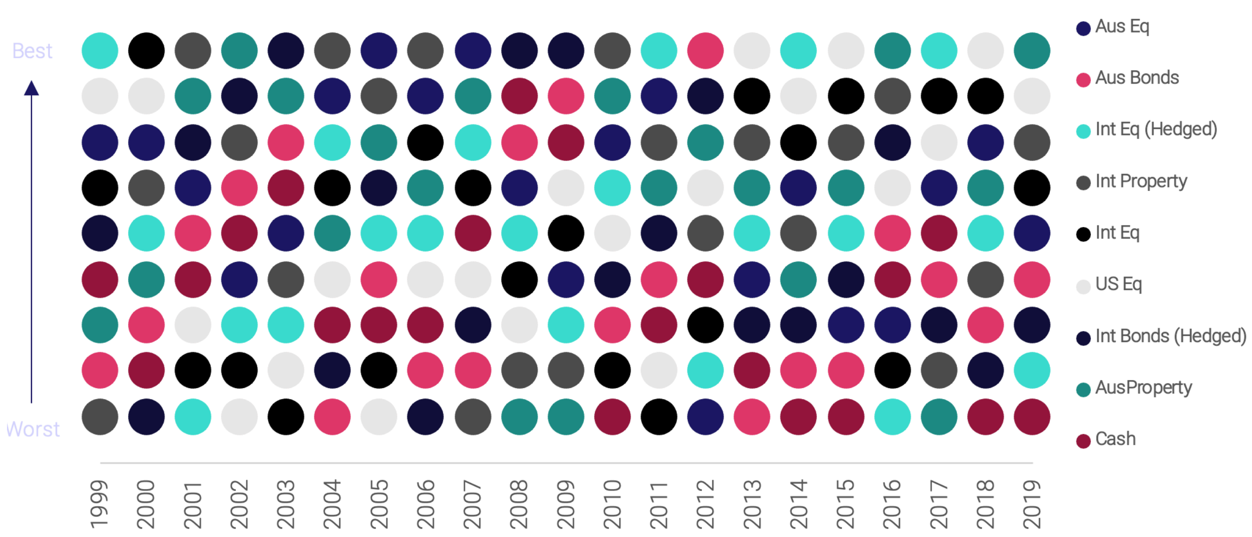


When it comes to investing, it can be hard to discern a pattern. In any given year, any asset class can finish on top. And last year's outperformer can be this year's also ran. When you're building a diversified investment portfolio, it pays to take a broader perspective. Whatever your individual risk profile—from conservative all the way through to high growth—it's important to manage and reduce your risk wherever possible.



Diversification:
it’s hard to pick a winner.

Out and underperforming annual asset class returns follow a seemingly random pattern.



Cost

> Most of the time in life when we're making big decisions about how to spend our money we can rely on past performance.

Whether it's upgrading the family car, eating out or choosing the best place to live, the top-rated vehicles, restaurants and suburbs tend to remain at the top – year in, year out. They also tend to be the most expensive. Essentially, you pay for what you get. Price equals quality.

