

IMAP Specialist series: Let's talk Asset Allocation

Session 1 – How we look at AA currently

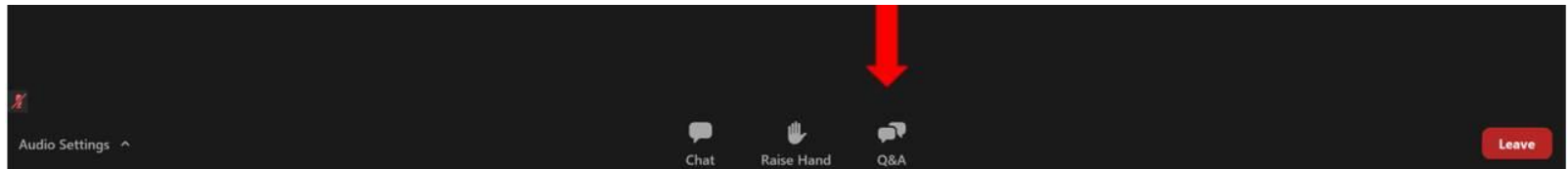
Michael Karagianis – JANA Investment Advisors

Richard Rauch – First Sentier Investors

Series moderated by Jerome Lander, WealthLander



How to ask a Question



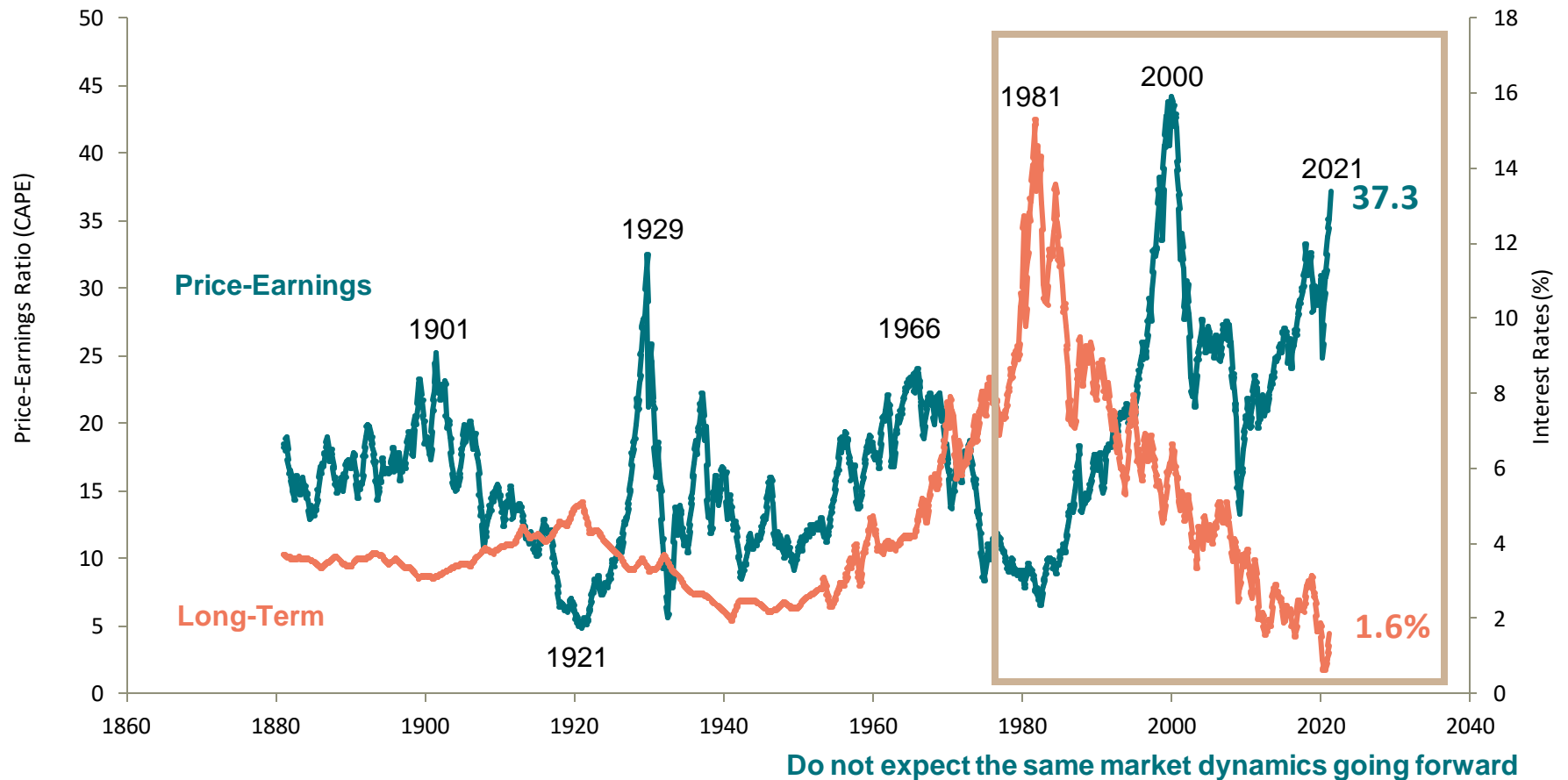
IMAP Asset Allocation Webinar

June 2021

Richard Rauch



Asset Allocation – “The Future Ain’t What It Used To Be”



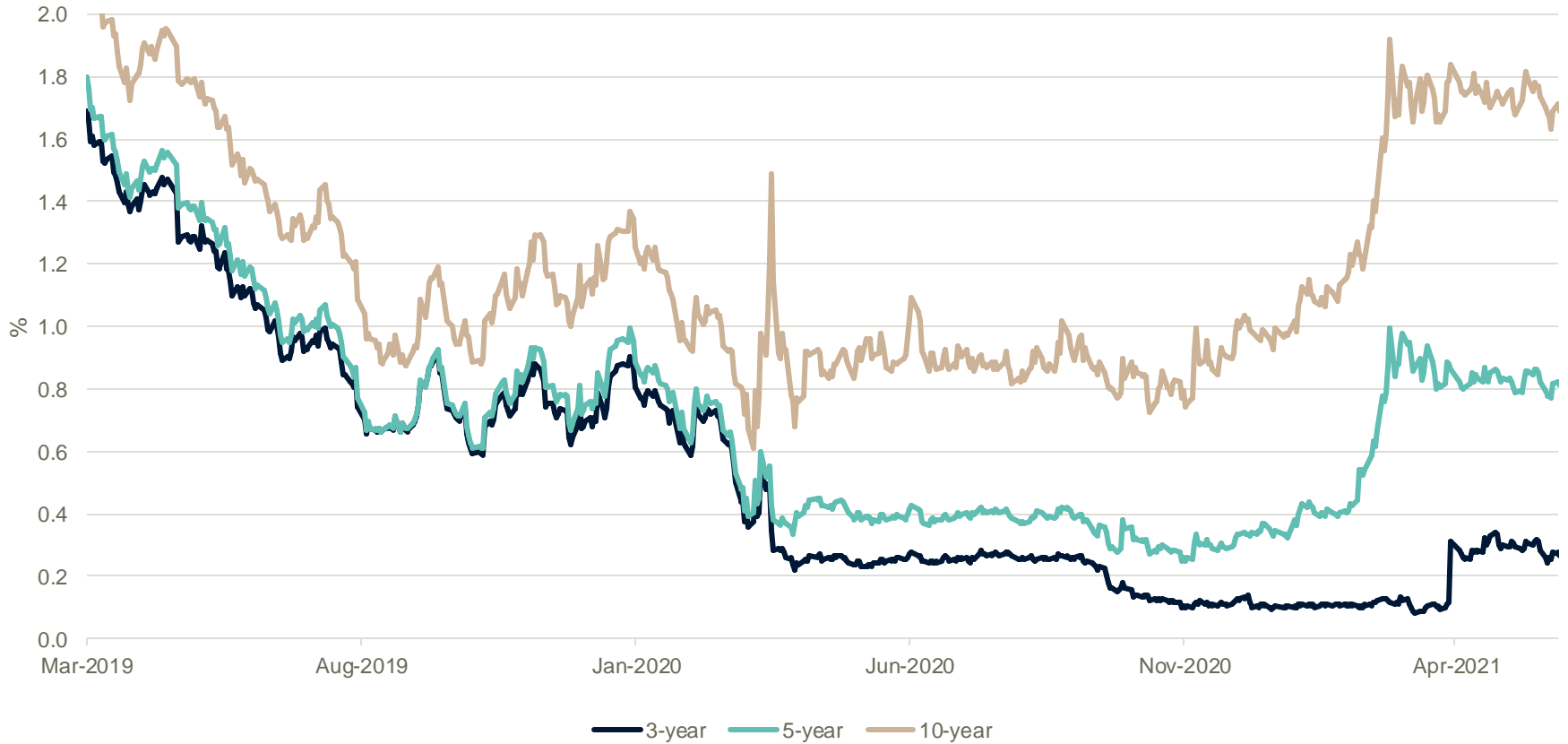
Is cash still king?



