Rajomon – Problems with current Benchmarks and implementing Custom Benchmarks

Executive Summary

This paper outlines a comprehensive proposal to reform the benchmark framework currently used in Rajomon's Product Disclosure Statements (PDSs), with the aim of improving alignment with the portfolio's strategic intent and reducing future operational costs.

The current use of proprietary benchmarks from MSCI and S&P Dow Jones presents significant compliance and cost challenges. These index providers have tightened enforcement in recent years, which could expose Rajomon to licensing fees and copyright liabilities once products are publicly listed or distributed.

To address this, Atchison recommends replacing these indices with ETF-based proxies, which offer a low-cost, transparent, and legally compliant alternative. These ETFs closely track the original benchmarks, delivering similar risk-return profiles with minimal tracking error and no associated licensing burden.

The paper also explores the case for and against adopting custom benchmarks—particularly in light of Rajomon's permanent strategic overweight to the healthcare sector. While custom benchmarks offer better alignment with investment strategy and improved attribution analysis, they also introduce comparability, governance, and operational complexity. These trade-offs are discussed whilst also providing reference to GIPS (Global Investment Performance Standards), which provide a recognised framework for the design and use of custom benchmarks.

A detailed strategic framework is presented to guide the appropriate use of custom benchmarks across asset classes. Atchison discuss implementation constraints for certain asset classes and recommends applying custom benchmarks only where the healthcare tilt is both material and measurable. Other asset classes would retain standard benchmarks due to practical limitations in sector-based replication.

The paper provides an implementation roadmap for Rajomon, outlining how to use ETF blends for international equities (VGS + IXJ) and how to construct a custom ASX 300 Healthcare Index for Australian equities. This ensures that the target 20% strategic healthcare exposure is accurately reflected in the blended equity benchmarks. Custom benchmark construction rules—including index selection, tilt calculation, rebalancing protocols, and governance standards—are also documented.

The paper concludes with a summary of actionable recommendations and voting items, covering the transition to ETF-based benchmarks, approval of equity benchmark customisation, and operational ownership of the custom ASX healthcare index.

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Problems with current Benchmarks

Current Benchmarks as per PDS:

Asset Class	Benchmark
Property Securities	S&P/ASX 300 Property Accumulation Index
Australian Equities	S&P/ASX 300 Accumulation Index
Global Equities	MSCI World (ex-Australia) Index
Fixed Income securities	S&P/ASX Australian Government Bond Index
Alternative Investments	Reserve Bank of Australia's official cash interest rate
Cash	Reserve Bank of Australia's official cash interest rate

Rajomon currently does not hold the appropriate licensing agreements to use proprietary indices from S&P or MSCI. Once the product becomes available on retail or institutional platforms, both S&P Dow Jones Indices and MSCI will enforce licensing requirements, resulting in significant costs.

In recent years, S&P and MSCI have significantly tightened enforcement of their index licensing policies, employing automated systems to detect the unauthorised use of their indices across public documents, marketing materials, and product disclosures.

To mitigate this risk, Atchison is recommending moving away from directly referencing these proprietary benchmarks. Instead, the portfolio should utilise widely available ETFs that closely replicate the performance of the intended indices.

Using ETF proxies offers several advantages:

- They are cost-effective, with no direct licensing fees payable to index providers.
- They eliminate potential legal or copyright complications.
- They provide highly accurate replication of the underlying indices, with minimal tracking error due to the size and liquidity of the benchmarks in question.

This approach preserves the economic exposure and investment intent of the original benchmarks while ensuring regulatory and operational simplicity.

Current Benchmarks used for performance tracking

Asset Class	Benchmark
Australian Equities	S&P/ASX 300 Accumulation Index
Global Equites	MSCI World ex-Australia (hedged AUD)
Listed Property	50% S&P/ASX 200 A-REIT Accum Index 50% FTSE EPRA Nareit Dev (hedged AUD) Index
Fixed Income	50% Bloomberg AusBond Composite Index 50% Barclays Global Aggregate (hedged AUD) Index
Credit	50% Bloomberg US High Yield Index 50% Bloomberg US Aggregate Index
Alternatives	25% S&P/ASX 300 Accumulation Index 25% MSCI World ex-Australia (hedged AUD) 25% Bloomberg AusBond Composite Index 25% Barclays Global Aggregate (hedged AUD) Index
Cash	Bloomberg AusBond Bank Bill Index

Currently we are tracking credit as a separate asset class to fixed income and using blended benchmarks for most of the asset classes in contrast to what is stated in the PDS.

