IMAP Specialist series: Let's talk Asset Allocation

Session 2 – How AA is evolving

Alex Cathcart, Drummond Capital Partners

Jesse Imer, Mason Stevens

Series moderated by Jerome Lander, WealthLander

IMAP
Institute of Managed Account Professionals

How to ask a Question

IMAP
Institute of Managed Account Professionals

DRUMMOND

CAPITAL PARTNERS

IMAP – Let's Talk About Asset Allocation

9/06/2021

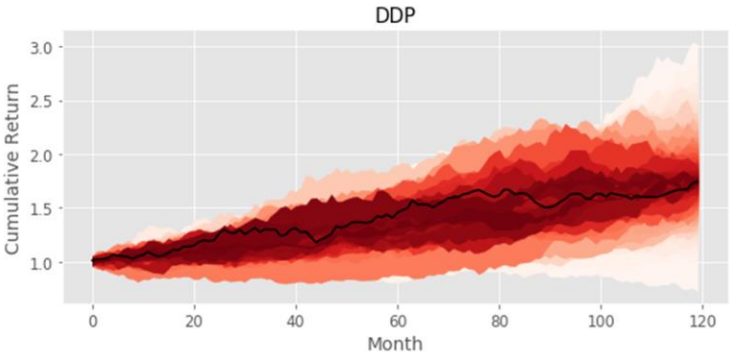
Building Robust Portfolios

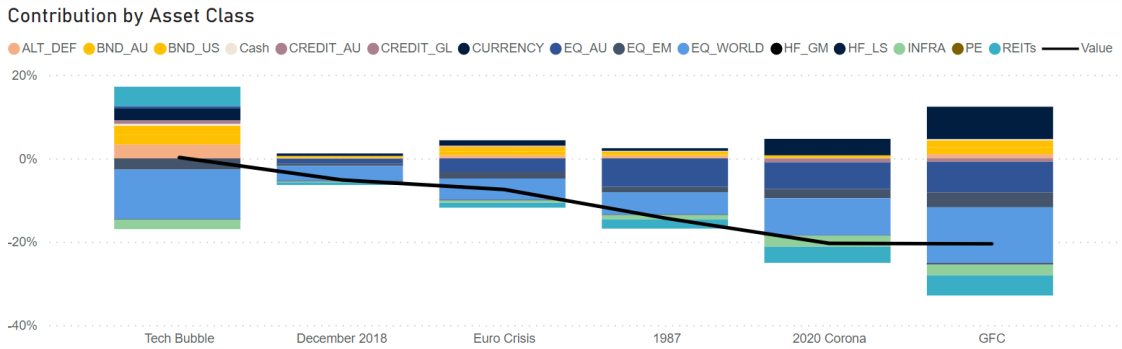
- A scenario based approach to asset allocation helps account for the inherent uncertainty in predicting the future.

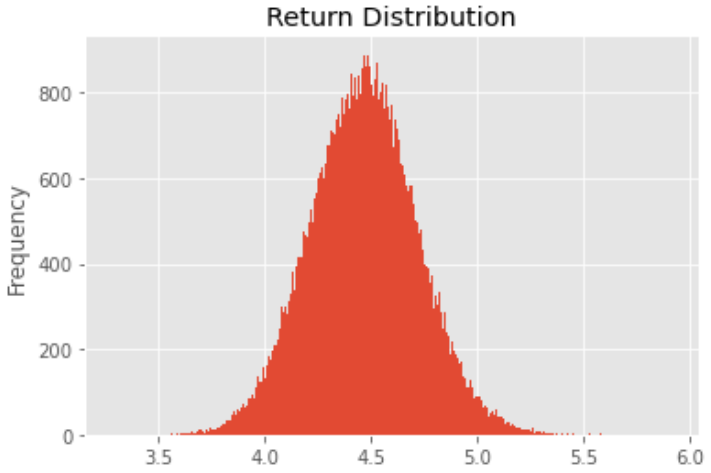
	Goldilocks	Return to Normal	Volatility	Stagflation
Description	Productivity growth accelerates driven by tech and economic reform. Growth is strong, but inflation is low, allowing rates to stay accommodative.	A repeat of the post-GFC experience. Rates eventually grind higher, multiples contract, central banks drive growth slowdown late in the period.	Governments spend wildly, central banks tighten in response, causing a recession. Governments again hit the accelerator and process repeats.	Governments spend wildly, helped by central banks. This leads to policy failure, where inflation remains high while growth slows.
Returns	High	Low to Moderate	Low	Low
Volatility	Low	Moderate	High	High

Building Robust Portfolios

- How can we build portfolios?
  - Optimisation
  - Complex processes
  - Heuristics
- What constraints do we need to consider as AU platform investors?
- What are the portfolio construction trade-offs?

