

NEW ZEALAND INVESTMENT BRIEFING 2017

MULTI-SECTOR PORTFOLIOS:
WEATHERING THE PERFECT STORM

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EQUITIES: VOLATILE GROWTH

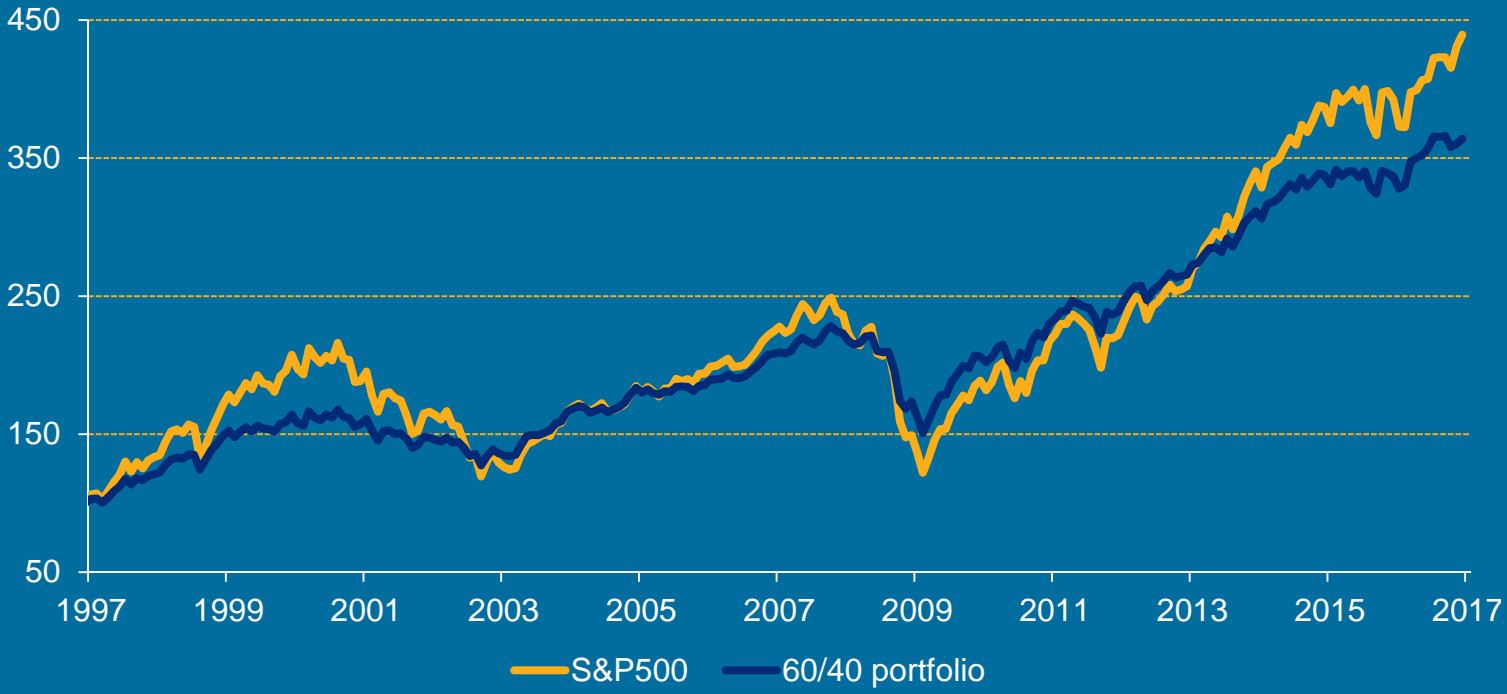
S&P 500



Source: Thomson Reuters Datastream
NEW ZEALAND INVESTMENT BRIEFING 2017

60/40: A SMOOTHER RIDE

S&P 500, 60/40



Source: Thomson Reuters Datastream
NEW ZEALAND INVESTMENT BRIEFING 2017



60/40 IN ITS PRIME

2007-2016	EQUITY	60/40
Return (p.a.)	7%	6%
Volatility	15%	10%
Maximum Drawdown	-50%	-33%
Return/Risk	0.5	0.6