Proposed Benchmarks for future PDS

Asset Class	Benchmark
Australian Equities	Vanguard Australian Shares Index ETF (ASX: VAS)
Global Equites	Vanguard MSCI Index International Shares ETF (ASX: VGS)
Listed Property	50% SPDR® S&P®/ASX 200 Listed Property ETF (ASX: SLF) 50% FTSE EPRA Nareit Dev (hedged AUD)
Fixed Income	50% iShares Core Composite Bond ETF (ASX: IAF) 50% Vanguard Global Aggregate Bond Index Fund (Hedged) (ASX: VBND)
Credit	50% USD High Yield Bond (Currency Hedged) ETF (ASX: USHY) 50% Vanguard International Credit Securities Index (Hedged) ETF (ASX: VCF)
Alternatives	25% Vanguard Australian Shares Index ETF (ASX: VAS) 25% Vanguard MSCI Index International Shares ETF (ASX: VGS) 25% iShares Core Composite Bond ETF (ASX: IAF) 25% Vanguard Global Aggregate Bond Index Fund (Hedged) (ASX: VBND)
Cash	iShares Core Cash ETF (ASX: BILL)

Moving to ETFs as benchmarks is justified given Rajomon's portfolio is implemented primarily via ETFs. Additionally, clients will benefit from greater benchmark relatability. The proposed change reflects a move from theoretical, non-investable indices (e.g. MSCI, Bloomberg, S&P) to investable ETF-based benchmarks. This approach seeks to bridge the gap between portfolio construction and benchmark realism, better aligning performance comparison with what a client or adviser could actually hold or replicate.

Moving from a traditional index-based benchmarking framework to one based on ETFs represents a meaningful shift in how performance is evaluated. This transition is becoming increasingly common among multi-asset managers, particularly those operating within Separately Managed Account (SMA) platforms or other client-facing vehicles where investability and practicality are key.

Before considering the custom benchmark customisation, Atchison recommends adopting the ETF-based benchmarking approach as the core indexing methodology. The following recommendations and implementation proposals are made on the assumption that this ETF framework is adopted as the foundational benchmark structure.

Why use a custom benchmark?

- **Alignment With Investment Strategy** – Given the deliberate and enduring overweight to healthcare, standard benchmarks (like MSCI World) may not fully capture the true risk-return or performance drivers of the portfolio. By using a custom benchmark Rajomon can ensure that the benchmark:
    - Reflects strategic asset allocation decisions (e.g. overweight to healthcare),
    - Allows for clearer attribution analysis and performance assessment that is more relevant to the Rajomon's stated approach
- **Better Performance Evaluation** – Using a benchmark that includes a healthcare tilt allows for like for like comparison of Rajomon's style and exposures. Additionally, it avoids misleading underperformance/overperformance versus traditional benchmarks that don't incorporate structural biases. This is particularly helpful in multi-asset portfolios where asset class mix, and sector biases are key contributors to performance.
- **Enhanced Communication with Stakeholders** – A custom benchmark provides transparency and helps articulate investment philosophy. It is also more compelling for clients who understand the reasoning behind the structural tilt.
- **Improved Risk Management –** A customised benchmark that embeds the healthcare tilt enables better tracking of active risk, tracking error and concentration risks relative to a more accurate reference point.

What are the drawbacks and limitations of using a custom benchmark?

- **Loss of comparability** – A custom benchmark breaks from the standard frameworks used by consultants and peers. This makes it harder to compare performance relative to other multi-asset funds or indices, potentially creating client confusion or scepticism.
- **Governance and Maintenance Complexity –** Requires rigorous documentation of why and how the benchmark was built. This needs to be revisited periodically to ensure tit still aligns with strategy (e.g. tilt size or rationale).
- **Client Pushback –** some clients may require comparison to standard indices for consistency and manager monitoring. An important consideration is that most clients will look at managers in relation to existing benchmarks and this could lead to exclusion from some model portfolios.
- **Perception of manipulation** - Custom benchmarks can at times be viewed by investors as "moving the goal posts" and raise questions of whether it is being used to mask poor performance.

GIPS Standards for Custom Benchmarks – As per CFA Institute

The GIPS standards require that the benchmark chosen for any total fund or composite must be an appropriate total return benchmark. A benchmark is appropriate if it reflects the total fund's or composite's investment mandate, objective, or strategy

A valid benchmark is one that is: specified in advance, relevant, measurable, unambiguous, representative of current investment options, accountable, investable, and complete.

***Section d. Custom Benchmark:** If a custom benchmark or combination of multiple benchmarks is used, the asset owner must:*

- *disclose the benchmark components, weights, and rebalancing process, if applicable,*
- *disclose the calculation methodology, and*
- *clearly label the benchmark to indicate that it is a custom benchmark.*

*Sub section v. **Bespoke Benchmark:** Bespoke benchmarks are universes of securities created by the asset owner that specify a benchmark that better reflects the investment strategy than an index available from an index*

provider. Many types of bespoke custom benchmarks exist, such as those created by narrowing the opportunity set of investments (e.g., excluding specific stocks) or by establishing customized rules for inclusion in the benchmark (e.g., including specific sectors or applying ESG factors to an index).

***Section h. Sector:** It is advisable to choose a benchmark with a sector concentration similar to the additional composite's long-term investment strategy because the dispersion between sector returns can be significant and sector returns can be volatile (e.g., information technology in the technology sector boom/bust or the financial sector in the 2008 crisis). Benchmarks can be defined at various levels of sector granularity based on the industry classifications of index providers*

***Benchmark Changes** - Asset owners must disclose the date and description of any changes to the benchmark over time. A benchmark change can take two forms:*

- *The benchmark is changed from one benchmark to another on a prospective basis only.*
- *The benchmark is changed for all periods (i.e., retroactively).*

In most cases, the asset owner should change the benchmark going forward only and should not change it retroactively

Implementing a Custom Benchmark: Strategic Framework and Considerations

In designing a custom benchmark that reflects a structural healthcare tilt, it is important to clarify both the level at which the benchmark is implemented, and which asset classes are best suited for applying such a tilt. Not all segments of the portfolio allow for straightforward benchmark customisation, so a selective and pragmatic approach is recommended.

