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Member Networking

Actuaries Institute & CFA Society of Sydney  
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Guest Speaker: Michael Blayney

# RETHINKING ASSET ALLOCATION

**Presented by:**

Michael Blayney – Head of Diversified Strategies

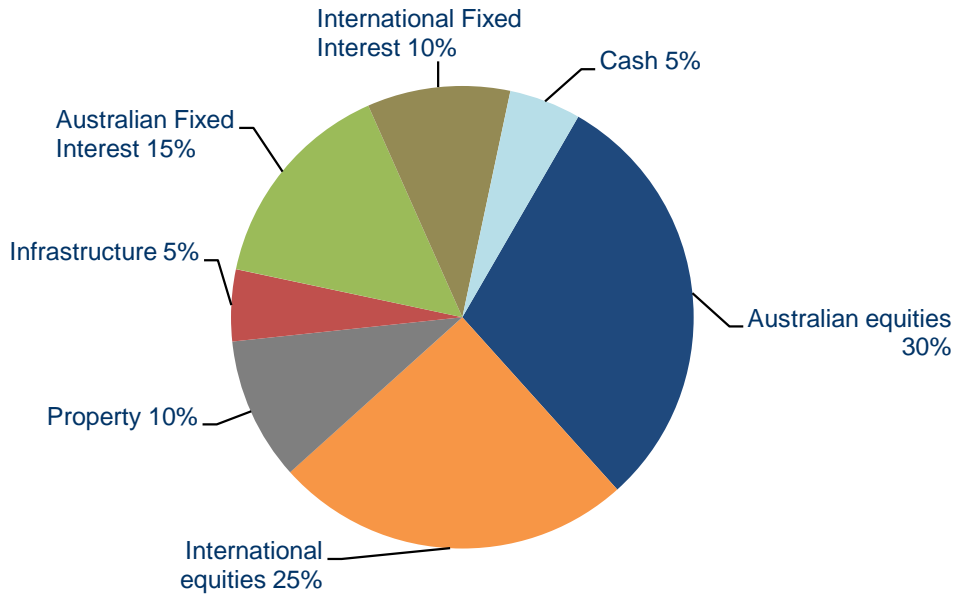
December 2012

Perpetual 

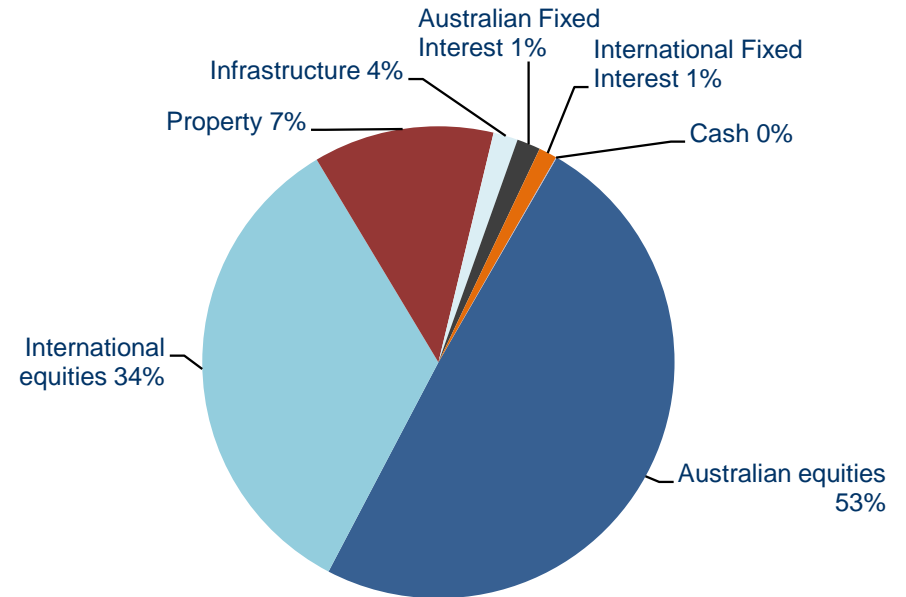
# BALANCED PORTFOLIOS ARE UNBALANCED

## TYPICAL RISK BREAKDOWN – SHORT TERM VOLATILITY

Typical Growth Portfolio Asset Allocation



Typical Growth Portfolio – Risk Breakdown (contribution to volatility)



