




PORTFOLIO MANAGEMENT CONFERENCE 2022

Portfolio Management Under Uncertainty

22 March 2022
#PMC2022



Upcoming IMAP events



FUM Census results



Webinar Series: The Investment Implications of Interest Rate rises



23rd March – Investment Impact

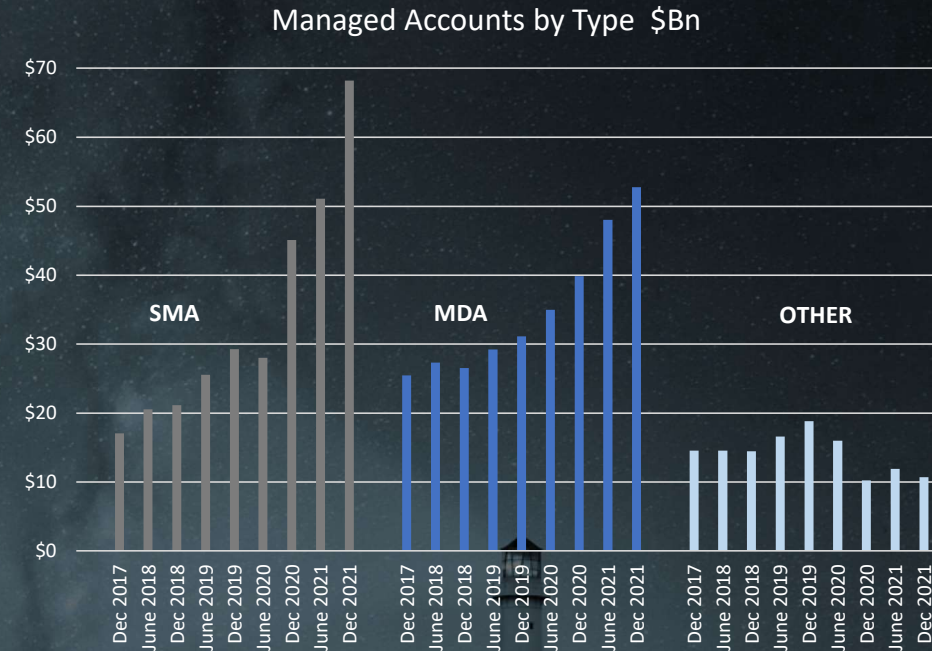
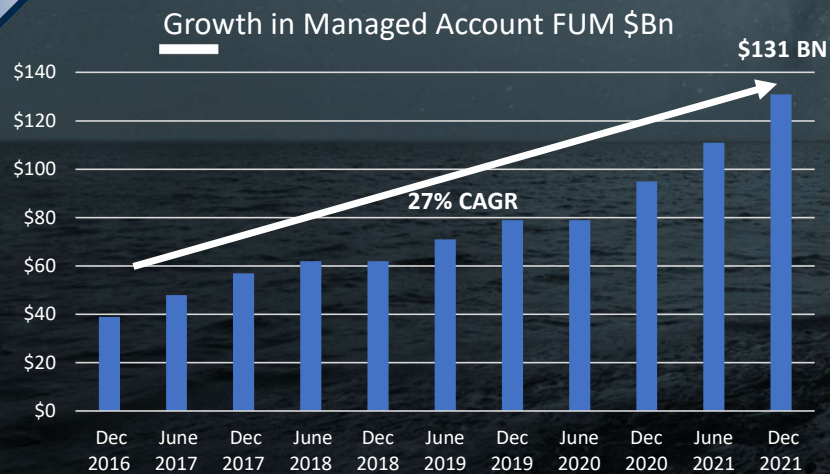


25th March – Portfolio Management Considerations



Managed Account Awards: Submissions Open April

IMAP FUM Census





Managed Account Awards

Asset Class Categories

- Australian Equities
 - Small Cap
 - Fixed Interest
 - International Equities
 - Multi Asset
-