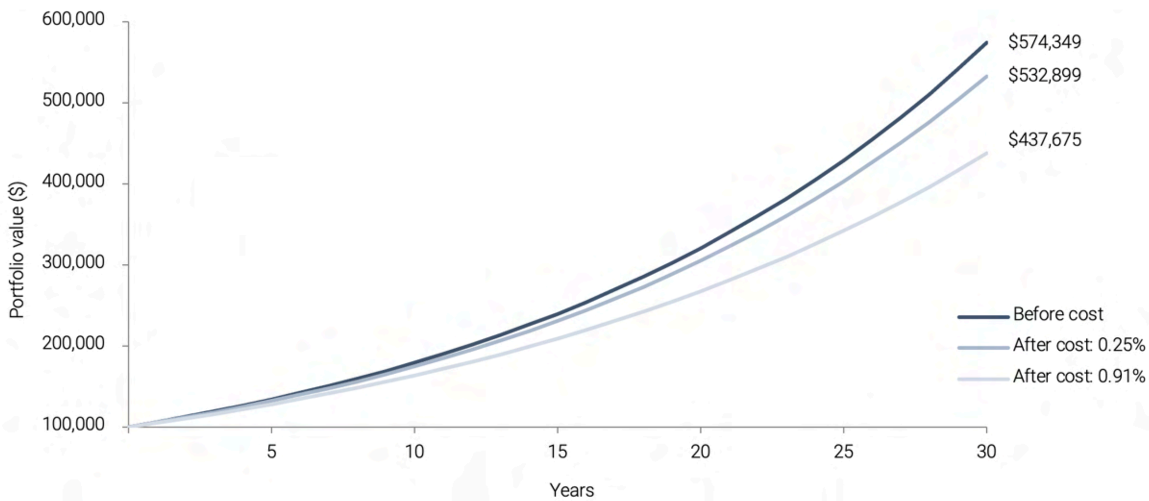
But with investing it's different. An asset class or fund that underperformed last year may become next year's top performer.

In fact, the better approach when investing is often the opposite of our well-formed habits as consumers. Far from being a marker of quality, cost is often a barrier to performance. As an investor you can't control the markets. But you can control how much you are willing to pay. Every dollar that you pay to invest is a dollar less of potential return. Our experience has been that, historically, lower-cost investments have tended to outperform higher cost alternatives in the long term.

Low-cost funds simply take less of a bite out of returns than higher-cost alternatives do. And over time, this can really add up.

The long-term impact of investment costs on portfolio balances.

Assume a starting balance of $100,000 and a yearly return of 6% which is reinvested.

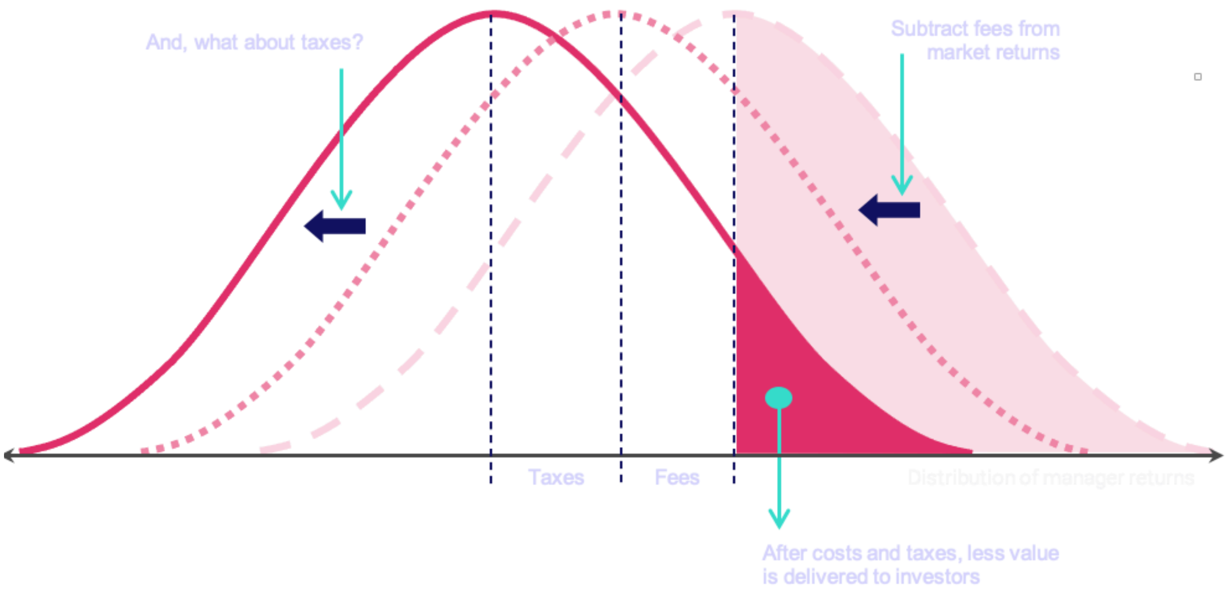


That’s one reason buying the market in the form of an index fund tends to work so well.

