



building
shock resistant
portfolios



Investing for Real Income

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CIO, Ankura Capital**

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ASSET MANAGEMENT

Investing for Real Income

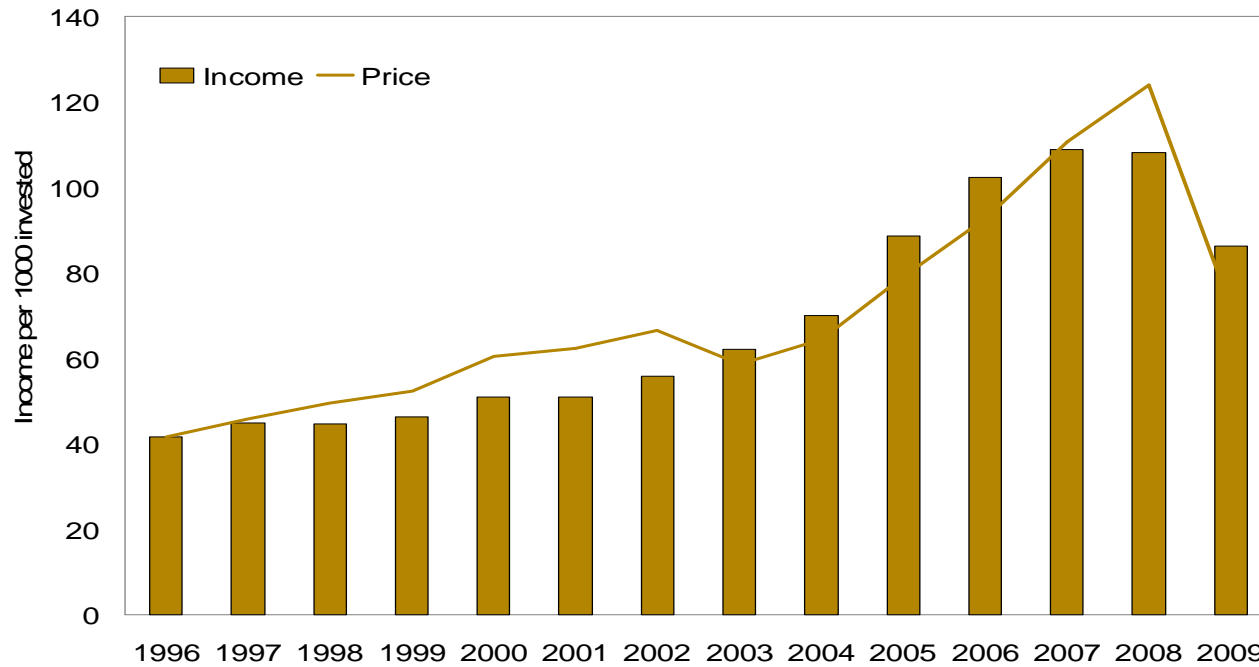
- **High Yield Equity Investing**
- **Asset Allocation for Real Income**

