

Blending a Portfolio

Presented by  
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Director - Investments & Insurance



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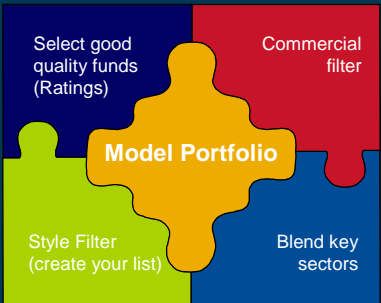
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FORMULATING AN INVESTMENT STRATEGY




Select good quality funds (Ratings)

Commercial filter

Model Portfolio

Style Filter (create your list)

Blend key sectors



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WHY BLEND?



Reduce volatility of returns

Meet short-medium term objectives (no style is top quartile under all market conditions)

Avoid having to pick winners (take the focus off outright performance)



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**ASSUMPTIONS**

- No sub-sector funds (ie. no regional, industry or small cap funds)
- Want to limit cost in low excess return sectors
- Only using managed funds in the nominated asset classes (ie. no mortgage funds or alternative investments)
- Implemented via ASGARD (want to use adviserCHOICE to streamline your practice)




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**HOW MANY MANAGERS IN EACH SECTOR?**

Investment Sector	No. of Managers	Styles
Australian Equities	3-5	All Active
International Equities	3-4	Active/Index
Property	1-2	Active/Index
Fixed Interest	2	Indexed
Cash	1	Active




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**AUSTRALIAN SHARES  
QUANTITATIVE STYLE ANALYSIS**

3 years to June 2002		
Manager	% Value	% Growth
Barclays Global Investors	52	48
Schroder	38	62
Colonial First State Fund Managers	46	54
Credit Suisse Asset Management	40	60
Maple-Brown Abbott	74	26
ING	57	43
Merrill Lynch	44	56
Perpetual Funds Management	59	41
ASX 300 (All Ords before 1/4/2000)	48	52

Source: Mercers




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## AUSTRALIAN SHARES QUALITATIVE STYLE ANALYSIS

Manager	Specific Style	Idea Focus	Rating
Barclays Global Investors	Quantitative/ Variable	Bottom Up	*****
Colonial First State Fund Managers	Judgemental/ Growth	Bottom Up	****
Credit Suisse Asset Management	Judgemental/ GARP	Bottom Up	*****
Maple-Brown Abbott	Judgemental/ Value	Bottom Up	****
ING Investment Management	Judgemental/ GARP	Bottom Up	****
Merrill Lynch Asset Management	Judgemental/ Growth	Bottom Up	*****
Perpetual Funds Management	Judgemental/ Value	Bottom Up	****




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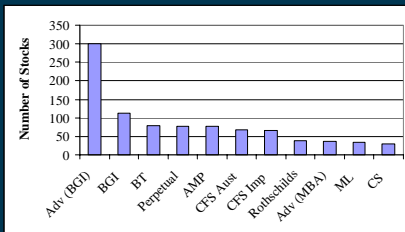
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## NUMBER OF STOCKS




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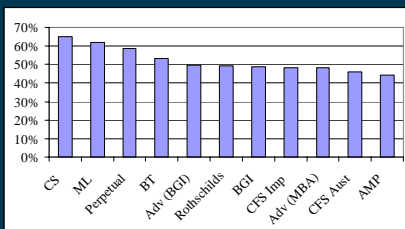
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## % TOP 10 HOLDINGS




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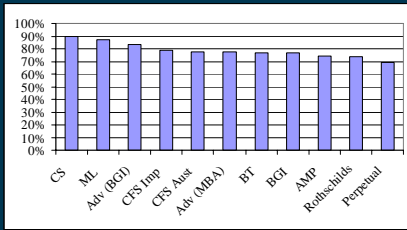
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**% TOP 50 HOLDINGS (LARGE)**




