portfolio construction forum

CONFERENCE

Crossroads

Dilemmas | Decisions

19 - 20 August 2015

Critical Issues Forum
Due Diligence Forum

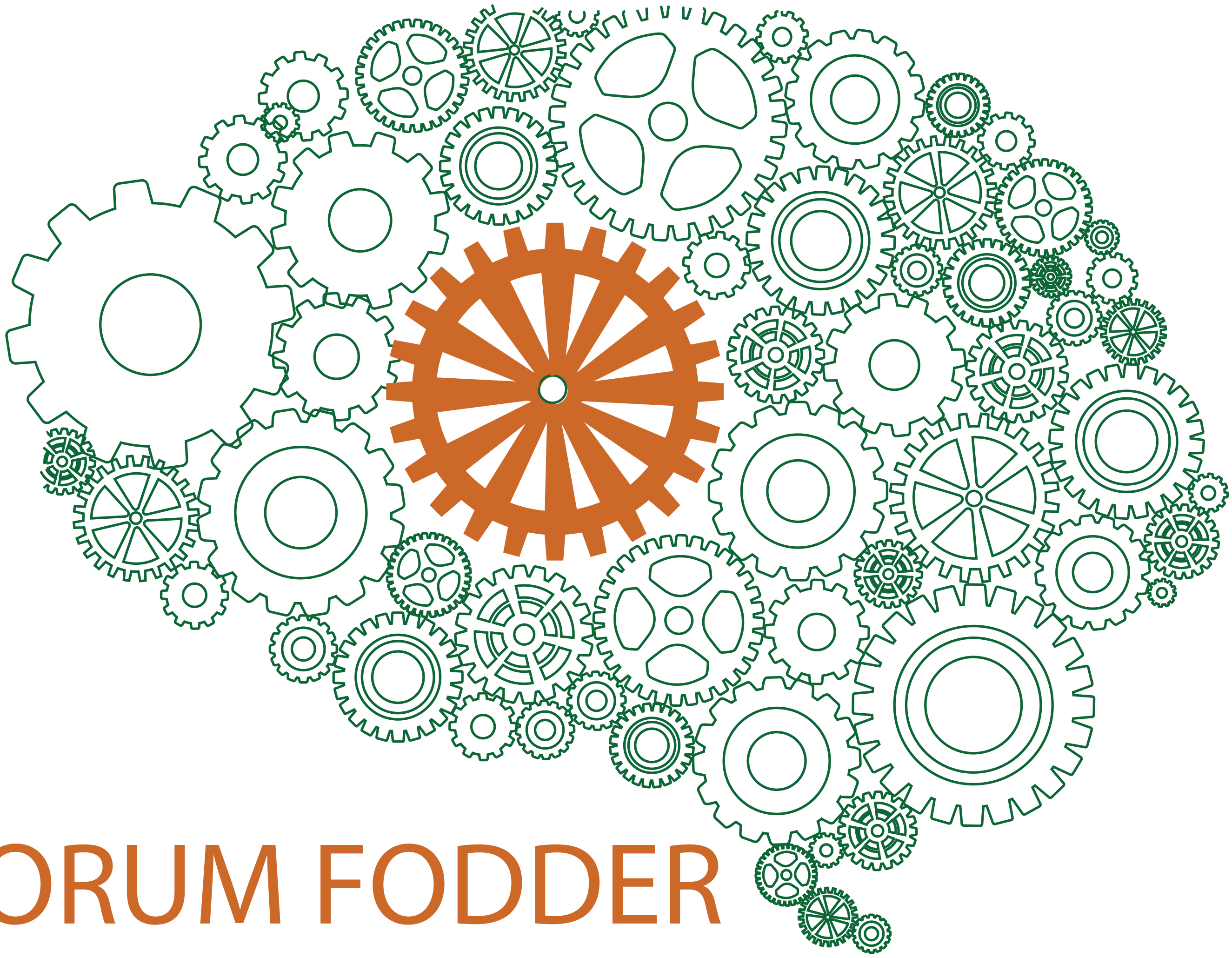
RESOURCES KIT WORKBOOK

Your name:

another brilliant! publication

a brilliant! publication

portfolio construction forum



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food for thought on the markets, strategies & investing

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Wednesday 19 August 2015

8.30am–9.00am | Theatre | Critical Issues Forum 1

C1. At the crossroads... Dilemmas | Decisions
Graham Rich, Managing Partner & Publisher, PortfolioConstruction Forum (Sydney)

9.00am – 10.15am | Theatre | Critical Issues Forum 2

At the crossroads... The global outlook – lower for longer, or higher is here?

C2.1 Markets are mispricing the future level of interest rates
Hamish Douglass, CEO, CIO & Lead Portfolio Manager, Magellan Financial Group (Sydney)

C2.2 "Lower for longer" is the view of the bulls, not the bears
Brett Lewthwaite, Head Fixed Inc & Currency, Macquarie Investment Management (Sydney)

C2.3 Panel: The global outlook – lower for longer, or higher is here?
Tony Crescenzi, Exec VP, Market Strategist & Portfolio Manager, PIMCO (Newport Beach)
Hamish Douglass, CEO, CIO & Lead Portfolio Manager, Magellan Financial Group (Sydney)
Brett Lewthwaite, Head Fixed Inc & Currency, Macquarie Investment Management (Sydney)
Chris Watling, CEO & Chief Market Strategist, Longview Economics (London)

10.15am – 10.35am | Café | Morning tea

10.40am – 11.55am | Theatre | Critical Issues Forum 3

At the crossroads... Decision making under uncertainty – sensible or senseless?

