



Turning Investment Return Expectations into Portfolio Construction

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What Drives Future Returns?

Income or Dividends

Known Quantity 

+

Growth in Profits

Forecast 

+

Changes in Sentiment

Forecast 

GDP Dilution vs Reinvested Earnings

Long Term Historical Observation*

GDP	3.0
Inflation	3.0
Less Dilution	-2.0
Total	4.0% pa

Reinvested Earnings

Earnings yield (1/16)	6.2
Less Dividends	-3.1
Less Waste (20%)	-0.6
Plus half inflation	1.5
Total	4.0% pa

* Dimson, Marsh and Staunton



Long Term Asset Class Forecasts

FORECASTS	As At	14-Jul-17		
	Gross Income	Forecast Earnings	Valuation Impact	Forecast Return
AUSTRALIAN EQUITIES				
All Ords	5.5%	3.8%	0.1%	9.5%
ASX50	6.0%	4.0%	0.1%	10.1%
Mid Cap	5.3%	4.1%	-1.6%	7.8%
Small Ords	4.6%	3.8%	0.6%	9.0%
ASX200 Financials ex REITs	6.8%	3.7%	-0.7%	9.8%
INTERNATIONAL EQUITIES				
World Ex Australia	2.3%	4.1%	-0.7%	6.7%
United States	2.0%	3.1%	-1.6%	3.9%
Europe excl UK	2.9%	3.3%	-0.1%	8.2%
United Kingdom	3.3%	7.5%	-4.5%	7.8%
Japan	2.0%	2.0%	0.6%	7.2%
Emerging Markets	2.4%	7.5%	0.0%	9.0%
Asia Pac (Ex Japan)	2.3%	5.7%	-0.2%	6.9%
China	1.9%	5.4%	-0.4%	6.1%

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BetaShares Asset Allocation Approach



Strategic Asset Allocation

Long-run expected asset class returns



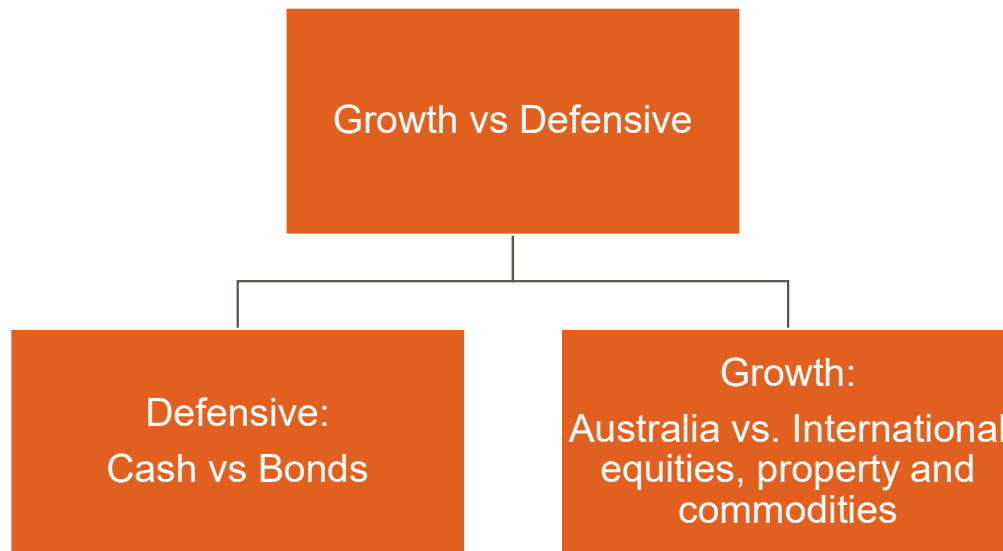
Projected Asset Class Long-Run Returns

Asset Class	Benchmark	Yield	Capital	Total Return	Comment
Cash	Bloomberg Bank Bill Index	3.5%		3.5%	Assumed yield return in line with the long-run "neutral" RBA official cash rate of 3.5%
Bonds	50/50 split of Bloomberg AusBond Composite Index & Global Aggregate Index	3.5%		3.5%	Aust. returns assumed at 0.5% above the "neutral" RBA official cash rate. Int. bonds at 0.5% below long-run US 10-year yield of 3.5%
Aust. Property	S&P/ASX200 Listed Property Index A-REITs Index	5.0%	2.5%	7.5%	An income yield of 5%, plus capital return in line with inflation of 2.5%
Aust. Equities	S&P/ASX200 Index	5.0%	4.0%	9.0%	Grossed-up dividend yield of 5%, plus capital returns just under nominal GDP growth of 5%
Int. Equities	MSCI All World Equity Index	2.5%	4.0%	6.5%	Yield return of 2.5% plus capital returns just under nominal growth in global GDP
Commodities	S&P GSCI Light Energy Excess Return Index		3.0%	3.0%	Commodities are projected to grow 1% in real terms above 2% price inflation.

Expected returns are based on a forward looking assessment of economic growth, inflation and interest rates

Dynamic Asset Allocation

Hierarchical Approach: Pair-wise comparisons



Dynamic Asset Allocation

Decision Matrix



Question	Value Indicators	Current Assessment	Asset Class Dynamic View
Growth vs Defensive	Equity-Risk premium	Fair-value range	Neutral
Defensive Assets			
Cash vs Bonds	Bond Yields	Low but rising	Underweight bonds

Dynamic Asset Allocation

Decision Matrix



Question	Value Indicators	Current Assessment	Asset Class Dynamic View
Growth Assets			
Property vs ASX	Bond yields	Low but rising	Underweight
International vs. ASX	\$A Sector trends	<ul style="list-style-type: none"> • \$A high but falling • Technology over resources 	Overweight
Commodities vs. ASX	Real prices, supply demand	<ul style="list-style-type: none"> • Low inflation • well supplied markets 	Underweight

Intra-asset class tilts where opportunities present: NASDAQ-100, Global Banks, floating rate bonds (FRBs)