



IMAP Adviser Webinar

The Rise of Models

PRESENTED BY

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Managing Investment Risk

- » Investment solutions and portfolio design is an outcome of the advice process
- » Investment Risk also deals with Investment Policy and practices of the Licensee
- » Increased Licensee focus on monitoring investment outcomes and ensuring Investment Policies are followed

Building Blocks

Asset Class
Assumption

Portfolio Design

Financial Modelling



Risk Profiling

Return Profiling

Goals Based Portfolios

Investment Policies

- » Licensees enact standards to ensure reasonable assumptions to be used in financial modelling and projections
- » Based off asset class assumptions
- » Typically resulting in Risk Weighted Portfolios

Typical Investment Policies

	Conservative	Balanced	Growth
Growth/Defensive	40%/60%	60%/40%	80%/20%
Australian Equities	13	19	24
International Equities	14	19	28
Property	8	11	12
Australian Bonds	21	15	7
Global Bonds	22	15	8
Alternatives	12	16	19
Cash	10	5	2
Forecasted Return	5%	6%	7%
Forecasted Vol	4%	5%	6%

Tolerance Bands

+/- 10% at Asset Class Level

Plus no more than

+/-10% Defensive/Growth Split

Licensee Investment Policies

- » Portfolio Allocations vs Target
 - » Monitored through Xplan or Platform Reporting
 - » Periodic Rebalancing can help bring allocations back within bands
 - » Only works for SAA fixed weight investment policies
- » What happens when you want to run an active allocation approach?
- » New target weight requires personal advice

The screenshot displays the 'præmium' platform interface. At the top, there is a navigation menu with options: Main, Back, Maintenance, SMSF, SMA, Portfolio Details, Trading Activity, SMA Operations, Reporting, Data Exchange, System Management, and Feedback. Below the menu, a 'Selected portfolio' field is empty, and the 'Processed to' date is 16/01/2020. A 'Recalculate' button is visible. The main content area is titled 'Asset allocation targets' and has two tabs: 'THIS PORTFOLIO' (selected) and 'STRATEGY TEMPLATES'. Under 'THIS PORTFOLIO', there are links for 'Strategy' and 'Overrides'. A 'Targets over time' section shows a dropdown menu with 'Since 01 Jul 2018 Custom Targets' selected and a 'New targets' button. The main table displays 'Custom Targets since 01 Jul 2018' with a 'Save' button. The table has three columns: 'Asset class', 'Fixed target allocation', and 'Target allocation range'. The 'Fixed target allocation' and 'Target allocation range' columns have checkboxes for 'Required'. The table is divided into 'Growth assets' and 'Income assets' sections. The 'Total' row shows a 100% allocation.

Asset class	Fixed target allocation	Target allocation range
Growth assets		
Domestic Shares	36 %	26 % to 46 %
International Shares	31 %	21 % to 41 %
Domestic Listed Property	5 %	0 % to 15 %
International Listed Property	5 %	0 % to 15 %
Total growth assets	77 %	
Income assets		
Domestic Fixed Interest	15 %	0 % to 25 %
International Fixed Interest	8 %	0 % to 18 %
Cash & Equivalents	0 %	0 % to 10 %
Total income assets	23 %	
Total	100 %	

The active asset allocation dilemma

Many advisory practices adopting active asset allocation policies

- » Usage of active asset allocation policies increasing post GFC
- » Advisers and clients want actively manage portfolios
 - “avoid the GFC”
 - “reduce European exposures due to the debt crisis”
 - “concerns about rising bond yields”

How to implement active asset allocation trades across a large number of clients:

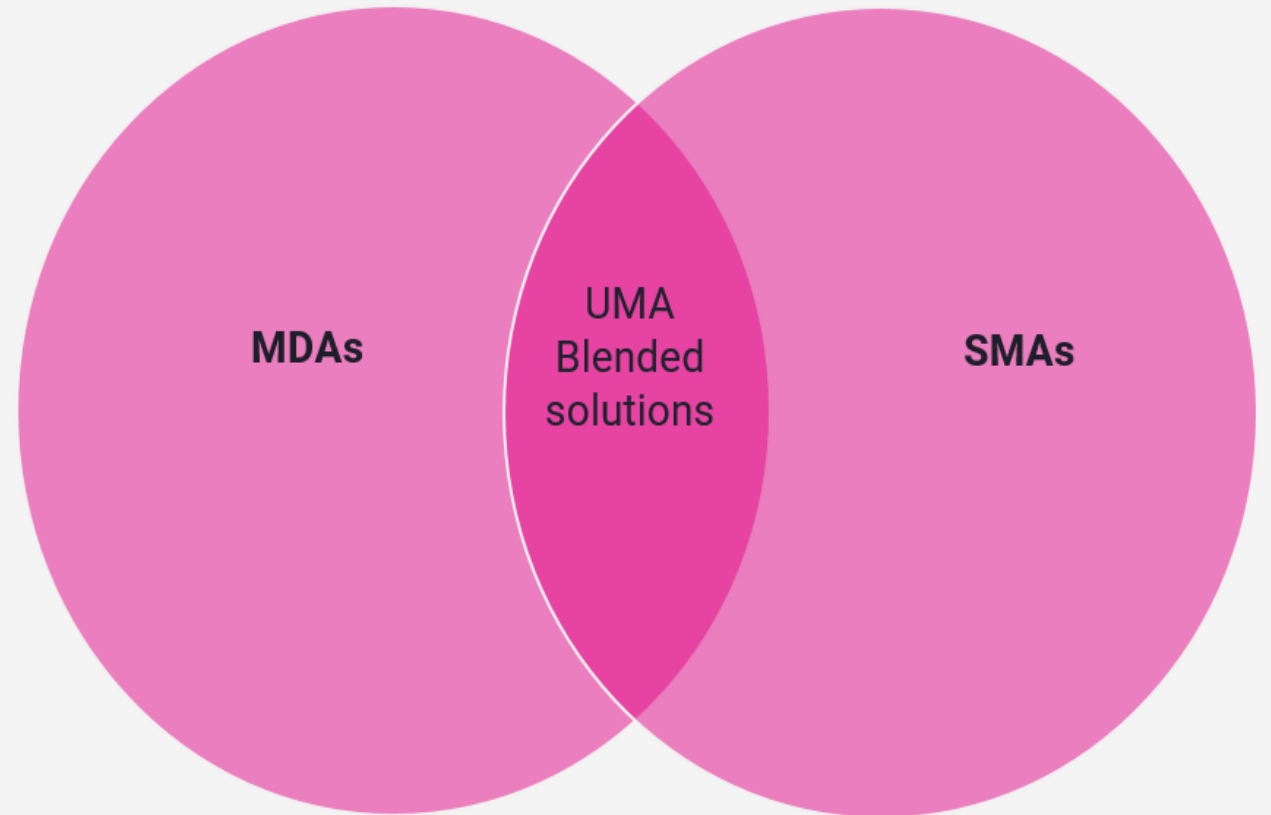
- » ROAs costing \$100-\$200 per piece
- » Who to contact first
- » Awaiting authorities to return / Slippage
- » Trades implemented at different dates / clients returns differing

Managed Accounts solving many of the problems

Managed Discretionary Accounts Separately Managed Accounts

- » Active Asset Allocation
- » Active Security Selection

- » All clients traded at the same time
- » No ROAs
- » More granular and niche investment strategies



What is required

- » You are being appointed as an Investment Manager and therefore able to meet those standards
 - ✓ Investment Strategy
 - ✓ Mandate design
 - ✓ Ensure you are suitable to manage the model

- » We are looking for:
 - » Organisational and Regulatory Governance controls
 - » Capability to manage the mandate and meet the objectives
 - » Ability to manage Mandate Compliance

- »

Key factors for successful RE appointment

Parent

- Governance – use of Independent advisors
- Conflict of Interest Management
- Systems used in the investment process
- Specific Risk Assessment of running an asset management

People


- Calibre & Investment experience of key staff
- Expertise to match the areas of investment – e.g. Asset Allocation specialists
- Collective tenure of the investment team

Process

- Documented
- Clear Investment philosophy logically implemented
- Robust & Repeatable process
- Understanding of key outsource providers
- Mandate monitoring

Performance

- Provide Track Record
- Demonstrate sources of return
- Ability to provide attribution in the future



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