1. Determining the Level of Benchmark Customisation

Before constructing a custom benchmark, we must first consider **where** in the portfolio hierarchy we wish to apply the tilt:

- **Top-down (composite level)**: Embeds the tilt into the total portfolio benchmark after aggregating the component benchmarks. This simplifies implementation but may obscure how the tilt is expressed in underlying exposures.
- **Bottom-up (asset class level)**: Applies customisation to selected individual asset class benchmarks. This offers greater accuracy and attribution clarity, particularly for active tilts like healthcare.

Given the nature of the healthcare overweight, applying customisation at the asset class level is likely more effective and transparent.

2. Identifying Asset Classes Suitable for Benchmark Tilting

We must then determine which asset classes within the multi-asset structure are suitable and feasible for incorporating a healthcare tilt:

Equities: Most Suitable for Healthcare Benchmark Tilt

- The equity allocation, particularly Australian and international equities, is where the healthcare overweight is most explicit and measurable.
- Customisation can be achieved by adjusting the equity benchmark to overweight healthcare-oriented indices. E.g. blending MSCI World ex-Australia with MSCI World Health Care or in the case of moving to ETF benchmarks blending Vanguard MSCI Index International Shares ETF (ASX: VGS) with iShares Global Healthcare ETF (ASX: IXJ)
- This is relatively straightforward, and the data availability, liquidity, and transparency in equity benchmarks make this an ideal starting point for customisation.

Property: Tilt Possible but complex and limited practicality

- There is a planned overweight to listed property, and the healthcare theme could conceptually be expressed here via healthcare-oriented REITs (e.g. those focused on hospitals, aged care, or life sciences).
- However, customising benchmarks in this space introduces several practical and analytical challenges:
    - Limited size and breadth of healthcare REIT indices, particularly in Australia,
    - Concentrated exposures and higher idiosyncratic risk,
    - Benchmark tracking issues due to narrow subsector representation,
    - Currency and regional concentration - if global healthcare REITs are used to supplement domestic indices.
    - Volatility and single name risk within a concentrated pool of REITs

Healthcare-aligned real estate positions can still be held tactically or strategically within the property allocation, but any outperformance or thematic exposure should be treated as active positioning rather than benchmark-relative beta.

Fixed Income & Alternatives: Tilt Not Practical

- Applying a healthcare tilt to fixed income or alternative benchmarks is largely impractical due to the non-sectoral nature of most fixed income indices and the heterogeneity of alternative investments.
- While some niche credit products (e.g. healthcare infrastructure debt) exist, they are not sufficiently broad or liquid to justify altering benchmark composition.
- Alternative benchmarks (often a blend of equity, bond, and absolute return proxies) are not easily decomposed by sector.

As such, these components should maintain standard benchmarks, with any healthcare exposure at the portfolio level treated as idiosyncratic alpha rather than a benchmark-adjusted position.

3. Next Steps: Constructing the Custom Benchmark

Based on the above, the most practical and representative approach involves:

- **Stage 1 – Equity Tilt**: Apply a custom blend in Australian and international equities to overweight healthcare (e.g., 85% Vanguard MSCI Index International Shares ETF (ASX: VGS) + 15% iShares Global Healthcare ETF (ASX: IXJ).
- **Stage 2 – Property Acknowledgement**: Document the healthcare orientation within listed property holdings but retain standard REIT benchmarks for comparability.
- **Stage 3 – Fixed Income and Alternatives**: Leave benchmarks unchanged. Any healthcare exposure within these segments should be reflected in portfolio commentary, not benchmark design.

4. Conclusion

Incorporating a custom benchmark with a structural healthcare tilt is a logical step where the portfolio's asset allocation reflects a long-term conviction in the sector. However, this customisation must be applied selectively—only where it is feasible, robust, and aligned with standard benchmarking principles.

- The equities allocation—both Australian and international—offers the most appropriate and defensible point of implementation. Here, benchmark customisation can be achieved through blending standard broad-market indices with healthcare sector indices, transparently reflecting the structural overweight.
- Despite thematic alignment, the listed property allocation should retain its standard benchmark composition. The lack of breadth and investability within healthcare REITs introduces risks of overfitting,

loss of benchmark integrity, and comparability issues. Any healthcare-focused positions within property should be regarded as active tilts and evaluated accordingly.

- In fixed income and alternatives, sector-based customisation is not appropriate due to structural and practical limitations. Benchmarks should remain unadjusted, with healthcare exposure managed and disclosed as part of the active investment process, not the benchmark definition.

Ultimately, the custom benchmark should serve as a transparent and rules-based representation of strategic intent—but without compromising on the principles of investability, measurability, and governance. A targeted approach—focusing on equities—strikes the right balance between alignment and robustness, enabling clearer performance attribution while maintaining credibility with stakeholders.

How can Rajomon adjust equity benchmarks?

Given the Rajomon's explicit and intentional overweight to the healthcare sector, the custom benchmark must embed this structural bias in a transparent, rules-based manner. This ensures consistency between portfolio construction, performance measurement, and communication with stakeholders.

