

# Retirement Income Portfolios

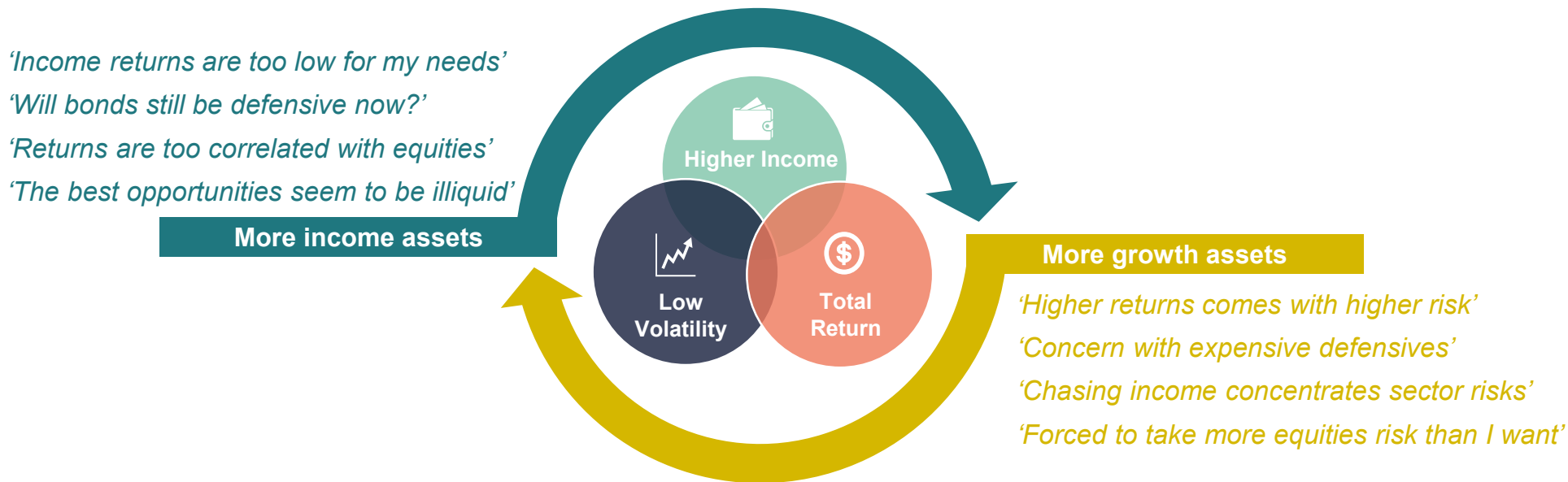
Rudi Minbatiwala  
Head of Equity Income

IMAP Portfolio Management Conference 2019

# The challenge faced by advisers for their retiree clients

Need to balance multiple objectives

Addressing your retiree clients' income, risk and return needs through asset allocation alone has significant challenges



The adviser dilemma...

- In this low interest rate world, the equities allocation is being asked to do more of the heavy lifting to deliver the desired higher income requirement
- This creates a conflict with the equally important preference for lower risk taking

**There's a need for solutions that can address short term needs (income and volatility) without compromise to the long term objectives (total returns)**

# Look beyond dividend yields for better income and total returns

Consider income and growth from \$10,000 invested over 15 years

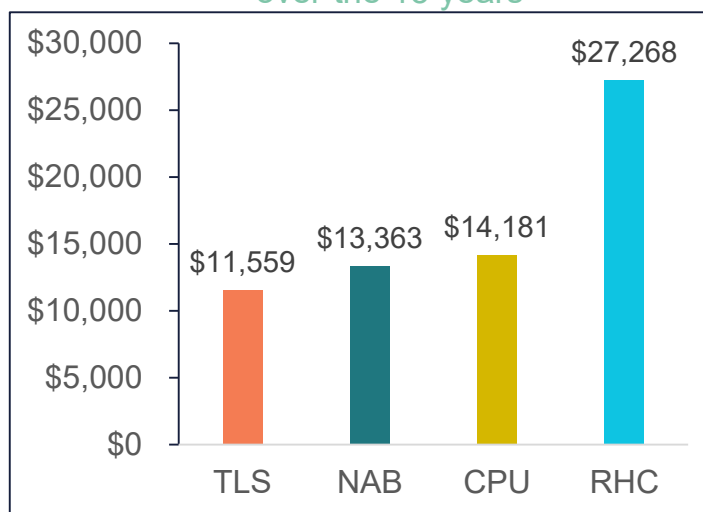
Which of these stocks are expected to provide the most income?

