IMAP Specialist series: The tools we use to manage portfolios

Session 1 : Portfolio construction and research – How to build portfolios

David Leon, Stellan Capital

Michael Furey, Delta Research and Advisory

Steven Tang, Zenith Investment Partners

Moderated by Nancy Yuen, SS&C GWP

In association with

SS&C Global Wealth Platform (GWP)

IMAP Institute of Managed Account Professionals

IMAP 2021 Events

Specialist Webinar Series

15th, 17th & 19th March – The Tools we Use for Portfolio Management

19th, 21st & 23rd April – Building a Base of Wholesale and NFP Clients

7th, 9th & 11th June – Asset Allocation

Adviser Roadshow

11th May – Brisbane

18th May – Sydney

20th May – Melbourne

Managed Account Awards

25th August

How to ask a Question

IMAP
Institute of Managed Account Professionals

Portfolio Construction Management & Research Tools – How to build portfolios

Agenda

Portfolio Construction Management & Research Tools

- **Michael Furey** – Delta Research and Advisory
    - Investment philosophies, investment performance behavior and how a basic portfolio is constructed.
- **Steven Tang** – Zenith Investment Partners
    - Zenith's tools MSCI BarraOne and internal tool to construct a portfolio.
- **David Leon** – Stellan Capital
    - Macro view and applying themes to construct a portfolio.
- **Q&A** with the panelist

IMAP SPECIALIST SERIES: The tools we use to manage portfolios

By Michael Furey

March 2021

DELTA
Research and Advisory

Investment Philosophy

- What do we believe works across markets?
  - Active vs Passive?
  - Asset Allocation as the major driver of risk or do we concentrate/increase Alpha risk?
  - Value vs Growth, High Yield vs Credit vs Duration, Small vs Large, et al.

DELTA Research and Advisory

Basic Portfolio Construction

Process

- Asset Allocation
- Investment Selection

Risks

- Market (Beta)
- Non-Market (Alpha) & Market (Beta)

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Portfolio Construction

Process	Risks
Asset Allocation	Market (Beta)
Investment Selection	Non-Market (Alpha) & Market (Beta)
	Problems occur

DELTA
Research and Advisory

Delta Factors

- Graphical performance analytics system based on the academic work of …
  - William Sharpe's "Returns Based Style Analysis" &
  - Brinson, Hood, & Beebower's "Determinants of Portfolio Performance"
- Understanding Investment Performance Behaviour
  - Portfolio Risk drivers
  - Exposures to asset class and style risks
  - Risk-adjusted Value-add
- Does the investment do what the investment manager says it does?

DELTA Research and Advisory

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ABN: 43 155 969 163 AFSL: 420093

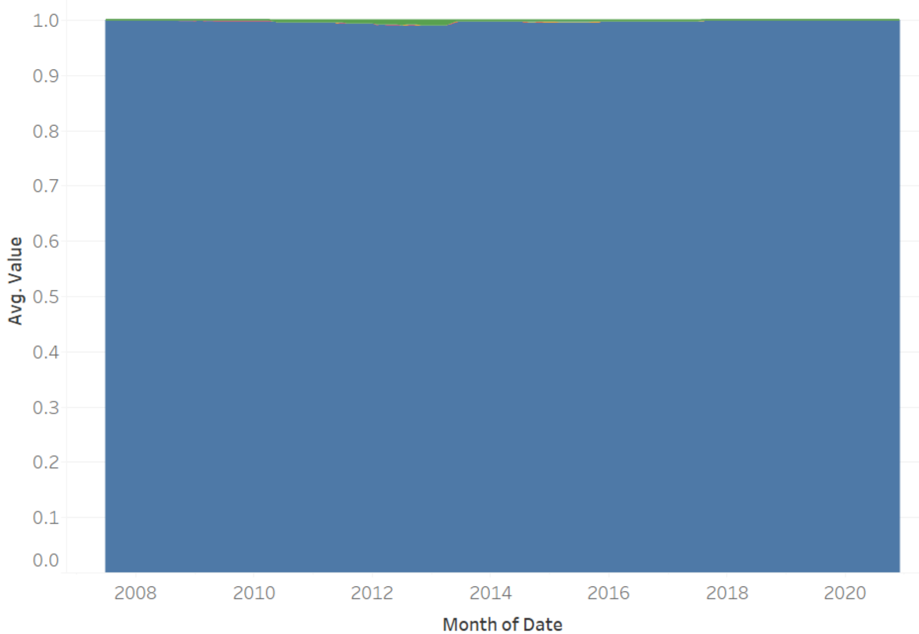
Delta Factors
Understanding Investment Performance Behaviour
Global Equities Benchmarks
Rolling 36 months

