MULTI-SECTOR PORTFOLIOS:
WEATHERING THE PERFECT STORM

Nick White
Global Director of Portfolio Construction Research, Australia
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**

<table>
<thead>
<tr>
<th></th>
<th>EQUITY</th>
<th>60/40</th>
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<tbody>
<tr>
<td><strong>2007-2016</strong></td>
<td></td>
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<tr>
<td>Return (p.a.)</td>
<td>7%</td>
<td>6%</td>
</tr>
<tr>
<td>Volatility</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>Maximum Drawdown</td>
<td>-50%</td>
<td>-33%</td>
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<tr>
<td>Return/Risk</td>
<td>0.5</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Source: Thomson Reuters Datastream

NEW ZEaland Investment Briefing 2017
DIVERSIFICATION EFFECT

THREE-YEAR CORRELATION: US EQUITIES AND BONDS

Source: Bloomberg
NEW ZEALAND INVESTMENT BRIEFING 2017
BUT WHAT IS "NORMAL"?

THREE-YEAR CORRELATION: US EQUITIES AND BONDS

Source: Bloomberg

NEW ZEALAND INVESTMENT BRIEFING 2017
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
TA K I N G  A C T I O N

L A Y E R S  O F  D E F E N C E

- Liquid alternatives
- Real assets
- Private debt

A D D I T I O N A L  F L E X I B I L I T Y

- Dynamic strategies
- Cash

E X P L I C I T  H E D G E S

- Inflation-linked
- Synthetic protection
PORTFOLIO EVOLUTION – BALANCED DC

- CASH
- NZ BONDS
- SHORT DURATION BONDS
- GLOBAL AGGREGATE BONDS
- DEFENSIVE FIXED INTEREST/CASH
- TRANS-TASMAN SHARES
- LISTED EQUITIES
- REAL ASSETS
- GLOBAL ACWI
- EM EQUITIES
- LOW VOL EQ
- GLOBAL ACWI
- EMD
- INV GDE CREDIT
- ABS RETN BONDS
- REAL ASSETS
- G'TH FIX INT
- LIQUID ALTS
- CASH
- NZ BONDS
- GLOBAL SOV BONDS
- DEFENSIVE FIXED INTEREST/CASH
- TRANS-TASMAN SHARES
- LISTED EQUITIES
- REAL ASSETS
- GLOBAL ACWI

NEW ZEALAND INVESTMENT BRIEFING 2017
SUMMARY

1. The future may not look like the recent past
2. Stress test portfolios against multiple economic scenarios
3. Challenge the status quo and expand the toolkit
4. Fix the roof when the sun is shining