



Managing a global equity portfolio in a more volatile market

Rebecca Jacques
Mercer

Peter Harper
BetaShares

Charles Stodart
Zurich

IMAP Regulatory Group Update

- ASIC Platform and MDA Project
 - Coming soon
- Compensation Scheme of Last Resort
 - A \$500m pool?
 - That you are funding

Upcoming events

Adviser Roadshow – “Professionalisation – What it Means for Advice Businesses”

- 12th March - Brisbane
- 19th March - Sydney
- 1st April - Melbourne

“Professionalisation – What it Means for Advice Businesses

270 sleeps to the future

Paul Barrett, AZNGA

Have the bushfires changed the investing landscape as well? - What will clients expect Responsible Investing to mean?

Leah Willis Australian Ethical, Charles Stodart CFA Zurich and a local Advice Principal in each centre

ASIC – What we expect, what we’re doing

Rhys Bollen, Senior Executive Leader Investment Managers, ASIC

Why our business model will survive?

Bianca de Melo Macquarie and local advice principals in each centre

The real impact of managed accounts on an advice business

Martin Morris Praemium

How professional practices implement Managed Accounts

Chris Wrightson Ironbark, Tony Lynch Finclear

Lessons from another Profession

Andrew Bradley Partner Minters

Professional portfolio management - what do licensees need to have?

David Bassanese, Betashares, Lukasz de Pourbaix Lonsec, Shane Hawke Oreana



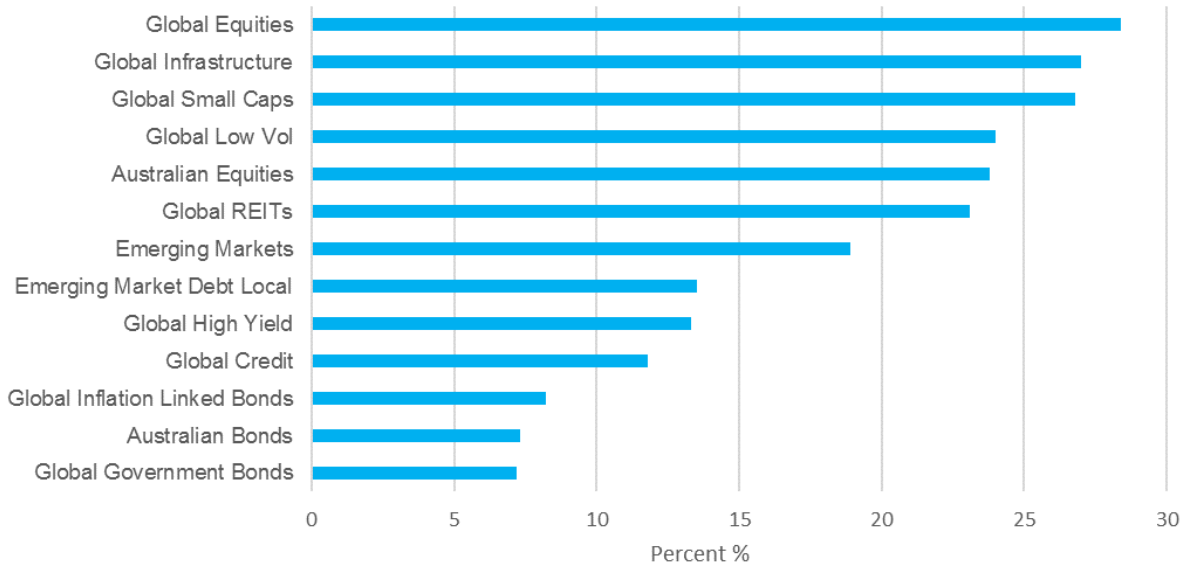
Managing a Global Equities Portfolio in a more Volatile Environment

Rebecca Jacques - Principal

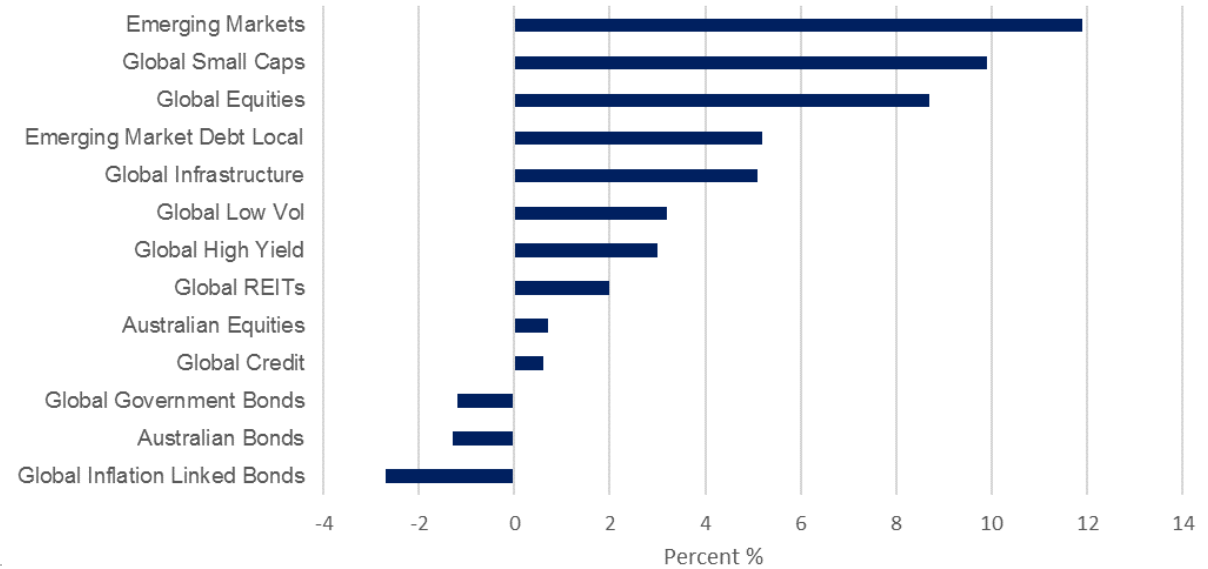
Global Equity Markets

Ending on a High

MAJOR ASSET CLASS PERFORMANCE (12 MTH, END DEC 19)



MAJOR ASSET CLASS PERFORMANCE (3MTH, END DEC 19)




Global Equity Markets

Fundamentals more encouraging, but valuations above 2018 highs



1.2 DAA DASHBOARD GLOBAL EQUITIES

Current DAA view  Position last time (if changed)

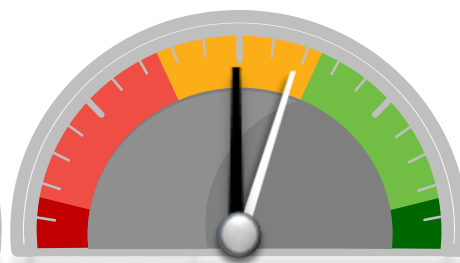
■ Unattractive (Extreme)
 ■ Unattractive
 ■ Neutral
 ■ Attractive
 ■ Attractive (Extreme)



DEVELOPED MARKET EQUITIES




GLOBAL LOW VOLATILITY EQUITIES



EMERGING MARKET EQUITIES




GLOBAL SMALL CAP EQUITIES

- 
 - Absolute valuations remain stretched driven by the US. Ex- the US, valuations are more attractive.
 - DM central banks retain an easing bias on policy rates.
 - Global inflation remains low and well within central bank targets.
- Sector is structurally attractive in a low growth and low interest rate environment.
 - Expected to outperform defensive bonds in an environment of modestly rising yields.
- Truce in trade provides support for recovery in Chinese growth which is beneficial for EM GDP.
 - EM currencies to also benefit during an economic recovery.
 - EM central banks to continue easing policy rates.
- Higher beta profile should benefit during recovery phase.
 - Valuations are attractive relative to broad cap equities.

- 
 - US/China strategic rivalry may result in further decoupling on trade and investment.
 - US valuations are elevated relative to EPS growth.
- Relative to the broader global index, valuations are stretched.
 - Crowded positioning. Vulnerable should investors rotate to value/cyclical sectors.
- Global decoupling likely to present vulnerabilities to established trade lines.
 - Stronger USD would be detrimental for EPS growth.
- Sensitive to domestic slowdown in US growth given the higher concentration.
 - Lower exposure in technology may represent a structural challenge.

1.2 DAA DASHBOARD CURRENCY

Current DAA view  Position last time (if changed)

■ Unattractive (Extreme)
 ■ Unattractive
 ■ Neutral
 ■ Attractive
 ■ Attractive (Extreme)



AUSTRALIAN DOLLAR
VERSUS
US DOLLAR



AUSTRALIAN DOLLAR
VERSUS
EURO (EUR)



AUSTRALIAN DOLLAR
VERSUS
JAPANESE YEN (JPY)



- On a PPP basis, AUD at 'fair value'.
- Chinese fiscal activity continues to support iron ore prices and bulk commodities.
- Balance of payments factors to provide less of a headwind.

- European growth remains soft as industrial production still in deep negative.
- ECB cut the refinancing rate further into negative territory in September and recommenced open ended purchases .

- Japanese growth has come under pressure from the recent VAT increase.
- QE in Japan likely to continue in foreseeable future.