Grossed-up yields (including franking)	June 2004	Average	June 2019
Telstra Corporation (TLS)	7.67%	9.32%	6.82%
National Australia Bank (NAB)	7.98%	9.22%	9.49%
Computershare (CPU)	3.89%	3.08%	2.91%
Ramsay Health Care (RHC)	4.86%	3.83%	3.88%

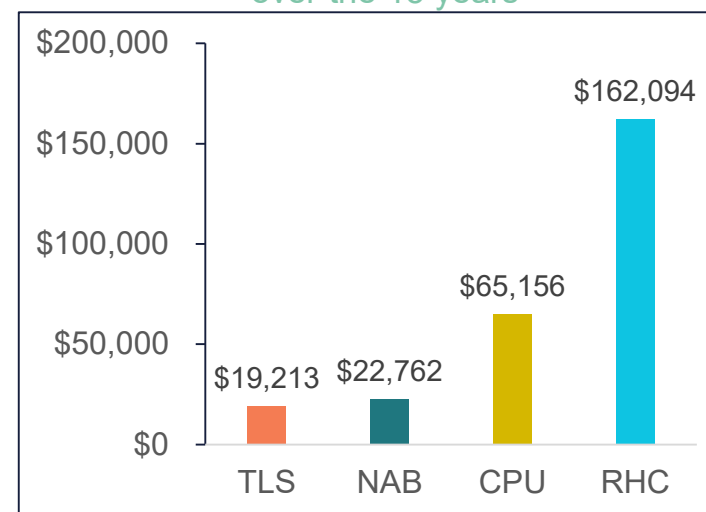
Typical 'Income' Stocks

Typical 'Growth' Stocks

Dividends and franking income received over the 15 years



Total wealth (income + end stock value) generated over the 15 years



Outcome for \$10,000 invested in June 2004:

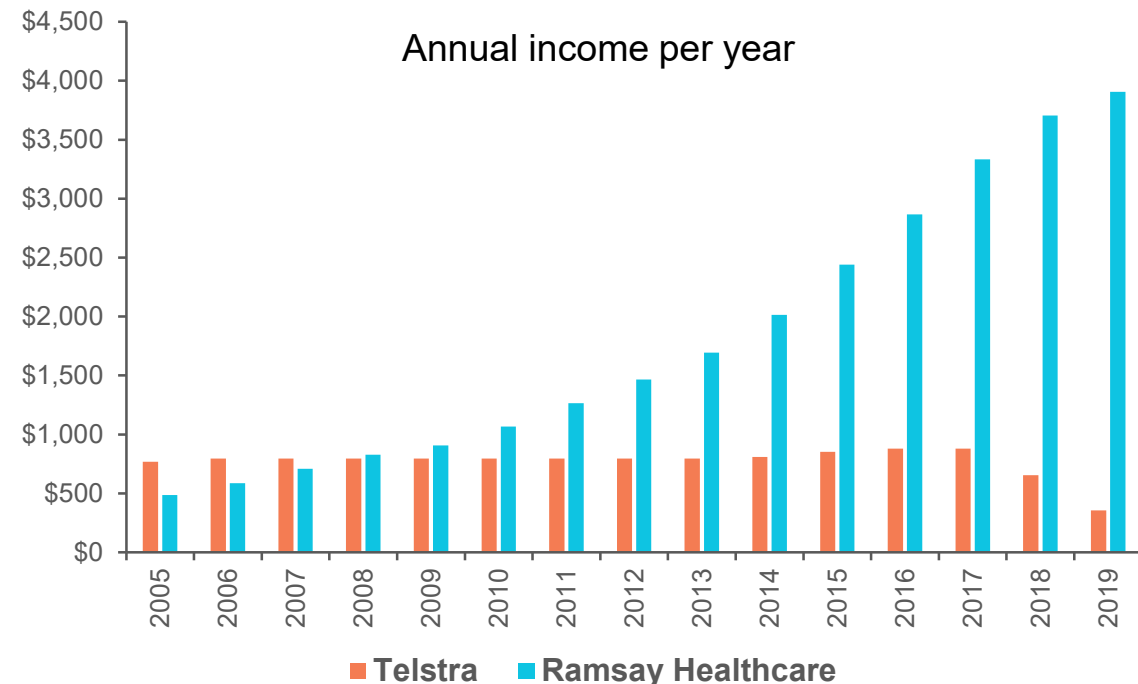
Sources: First Sentier Investors, Factset, IRESS. Total income and capital over 15 years calculated assuming \$10,000 is invested in June 2004. Any fund or stock mentioned in this presentation does not constitute any offer or inducement to enter into any investment activity