Index funds tend to charge investors less to track the market. Many active funds tend to charge higher costs as they attempt to pick the best stocks and bonds—and they usually make more transactions so that investors need to pay more tax.

Impact of Taxes and fees on Portfolio Balances.

Assume a starting balance of $100,000 and a yearly return of 6% which is reinvested.



The combined impact of costs and taxes means that investors end up with lower net returns.
We help our clients find the best low-cost index and active funds across a wide range of diversified assets.

“In investing, you get what you don’t pay for”

- John C Bogle

Discipline

Setting your target asset allocation isn't enough on its own

Over time, as different asset classes deliver different returns, your portfolio will move away from its target asset allocation. We believe in regular rebalancing back to your target asset allocation to give the plan we put in place for you a chance to work over the long term.

Rebalancing when markets move up and down...

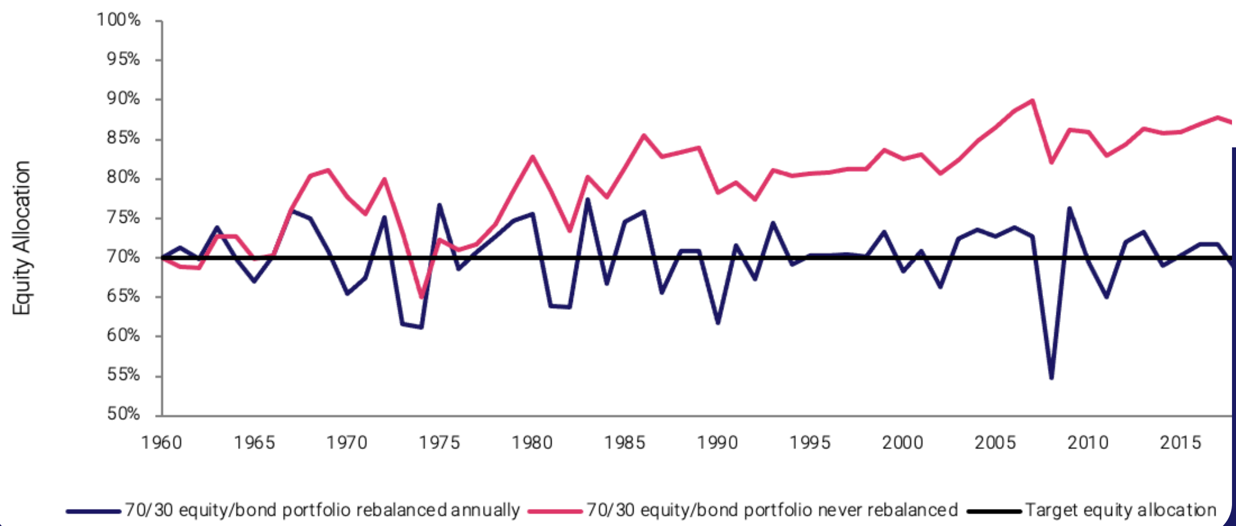
Let's say Australian shares have a great year. If you set and forget, you'll find your portfolio can quickly move away from your target asset allocation. You'll end up with more of your money in shares and less in other investments than you originally intended.

Fast forward a few years and as markets continually move, if you're not careful your investment portfolio will end up overweight in certain areas and underweight in others, bearing little resemblance to the original target asset allocation that we helped you set up linked to your risk profile.

That's why rebalancing is so important. It means you are never exposed to risks you had not agreed when you first invested.

Rebalance to control portfolio risk exposure.

