EGU Wealth Management's Portfolio Construction Principles (Summary)

EGU Wealth Management implements an evidence-based investment philosophy using Nobel Prize winning academic research when managing our clients' money. This investment philosophy encompasses three primary principles and two secondary principles. These principles are summarised as follows.

Primary Principles

The three primary investment principles are:

1. Equity oriented;
2. Well diversified;
3. Tax and inflation aware.

Equity oriented - to build long-term wealth, we must ensure sufficient funds are allocated to growth investments. We achieve this by building investment portfolios that have a bias towards listed equities, both domestic and international. A bias towards equity investments enhances portfolio characteristics as the superior returns expected from equity investments ultimately generate greater wealth.

Well diversified – to help minimise risk in an investment portfolio, diversification must be achieved across asset classes, geography, and investment managers. To have a material effect on a portfolio, each asset class must have a minimum exposure of 5% of the portfolio value. However, to ensure significant diversification, no asset class should have an exposure of more than 30% of the portfolio value.

Tax and inflation aware – tax can have a dramatic impact on your investment portfolio over the long-term. Capital Gains Tax (CGT) should not be incurred because of overtrading in a portfolio by a financial adviser or investment manager. Furthermore, where possible, we prefer to rebalance investment portfolios using excess cash, as opposed to selling-down an investment. We aim to ensure that a CGT event is only triggered when you chose to exit an investment.

Inflation is an invisible tax where the purchasing power of your dollar is eroded over time. Inflation is quite often overlooked when constructing portfolios, however our portfolios proactively hedge against the effects of inflation and a purchasing-power-adjusted loss.

Secondary Principles

The two secondary principles are:

1. Alignment of interests;
2. Rebalancing of portfolios.

Alignment of interests – investment costs have a substantial impact on the returns generated by an investment portfolio. Where possible, we aim to use best-of-breed investment managers whose ownership structure (e.g. not-for-profit) ensures that their interests align with that of the investor. As a result of this ownership structure, certain investment managers, when able, will reduce their investment fees, lowering our clients' overall investment costs and enhancing their portfolio returns.

Rebalancing of portfolios – rebalancing an investment portfolio at regular intervals ensures that the risk-and-return trade-off for the investment portfolio is appropriate for the client's risk tolerance. Research indicates that the optimal frequency to rebalance a portfolio is once per annum, or when a 5% variance threshold is broken. Setting these parameters ensures that the investment portfolio does not deviate too far from the intended asset allocation, nor incur unnecessary transaction costs due to over trading.

A more comprehensive explanation of our investment philosophy is available upon request.

"A truly principled and distinct perspective that makes a meaningful difference to our clients' financial future".

1300 102 542
hello@egu.au
www.egu.au
GPO Box 1598 Brisbane QLD 4001