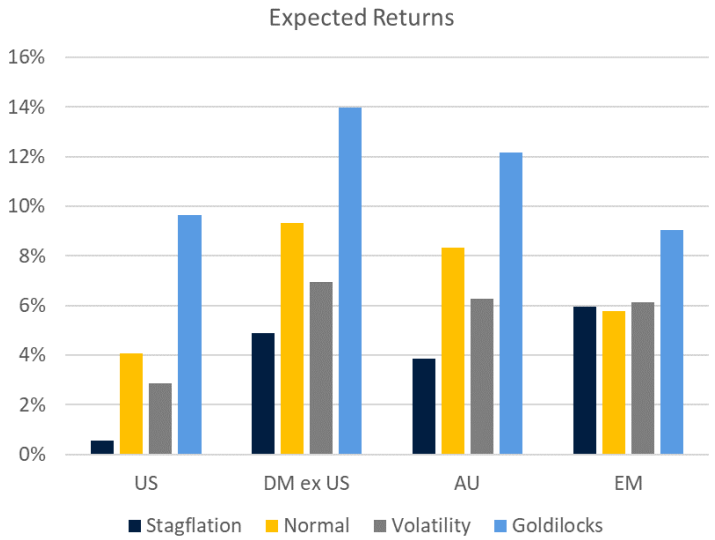


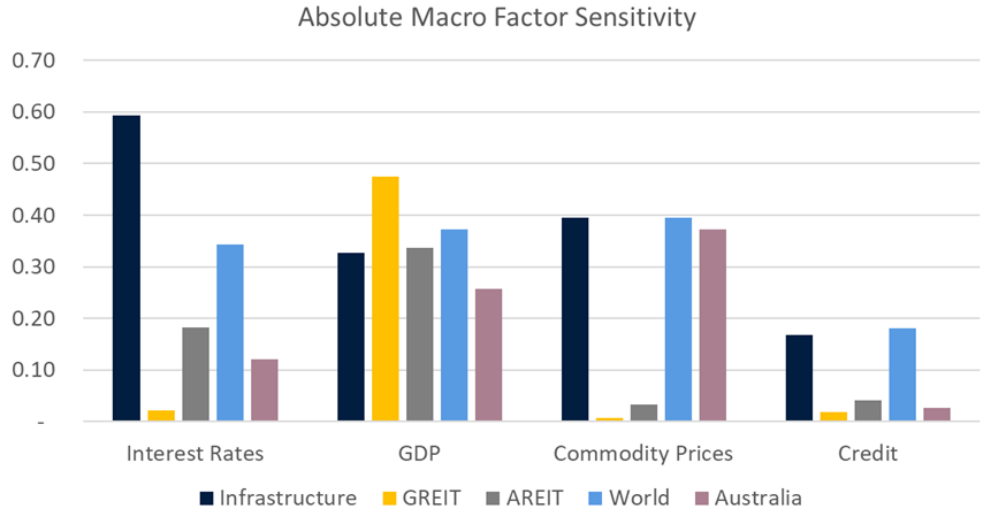




Building Robust Portfolios

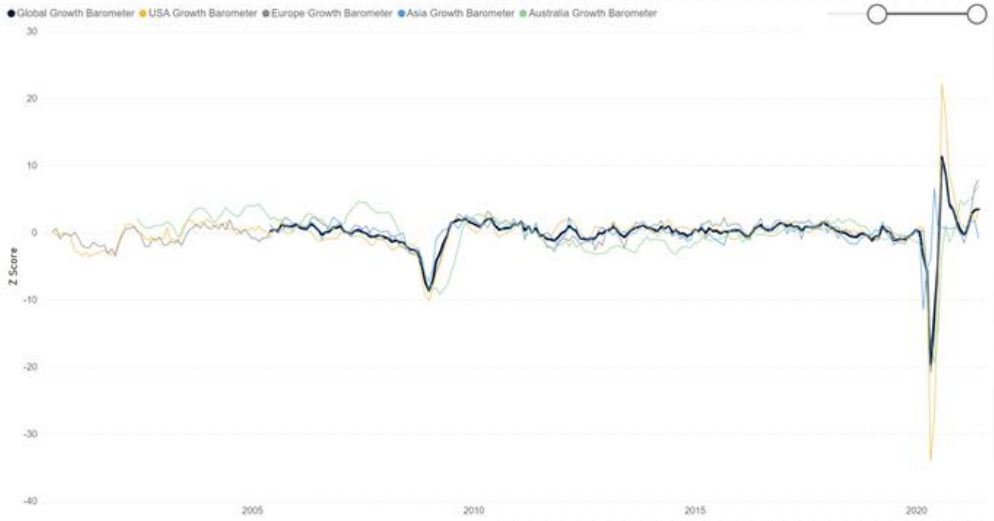
- Often, the headline results wont tell the whole story.
- Expected equity returns are low mainly because of US tech. Do we need to sit back and accept that?
- If we are worried about inflation and rising rates, how do we hedge that risk? Is the conventional wisdom correct? We can get more granular with our modelling to test.

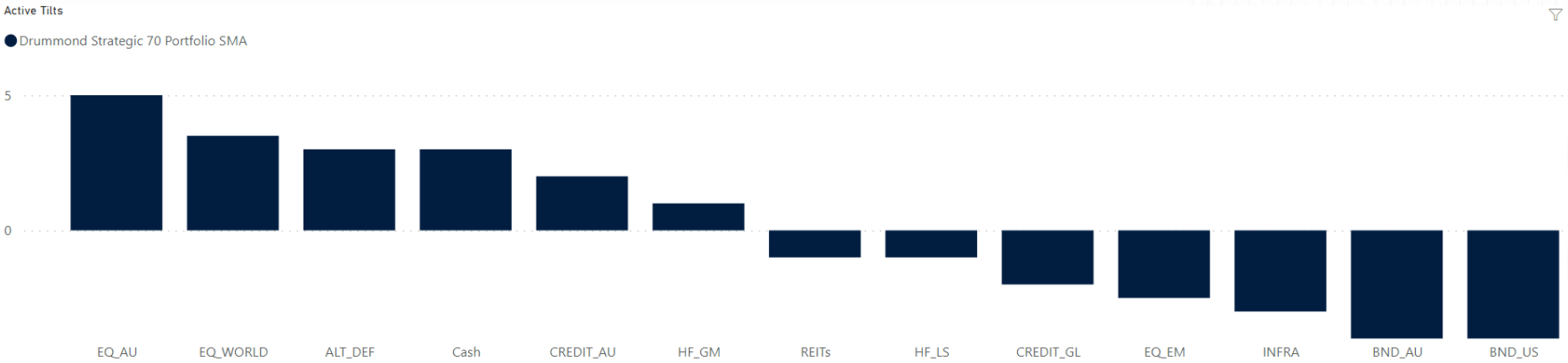




Tactical Positioning

- Currently overweight growth assets, led by AU and GL equities.
- Underweight bonds in favour of alternatives and cash.
- Underweight REITs and Infra.





Disclaimer

The information in this proposal has been provided by Drummond Capital Partners (ABN: 15 622 660 182) a Corporate Authorised Representative of BK Consulting (Aust) Pty Ltd, Level 16, 60 Collins Street Melbourne VIC 3000, AFSL 334906.

Nothing in this document should be deemed as personal advice. All the information in this document is general in nature and s hould not be considered personal advice. This document should only be used to provide you with an insight into the way Drummond Capital Partners manage investments, our philosophy and our services. This document is not intended for public or third party use.

Please note any opinions expressed in this communication constitute judgment at the time of issue and are subject to change. Drummond Capital Partners believes the information in this communication is correct and that any projections, opinions, recommendations are reasonably held at the time this document was created. However, no warranty is made to the accuracy or reliability to the information contained in this document.

Past performance is not indicative of future performance. Please seek financial advice.

IMAP

Let's Talk About Asset Allocation

Jesse Imer, Fixed Income Strategist

9 June 2021

MASON STEVENS

This presentation is owned by Mason Stevens Limited (ABN 91 141 447 207, AFSL 351578) (Mason Stevens). Content provided in this presentation is of a general nature. You should consider this information, along with all of your other investments and strategies when assessing the appropriateness of the information to your individual circumstances. Investment in securities including derivatives involves risks. Securities by nature have rises and falls, given that past performance is not a reliable indicator of future performance. Mason Stevens and its associates and their respective directors and employees may hold interests in securities and/or earn fees or other benefits from transactions arising as a result of information contained in this presentation. Whilst every effort is made to ensure the information is accurate at the time of sending, Mason Stevens does not warrant its accuracy, reliability or completeness nor does it undertake to correct any information subsequently found to be inaccurate. Opinions expressed and / or information may change without prior notice and Mason Stevens is not obliged to update you if the information changes. The relevance of this presentation is designed to illustrate the range of products and services that Mason Stevens offer, it may also provide information related to investment outcomes for a particular investment strategy. The presentation uses a broad number of simplifying assumptions to do this. As such this presentation should not be taken as an indication of any actual performance of any particular investment. Any investment return(s) and yield assumptions used in the presentation do not represent a prediction or forecast of actual performance of any product or service offered by Mason Stevens Limited.

Asset Class Defined

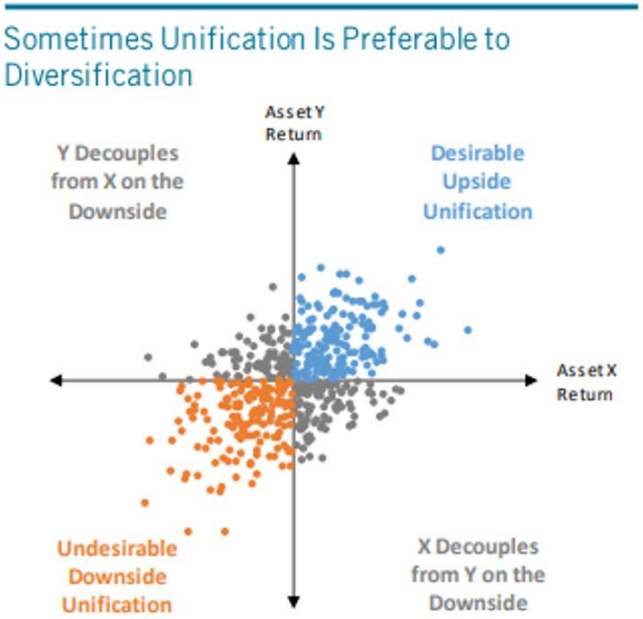
*"**A stable aggregation** of investable units that is **internally homogeneous** and **externally heterogeneous**, that when added to a portfolio **raises its expected utility** without the benefit of **selection skill**, that can be accessed **cost effectively** in size."*

- Turkington, Kinlaw, Kritzman (2017), adapted from Markowitz (1952)

MASON STEVENS

The Holy Grail of Investing

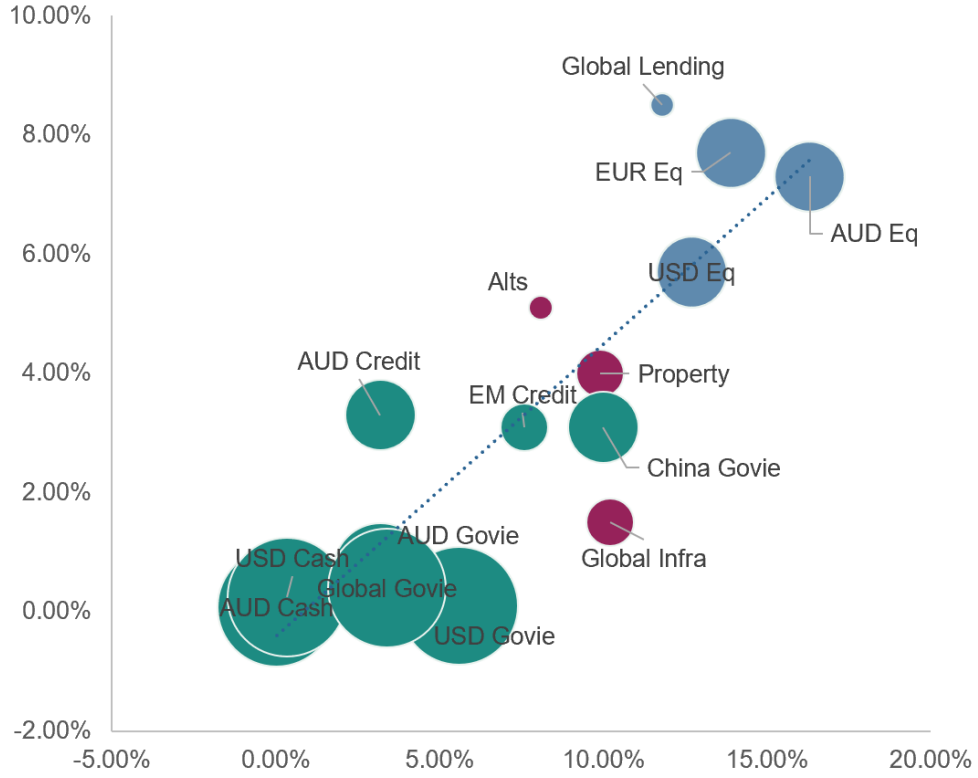
When Asset X performs well, we want Asset Y to perform well
When Asset X underperforms, we want Asset Y to continue to perform well….



Source: Kinlaw, Kritzman, Page, Turkington (2021)

Mason Stevens Capital Markets Line

Our forward looking view of the world



Source: Mason Stevens

IMAP

Institute of Managed Account Professionals