Changes in equity exposure for a rebalanced portfolio and a 'drifting portfolio'

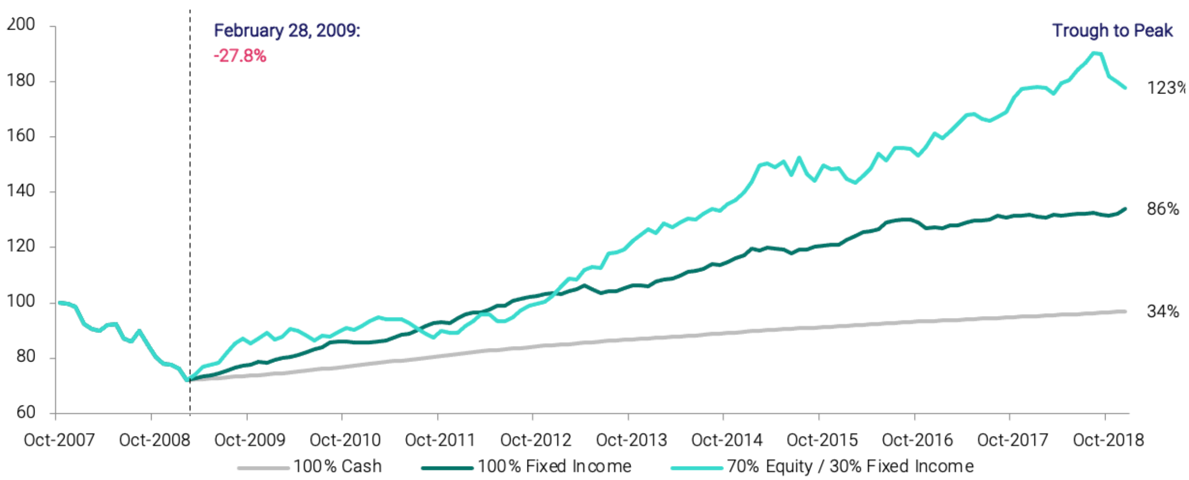


...and when you're tempted to change your strategy

Rebalancing can also help you stick to your original plan during a severe downturn.
Look at what happened following the global financial crisis. Investors who moved away from their asset allocation to the perceived safety of lower risk investments ended up missing out on the recovery.

The importance of maintaining discipline

What if the "drifting" investor fled from equities after the 2008 plunge and invested 100% in either cash or fixed income?



Investors who stayed invested in their diversified portfolio benefited from the market recovery. A portfolio invested 70% in shares and 30% in bonds delivered a much better outcome than a portfolio entirely invested in cash or bonds.

When shares are performing poorly, investors may naturally be reluctant to sell bonds that are performing well and buy more shares. But the worst market declines can lead to the best buying opportunities. Investors who don't rebalance their portfolios during these difficult times may be jeopardising their long-term investment goals.

...when your life changes...

Investing can evoke emotions that disrupt the plans of even the most sophisticated investors. It's easy to make rash decisions based on market volatility, but we can help you counter that emotion with discipline and a long-term perspective. We recommend you adopt a systematic approach to investing based on the principles of asset allocation and diversification—and then stick to your plan.

We also recommend reviewing your portfolio whenever big changes happen in your life.

Just as investment markets change over time, so does your life. New job, new home, new family—they can all have an impact on the way you allocate your funds across different types of investment.

When your life changes, you may need to review your asset allocation, not necessarily to rebalance back to the original asset allocation.

Plan for what is difficult while it is easy, do what is great while it is small

Sun Tzu

Important Information

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AUSTRAC is an Australian government agency which plays an important role in protecting the reputation of Australia's financial system. The agency is Australia's anti-money laundering and counter-terrorism financing regulator and a specialist financial intelligence unit.

AUSTRAC's purpose is to detect and counter money laundering and the financing of terrorism. It is our obligation to identify our clients, conduct risk assessments, and make reports to AUSTRAC.

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