As mentioned in the previous section a blended benchmark approach will need to be applied to the underlying equity benchmarks incorporating a dedicated healthcare index.

International Equities

For international equities, this implementation is both practical and efficient. There are readily available, low-cost ETFs that provide effective dedicated exposure the global healthcare sector, making the blended construction straightforward and cost-efficient.

Atchison recommends using the following ETF proxies for this purpose:

- Vanguard MSCI Index International Shares ETF (ASX: VGS) – providing broad exposure to developed markets ex-Australia,
- iShares Global Healthcare ETF (ASX: IXJ) – offering targeted exposure to the global healthcare sector.

By blending these two ETFs at the appropriate ratio (e.g. ~89% VGS / ~11% IXJ to achieve a 20% effective healthcare exposure), the benchmark can be constructed in a manner that is:

- Transparent – with clearly observable and investable components,
- Cost-effective – avoiding index licensing fees,
- Operationally simple – using ASX-listed, liquid vehicles with reliable tracking to their underlying indices.

This ETF-based benchmark approach provides a representation of the portfolio's intended exposures, while avoiding the administrative and legal complexities of licensing proprietary indices from MSCI.

Australian Equities:

In contrast to international equities, constructing a blended benchmark for Australian equities with a healthcare tilt presents greater complexity. While the Vanguard Australian Shares Index ETF (ASX: VAS) serves as a suitable proxy for the broad domestic equity market, there is no readily available ETF or public index that provides pure, investable exposure to the Australian healthcare sector alone.

To accommodate the portfolio's strategic overweight to healthcare, Atchison will need to construct a bespoke healthcare index derived from the healthcare constituents within the S&P/ASX 300 Index. This custom index will serve as the healthcare component within the blended benchmark, paired with VAS as the base index.

Custom ASX Healthcare Benchmark

ASX Healthcare index Construction Methodology:

- Atchison will identify all companies classified under the GICS Healthcare sector within the ASX 300.
- These constituents will be weighted based on free-float market capitalisation, consistent with broader index methodologies.
- The index performance will be tracked monthly.
- The index will be updated quarterly to reflect changes in index membership and corporate actions.

This approach introduces operational burdens, including ongoing data management, index rebalancing, and return calculation.

It also requires internal governance oversight to ensure methodology consistency and transparency over time.

Despite these challenges, this remains the only viable option to accurately embed a structural healthcare tilt within the domestic equities benchmark, in the absence of a suitable third-party healthcare index or ETF.

Atchison will ensure the construction methodology is fully documented and governed, with periodic review. The benchmark will be made available to Rajomon for performance reporting purposes and may be replaced with a third-party solution if a suitable investable vehicle becomes available in the future.

Custom ASX Healthcare index Example:

Ticker	Company	Weight
CSL-AU	CSL Limited	39.60%
SIG-AU	Sigma Healthcare Limited	12.64%
PME-AU	Pro Medicus Limited	9.77%
RMD-AU	ResMed Inc	7.65%
FPH-AU	Fisher & Paykel Healthcare Corporation Limited	6.80%
COH-AU	Cochlear Limited	6.27%
SHL-AU	Sonic Healthcare Limited	4.26%
TLX-AU	Telix Pharmaceuticals Limited	2.94%
RHC-AU	Ramsay Health Care Limited	2.85%
EBO-AU	EBOS Group Limited	2.35%
ANN-AU	Ansell Limited	1.51%
SNZ-AU	Summerset Group Holdings Limited	0.83%
REG-AU	Regis Healthcare Limited	0.78%
MSB-AU	Mesoblast Limited	0.77%
NEU-AU	Neuren Pharmaceuticals Limited	0.54%
NAN-AU	Nanosonics Limited	0.43%

The table above outlines the proposed constituents for the custom ASX Healthcare Index, constructed from healthcare sector names within the S&P/ASX 300 universe, using free-float market capitalisation weighting. This structure is designed to replicate the actual investable universe available in Australian listed healthcare equities, and aligns with the benchmark design principles of transparency, replicability, and strategic alignment.

This index directly aligns with the portfolio's strategic objective to structurally overweight the Australian healthcare sector, and can be blended with VAS (Vanguard Australian Shares ETF) to form a tailored equity benchmark.

Concentration:

A notable issue with the current construction is the high concentration in CSL Limited, which constitutes 39.6% of the index. While this reflects its dominance in the sector by market cap, it introduces several benchmarking and operational challenges:

- Benchmark Volatility: CSL's performance could disproportionately influence the overall benchmark, distorting attribution and risk reporting.
- Reduced Representativeness: The benchmark may understate the performance contribution of the broader healthcare sector.

- Governance Risk: Benchmarking to an index with a single security accounting for nearly 40% may raise concerns among investment committees or compliance teams about diversification and robustness.

To address this concentration risk while preserving market realism, Atchison proposes capping CSL's weight at 50% of the total index weight. This approach strikes a balance between:

- Maintaining CSL's rightful influence as a sector leader,
- And avoiding excessive benchmark sensitivity to one name.

Any weight excluded from CSL through capping should be redistributed proportionally across the remaining index constituents, maintaining the free-float-based structure for the rest of the index.