C3.1 At the ethical crossroads – navigating the values dialogue
Prof. Charles Sampford, DPhil (Oxon), Foundation Dean and Professor of Law and Research Professor in Ethics, Griffith University (Brisbane)

C3.2 A clear philosophy is the best basis for making decisions in time of uncertainty
Tim Farrelly, Principal, farrelly's Investment Strategy (Sydney)

12.05pm – 12.55pm | Rooms 1–5 | Due Diligence Forum 1

D1.1 Rising rates – investors can benefit
Tony Crescenzi, Exec VP, Market Strategist & Portfolio Manager, PIMCO (Newport Beach)

D1.2 Small Caps equities are an essential risk diversifier
Simon Conn, Senior Portfolio Manager, Investors Mutual (Sydney)

D1.3 New energy technologies: the "Utility Death Spiral" was hype
David Maywald, Senior Investment Analyst & Portfolio Manager, RARE Infrastructure (Sydney)

D1.4 Risk management is as important as return management
Tracey McNaughton, Head of Inv Strategy – Australia, UBS Global Asset Management (Sydney)

D1.5 Retirement planning is just a matter of time
Dr Joanne Earl, Snr Lecturer & Program Dir, UNSW (Sydney) – brought to you by Challenger

12.55pm – 1.30pm | Café | Lunch

Wednesday 19 August 2015 (continued)

1.40pm – 2.30pm | Rooms 1-5 | Due Diligence Forum 2

D2.1 Fixed Income– It's time to jump off the benchmark bus
Stephen Miller, MD & Portfolio Mgr – Asia Pacific Fixed Income Group, BlackRock (Sydney)

D2.2 Exploit the structural issues in Australian Equities
Paul Drzewucki, Senior Portfolio Manager, Ellerston Capital (Sydney)

D2.3 China's property bubble is set to burst!
Sam Churchill, Head of Macro Research, Magellan Asset Management (Sydney)

D2.4 Active share – winning the game of loans
Warryn Robertson, Portfolio Manager/Analyst, Lazard Asset Management Pacific Co. (Sydney)

D2.5 Alternatives are the answer to your diversification dilemma
Ashley O'Connor, Investment Strategist, Invesco Australia (Melbourne)

2.40pm – 3.55pm | Theatre | Critical Issues Forum 4

At the crossroads... The Australian economy – recession or "she'll be right"?

C4.1 Australia – recession is beckoning
Chris Watling, CEO & Chief Market Strategist, Longview Economics (London)

C4.2 An Australian recession – possible, but not probable
Saul Eslake, Independent Economist (Hobart)

3.55pm – 4.15pm | Atrium | Afternoon tea

4.20pm – 6.00pm | Theatre | Critical Issues Forum 5

At the crossroads... Retirement income certainty – is it an oxymoron?

C5.1 A client's life is a mix of stocks & bonds – allocate around it
Prof Moshe Milevsky, Ph.D., Exec Dir, The IFID Centre & Assoc Prof, York University (Toronto)

6.00pm – 7.30pm | Atrium | Networking Reception

THURSDAY 20 AUGUST 2015

7.45am – 9.25am | Theatre | Critical Issues Forum 6

At the crossroads... Alpha & Smart Beta... fact, fallacy or fantasy?

C6.1 Three fundamental strategies for outperforming markets and adding alpha
Horace "Woody" Brock, Ph.D., President, Strategic Economic Decisions (Boston)

C6.2 After wasting their "Goldilocks Era", EM are at a crossroads
Marko Papic, Chief Geopolitical Strategist, BCA Research (Montreal)

C6.3 China is a nation at the crossroads
Jonathan Pain, Author, The Pain Report (Sydney)

9.25am – 9.45am | Café | Morning tea

9.50am – 11.10am | Theatre | Critical Issues Forum 7

At the crossroads... Alpha & Smart Beta... fact, fallacy or fantasy?

C7.1 The Boutique Premium – Boutique investment managers outperform
Matthew Kelley, Vice President Corporate Strategy, Affiliated Managers Group (Boston)

C7.2 Smart beta is dumb
Michael Edesess, Ph.D., Chief Strat, Compendium Finance, Rsh Assoc, EDHEC-Risk Institute (HK)

C7.3 Panel: Alpha & Smart Beta... fact, fallacy or fantasy?
Michael Edesess, Ph.D., Chief Strat, Compendium Finance, Rsh Assoc, EDHEC-Risk Institute (HK)
Ido Eisenberg, Portfolio Manager, J.P. Morgan Asset Management (London)
Michael Furey, Managing Director, Delta Research & Advisory (Brisbane)
Ian Haas, CFA, Head of Quantitative & Directional Strategy Research, Neuberger Berman (NY)
Matthew Kelley, Vice President Corporate Strategy, Affiliated Managers Group (Boston)
Robert Lovelace, President, Capital Rsh & Mgmt Company, Inc., part of Capital Group (LA)
Rob van Bommel, MD & Portfolio Manager, Robeco (Rotterdam)

