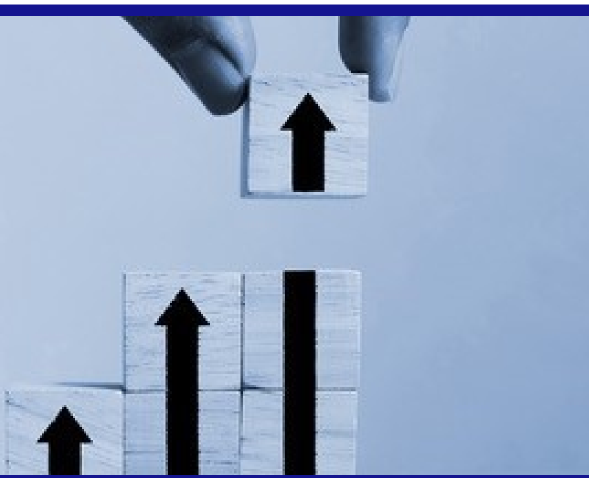


INVESTING THROUGH BL&A

An explanation of issues associated with investing and the assistance BL&A will provide.
Where a client chooses the 'product and service' model from BL&A, they will receive a range of assistance with the investments managed by BL&A.

1. ACCESS TO WHOLESALE FUNDS, WITH NO ENTRY OR EXIT FEES

When investing on behalf of a client, BL&A will use wholesale funds to minimise investment-associated costs. These funds have no entry or exit fees, with an excess of 100 available investment strategies. Most importantly, these funds will provide BL&A with nightly updates to our XPLAN software system. This enables us to track fund balances and transactions, which are critical aspects of the ongoing review process (see below). These funds therefore provide the fee efficiency, choice and ongoing information flows that meet all our requirements.

Importantly, all the funds which we select have large, well established parents. For example, the Colonial FirstChoice Wholesale fund has been a wholly owned subsidiary of the Commonwealth Bank of Australia since 1988 when it was established. The CBA has recently sold 55% of CFS to KRR, a global investment firm so that the CBA can concentrate on its core business.

It is also important to stress that the ongoing management fees of these wholesale funds are extremely competitive, even when compared to industry funds. Examples of the fee differentials are contained in the separate brochure Fees and Ongoing Service.

2. ASSISTANCE WITH ALL ADMINISTRATION ARRANGEMENTS

The BL&A administration team plays a critical role as 'middleman' between the client and the fund. Our ongoing role commences with the task (and associated paperwork) of establishing the account.

Then, on behalf of the 'product and service' client, we will deal with all required administrative matters (withdrawal requests, investment switches, pension variations, etc.) and assist you with the completion of any associated paperwork.

3. RECOMMENDATIONS FOR CHANGES TO INVESTMENTS WITHIN THE PORTFOLIO

As economic conditions change, it will occasionally be necessary to make changes to the structure of the portfolio. For example, in previous years when the $A has started to increase in value, it was prudent to reweight our clients' portfolios towards local investments and away from global investments, or to introduce currency hedging to global investments.

4. RECOMMENDATIONS FOR CHANGES TO FUND MANAGERS WITHIN THE PORTFOLIO

Just as economic conditions change, so too do fund managers. Over the years there have been a number of occasions where a fund, which we have used, has undergone significant change. This could be brought about by the fund being taken over by another fund, a change in investment team or a change in investment style. Part of our ongoing role is to monitor the fund managers that we use to ensure that we remain comfortable with them. Should we, for whatever reason, have concerns about the continued use of one of our recommended fund managers, we will notify our clients of any recommendations for change concerning these funds. If they are agreeable to our recommendations, we will then implement the administrative arrangements for these changes.

5. ONGOING COMMUNICATIONS

Our clients receive regular and ad hoc communications from BL&A. The office circulates an investors' newsletter three times a year as well as ad hoc emails on an 'as needed' basis. Clients will also receive invitations to seminars run by BL&A on investment related matters, when they occur.

6. CHANGES TO LAW

Superannuation, taxation and Social Security laws are constantly changing. When changes occur in these laws, we will assess the impact of these changes on our clients and make appropriate recommendations on dealing with these changes.

7. ONGOING REVIEW OF PORTFOLIOS

Without doubt, this is the most important aspect of the 'product and service' arrangement. In understanding the importance of the review process, it is important to understand the BL&A 'Bucket Approach' to investing. Detail of this is contained in the separate attachment Using the BL&A 'Bucket Approach' to investing.

The review of a portfolio comprises both regular and irregular activity.

Regular review

The 'Bucket Approach' to investing is a consumption-based model. Put simply, funds are invested in accordance with the consumption timeframe of the funds. Funds that will be spent in the short, medium or long term, will be allocated different investment strategies accordingly.

The consumption timeframes are continually moving. For example, the 1st Bucket timeframe will normally cover consumption within the next three years. An investor establishing their investments in 2021 will need to have enough funds invested in the 1st Bucket to cover their expenditure in 2021, 2022 and 2023. The 2nd Bucket would be invested to cover expenditure in the following four years, from 2024 to 2027.

Twelve months later (in 2022), the timeframe has changed. The 1st Bucket now requires sufficient funds to cover expenditure in 2022-2024, while the 2nd Bucket will now cover the period 2025 to 2028. This movement in time requires two considerations.

Firstly, it is necessary to ensure that the consumption estimates provided by the client twelve months earlier remain valid. It may well be the case that the estimates that were originally made twelve months earlier are now inaccurate. Just as the Bureau of Meteorology revises weather forecasts throughout the day, it may be necessary to review the consumption forecasts as we progress through the bucket timeframe.