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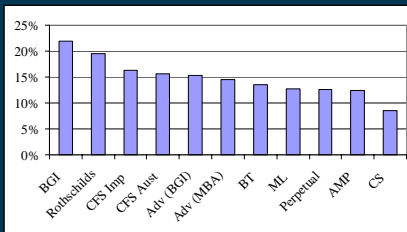
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**% 50-200 HOLDINGS (MID)**




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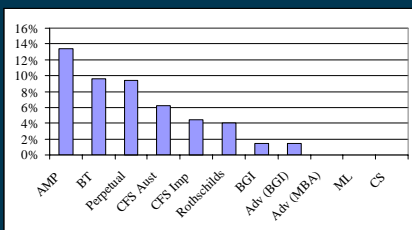
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**% EX 200 HOLDINGS (SMALL)**




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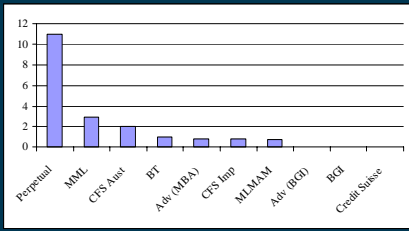
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### % NON INDEX HOLDINGS



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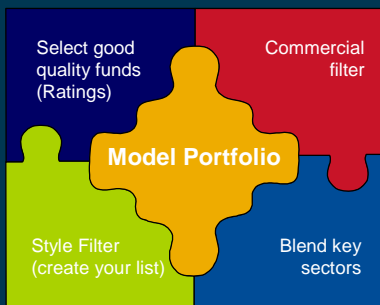
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### Formulating an Investment Strategy



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### BLENDING USING QUANTITATIVE TOOLS

- Produce the portfolio which minimises the chance of under performing the index and minimises the chance of negative returns
  - blend excess return against downside risk
- *Assumption:* clients are happy to accept volatility on the upside, but want to minimise their losses



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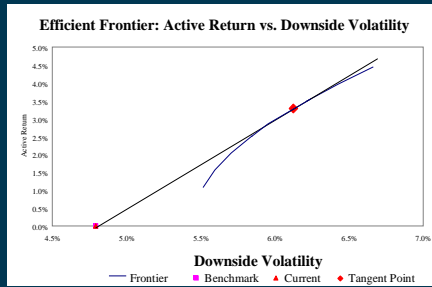
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**BLENDING RESULTS: AUSTRALIAN SHARES**




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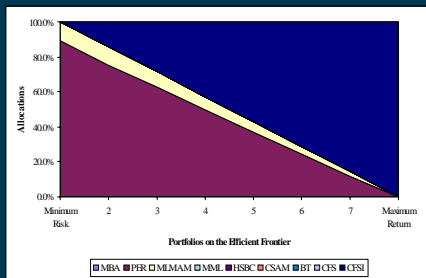
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**BLENDING RESULTS: AUSTRALIAN SHARES**




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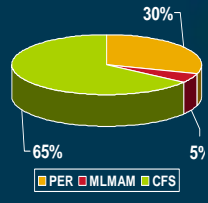
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**BLENDING RESULTS: AUSTRALIAN SHARES (QUANT ONLY)**

- **CFS:** growth; bottom up; c.60-70 stocks, moderate holder of non-index companies; mid-cap bias.
- **PER:** value; bottom up; c.50-80 stocks; large holder of non-index companies; conservative stock filters.
- **MLMAM:** GARP; bottom up; c.25-40 stocks (concentrated portfolio); stick to top 150 stocks, primarily those in the index.




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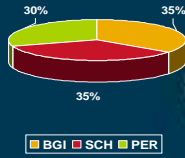
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### BLENDING RESULTS: SATELLITE APPROACH AUSTRALIAN SHARES

- **SCH**: judgemental; growth; high alpha; bottom up; c.40-50 stocks, will hold significant mid-caps at times; moderate turnover.
- **PER**: judgemental; value; high alpha; bottom up; c.50-80 stocks; large holder of non-index companies; high turnover.
- **BGI**: quantitative, style neutral, moderate alpha; bottom up; c. 105-115 stocks; index companies only; low turnover; large cap bias.