11.20am – 12.10pm | Rooms 1-5 | Due Diligence Forum 3

D3.1 Negative yields are not catastrophic
Sebastian MacKay, Inv Dir Multi Asset Portfolio Mgmt, Standard Life Investments (Edinburgh)

D3.2 Use QMTV as a risk awareness framework
James Abela, Portfolio Manager, Fidelity Worldwide Investment (Sydney)

D3.3 Infrastructure investing needs a tight definition
Andrew Maple-Brown, Head of Global Listed Infrastructure, Maple-Brown Abbott (Sydney)

D3.4 Factor Investing must be a strategic allocation
Rob van Bommel, MD & Portfolio Manager, Robeco (Rotterdam)

D3.5 Beyond Borders: Follow the revenue, not the domicile
Robert Lovelace, President, Capital Rsh & Mgmt Company, Inc., part of Capital Group (LA)

12.10pm – 12.45pm | Café | Lunch

Thursday 20 August 2015 (continued)

12.55pm – 1.45pm | Rooms 1-5 | Due Diligence Forum 4

D4.1 At the crossroads: insist on a very active equities approach
Dr Richard Whiteoak, Analyst, Allan Gray Australia (Sydney)

D4.2 High active share ≠ good performance
Ido Eisenberg, Portfolio Manager, J.P. Morgan Asset Management (London)

D4.3 Risk crossroad: Weather markets with multiple risk strategies
Jon Shead, Head of Portfolio Strategists Asia Pacific, State Street Global Advisers (Sydney)

D4.4 Liquid Alts – a better Alternative
Ian Haas, CFA, Head of Quantitative & Directional Strategy Research, Neuberger Berman (NY)

D4.5 Use an institutional approach to manage downside risk
Don Hamson, Managing Director, Plato Investment Management (Sydney)
Wade Matterson, Principal & Senior Consultant, Milliman (Sydney)
– brought to you by Sanlam/Colonial First State, Plato/Pinnacle, & Milliman

1.55pm – 3.10pm | Theatre | Critical Issues Forum 8

At the crossroads... Retirement income certainty – is it an oxymoron?

C8.1 3 strategies to manage retirement income uncertainty
Michael Kitces, Partner & Head of Research, Pinnacle Advisory (Washington, DC)

C8.2 Australians' vision of retirement is both promising & worrying
Dan Farley, CIO Investment Solutions, State Street Global Advisors (Boston)

3.10pm – 3.30pm | Atrium | Afternoon tea

3.35pm – 4.10pm | Theatre | Critical Issues Forum 9

At the crossroads... Decision making under uncertainty – sensible or senseless?

C9.1 Decision-making under uncertainty? Yes, we can do better
Prof Jack Gray, Ph.D., Adj Professor of Economics, UTS Business School (Sydney)

4.10pm – 5.30pm | Theatre | Critical Issues Forum 10

C10.1 The Great Debate
The Prof – Prof Jack Gray, Ph.D., Adj Professor of Economics, UTS Business School (Sydney)
The Portfolio Manager – Kate Howitt, Portfolio Mgr, Fidelity Worldwide Investment (Sydney)
The Provocateur – Michael Kitces, Partner & Head of Rsh, Pinnacle Advisory (Washington, DC)
The Pastor – Rev Graham Long, CEO, The Wayside Chapel (Sydney)
The Practitioner – Kate McCallum, Dir & Wealth Adviser, Multiforte Financial Services (Sydney)
The 'Preneur – Naomi Simson, Founding Director, RedBalloon
The Politician – Hon. Wayne Swan, MP, Member for Lilley, Queensland (Brisbane)

C10.2 A few words from the Publisher...
Graham Rich, Managing Partner & Publisher, PortfolioConstruction Forum (Sydney)

5.30pm – 6.30pm | Atrium | Networking Drinks

Sessions & Faculty

CRITICAL ISSUES FORUM 1

C1. At the crossroads... Dilemmas | Decisions

Portfolio construction is approaching a crossroads – and critical questions must be answered. For starters, is the developed world's 35-year (some say, 100-year) investment supercycle exhausted, heralding in an investment regime the likes of which most of us have never experienced in our careers? Or, is reinflation underway, signalling a return to higher rates and strong asset price growth and returns instead? Will active or passive strategies therefore be more appropriate? Complicating things further, what were only emerging megatrends early last decade have now become entrenched, causing massive structural change and further portfolio construction dilemmas. Critical decisions must now be made.

- Graham Rich, Managing Partner & Publisher, PortfolioConstruction Forum (Sydney)

CRITICAL ISSUES FORUM 2

AT THE CROSSROADS... THE GLOBAL OUTLOOK – LOWER FOR LONGER, OR HIGHER IS HERE?

C2.1 Markets are mispricing the future level of interest rates

There is a perfect storm supporting low rates and it may be making investors dangerously complacent. With the Fed signalling its intention to raise rates, there is great disagreement about the quantum of the rises ahead. Rates are likely to go higher than most expect over the next three years. The experience of 1994 highlights that increasing US interest rates can lead to even larger increases in rates in other credit markets. As this next chapter unfolds, the impact of these higher rates on financial markets and portfolio construction will be significant. With this back-drop, the risk of a material equity market correction is elevated.