High Yield Equity Investing



Equity Income Growth – Australian Industrial Shares

Income per \$1000 invested in December 1995

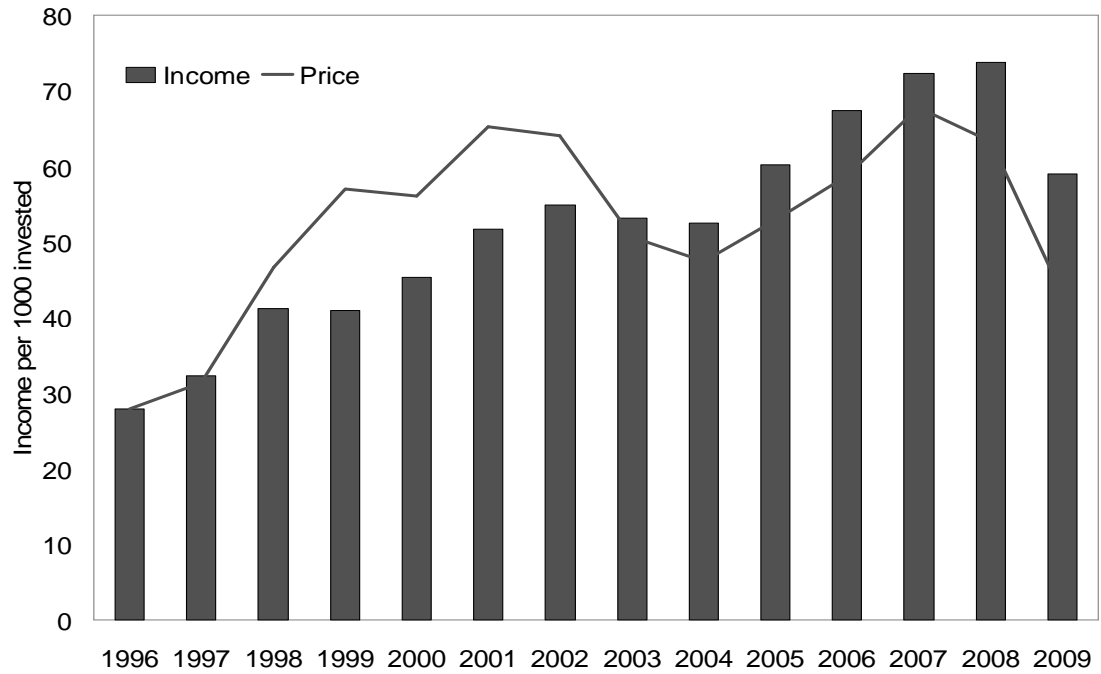


Source: Ankura Capital, S&P/ASX



Equity Income Growth – Global High Yield Equity

Income per \$1000 invested in December 1995

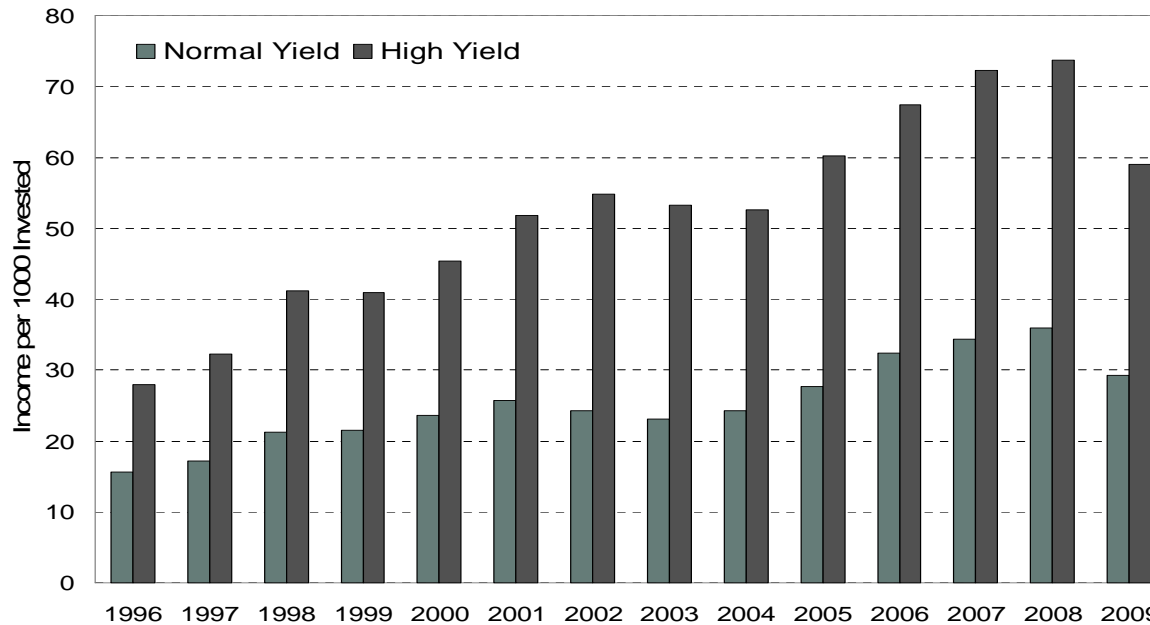


Source: Ankura Capital, MSCI



Equity Income Growth – Global High Yield versus Normal Yield

Income per \$1000 invested in December 1995

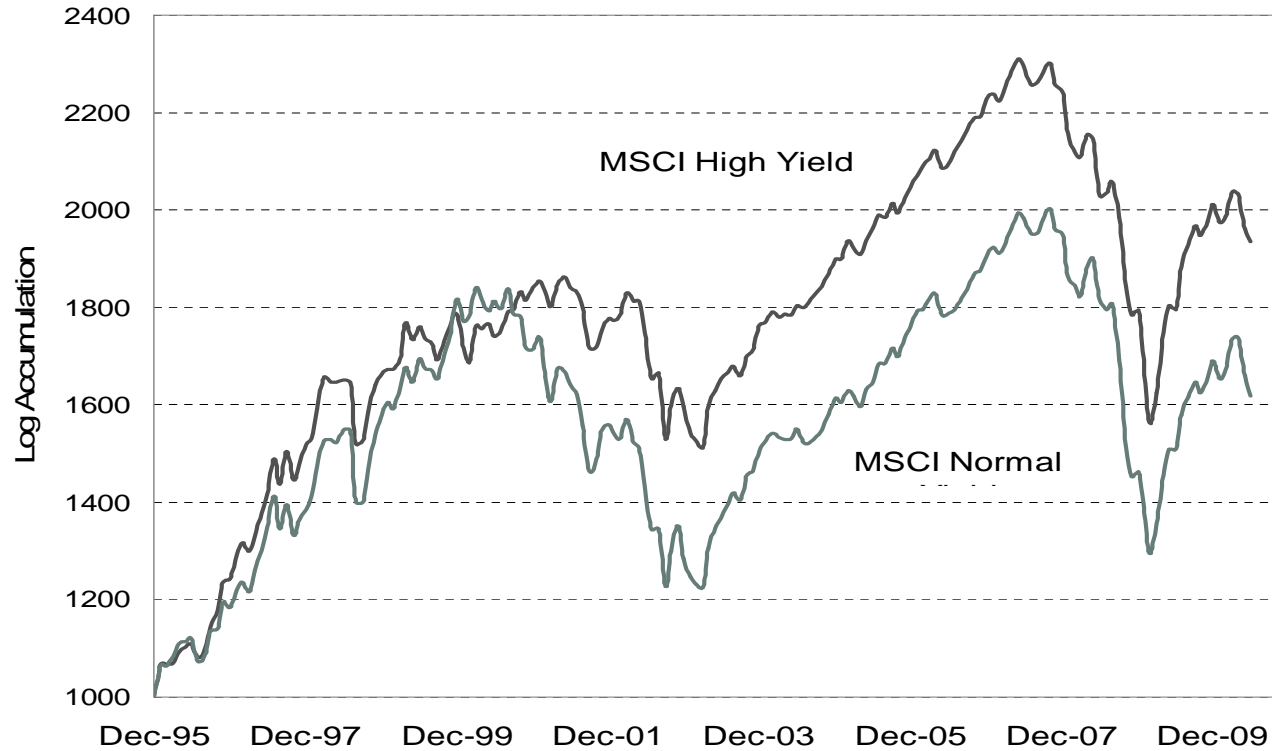


Source: Ankura Capital, MSCI

High Yield Income in \$A has grown at 6%pa compared to 5%pa for Normal Yield.