Specialty Categories

- Licensee
- Innovation
- ESG / Sustainable Portfolio

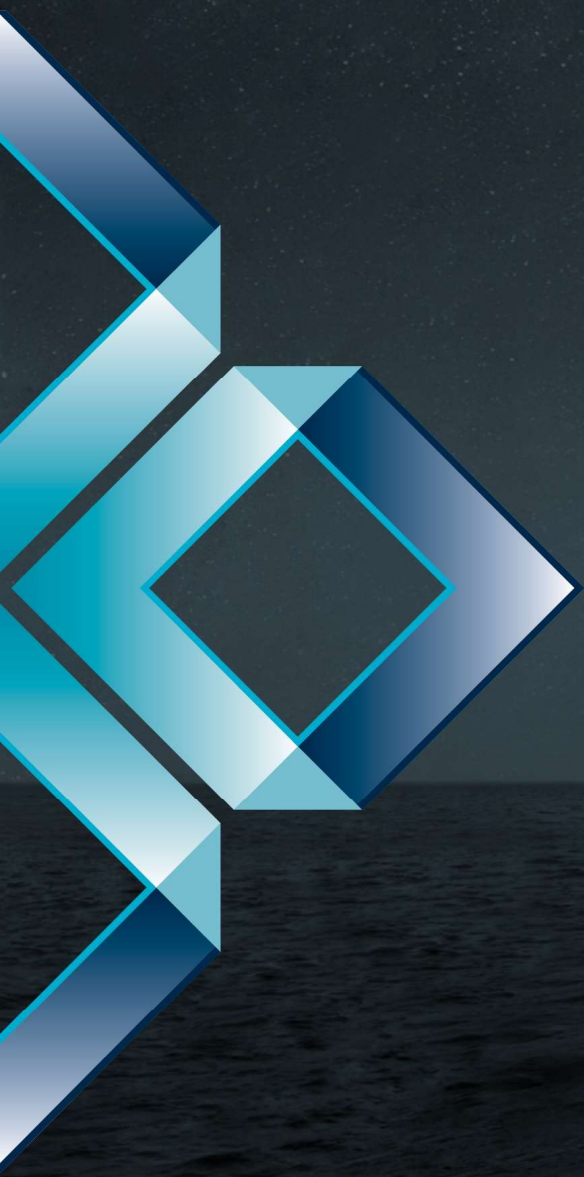


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Worst inflation in 40 years – surely this
can't last!

—

David McDonald, IMAP

Alex Ventelon, Morgan Stanley

Aman Ramrakha, Morningstar

Morgan Stanley



Interest Rate Outlook

Alexandre Ventelon

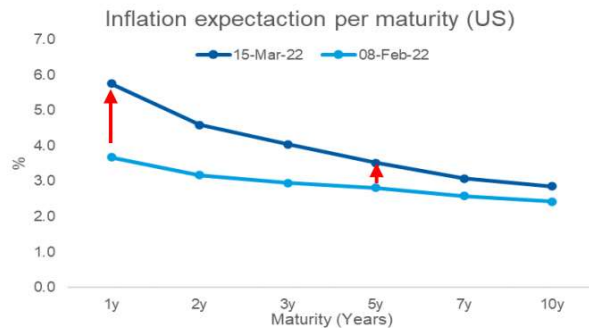
Head of Research, Morgan Stanley Wealth Management Australia

March 2022

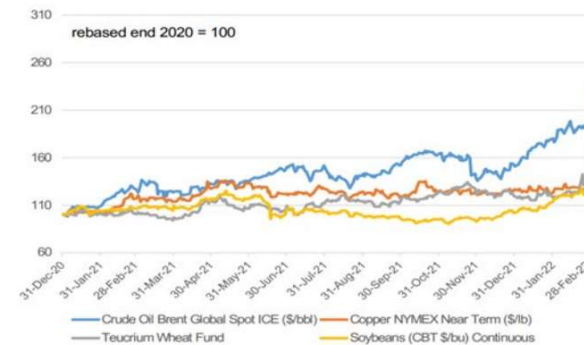
Geopolitical developments in Europe

Uncertainty bodes for prolonged volatility and higher inflation

Markets expect a strong inflationary impact in the short term, but limited in the medium term



Commodity prices were already on the rise prior to the recent events



- While the current geopolitical developments in Europe carry low earnings risk for Australian and US companies, if prolonged could have 3 key implications:
 - Higher energy prices;
 - Heightened volatility/tighter financial conditions;
 - Slower economic growth.
- **Morgan Stanley has downgraded 2022 growth forecasts across most regions but still expects above trend growth this year and the next in Australia (4.5% and 3.5%) as well as globally (4.4% and 3.8%).**

Source: Morgan Stanley Wealth Management Research, Bloomberg, Morgan Stanley Research, Factset. Data as at March 11, 2022.