- Hamish Douglass, CEO, CIO & Lead Portfolio Manager, Magellan Financial Group (Sydney)

C2.2 "Lower for longer" is the view of the bulls, not the bears

Imagine that in 2006, someone said that the credit bubble was about to burst, triggering a global financial crisis where interest rates would fall all the way to 0% in many parts of the developed world, stay there for seven years and be further and further aided by unconventional monetary policy easing known as QE. And somewhat surprisingly markets would enjoy this incredible environment with asset prices rising higher and higher amidst a backdrop of relentless optimism. No one would have believed it, yet it has happened. As it has been throughout, the common thinking is that higher interest rates will be good, as they will be a sure sign that economies are returning to normal. But a structural shift to higher rates is unlikely to be simple or seamless and in fact will be far more challenging and disruptive for economies and markets than many believe. Indeed, a view that markets will go on tolerating the unthinkable for far longer is the more benign, market friendly (almost bullish) outlook.

- Brett Lewthwaite, Head Fixed Inc & Currency, Macquarie Investment Management (Sydney)

C2.3 Panel: The global outlook – lower for longer, or higher is here?

- Tony Crescenzi, Exec VP, Market Strategist & Portfolio Manager, PIMCO (Newport Beach)
- Hamish Douglass, CEO, CIO & Lead Portfolio Manager, Magellan Financial Group (Sydney)
- Brett Lewthwaite, Head Fixed Inc & Currency, Macquarie Investment Management (Sydney)
- Chris Watling, CEO & Chief Market Strategist, Longview Economics (London)

CRITICAL ISSUES FORUM 3
AT THE CROSSROADS... DECISION MAKING UNDER UNCERTAINTY – SENSIBLE OR SENSELESS?

C3.1 At the ethical crossroads – navigating the values dialogue

Values play a vital role in investment and business decisions – for individuals, for organisations at all points in the chain of investment decision making including those who are increasingly the ultimate owners through investment advisers, investment managers and corporate executives. The view that investors should leave their values at the door is fundamentally mistaken as both an ethical theory and an investment strategy. 'Business as usual' means no future business in the future. Just as the candlestick makers of the 18th century saw their business give way to the makers of gas and then electric lights, so many industries will be find themselves wiped out or left as boutique reproducers of nostalgia.

- Prof. Charles Sampford, DPhil (Oxon), Foundation Dean and Professor of Law and Research, Professor in Ethics, Griffith University (Brisbane)

C3.2 A clear philosophy is the best basis for making decisions in time of uncertainty

We are in unprecedented times – deluged with information, advice, suggestions. Some good, others well meant, but hopelessly conflicted. The RBA says that housing is in a bubble and 30% underpriced? Banks will be crippled by the impact of a collapse in housing prices, or that a downturn will hardly have any impact? Similarly, Conference delegates often report coming away overwhelmed and unsure of which aspects of what they've heard they should put into action and how. Having a clear investment philosophy based on our own belief set – a living document that we evolve and sharpen over time – is the best tool to making decisions under uncertainty.

- Tim Farrelly, Principal, farrelly's Investment Strategy (Sydney)

DUE DILIGENCE FORUM 1

D1.1 Debt – Global

Rising rates – investors can benefit

Asset prices don't move in a straight line and there are short-term considerations to heed, not the least of which is the launch of the Fed's rate hike cycle which could well be disruptive to many asset classes. Investors can be opportunistic if mindful of the destination for rates. But, many investors are facing a dilemma with the perceived risk embedded in debt markets as Fed lift-off looms. However, reality beckons – rates will rise and investors can benefit.

- Tony Crescenzi, Exec VP, Market Strategist & Portfolio Manager, PIMCO (Newport Beach)

D1.2 Equity – Specialty – Australian

Small Caps equities are an essential risk diversifier

Investors in the Australian equity markets find themselves investing in a market that is very concentrated and therefore carries undue portfolio risk. Small cap exposure adds diversity in terms of a broader number of sectors to invest in – therefore providing essential diversity in terms of where profits and dividends are derived from. Diversity is an investor's essential risk management tool. Small caps also provide access to emerging sectors and stocks. Importantly, investing in smaller cap sectors and stocks does not have to be a high risk strategy for investors. The diverse range of quality small cap companies with recurring earnings and growing dividend yields offers investors essential risk diversification and should be incorporated in to an investor's portfolio.

– Simon Conn, Senior Portfolio Manager, Investors Mutual (Sydney)

D1.3 Equity – Specialty – Infrastructure

New energy technologies: the "Utility Death Spiral" was hype

Solar power, battery storage, LEDs and other technology have changed the way that electricity is produced and used. Consumers and the energy industry are at a crossroad. Australia is already a world leader in rooftop solar penetration. And as costs continue to fall, there will be greater adoption of the new energy technologies. Customer choices are impacting different parts of the energy supply chain, but energy networks themselves are insulated from emerging technologies.

– David Maywald, Senior Investment Analyst & Portfolio Manager, RARE Infrastructure (Sydney)

D1.4 Multi-asset

Risk management is as important as return management

Investors need to be more focussed on downside risk management. An environment of lower expected returns and higher volatility means risk management is just as important as return management. We know from behavioural finance theory that all investors are loss averse – they do not equate equally volatility on the downside to volatility on the upside. Achieving sustainable positive absolute returns in a low expected return world is, in large part, the result of managing downside risk wisely. In practice, this means being nimble, flexible and liquid enough to take risk off the table when it is no longer being rewarded. The result, when successful, is an asymmetric-return profile.