Custom ASX Healthcare Index Example Post Adjustment:

Ticker	Company	Weight
CSL-AU	CSL Limited	19.80%
SIG-AU	Sigma Healthcare Limited	16.78%
PME-AU	Pro Medicus Limited	12.97%
RMD-AU	ResMed Inc	10.16%
FPH-AU	Fisher & Paykel Healthcare Corporation Limited	9.02%
COH-AU	Cochlear Limited	8.33%
SHL-AU	Sonic Healthcare Limited	5.65%
TLX-AU	Telix Pharmaceuticals Limited	3.91%
RHC-AU	Ramsay Health Care Limited	3.78%
EBO-AU	EBOS Group Limited	3.12%
ANN-AU	Ansell Limited	2.00%
SNZ-AU	Summerset Group Holdings Limited	1.11%
REG-AU	Regis Healthcare Limited	1.03%
MSB-AU	Mesoblast Limited	1.03%
NEU-AU	Neuren Pharmaceuticals Limited	0.72%
NAN-AU	Nanosonics Limited	0.57%

Custom Benchmark Construction Rules

1. Objective

To provide a transparent, rules-based framework for constructing and maintaining a custom benchmark that aligns with the portfolio's long-term strategic asset allocation (SAA), while incorporating a permanent tilt toward the healthcare sector.

2. Principles

- Reflect strategic (not tactical) portfolio intent.
- Apply tilts only where feasible, investable, and justified.
- Maintain consistency, transparency, and comparability.
- Ensure governance through documentation and oversight.

3. Define Strategic Target

The portfolio maintains a **strategic and deliberate 20% allocation to the healthcare sector within its international and Australian equity exposures**. This overweight reflects a structural conviction rather than a short-term tactical position. Accordingly, the equity benchmarks will be explicitly constructed to embed this 20% healthcare allocation, ensuring alignment between the benchmark and the portfolio's long-term investment philosophy.

4. Equity Benchmark Calculation Methodology

Let:

- **x** = weight of iShares Global Healthcare ETF (ASX: IXJ).
- **(1 – x)** = weight of the Vanguard MSCI Index International Shares ETF (ASX: VGS).
- **y =** Vanguard MSCI Index International Shares ETF (ASX: VGS) exposure to HC at rebalance date.

To achieve **20% desired total healthcare exposure**:

$$(1-x) \times y + x \times 100\% = 20\%$$

For example, let index exposure to HC = 10%

$$(1-x) \times 10\% + x \times 100\% = 20\%$$

$$0.10(1-x) + 1.00x = 0.20$$

$$0.10 - 0.10x + x = 0.20$$

$$0.90x = 0.10$$

$$x = (0.10 / 0.90)$$

$$x = 11.11\%$$

- Therefore **11.11%** would be the weight applied to iShares Global Healthcare ETF (ASX: IXJ)
- The weight applied to the Vanguard MSCI Index International Shares ETF (ASX: VGS) assuming a 10% weight to healthcare at rebalance date will be:
    - 1 - 0.1111 = 0.8889
    - **88.89%**

The same approach will be applied to Australian Equities where:

- **x** = weight of the custom ASX Healthcare Index.
- **(1 – x)** = weight of the Vanguard Australian Shares Index ETF (ASX: VAS).
- **y =** Vanguard Australian Shares Index ETF (ASX: VAS) exposure to HC at rebalance date.

5. Construction Methodology

Step 1: Define Asset Class Benchmarks - Each major asset class is assigned a representative benchmark index, selected for transparency, investability, and wide acceptance. Where appropriate, sector tilts are embedded in the index construction.

Asset Class	Benchmark Components	Tilt Applied?	Notes
Australian Equities	(1 – x)% Vanguard Australian Shares Index ETF (ASX: VAS) x% Custom ASX Healthcare Index	Yes	Reflects healthcare overweight
International Equities	(1 – x)% Vanguard MSCI Index International Shares ETF (ASX: VGS) x% iShares Global Healthcare ETF (ASX: IXJ).	Yes	Reflects healthcare overweight
Property	50% SPDR® S&P®/ASX 200 Listed Property ETF (ASX: SLF) 50% FTSE EPRA Nareit Dev (hedged AUD)	No	Retain standard REIT exposure
Fixed Income	50% iShares Core Composite Bond ETF (ASX: IAF) 50% Vanguard Global Aggregate Bond Index Fund (Hedged) (ASX: VBND)	No	Sector tilts not feasible
Credit	USD High Yield Bond (Currency Hedged) ETF (ASX: USHY) Vanguard International Credit Securities Index (Hedged) ETF (ASX: VCF)	No	Benchmark not sector-driven
Alternatives	25% Vanguard Australian Shares Index ETF (ASX: VAS) 25% Vanguard MSCI Index International Shares ETF (ASX: VGS) 25% iShares Core Composite Bond ETF (ASX: IAF) 25% Vanguard Global Aggregate Bond Index Fund (Hedged) (ASX: VBND)	No	No healthcare-specific subsectors
Cash	iShares Core Cash ETF (ASX: BILL)	No	Not sector relevant

Step 2: Apply SAA Weightings - Aggregate the asset class benchmarks using the portfolio's target SAA weights. This forms the composite custom benchmark.

Step 3: Maintain Standard Benchmark for Comparison - Report both the custom and standard benchmarks (e.g. 60/40 Global Balanced) to allow comparability for clients and stakeholders.

