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Portfolio Construction

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Focus on goals and time horizon
Adjust for liquidity
Adjust for loss tolerance

Investment Strategy

Risk Profiling

Strategic Asset Allocation

Optimal combination of various asset classes (shares, property, fixed interest etc) within the growth/defensive framework in line with investors' risk profile

Build Portfolio

Select managers from quality universe
Select cheap **shares**
Select alternative assets
Construct portfolio

Ongoing Research & Advice

Things change – keep an eye on markets, managers, your own circumstances

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Investment Strategy

- Long term macro framework – to set long term return expectations

- Strategic asset allocations – for different risk profiles

- Tactical valuations – whether implemented or not, necessary for credibility

- Style – it doesn't always pay to be 'neutral'

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Manager Selection

- Quality Filter – is the manager able to outperform the market?

- Aggressiveness – how much by?

- Style – in which market conditions?

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Style analysis from the bottom up stock level

- Assess Quality – is the company good quality in terms of earnings growth and balance sheet

- Valuation – how much is it worth

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Step 1 – quality assessment

- Growth (5 year growth in sales, earnings, book value, dividends, share price)

- Stability (5 year stability of growth variables)

- Financial Condition (NDTE, Int. cover, Liquidity ratios)

- Competitive Advantage (ROCE, margins, efficiency)

- Outlook (earnings forecasts - short and long term)

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Step 2 – classify

Category

Growth
- **Dynamic** - fast growth
- **Stalwarts** - moderate growth
- **Slugs** - slow growth

Value
- **Cyclical** - bounces
- **Turnaround** - lost its bounce
- **Asset Situation** - hidden value

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Why classify stocks?

- Spectrum of growth and value, rather than just P/E, Price to Book divisions

- Apply suitable valuation methods

- Build style into portfolios

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Step 3 – Valuation

- Deep Value   - DCF
  - Asset Based Valuation
- Quality Reasonable Price   - Free Cash Flow DCF
- Growth at Bargain Price   - P E G Ratio
- Growth   - Price / Sales Momentum

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The Stock Selection Process – Applications

- Individual Stock Quality and Valuation Scores
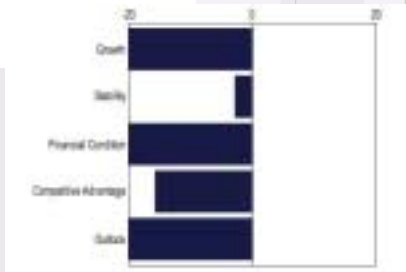
- Model Portfolios

- Fund Manager Portfolio Profiling
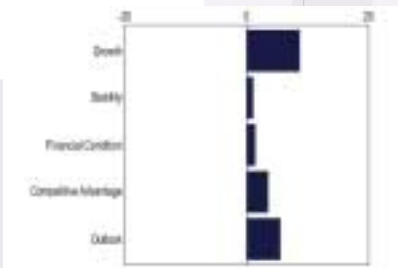
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Schroders Australian Share Fund Portfolio Quality March 2002

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Schroders Australian Share Fund Portfolio Quality – March 2002

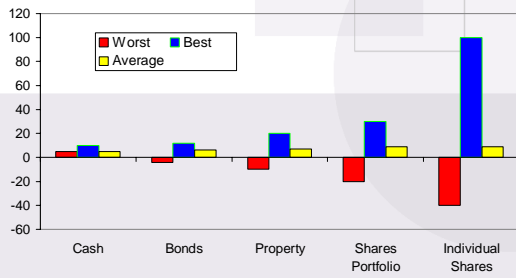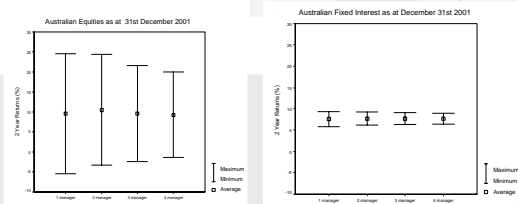## van Eyk Research
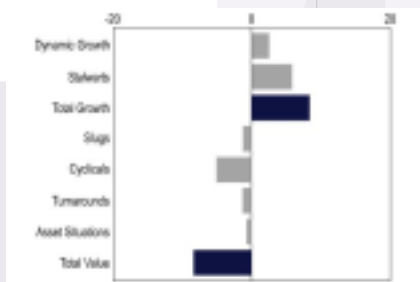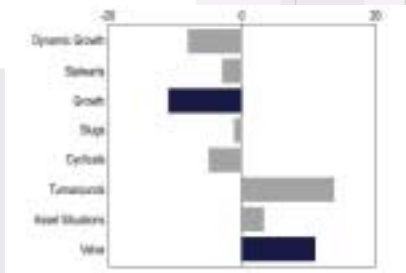
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- How many managers per asset class –

- Framework/Model – index plus satellite or something else

- Which styles in which sectors –

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Dispersion of asset class returns

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Dispersion of manager returns

Slide 1

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Model Portfolios

Portfolio Name: tet

Step 1 - Choose Investment

Australian Shares

Step 2 - Select Strategy
(Note: You will be able to add sector funds to portfolio of diversified funds later.)