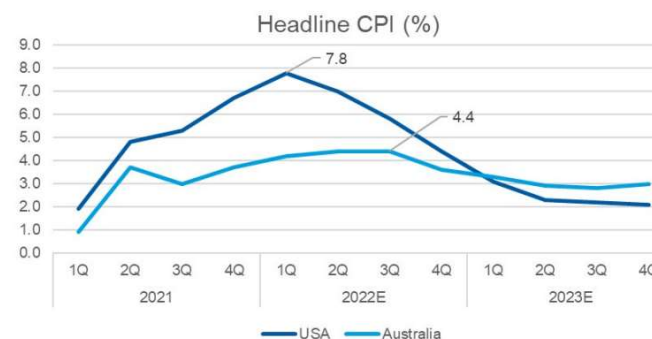
The tricky handoff (i)

Highest US inflation in 40 years is likely to remain elevated in 2022

Inflation is still significantly higher in the US than Australia, although we expect the gap to close somewhat through 2022



Morgan Stanley forecasts US inflation to peak in Q1, but only be back at target levels by Dec 23



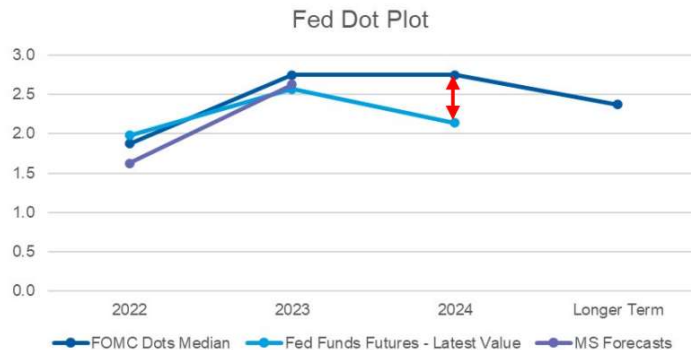
- Morgan Stanley sees US 12-month core PCE inflation at 3.4% in Q4 2022, meaning even if inflation falls throughout 2022, a **return to 'normal' (i.e. Fed target) is a 2023 story**.
- Australia is also witnessing an acceleration in inflation: December quarter headline inflation (1.3% qoq) was the strongest quarterly print since 2008 – we forecast 3.6% yoy for Q4 2022.
- Similarly, we expect inflation in Australia to normalise into 2023 and towards the top of the RBA target inflation.
- **Inflation is forcing key central banks to abandon their 'lower for longer' stance and move towards hiking rates much quicker and more strongly than previously expected.**

Source: Haver Analytics, Morgan Stanley Research, Bloomberg, Morgan Stanley Wealth Management Research.

The tricky handoff (ii)

Key central banks are now expected to tighten policy materially and sooner than expected

US rates: Consensus aligned on 2022 and 2023, but the market is expecting the Fed to reverse course in 2024



Australian treasury yields continue to trade at a premium to their US peers despite a slower expected hiking path



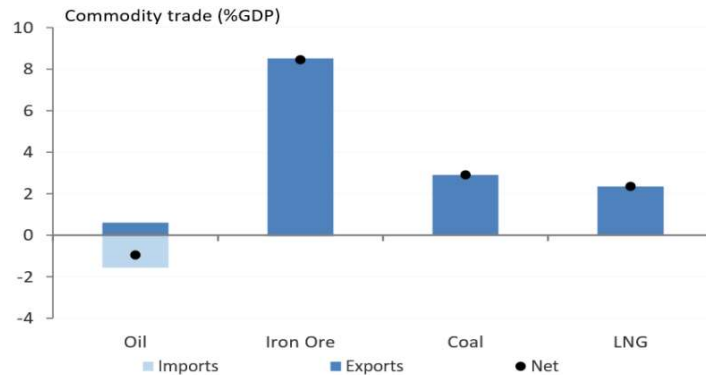
- **Over the next 12 months, key central banks will start reversing their lowest-ever policy rates and their largest-ever balance sheets.**
- Morgan Stanley is now forecasting the US Federal Reserve to deliver a total 150bp of tightening in 2022 and an additional 100bp in 2023.
- Interest rate hikes in the US will be supplemented with Quantitative Tightening likely beginning in May.
- In **Australia**, Morgan Stanley forecasts three RBA rate hikes this year and the cash rate at 1.75% by end 2023.
- The perspective of “higher for longer” rates is expected to be a durable headwind for asset markets, which needs to be repriced accordingly.

Source: Bloomberg, Morgan Stanley Wealth Management Research, Federal Reserve, Morgan Stanley Research.

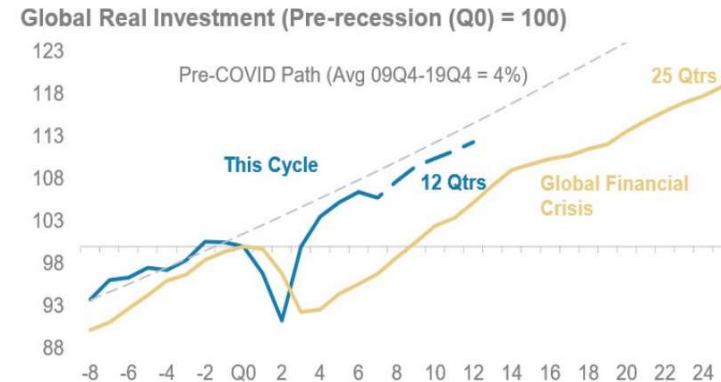
Morgan Stanley continues to see 2022 as a year of solid growth

Economic growth is slowing, but from high levels

Australia is a net exporter of commodities



A strong global investment cycle will support global growth



- The geopolitical developments in Europe are impacting inflation pressures as well as sentiment and Morgan Stanley has downgraded our GDP outlook in most regions. We now see global growth at 4.4% in 2022 and 3.8% in 2023.
- Morgan Stanley sees headwinds to growth in the first quarter of 2022, but we continue to expect solid growth in the US and globally based on a resilient consumer, a strong investment cycle, as well as fading but still stimulatory monetary and fiscal policies.
- Australia is well placed to outperform most Developed Markets this year and the next given strong economic momentum, the nation's position as a commodity exporter, lower inflation pressures, as well as a more accommodative RBA. Morgan Stanley currently forecasts GDP growth of 4.5% for this calendar year and 3.5% for next year.

Source: ABS, Bloomberg, Haver Analytics, Morgan Stanley Research. Note: Trade shares are for 2021. The global aggregate is a weighted average using PPP weights.

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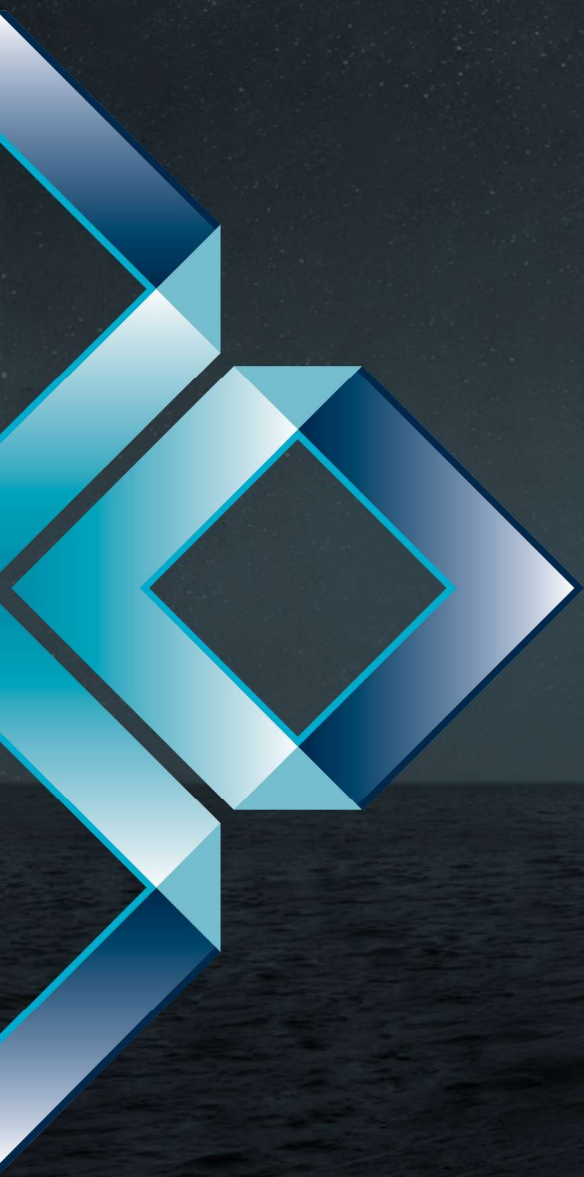
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Worst inflation in 40 years – surely this
can't last!

—

Aman Ramrakha, Morningstar





What it takes to be a Managed Account Portfolio Manager

Felicity Walsh, Franklin Templeton
Kieran Canavan, Findex
Rob Da Silva, SQM Research



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Findex Investments

Kieran Canavan– Findex CIO

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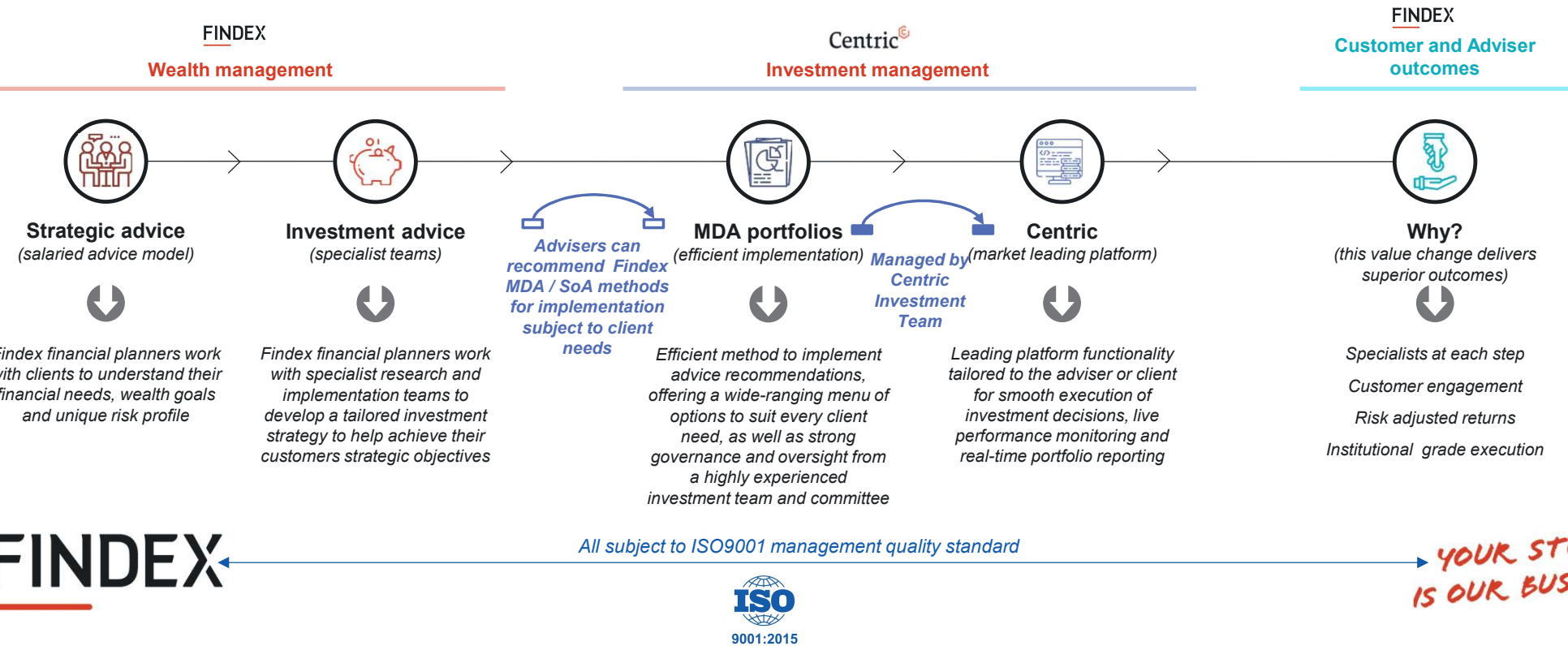
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Index case study - Wealth management value chain