Source: Thomson Reuters Datastream
NEW ZEALAND INVESTMENT BRIEFING 2017

DIVERSIFICATION EFFECT

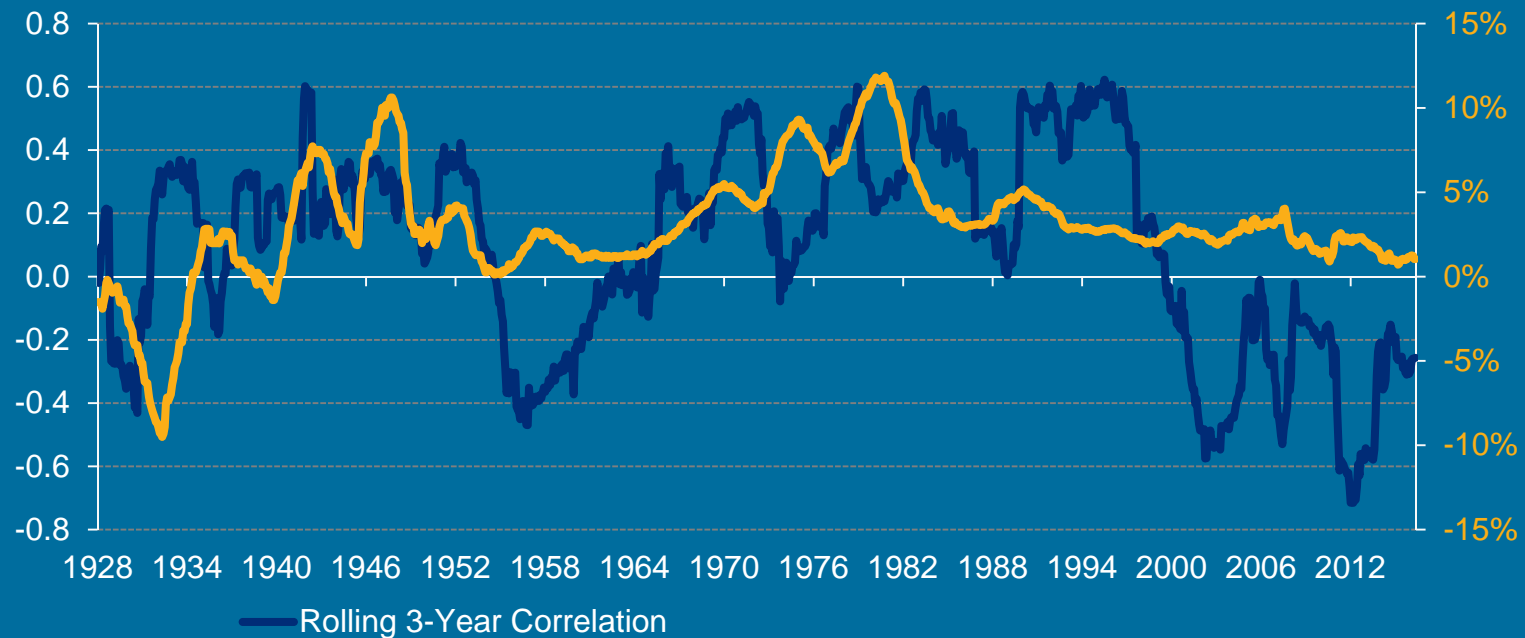
THREE-YEAR CORRELATION: US EQUITIES AND BONDS



Source: Bloomberg
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BUT WHAT IS “NORMAL”?

THREE-YEAR CORRELATION: US EQUITIES AND BONDS



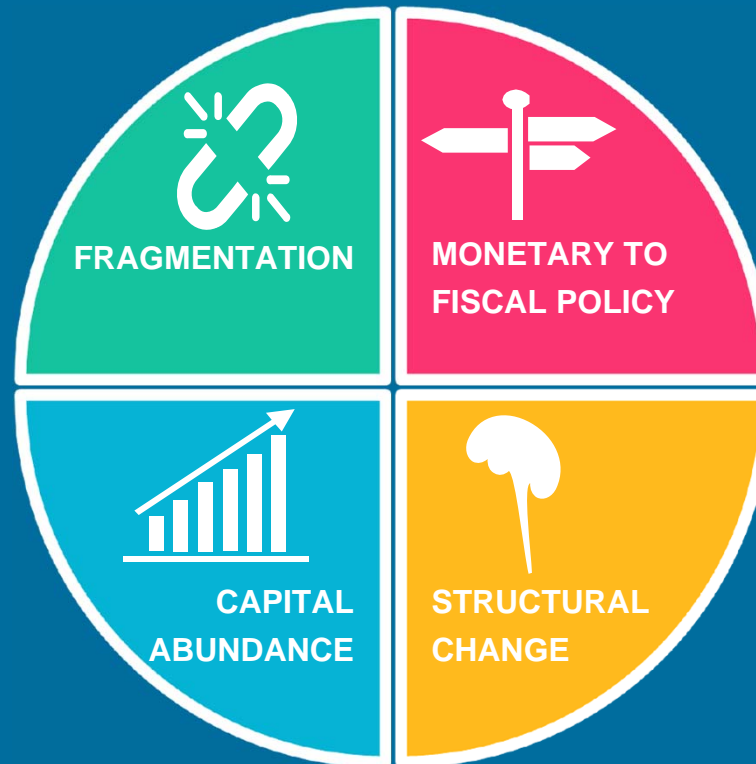
Source: Bloomberg

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STRATEGIC THEMES

- Stress testing
- Currency hedging
- “Soft”/ “hard” hedges

- Lower returns
- Illiquidity & complexity
- Market cap shortcomings



- Assess inflation risk
- Real assets v ILBs
- Opportunity for macro strategies

- Climate risk
- Opportunities for private investors

RESPONDING TO THE CHALLENGE



KNOW THYSELF

Be clear on objectives



IDENTIFY WEAKNESSES

Use scenario analysis



EXPAND THE TOOLKIT

Consider full range of tools

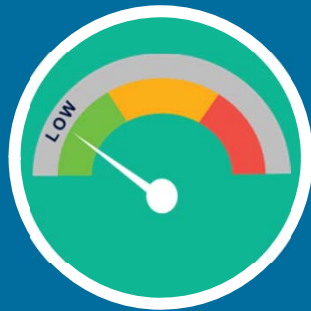


TAKE ACTION

Enhance robustness

TAKING ACTION

LAYERS OF DEFENCE



- Liquid alternatives
- Real assets
- Private debt

ADDITIONAL FLEXIBILITY



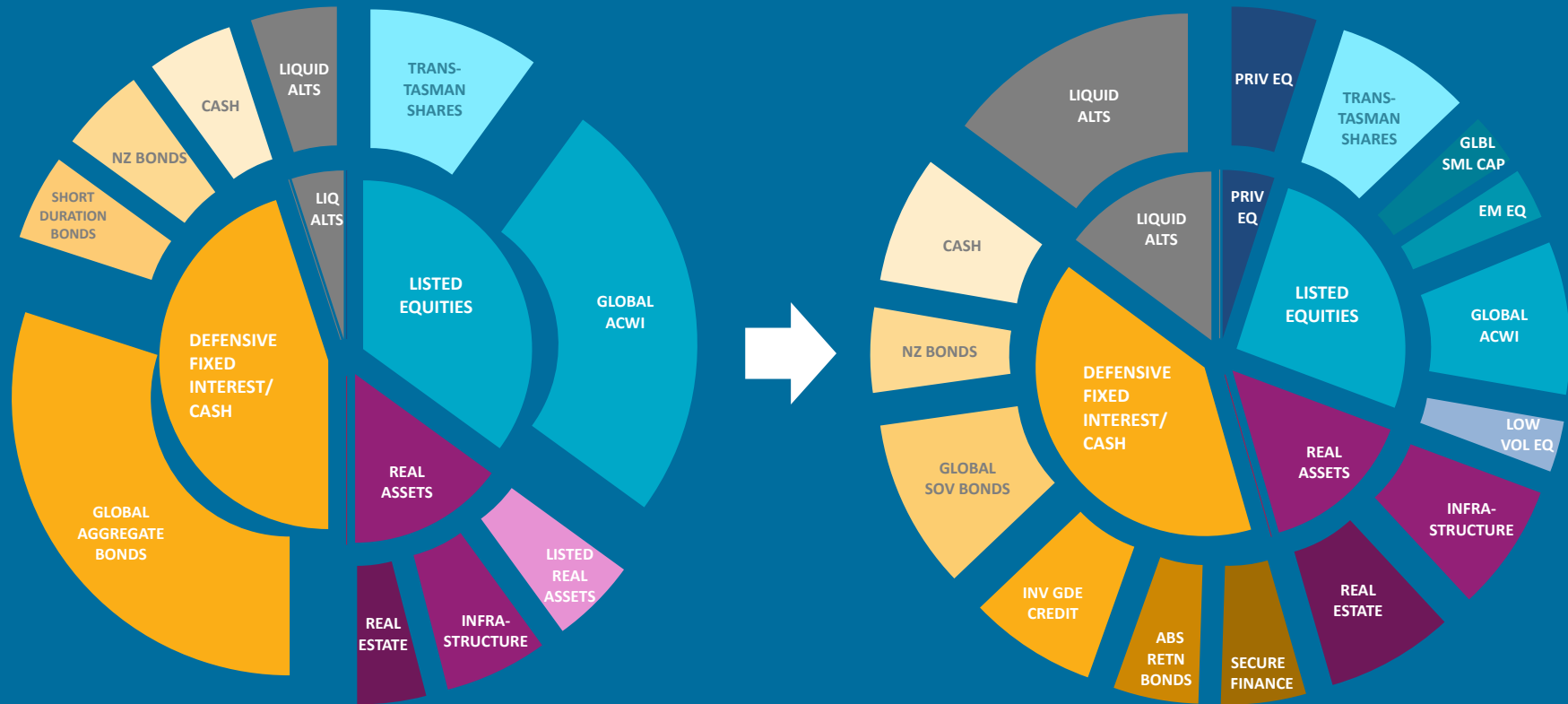
- Dynamic strategies
- Cash

EXPLICIT HEDGES

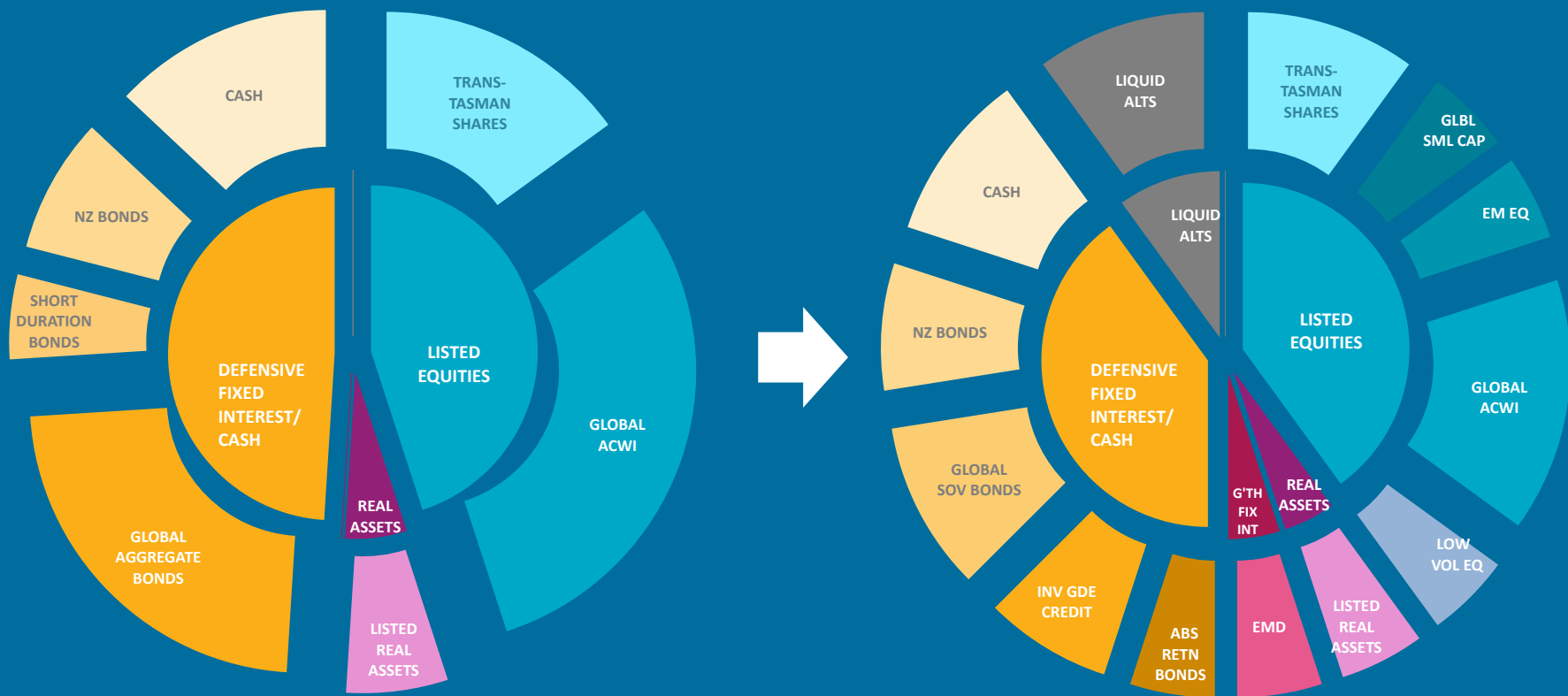


- Inflation-linked
- Synthetic protection

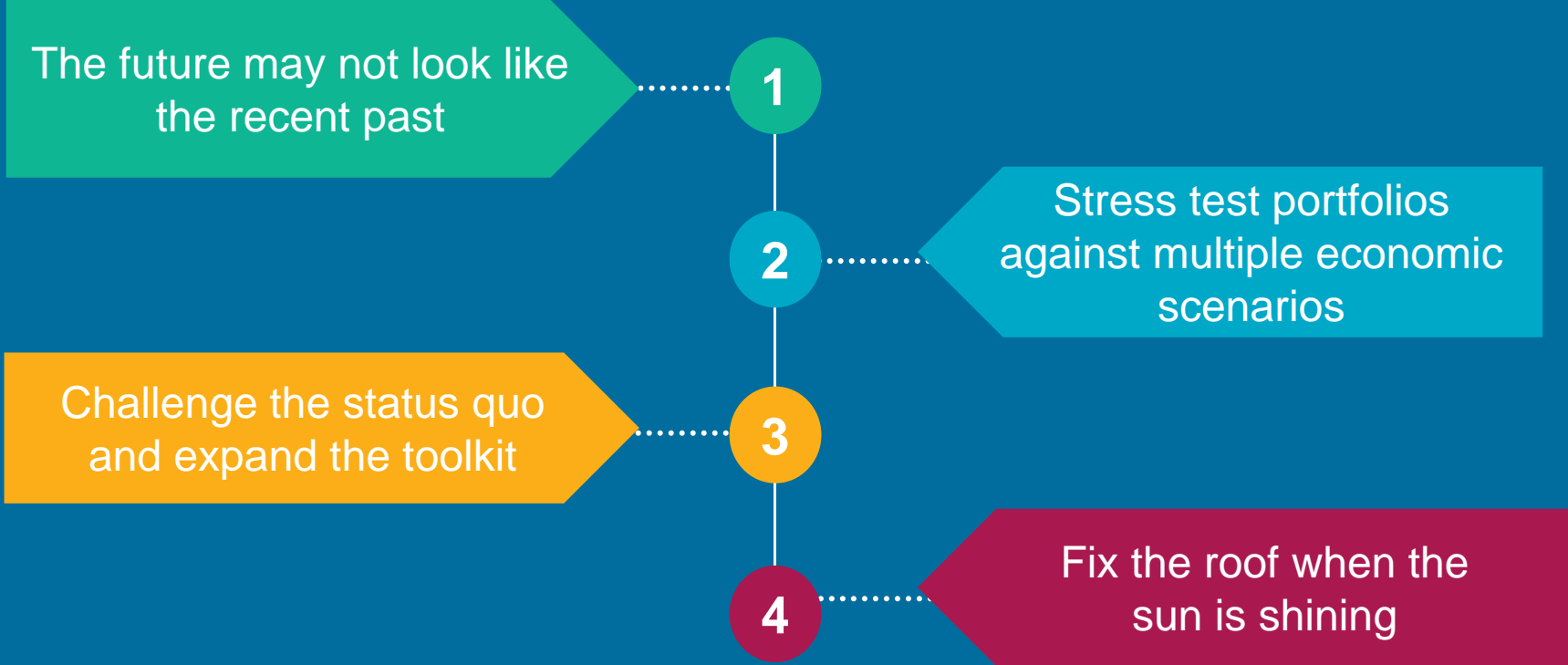
PORTFOLIO EVOLUTION – ENDOWMENT



PORTFOLIO EVOLUTION – BALANCED DC



SUMMARY





MERCER

MAKE TOMORROW, TODAY

