



SHERIDANS

ACCOUNTANTS & FINANCIAL PLANNERS

BUILD YOUR BUSINESS & GROW YOUR WEALTH

Investment Philosophy

Sheridans investment philosophy is to assist clients grow their wealth by adopting a common-sense investment approach. To make things easy for the client we offer a limited range of advice services with the ability for the client to dial up their level of involvement in the management of their investment portfolio.

We tailor individual solutions for every client and this document aims to explain the philosophy and process we use to reach the targeted investment solution for a client.

Asset Allocation: -

We believe asset allocation is the cornerstone to the development and management of a sound long term investment portfolio with a strategic long term asset allocation matched to reflect any changes to a client's investor risk profile over time. This is because asset allocation is the major determinant of risk and return for a given portfolio. We recommend investment in a range of asset classes but in the main favour Cash, Australian and Global Fixed Interest, Australian and Global shares, Australian real estate investment trusts and Australian and Global infrastructure investments.

Diversification: -

Diversification assists to reduce risk within an investment portfolio and we look to build in a high level of diversification across investment assets classes and fund managers in all client portfolios. We seek to avoid a concentration in any individual listed or unlisted security as well as investment styles, currencies and managers.

Research: -

Sheridans investment committee uses the external research of Morningstar Adviser Research Centre (Morningstar) to monitor the financial markets and for the provision of research on selected listed securities and unlisted managed funds. Changes to the preferred asset allocation for a specific risk profile and or to our Approved Product List are made by the investment committee after due consideration and after having taken into account current Morningstar research. The investment committee meets quarterly and is comprised of Sheridans team of Financial Planners plus the Repsonsible Manager and directors of the licensee Sheridans Financial Services Pty Ltd. The market is full of opportunities for high risk investments, but we favour investing in assets with reasonable prices that have predictable earnings.

Portfolio Creation: -

At Sheridans we tailor individual solutions for every client in recognition of the fact that every client is different and has particular investment needs. However while there is no “one size fits all” investment solution, every tailored solution is built on a solid investment framework.

We understand that in some markets passive “index” exposure suits while in other markets active management can add substantial value.

Sheridans common sense approach to investing may include combining the benefits of index funds reflecting market returns with actively managed funds or other direct investments offering the potential for outperformance. At times this involves using index funds as the core of a client’s portfolio and selecting actively managed investments or direct shares as the satellites. Incorporating an index fund as the ‘core’ of a portfolio provides several benefits, low ongoing management costs, lower transaction costs, tax efficiency, diversification and transparency.

Direct Equity Portfolio Management and Investment Selection: -

Direct equity exposure provides clients with improved liquidity, transparency of benefits and flexibility when managing their tax positions. When recommending a client invests in a portfolio of direct equities we generally recommend a mix of equities such as individual stocks, Exchange Traded Funds (ETFs), Listed Investment Companies (LICs) and Australian Real Estate Investment Trusts (AREITs). Investing in a range of direct equity styles assists to diversify client portfolios across the different asset classes whilst at the same time ongoing investment management costs can be minimised.

To minimise investment and concentration risk associated with investment in direct equities we maintain a bias for investment within the top 200 stocks as listed on the Australian Securities Exchange with a maximum allocation of 5.0% to any one individual company stock. Where we include smaller company stocks in a client portfolio we generally favour the use of Actively Managed ETFs and or LICs to benefit from the targeted diversification provided via these structures.

For strategic set and forget direct equity index style investment portfolios we recommend as a minimum an annual review of the portfolio with the client. For an active tactical asset allocation approach to equity investing with greater exposure to individual stocks we recommend as a minimum quarterly reviews of the client’s portfolio by their financial adviser.

The process we use for selecting individual stocks is based on using a combination of Morningstar’s proprietary stock ratings overlaid with our selection of a number of additional Morningstar filters as follows:

- the stock has been given a five, four- or three-star rating.
- the 'Moat' rating is Narrow or Wide demonstrating it is a higher quality company, with an ability to sustain excess returns over a long period of time and with profits less susceptible to competition.
- the 'Fair Value Uncertainty' rating is Low, Medium or High, demonstrating the company's cash flow predictability is more certain and that the valuation risk is low.
- the stewardship rating for the stock is Standard or Exemplary indicating good to very good management of shareholder capital.
- the research indicates the stock has the potential to generate future franked and or unfranked dividend income.

We may on occasion and where we believe strong future growth potential or other benefit that may add value to a client portfolio exists, recommend an individual stock that falls outside one or a number of the above filters.

Managed Fund Management and Investment Selection: -

Managed fund exposure provides clients with access to professionally managed investments across a broad range of asset classes including asset classes not generally cost-effectively available to individual investors. Managed investments may be lower cost passively managed Index style funds or higher cost actively managed funds with the fund manager looking to add value to the investment process through active management.

When selecting actively managed funds to include in client portfolios we seek to build portfolios with diversification across investment managers and investment management styles. Investment management companies with different investment management styles tend to excel at different times under different economic and market conditions.

We consider portfolios of managed funds as a strategic set and forget style of investing and recommend as a minimum an annual review of the portfolio with the client. Where a client prefers a more active tactical asset allocation approach to their managed fund portfolio we recommend the addition of a half year review of their portfolio by their financial adviser.

When selecting actively managed funds for inclusion in a client's portfolio we look to maintain diversification by including within each asset class at least two managed funds using different investment styles and managed by two different fund managers.

We select managed funds for inclusion in client portfolios from the Approved Product List compiled and reviewed by Sheridans investment committee on a quarterly basis. The process for selecting managed funds for inclusion on our Approved Product List is based on using a combination of Morningstar's ratings overlayed with our selection of a number of additional Morningstar filters as follows:

- an analyst rating of Neutral to Gold
- the fund manager does not charge a performance fee
- a rating of three to five stars

We may on occasion and where we believe strong future growth potential or other benefit that may add value to a client portfolio exists, recommend a managed fund that falls outside one or a number of the above filters.