Index has developed key service offerings covering the entire wealth management value chain, with specialist teams enhancing the client value proposition at every step of a client's wealth journey

Wealth management value chain



Wealth overview

Findex provides advisers with a number of competitive advantages over their peers.

FINDEX Platform



Optimised workflow
for all client work



Higher quality client
experience



Consolidated,
accessible client data



Deeper customer
relationships



Reduced compliance
and execution risk



Formal tasking process
used for every client
interaction ensures
each necessary step is
taken and completed by
a qualified person using
best of breed tools

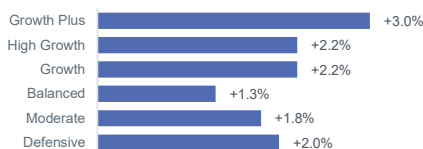


**Centralised asset
allocation and portfolio
construction team** with
history of top quartile
returns

TASKX

Findex has **centralised workflow** on its
various digital platforms which has
**accelerated the process of technology
being adopted**, and contributed to
operational efficiencies

Outperformance vs benchmark over 3 years



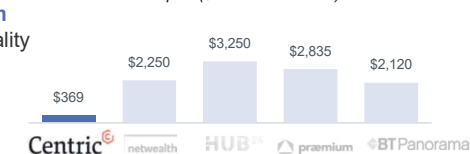
**MDA simplifies ongoing
management** and ensures client
portfolios are automatically
rebalanced



Disruptive Centric platform
designed to deliver functionality
demanded by clients at an
industry leading price point

Feature	MDA	SOA
Automatic portfolio rebalancing	✓	✗
Inexpensive to clients	✓	✗
Not transactions-based	✓	✗
Automatic approval of transactions	✓	✗
Automatic regular reporting	✓	✗

Platform admin fee p.a. (\$1m FUA account)



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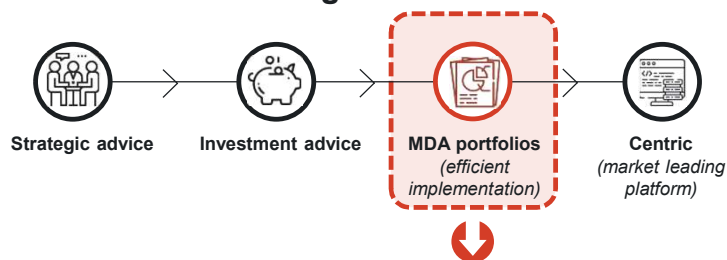
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Notes: Metrics as at 30 June 2021 unless otherwise stated. 1. Excludes corporate and wealth. 2. Excludes advisers with stockbroking FUA.

Findex MDA and MA portfolios

Findex offers a range of MDA portfolios managed by the Investment Team, designed to meet all internal and external client needs, with capability also added to offer MAs

Findex's wealth management value chain



MDA portfolios

- ✓ **Range of model portfolios** designed to meet clients' needs, including long-term growth, capital preservation, liquidity and cash flow stability
- ✓ **Professional investment committee** comprised of independent members, adviser and management representatives governs investment related decisions
- ✓ **Long-term approach** focused on value-creation over time through strategic asset allocation (SAA)
 - This is enhanced through tactical asset allocation (TAA) decisions to take advantage of short-term trends
- ✓ **Portfolios cover full range of asset classes**, including:
 - Australian and international equity
 - Australian and international fixed income
 - Australian and international property and infrastructure
 - Alternative asset classes

Investment philosophy

Limiting the quantum and length of drawdowns is one of the most important contributors to client investment outcomes and compounding investment returns