Benchmark MSCI World

Sector All

APIR Code All

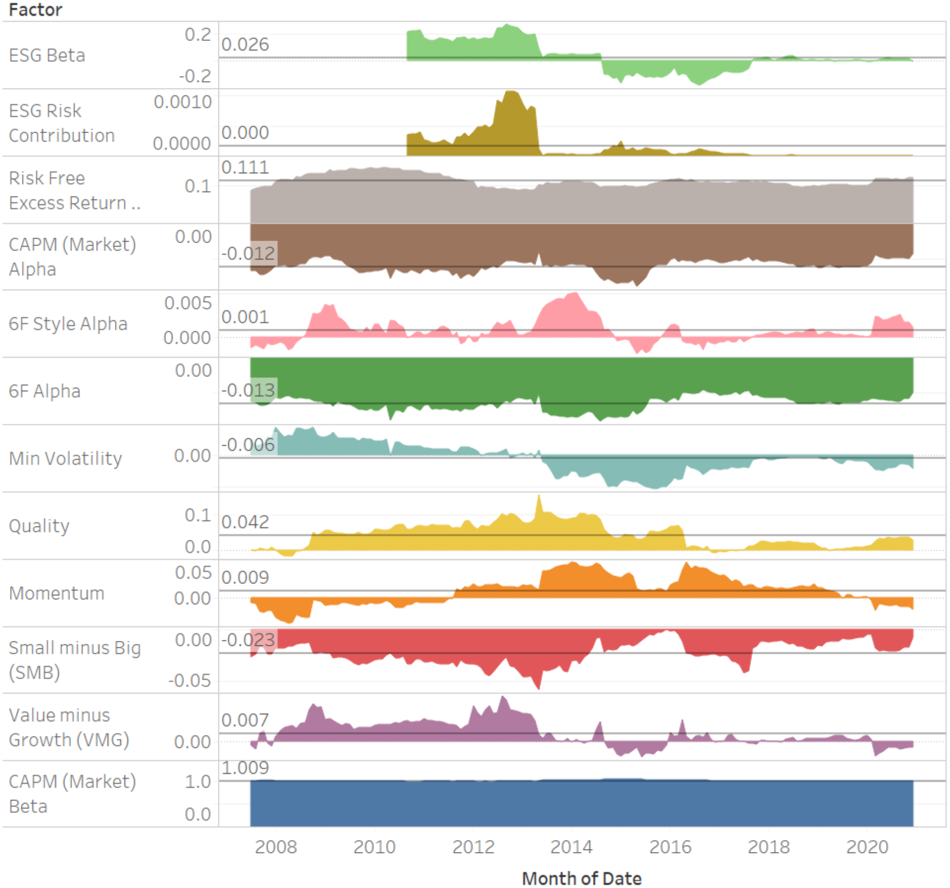
Portfolio Risk Contribution



Factor
- 6F Idiosyncratic Risk Contribution
- Min Volatility Risk Contribution
- Quality Risk Contribution
- Momentum Risk Contribution
- SMB Risk Contribution
- VMG Risk Contribution
- Market Risk Contribution

Date
31-Jul-07 to 31-Dec-20

Exposures (Betas), Value-add (Alphas) & Risk (Volatility)



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Benchmark	Sector	APIR Code
MSCI World	All	All

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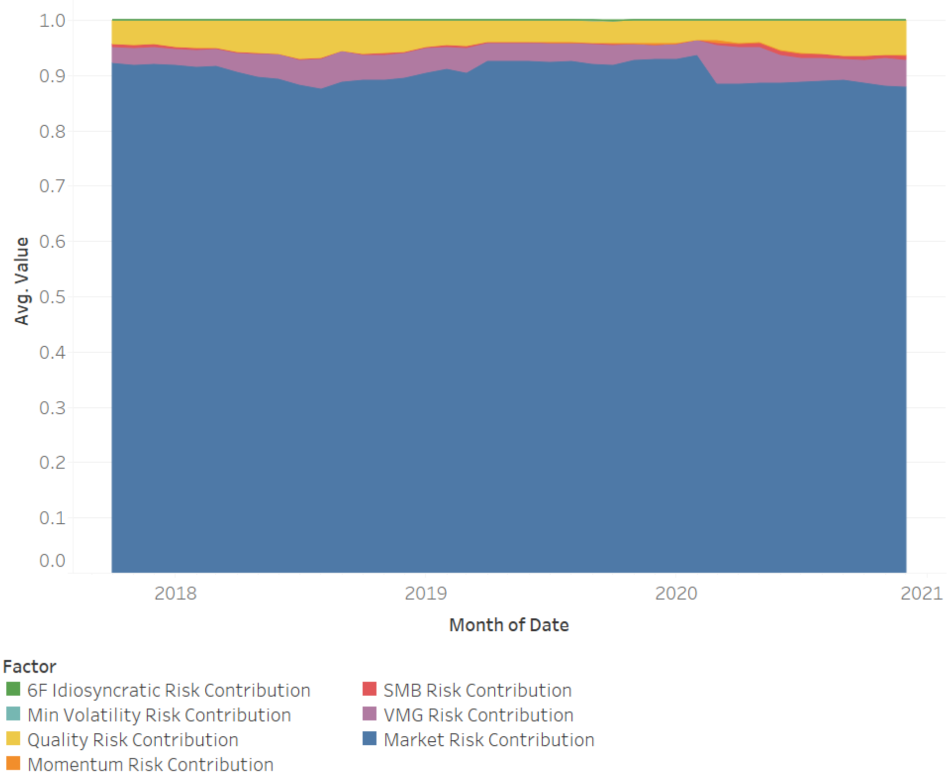

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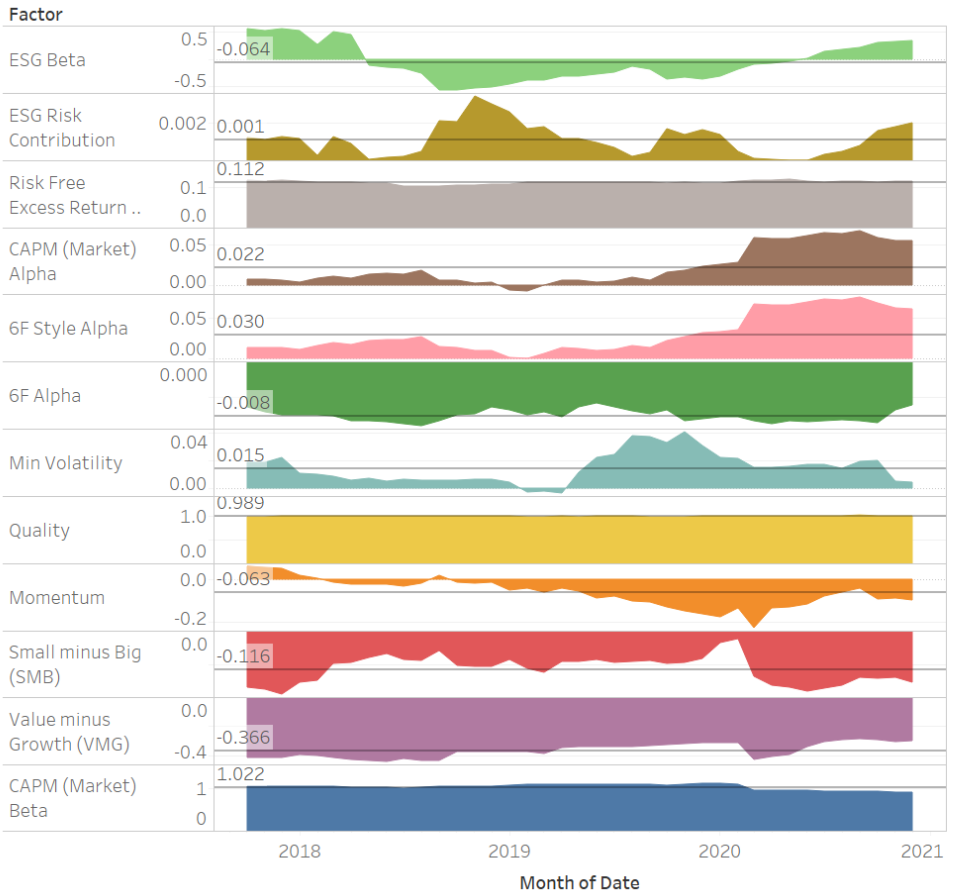

