

IMAP Specialist series: Zero Rates – what they mean for Managed Accounts

Session 1 – Defensive Assets – Can Traditional Goals Still be Met?

Al Clark, MLC

Chamath De Silva, BetaShares

Moderated by Michael Karagianis, JANA Investment Advisers

IMAP and COVID-19

Specialist Series – Zero Rates – what they mean for Managed Accounts

Session 2 – Wednesday 25th November – Fixed Interest Investing – Where to Now?

Moderator – Michael Karagianis, JANA

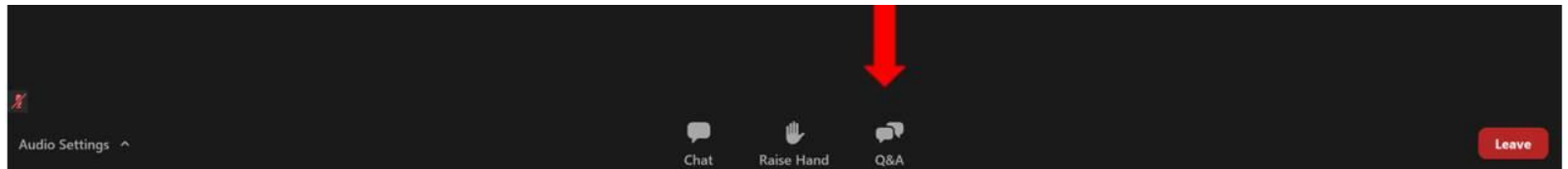
- Jesse Imer, Mason Stevens
- Michael Frearson, Real Asset Management

Session 3 – Friday 27th November – Defensive Portfolio Goals – Other Strategies

Moderator – Michael Karagianis, JANA

- Andrew Lowe, Challenger
- Nigel Crampton, Milliman
- Peter Tiffin, Ironbark

How to ask a Question





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Senior Consultant	Head of Investments	Portfolio Manager
JANA Investment Advisers	MLC Asset Management	BetaShares



ASSET MANAGEMENT



MLC Separately Managed Accounts

The role of a defensive allocation

Presented by Al Clark



BetaShares
Exchange Traded Funds



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Chamath De Silva
BetaShares Portfolio Manager



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Introduction to fixed income



Fixed income and “defensive assets” should be a bespoke solution



Fixed income exposures should be assessed on how well they serve the overall portfolio



The amount of equities and the type of equities held can make a big difference to the effectiveness of fixed income

The role of a defensive allocation



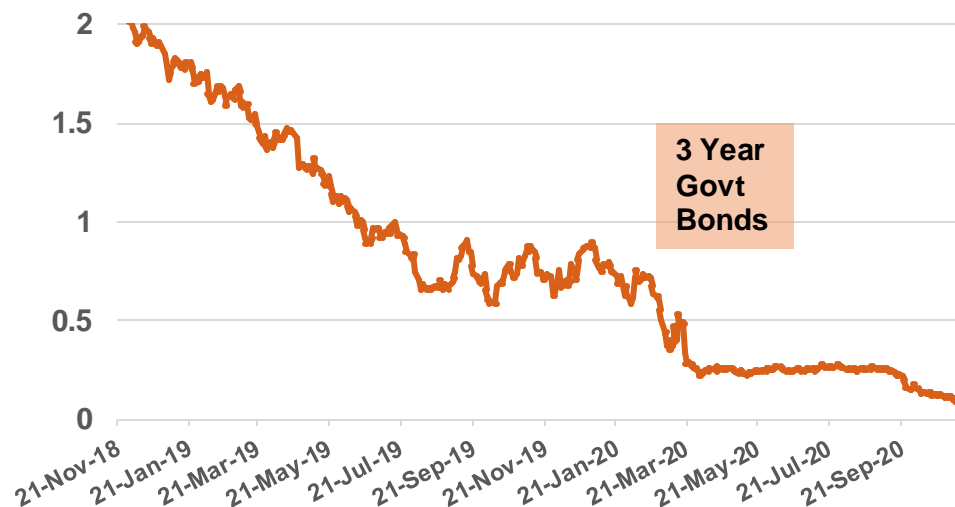
Income



Protection relative to shares



Liquidity



Asset class	Q4 2008	Q1 2020	Future event?
ASX200	22% loss	24% loss	25% loss
ACGB 10 Year	Yields fell from 5.4% to 4.0% (11% gain)	Yield fell from 1.4% to 0.68% (7% gain)	Yields need to go negative for same protection