Source: Perpetual

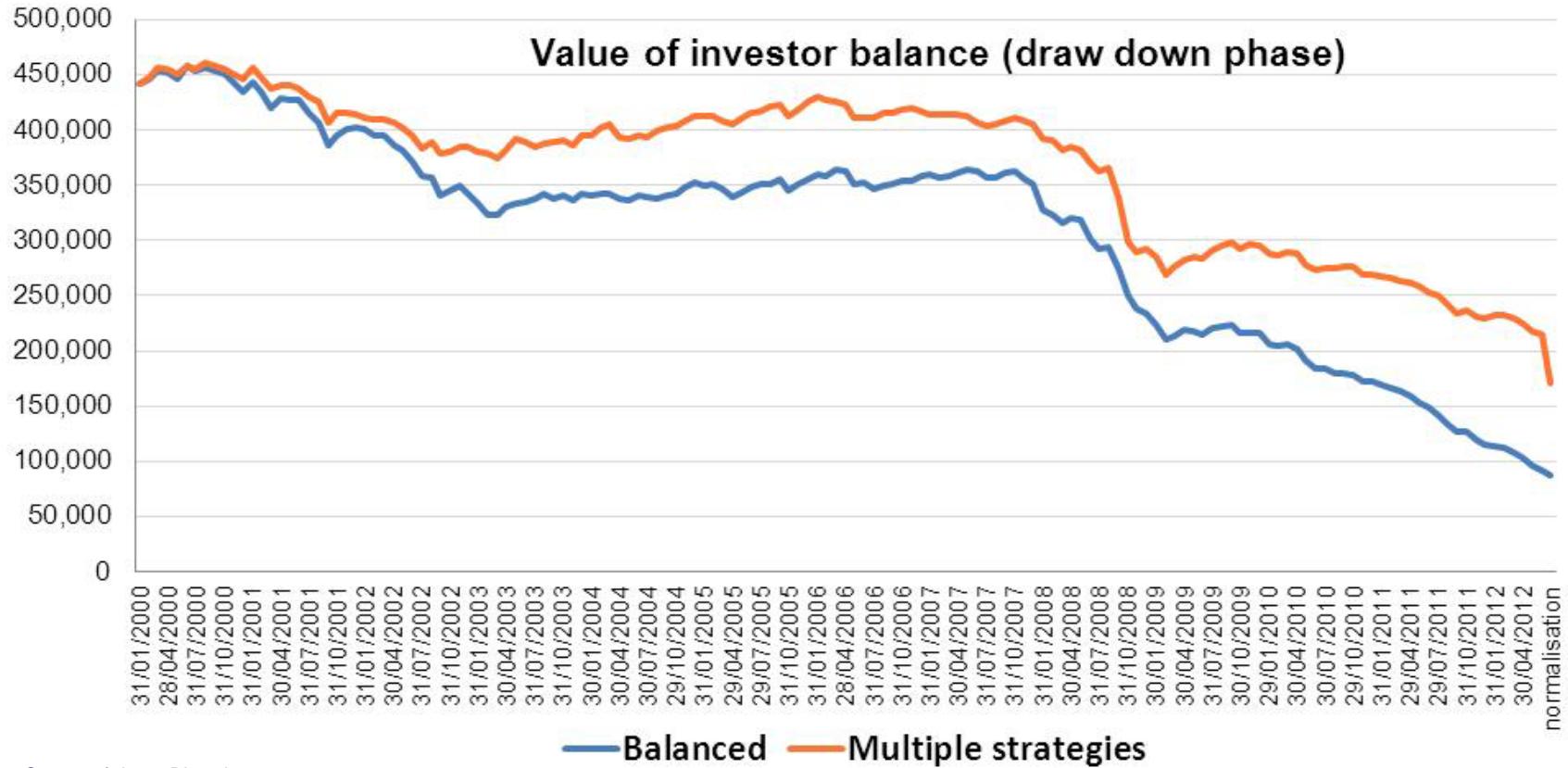
# 2008 WAS NOT OUTSIDE OF THE PREVIOUS RANGE OF EXPERIENCE

US equity market – range of poor returns historically (equities relative to cash)

<-50%	<-40%	<-30%	<-20%	
			2001	1957
		2008	2000	1941
		2002	1990	1932
		1973	1981	1929
	1974	1930	1969	1913
	1937	1920	1966	1910
1931	1907	1917	1962	1903