# Look beyond dividend yields for better income and total returns

Consider income and growth from \$10,000 invested over 15 years

Top 15 highest yield names...

Stock	Industry	Average yield rank	Actual income generated rank	Actual total wealth rank
Tabcorp	Cons Discretionary	1	<b>22</b>	51
Wesfarmers	Consumer Staple	2	<b>15</b>	37
National Australia Bank	Financials	3	<b>33</b>	53
Telstra	Telecommunication	4	<b>39</b>	60
Westpac Bank	Financials	5	<b>17</b>	41
Bendigo & Adelaide Bank	Financials	6	<b>31</b>	50
Bank of Queensland	Financials	7	<b>28</b>	52
ANZ Bank	Financials	8	<b>24</b>	43
Commonwealth Bank	Financials	9	<b>13</b>	26
Sydney Airport	Industrials	10	<b>9</b>	14
Suncorp Group	Financials	11	<b>41</b>	57
APA Group	Utilities	12	<b>12</b>	18
IAG	Financials	13	<b>42</b>	46
AMP	Financials	14	<b>48</b>	64
ASX	Financials	15	<b>10</b>	13



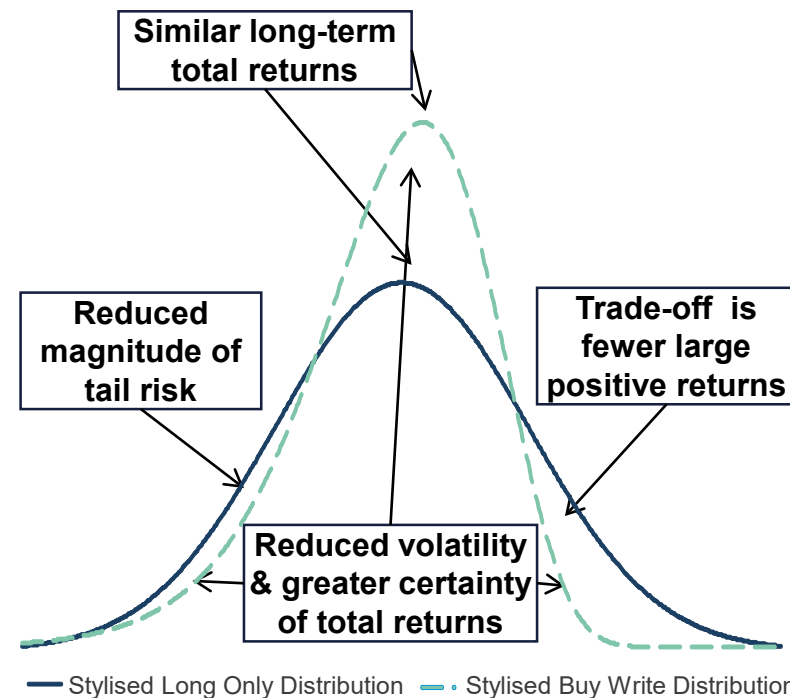
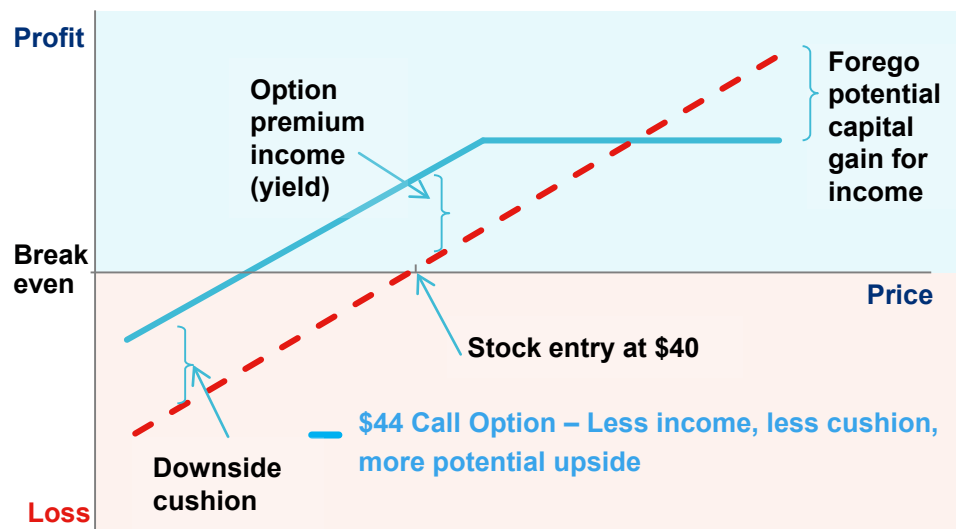
- Higher dividend yields do not ensure higher income over time
- Strong total returns drive attractive income from equities over time