– Tracey McNaughton, Head of Inv Strategy – Au, UBS Global Asset Management (Sydney)

D1.5 Finology

Retirement planning is just a matter of time

Throughout our lives, we encounter people who fail to plan their families, where they live and their careers – so why do we expect everyone to plan for retirement? In fact, ABS statistics suggest that almost 1 million Australians aged 45+ don't have a retirement plan. Recent research at UNSW indicates that differences in retirement planning may be related to people's preference to focus on the past, present or future – known as Time Perspective (TP). By understanding our own Time Perspective and learning to recognise different Time Perspectives in others, we can better understand and influence retirement planning behaviour.

– Dr Joanne Earl, Snr Lecturer & Program Dir, UNSW (Sydney) – brought to you by Challenger

DUE DILIGENCE FORUM 2

D2.1 Debt – Global

Fixed Income– It's time to jump off the benchmark bus

The US Federal Reserve is (reluctantly) ending a long period of abnormally low rates. The world's premier central bank and its peers have quashed volatility, helped lift asset prices to great heights and caused us to obsess about monetary policy. This has potentially profound implications for the way fixed income portfolios have traditionally been managed. There is some reasonable concern that traditional approaches involve highly concentrated risk exposures to the direction of interest rates. At the same time some 'spread' sectors are close to fully valued. With the aforementioned contemporary dilemmas, investors should consider flexible benchmark unaware approaches in their fixed income portfolios, to potentially mitigate adverse market conditions going forward.

– Stephen Miller, MD & Portfolio Mgr – Asia Pacific Fixed Income Group, BlackRock (Sydney)

D2.2 Equity – Specialty – Australian

Exploit the structural issues in Australian Equities

Quantitative easing (QE) has driven a search for yield globally, resulting in a unique Australian experience that has seen the major ASX indices become increasingly concentrated. The concentration in the index is mirrored by the concentration of the Australian funds management industry. The 10 largest managers account for nearly 50% of the funds managed in Australian equities, creating "market impact" not seen in other developed markets. Investors are leaving Australian equity managed funds in record numbers and the median manager return remains uninspiring at best. We are at the crossroads for active Australian equity management. There remains an opportunity for active management, if you can exploit these structural issues.

– Paul Drzewucki, Senior Portfolio Manager, Ellerston Capital (Sydney)

D2.3 Equity – Specialty – China

China's property bubble is set to burst!

A credit-fuelled property bubble enabled China to maintain its incredible run of growth through the global financial crisis (GFC). However, now China has to deal with a massive excess supply of property that is causing construction activity to contract along with a range of other linked sectors in the Chinese economy, as millions of homes lie vacant. This is unlikely to be 'just another property cycle' in China. Recent stock market volatility demonstrates that asset price growth expectations can't be taken for granted in China, despite intervention from policymakers. The bursting of China's property bubble poses a major risk to both the country's stability and the global economy – and a critical dilemma for investors.

– Sam Churchill, Head of Macro Research, Magellan Asset Management (Sydney)

D2.4 Multi-asset

Active share – winning the game of loans

There are two possible outcomes from the extreme debt levels in the global economy – high inflation or long-term below trend growth. These two divergent scenarios create great uncertainty in investment markets and leave a wide dispersion of potential outcomes in any investment. The key dilemma is how can you minimise this uncertainty and return dispersion. By diverging from benchmarks and emphasising fundamentals, investors can grow real returns and provide a margin of safety.

– Warryn Robertson, Portfolio Manager/Analyst, Lazard Asset Management Pacific Co. (Sydney)

D2.5 Alternatives

Alternatives are the answer to your diversification dilemma

During the post-GFC period, unprecedented stimulus packages have compensated investors regardless of where they've taken on risk. But liquidity-fuelled beta runs are yesterday's story and the reality is that we've stolen returns from tomorrow. With traditional asset classes expensive and historically low yields on bonds compromising their role as a diversifier, investors are at a crossroads. Rather than continuing to ride the equity rollercoaster, investors should be looking for alternative sources of return and genuine diversification. Furthermore, with the emergence of innovative solutions that overcome historical limitations around liquidity, transparency and fees, investors should now be considering alternatives for a core allocation within portfolios.

– Ashley O'Connor, Investment Strategist, Invesco Australia (Melbourne)

CRITICAL ISSUES FORUM 4
AT THE CROSSROADS... THE AUSTRALIAN ECONOMY – RECESSION OR "SHE'LL BE RIGHT"?

C4.1 Australia – recession is beckoning

With Australia's economic expansion now 94 quarters old, it has become the second longest expansion amongst the main developed economies (incorporating the G10 + Australia) over the past 45 years. Special one-off factors have underpinned Australia's record expansion. A long run-up in household indebtedness, a strong rise in house prices, a commodity super cycle and an associated China infrastructure boom have all combined to extend Australia's economic expansion beyond the length of a normal cycle. All booms/bubbles are sustained by the marginal buyer – which, in turn, is sustained by cheap (and ever cheaper) money. Once cheap money begins to be removed, the boom then typically turns to bust. Hence, the key to forecasting the next Australian recession lies in forecasting the end of cheap money – if correct, then clearly a major investment crossroad for all Australian residents and investors.

