Best vehicles for achieving Managed Account portfolio objectives

Chris Meyer, Pinnacle
Evan Metcalf, ETF Securities
Nathan Lim, Morgan Stanley

Moderated by Dominic McCormick

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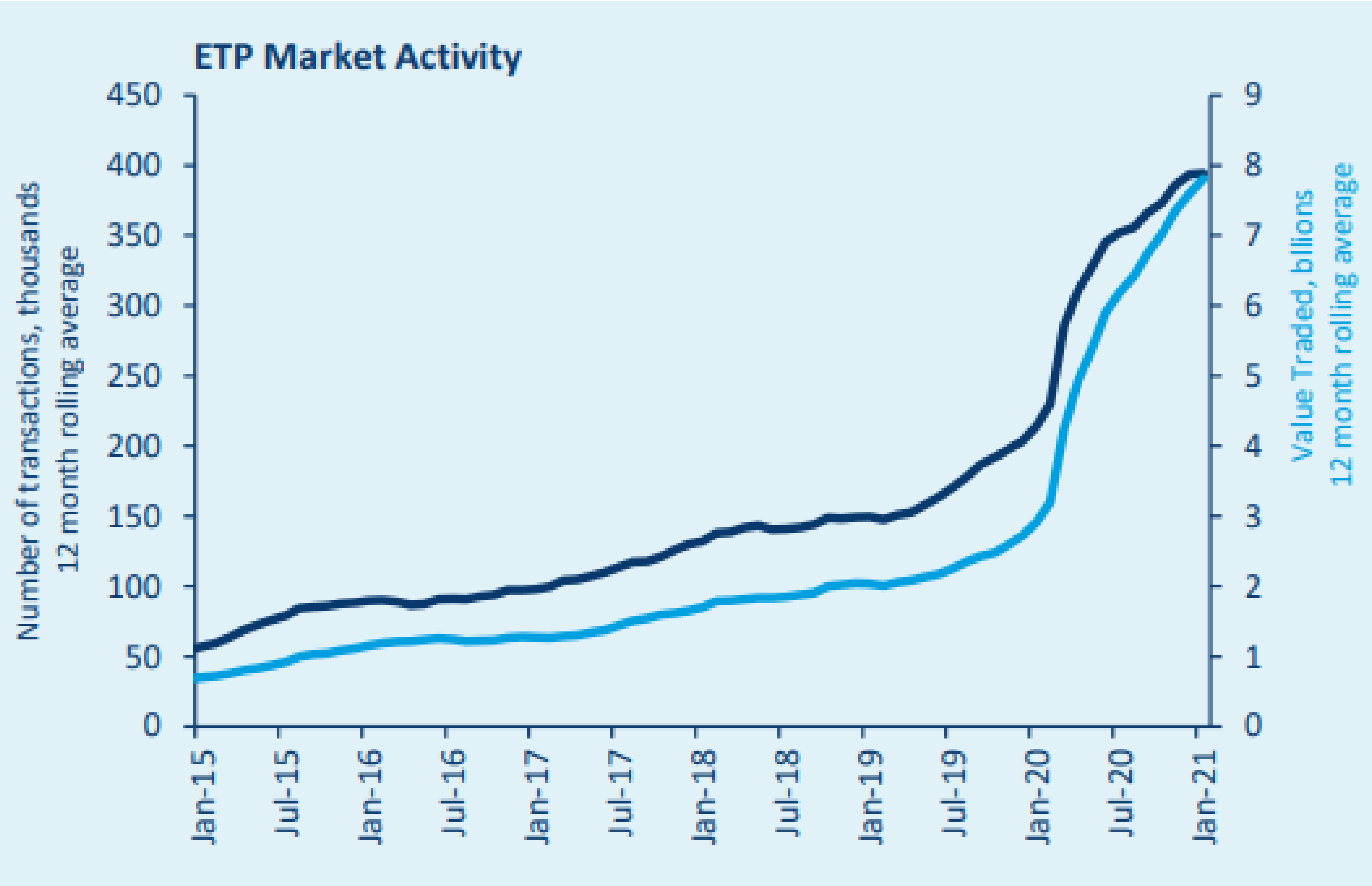

ETP Market Activity
Number of transactions, thousands
12 month rolling average
Value Traded, billions
12 month rolling average
450
400
350
300
250
200
150
100
50
0
9
8
7
6
5
4
3
2
1
0
Jan-15
Jul-15
Jan-16
Jul-16
Jan-17
Jul-17
Jan-18
Jul-18
Jan-19
Jul-19
Jan-20
Jul-20
Jan-21

Morgan Stanley

IMAP Portfolio Management Conference

Nathan Lim, Head of Wealth Management Research

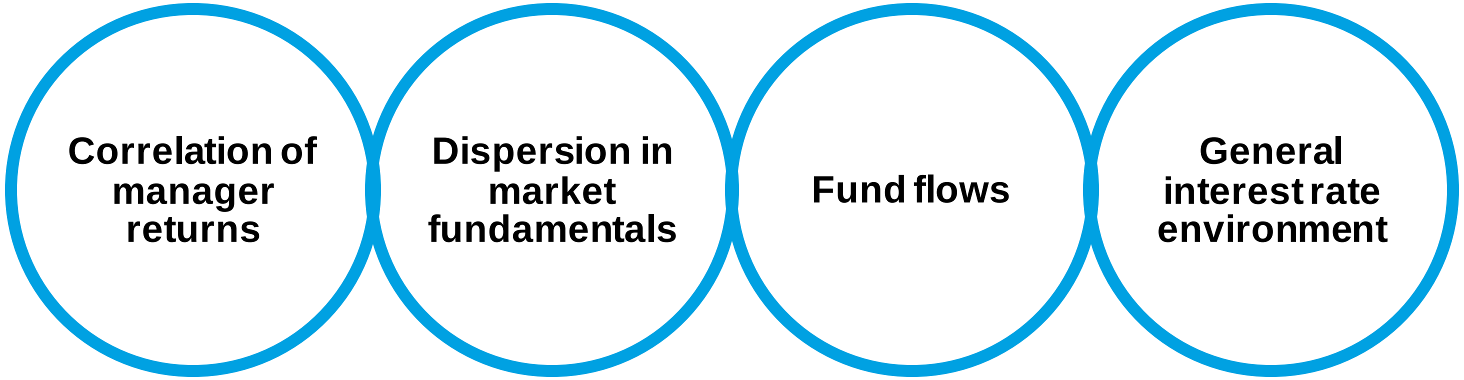
23 February 2021

Active Passive Framework

No asset class is inherently suited to only active or passive management

Our Active Passive Model* considers whether market conditions are conducive for active management to outperform and provides an estimate as to whether a manager will outperform over the next one to three years. This drives how much to allocate to active management.

Our predictive model weights 9 signals and adjusts for style and size bias. These signals are focused on:



* See Morgan Stanley Wealth Management GIC Active and Passive Strategies: An Opportunistic Approach, March 2015.

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Morgan Stanley & Co. LLC Stock Rating System & Definitions
For an explanation of Morgan Stanley's Stock Rating system and definitions, please refer to Morgan Stanley Wealth Management's disclosure website: https://www.morganstanley.com/online/researchdisclosures

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Each security will then be given one of four ratings:

- Low Risk – a security issue is backed by an entity that has strong capacity to meet its financial obligations and commitments. The risk of the entity missing a distribution payment is considered low.
- Medium Risk – a security is backed by an entity that exhibits adequate protection parameters, however, adverse economic conditions or changes in circumstances could lead to a weakened capacity of the entity to meet its financial obligations.
- High Risk – a security is backed by an entity that is more vulnerable to adverse economic conditions which may lead to distributions being lowered or cancelled. A security may also be considered High Risk when the outcomes surrounding the maturity date are largely unknown.
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Retirement Incomes

Victor Huang, Milliman
Andrew Lowe, Challenger
Lukasz De Pourbaix, Lonsec

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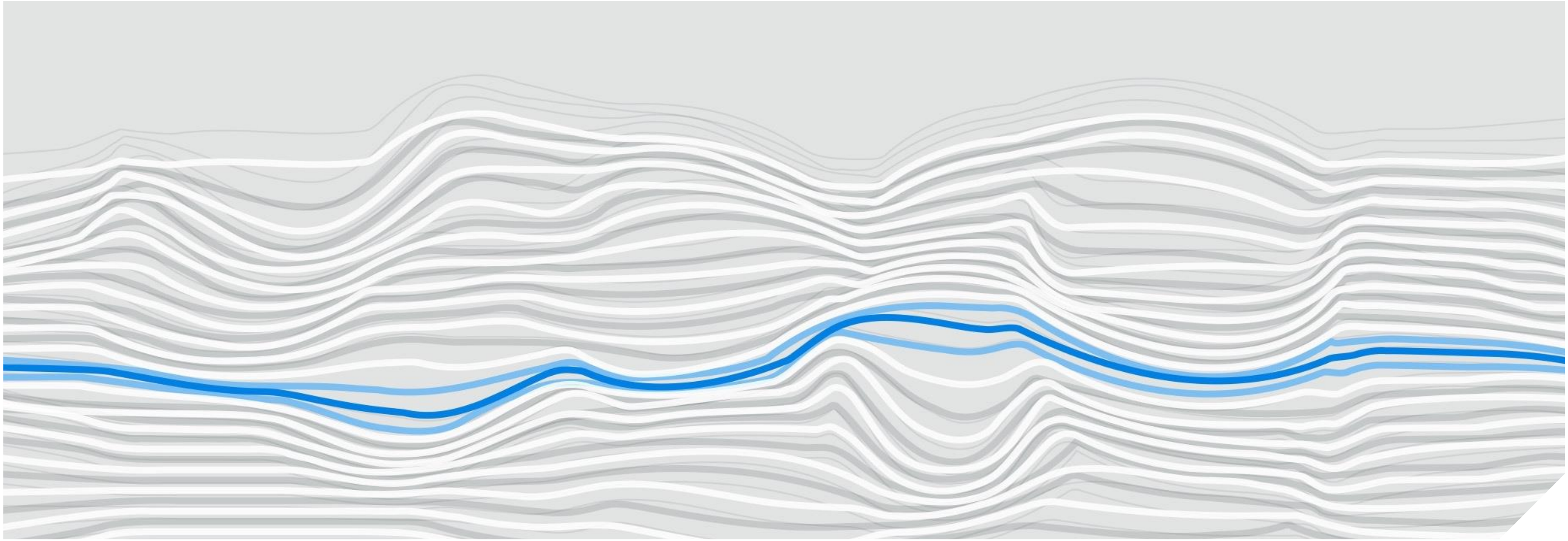
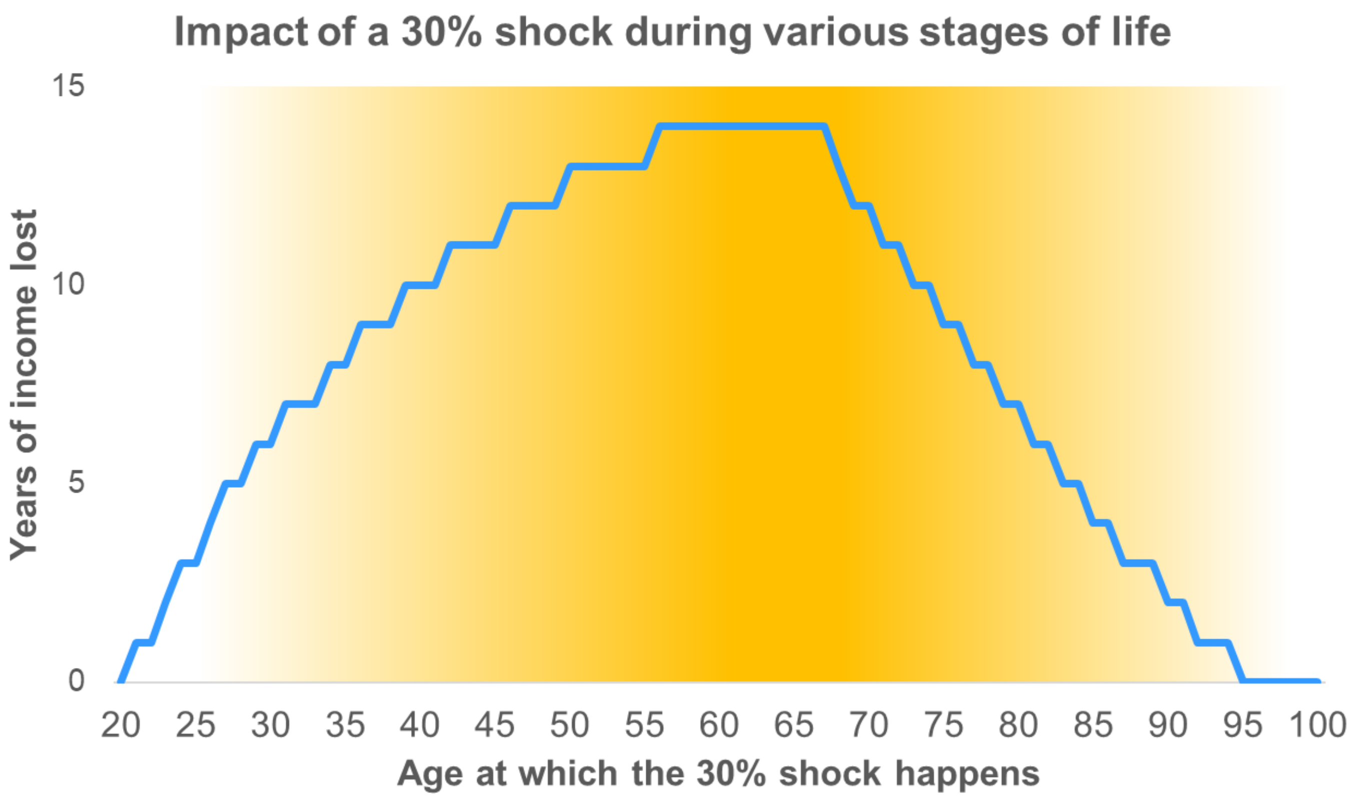
Constructing Managed Portfolios for Pension Clients