○ Diversified Funds   or   ● Sector Specialist

Step 3 - Select optimisation method preferences.
(Note: The "Custom Build" option allow you to select preferred managers in each asset class.)

○ van Eyk Default   or   ● Custom Build

Step 4 - Select product type

Tax Type: Trust   Size: Wholesale

Step 5 - Select product universe
(Note: The van Eyk default portfolios will not be available if you restrict the universe)

Product Groups: Any   Master Fund: Macquarie Investment manager

Next

Blending tool pulls it together

Select
- Risk profile/asset class
- Diversified/sector approach
- Platform/approved list

Slide 2

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Sector	%Weight
Australian Equities	50.0
International Equities	40.0
Listed Property	10.0

Recommended asset allocation – 50 % (Australian Equities)

Each of the following model portfolios include your preferred manager - Please select one option.

● Choose 'van Eyk Default' portfolio for this sector

OR

Select a preferred brand	Broad Style	Rating	Specific Style
○ Advance Wholesale MultiFund - Imputation Fund	High Alpha	A	Value
○ AMP - Equity Fund-Class A	High Alpha	AA	GARP
○ AMP Wholesale - Australian Share Fund	High Alpha	AA	GARP
○ Barclays Managed Inv - Australian Share Fund	Low Alpha	AA	Neutral
○ Col First State Wholesale - Imputation Fund	High Alpha	A	Growth
○ Deutsche - Australian Equities Alpha Fund	High Alpha	AA	GARP
○ HSBC - Active-Growth Wholesale Fund	High Alpha	A	Rotational
○ Maple-Brown Abbott - Australian Equity Trust	High Alpha	A	Value
○ Merrill Lynch - Wholesale Imputation Fund	High Alpha	A	GARP
○ Perpetuals Wholesale - Australian Fund	High Alpha	A	Value
○ Schroder - Australian Equity Fund	High Alpha	AA	Growth
○ UBS - Australian Share Fund	Low Alpha	A	Neutral
○ Were Securities - JB Were Austn Equities Wsale	Low Alpha	A	Neutral

OR

Select a share portfolio	Broad Style	Rating	Specific Style
(Note: Share Portfolio Selection is under testing.)			
○ Special Situations Portfolio	Satellite	N/A	Value

Slide 3

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Recommended asset allocation – 50 % (Australian Equities)

Each of the following model portfolios include your preferred manager - Please select one option.

● **Option 1**

Product	%Weight	AEQ	IEQ	Pro	AFI	IFI	Csh
Col First State Wholesale - Imputation Fund	33.30	100	0	0	0	0	0
Perpetuals Wholesale - Australian Fund	33.40	95	0	0	0	0	5
Deutsche - Australian Equities Alpha Fund	33.30	100	0	0	0	0	0
Ave		98.2	0.0	0.0	0.0	0.0	1.7

Style   Snail Trail   Comment

Note: Style Function is under testing!

○ **Option 2**

Product	%Weight	AEQ	IEQ	Pro	AFI	IFI	Csh
UBS - Australian Share Fund	33.30	100	0	0	0	0	0
Advance Wholesale MultiFund - Imputation Fund	0.00	100	0	0	0	0	0
Deutsche - Australian Equities Alpha Fund	33.30	100	0	0	0	0	0
Ave		99.9	0.0	0.0	0.0	0.0	0.0

Style   Snail Trail   Comment

Note: Style Function is under testing!

○ **Option 3**

Product	%Weight	AEQ	IEQ	Pro	AFI	IFI	Csh
Barclays Managed Inv - Australian Share Fund	33.00	100	0	0	0	0	0
Perpetuals Wholesale - Australian Fund	33.00	95	0	0	0	0	5
Deutsche - Australian Equities Alpha Fund	34.00	100	0	0	0	0	0
Ave		97.4	0.0	0.0	0.0	0.0	1.7

Each option will reflect preferred mgr blended with others based on portfolio style

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Style chart reflects growth and large cap bias – based on portfolio holdings and common definitions
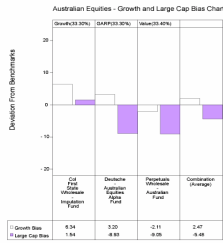
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Snail-trail checks that performance was how it should be
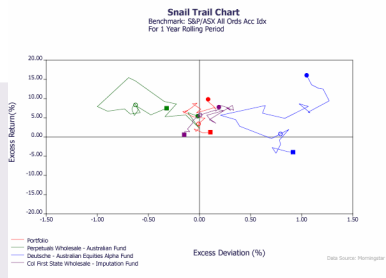
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Text comments explain combination

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Conclusion

- Ensures consistency of approach while allowing advisers to pick preferred managers

- Tight dispersion in combination returns

- Portfolio combinations can be imported into Quant for ongoing performance measurement

- Can add tilts as desired

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www.irate.vaneyk.com.au

Or leave your business card at our stand