Total Performance – Global High Yield versus Normal Yield

Cumulative Total Performance

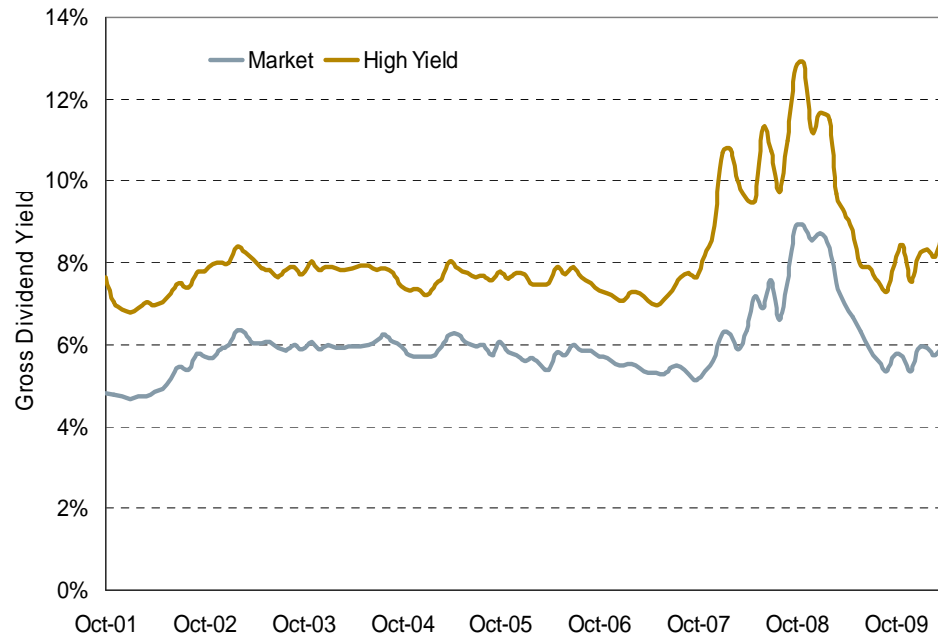


Source: Ankura Capital, MSCI



Australian Equity High Yield – Consistent Income Opportunity

Gross Dividend Yield including Franking Credits



Source: Ankura Capital



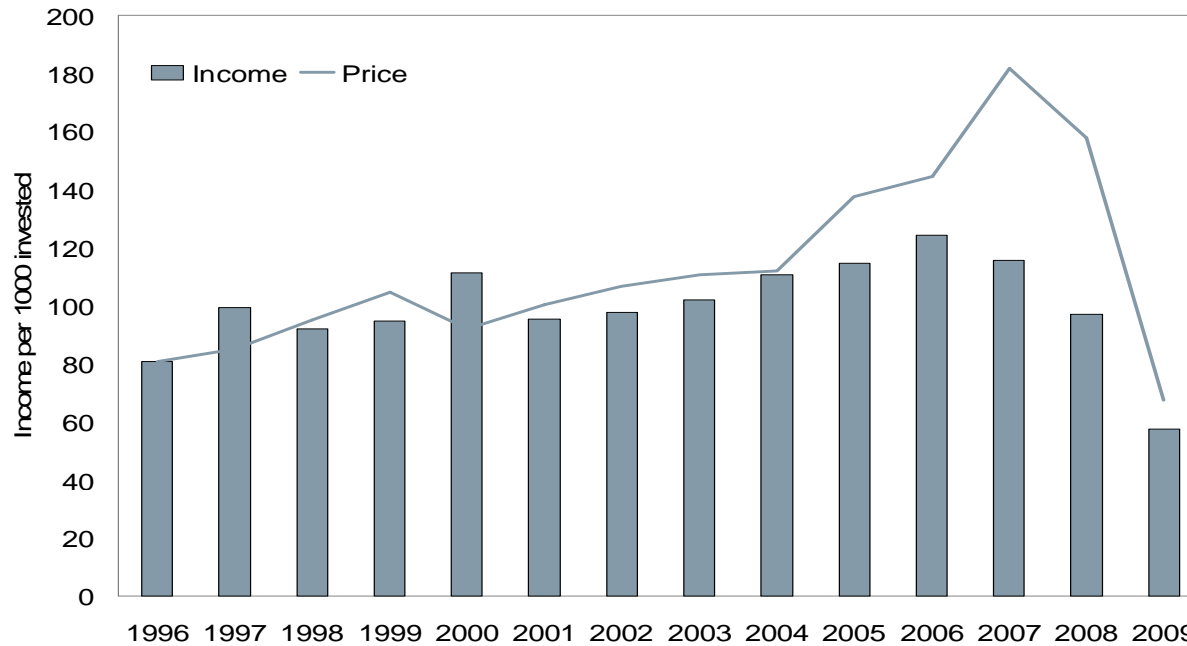
An opportunity or a mirage?

- An unqualified yield bias can increase risk
- High Yield Equity filters on dividend sustainability
 - dividend history
 - cashflow backing
 - leverage
- Macro risk management (ie cyclical, interest sensitivity) can also help
- Return volatility generally lower but higher at times of crisis

Income Growth – Australian Listed Property

The Impact of Leverage

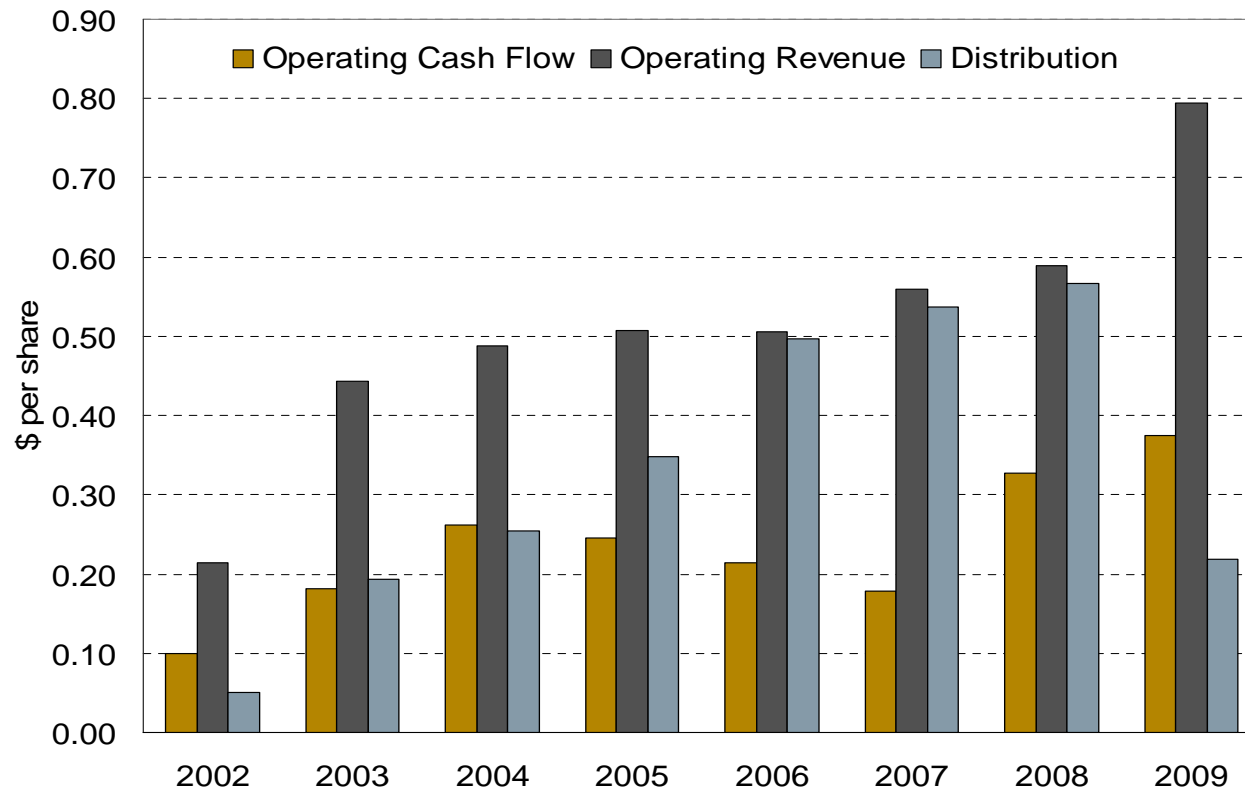
Income per \$1000 invested in December 1995



Source: Ankura Capital, S&P/ASX

Leverage can undermine sustainable income growth

Transurban Group



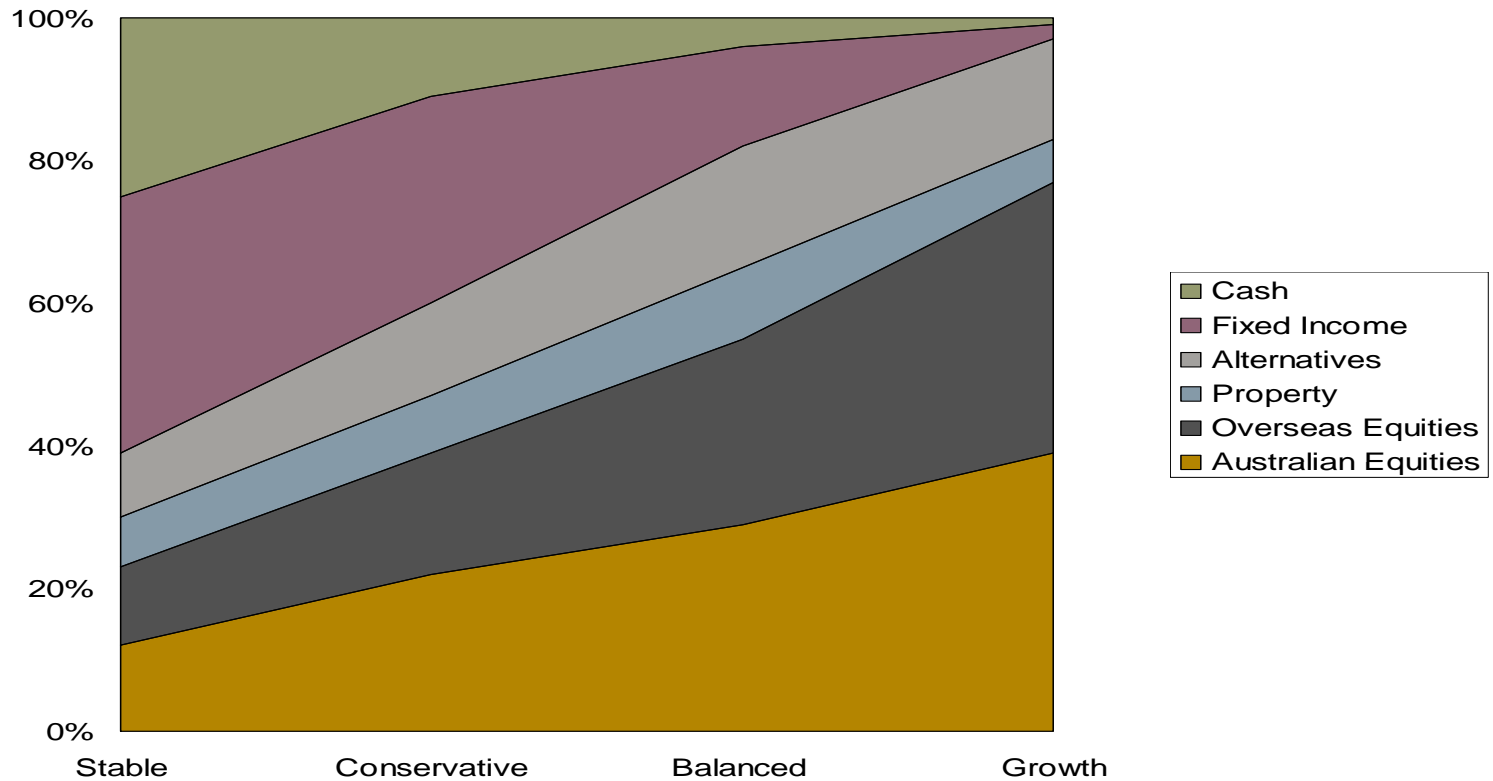
Source: Ankura Capital, Morningstar



Asset Allocation for Real Income



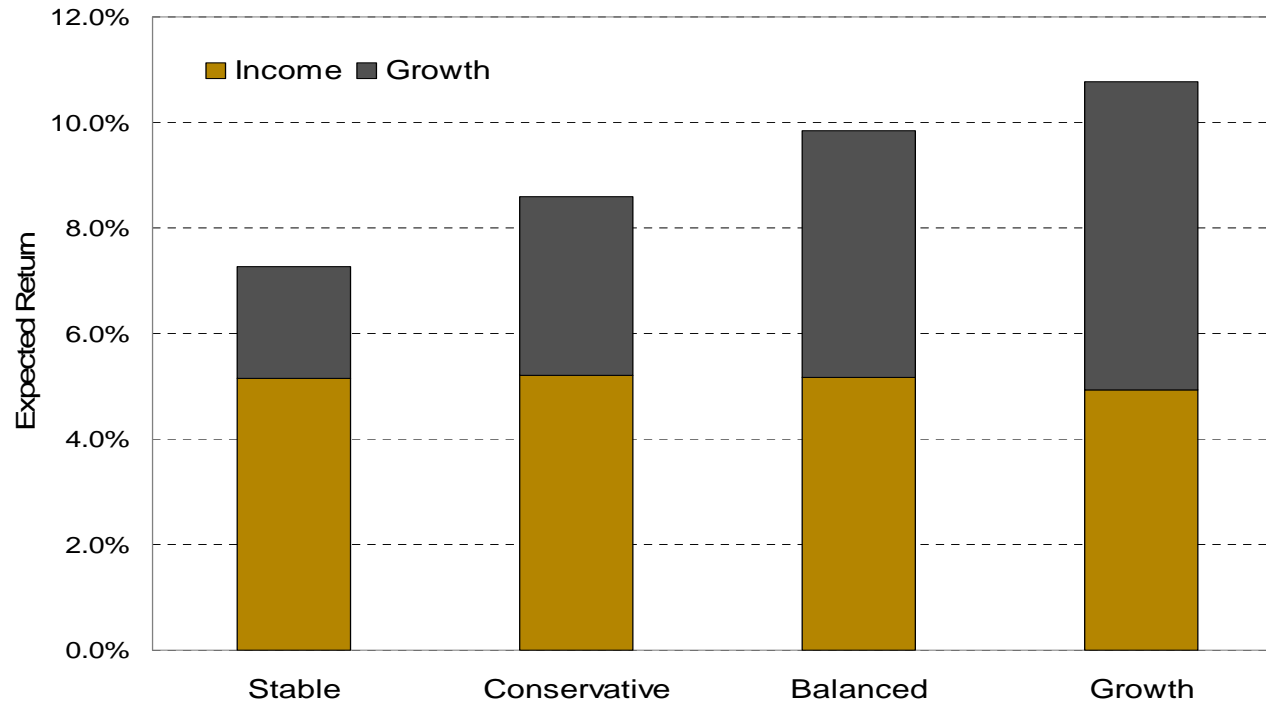
Typical Superannuation Fund Investment Options