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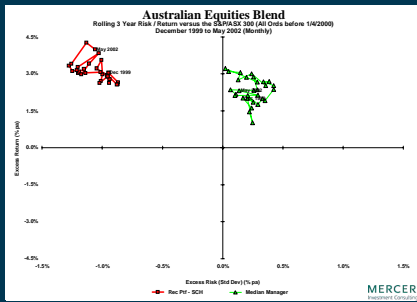
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### RECOMMENDED AUSTRALIAN EQUITIES BLEND




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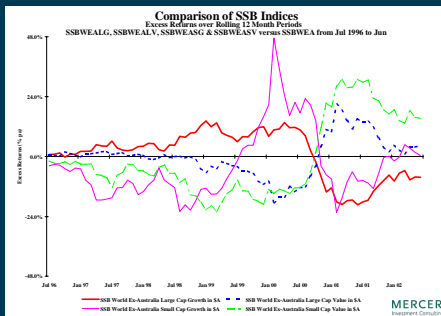
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### GROWTH v. VALUE AND LARGE CAP v. SMALL CAP




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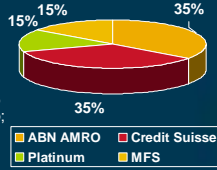
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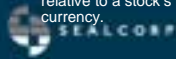
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### MODEL CHOICE INTERNATIONAL SHARES BLEND

- **ABN AMRO:** Europe based; unhedged; thematic with strong bottom up processes; growth; large cap bias; c.80 stocks.
- **CSAM:** outsource to Capital International (US based) with CSAM doing currency mgt up to 50% of portfolio; bottom up; value-GARP; large cap bias with little emerging markets; c.90-150 stocks.
- **MFS:** US based; bottom up; proven earnings-style manager (growth style); mid cap bias; will hedge when anticipates that the US dollar will move more than 10% relative to a stock's base currency.



**Platinum:** Australian based; value manager who seeks unloved (mispriced) companies; concentrated portfolios of 60-80 stocks with top 10 representing c.30-40% of portfolio; will hedge up to 100%.




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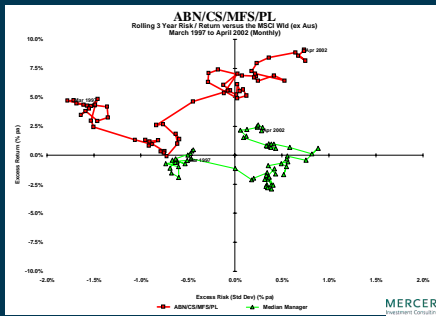
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### INTERNATIONAL SHARES BLEND




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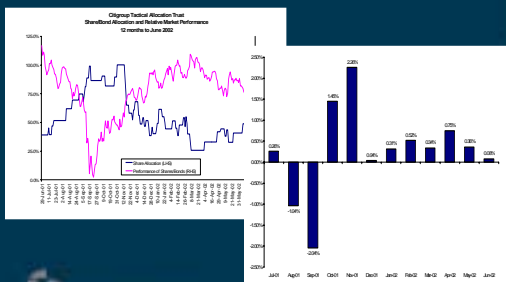
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### CITIGROUP TACTICAL ALLOCATION TRUST: VOLATILITY OFFERS OPPORTUNITIES TO ADD VALUE




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## Model Portfolio

- Australian Equities
  - BGI Alpha (34%)
  - Schroders (33%)
  - Perpetual (33%)
  - MBA (20%)
- International Equities
  - Credit Suisse (35%)
  - ABN AMRO (35%)
  - Platinum (15%)
  - MFS (15%)
- Listed Property
- Australian Fixed Interest
- International Fixed Interest
- Cash
  - Money Market (no cost)
- Tactical Allocation Trust
  - Citigroup



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