

Approved Products List (APL)

As approved for

Harts Financial Solutions Pty Ltd

(ABN 36 128 904 521)

Authorised Representative (AR 321342)

& Credit Representative (CR 416309) of

Harts Financial Group Pty Ltd

(ABN 80 128 903 962)

Combined Australian Financial Services

& Credit Licence (AFS&CL 324390)





Success in life often leads to financial complexity.

Over time, you become connected to a range of advisers – accountants, stockbrokers, bankers and lawyers – each making vital contributions to your wealth management. However, without a well considered, over-arching plan, these inputs can be uncoordinated, leading to inefficiency, turbulence and risk.

Harts Financial Solutions starts with a clear strategy to strengthen, grow and protect your financial position.

Once we have developed an effective action plan, we become the single, central collaboration point for all inputs in the service of your wealth management.

We stand beside you, actively guiding but not controlling your wealth management strategy.

We maximise efficiencies, manage risks and ensure seamless collaboration with your other advisers.

We apply a robust science to your personal wealth management, giving you the confidence to concentrate on what started building your wealth in the first place.

Let Harts Financial Solutions help you take command.

Consider us your Private Wealth Pilot.



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Harts Financial Group (HFG) is a Professional Practice of the Financial Planning Association of Australia (FPA) and is committed to upholding the FPA's Code of Professional Practice. Nigel Hart is a CERTIFIED FINANCIAL PLANNER® professional.

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Policies & Procedures

Introduction

This Approved Product List (APL) is compiled to enable each member of our firm and our Representatives efficient and streamlined access to investments/insurance products considered suitable to include in clients' investment portfolios at a particular point in time.

The APL was initially compiled and ratified by the Harts Financial Group Pty Ltd (HFG) Investment Committee on 13th August 2008. It has since been regularly updated as directed by the Investment Committee.

The current Investment Committee comprises the following members:

Chairman:	Nigel Hart
Committee/Secretary:	Jamie Kelly
Committee:	Anthony Stojan

How can I receive updates to this APL?

The APL is changed from time to time and should you like a copy, please contact the office and a copy of the current APL will be either emailed or mailed to you at no cost.

Procedures

The APL is reviewed on a quarterly basis by the Investment Committee and changes made according to the outcomes of the meeting. Investment Committee meeting minutes are drafted within one week after the conclusion of the meeting and circulated to advisers with an updated APL.

At any time, the APL to be used by advisers must not be dated more than three months old.

Investments

HFG has engaged Lonsec, Australia's leading research house to provide research on products/service providers to be included on the HFG APL. All advisers have access to the Lonsec website which contains detailed information relating to approved investments, including performance measures and product profiles that can be included in Statements of Advice (SOA). The website also allows advisers to consider diversification of asset classes and manager style blending when constructing portfolios.

The compilation of the APL is undertaken by accessing both independent investment research from external research providers and in-house research by members of the Investment Committee. The relevant external research house rating for a particular investment product or service provider will be used as the primary basis for including the product/service provider on the APL. This rating together with Investment Committee in-house research (if required) is then used as the basis for preparing the APL.

If no external research is available, then the Investment Committee will generate its own research report. It is not anticipated that the Investment Committee will be required to conduct in-house research on a product or service provider if research is already available. If the research has been undertaken by a research provider not used by HFG, the research report will be requested directly from the Fund Manager/service provider and used in conjunction with in-house research to determine the product's inclusion on the Recommend List.

The Investment Committee distinguishes between the Fund Manager and its available investment products by analysing the Fund Manager based on their ability, expertise, management and corporate structure, irrespective of the underlying product they are managing. Should a particular Fund Manager meet competency in the above areas and is included on the HFG APL, advisers will have the ability to use all approved investment products managed by the Fund Manager (i.e. wholesale Funds, investment trusts, superannuation products etc).

Life Risk Insurance

As no Life Insurance Company's Statutory Number 1 fund (the fund supporting all life risk products and capital guaranteed annuities) has been allowed to fail in Australia since Federation. The Investment Committee has approved all Life Risk Insurance products on the APL where the Life Company is an APRA registered Life Offices who has underwriting staff and claims departments located in Australia.