Victor Huang

FEBRUARY 2021



The retirement challenge



Need for growth assets

- A typical Growth fund for a retiree[1] has an expected longevity of **26** years.
- De-risking to defensive assets drops this to **18** years.

Increased exposure to sequencing risk

- A 30% shock at age 65 can take **13** years of income away.
- If the same shock happened to a 30 year old, only **5** years of income is lost.

Constructing portfolios for retirees requires a delicate balance between the need for growth assets and managing sequencing risk

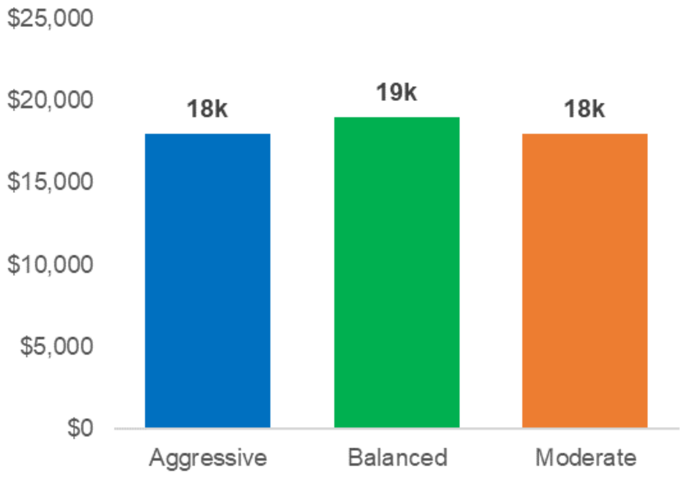
Milliman

[1]Withdrawing $12k p.a (CPI adjusted) from 200k in a typical Growth fund based on 5,000 scenarios.
^

Generating income & bequest in retirement

For a typical 67yr old retiree with $500k balance (calculated using the SmartShield simulator)

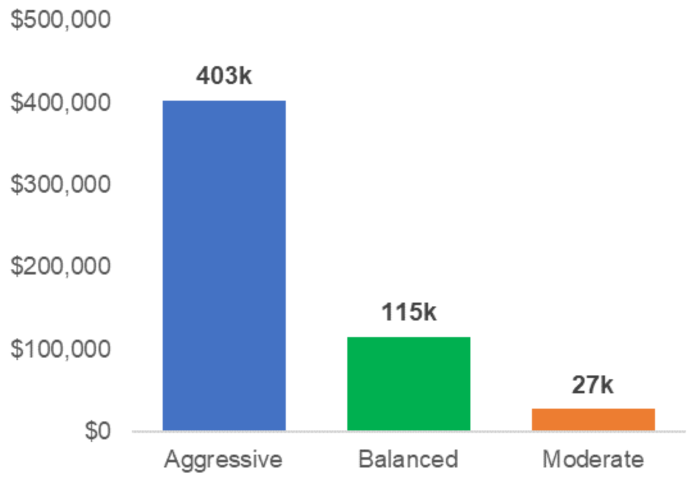
Safe withdrawal rate in normal markets



The low rate environment has reduced the income that can be safely[1] achieved in retirement.

Increased growth allocation also increases uncertainty.

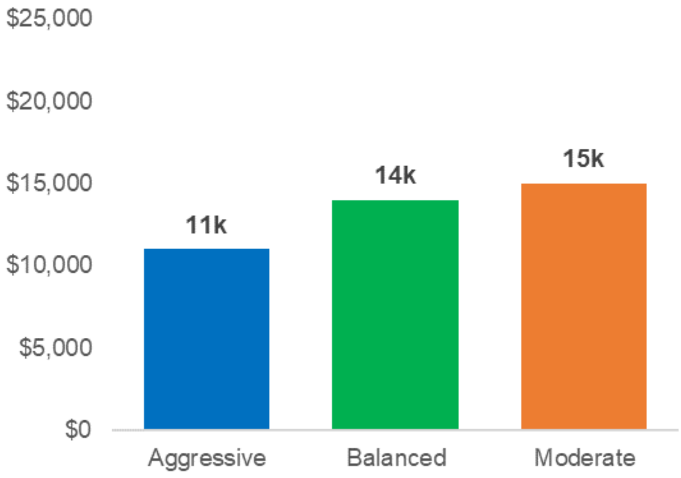
Average estate at age 90



Using a 25k p.a withdrawal rate (inflation adjusted), we illustrate the average estate remaining at age 90.

On average, higher growth allocations lead to a far superior outcome.

Safe withdrawal rate after a GFC shock

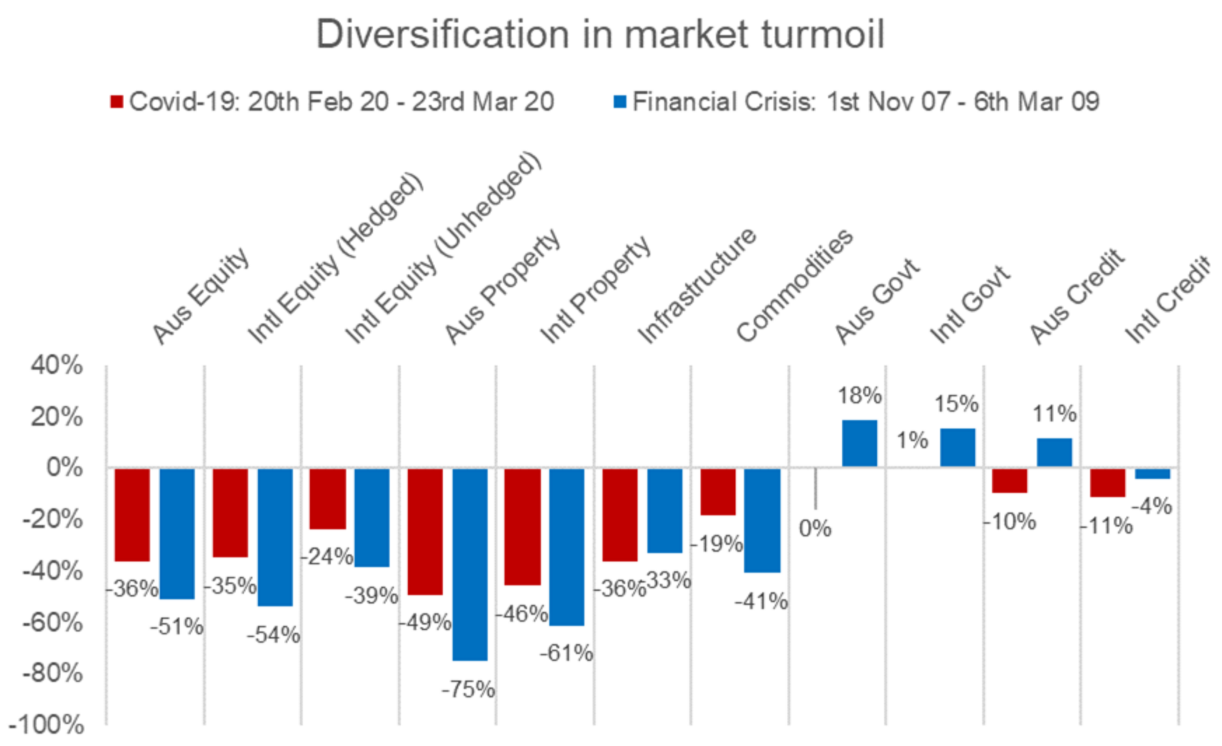


If we experience a GFC style market shock, the 'safe withdrawal rates' need to be significantly lowered.

Income is reduced by 39% for Aggressive, and 16% for Moderate.

[1] 90% certainty with a maximum of 5 year shortfall

Is diversification a solution?



- **Diversification failed in 2008**
  - Most asset classes fell along with equities.
  - Fixed income provided some relief as rates were cut from 7% down to 3%
- **Diversification failed again in 2020**
  - Most asset classes fell along with equities, again.
  - Fixed income provided less relief as rates were already at 1%.

Diversification is still valuable but is expected to be less effective in a low rate environment. We should therefore complement it with a more explicit solution.

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Milliman's approach

SmartShield series of model portfolios on HUB24 & Netwealth

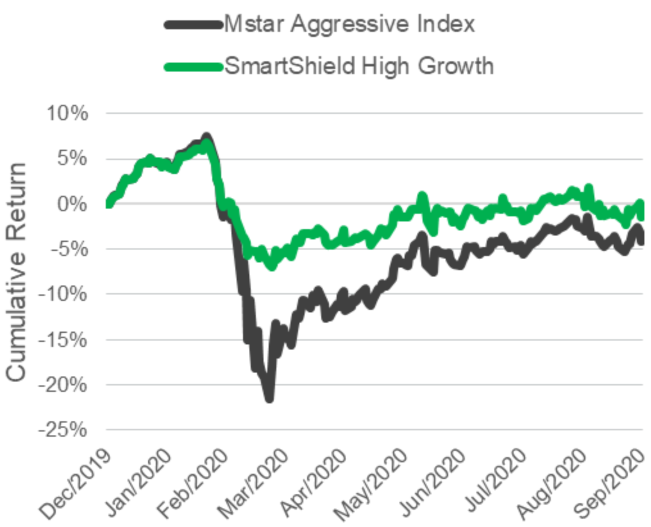
Instrument selection

Cash
Property
Australian Equities
International Equities
Australian Fixed Income
International Fixed Income

- Passive, low-cost ETFs
- Liquid
- All-in investment fees under 50bps

A simple & affordable core

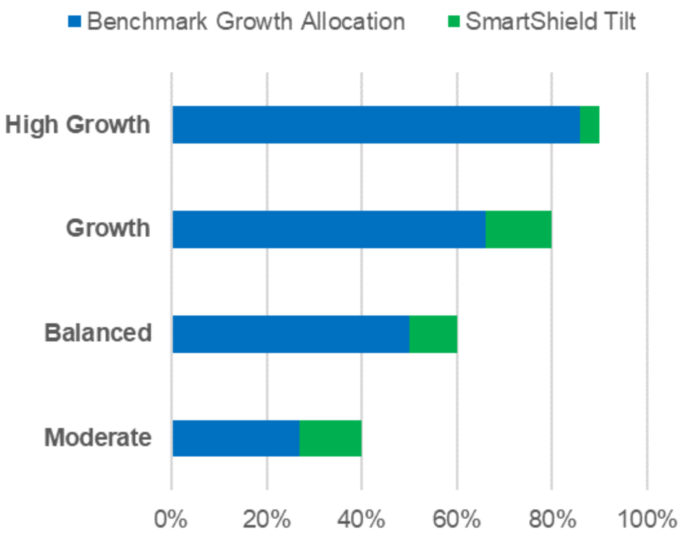
Managing sequencing risk



- Systematic strategy to explicitly manage risk
- Uses futures contracts to dynamically adjust exposure to equities in response to market volatility

In-built risk management strategy

Asset allocation tilt



- Maximum allocation to growth assets in each risk profile
- Additional risk is managed by the in-built risk management strategy

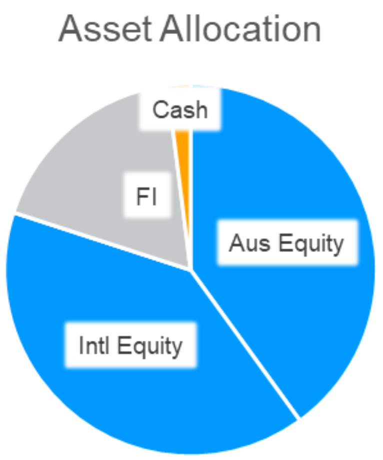
Growth tilt to tackle longevity risk

Under the hood of the Even Keel Unit Trusts

Providing risk management for equities in a unit trust

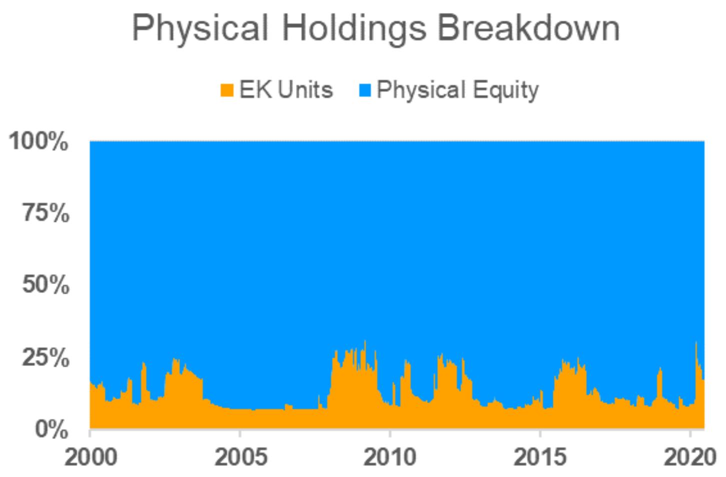
Begin with typical diversified portfolio

- The amount of Even Keel units is dependent on the amount of domestic and international equity allocation.



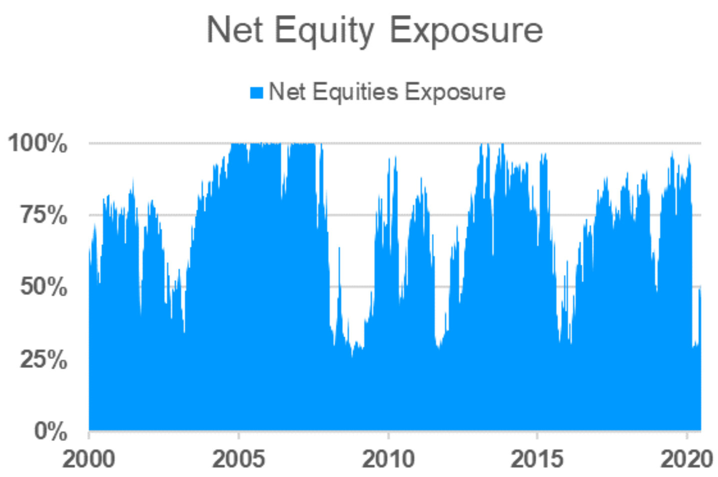
Allocate to corresponding Even Keel Unit Trusts

- For every $100 of equity exposure, ~$5-$25[1] is allocated to Even Keel units.
- Milliman will manage the proportion of Even Keel units vs Equity allocation regularly



Get risk managed equity exposure

- By using Even Keel units, the resultant exposure to equities will be dynamically adjusted using futures contracts.
- In benign markets, the **allocation to Even Keel is equitized** through the use of Futures Contracts to eliminate drag.



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[1]Cash needed for the Even Keel units will vary with market conditions and initial margin requirements.

Thank you.

SmartShield: advice.milliman.com/SmartShield

Simulator: smartshield.millimandigital.com

Milliman

Retirement Income

IMAP Portfolio Management Conference

Andrew Lowe
Challenger
February 2021

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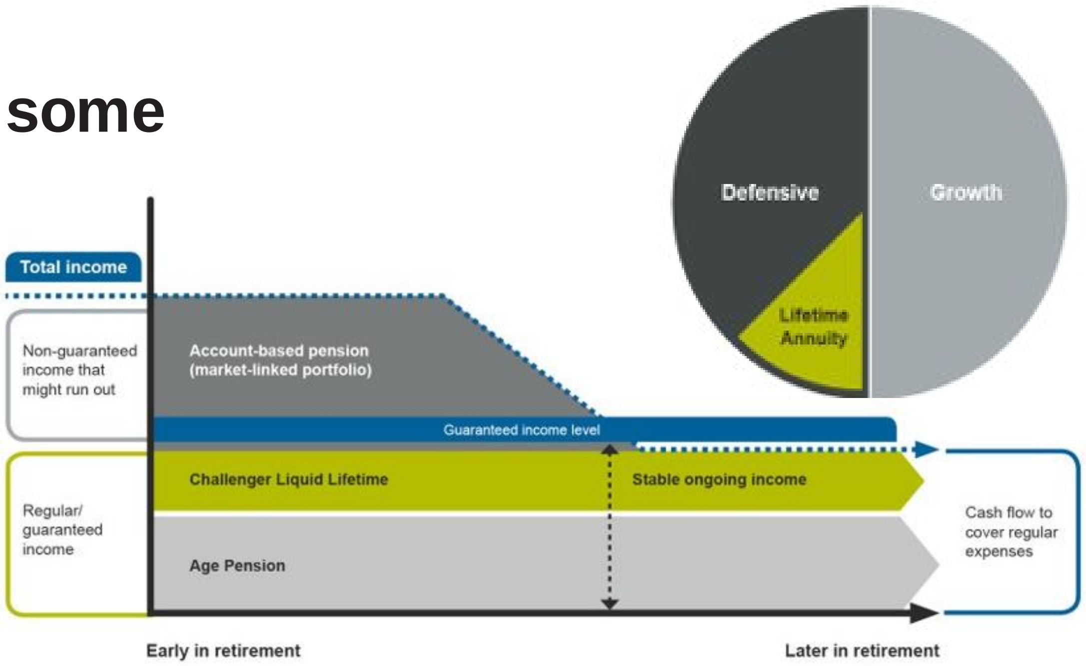
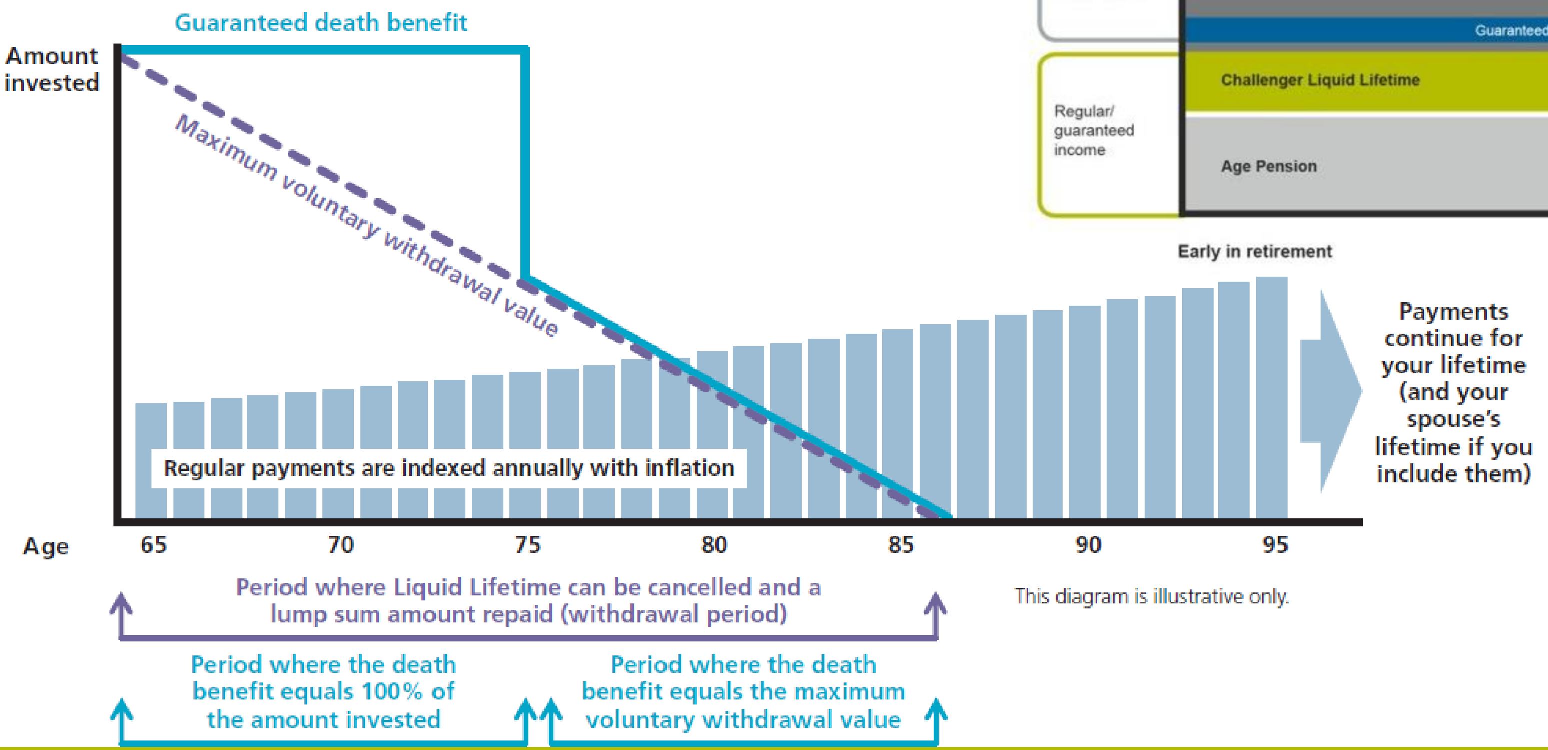
A lifetime annuity in 2021

Guaranteed lifetime income, and then some



Flexible Income (Immediate payments) illustration

This example is based on a 65-year-old female.



This diagram is illustrative only.

Integrating a lifetime annuity into retirement portfolios

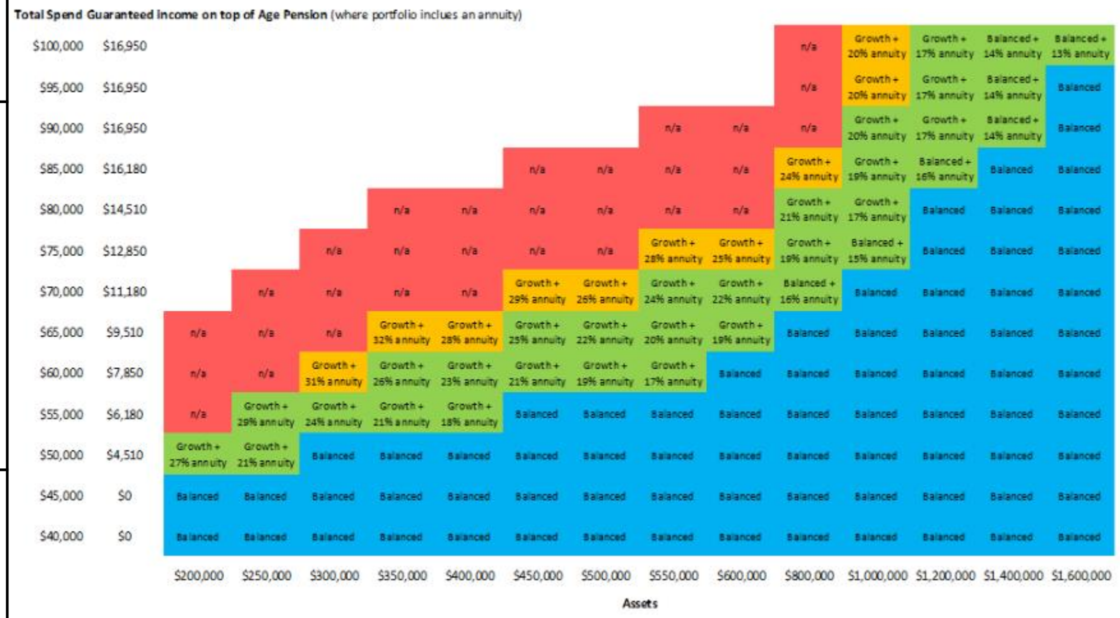
Delivering sustainable retirement income advice strategies

Implementation

To help provide peace of mind to your clients on their money lasting as long as they do, consider recommending:

Available Savings	Singles	Couples
Less than $250,000	Invest in an ABP according to the client's risk profile	Invest in an ABP according to the client's risk profile
$250,000-$950,000	1. Invest $95,000 into a Flexible Lifetime annuity with CPI indexation 2. Invest the remainder in an ABP at a risk profile one notch higher (more growth) than assessed	1. Invest $95,000 into a reversionary Flexible Lifetime annuity with CPI indexation 2. Invest the remainder in an ABP at a risk profile one notch higher (more growth) than assessed
$950,000+	Invest 10% of their savings into a Flexible Lifetime annuity with CPI indexation	Invest 10% of their savings into a reversionary Flexible Lifetime annuity with CPI indexation

Couple Male/Female - Balanced risk profile - Homeowner



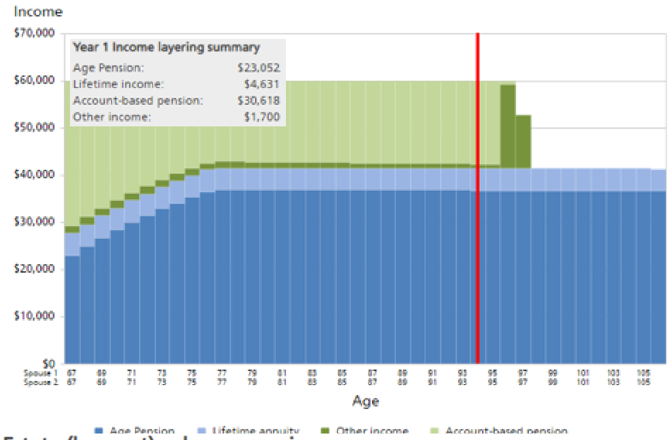
Total Spend Guaranteed Income on top of Age Pension (where portfolio inclues an annuity)

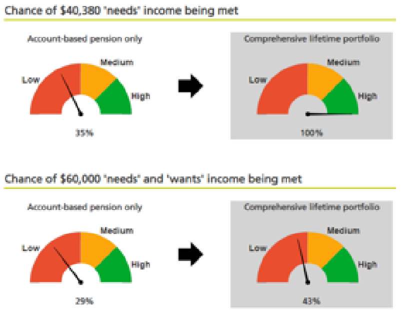
$100,000	$16,950										n/a	Growth + 20% annuity	Growth + 17% annuity	Balanced + 14% annuity	Balanced + 13% annuity
$95,000	$16,950										n/a	Growth + 20% annuity	Growth + 17% annuity	Balanced + 14% annuity	Balanced
$90,000	$16,950								n/a	n/a	n/a	Growth + 20% annuity	Growth + 17% annuity	Balanced + 14% annuity	Balanced
$85,000	$16,180					n/a	n/a	n/a	n/a	Growth + 24% annuity	Growth + 19% annuity	Balanced + 16% annuity	Balanced	Balanced
$80,000	$14,510				n/a	n/a	n/a	n/a	n/a	n/a	Growth + 21% annuity	Growth + 17% annuity	Balanced	Balanced	Balanced
$75,000	$12,850			n/a	n/a	n/a	n/a	n/a	Growth + 28% annuity	Growth + 25% annuity	Growth + 19% annuity	Balanced + 15% annuity	Balanced	Balanced	Balanced
$70,000	$11,180		n/a	n/a	n/a	n/a	Growth + 29% annuity	Growth + 26% annuity	Growth + 24% annuity	Growth + 22% annuity	Balanced + 16% annuity	Balanced	Balanced	Balanced	Balanced
$65,000	$9,510	n/a	n/a	n/a	Growth + 32% annuity	Growth + 28% annuity	Growth + 25% annuity	Growth + 22% annuity	Growth + 20% annuity	Growth + 19% annuity	Balanced	Balanced	Balanced	Balanced	Balanced
$60,000	$7,850	n/a	n/a	Growth + 31% annuity	Growth + 26% annuity	Growth + 23% annuity	Growth + 21% annuity	Growth + 19% annuity	Growth + 17% annuity	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced
$55,000	$6,180	n/a	Growth + 29% annuity	Growth + 24% annuity	Growth + 21% annuity	Growth + 18% annuity	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced
$50,000	$4,510	Growth + 27% annuity	Growth + 21% annuity	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced
$45,000	$0	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced
$40,000	$0	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced
		$200,000	$250,000	$300,000	$350,000	$400,000	$450,000	$500,000	$550,000	$600,000	$800,000	$1,000,000	$1,200,000	$1,400,000	$1,600,000

Assets

Improved retirement outcomes

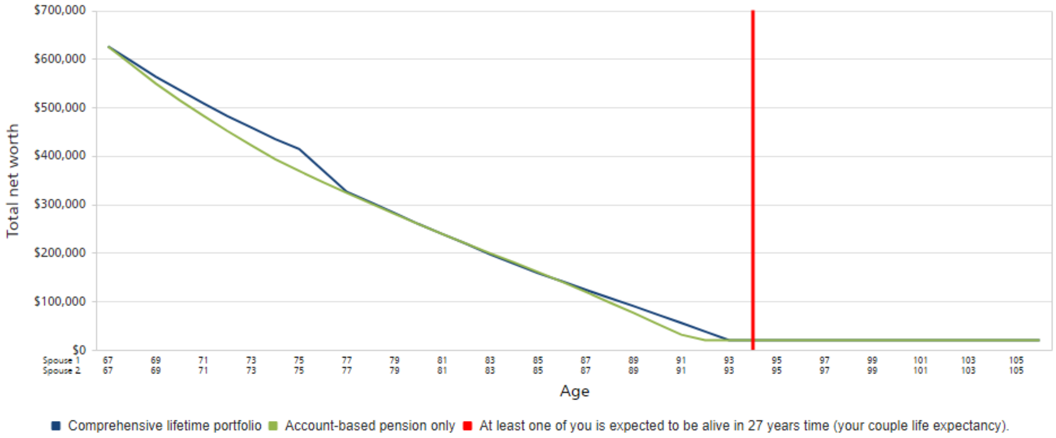
The portfolio effect of a partial allocation to a lifetime annuity





Estate (bequest) value comparison

The chart below compares the median estate (bequest) value based on the 2000 market scenarios