6. Rebalancing Rules

- Custom benchmark weights should be rebalanced monthly, in line with how the portfolio's performance is reported.
- Asset class weights should match the strategic SAA unless there is a formally approved revision.
- Tilt allocations within equity benchmarks (e.g. 85%/15%) should be held constant during each rebalancing period, unless formally reviewed.
- Annual review of tilt ratios is required, or earlier if there is a material change in strategic positioning.

May performance of custom vs core benchmarks

International Equities

VGS Healthcare weight as at 31 May 2025 = 9.8%

Therefore, to reach **desired 20% allocation**, weight to IXJ =

$$0.098(1-x) + 1.00x = 0.20$$

$$0.098 + 0.902x = 0.20$$

$$0.902x = 0.102$$

$$x = 11.31$$

Weight to IXJ = 11.31%

Weight to VGS = 88.69%

Performance to May:

Portfolio #1 = Rajomon GEQ Portfolio (including RBTZ, CURE and MOAT)

Portfolio #2 = 100% VGS Benchmark

Portfolio #3 = 88.69% VGS + 11.31% VGS Benchmark

Name	3M Return
Portfolio #1	-3.2
Portfolio #2	-1.4
Portfolio #3	-2.5

Metrics	Portfolio #1	Portfolio #2	Portfolio #3
Periods	1.0	1.0	1.0
Return	11.0%	17.7%	15.3%
Volatility	2.7%	3.0%	2.8%
Maximum Drawdown	-7.9%	-8.0%	-7.7%

Australian Equities

VAS Healthcare weight as at 31 May 2025 = 9.4%

Therefore, to reach **desired 20% allocation**, weight to Custom ASX300 Healthcare Benchmark =

$$0.094(1-x) + 1.00x = 0.20$$

$$0.094 + 0.906x = 0.20$$

$$0.906x = 0.106$$

$$x = 11.70$$

Weight to Custom ASX300 Benchmark = 11.70%

Weight to VGS = 88.30%

Performance to May:

Portfolio #1 = Rajomon AEQ Portfolio

Portfolio #2 = 100% VAS Benchmark

Portfolio #3 = 88.30% VAS + 11.70% Custom ASX300 Healthcare Benchmark

Portfolio #4 = 88.30% VAS + 11.70% Custom ASX300 Healthcare Benchmark with CSL at 50% weight

Name	3M Return
Portfolio #1	4.5
Portfolio #2	4.3
Portfolio #3	4
Portfolio #4	4.2

Metrics	Portfolio #1	Portfolio #2	Portfolio #3	Portfolio #4
Periods	1.0	1.0	1.0	1.0
Return	12.9%	13.1%	14.7%	16.3%
Volatility	3.1%	3.1%	3.1%	3.2%

Strategic Healthcare Target Optimisation

For modelling purposes, we assume long term average exposure of healthcare in VGS and VAS is fixed at 10%.

Global Equities Optimisation

Category		S1	S2	S3	S4	S5	S6	S7	S8	S9
Asset Classes										
VGS-AU(%)	95	90	85	80	75	70	65	60	55	50
IXJ-AU(%)	5	10	15	20	25	30	35	40	45	50
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Growth(%)	100	100	100	100	100	100	100	100	100	100
Defensive(%)	0	0	0	0	0	0	0	0	0	0
Scenario Analysis										
Return(%,p.a.)	13.1	12.9	12.7	12.5	12.2	12	11.8	11.6	11.4	11.2
Volatility(%,p.a.)	11.5	11.3	11.1	11	10.8	10.7	10.6	10.6	10.5	10.5
Sharpe	0.77	0.77	0.76	0.76	0.75	0.73	0.72	0.71	0.69	0.67
Risk Band	4	4	4	4	4	4	4	4	4	4
Risk Level	Medium	Medium	Medium	Medium	Medium	Medium	Medium	Medium	Medium	Medium
Probability of Achieving CPI-based Return Target										
CPI+7.0%p.a. over a 3-year rolling period(%)	73.7	72.7	71.7	70.6	69.4	68.1	66.7	65.3	63.8	62.2
CPI+7.5%p.a. over a 3-year rolling period(%)	70.6	69.6	68.4	67.2	65.9	64.5	63.1	61.6	60	58.4
CPI+7.0%p.a. over a 5-year rolling period(%)	84.5	83.3	82	80.6	79	77.2	75.3	73.3	71.1	68.8
CPI+7.5%p.a. over a 5-year rolling period(%)	80.9	79.5	77.9	76.2	74.4	72.4	70.3	68	65.6	63.2
CPI+7.0%p.a. over a 7-year rolling period(%)	93.2	92.2	91	89.6	88	86.1	84	81.6	79	76.1
CPI+7.5%p.a. over a 7-year rolling period(%)	90.1	88.7	87.1	85.2	83.1	80.7	78.1	75.2	72.1	68.7
Annualised Value at Risk										
1 in 20 year event(%)	-5.9	-5.7	-5.6	-5.6	-5.6	-5.6	-5.7	-5.8	-5.9	-6.1
Frequency of Negative Annual Total Return										
Number of Negative Annual Return in 20-year period	2.6	2.6	2.6	2.6	2.6	2.6	2.7	2.7	2.8	2.9
Probability of a Negative Annual Return(%)	12.8	12.8	12.8	12.8	12.9	13.1	13.3	13.6	13.9	14.3

Atchison recommends a target allocation of approximately 20% to the Health Care sector, implemented through a blend of 90% VGS and 10% IXJ. This weighting reflects an optimised balance based on historical performance metrics, including Sharpe ratios and return profiles. Allocations materially above this level have historically proven sub-optimal, offering diminishing improvements in risk-adjusted returns.