Source: Ankura Capital



Income/Growth profile



Source: Ankura Capital

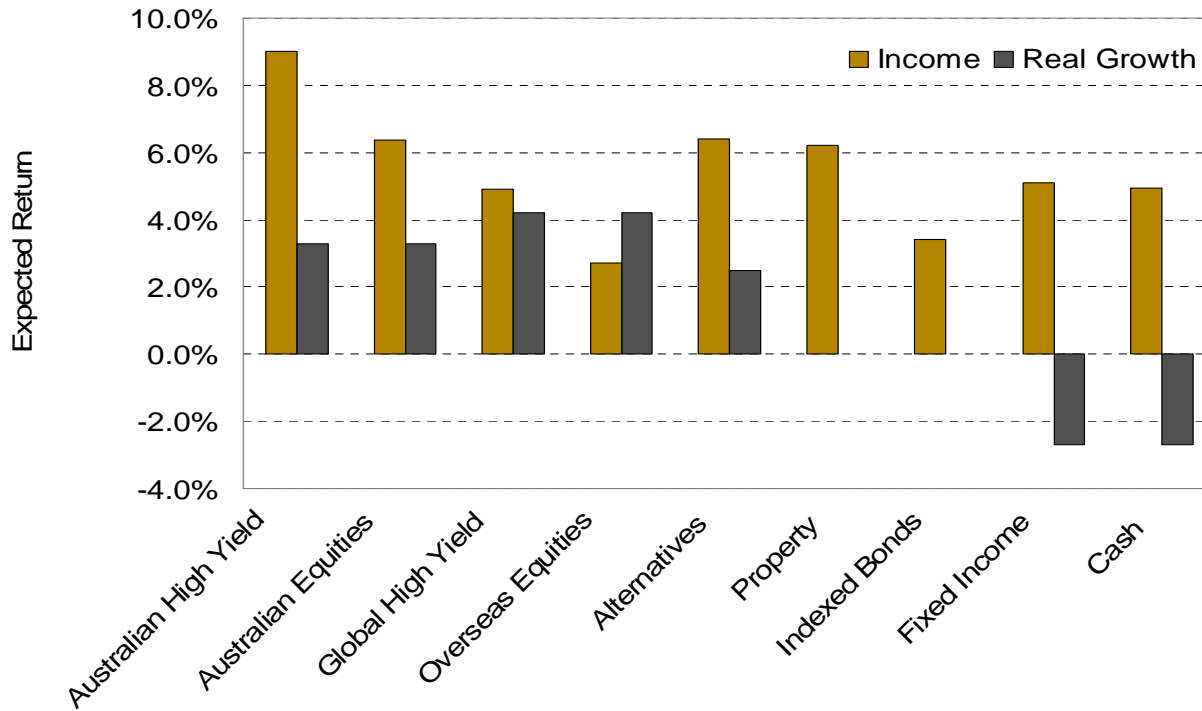
Australia's long term inflation expectation is currently 2.7%

(Source: Consensus Economics Inc)



Equity High Yield Expands Asset Allocation Options

Asset Class Current Income Yield and Expected Real Growth



Source: Ankura Capital

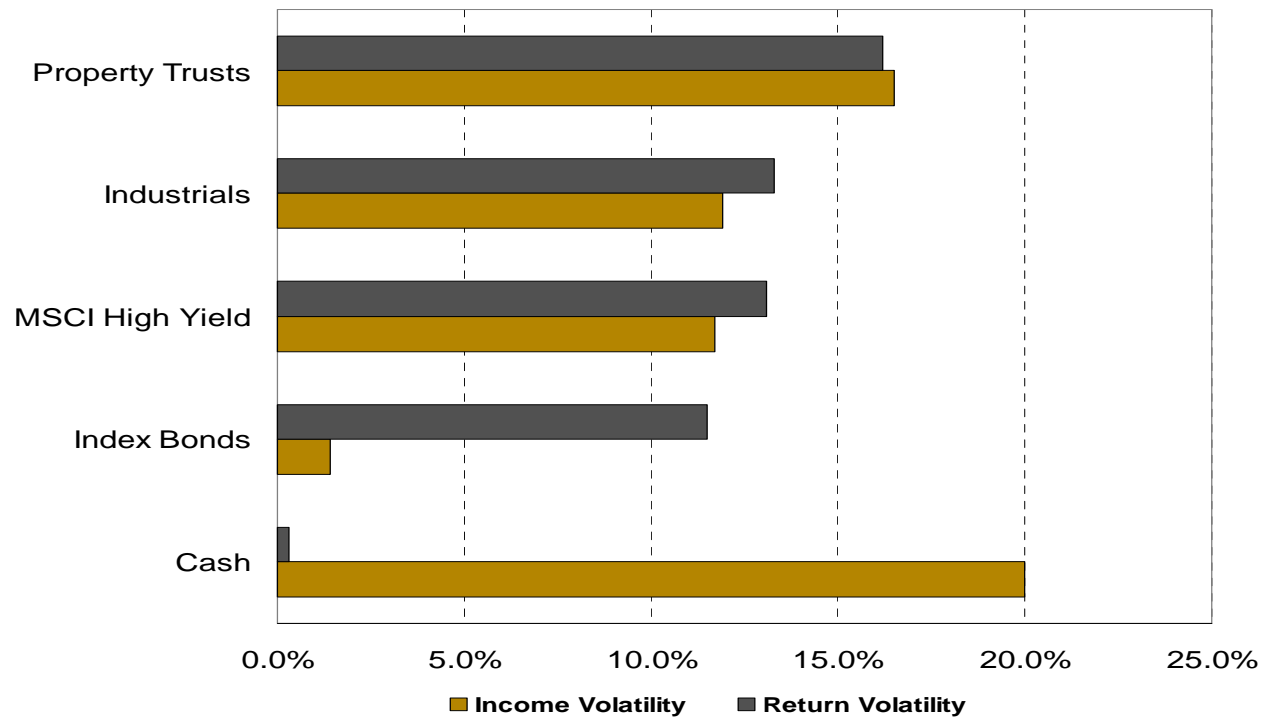


Asset allocation for real Income

- Substitute High Yield Equity for normal yield
- Domestic/global balance of 2:1 instead of 1:1
- Prefer defensive alternatives to growth alternatives
- Avoid highly leveraged vehicles
- Cash is not the risk free asset

Income volatility gives a different perspective

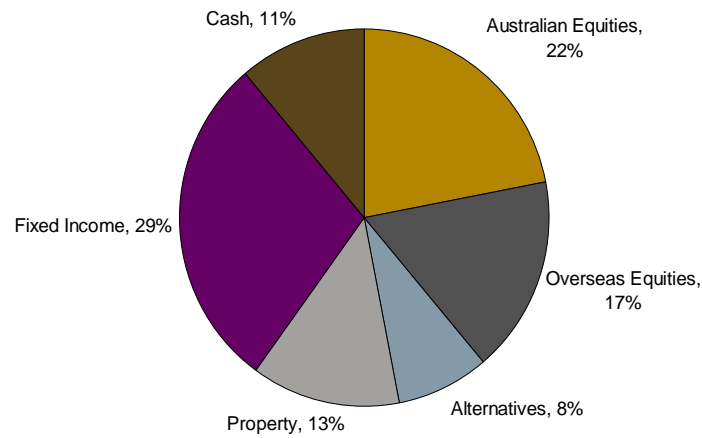
Asset Class Income Volatility versus Return Volatility



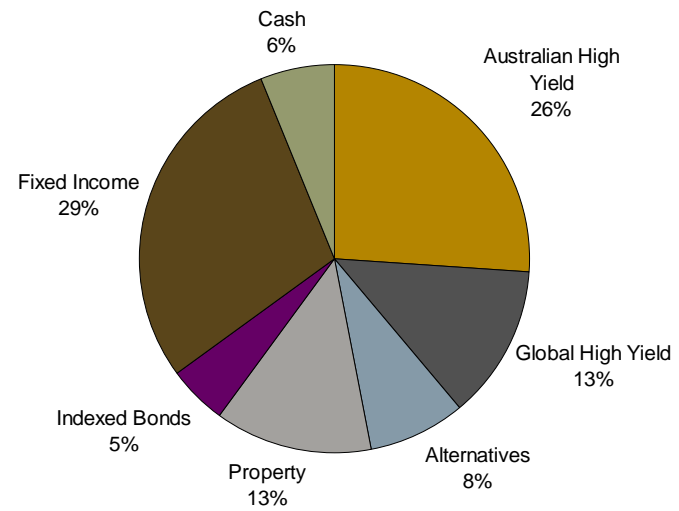
Source: Ankura Capital

Alternative High Yield Conservative Allocation

Normal Conservative



High Yield Conservative



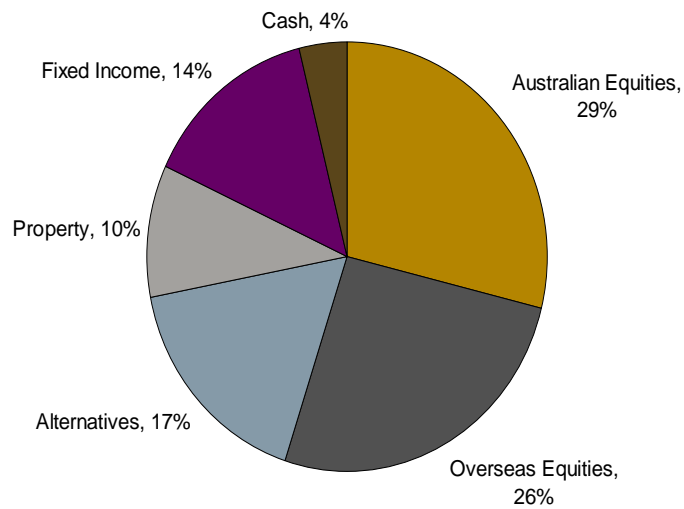
Source: Ankura Capital



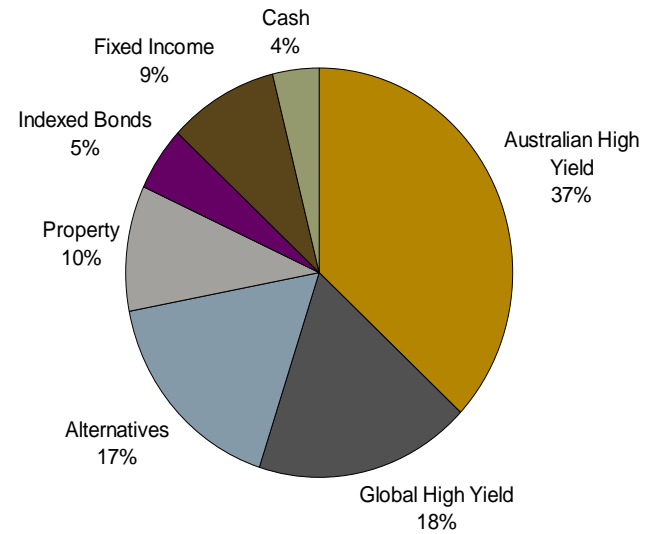
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Alternative High Yield Balanced Allocation