Estimated Age Pension illustration Year to illustrate 1

Under the lifetime portfolio year 1 Age Pension entitlements changed by: +$3,471 year / +$134 fortnight

Current Portfolio

Total assessable assets: $625,306

Total assessable income: $11,859

Applicable Pension test: Assets Test

Estimated fortnightly Age Pension: $753

52% of the maximum Age Pension

Lifetime Portfolio

including $111,061 of Flexible income or Enhanced income annuities

Total assessable assets: $580,882

Total assessable income: $12,139

Applicable Pension test: Assets Test

Estimated fortnightly Age Pension: $887

62% of the maximum Age Pension

Estimated Age Pension (today's dollars)	Year 1	Year 2	Year 3	Year 4	Year 5	5 year cumulative	10 year cumulative
Current portfolio	$19,581	$21,988	$24,278	$26,413	$28,431	$120,690	$288,671
Lifetime portfolio	$23,052	$24,952	$26,735	$28,441	$30,030	$133,209	$303,764
Lifetime portfolio difference	**$3,471**	**$2,964**	**$2,457**	**$2,028**	**$1,599**	**$12,519**	**$15,093**
% Change	**18%**	**13%**	**10%**	**8%**	**6%**	**10%**	**5%**

Source: Challenger Retirement Illustrator (31/08/2020) using Social Security rates and thresholds effective 1 July 2020. 67 year old male/female client couple. $277,653 each in account-based pension. Assumes returns of 3.0% p.a. for defensive assets and 6.2% p.a. for growth assets before fees. $50,000 cash/TDs earning 3.4% p.a. interest. Non-financial assets of $20,000. $60,000 p.a. desired income including $40,380 p.a. essential income. Amounts shown are in today's dollars. CPI of 2.0% p.a. See Challenger Retirement Illustrator for all assumptions.

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A framework for building Retirement portfolios

- Recognising two unique objectives in retirement: **Growth** & **Income**
- Focusing on managing risks specific to the retirement phase:
  - **market risk**
  - **inflation risk**
  - **longevity risk**
- A diversified functional approach i.e. not skewed to one factor such as yield or capital preservation

A functional framework

Income

Source income from a diversified pool of assets

- Equities – Income Focused
- Absolute return Bond
- Cash

Growth

Generate long term capital growth

- Equities

Risk Control

Assist in the management of investment risks in retirement

- Variable beta
- Real Assets
- Multi-Asset

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Managed Accounts: Quantifying Value

Entered 26 May 2020

Yield to Maturity 6.54%

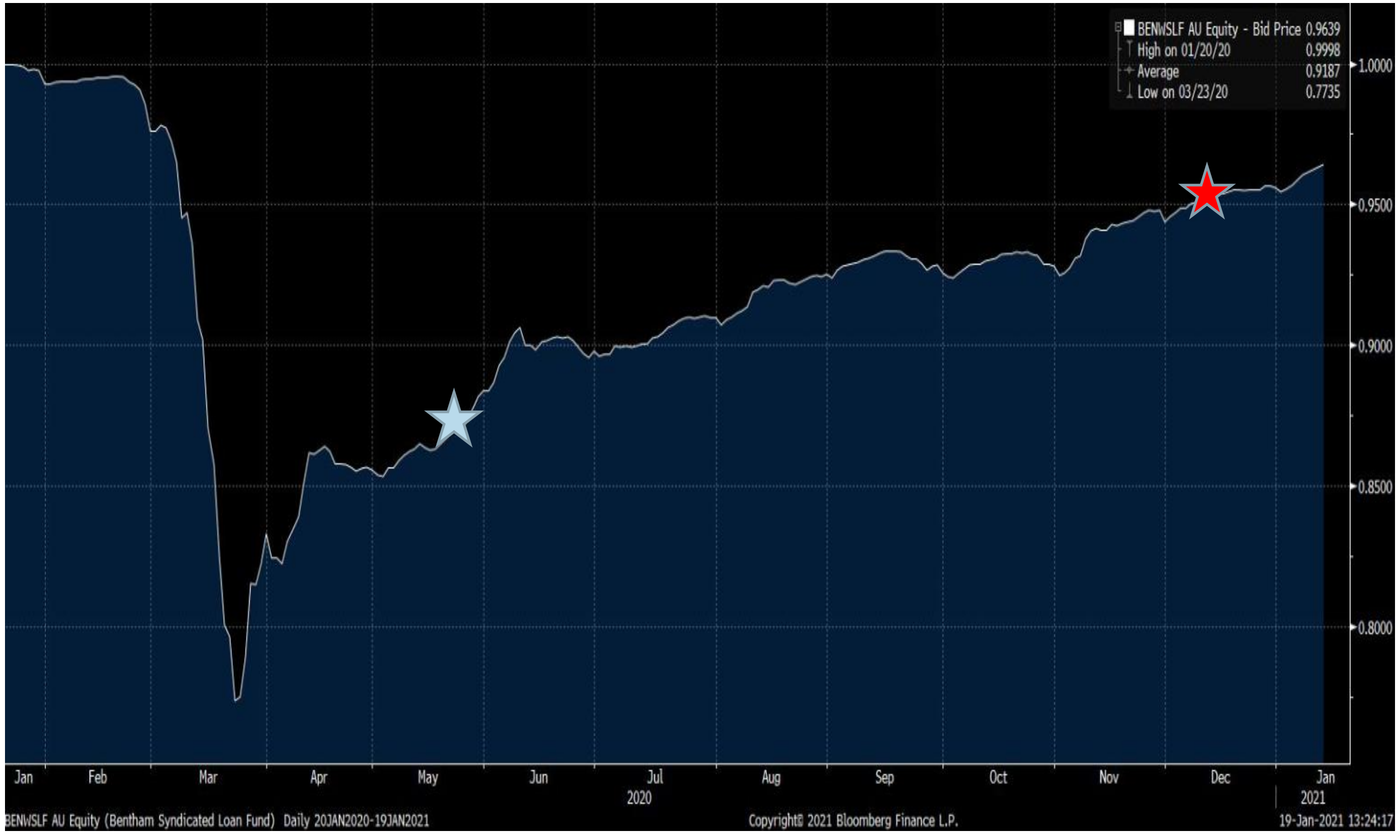
Credit Spread +628bps

Sold 8 December 2020

Yield to Maturity 4.65%

Credit Spread +431bps

Return: 8.5%



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