– Chris Watling, CEO & Chief Market Strategist, Longview Economics (London)

C4.2 An Australian recession – possible, but not probable

It's been almost 24 years since Australia's last recession – the longest such period in Australia's history, and longer than any other 'Western' economy, bar one, has experienced since the end of World War II. It could be said Australia is "due for one". Moreover, every commodities boom Australia has experienced, prior to the most recent one, has ended in recession. But this time around, thanks to the floating A$, an independent Reserve Bank, and a decentralised wage fixing system, inflation remained well-contained – so there's been no need for the Reserve Bank to implement a recession-inducing tightening of monetary policy. Yes, the ongoing fall in commodity prices will continue to detract from Australia's national income. The unwillingness of governments to borrow at near-record low interest rates to fund infrastructure investment isn't helping. But we are now experiencing the biggest dwelling construction boom in our history. The

A$ is becoming competitive again and the impact is already starting to show up. More jobs are being created in sectors of the economy benefiting from low interest rates and a lower A$ than are being lost in mining (and manufacturing). While it would be foolish to say that the chances of a recession in Australia are zero, it's also wrong to say that they are over 50%.

– Saul Eslake, Independent Economist (Hobart)

CRITICAL ISSUES FORUM 5
AT THE CROSSROADS... RETIREMENT INCOME CERTAINTY – IS IT AN OXYMORON?

C5.1 A client's life is a mix of stocks & bonds – allocate around it

Alfred is a public sector employee who works in Canberra earning $80,000 per year. Bob works for BHP Billiton in Perth and Cameron works for NAB in Sydney. All three earn the same salary; have the same time horizon, investment knowledge and risk aversion. Should they adopt the same asset allocation? No. The same idea would apply to the investment portfolio of an Australian (or Canadian) resident – with concentrated exposure to natural resources and financial services – versus an American or European, for that matter. It is time to properly account for risk characteristics of client's most valuable asset – human capital. This philosophy has obvious implications for performance measurement as well, since every client should have their own personal benchmark accounting for the interaction of all personal assets and liabilities. Indeed, this isn't easy to implement and places financial advisors in a difficult situation, but sooner or later everyone will be asking: "What is my true beta?"

– Prof Moshe Milevsky, Ph.D., Exec Dir, The IFID Centre & Assoc Prof, York University (Toronto)

CRITICAL ISSUES FORUM 6
AT THE CROSSROADS... ALPHA & SMART BETA... FACT, FALLACY OR FANTASY?

C6.1 Three fundamental strategies for outperforming markets and adding alpha

Indexing could prove to be as problematic during the next few decades as it has been successful in the past few decades. An average person who put money into stocks and bonds in the 1980s has reaped extraordinary returns in the years since. But due to the mean reversion logic, indexing will yield low and possibly negative real returns during the decades ahead. This will heighten the appeal of active management for those brave enough to pursue it. The challenge is to identify and engage quality active managers.

– Horace "Woody" Brock, Ph.D., President, Strategic Economic Decisions (Boston)

C6.2 After wasting their "Goldilocks Era", EM are at a crossroads

Emerging Market (EM) policymakers have wasted their commodity-fueled 'Goldilocks Era' and are sitting at a crossroads. Either they make a 180-degree policy turn away from populism and towards pro-market thinking, or they will face a bloodbath in the markets, halls of government, and in the streets. Unfortunately, the current multipolar world is fundamentally hostile to developing economies, imperilling linear forecasts of ever higher returns for EM assets. Investors should be positioned to take advantage of structural reforms taking place in developed markets, especially Europe and Japan, and ignore the siren call of EM valuations. Without a dramatic policy shift, EM are a value trap if not an outright bubble.

- Marko Papic, Chief Geopolitical Strategist, BCA Research (Montreal)

C6.3 China is a nation at the crossroads

The reformist credibility of the Chinese government has been severely damaged by the stock market crash. Having encouraged a more decisive role for market forces, following the historic Third Plenum of the 18th Party Congress in November 2013, the government has failed its first real test. Instead of allowing the free market to take its natural course, the government has chosen to put its credibility on the line by meddling with the market. The unintended consequences of this intervention could be very serious for the ongoing transformation of the world's most populous nation. The political drama playing out in Beijing today will have far-reaching consequences for the global economy – and, ultimately, the geo-political relationship of China with its neighbours and the US.

- Jonathan Pain, Author, The Pain Report (Sydney)

CRITICAL ISSUES FORUM 7
AT THE CROSSROADS... ALPHA & SMART BETA... FACT, FALLACY OR FANTASY?

C7.1 The Boutique Premium – Boutique investment managers outperform

While the debate over the value of active management has intensified in recent years, the outperformance of boutique managers has been overlooked. A comprehensive study of more than 1,200 investment management firms and nearly 5,000 institutional equity strategies comprising approximately $7 trillion in assets under management found that active boutique managers have consistently outperformed both non-boutique peers and indices over the past twenty years. Furthermore, top boutiques generated exceptional net excess returns. Core characteristics of boutiques, including their focused, entrepreneurial cultures and ownership structures, with principals maintaining significant, direct equity, position them well to consistently outperform in return-seeking product categories.