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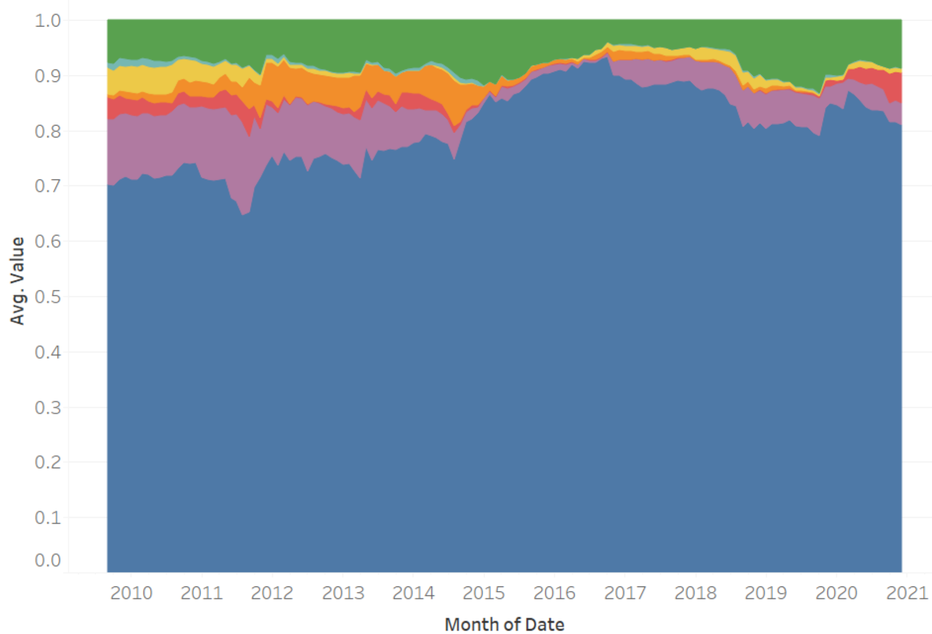

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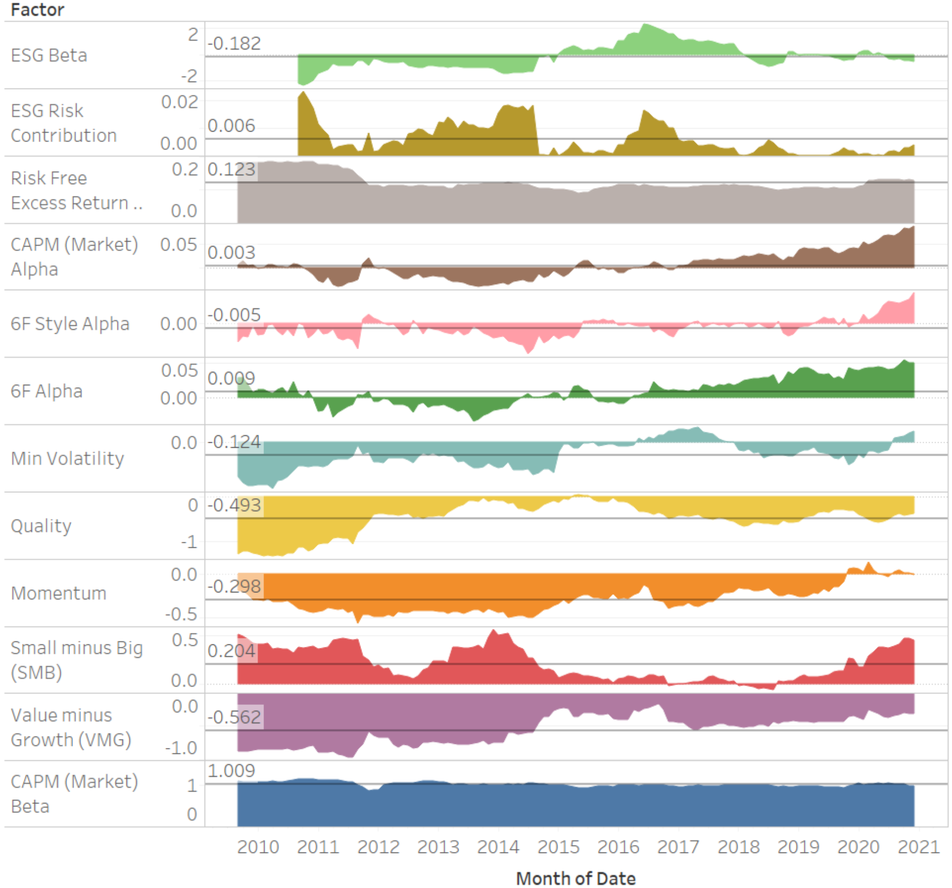

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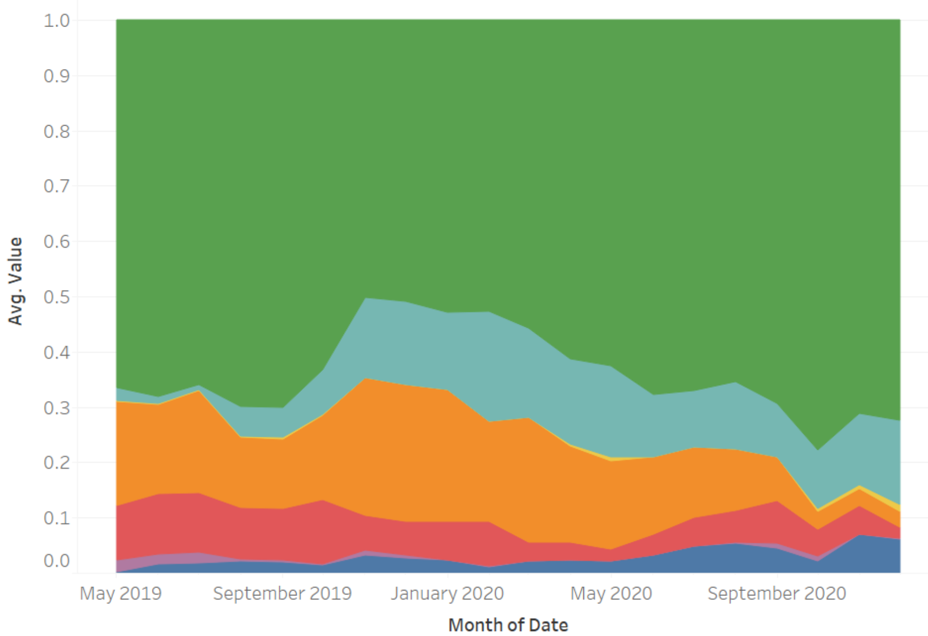

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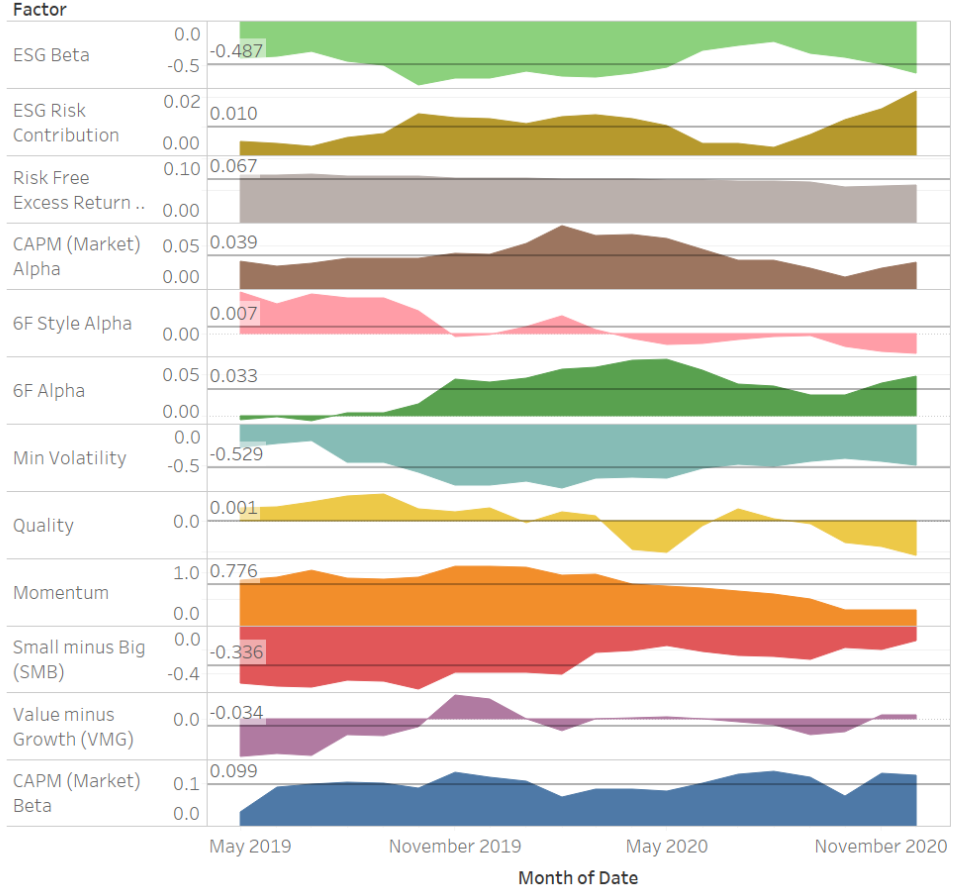

Summary

- One of the keys to better portfolio construction and risk management is a better ***Understanding of Investment Performance Behaviour***
- Questions to ask of your portfolio…
  - What is the role of each investment in my portfolios?
  - Do they reflect my investment philosophy and their role?
  - Are they “true to label?”
  - Have they added risk-adjusted value? i.e. are there signs of skill?
  - What are the unexpected risks or exposures? Is this acceptable?

DELTA Research and Advisory

IMAP Specialist Series
The tools we use to manage portfolios

March 2020

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Portfolio Construction – Zenith's Approach

Key Portfolio Construction Criteria

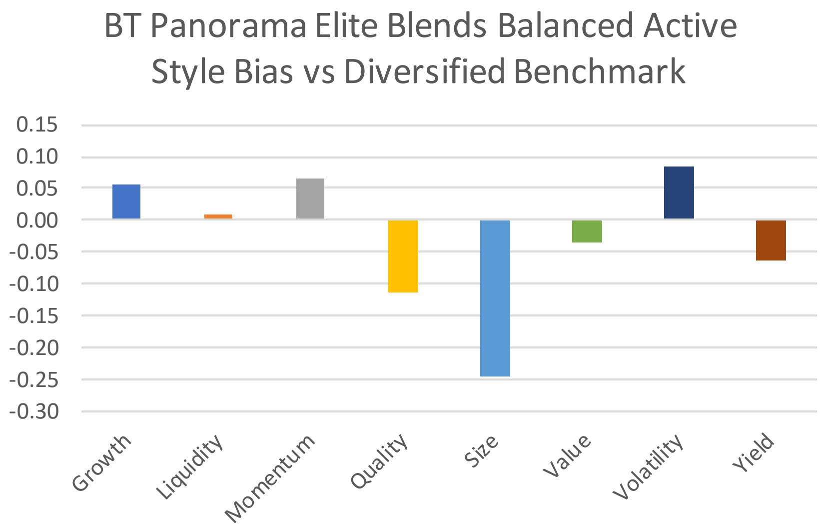
- Aim to build portfolios that deliver on objectives with lower volatility and drawdown
- Aim to be well diversified and reasonably style neutral
- Believe in active management
- Recognise Art and Science to portfolio construction

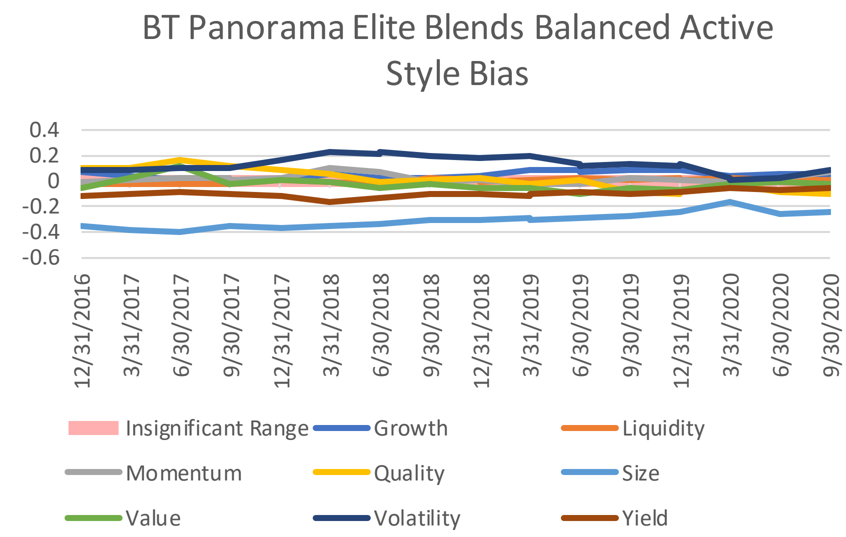
External Tool – MSCI BarraOne®

Providing institutional-grade portfolio analysis, service scalability, insights and reporting

MSCI BarraOne® - Active Style Bias

- The below outputs are examples of the active style bias analysis for Panorama Elite Blends Balanced as at 30 September 2020 and through time

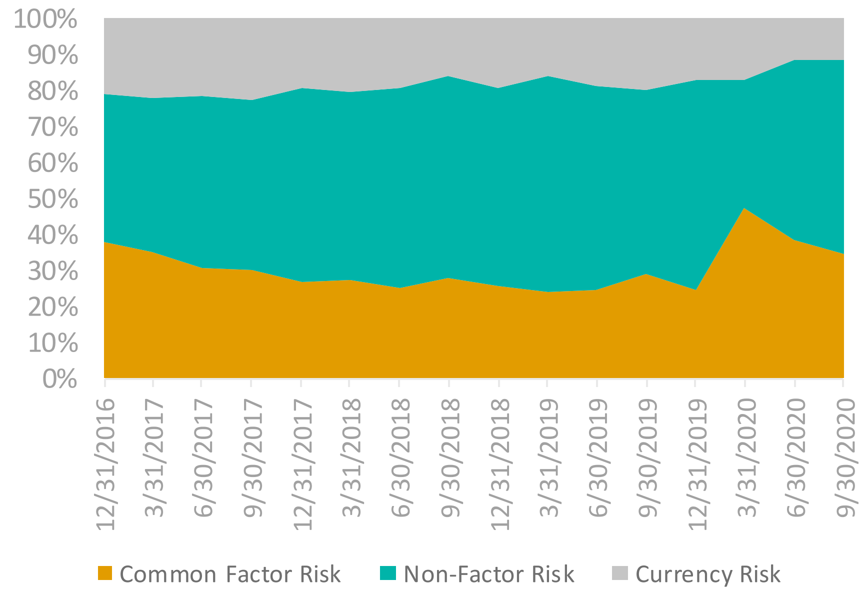




MSCI BarraOne® -Active Risk Decomposition

- ❑ The below outputs are examples of the active risk decomposition analysis for Panorama Elite Blends Balanced as at 30 September 2020 and through time

Risk Source	Active Portfolio Risk Contribution (%)
Total Risk	**100.00%**
Industry	3.81%
Style	1.76%
Term Structure	14.84%
Inflation	0.07%
Spread	-5.27%
Commodity	0.90%
Hedge Fund	0.22%
Country	4.10%
Market	13.92%
Selection Risk	**54.17%**
Currency Risk	11.47%



Zenith Investment Partners

MSCI BarraOne® -Stress Testing

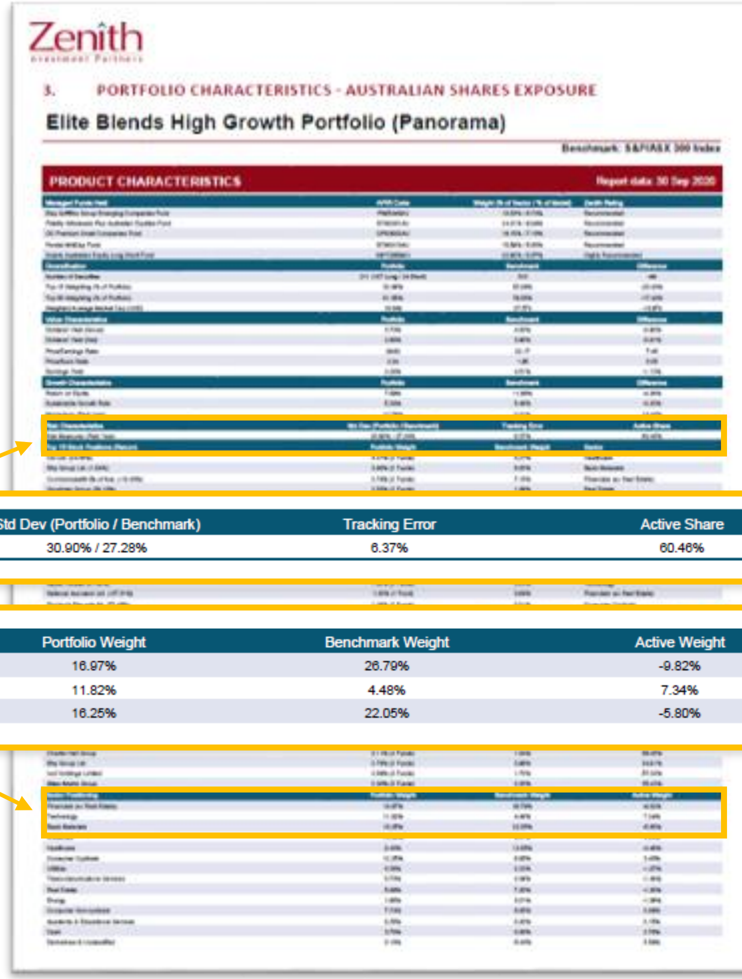
- The following is an example of the stress testing analysis for Panorama Elite Blends Balanced as at 30 September 2020

Historical Event	Portfolio	Benchmark	Active
1973 - 1974 Oil Crisis	3.58%	3.65%	-0.07%
1989 - 1990 Nikkei Stock Price Correction	-6.57%	-3.75%	-2.83%
2000-2003 Tech Crash & Recession	1.38%	-6.14%	7.52%
2008 Lehman Bust	-2.58%	-8.55%	5.97%
2016 Brexit	-0.42%	-1.19%	0.77%

Internal Tool – Port Admin Transitioning Mosaic

Portfolio Admin

- The below is an example of a characteristics report for the Australian sleeve of Elite Blends High Growth as 30 September 2020


3. PORTFOLIO CHARACTERISTICS - AUSTRALIAN SHARES EXPOSURE

Elite Blends High Growth Portfolio (Panorama)

Benchmark: S&P/ASX 300 Index

PRODUCT CHARACTERISTICS

Report date: 30 Sep 2020

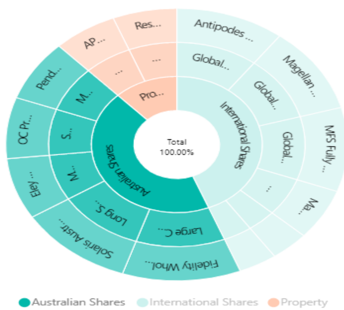
Risk Characteristics	Std Dev (Portfolio / Benchmark)	Tracking Error	Active Share
Risk Measures (Past Year)	30.90% / 27.28%	6.37%	60.46%

Sector Positioning	Portfolio Weight	Benchmark Weight	Active Weight
Financials (ex Real Estate)	16.97%	26.79%	-9.82%
Technology	11.82%	4.48%	7.34%
Basic Materials	16.25%	22.05%	-5.80%

Mosaic

- The below is an example of the output for the Australian Shares sleeve for Elite Blends High Growth as 30 September

Equities Allocation



Number of Countries	Number of Stocks	Number of Sectors
6	206	14

Display as Percentage of total equities

Sector Exposure

Sector	Weight
Academic & Educational Services	0.36%
Basic Materials	15.92%
Cash	3.92%
Consumer Cyclicals	13.36%
Consumer Non-Cyclicals	7.11%
Derivatives & Unclassified	0.23%
Energy	2.13%
Financials (ex Real Estate)	15.43%
Healthcare	7.42%
Total Disclosed	**100.00%**

Regional Exposure

Region	Weight
Asia Pacific (ex-Australia)	4.34%
Australia	87.18%
Cash	3.92%
Europe	1.88%
North America	2.44%
Other Regions	0.23%
Total Disclosed	**100.00%**

Country Exposure

Top 10 International Shares

StockName	Weight	Sector	Country

Top 10 Australia Shares

	Weight	StockName	Sector
	2.53 %	CSL	Healthcare
	2.29 %	Atlas Arteria	Industrials
	1.94 %	BHP Billiton	Basic Materials
	1.71 %	IOOF Holdings	Financials (ex Real Estate)
ration	1.56 %	Westpac Banking Corporation	Financials (ex Real Estate)
	1.45 %	Macquarie Group	Financials (ex Real Estate)
	1.44 %	National Australia Bank	Financials (ex Real Estate)
	1.44 %	Appen	Technology
	1.42 %	Charter Hall Group	Real Estate
	1.19 %	Seven Group Holdings	Industrials

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Bringing a Portfolio Together

Investing in the Modern Age

X axis

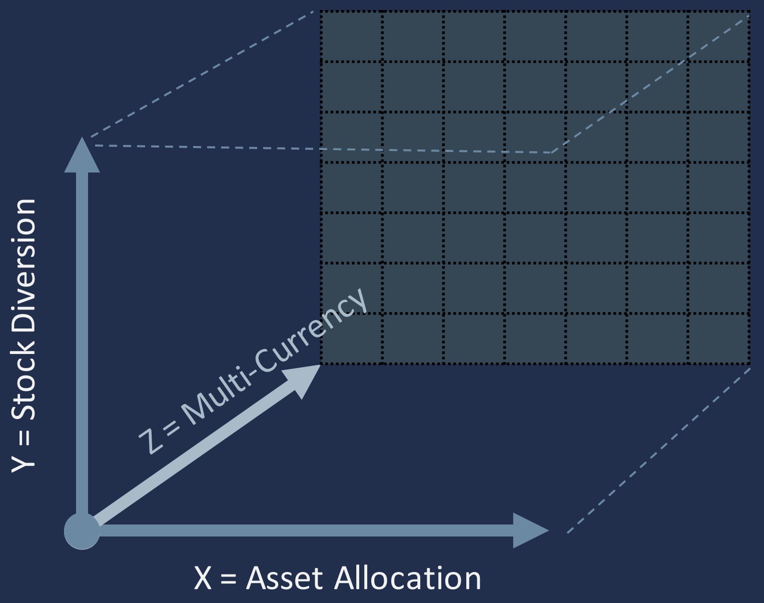
Market Risk is addressed through diversification at the Asset Allocation level. For all portfolio managers, it is the cornerstone that helps mitigate the hardest risk to manage of all – ‘predicting the future’.

Y axis

Security or Investment risk can be mitigated by proper portfolio construction. With the statistically correct number of securities in a portfolio much of the ‘Investment Specific’ risk of an equity or bond can be mitigated.

Z axis

Global exposure is *critical for diversification* as Australia only less than 2% of the total global market and only a fraction of the fixed income universe.



Ageing Demographics

"Living Longer"

Thematic Description:

Today there are ~533,000 people worldwide who are 100 years or older, an extraordinary increase from the ~20,000 in the 1960s.

Modern medicine has extended our lease on life, but it must continue to evolve as over 3.6 Million people are projected to be over the age of 100 by 2050.

Source: United Nations 2016

Examples could include:

CSL ResMed Pfizer illumina

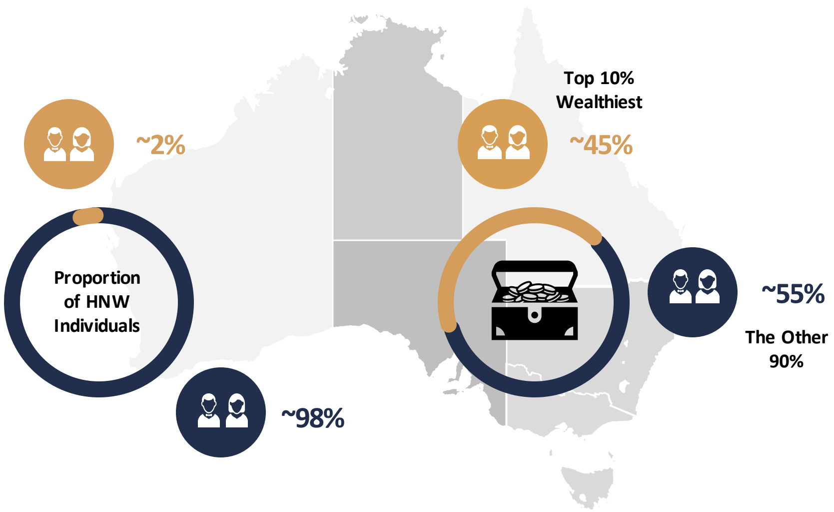
Illustration Only. Should not be taken as personal advice.

What classifies as HNW?

In Australia, $2 Trillion dollars are controlled by almost 500k individuals who classify as "High Net Wealth" (HNW).

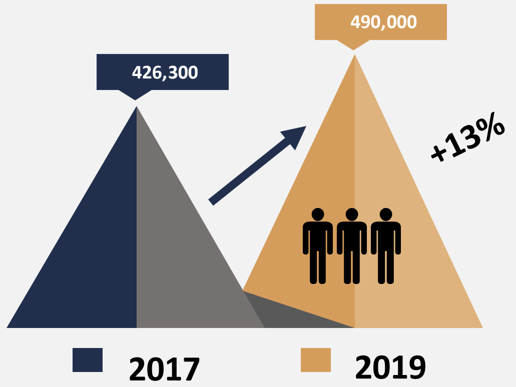
HNW = $1 million in discretionary investable assets
(including their SMSF but not their home)

HNW = ~1.9% of the Australian Population.

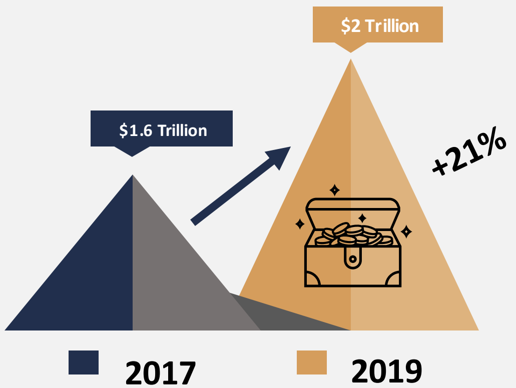


Source: Powerwrap HNW Investor Report 2019, ABS 2020

Growth in the number of HNW individuals



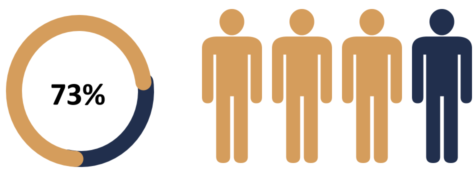
Growth in controlled funds by HNW individuals



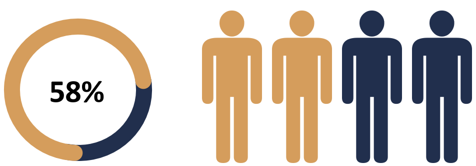
HNW Advice **Habits**

While demand for traditional stockbroking appears to be falling in Australia, sentiment around wanting full financial advice has improved markedly…and Investors are reporting wanting even more.

High Net Worth (HNW) Individual Statistics:



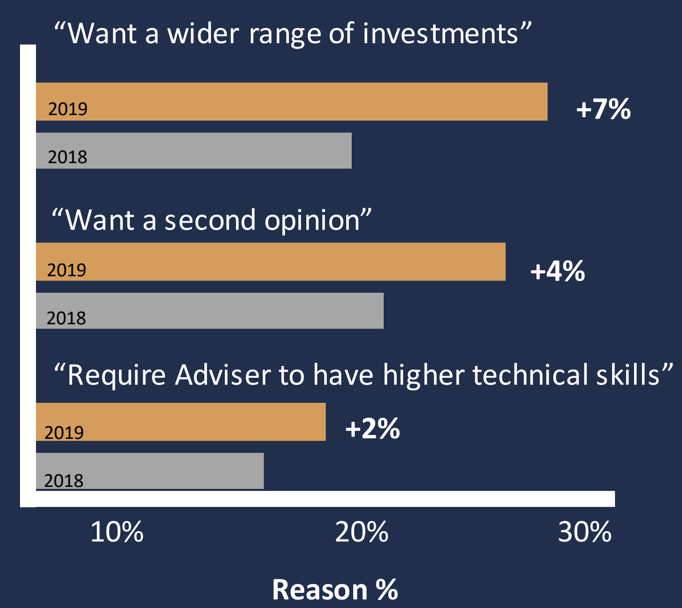
Currently Accessing Financial Advice



Still Have Unmet Advice Needs

Source: Powerwrap HNW Investor Report 2019

Reasons why HNW individuals would seek advice:

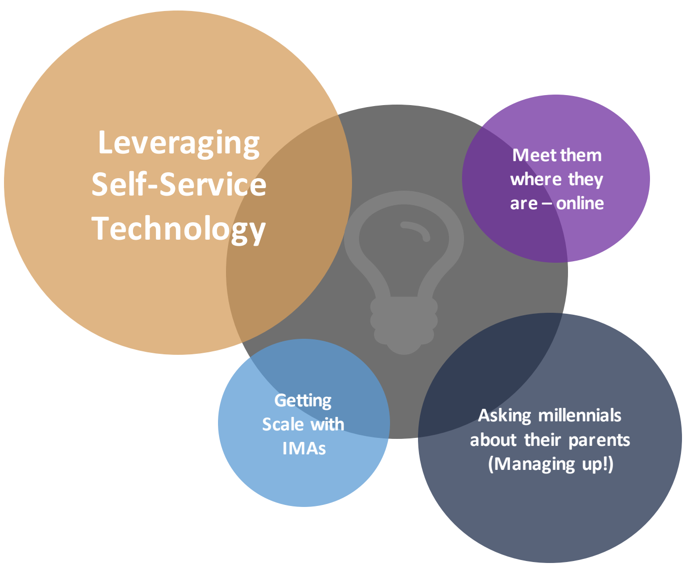


Source: Powerwrap HNW Investor Report 2019

The Next Wave of HNW?

The millennial generation is next in-line to inherit our nations wealth, but how do we look after them when it's not profitable?

Strategies for gaining millennials business while remaining cost effective:



Has the pandemic made investing cool?

Active online retail investors now surpass 1 million in Australia.