Credit Products

In Australia all Banks are regulated by APRA in accordance with the Banking Act 1959 and since that time no retail Australian depositor has lost their funds.

Although there are many Authorised Deposit-Taking Institutions that are regulated by APRA, the Investment Committee has only approved Australian owned Banks and all their credit products.

Investment Product Ratings

If an investment meets the methodologies used above to formulate the APL it would be awarded with an "approved" rating.

A "hold" rating means a client may remain invested in the product, however, no new monies can be invested.

A "sell" rating means the adviser should look to redeem the investment/product and move to an "approved" option at, or before, the client's next review. A review should be offered every 12 months in these circumstances. There may be reasons such as transaction costs or unrealised capital gains that may warrant a client to continue holding an investment with a "sell" rating. In this instance, client file notes should document the reason why the particular investment is being maintained.

These ratings are based on a similar rating provided by the research house or risk modelling software.

APL Categories

The categories included on the APL are as follows:-

- Investment Platforms
- Managed Account Portfolio Service Providers
- Margin Lending Facilities
- Cash
- Australian Fixed Interest
- International Fixed Interest
- Australian Equities
- International Shares
- Unlisted Property/Property Securities
- Diversified/Balanced Funds
- Structured Products
- Self-Managed Superannuation Administrators
- Life Risk Insurance
- Credit Products

Policies

Investment Platforms

The HFG APL makes a clear distinction between investment products and investment platforms. Investment platforms refer to Corporate Superannuation Platforms, Public Superannuation Funds Industry Superannuation Funds and Ordinary Investment Platforms. They cover IDPS, Master Funds, APRA regulated superannuation Funds and Individually Managed Account (IMA) / Separately Managed Account (SMA) providers.

For all investments, whether delivered via or outside a platform there is a clear over-riding requirement that advisers must adhere to the APL for both approved product lists and policies.

The policy for investment platforms has been developed to recognise the requirements of existing and new clients using platforms as an administration solution.

The Investment Committee is responsible for conducting due diligence on platforms available to the marketplace. Key inputs to the research are:

- The features and benefits of the platform, having regard to client needs and the facility provided to advisers to service those needs
- The breadth and range of approved investment choice, for both sector specialist and diversified Funds
- Fees and charges, covering management fees of the investment options and administration costs of the platform
- The corporate strength and backing of the platform
- Compliance with ASIC and APRA regulations
- The communication and reporting to clients, together with that provided to advisers to support their ongoing servicing of clients
- The quality of administration offered by the platform provider, based on quantitative factors, and on adviser feedback
- The availability of insurance options
- A 'key contact' to assist advisers and HFG to troubleshoot client issues, at a level consistent with the quality of business provided by HFG as a whole

Platforms meeting the above criteria are included on the APL.

Managed Accounts (MA)

MA services are inclusive of Separately Managed Accounts (SMA), Individual Managed Accounts (IMA), Investment Advisory Programs, Managed Discretionary Accounts (MDA) and Managed Account Portfolio Services (MAPS).

The Investment Committee will consider each provider of a MA service assessed through the analysis of an independent research report.

If an independent research report is not available, the MA provider must provide HFG with an independent research report of the provider together with their latest financial statements to assess as part of the HFG APL approval process.

Managed Investments

The ratings for Fund Managers are categorised as follows, and are based on those Fund Managers receiving this rating or similar from the procured research providers:

- Approved
- Hold
- Sell

Any Fund Managers not included on the HFG APL would be considered at the particular point in time to either be a sell, hold or not rated.

The rating “hold” is defined to mean that existing clients should hold their underlying investment, but no new investment into this Fund should be made for new or existing clients.

The rating “sell” is defined to mean that the client is to be advised to sell that investment product and move to an “approved” option, at or before the client’s next review.

Methodology for Approving Cash Funds

As there is minimal investment risk associated with Cash Only Funds, bank accounts or Cash Management Accounts (CMA), HFG allow flexibility for the adviser to choose the product that best suits the client’s needs. Distinguishing factors for cash funds/accounts will be the S&P rating of the institution, ability to hold cheque books, internet access, interest rates, and access to funds through ATM’s and fees.

To be recommended to clients, Cash Funds/Accounts should have the following characteristics;

- The product is a Cash Only Fund (this does not include enhanced cash, high yielding or fixed rate debenture products)
- The product is either;
 - A Cash Management Account which is listed on the HFG APL
 - Or
 - A Cash Only Fund/Account available via an Investment Platform or by a reputable organisation such as one of the major banks or larger regional banks. These include National Australia, ANZ, Commonwealth, Westpac, St George, Adelaide, Suncorp, Bendigo, BankWest, Bank of Queensland, and Bank SA.

Please seek approval from a member of the HFG Investment Committee for cash funds/accounts from other providers.

Unlisted Property

The process of approving property syndicates relies on independent valuation reports and financial statements supporting the underlying assets presented to the Investment Committee. The supporting report must be no more than 12 months old and on the proviso that no significant or adverse changes have occurred to the entity since the date of the report.

The HFG Investment Committee will initially assess the asset based on:

- A secure tenant and lease expiry profile
- Track record, quality, and financial strength of the management company
- Reasonable fees being applied
- The underlying tenants and the lease expiry profile
- Yield, including the tax efficiency of the income
- Initial NTA
- Level of gearing and structure of the debt component

Each unlisted property syndicate opportunity will be reviewed on a case by case basis to be approved by the Investment Committee based on accumulative information.

Any property syndicates not included on the HFG APL would be considered at that particular point in time to either be a sell, hold or not rated.

The rating "hold" on an investment is defined to mean that existing clients should hold their underlying investment, but no new investment is to be made into the product.

The rating "sell" is defined to mean that the client is to be advised to sell that investment and move to an "approved" product at or before their next review.

Gearing Policy

If the adviser recommends a gearing strategy and the use of a gearing facility, the adviser must comply with the HFG Gearing Policy in that any gearing facility must have sound corporate backing and be approved by the Investment Committee. A list of approved margin lending facilities is provided in the APL found further below.

Whenever gearing is recommended as a strategy, the following three key elements to the advice should be considered:

The Client

Gearing strategies are reserved for clients with a 'Balanced', 'Growth' or 'High Growth' investment risk profile, a medium to long term investment timeframe and regular disposable income.

The Strategy

In addition to the usual Advice Process requirements, there are ten issues to address when communicating how gearing works and the risks involved:

- Interest Rates
- Cash Flow Analysis
- Risk Protection
- Margin Calls (if applicable)
- Security
- Capital Projections
- Exiting Early
- Regular Reviews
- Tax Benefits
- Disclosure of Fees

The Level of Gearing and the Type of Loan

In determining acceptable levels of gearing, the following process and parameters are to be applied;

Identify “Surplus Cash Flow – Net Saving Capacity” (NSC) from an analysis of client’s projected annual cash flows. This measure is used to assess the level of client serviceability from both income and equity sources. Clients must have a minimum positive NSC after a 2% increase in prevailing interest rates across all borrowings.

Identify “Available Loan Redraw + Available Cash” (LR+AC) from an analysis of the client’s cash holdings and approved loan redraw capacity. This measure does not include credit card facilities, unsecured personal debt, or unused margin loans. Clients must have an LR+AC of at least 15% of their ‘Net Loan Capacity’.

Identify a client’s “Liquid Asset Coverage” (LAC) to determine the level of liquid assets available to cover cash flow shortfalls, e.g. unencumbered blue-chip Australian shares. In cases where clients have substantial LAC they may be able to reduce their minimum LR+AC. LAC coverage must be a minimum of 3 times the reduction in the minimum LR+AC.

In cases where balanced, growth and high growth clients have substantial LR+AC or LAC, they may be able to reduce their minimum NSC by excess LR+AC or LAC coverage of 20 times (balanced & growth) or 15 times (high growth) the reduction in NSC.

Identify the security for each loan - this is the client’s equity in the asset which is being used as the security of the loan.

Identify the Loan to Valuation Ratio (LVR) - this measure is used to assess the level of borrowing. The LVR is the amount of the investment loan divided by the total value of the asset, which is the security for the loan. Where the home is security for the loan the value of the asset is the client’s equity in the home. The maximum LVR is generally 80% for residential property, 70% for land and commercial property and 75% for blue chip securities. We encourage clients to maximise their approved borrowing capacity (without mortgage insurance) when participating in a gearing strategy. Clients must confirm they are able to manage their cash flow and spending habits with the spare loan capacity in place.

Identify the Margin Utilisation (MU) - The MU measures how much buffer there must be between the loan recommended and the margin lender’s maximum loan. The buffer helps protect the portfolio against margin calls. The MU should not be greater than 75% of the margin lender’s maximum LVR for a margin loan.

Suitable Risk Benchmarks

Gearing is only suitable for “Balanced”, “Growth” and “High Growth” investors within the following parameters;

Measure	Balanced Profile	Growth Profile	High Growth Profile
Net Saving Capacity (NSC) Upper Cash Flow Limit	Positive NSC of 10% of variable income (personal exertion) + a 4% increase above current interest rates	Positive NSC of 5% of variable income (personal exertion) + a 3% increase above current interest rates	Positive NSC of 0% of variable income (personal exertion) + a 2% increase above current interest rates
Net Saving Capacity (NSC) Lower Cash Flow Limit	NSC Upper Limit reduced by 1/15th of LR+AC and/or LAC divided by 3	NSC Upper Limit reduced by 1/15th of LR+AC and/or LAC divided by 3	NSC Upper Limit reduced by 1/10th of LR+AC and/or LAC divided by 3
Upper Liquidity Limit - LR+AC	Of at least 30% of Net Loan Capacity	Of at least 20% of Net Loan Capacity	Of at least 10% of Net Loan Capacity
Lower Liquidity Limit - LR+AC reduced by LAC	LR+AC reduced by 1/3 of LAC	LR+AC reduced by 1/3 of LAC	LR+AC reduced by 1/3 of LAC
MU	50% of lender’s maximum LVR	75% of lender’s maximum LVR	75% of lender’s maximum LVR

If the first initial parameters above are breached (i.e. minimum NSC or LR+AC), client sign-off is required to access the secondary parameters.

If the secondary parameters are breached (i.e. NSC Upper Limit reduced by excess LR+AC and LAC or minimum LR+AC reduced by LAC) the client is unable to increase gearing levels and must take corrective measures to address the breach and reduce risk.

This flexibility is designed to deal with individual situations where the fact finding and planning processes have established that the client is suited for gearing and has a requirement which cannot be satisfactorily met by other wealth creation strategies.

There are guidelines for applying the Gearing Policy to other gearing scenarios including:

Instalment Gearing

Generally, the same rules apply for instalment or regular gearing. This means the LVR of the monthly contributions is generally limited to 50% and the MU to 75% at the time the advice is given. There is flexibility to increase the LVR up to 75% of the margin lender's maximum LVR where the Qualifying Criteria and the client and strategy requirements in this Policy have been met.

Structured Products

This includes 100% geared and capital protected investment vehicles. 100% gearing is only permitted if a 100% capital guarantee is offered in conjunction. Approval to use such products must be requested from the Investment Committee as there may be specific issues within certain products that may result in non-approval.

The Investment Committee will assess each Structured Product accompanied by an independent research report.

If an independent research report is not available, the product provider must provide HFG with an independent research report together with their latest financial statements to assess as part of the HFG APL approval process.

Borrowing against the security of investment properties

The same principles apply as per borrowing against the equity in the home.

Gearing where the purpose is to purchase an investment property

Must be referred to the Investment Committee where the adviser has been asked to include it in their advice. As a guide, advisers are not authorised to provide advice on particular direct property investments although strategic advice on structuring the debt is permitted.

Property Syndicates

This is covered in the Unlisted Property section.