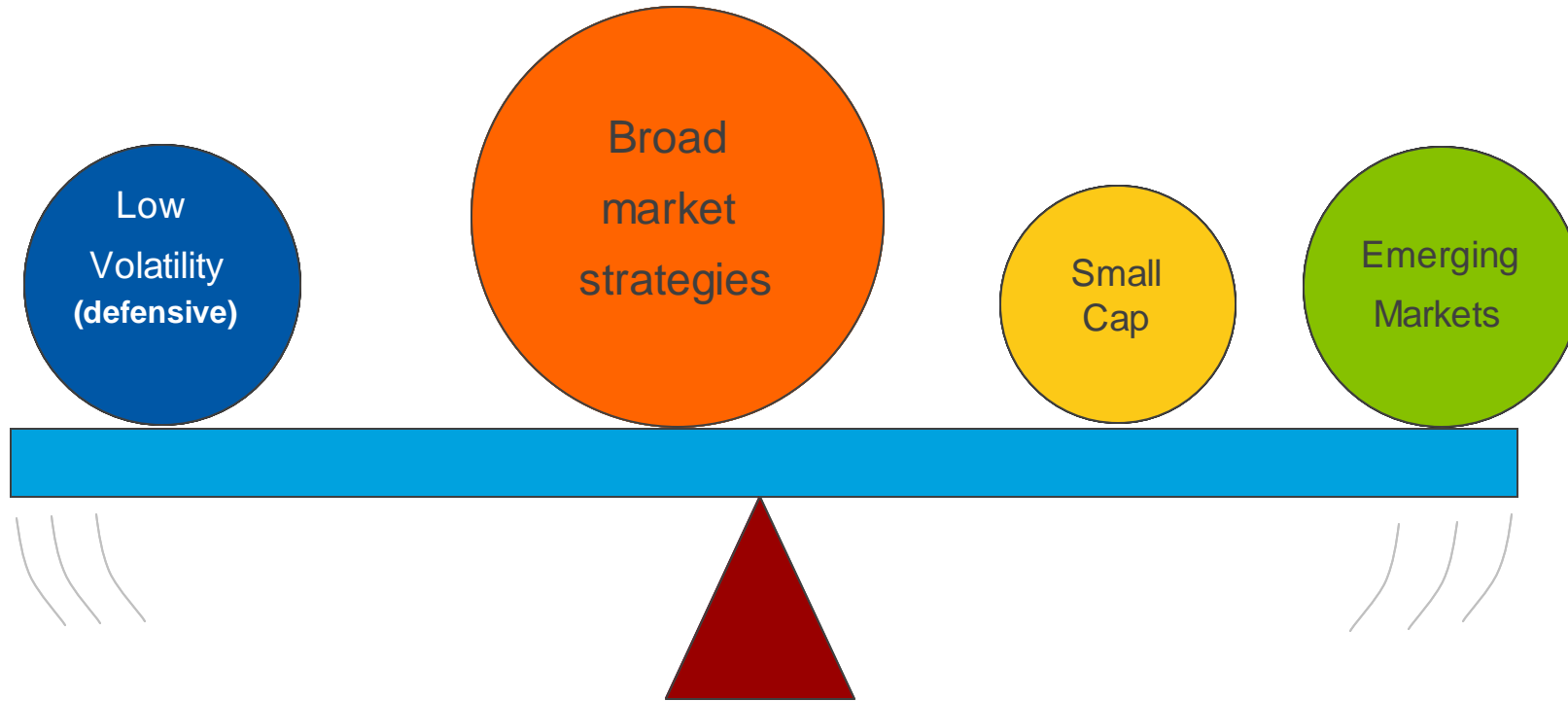
- Short-term yields favor the USD on stronger carry.
- Domestic growth weakness may drive the RBA to consider QE which would weaken the currency.

- Australian dollar still significantly overvalued on a PPP basis.
- RBA expected to continue easing policy which may cap upside on the AUD.

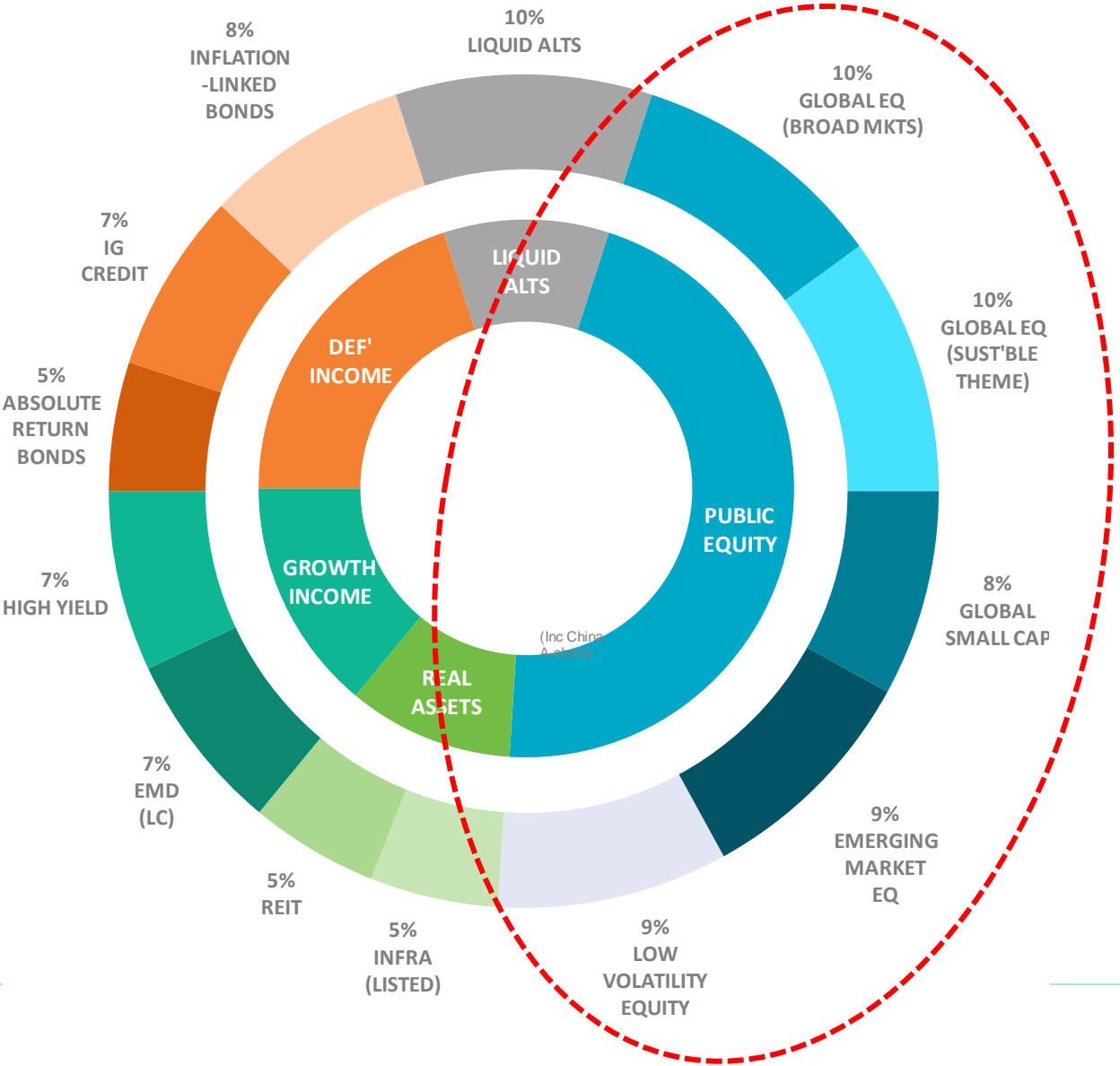
- AUD still looks expensive relative to JPY on PPP basis.

Building a Global Equity Portfolio Allocation

Creating a more robust equity allocation



BUILDING OUT AN INTERNATIONAL EQUITY EXPOSURE



Global Equity Portfolio

Client objectives are at the centre of **everything** we do

Equity portfolios are made more robust in a number of ways

- Investing across a broad range of exposures – broad market exposure, sustainability themed strategies, global small cap, emerging markets, and low volatility equity strategies
- The allocation across these areas is tilted to reflect the overall risk/return characteristics, eg low volatility equity is a higher proportion of the equity portfolio in each of the Balanced and Capital Preservation portfolios.
- In certain portfolios, where it does not result in excessive risk concentration, a slight bias to emerging markets is incorporated to reflect the positive strategic outlook.

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BetaShares

Exchange Traded Funds

Managing a global equity portfolio in a more volatile market February 2020

Peter Harper - Head of Capital Markets





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Managing a global equity portfolio in more volatile markets



- ▶ Diversification at a security and asset allocation level is the key to managing risk and volatility in a portfolio
- ▶ When it comes to a single asset class of global equities, the benefit of a diversified exposure in reducing risk and volatility is a given.
- ▶ Focusing intra-asset class and going beyond diversification on its own, we put forward 3 investment ideas which have historically outperformed in more volatile equity markets. They can be broadly defined as:
 - 1. Focusing on Quality Businesses**
 - 2. Focusing on Sustainable Yield**
 - 3. Incorporating Professional Risk Management**
- ▶ Ultimately, the investor's tolerance for risk and need for income and capital appreciation should dictate which investment strategy is more suited



Quality international stocks

- ▶ Since the timing of the next bear market is unknown, one may wish to remain fully invested whilst seeking certain portfolio attributes
- ▶ “Quality” companies generally have the following attributes:
 1. Higher Profitability / Higher ROE
 2. More stable earnings over a period of time
 3. Lower financial leverage
 4. Higher quality of earnings (cash vs accruals)
- ▶ These are desirable attributes during bear market conditions
- ▶ During January 2019, when US Equity ETF outflows totalled \$18.21bn, Quality Factor Equity ETFs had inflows of \$2.11bn

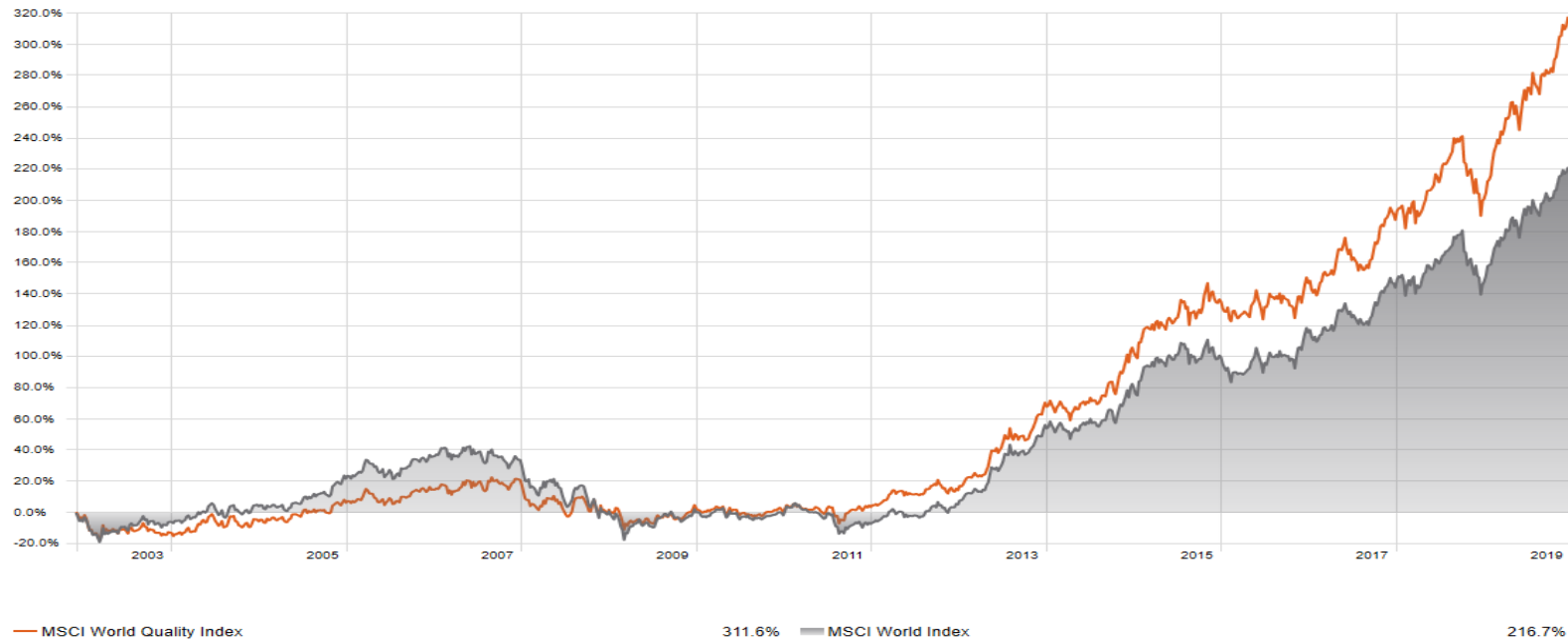


Quality international stocks

MSCI World Quality Index v MSCI World Index (December 2002 – December 2019)