- Matthew Kelley, Vice President Corporate Strategy, Affiliated Managers Group (Boston)

C7.2 Smart beta is dumb

Nobelist William Sharpe, speaking at a CFA Institute Annual Conference last year, said, "When I hear smart beta, it makes me sick." And yet, its popularity has swept not only the ETF universe but academia too. Hundreds of academic papers have been published about the "factors" that underlie smart beta strategies and many 'smart beta' investments are now available. Yet there is intensive academic debate about whether smart beta – that is, allocation using factors – produces alpha, risk-adjusted performance or only beta, a premium for bearing risk. In any case, it's not good for the investor who has to pay the bill.

- Michael Edesess, Ph.D., Chief Strat, Compendium Finance, Rsh Assoc, EDHEC-Risk Institute (HK)

C7.3 Panel: Alpha & Smart Beta… fact, fallacy or fantasy?

- Michael Edesess, Ph.D., Chief Strat, Compendium Finance, Rsh Assoc, EDHEC-Risk Institute (HK)
- Ido Eisenberg, Portfolio Manager, J.P. Morgan Asset Management (London)
- Michael Furey, Managing Director, Delta Research & Advisory (Brisbane)
- Ian Haas, CFA, Head of Quantitative & Directional Strategy Research, Neuberger Berman (NY)
- Matthew Kelley, Vice President Corporate Strategy, Affiliated Managers Group (Boston)
- Robert Lovelace, President, Capital Rsh & Mgmt Company, Inc., part of Capital Group (LA)
- Rob van Bommel, MD & Portfolio Manager, Robeco (Rotterdam)

DUE DILIGENCE FORUM 3

D3.1 Debt – Global

Negative yields are not catastrophic

Negative interest rates have become prevalent across Europe and remain low across developed markets with many fixed income assets displaying an asymmetric risk profile. As volatility in bond markets becomes more pronounced, and asset bubbles develop, investors will need to reassess their approach to the asset class. The dislocation across global bond markets allows unconstrained bond investors to exploit opportunities across relative value, yield curve and fixed income volatility.

- Sebastian MacKay, Inv Dir Multi Asset Portfolio Mgmt, Standard Life Investments (Edinburgh)

D3.2 Equity – Specialty – Australian

Use QMTV as a risk awareness framework

Investors face five dilemmas on which judgments need to be made with respect to: earnings, valuations, momentum, reinvestment and sentiment. QMTV is a risk awareness framework that can allow investors to more clearly discern the questions and factors driving prices of stocks, sectors and asset classes. This classification process aims to manage the buy, hold and sell decision process through the various cycles as well as providing a crossroad signal. Investments classified as quality, momentum, transition or value exhibit common characteristics and risk correlations that can hold for short or extended periods, but eventually rotate or "cross the floor" with material share price reactions.

- James Abela, Portfolio Manager, Fidelity Worldwide Investment (Sydney)

D3.3 Equity – Specialty – Infrastructure

Infrastructure investing needs a tight definition

In markets with considerable volatility and inflation risk, investors globally are looking for defensive portfolio solutions. But they face a dilemma – will an expected defensive asset actually deliver defensive characteristics when required? At the heart of defensive investing lies infrastructure assets – typically argued as an attractive solution for investors seeking inflation protection, reduced volatility (relative to broader equity markets) and portfolio diversification. However, due to broadening definitions, the experience of some Australian investors has not always reflected the marketing claims. Indeed, only in its purest form is infrastructure able to deliver the defensive qualities that investors are targeting.

- Andrew Maple-Brown, Head of Global Listed Infrastructure, Maple-Brown Abbott (Sydney)

D3.4 Equity – Global

Factor Investing must be a strategic allocation

The literature on asset pricing distinguishes between three sources of return: (i) exposure to market risk premium, (ii) exposure to factor premiums and (iii) alpha, or manager skill. The existence of the factor premiums were discovered by academics. Haugen & Heins (1975) proved a low volatility effect, while Basu (1977) came up with the value effect. Jegadeesh and Titman (1993) were the first to report on the momentum effect. Portfolios should be strategically allocated to these factor premiums. However, by enhancing these principles further by avoiding unrewarded risk and by avoiding going against other factors, the risk return profile of factor investing portfolios can be improved even further.

– Rob van Bommel, MD & Portfolio Manager, Robeco (Rotterdam)

D3.5 Equity – Global

Beyond Borders: Follow the revenue, not the domicile

Today's investment environment calls for a truly global perspective. Disruptive changes, from the rise in e-commerce to the emergence of breakthrough drugs, have the potential to transform the way we live and work around the world. Companies driving these changes rarely limit their commercial applications to home; they are poised to reap new profits across multiple markets and reward investors handsomely. As more successful businesses operate globally, country of domicile has become a less relevant indicator of investment exposure. We are at a crossroads: a better way to evaluate companies and portfolios is to consider where companies do business, not where they are headquartered. It is time to invest beyond borders.