Life Risk Insurance

The ratings for Life Offices are categorised as follows and are based primarily on those Life Offices being APRA registered Life Insurance Companies. Each Harts Representative must undertake product competency assessment for each life risk product they recommend as well as give consideration of the quality of the policy wording, underwriting, claims history and administration. The ratings are:

- **Approved** - All risk insurance products issued by an APRA registered life insurance company.
- **Hold** - All risk insurance products from an Life Insurance Company which APRA has publicly stated is under investigation.
- **Replace** - All risk insurance products from an Life Insurance Company which APRA has deregistered. (Where HFG replaces a client's life risk insurance in these circumstances all initial commissions will be rebated wherever possible).

Insurance products will only be replaced once new insurance cover is in place. If new cover cannot be attained due to medical and/or other reasons, it is left to the adviser to decide an appropriate course of action based on the best interest of the client.

Credit Products

The Investment Committee has limited the approval of credit products to those credit products provided by Australian-owned banks regulated by APRA. Each Harts Representative must undertake product competency assessment for each credit product they recommend as well as give consideration of the lending policy, interest rates, flexibility, administration and ongoing services.

Therefore the credit products issued by the following are not approved:

- Foreign Subsidiary Banks
- Branches of Foreign Banks
- Building Societies and
- Credit Unions

The ratings are:

- **Approved** - All credit products issued by an APRA regulated Australian-owned banks.
- **Refinance** - All credit products from a Australian-owned bank which APRA has publicly stated is under investigation. (Where HFG replaces a client's credit product in these circumstances all initial commissions will be rebated wherever possible.)

Legacy Products from previous Approved Product Lists

Unless the Committee advises that a manager, product and/or security is a "sell" recommendation, any manager, product and/or security in an existing plan is now deemed as a "hold".

This means that unless the manager, product and/or security is subsequently placed on the current APL, no new investment can be made and clients should be encouraged to review their holdings (this is left to the adviser to decide based on what is in the best interest of the client).

Policy for Requesting Approval to use a Non-Approved Product (Waiver)

Where an adviser wishes to recommend an investment not covered under the APL they are required to seek approval from the HFG Investment Committee for the use of the investment.

Where a client has specifically requested or enquired about investing in the non-approved product, and approval is not given but the client still wishes to invest, then a Statement of No Advice must be completed, signed by the client and kept on file.

It is important for an adviser to recognise where non approved products are used in client portfolios without the appropriate sign off, HFG is no position to defend any action against it should a client be aggrieved at any point in the future.

Whilst ultimate responsibility vests with the license holder, advisers must be aware that a contravention of this policy constitutes a breach of the adviser agreement and the adviser will be personally liable for any action undertaken against HFG.

Review Frequency

The APL will be reviewed at least quarterly to ensure that only those Fund Managers/Insurance Providers/Platforms who are robust in terms of their qualitative and quantitative processes and results are included and remain on the list.

Representatives Responsibility

It is important that this APL be utilised by HFG representatives when constructing and restructuring client portfolios.

The representative will be required to utilise their personal skills to add value to the client's portfolio by applying the required level of blending between styles of investment products, along with making an assessment as to whether a certain style may be more conducive to a particular investment climate.

The APL is appropriately extensive to ensure the Representative has sufficient options to satisfy the client's requirements, but not exhaustive whereby decision making could become difficult.

It is encumbering that any Representative that becomes aware of information that could result in the Investment Committee altering its rating of a product or service, then that Representative must immediately advise the Chairperson of the Investment Committee.

Approved Product List (APL)

Investment Platforms

RATING	PLATFORM
Approved	
	Hub24
	MLC: <ul style="list-style-type: none"> • Masterkey Investment Service Fundamentals; • Masterkey Pension Fundamentals; • Masterkey Super Fundamentals; and • Masterkey Super and Pension Fundamentals.
Hold	
	Asgard – Employee Super, Elements, E-Wrap, Accounts
	AXA – Generations
	AXA – Super Directions, Retirement Security Plan
	BT - Super Wrap, Investment Wrap
	Colonial First State – Employer Super, First Choice, Investment, Personal Super, Pension
	Macquarie Investment Management Limited: <ul style="list-style-type: none"> • Super Options Super Plan; and ADF Super/Rollover Plan
	Macquarie Wrap: <ul style="list-style-type: none"> • Investment Consolidator; • Super and Pension Consolidator; • Investment Accumulator; and Super Accumulator.
	MLC – Masterkey (Closed for new investors)
Sell	Nil