Time Period: 1/12/2002 to 31/12/2019

Source Data: Total Return



	MSCI World Quality Index	MSCI World Index
Annualised return (AUD)	8.63%	6.98%
Annualised volatility	10.85%	11.11%

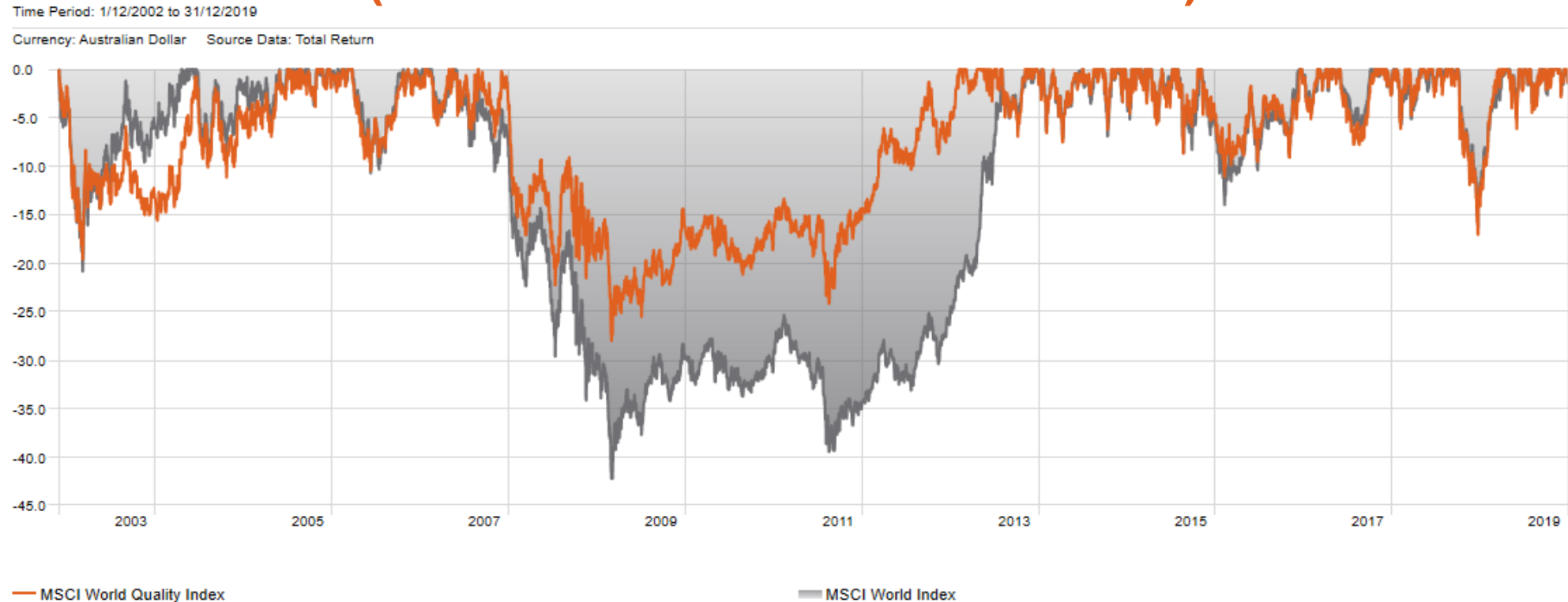
Source: Morningstar, BetaShares

Past performance is not indicative of future performance.



Quality international stocks

MSCI World Quality Index v MSCI World Index (December 2002 – December 2019)



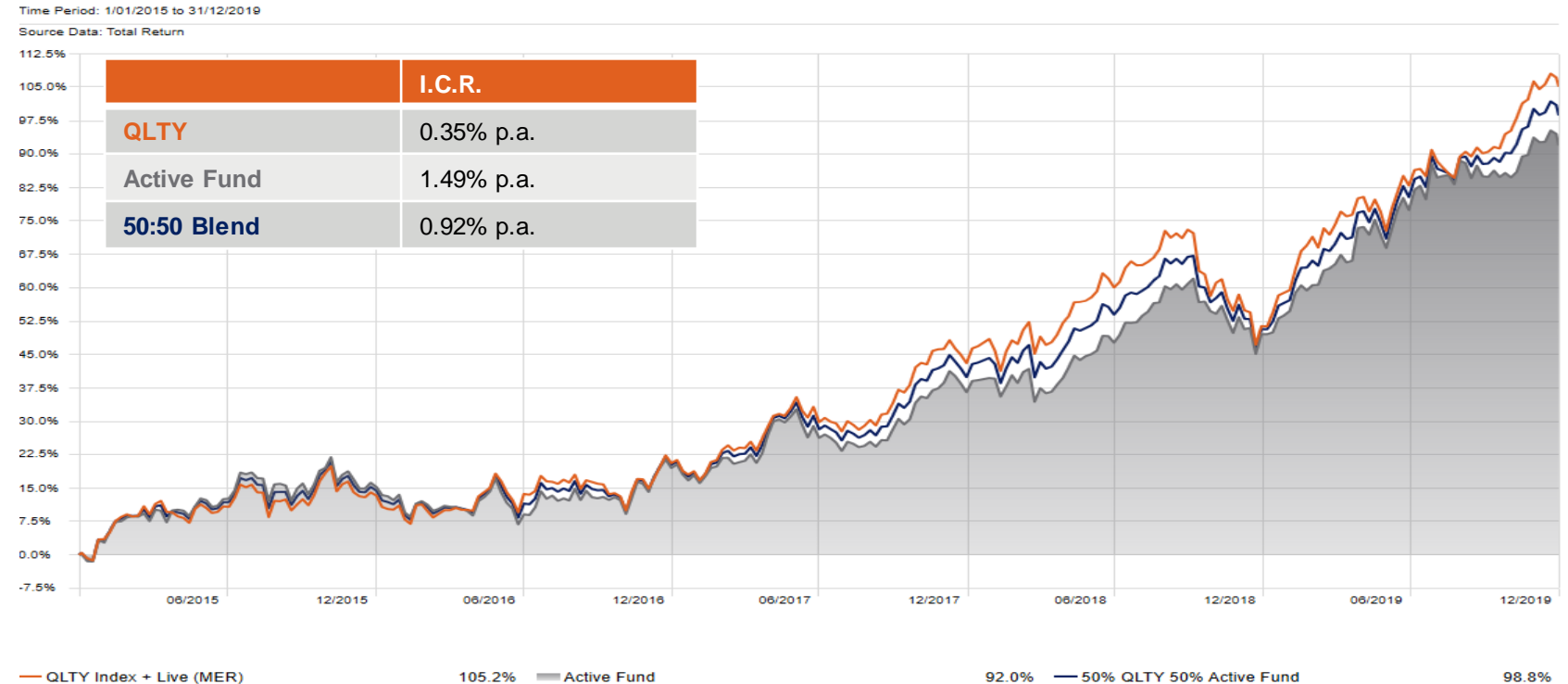
Source: Morningstar, BetaShares

Past performance is not indicative of future performance.



QLTY v Active

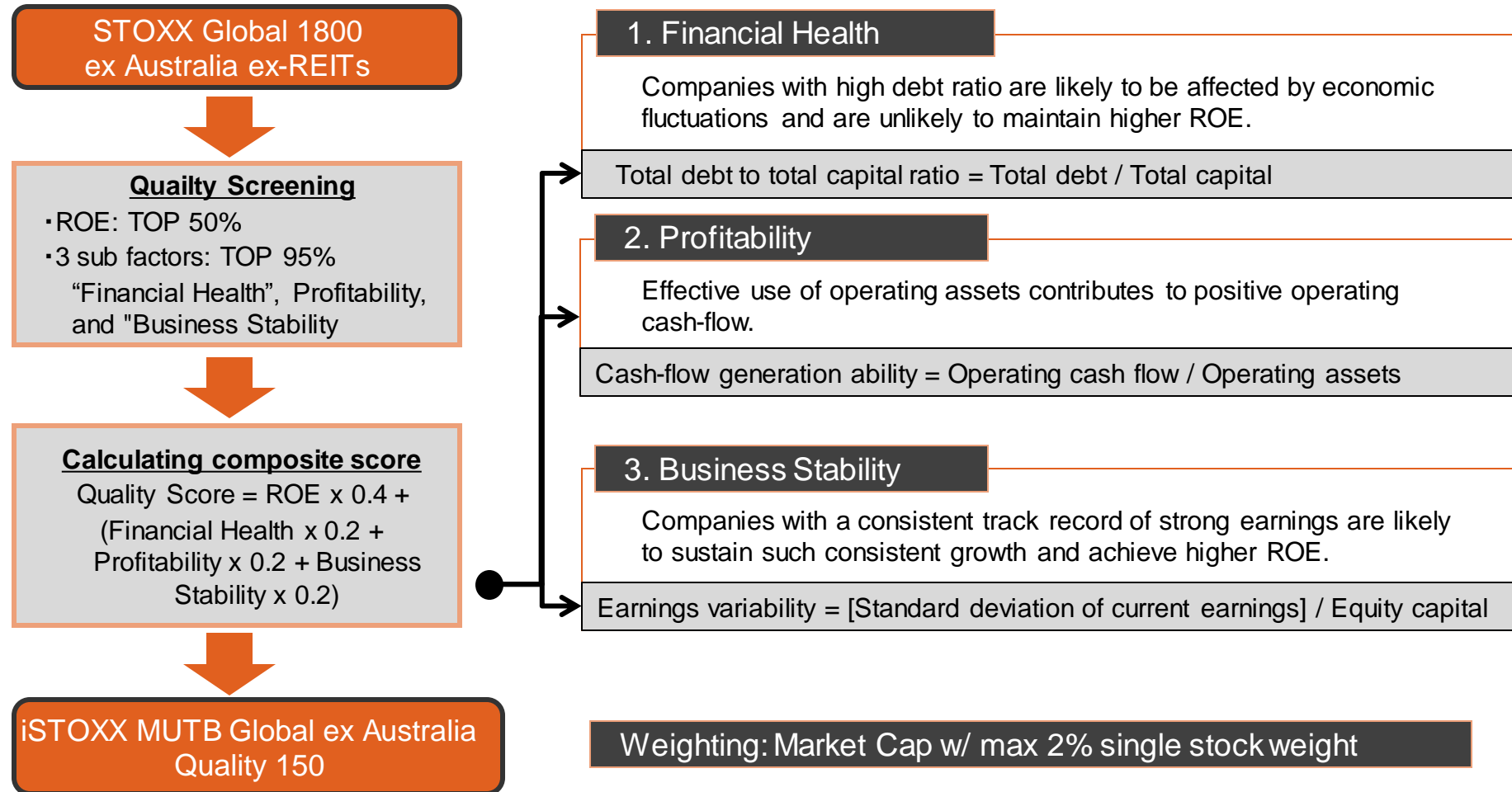
- ▶ **Screens using many of the same filters active managers apply –**
ROE, financial health, profitability and business stability
- ▶ **Versus leading global equities fund –**
15.46% p.a. v 13.94% p.a. at 0.92 correlation (1/2015 to 12/2019)



Source: Morningstar, BetaShares. Graphs show performance of iStoxx MUTB Global Ex-Australia Quality Leaders Index after the deduction of QLTY's management fee. You cannot invest directly in an index. Past performance is not an indicator of future performance of Index or ETF. 50:50 Blend is rebalanced annually as at calendar year end and does not take into account transaction costs.



QLTY – Index Methodology





BetaShares Global Quality Leaders ETF

ASX: QLTY

Product Name: BetaShares Global Quality Leaders ETF

Investment Objective The Fund seeks to provide investors with exposure to a diversified portfolio of quality global companies (ex-Australia), with high profitability, low leverage and sustainable cash flows.

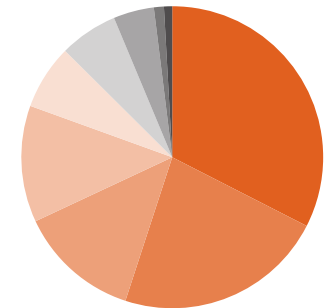
Key Information

ASX Code	QLTY
Bloomberg Code	QLTY AU
IRESS Code	QLTY.AXW
# of holdings	150*
Asset backing	Equities
Management Fee	0.29% p.a.
Expense recoveries	0.06% p.a. max
Inception Date	November 2018

Top 10 Exposures As at 31 December 2019

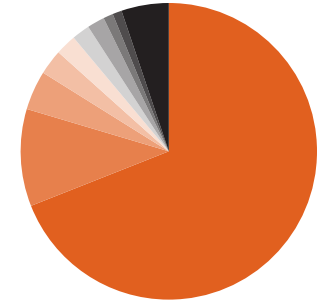
Company	Weighting
Apple Inc	2.1%
Adobe Inc	2.1%
Roche Holding AG	2.1%
NVIDIA Corp	2.1%
Cisco Systems Inc	2.1%
3M Co	2.0%
Intel Corp	2.0%
Facebook Inc	2.0%
NIKE Inc	2.0%
UnitedHealth Group Inc	2.0%

Sector Allocation (%) As at 31 December 2019



- Information Technology 32.5
- Healthcare 22.5
- Industrials 13.0
- Consumer Discretionary 12.5
- Financials 6.9
- Communication Services 6.3
- Consumer Staples 4.4
- Real Estate 1.1
- Materials 0.9

Country Allocation (%) As at 31 December 2019



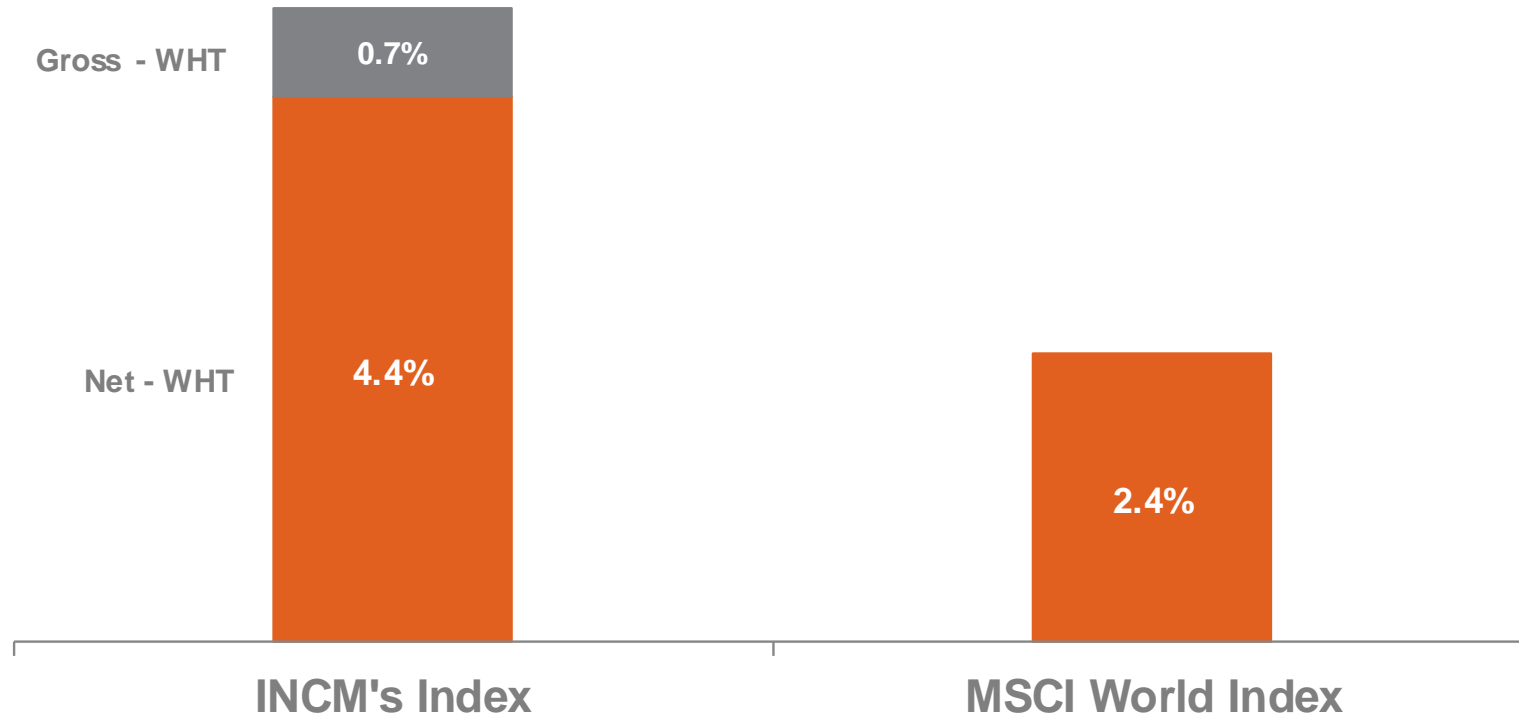
- United States 69.0
- Japan 10.6
- Switzerland 4.3
- France 2.7
- Denmark 2.3
- Spain 2.0
- Britain 1.9
- Hong Kong 1.1
- Finland 1.0
- Other 5.2

*Between index rebalance dates the index components may differ from 150 due to corporate events.



Global equities with sustainable yield

Yield: INCM's Index v MSCI World Index: 31 December 2019



Graphs show yield of Nasdaq Global Income Leaders Index v MSCI World, not ETF performance and do not take into account ETF management costs. You cannot invest directly in an index. Past performance is not an indicator of future performance of Index or ETF.



Global equities with sustainable yield

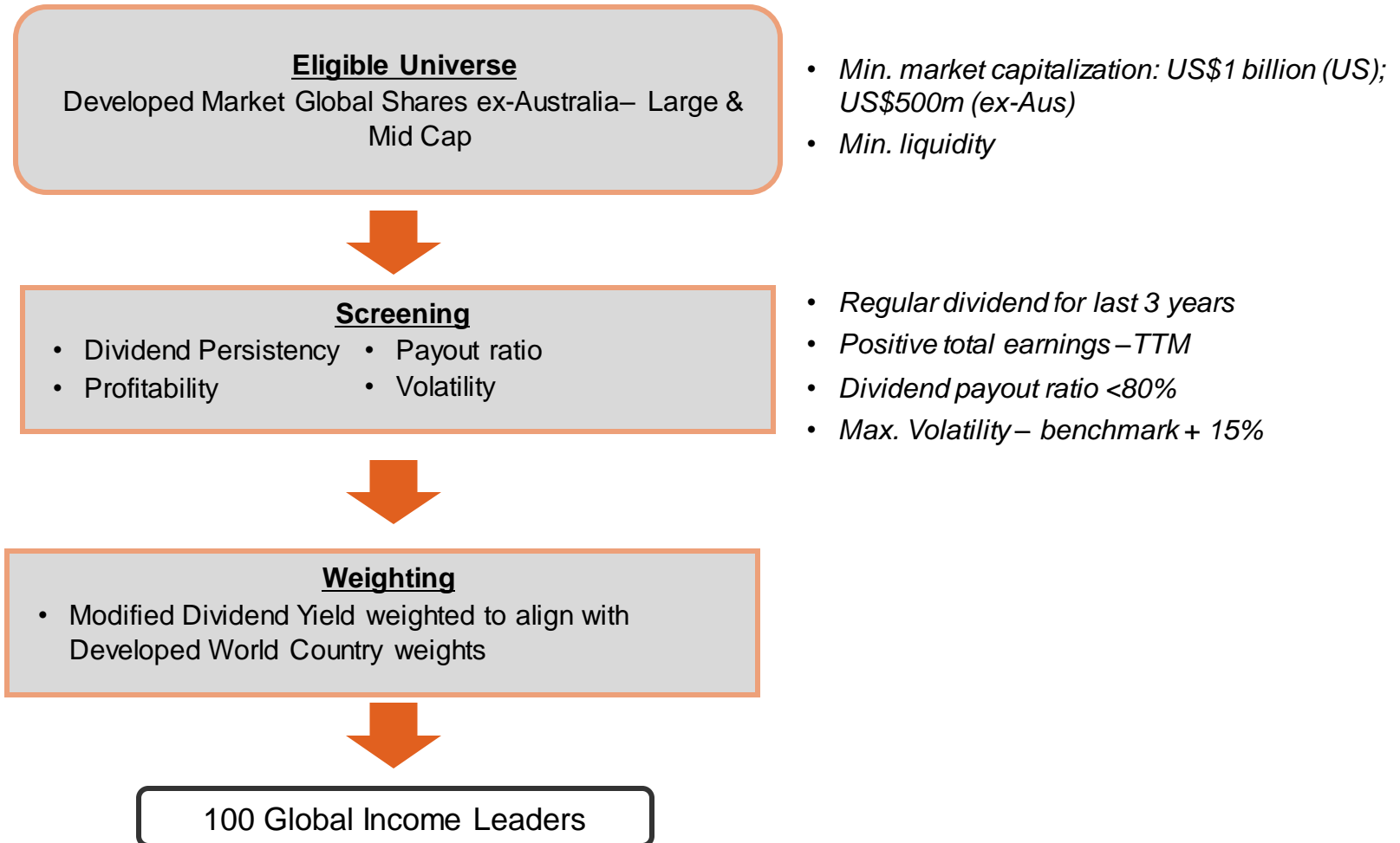
INCM's Index v MSCI World Index (AUD): March 2007 – 31 December 2019



Graphs show performance of Nasdaq Global Income Leaders Index v MSCI World Index, not ETF performance and do not take into account ETF management costs. You cannot invest directly in an index. Past performance is not an indicator of future performance of Index or ETF.



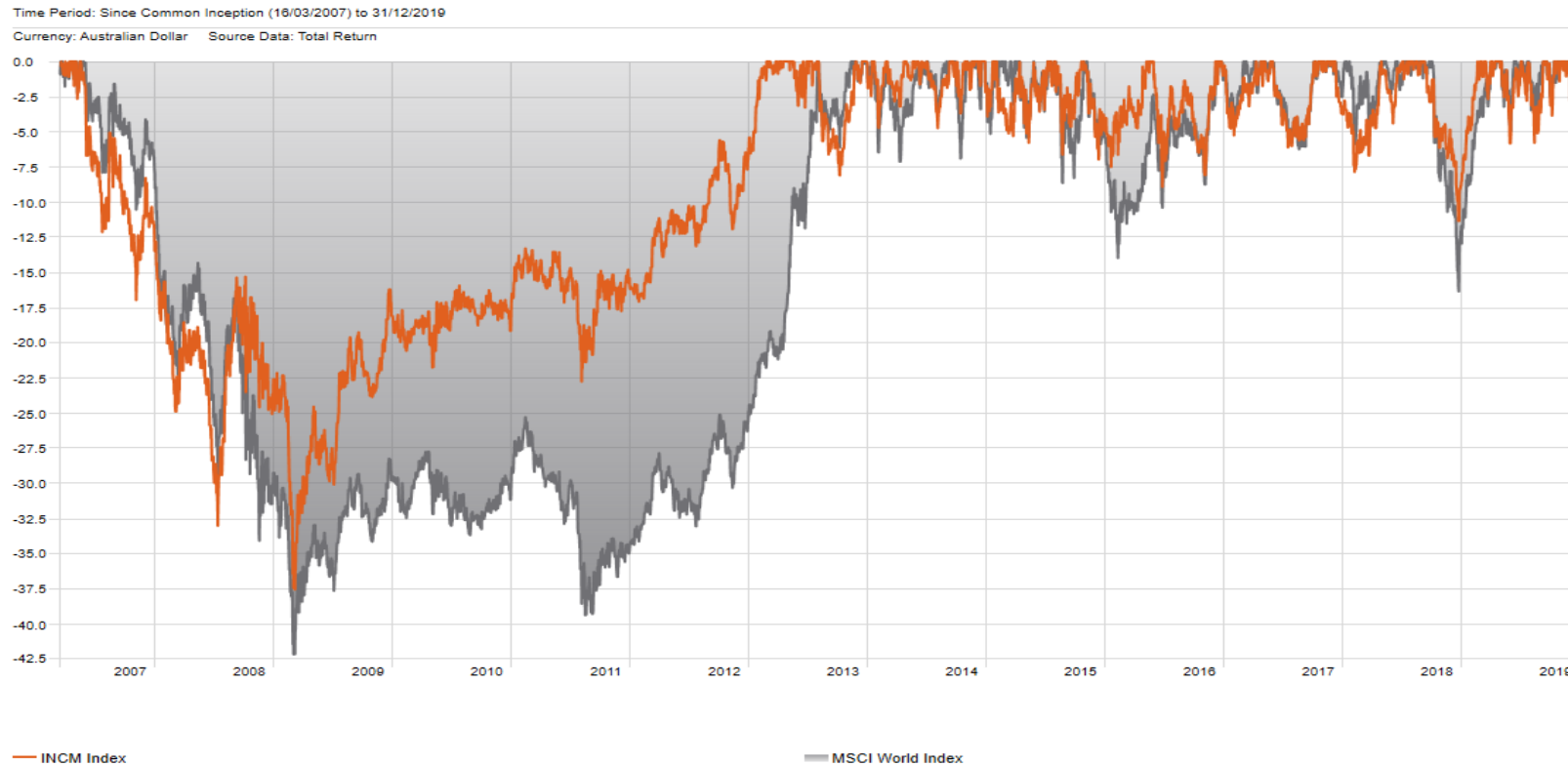
Global equities with sustainable yield





Global equities with sustainable yield

INCM Index v MSCI World Index: March 2007 – December 2019



Source: Morningstar, BetaShares. Past performance is not indicative of future performance



BetaShares Global Income Leaders ETF

ASX: INCM

Product Name: BetaShares Global Income Leaders ETF

Investment Objective The Fund seeks to provide investors with exposure to a diversified portfolio of global shares along with attractive, regular income. The Fund aims to track the performance of an index (before fees and expenses) that comprises 100 high-yielding global companies (ex-Australia) screened for dividend persistency.

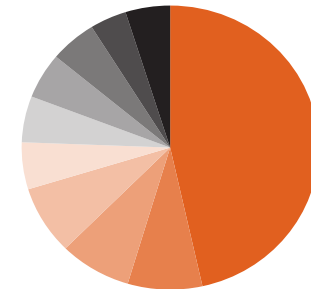
Key Information

ASX Code	INCM
Bloomberg Code	INCM AU
IRESS Code	ICNM.AXW
# of holdings	99*
Asset backing	Equities
Management Fee	0.39% p.a.
Expense recoveries	0.06% p.a. max
Inception Date	18 October 2018

Top 10 Exposures As at 31 December 2019

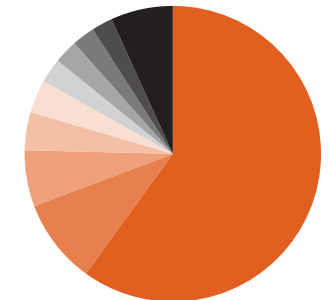
Company	Weighting
Chimera Investment Corp	2.9%
AbbVie Inc	2.2%
Altria Group Inc	1.9%
AT&T Inc	1.8%
PPL Corp	1.7%
Power Financial Corp	1.6%
PacWest Bancorp	1.6%
Ford Motor Co	1.6%
Invesco Ltd	1.5%
Aozora Bank Ltd	1.5%

Sector Allocation (%) As at 31 December 2019



- Financials 46.5
- Utilities 8.1
- Consumer Discretionary 7.8
- Healthcare 7.8
- Consumer Staples 5.3
- Energy 5.3
- Communication Services 5.2
- Real Estate 5.1
- Materials 4.0
- Other 4.9

Country Allocation (%) As at 31 December 2019



- United States 60.0
- Canada 9.3
- Britain 6.1
- Japan 4.2
- France 3.6
- Netherlands 2.7
- Spain 2.6
- Singapore 2.5
- South Korea 2.3
- Other 6.8

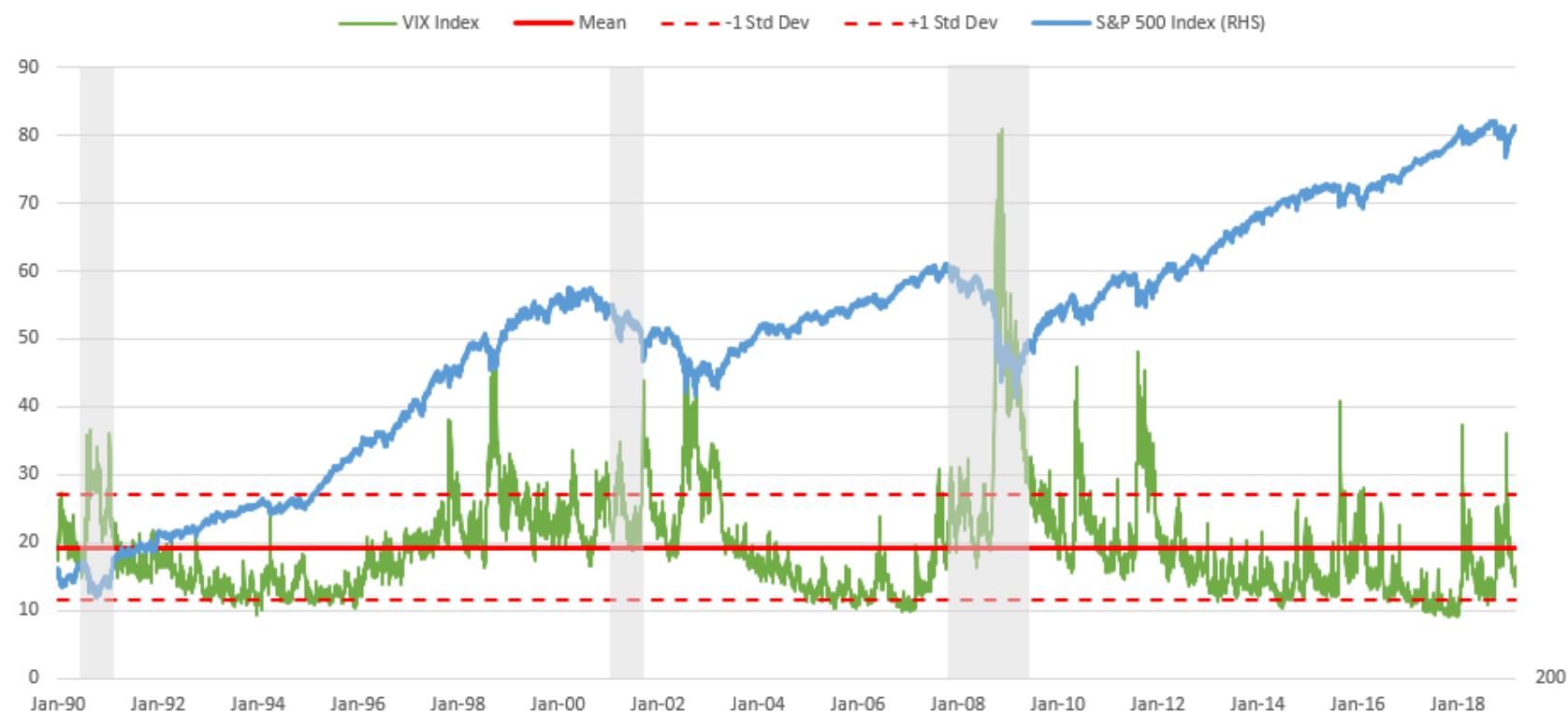
*Between index rebalance dates the index components may differ from 100 due to corporate events.

Managing risk with professional risk management overlays



- ▶ Since the timing of the next bear market is unknown, one may wish to remain invested whilst seeking to manage the associated risk (price volatility and downside protection)

Equity market and volatility



Equity markets tend to fall sharply during periods of high volatility and rise slowly during periods of low volatility

Source: Morningstar, BetaShares. Past performance is not indicative of future performance

Managing risk with professional risk management overlays



MSCI World Index (AUD) v MSCI World Index (AUD) + Milliman Managed Risk Strategy (Simulated) 1 Jan 2000 – 30 Nov 2015 (Indexed to 100)



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Chart compares MSCI World Index (in AUD) with and without the “Milliman Managed Risk Strategy”. Excludes the effects of management costs, transaction costs and cash held for futures margins. Simulated performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading, are based on certain assumptions, and are produced with the benefit of hindsight. Also, since the trades have not actually been executed, the results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. No representation is being made that the WRLD Fund will achieve results similar to those shown. Past performance, simulated or actual, is not an indication of future performance. Source: BetaShares, Milliman, Bloomberg

Managing risk with professional risk management overlays



MSCI World v MSCI World + Milliman Managed Risk Strategy (Simulated) 1 Jan 2000 – 31 December 2019



Adviser use only. Not for distribution to retail clients. Chart compares MSCI World Index with and without the “Milliman Managed Risk Strategy. Fund inception date is 16 December 2015. Live data used from fund inception date to 28 February 2019. Excludes the effects of management costs, transaction costs and cash held for futures margins. Simulated performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading, are based on certain assumptions, and are produced with the benefit of hindsight. Also, since the trades have not actually been executed, the results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. No representation is being made that the WRLD Fund will achieve results similar to those shown. Past performance, simulated or actual, is not an indication of future performance. Source: BetaShares, Milliman, Bloomberg

WRLD Risk Manager



Sample Clients



About Milliman

The risk management strategy employed by the WRLD Fund is being run in conjunction with Milliman, one of the largest institutional global risk managers in the world, assisting clients in managing risk on US\$210B worldwide

Milliman's risk management strategies have been used for the last 15 years by some of the largest firms and institutional investors in the world

Strategies used by Milliman helped their clients navigate the 'tech bubble' and global financial crisis

WRLD Fund provides investors access to such a strategy, which was previously primarily confined to large institutional investors

During market downturns, the risk management strategy seeks to curb potential portfolio losses while preserving principal and gains captured in favourable market conditions



BetaShares Managed Risk Global Share Fund

ASX: WRLD

Product Name: BetaShares Managed Risk Global Share Fund (managed fund)

Investment Objective The Fund aims to provide exposure to a broadly diversified portfolio of global shares listed on the stock exchanges of the world's major developed economies, while reducing the volatility of the equity investment returns and cushioning downside risk.

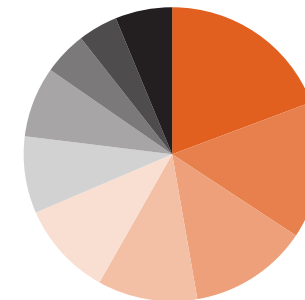
Key Information

ASX Code	WRLD
Bloomberg Code	WRLDAU
IRESS Code	WRLD.AXW
Asset backing	Equities
Management Fee	0.39% p.a.
Expense recoveries	capped at 0.15% p.a.
Inception Date	December 2015

Top 10 Index Constituents As at 31 December 2019

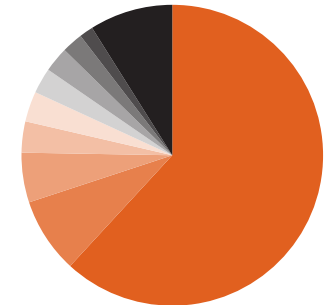
Company	Weighting
Apple Inc	3.0%
Microsoft Corp	2.9%
Amazon.com Inc	1.8%
Facebook Inc	1.2%
JPMorgan Chase & Co	1.0%
Berkshire Hathaway Inc	1.0%
Alphabet Inc (Class C)	1.0%
Alphabet Inc (Class A)	0.9%
Johnson & Johnson	0.9%
Visa Inc	0.8%

Sector Allocation (%) As at 31 December 2019



- Information Technology 19.2
- Financials 15.1
- Healthcare 13.0
- Consumer Discretionary 10.9
- Industrials 10.4
- Consumer Staples 8.4
- Communication Services 7.8
- Materials 4.8
- Energy 4.3
- Other 6.2

Country Allocation (%) As at 31 December 2019



- United States 61.8
- Japan 8.1
- United Kingdom 5.3
- France 3.3
- Switzerland 3.3
- Canada 2.7
- Germany 2.7
- Australia 2.3
- South Korea 1.5
- Other 8.9



BetaShares

Exchange Traded Funds



THANK YOU

Managing a global equity portfolio in a more volatile environment

Charles Stodart
February 2020





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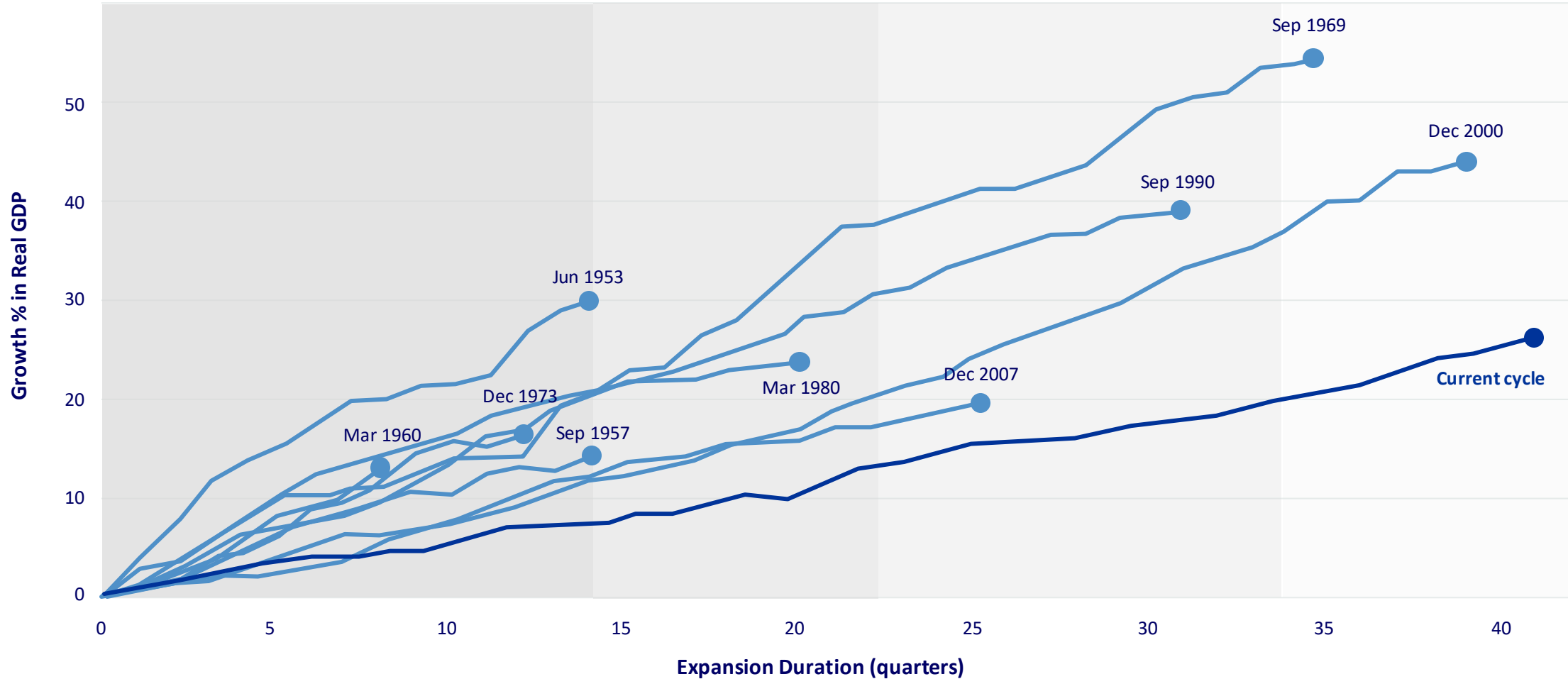
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The current US growth cycle: long and shallow

POSTWAR ECONOMIC EXPANSION

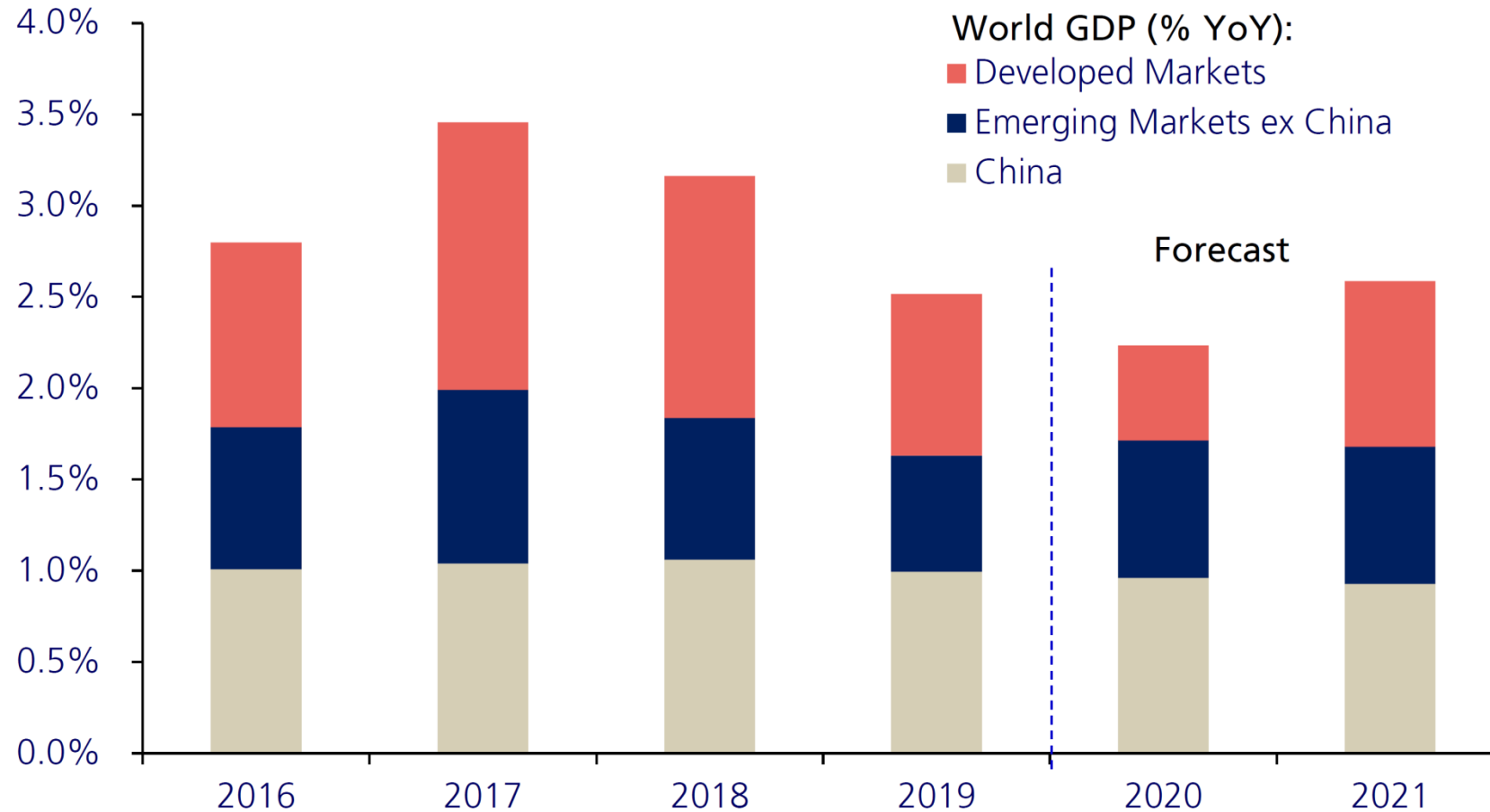
Duration VS Magnitude



Data from 31/12/1949 to 30/00/2019. Charting the gain in the U.S. GDP, Chained 2009 Prices, SAAR. Source: FactSet, U.S. Bureau of Economic Research.