Value add

Right portfolio for each purpose	<ul style="list-style-type: none"> Maximum probability of achieving each investor's required outcome with minimum acceptable probability of falling short There is no perfect portfolio mix that will achieve all required outcomes for all investors
Tactical Asset Allocation (across asset classes)	<ul style="list-style-type: none"> Adjusting portfolio with changing conditions and avoids over-priced markets
Better performance (within asset classes)	<ul style="list-style-type: none"> Tactical asset management of asset types within asset classes, there is a better process to select, monitor, combine stocks / funds / sectors
Better execution, implementation, administration	<ul style="list-style-type: none"> Lower cost execution with scale and market access, better administration and reporting

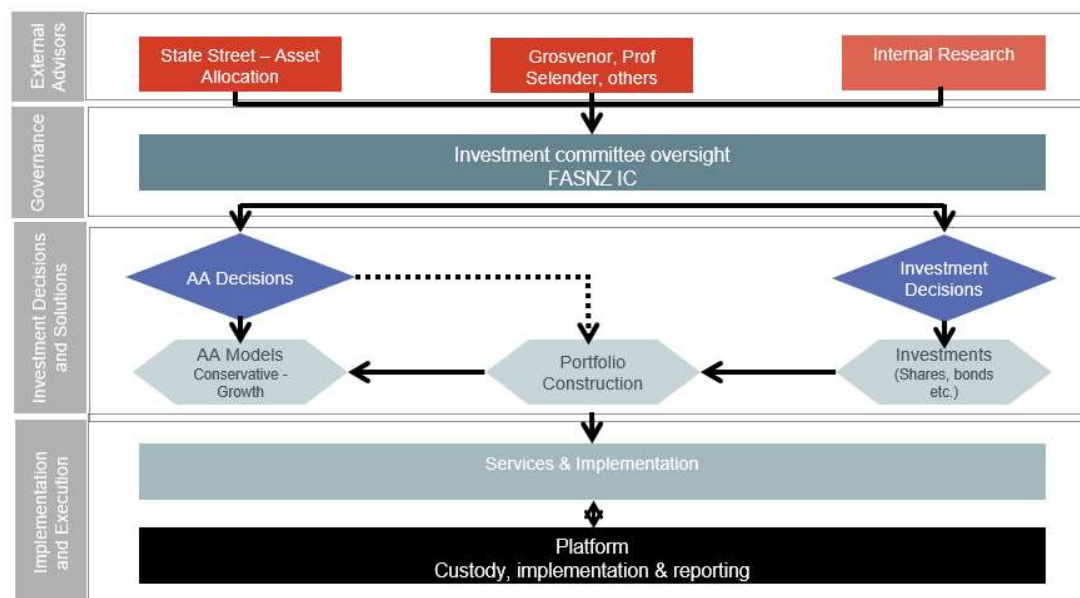
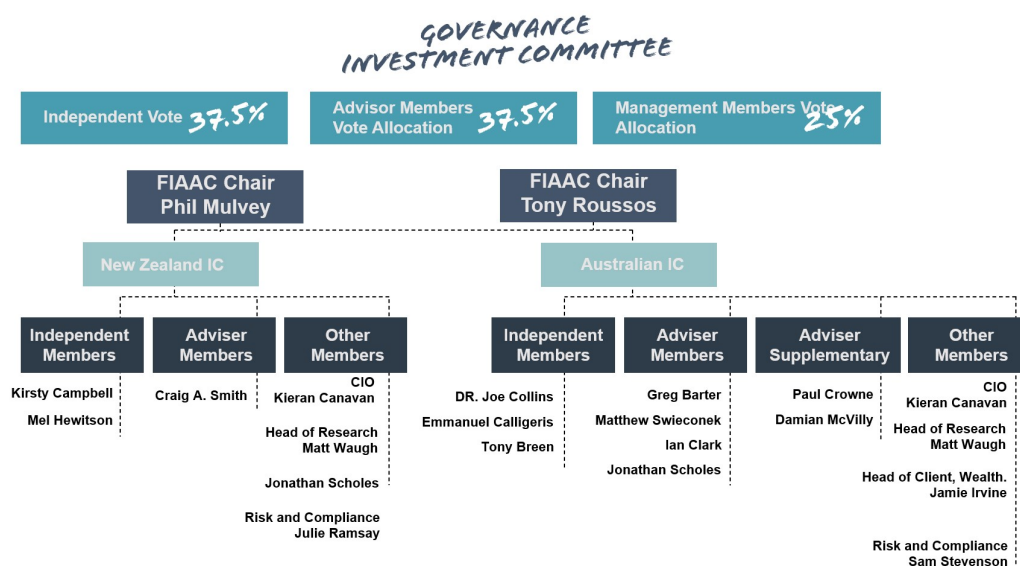
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Notes: FUM metrics as at 31 July 2021. Notes: 1. Includes both chargeable and non-chargeable FUA, in line with industry practice for disclosure.