Source: Bloomberg, 2020

Cautionary tales of chasing yield

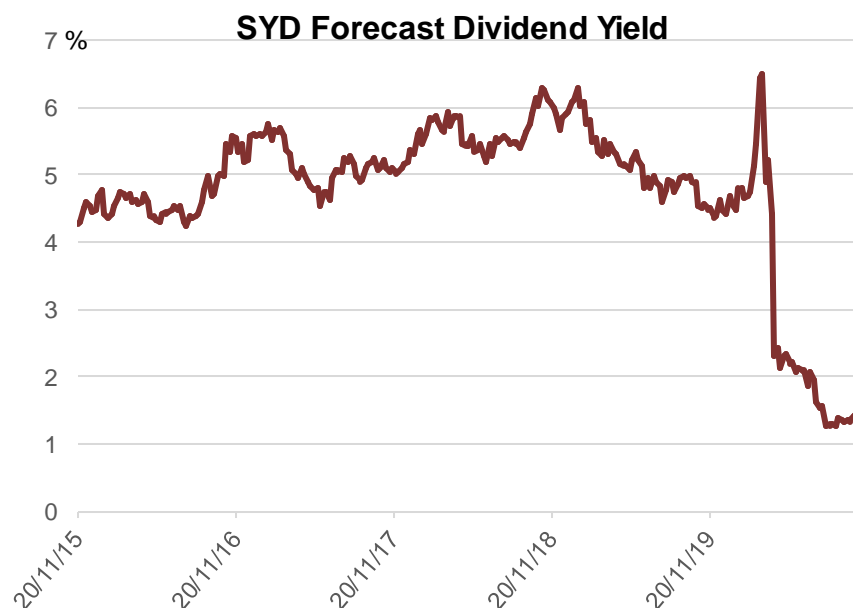
1. AREITS in the Financial Crisis



- AREITS sailed through the Tech bubble
- Suffered 80% drawdown in GFC

Source: Bloomberg, 2020

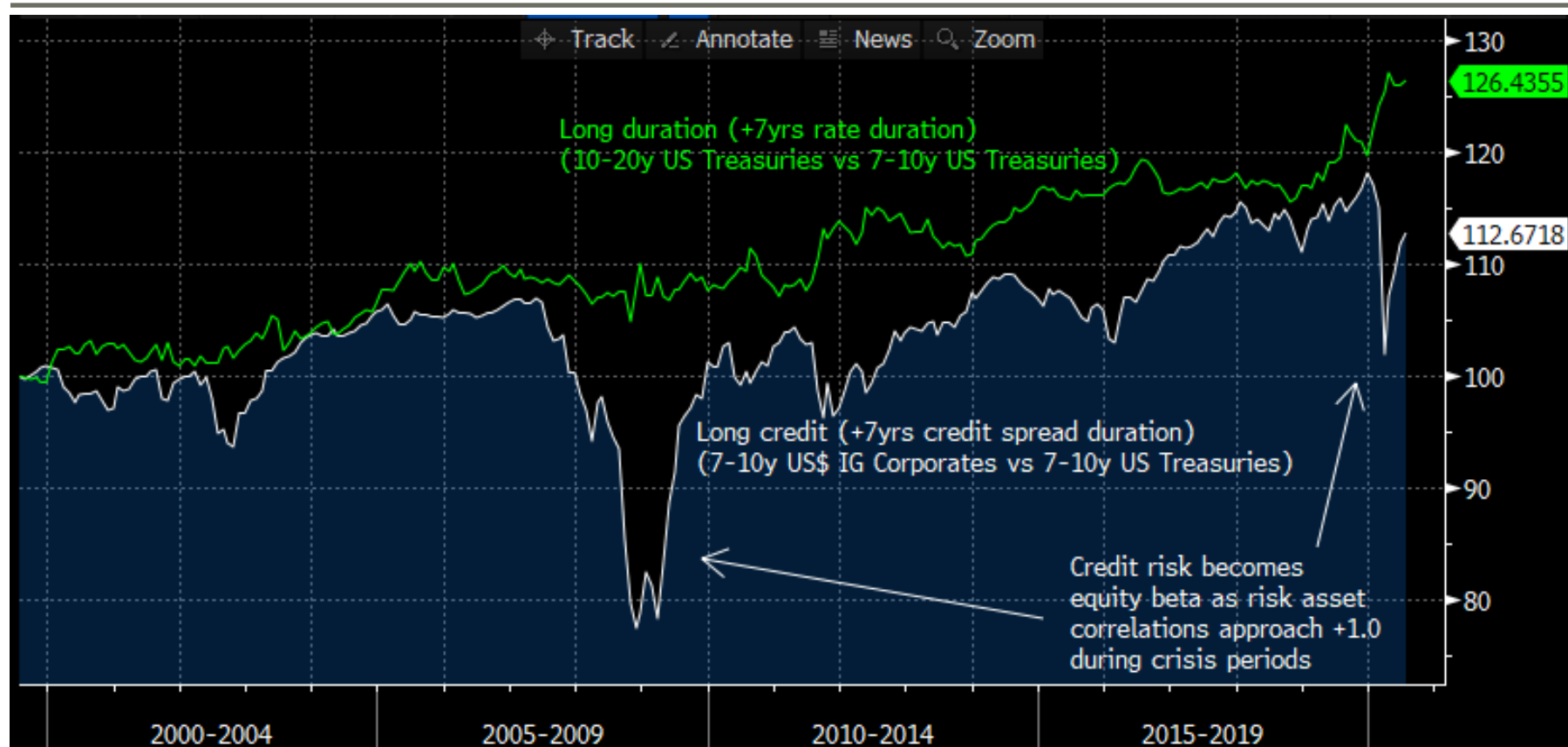
2. Sydney Airports in 2020



- Expected dividends have collapsed post COVID as infrastructure revenues are challenged

Source: 12-mth Expected dividend yieldSYD; Bloomberg

Many “defensive” allocations are overweight credit



...but equity portfolios would most likely benefit from a duration overweight!

Problems with traditional fixed income benchmarks



1. Liability weighting

- ▶ Issuers can set their own weight in the index
- ▶ Issuer preferences determine risk profile of the index

2. Unstable risk profiles

- ▶ Duration creep
- ▶ Segment creep

3. Inefficient

- ▶ Short dated government issues with little capital gains potential and no yield pickup over cash

Objective-based solution

Diversify defensive sources

Replace the components of a traditional defensive allocation with a diverse range of exposures designed to deliver a specific objective

Duration-like assets

Gold and inflation linked bonds provide strong returns in a falling real rate environment.



Defensive strategies

Using **derivatives** to trade away market upside for downside protection of risky exposures.



Currency

Diversify currency exposure away from the AUD to risk off currencies like the **USD and JPY** to provide protection in equity falls



Volatility

Volatility tends to spike when share markets sell-off. Hold a volatility exposure.



Customised exposures

Construct income yielding equity baskets, using optionality to protect downside



Liquidity

High level of liquidity to stay nimble and adjust to changing conditions.



All these defensive techniques are embedded in the MLC Inflation Plus portfolios

Reports on Inflation Plus's strategies are available at mlc.com.au



Adding value in defensive allocations

- ▶ **Fixed income can generate excess returns in the right economic environment**
- ▶ **Still has strong portfolio diversification benefits even with yields at historical lows**
- ▶ **However, we should be mindful of:**
 - ▶ Embedded duration in our equity portfolios - diversification benefits of fixed income vary greatly, depending on the type of equity exposures
 - ▶ Equity-like risk in our fixed income portfolios - be cautious about taking on excessive credit risk well into an economic expansion or when credit spreads are very tight.

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IMAP

Institute of Managed Account Professionals





BetaShares

Exchange Traded Funds

Appendices

Diversification benefits vary with the type of equity and fixed income exposures



5-year Weekly Return Correlation

	US Treasury Returns	US\$ IG Credit Returns*	US\$ High Yield Credit Returns*
S&P 500	-0.24	+0.73	+0.82
S&P 500 Value	-0.30	+0.76	+0.84
S&P 500 Growth	-0.18	+0.67	+0.75
S&P 500 Banks	-0.50	+0.66	+0.74
S&P 500 Energy	-0.29	+0.69	+0.76
S&P 500 Software	-0.14	+0.57	+0.66