Normal Balanced



High Yield Balanced



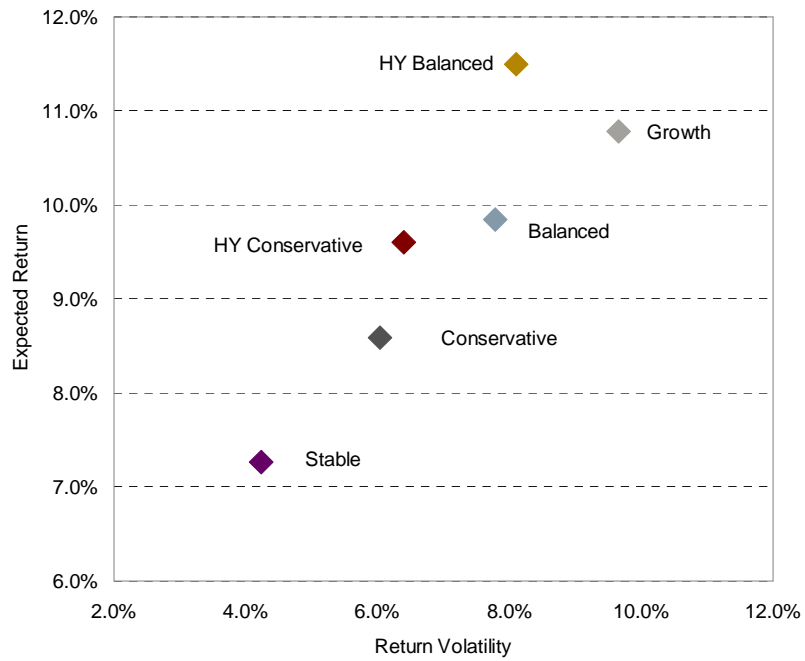
Source: Ankura Capital



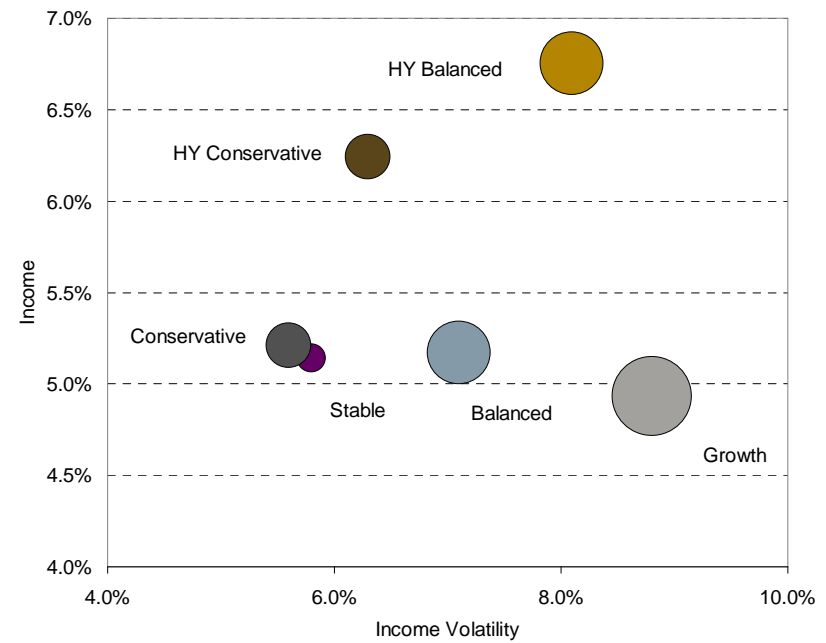
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Income, Volatility and Growth

Usual Perspective



Income Perspective



Bubble size indicates income growth



Source: Ankura Capital



Evolution not revolution

- An income-based strategy is an additional investment option
- This is well suited to account based pensions
- Higher income requires less asset liquidation
- For some high value members this can be a longevity answer
- Member education required about the volatility of investment income
- Potential enhancement via income averaging

Accessing Australian Equity High Yield

Ariana Fletcher

Manager, BNY Mellon Asset Management

August 2010

**BNY Mellon Asset Management
Our world class specialist asset
managers**



Total AUM over US\$1.0 trillion



- Australian Equity boutique; one of BNY Mellon's 18 investment managers
- Based in Sydney and managing Australian Equity funds since 1995
- Investment process originated and developed specifically for the Australian market
- Quantitative investment approach
- Qualitative risk management overlay
- Stable team - same key investment professionals since inception

¹ AUM for The Alcentra Group
² A division of The Bank of New York Mellon
³ A division of The Dreyfus Corporation

⁴ Minority Owned
⁵ AUM for The Newton Group
⁶ 50/50 Joint Venture

Provisional AUM has been provided by each asset manager as at 30 June 2010. Total AUM includes the asset managers outlined in this presentation as well as Mellon Global Alternative Investments, Ivy Asset Management, The Dreyfus Corporation, BNY Mellon Wealth Management and external data.

Ankura Capital – High Yield Strategy

- Targets above market income generation with lower volatility than the equity market
- Seeks to exploit market inefficiencies
- No direct resource exposure; predominantly in industrials
- Stock specific portfolio weights constrained to 3%
- Benchmark: 50% Large Industrials/ 50% Small Industrials
- Seeks durable yield
- Suggested minimum investment horizon of 3 years
- Benefit from franking credits
- Typically invests in 40-50 Australian stocks
- Simple and readily understood by your clients



1 Source: ABS Life table 2006-08.

2 Weighted average of 8 capital cities, as at March quarter 2010; Source: www.economist.com, Weekly Indicators; ABS Cat. No. 6401.0.

Ankura Access Points

1. Multi-manager Portfolio

- AXA Income Generator
 - available on both Summit and North platforms
 - BT Wrap under discussion
- TBA Multi-manager firm

2. SMA

- Hub24 - www.hub24.com.au
- OneVue under discussion

3. Who to contact

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