Managed Account Portfolio Service Providers

RATING	PLATFORM
Approved	
	Nil
Hold	
	Nil
Sell	

Margin Lending Facilities

RATING	PLATFORM	APIR/ASX CODE
Approved		
	Nil	
Hold		
	Nil	
Sell		
	Nil	

Cash/Guaranteed

RATING	PRODUCT	APIR/ASX CODE
Approved		
	APRA Regulated Banks in Australia (Cash and Term Deposits)	
	Macquarie Bank Cash Management Account	APRA Regulated
	MLC Cash Fund	Not Rated
Hold		
	Nil	
Sell		
	Nil	

Australian Fixed Interest

RATING	PRODUCT	APIR/ASX CODE
Approved		
	Vanguard Australian Fixed Interest Index ETF	VAF
	Vanguard Wholesale Australian Fixed Interest Index Fund	VAN0001AU
Hold		
	Nil	
Sell		
	Nil	

Diversified Fixed Interest

RATING	PRODUCT	APIR/ASX CODE
Approved		
	Vanguard Australian Government Bond Index ETF	VGB
Hold		
	Nil	
Sell		
	Nil	

International Fixed Interest

RATING	PRODUCT	APIR/ASX CODE
Approved	Vanguard International Credit Securities Index ETF	VCF
	Vanguard International Fixed Interest (Hedged) ETF	VIF
Hold		
	Nil	
Sell		
	Nil	

Australian Equities

RATING	PRODUCT	APIR/ASX CODE
Approved		
	ASX Direct Shares (Rated Recommended or higher by Lonsec)	-
	HUB24 Non-Unitised S&P/ASX 20 Portfolio	Not Rated
	HUB24 Non-Unitised S&P/ASX 50 Portfolio	Not Rated
	SGH20 (HUB24)	Not Rated
	Vanguard Australian Shares Index ETF	VAS
	Vanguard Australian Shares High Yield ETF	VHY
	Vanguard MSCI Australian Large Companies Index ETF	VLC
	Vanguard MSCI Australian Small Companies Index ETF	VSO
	Vanguard Wholesale Australian Shares Index Fund	VAN0002AU
Hold		
	Nil	
Sell		
	Nil	

International Equities

RATING	PRODUCT	APIR/ASX CODE
Approved		
	Vanguard All-World Ex-US Shares Index EFT	VEU
	Vanguard Emerging Markets Shares Index EFT	VGE
	Vanguard MSIC Index International Shares EFT	VGS
	Vanguard MSIC Index International Shares Hedged EFT	VGAD
	Vanguard US Total Market Shares Index	VTS
	Vanguard Wholesale Emerging Markets Shares Index Fund	VAN0005AU
	Vanguard Wholesale International Shares Index Fund	VAN0003AU
	Vanguard Wholesale International Shares Index Fund Hedged	VAN0105AU
	Vanguard US Total Market Shares Index ETF	VTS
Hold		
	MLC Global Share Fund	MLC0261AU
	Platinum International Fund	PLA0002AU
Sell		
	Nil	

Unlisted Property / Property Securities (Domestic & International)

RATING	PRODUCT	APIR/ASX CODE
Approved		
	Vanguard Australian Property Securities Index EFT	VAP
	Vanguard Property Securities Index Fund	VAN0012AU
	Vanguard Wholesale International Property Securities Index Fund	VAN0018AU
	Vanguard Wholesale International Property Securities Index Fund Hedged	VAN0019AU
	Vanguard Wholesale Property Securities Index Fund	VAN0004AU
Hold		
	Nil	
Sell		
	Nil	