5-year Weekly Return Correlation

	Australian Govt Bond Returns	IG Credit Returns*
S&P/ASX 200	-0.06	+0.36
S&P/ASX 200 Value	-0.09	+0.38
S&P/ASX 200 Growth	+0.01	+0.26
S&P/ASX 200 Banks	-0.16	+0.39
S&P/ASX All Technology	-0.06	+0.34

Sources: Bloomberg; Betashares Capital; Data ended 13-Nov-2020

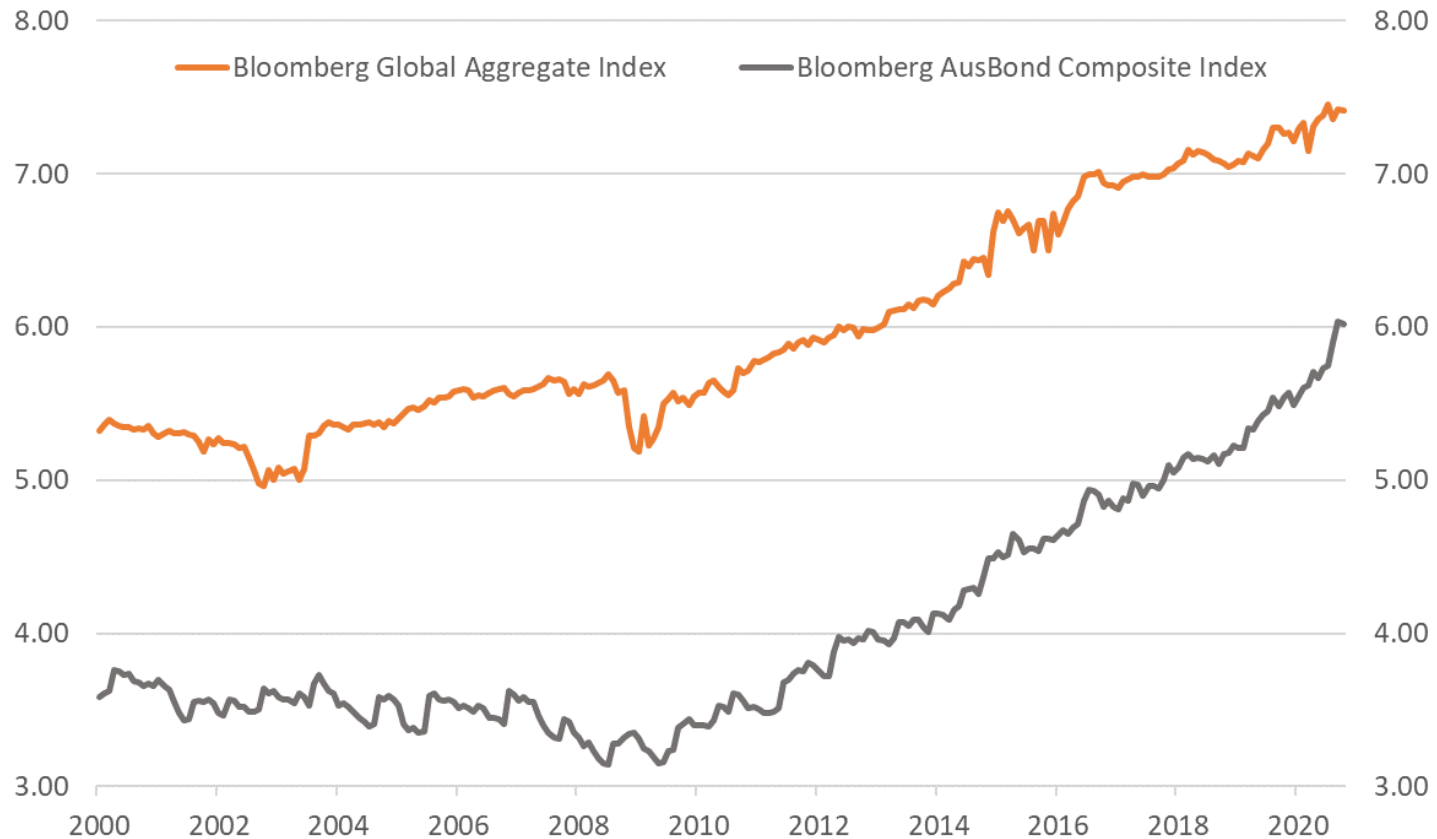
*Credit returns hedged out for interest rate risk

US Treasury returns based on Bloomberg US Treasury Aggregate 7-10-year index; IG Credit Returns based on iBoxx USD Liquid Investment Grade Interest Rate Hedged Index; High yield credit returns based on the iBoxx USD Liquid High Yield Interest Rate Hedged Index. Australian Government bond returns based on the Bloomberg AusBond 7-10y Treasury Index; IG Credit Returns based on the excess returns of the Bloomberg AusBond Credit 7-10y index relative to the Bloomberg AusBond 7-10y Treasury index.



Duration creep of benchmarks

Index Modified Duration (yrs)

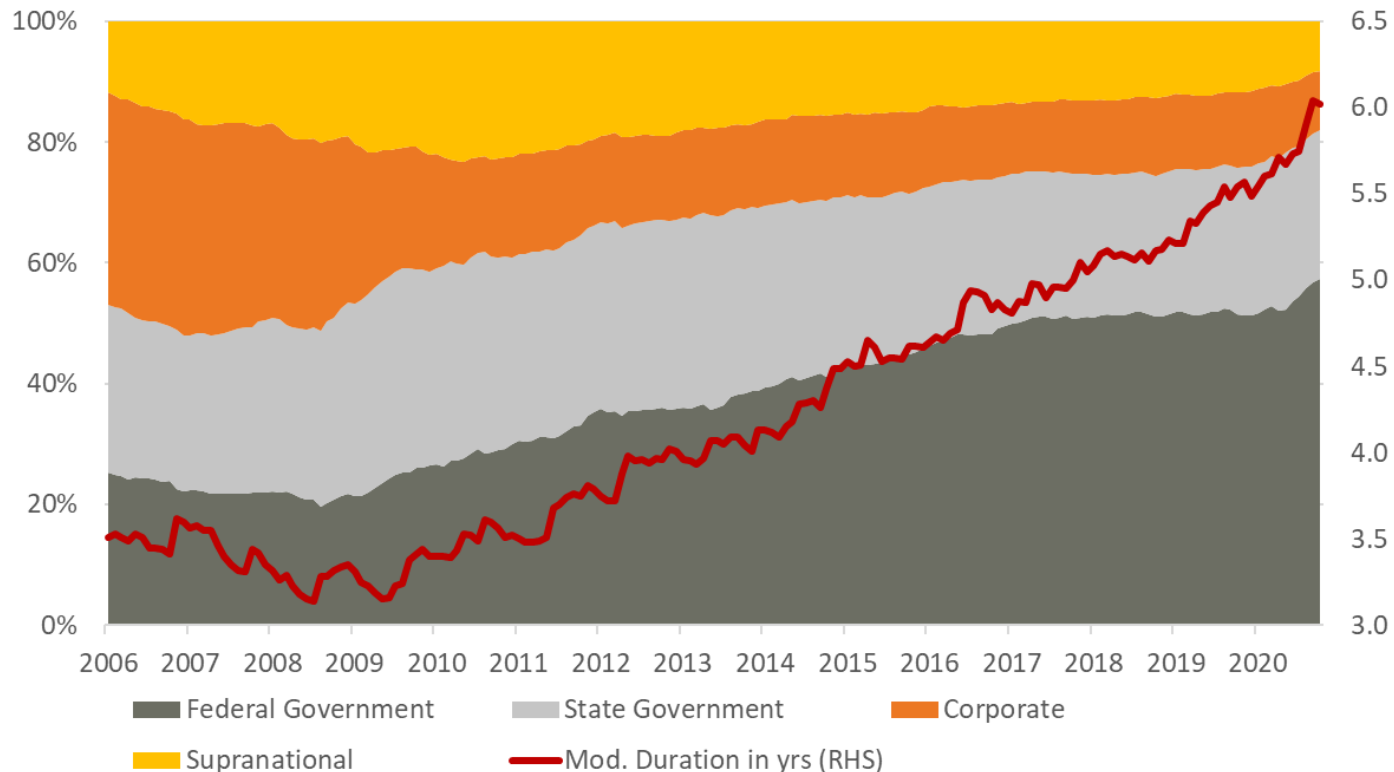


Sources: Bloomberg, Betashares, Data to October 2020



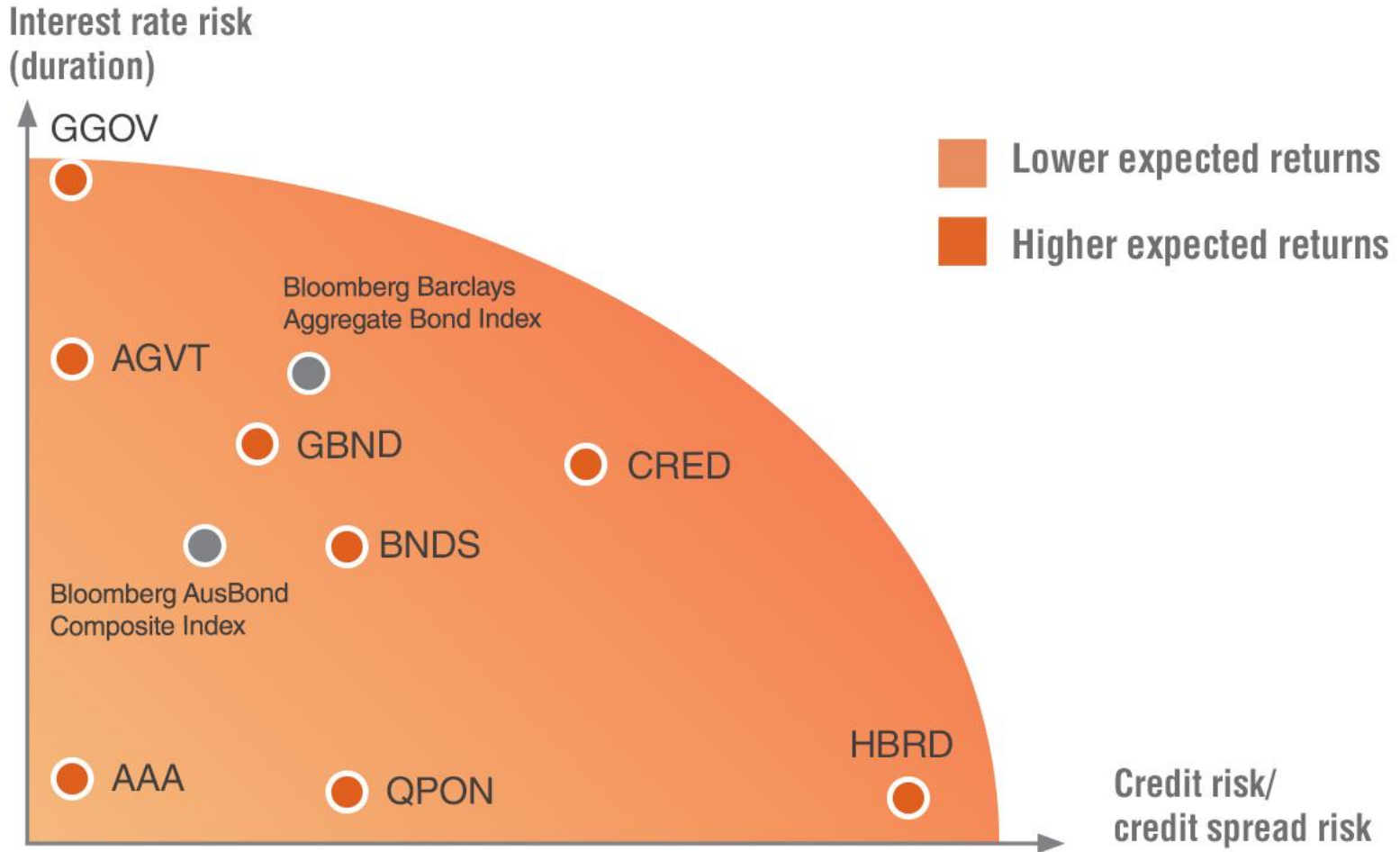
Segment creep of benchmarks

Composition of Bloomberg AusBond Composite by class



Sources: Bloomberg, Betashares, Data to October 2020

Finding the right “building block” with ETFs



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Things to keep in mind

Investment Risk

Investing involves risk. The value of an investment and income distributions can go down as well as up. Before making an investment decision, investors should consider the PDS and their particular circumstances, including their tolerance for risk.

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Research

See PDS for more information about risks.



Questions?