Rising bond yields

Eventually, the boy who cried wolf actually sees...a wolf!

Australian Commonwealth Government Bonds (Yield)

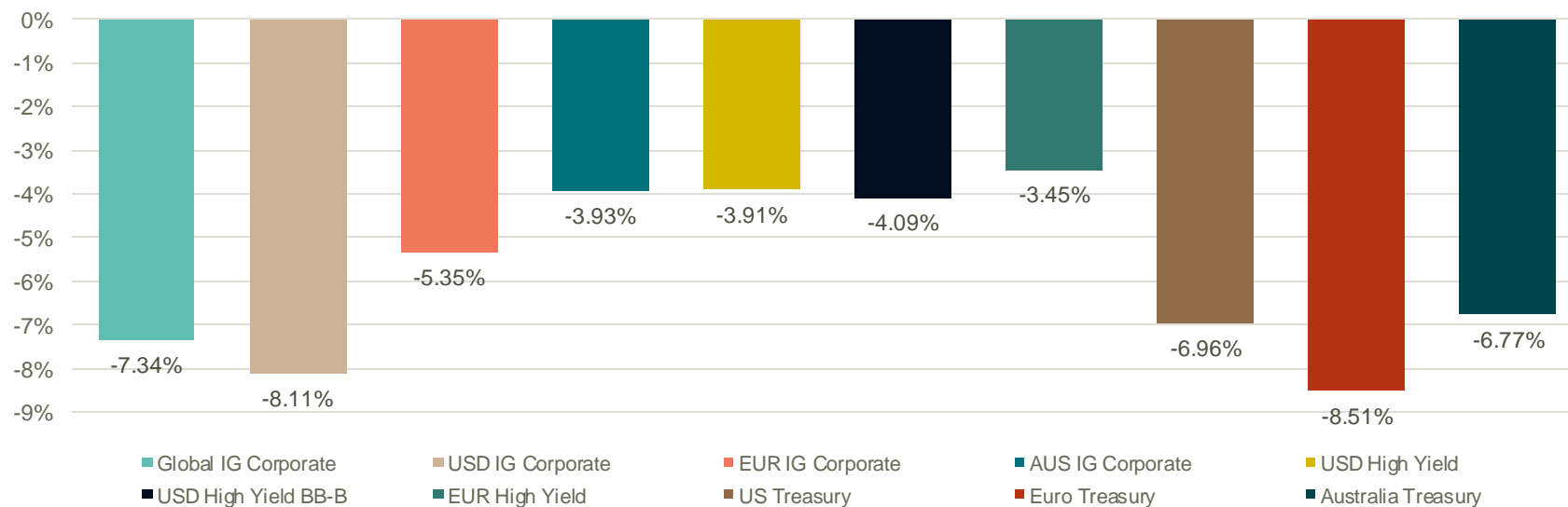


Source: Bloomberg as at 3 June 2021

How risky is fixed income currently?

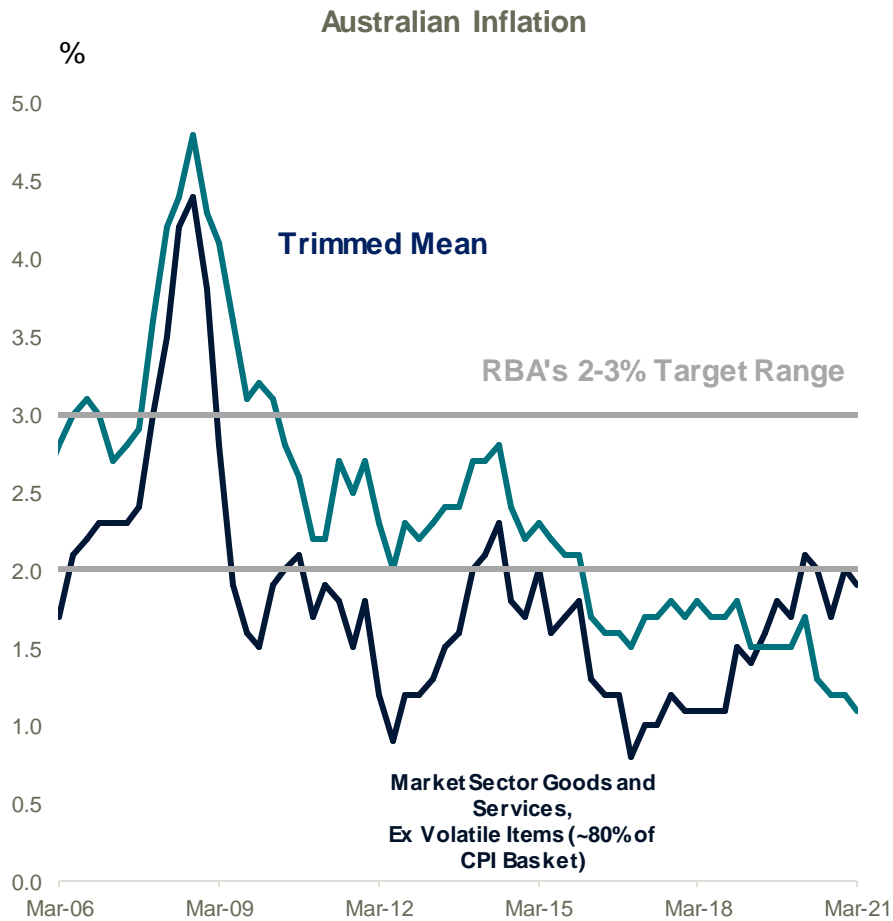
| Market | Global IG Corporate | USD IG Corporate | EUR IG Corporate | AUS IG Corporate | USD High Yield | USD High Yield BB-B | EUR High Yield | US Treasury | Euro Treasury | Australia Treasury |
|-----------------------|---|---|---|--------------------------------------|------------------------------|-----------------------------------|--------------------------------|--------------------------------------|--|--|
| Index Name | Bloomberg Barclays Global Aggregate Corporate Index | Barclays Global Aggregate Corporate USD Index | Barclays Global Aggregate Corporate EUR Index | Bloomberg AusBond Credit 0+ Yr Index | ICE BofA US High Yield Index | ICE BofA BB-B US High Yield Index | ICE BofA Euro High Yield Index | Bloomberg Barclays US Treasury Index | Bloomberg Barclays Euro-Aggregate Treasury Index | Bloomberg AusBond Treasury 0+ Yr Index |
| Duration (yrs) | 7.34 | 8.11 | 5.35 | 3.93 | 3.91 | 4.09 | 3.45 | 6.96 | 8.51 | 6.77 |

Impact of 100bps yield increase



Source: Bloomberg, ICE as at 31 March 2021
Assume immediate and parallel shift across yield curve

Inflation is key and picking up...but is it transitory?



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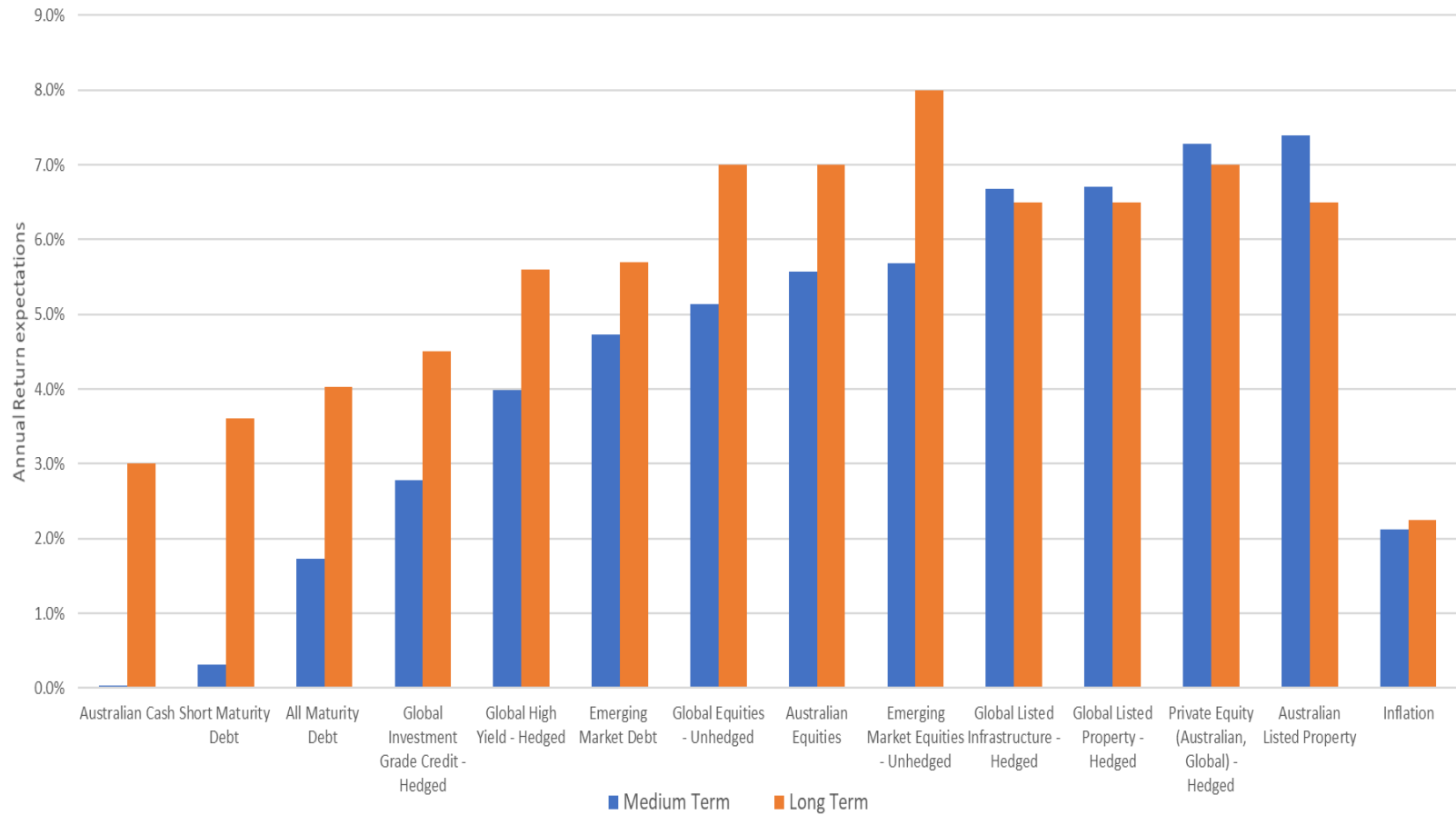


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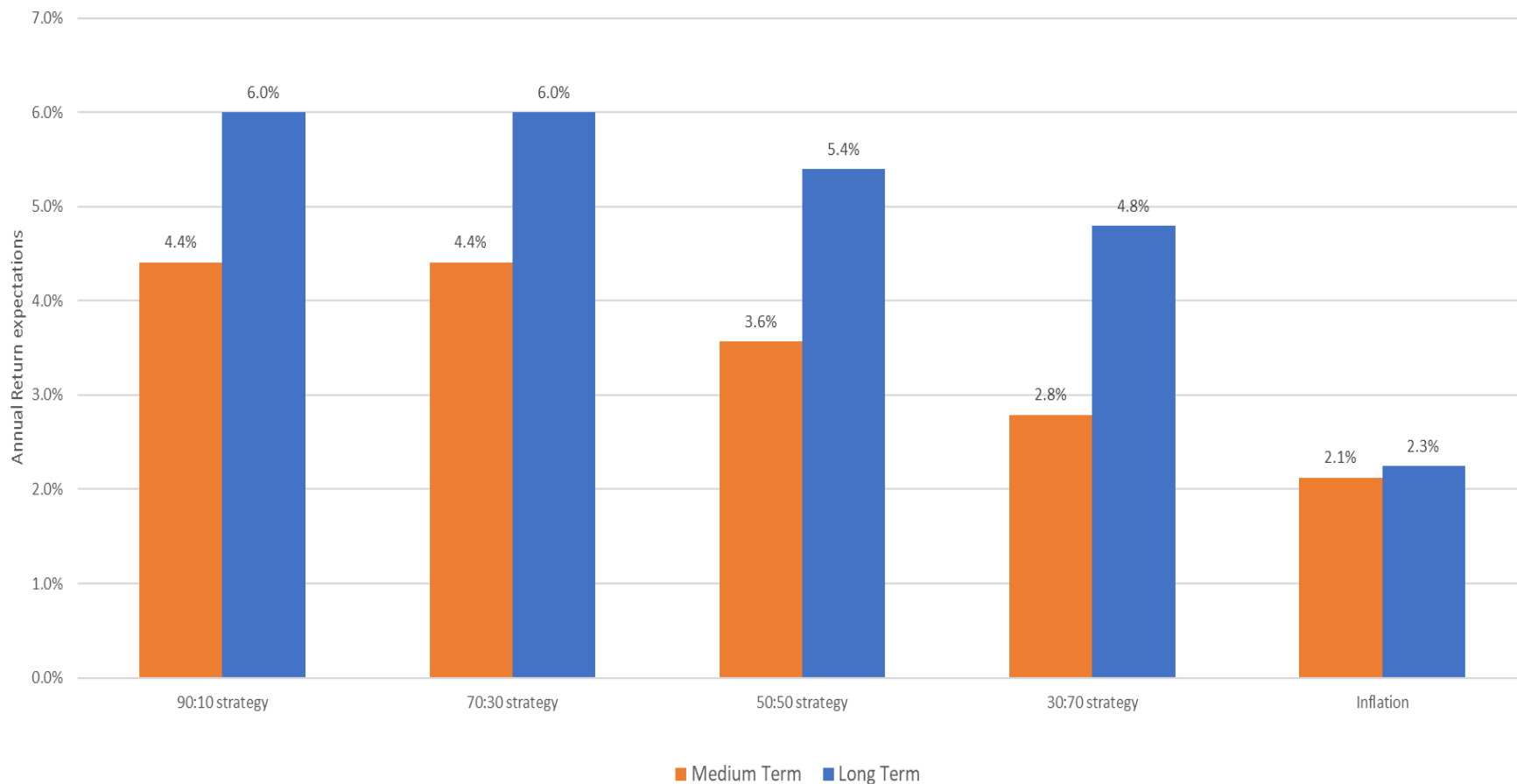
Michael Karagianis

Medium term asset class expected returns significantly depressed



Source: JANA SOLVE

Resulting in much lower expected portfolio returns



Source: JANA SOLVE

Leading to a lower probability of meeting return objectives

| | Moderate | Assertive | Aggressive | Growth |
|---|------------|------------|------------|------------|
| Parameters | | | | |
| Investment horizon (years) | 7.0 | 7.0 | 10.0 | 10.0 |
| Investment objective | CPI + 2.0% | CPI + 3.0% | CPI + 3.5% | CPI + 4.0% |
| Risk Return (first year) | | | | |
| Expected nominal return | 3.1% | 3.6% | 4.3% | 4.8% |
| Expected volatility/standard deviation | 6.0% | 7.8% | 9.9% | 11.9% |
| Performance against Objectives | | | | |
| Probability of meeting return objective in the first year | 43.3% | 42.5% | 44.5% | 45.4% |
| Probability of meeting return objective over investment horizon | 33.7% | 31.7% | 35.0% | 37.7% |
| Probability of negative return in the first year | 30.0% | 32.0% | 33.0% | 34.1% |
| Probability of negative return over investment horizon | 8.1% | 10.5% | 8.1% | 9.9% |

Source: JANA SOLVE

JANA Assessment of Valuation, Fundamentals and Sentiment

| Very Attractive | Attractive | Neutral | Unattractive | Very Unattractive |
|-----------------|---|--|--|--|
| | <ul style="list-style-type: none"> • Infrastructure • Hedge Funds • Private Equity | <ul style="list-style-type: none"> • Property • Credit | <ul style="list-style-type: none"> • Australian Equities • Overseas Equities • Currency (AUD) • Cash | <ul style="list-style-type: none"> • Fixed Interest |

Few asset classes are outright attractive

Portfolio Implications

Target an underweight exposure to equities at a portfolio level



Hold a neutral to overweight exposure to alternatives, middle risk strategies, global infrastructure & property



Within Fixed Interest, favour short maturity investment grade credit for incremental exposure or as an alternative to cash.



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