Australian Equities Optimisation

Category		S1	S2	S3	S4	S5	S6	S7	S8	S9
Asset Classes										
VAS-AU(%)	95	90	85	80	75	70	65	60	55	50
XHJ-AU(%)	5	10	15	20	25	30	35	40	45	50
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Growth(%)	100	100	100	100	100	100	100	100	100	100
Defensive(%)	0	0	0	0	0	0	0	0	0	0
Scenario Analysis										
Return(%,p.a.)	7.2	7.3	7.4	7.5	7.7	7.8	7.9	8	8.1	8.2
Volatility(%,p.a.)	13.8	13.6	13.4	13.3	13.3	13.2	13.3	13.3	13.4	13.5
Sharpe	0.22	0.23	0.24	0.25	0.26	0.27	0.28	0.29	0.3	0.3
Risk Band	7	6	6	6	6	6	6	6	6	6
Risk Level	Very High	High	High	High	High	High	High	High	High	High
Probability of Achieving CPI-based Return Target										
CPI+7.0%p.a. over a 3-year rolling period(%)	35.7	36.2	36.7	37.2	37.8	38.4	39.1	39.8	40.5	41.3
CPI+7.5%p.a. over a 3-year rolling period(%)	32.9	33.3	33.8	34.3	34.9	35.5	36.1	36.8	37.5	38.3
CPI+7.0%p.a. over a 5-year rolling period(%)	29	29.6	30.2	31	31.8	32.7	33.6	34.6	35.7	36.7
CPI+7.5%p.a. over a 5-year rolling period(%)	25	25.6	26.2	26.8	27.6	28.4	29.3	30.2	31.2	32.3
CPI+7.0%p.a. over a 7-year rolling period(%)	22	22.7	23.5	24.4	25.4	26.5	27.7	29	30.3	31.7
CPI+7.5%p.a. over a 7-year rolling period(%)	17.3	17.9	18.5	19.3	20.1	21.1	22.1	23.3	24.5	25.8
Annualised Value at Risk										
1 in 20 year event(%)	-15.4	-15	-14.7	-14.4	-14.2	-14	-13.9	-13.9	-13.9	-13.9
Frequency of Negative Annual Total Return										
Number of Negative Annual Return in any 20-year period	6	5.9	5.8	5.7	5.6	5.6	5.5	5.5	5.4	5.4
Probability of a Negative Annual Return(%)	30	29.5	29	28.6	28.2	27.9	27.6	27.4	27.2	27.1

Atchison has utilised the S&P/ASX 200 Health Care Index (XHJ) as a proxy for modelling purposes, acknowledging that it is an uninvestable benchmark. Atchison cautions against over-reliance on the optimisation outcomes, which are heavily skewed by CSL's exceptional performance over the past decade (+600%),

disproportionately influencing the index's return profile. This results in the model advocating an impractically large overweight to Health Care. Atchison considers this outcome an unreliable forward-looking signal and instead recommends a more conservative allocation. Consistent with the international equity positioning, Atchison proposes a target Health Care allocation of 20%.