Source: Investment Trends 2020 IH Online Investing Report

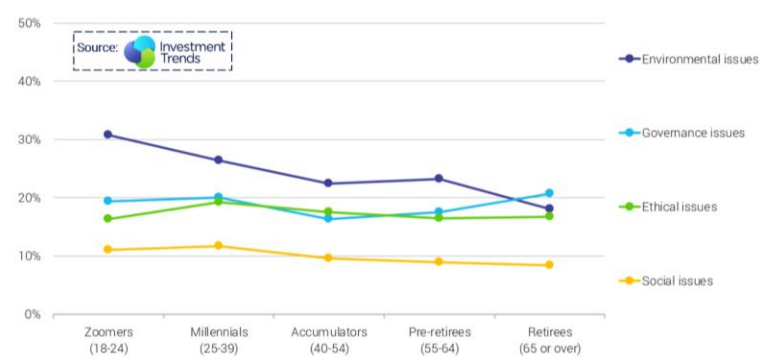
The ESG Tide is Rising

Whether it matters to you or not, it will continue to matter to the **bottom line**.

Environmental
Social
Governance

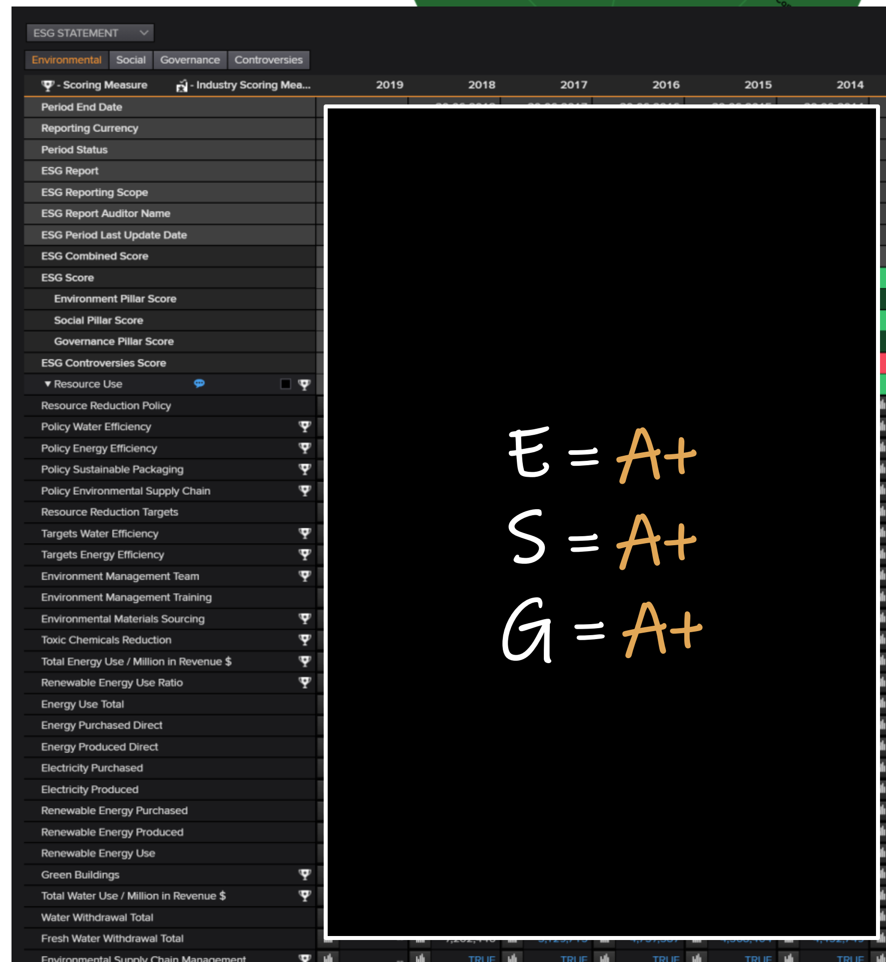
(ESG)
ALSO KNOWN AS
Impact Investing

Proportion of online investors who have bought or sold investments based on ESG factors by age



"Wall Street wasn't really even serious about ESG 20 years ago"

Source: Refinitiv, 2021

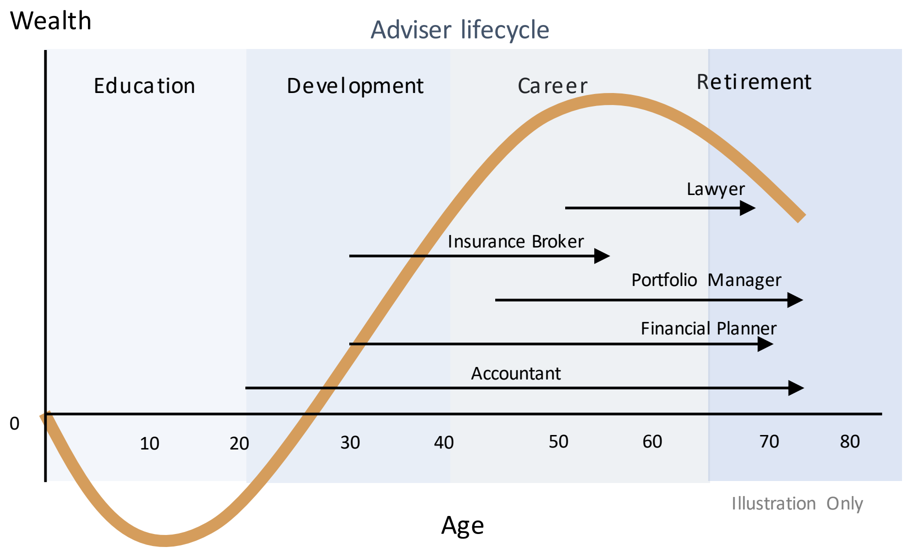


Unique Experiences

From our perspective, clients today are asking for more of the intangible aspects of the client relationship, **not just the investment returns**.

Knowing how they will achieve their goals and that someone is **watching over the key milestones** in their lives is what gives true peace of mind.

How does one put a price on that?



Components of New-Age Advice

1 **Individually Managed Accounts**

HNW Investors are asking now for bespoke portfolio solutions that allow them to hold the individual asset they want…in their own name.

2 **Wealth Coaching**

HNW Individuals tend to want to go on a journey with their wealth manager, a partnership which includes education rather than delegation.

3 **Wealth Planning**

Wealth managers open doors to assets that clients traditionally wouldn't open to a traditional stockbroker.

4 **Legacy Planning**

As a wealth manager, we spend years fostering relationships with clients. However, in order to maintain the relationship over the generations, one needs to include the parents & children.

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Q&A

IMAP Specialist series: The tools we use to manage portfolios

Session 2 : Wednesday 17th March Portfolio Management and Trading

Adrian Rowley, Watershed
Chris Smith, Implemented Portfolios

Moderated by Nancy Yuen, SS&C GWP

In association with

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