Source: ABN-AMRO Global Investment Returns Yearbook 2008, DataStream

# THE PATHWAY MATTERS



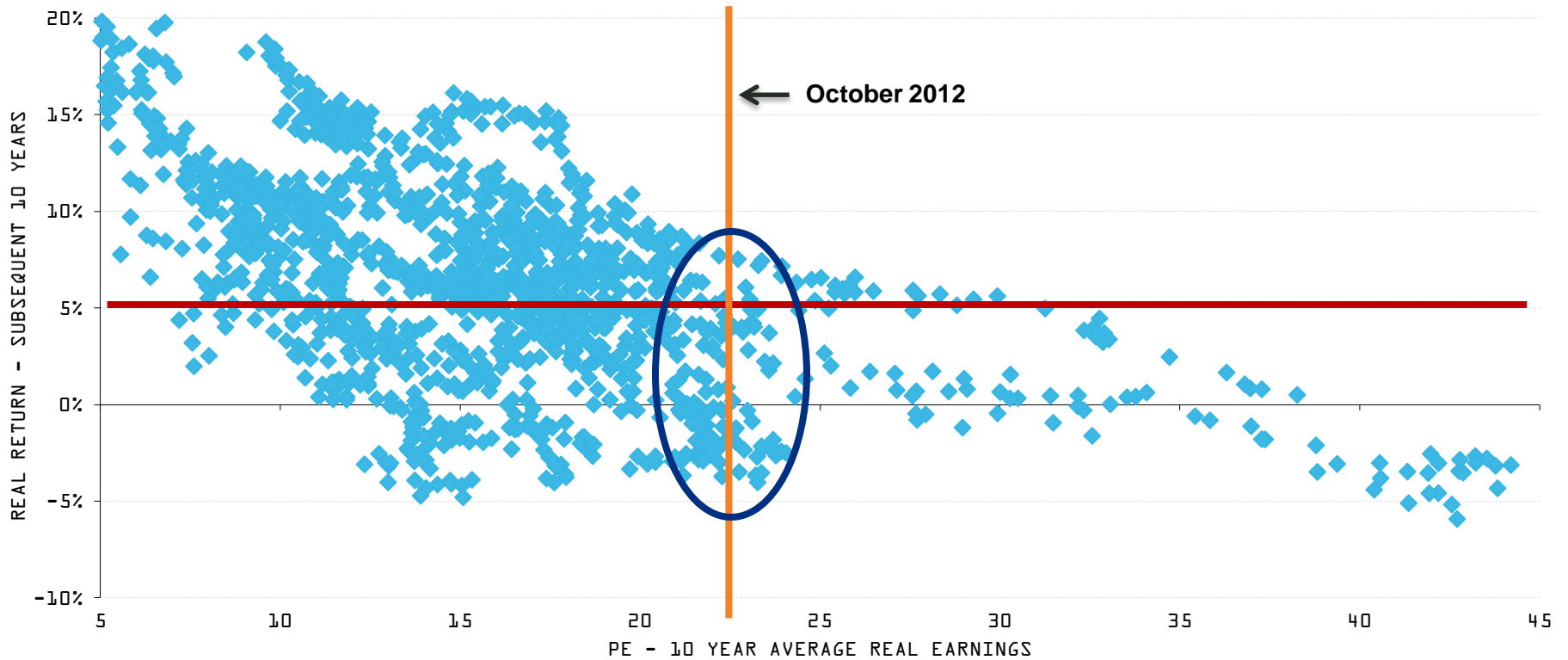
Source of data: Bloomberg

Member assumed to have a starting balance of \$450,000 and draw down an income of \$40,000 per annum. Balanced strategy assumed to hold 30% Australian equities, 25% international equities, 10% unlisted property, 10% unlisted infrastructure, 20% fixed interest and 5% cash. "Multiple strategies" holds 1/3 each in a generic risk parity fund, generic real return strategy and the balanced strategy. Last monthly return adjusted so that the return per annum over the period is the same for both strategies.

Source: Perpetual, as at 31 August 2012

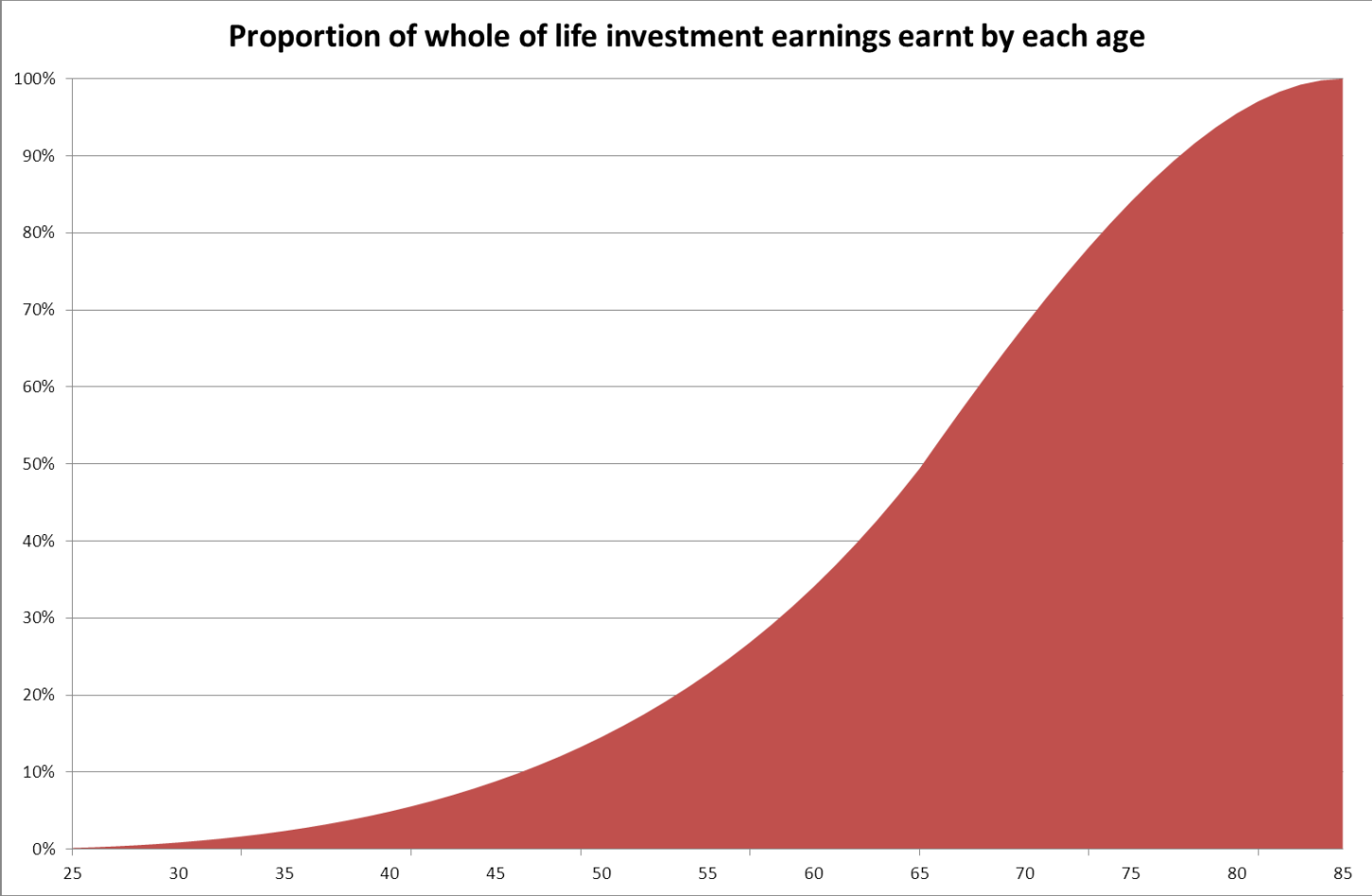
# AN INCONVENIENT CHART...

## US EQUITIES - VALUATION VS SUBSEQUENT RETURN



Source: Shiller, [www.econ.yale.edu/~shiller/data.htm](http://www.econ.yale.edu/~shiller/data.htm).

# DE-RISKING NOT THE ANSWER FOR MOST





# AND MAY BE A WEALTH HAZARD

Bond yields & subsequent returns



Source of data: Bloomberg

# THE STRATEGY FOR THE FUTURE WILL NEED TO LOOK VERY DIFFERENT

Inflation hedging

Manage short term risk

Earn enough return  
to live well

# WHAT THE PORTFOLIO OF THE FUTURE WILL NEED

Flexible mandates

Less conventional  
return drivers

Options or other  
strategies to protect from  
extreme outcomes?

# IMPORTANT NOTE

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