Sources: First Sentier Investors, Factset, IRESS. 65 stocks from the current S&P/ASX100 have the required 15 year price and dividend history  
 Forecast yield data calculated from the following year's total dividend divided by the start of year stock price. Total income and capital over 15 years calculated assuming \$10,000 is invested in June 2004. Any fund or stock mentioned in this presentation does not constitute any offer or inducement to enter into any investment activity.

# The role of defensive equities in retirement income portfolios



## Buy write strategy – A compensation concept



## Retirement income portfolios - Connecting to your clients' needs



Seek complimentary fit in portfolios - diversify how you generate higher income and lower volatility



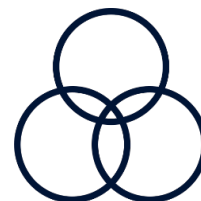
Focus on increasing certainty in meeting client objectives (narrow the range of outcomes)



Think about timeframes – ensure short term needs addressed without compromise to the long term objectives



Retain a long-term perspective to income and return needs



Future-proofing requires through-the-cycle 'solution' not merely a 'style tilt' to high yield shares



Seek additional layers of risk management beyond asset allocation for your 'loss averse' client's portfolios

## Disclaimer

This material has been prepared and issued by Colonial First State Asset Management (Australia) Limited (ABN 89 114 194 311, AFSL 289017) (**Author**). The Author forms part of First Sentier Investors, a global asset management business. First Sentier Investors is ultimately owned by Mitsubishi UFJ Financial Group, Inc (**MUFG**), a global financial group.

This material contains general information only. It is not intended to provide you with financial product advice and does not take into account your objectives, financial situation or needs. Before making an investment decision you should consider, with a financial advisor, whether this information is appropriate in light of your investment needs, objectives and financial situation. Any opinions expressed in this material are the opinions of the Author only and are subject to change without notice. Such opinions are not a recommendation to hold, purchase or sell a particular financial product and may not include all of the information needed to make an investment decision in relation to such a financial product.

To the extent permitted by law, no liability is accepted by MUFG, the Author nor their affiliates for any loss or damage as a result of any reliance on this material. This material contains, or is based upon, information that the Author believes to be accurate and reliable, however neither the Author, MUFG, nor their respective affiliates offer any warranty that it contains no factual errors. No part of this material may be reproduced or transmitted in any form or by any means without the prior written consent of the Author.

In Australia, 'Colonial', 'CFS' and 'Colonial First State' are trade marks of Colonial Holding Company Limited and 'Colonial First State Investments' is a trade mark of the Bank and all of these trade marks are used by First Sentier Investors under licence.

Copyright © First Sentier Investors (Australia) Services Pty Ltd 2019

All rights reserved.