Secondly, it will be necessary to adjust the funds within the buckets. In this example, the 1st Bucket will now contain funds to cover 2022 and 2023, yet we now require enough in this 1st Bucket to cover the 2024 consumption as well. At some point in time, it will be necessary to move the funds needed for 2024 from the 2nd Bucket to the 1st, while also moving the funds needed for 2028 from the 3rd to the 2nd Bucket.

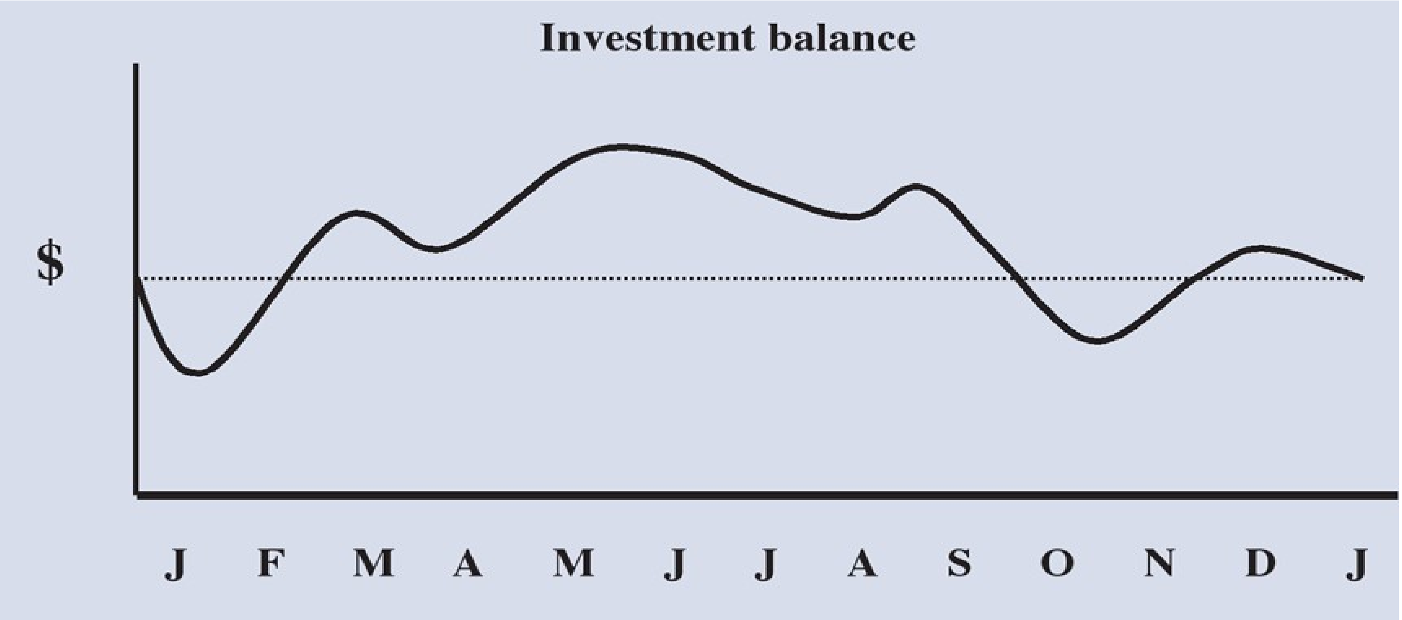
It may well be, depending on the state of markets, that, at the time of the annual review, it is not the appropriate time to make these portfolio adjustments. When moving funds from the 3rd to the 2nd Bucket or from the 2nd to the 1st, we are effectively making the portfolio more conservative. This should be done when there are gains in these buckets. If markets are down at the time of the review, the decision may be taken to delay the shifts until better market conditions prevail.

Market related (irregular) review

It is necessary to conduct a review of the portfolio on a regular basis, for the reasons discussed above. However, markets do not move on this same regular basis, so it may be necessary to take action outside of the annual set review timeframe.

Take the example of a client who establishes their buckets in January. Their position would be reviewed twelve months later, in January the following year.

Over the course of this twelve month period, it is possible that markets will rise and fall. This is demonstrated in the graph above. It may well be the case that the portfolio makes substantial gains mid-year, with these gains disappearing by the following January review date. Consequently, it would be too late to move funds from the 2nd to the 1st bucket at the following January review date, but would have been appropriate to do so mid-year (when the gains were there).



Therefore, as part of the review process, we have developed a system for harvesting gains as they occur. This system is described in full in our document titled *The Harvest Program*. Essentially we offer our clients the opportunity to be a part of this program where the client chooses one of three harvesting arrangements:

— to take only enough ‘gains’ from Bucket 3 investments to top up Buckets 1 and 2;
— to take 100% of all ‘gains’ from Bucket 3 regardless of the sufficiency of funds in Buckets 1 and 2; or
— to take a set percentage of any ‘gains’ that arise in Bucket 3.

The first step would be to determine a ‘trigger point’ from which any increase is a gain. This will be an agreed predetermined point where a sufficient increase in the value of Bucket 3 investments will trigger the operation of the chosen arrangement. Of course, at any time, the client can change the level, change the harvesting arrangement or opt out of the arrangement altogether.

This program ensures that the Buckets are topped up, when the opportunity arises. By moving money down the Buckets only when markets are ahead, long term performance is enhanced. This is a key aspect to the ‘Bucket Approach’ and can only be achieved through the use of regular and irregular monitoring of the portfolio by the BL&A review team.

Access to staff

Being a small, boutique firm, we pride ourselves on the fact that, when you contact us, your enquiry will be answered by the relevant staff member.

Companion documents

Using the BL&A ‘Bucket Approach’ to investing
Fees and Ongoing Service
The Harvest Program