Diversified/Balanced Funds

RATING	PRODUCT	APIR/ASX CODE
Approved		
	MLC Index Plus Conservative Growth Portfolio	MLC0871AU
	MLC Index Plus Balanced Portfolio	MLC0870AU
	MLC Index Plus Growth Portfolio	MLC0869AU
	MLC Masterkey Horizon 1 – Bond Portfolio	MLC0743AU
	MLC Masterkey Horizon 2 – Capital Stable Portfolio	MLC0744AU
	MLC Masterkey Horizon 3 – Conservative Growth Portfolio	MLC0745AU
	MLC Masterkey Horizon 4 – Balanced Portfolio	MLC0746AU
	MLC Masterkey Horizon 5 – Growth Portfolio	MLC0747AU
	MLC Masterkey Horizon 6 – Share Portfolio	MLC0748AU
	MLC Masterkey Horizon 7- Accelerated Growth Portfolio	MLC0749AU
	Vanguard Wholesale High Growth Index Fund	VAN0111AU
	Vanguard Wholesale Growth Index Fund	VAN0110AU
Hold		
	AXA Generations - Defensive	NML0586AU
	AXA Generations - Moderately Defensive	NML0587AU
	AXA Generations - Alternative Balanced	IPA0061AU
	AXA Generations - Balanced	NML0588AU
	AXA Generations - Growth	NML0589AU
	AXA Generations - High Growth	NML0590AU
Sell		
	Nil	

Alternative/Structured Products

RATING	PRODUCT	APIR/ASX CODE
Approved		
	Nil	
Hold		
	Nil	
Sell		
	Nil	

Self-Managed Superannuation Providers

RATING	PROVIDER
Approved	
	Australian Superannuation & Compliance
Hold	
	Nil
Sell	
	Nil

Risk Insurance

RATING	LIFE COMPANY	RISK PRODUCT
Approved		
	APRA Registered Life Insurance Companies.	Term Life / TPD / Trauma / Income Protection / Business Expense
Hold		

Credit Products

RATING	BANK	CREDIT PRODUCT
Approved		
	APRA regulated Australian-owned Banks	All credit products
Refinance		
	Nil	

Asset Allocation

HFG has expanded on the traditional approach of setting benchmark model investment portfolios that are used when setting an appropriate asset allocation for a client's identified Investment Risk Profile. The methodology of using predefined benchmark portfolios for each Investment Risk Profile works well where investments are limited to financial products only.

For most investors, their single largest investment is their main residence (i.e. home). Alternatively, private business owners will typically have significant investments in both their main residence and their businesses. Investment in direct property in Australia is also very popular.

HFG takes the approach of reviewing a client's overall asset allocation - which includes their main residence, direct property and/or their private business assets. Given the larger value associated with these assets, by including them when comparing your overall strategic asset allocation against a predefined benchmark model portfolio, your overall exposure to growth assets significantly deviates from the traditional benchmark amount.

Therefore, we have set benchmark growth/defensive allocations for each of the Investment Risk Profiles which are more relevant to the increased exposure to growth assets. That said we do not disregard the industry accepted benchmark portfolios. They are essential in establishing benchmarks for your exposure to financial services products.

We believe it is essential to also analyse different segments of your overall strategic asset allocation, including your exposure to property investments, your super versus non-super investments, and your exposure to financial services products. Although we are able to benchmark your exposure to financial services products (as referred to above), no benchmarks exist to compare your property exposure and your super versus non-super investments.

Overall Asset Allocation

In order to compare a client's overall asset allocation, which includes their main residence, direct property and/or their private business assets, we have established the following benchmark weightings to growth and defensive assets.

Overall Position - Benchmark Defensive/Growth Allocations

The following table illustrates the benchmark overall exposure to defensive/growth assets for each of the Investment Risk Profiles.

These benchmarks do not take into account the underlying sector allocations to cash/redraw capacity, Australian/International Fixed Interest, Australian/International shares, and/or property, rather focusing on the overall exposure to defensive/growth assets.

Conservative Asset Allocation

Defensive/Growth	Conservative	Moderately Conservative	Balanced	Growth	High Growth
Defensive	35%	25%	15%	9%	4%
Growth	65%	75%	85%	91%	96%
Total	100%	100%	100%	100%	100%

Financial Services Products

Methodology

With regard to financial services products, the methodology adopted by the Investment Committee in generating the Strategic Asset Allocation benchmarks for each of the five portfolios discussed below has been based jointly on HFG Investment Committee in-house research and research provided by contracted independent research providers who hold specialist knowledge in this area.