– Robert Lovelace, President, Capital Rsh & Mgmt Company, Inc., part of Capital Group (LA)

DUE DILIGENCE FORUM 4

D4.1 Equity – Specialty – Australian

At the crossroads: insist on a very active equities approach

Six years into a bull market, Australian equity values are beginning to look stretched. But large divergences in valuations across sectors are creating great opportunities to beat the market. Naturally, this is impossible to achieve through a passive approach. The smooth sailing of the last few years has developed complacency among investors. But rougher seas ahead will require a more active approach. It's time to ensure that you engage a truly active manager who can capitalise on the current value dispersion.

– Dr Richard Whiteoak, Analyst, Allan Gray Australia (Sydney)

D4.2 Equity – Global

High active share ≠ good performance

Active share is an important manager evaluation tool but it does not necessarily translate into superior returns. It is one of several risk measures which can help assess a manager, but it gives no indication of manager skill. High active share is often profiled as “better” but it creates a dilemma – portfolios can exhibit risk concentrations which may lead to volatile return streams for investors. Low active share funds should not be excluded from asset allocators' tool kit. Investing in low active share, diversified portfolios can deliver consistent alpha without overriding the investors' equity allocation. Combining passive and active approaches in a low active share solution can be an effective and efficient way of accessing equity markets.

- Ido Eisenberg, Portfolio Manager, J.P. Morgan Asset Management (London)

D4.3 Multi-asset

Risk crossroad: Weather markets with multiple risk strategies

91% of investors surveyed by SSGA were very/somewhat confident in their portfolio's ability to weather a major market correction. Yet there's a conflict when only 16% agree strongly that they have the right mix of tools in place to measure and predict market risk. So what is truly more important to investors – losing less or making more? While 36% of investors say they are 'reviewing their need for downside protection', only 8% are currently implementing increased protection. Yet there are many strategies available to manage risk in portfolios – diversification, low volatility equities, defensive asset classes, option protection and risk overlays – each with its own merits and which can work together in managing risk in portfolios.

- Jon Shead, Head of Portfolio Strategists Asia Pacific, State Street Global Advisers (Sydney)

D4.4 Alternatives

Liquid Alts – a better Alternative

Supported by unprecedented monetary policy stimulus, equity and fixed income markets have outperformed with historically low levels of volatility post-crisis. Going forward, there are headwinds for equity and fixed income markets, however the outlook for alpha generation from many alternative strategies remains robust. Now is an attractive point in the cycle to add, or increase exposure to alternative strategies. While the rapid growth of the liquid alternatives universe has provided investors with more choices than ever in this regard, investors must carefully consider investment implementation issues including the diversity of alpha sources, manager skill, and fees and expenses.

- Ian Haas, CFA, Head of Quantitative & Directional Strategy Research, Neuberger Berman (NY)

D4.5 Strategies

Use an institutional approach to manage downside risk

As an industry facing a crossroads of demographics, low/volatile returns and geo-political upheaval, developing appropriate investment strategies for clients has never been so challenging. Faced with a risk tolerance paradox, many investors are increasingly taking more risk to generate the returns necessary to fund a lengthy retirement. The investment industry has responded through the development of strategies and solutions to manage risk, beyond diversification. These strategies have a particular focus on maintaining access to growth while managing exposure to downside risks. Portfolio construction specialists face a new set of challenges. What matters is the ability to deliver a robust and predictable outcome. This requires institutional capabilities that can avoid the use of expensive instruments such as options, don't charge performance fees and are not subject to the whims of portfolio managers and their ability to make the right bet. Having been tested through past crises, these approaches provide confidence that the right outcome will be delivered when it is most needed.

- Don Hamson, Managing Director, Plato Investment Management (Sydney)
- Wade Matterson, Principal & Senior Consultant, Milliman (Sydney)
- brought to you by Sanlam/Colonial First State, Plato/Pinnacle, & Milliman

CRITICAL ISSUES FORUM 8
AT THE CROSSROADS... RETIREMENT INCOME CERTAINTY – IS IT AN OXYMORON?

C8.1 3 strategies to manage retirement income uncertainty

The danger that "sequence of return risk" can devastate a retirement portfolio is both increasingly recognised and frequently misunderstood. Three concrete, research-driven strategies can help manage it – from a safe withdrawal rate approach, asset allocation strategies using buckets and glidepaths, and the "guardrails" approach for dynamic spending.

- Michael Kitces, Partner & Head of Research, Pinnacle Advisory (Washington, DC)

C8.2 Australians' vision of retirement is both promising & worrying

As Australians' financial needs in retirement evolve, it creates challenges for governments, product providers, researchers, financial advisers and investors alike. A recent survey of 1000 Australian investors highlights that while most expect to maintain their current standard of living in retirement, many are concerned about the potential impact of legislative change. Despite a relative lack of retirement confidence and too few appropriate solutions to support retirement aspirations, a key observation is the need for and value of advice. Those individuals who are advised have greater confidence in their retirement readiness and a heightened awareness of the retirement strategies and solutions available to them.

- Dan Farley, CIO Investment Solutions, State Street Global Advisors (Boston)

CRITICAL ISSUES FORUM 9
AT THE CROSSROADS... DECISION MAKING UNDER UNCERTAINTY – SENSIBLE OR SENSELESS?

C9.1 Decision-making under uncertainty? Yes, we can do better

It's easy to list some "shouldn'ts", that if avoided can improve DMUU: Demanding a process; Not accepting some things as unknowable; Resisting the need to (gulp) "muddle through"; Excessively discounting uncertainty when we do confront it; