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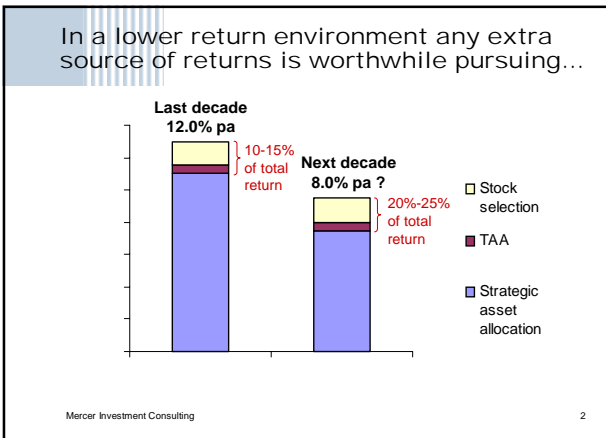
7 August 2002

Blending in a portfolio



Simon Eagleton

 Member of the Zurich Group



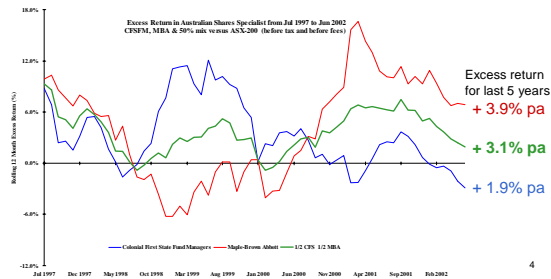
What are we trying to achieve?

- Maximise outperformance of strategy benchmark
- Minimise chance of underperforming benchmark

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How do we do it? Step 1

- Good coverage of the investment universe
 - style, market cap, credit risk, etc

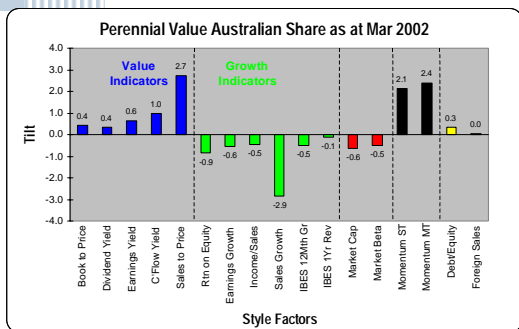


How do we do it? Step 2

- Avoid unintended biases
 - style, market cap, credit risk, etc
- Recommend pursuit of “style-neutral” manager blends

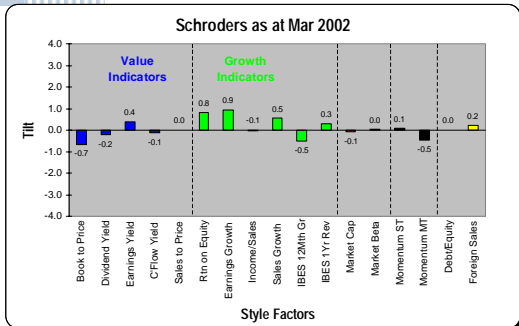
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Understand style posture: value



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Understand style posture: growth

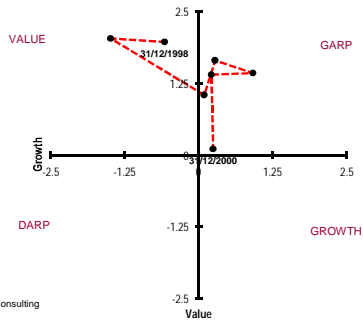


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Be aware of style drift

Snail Trail of Benchmark tilts for XYZ



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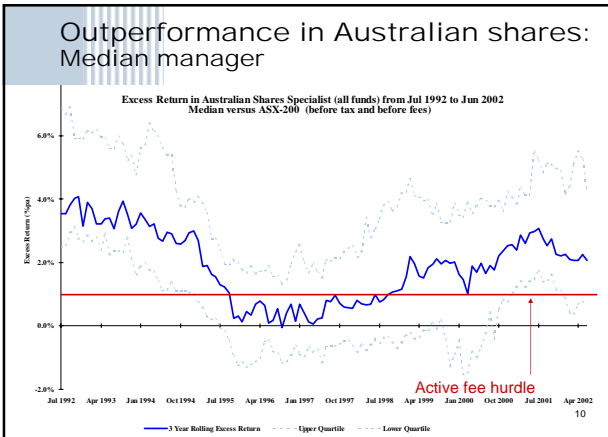
How do we do it? Step 3

- Achieve the optimal trade-off between:
 - outperformance and
 - risk of underperformance
 in each asset class, *after fees*
- i.e. take active risk only where it is rewarded

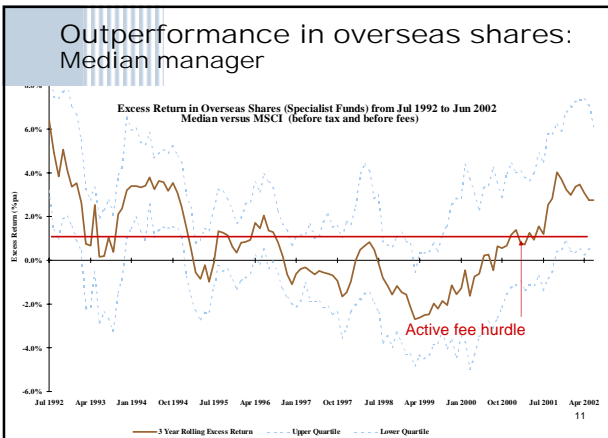
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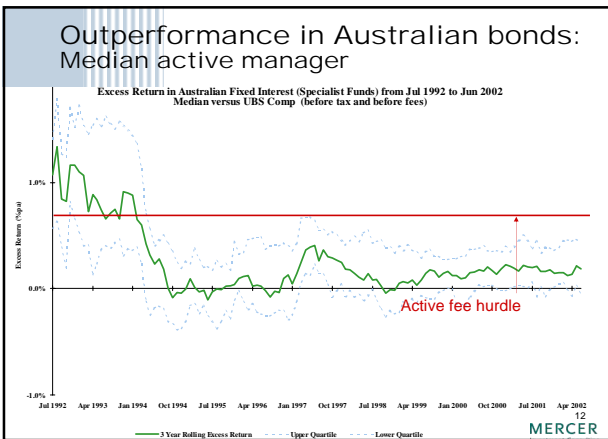
Outperformance in Australian shares: Median manager



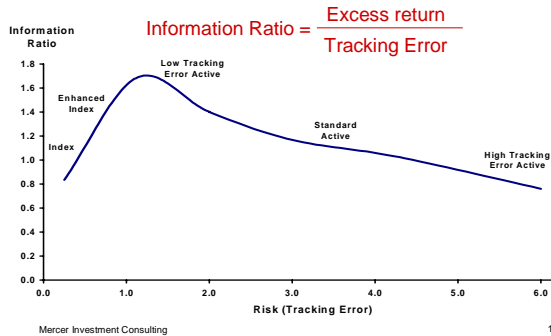
Outperformance in overseas shares: Median manager



Outperformance in Australian bonds: Median active manager



Rewarding risk



How do we do it? Step 4

- Use “best of breed” specialist managers in each asset class

Manager structure conclusions

- Australian shares
 - Active approach is worthwhile
 - 2-3 active managers appears optimal
- Overseas shares
 - active worthwhile if can identify better managers
 - Core active + enhanced passive
- Australian fixed interest
 - passive or enhanced passive approach

Mercer suggested blends

■ Australian shares

- Perennial Value Australian Shares Trust 33%
- BGI Alpha Equity Fund 34%
- Schroder Australian Equity Fund 33%

■ Property securities

- Macquarie Active 100%

■ International shares

- Credit Suisse Int'l Share Fund 60%
- Merrill Lynch Enhanced Index Equity 40%

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Mercer suggested blends Continued

■ Cash

- UBS Cash Fund 100%

■ Australian fixed interest

- Macquarie Master
Enhanced Australian Fixed Interest 100%

■ Overseas fixed interest

- Vanguard 100%

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