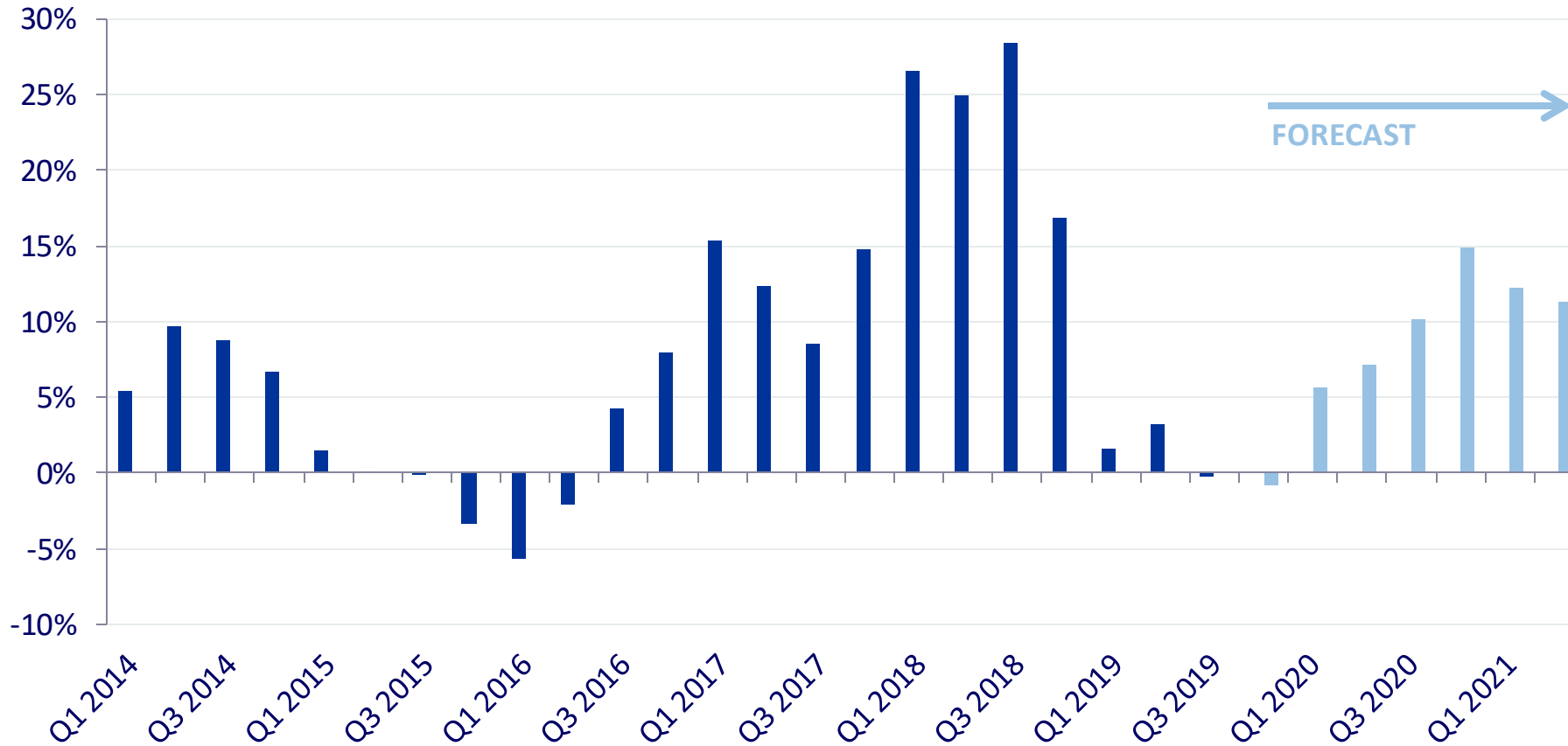
Global Growth: Not yet out of the woods





Risk of earnings recession?

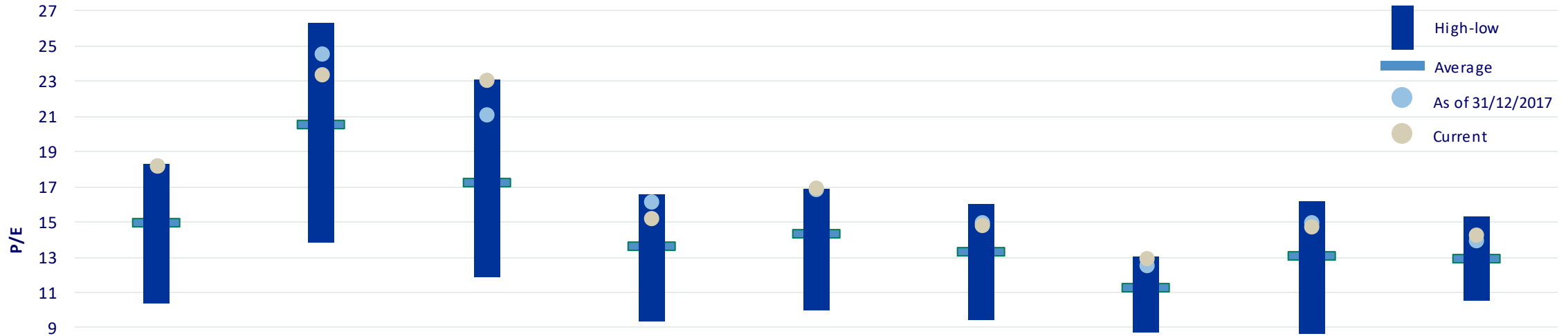
S&P 500 earnings per share growth (year-on-year)





Valuations at high end ranges

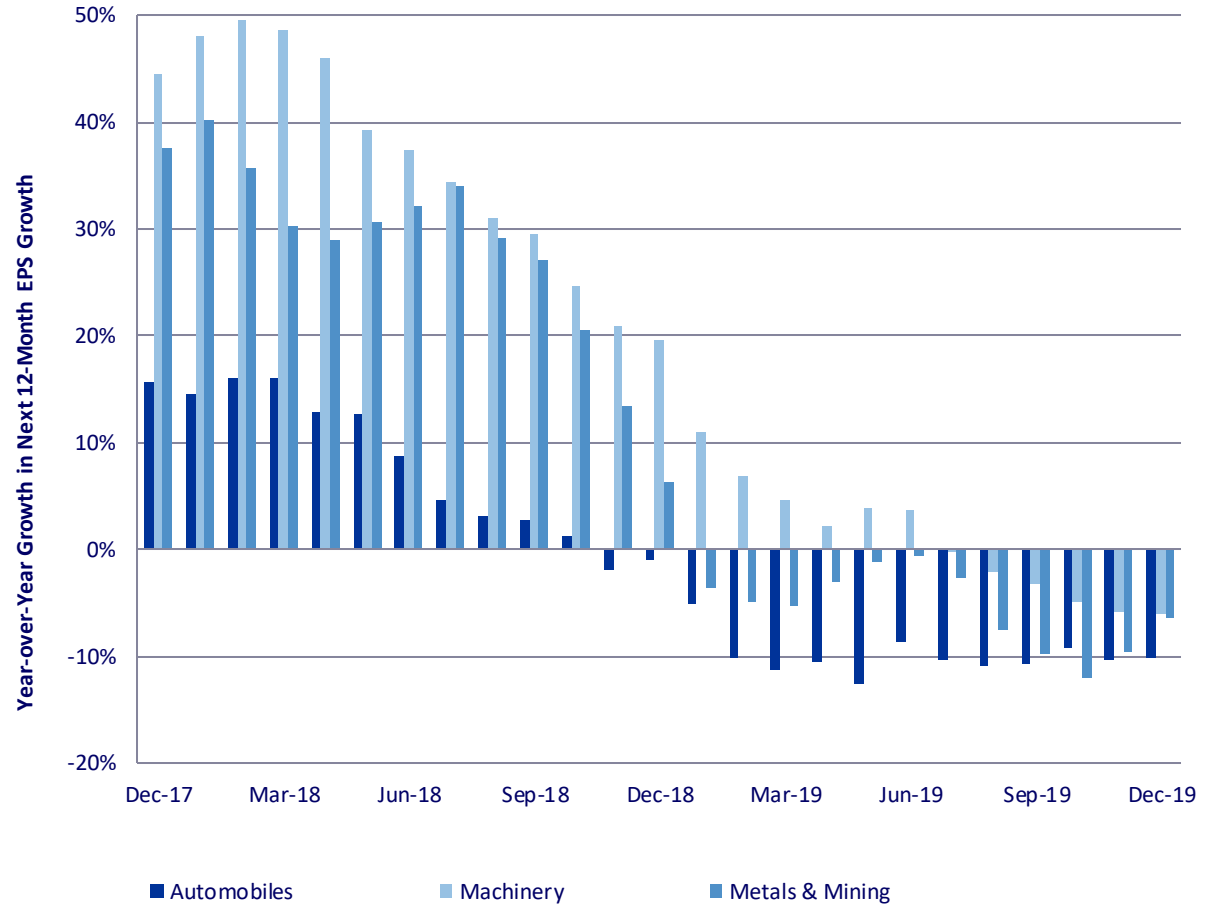
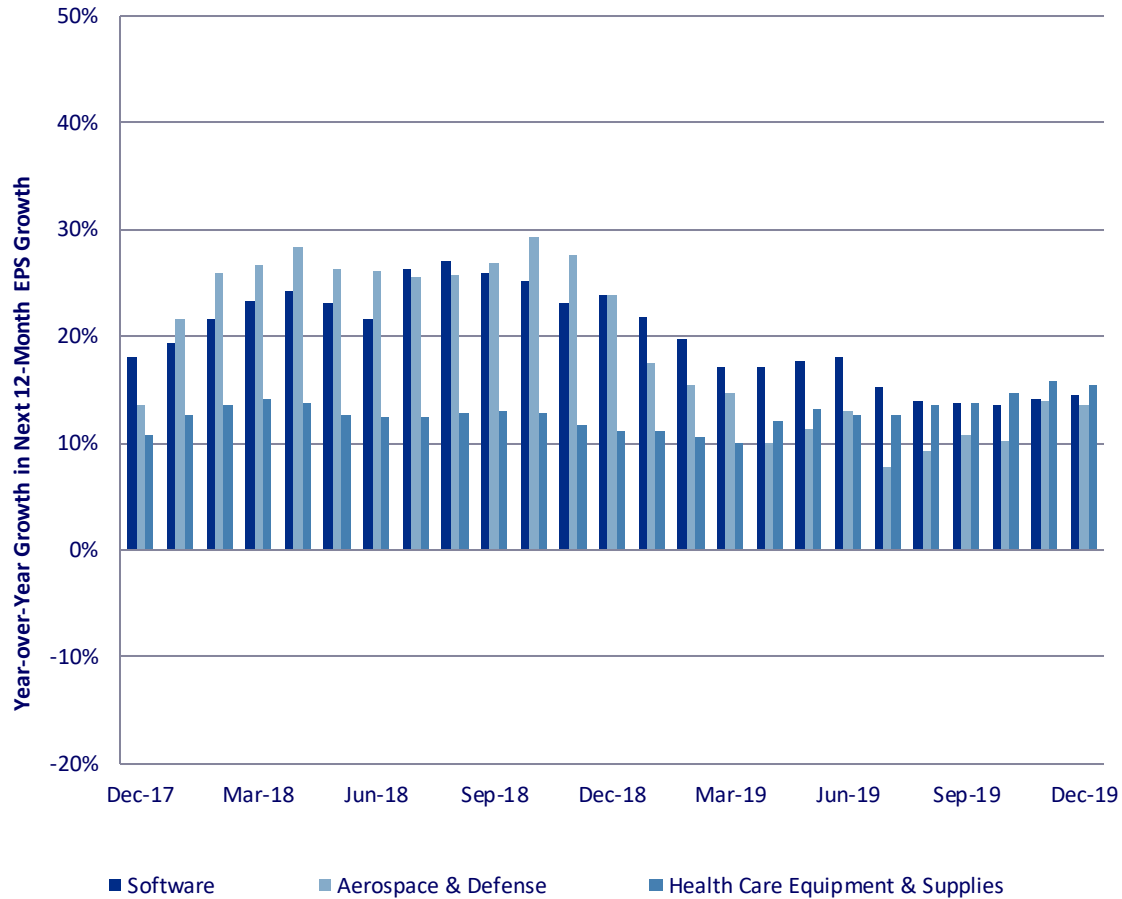
Current P/E vs. 10-year High, Low and Average by Region/ Style



	S&P 500	Russell 2000	Russell 1000 Growth	Russell 1000 Value	MSCI World	MSCI EAFE	MSCI Emg Mkts	MSCI Europe	MSCI AC Asia Pacific
High	18.3	26.3	23.1	16.6	16.9	16.0	13.0	16.2	15.3
Low	10.3	13.9	11.8	9.3	10.0	9.4	8.7	8.6	10.5
Average	14.9	20.5	17.2	13.6	14.3	13.2	11.2	13.0	12.9
As of 12/31/2017	18.1	24.6	21.1	16.2	16.8	15.0	12.5	14.9	14.0
Current	18.2	23.4	23.1	15.2	16.9	14.8	12.9	14.7	14.3



Diverging earnings trends



Source: FactSet data for Selected Industries; data from 29/12/2017 to 31/12/2019



Potential portfolio positioning

At this stage in the cycle, being selective may be important

- **Health Care:** medical devices, equipment, tools and production over traditional biotech and pharmaceutical names
- **Financials:** companies offering financial data and analytics to their customers. Emerging Market based banks may also be interesting
- **E-commerce** is driving diverging trends for retailers. Certain retailers may also offer very idiosyncratic growth drivers
- **IT:** focus on long-lasting secular trends, such as e-commerce, payments systems, cloud computing, rollout of 5G technologies, data centre expansion and growth in software innovation.

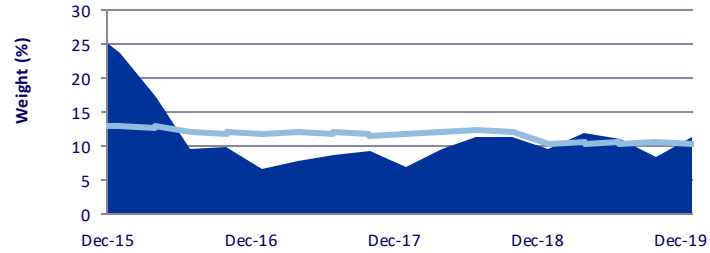


Diversifying across sectors

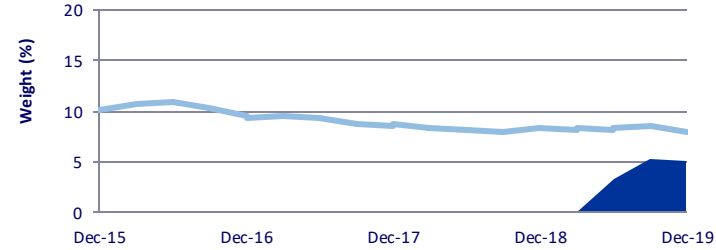
PORTFOLIO: GLOBAL CONCENTRATED GROWTH

PORTFOLIO ■
MSCI ACWI —

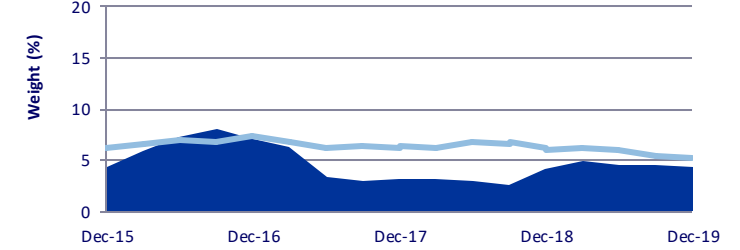
Consumer Discretionary



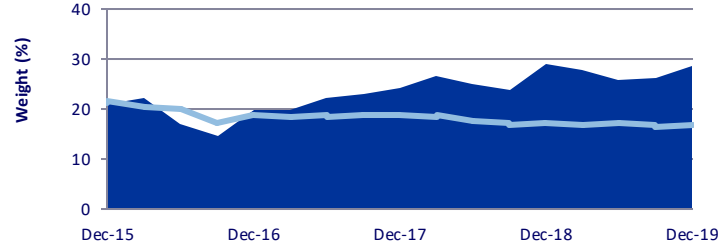
Consumer Staples



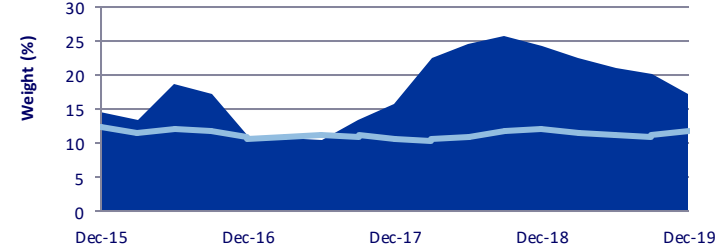
Energy



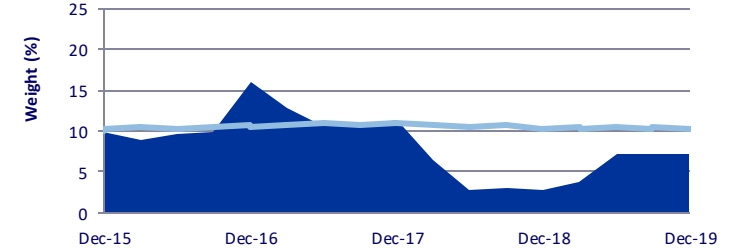
Financials



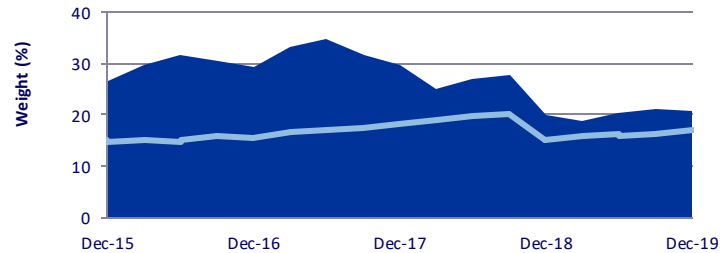
Health Care



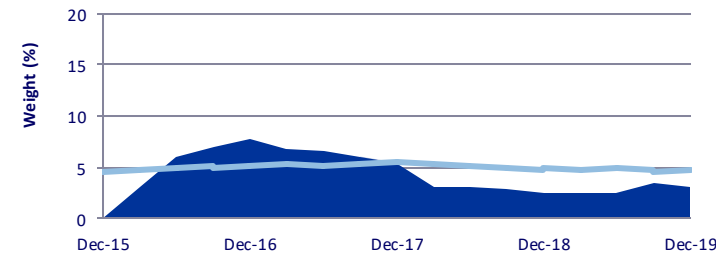
Industrials



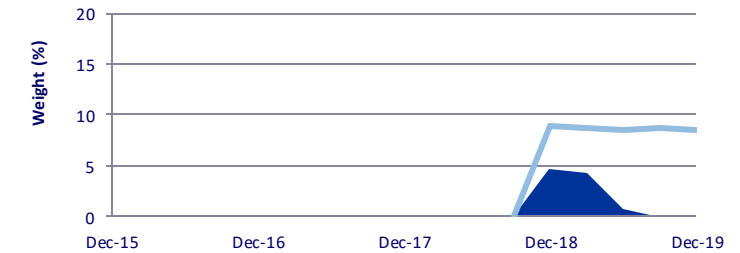
Information Technology



Materials



Communication Services



Source: FactSet. Data as of 31/12/2019. Due to updates to the Global Industry Classification Standard (GICS) effective October 2018, the telecommunications services sector has been renamed communications services and broadened to include companies that facilitate communication and offer related content. The new sector includes telecommunications companies and select companies previously classified as consumer discretionary or information technology.

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Thank you

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