HFG have contracted Lonsec to provide independent research after conducting appropriate due diligence.

Lonsec apply rigorous market theory for generating both forward-looking expected returns, as well as detailed risk-return optimisation processes in determining risk profiles and asset weightings.

For each of the underlying asset classes, expected return and risk assumptions were calculated by Lonsec and used by the HFG Investment Committee to determine asset allocation weightings.

Strategic Asset Allocation

The Strategic Asset Allocation is designed to be updated infrequently but should be rebalanced annually (usually at next review).

The asset allocations of these investment portfolios are designed as long-term "set and forget" positions. While the Investment Committee will review the asset allocation of these portfolios on an annual basis, changes are unlikely to be made, unless extreme market circumstances warrant.

The Investment Portfolios

HFG will use five model investment portfolios for their clients in determining Asset Allocations. Those being:

- Conservative
- Moderately Conservative
- Balanced
- Growth
- High Growth

The Strategic Asset Allocations

Conservative Asset Allocation

Defensive/Growth	Asset Class	Percentage (%)
Defensive	Cash, Redraw Capacity	25
	Australian Fixed Interest	27
	International Fixed Interest	28
	<i>Sub-Total Defensive</i>	80
Growth	Australian Shares	10
	International Shares	5
	Property (Direct, Listed, Unlisted)	5
	<i>Sub-Total Growth</i>	20
	Total	100

Moderately Conservative Asset Allocation

Defensive/Growth	Asset Class	Percentage (%)
Defensive	Cash, Redraw Capacity	10
	Australian Fixed Interest	24
	International Fixed Interest	26
	<i>Sub-Total Defensive</i>	60
Growth	Australian Shares	17
	International Shares	13
	Property (Direct, Listed, Unlisted)	10
	<i>Sub-Total Growth</i>	40
	Total	100

Balanced Asset Allocation

Defensive/Growth	Asset Class	Percentage (%)
Defensive	Cash, Redraw Capacity	5
	Australian Fixed Interest	17
	International Fixed Interest	18
	<i>Sub-Total Defensive</i>	40
Growth	Australian Shares	25
	International Shares	25
	Property (Direct, Listed, Unlisted)	10
	<i>Sub-Total Growth</i>	60
	Total	100

Growth Asset Allocation

Defensive/Growth	Asset Class	Percentage (%)
Defensive	Cash, Redraw Capacity	3
	Australian Fixed Interest	8
	International Fixed Interest	9
	Sub-Total Defensive	20
Growth	Australian Shares	35
	International Shares	30
	Property (Direct, Listed, Unlisted)	15
	Sub-Total Growth	80
	Total	100

High Growth Asset Allocation

Defensive/Growth	Asset Class	Percentage (%)
Defensive	Cash, Redraw Capacity	-
	Australian Fixed Interest	-
	International Fixed Interest	-
	Sub-Total Defensive	0
Growth	Australian Shares	50
	International Shares	40
	Property (Direct, Listed, Unlisted)	10
	Sub-Total Growth	100
	Total	100

Representative Discretion

Representatives cannot exceed the total growth asset allocation for any of the investment portfolios but can reduce the growth asset allocation to meet the client's financial needs and objectives.

Representatives are strongly encouraged to follow the asset allocation for each of the investment portfolios. However, if warranted and supported by an appropriate rationale and recommendation in the SOA, the Representative may vary the asset allocation for each asset class.

A Representative may alter the recommended sector allocations within "defensive" asset classes between 0% and 100%.

A Representative may alter the recommended sector allocations within "growth" asset classes between 0% and 100% taking into account the following factors:

- Tax Planning
- Risk Tolerance
- Economic Conditions
- Adjusted Strategic Asset Allocation
- Capital Risk
- Cash Flow

- Existing Asset Position
- Transaction Costs
- Investment Experience
- Liquidity
- Emergency Capacity/Cash/Redraw
- Protection/Capital Guarantee
- Debt to Equity Levels

A client must consider each of these factors and how it affects their willingness to accept these altered allocations as consistent with their risk profiles.

Disclaimer

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