Findex investment governance

Investment approach seeks to consistently deliver value to clients through portfolio construction while managing downside protection



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Portfolio construction and management process

Professionally constructed portfolios to deliver a superior product to customers, coupled with extensive dealer governance and adviser support

The Portfolio Construction & Management process



Findex MDA differentiated value proposition

Governance	1	<ul style="list-style-type: none"> ● A key differentiator is Index's dealer governance capabilities ● Index provides adviser and dealer support as well as communication tools for the client
Professionally constructed plus Bespoke portfolios	2	<ul style="list-style-type: none"> ● Advisers are able to take comfort in the professionally constructed portfolios ● Advisers are able to construct fully bespoke IMA portfolios for more sophisticated clients or clients with specific needs such as auditors
Asset allocation	3	<ul style="list-style-type: none"> ● Portfolios utilise a top-down asset allocation approach ● This involves an interactive process with State Street to construct risk profile models with constrained optimisation with consideration for regulatory guidelines
Diversification & specialist funds	4	<ul style="list-style-type: none"> ● The Investment team places significant rigour around diversification to ensure downside protection ● Specialist RE services provided to institutional managers to provide access for retail clients – Vinva, Sands Capital and others
Automated rebalancing	5	<ul style="list-style-type: none"> ● Centric has capabilities for automated rebalancing to target asset allocation ● Rebalancing is difficult via SOA so they are not carried out often, Centric's key advantage is doing automated rebalances to optimise portfolios for market movements

not
doing
for

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What it Takes to be a Managed Account Portfolio Manager

Rob da Silva – Head of Research

IMAP Portfolio Management Conference

March 2022



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Key Evaluation Tasks

- **Form an opinion concerning the investment competence & quality of the Investment Manager, measured in terms of their ability to deliver the risk and return objectives outlined in the PDS (or other offer document)**
- Evaluate management capabilities (executive and investment functions), and organisation stability
- Review the structure and ownership of the Manager and Responsible Entity
- Investigate the Manager's business goals and commercial plans
- Benchmark investment performance and risk metrics against industry peers and market indexes

Managed Account v. Managed Fund

- Helicopter view – 2 critical functions/elements to both:
 1. **Investment Management**
 2. **Business/Operations Management**
- The first is virtually identical – it's the second where the main differences lie
- The portfolio is the product – Managed Account, Managed Fund, ETF, LIC etc. are delivery mechanisms
- Key delivery features : implementation (speed, accuracy, consistency), transparency (trade details, holdings details), reporting (frequency, detail, depth), customization to investor circumstances (e.g. tax)
- Opinions will differ, but the 80/20 rule probably applies – 80% of the value is in the product, 20% is in the delivery. But its an important 20%!

Fundamentals of Fund Manager Competence

- Business profile – corporate health, balance sheet, P&L, resources, prospects
- Product strategies and marketing capabilities
- Executive Management / Oversight of the management firm
- Corporate Governance / Compliance / Risk management
- Investment team
- Investment Process
- Investment liquidity and portfolio turnover
- Performance, investment style, market conditions and outlook
- Management fees, charges and other expenses

Scorecard

- Qualitative and quantitative factors are scored on a 37-point checklist
- Varying weights attached to each factor, reflecting its relative importance
- Zero to five-star score is applied to each checkpoint, in increments of 0.25
- The weighted average score is the central case for the final rating

Category	Weight %
Governance/Business	20
People	25
Product Features	15
Risk and Return	10
Philosophy / Process	20
Portfolio Construction	10

SQM Research

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