SAA Outcomes based on Target Healthcare exposure

Category	Hist	Category	Hist	Category	Hist
Asset Classes		**Asset Classes**		**Asset Classes**	
Cash(%)	3	Cash(%)	3	Cash(%)	3
Alternatives(%)	10	Alternatives(%)	10	Alternatives(%)	10
Listed Property(%)	20	Listed Property(%)	20	Listed Property(%)	20
Private CreditS(%)	6	Private CreditS(%)	6	Private CreditS(%)	6
Fixed Income Securities(%)	7	Fixed Income Securities(%)	7	Fixed Income Securities(%)	7
Global Equities (90% VGS 10% IXJ) (%)	27	Global Equities (90% VGS 10% IXJ) (%)	27	International Equities - Unhedged(%)	27
Australian Equities (90% VAS 10% XHJ) (%)	27	Australian Equities (80% VAS 20% XHJ) (%)	27	Australian Equities (%)	27
Total	**100**	**Total**	**100**	**Total**	**100**
Growth(%)	85	Growth(%)	85	Growth(%)	85
Defensive(%)	15	Defensive(%)	15	Defensive(%)	15
Scenario Analysis		**Scenario Analysis**		**Scenario Analysis**	
Return(%,p.a.)	8.4	Return(%,p.a.)	8.5	Return(%,p.a.)	8
Volatility(%,p.a.)	9.3	Volatility(%,p.a.)	9.2	Volatility(%,p.a.)	9.4
Sharpe	0.69	Sharpe	0.71	Sharpe	0.63
Risk Band	5	Risk Band	5	Risk Band	5
Risk Level	Medium to High	Risk Level	Medium to High	Risk Level	Medium to High
Probability of Achieving CPI-based Return Target		**Probability of Achieving CPI-based Return Target**		**Probability of Achieving CPI-based Return Target**	
CPI+2.5%p.a. over a 5-year rolling period(%)	84	CPI+2.5%p.a. over a 5-year rolling period(%)	84.8	CPI+2.5%p.a. over a 5-year rolling period(%)	79.8
CPI+3.0%p.a. over a 5-year rolling period(%)	80	CPI+3.0%p.a. over a 5-year rolling period(%)	81	CPI+3.0%p.a. over a 5-year rolling period(%)	75.4
CPI+3.5%p.a. over a 5-year rolling period(%)	75.5	CPI+3.5%p.a. over a 5-year rolling period(%)	76.6	CPI+3.5%p.a. over a 5-year rolling period(%)	70.5
CPI+3.0%p.a. over a 7-year rolling period(%)	87.4	CPI+3.0%p.a. over a 7-year rolling period(%)	88.4	CPI+3.0%p.a. over a 7-year rolling period(%)	82.4
CPI+3.5%p.a. over a 7-year rolling period(%)	82.7	CPI+3.5%p.a. over a 7-year rolling period(%)	83.9	CPI+3.5%p.a. over a 7-year rolling period(%)	76.7
CPI+4.0%p.a. over a 7-year rolling period(%)	76.8	CPI+4.0%p.a. over a 7-year rolling period(%)	78.2	CPI+4.0%p.a. over a 7-year rolling period(%)	70
CPI+2.5%p.a. over a 10-year rolling period(%)	97.5	CPI+2.5%p.a. over a 10-year rolling period(%)	97.9	CPI+2.5%p.a. over a 10-year rolling period(%)	94.9
CPI+3.0%p.a. over a 10-year rolling period(%)	95.4	CPI+3.0%p.a. over a 10-year rolling period(%)	96.1	CPI+3.0%p.a. over a 10-year rolling period(%)	91.3
CPI+3.5%p.a. over a 10-year rolling period(%)	91.9	CPI+3.5%p.a. over a 10-year rolling period(%)	92.9	CPI+3.5%p.a. over a 10-year rolling period(%)	85.9
Annualised Value at Risk		**Annualised Value at Risk**		**Annualised Value at Risk**	
1 in 20 year event(%)	-6.8	1 in 20 year event(%)	-6.6	1 in 20 year event(%)	-7.5
Frequency of Negative Annual Total Return		**Frequency of Negative Annual Total Return**		**Frequency of Negative Annual Total Return**	
Number of Negative Annual Return in 20-year period	3.6	Number of Negative Annual Return in 20-year period	3.5	Number of Negative Annual Return in 20-year period	3.9
Probability of a Negative Annual Return(%)	18.1	Probability of a Negative Annual Return(%)	17.7	Probability of a Negative Annual Return(%)	19.7

Atchison has modelled the impact of incorporating custom health care tilts into the Strategic Asset Allocation (SAA) benchmark. In the first scenario, a blend of 90% VGS and 10% IXJ was applied to international equities, alongside 90% VAS and 10% XHJ for Australian equities. In the second scenario, the international allocation remained unchanged, while the Australian equities allocation was adjusted to 80% VAS and 20% XHJ. The third column shows the SAA historical performance before customisation.

Given the relatively minor differences in outcomes between the two configurations, Atchison recommends standardising to a 20% health care exposure across both international and Australian equity allocations. This consistent approach streamlines implementation, reduces operational complexity, and enhances clarity for clients.

Conclusion and Voting Items

Atchison recommends the adoption of a custom benchmark framework that accurately reflects the portfolio's strategic healthcare overweight while maintaining governance rigour and operational feasibility. Given recent enforcement by index providers such as MSCI and S&P Dow Jones, and the availability of cost-effective ETF alternatives, we propose a shift away from direct use of proprietary indices.

Custom healthcare-tilted benchmarks will be implemented only within Australian and international equities, where the tilt is material, measurable, and can be practically replicated using listed instruments or internally constructed indices. Other asset classes—such as fixed income, property, credit, and alternatives—will retain their standard benchmarks due to structural constraints.

Voting Items:

1. **Benchmark Licensing**
    - Approve the recommendation to move away from MSCI and S&P index benchmarks and instead adopt ETF-based proxies to avoid licensing costs and copyright risk.
2. **Scope of Customisation**
    - Approve the application of custom healthcare-tilted benchmarks to Australian and International equities only, acknowledging the need for further review when applying such tilts across other asset classes.
3. **Target Structural Healthcare Exposure**
    - Agree upon a long-term strategic allocation to healthcare to be structurally applied to the equity indexes. Atchison recommends 20% allocation based on historically observed weights.
4. **International Equities Implementation**
    - Approve the use of a blended benchmark composed of Vanguard MSCI International Shares Index ETF (ASX: VAS) and iShares Global Healthcare ETF (ASX: IXJ) to implement the structural healthcare overweight to international equities
5. **Australian Equities Implementation**
    - Approve the use of a blended benchmark composed of Vanguard Australian Shares ETF (ASX: VAS) and a custom ASX 300 Healthcare Index, constructed and maintained by Atchison based on GICS classified healthcare names within the ASX 300.
    - Agree upon a treatment for index concentration.

Atchison

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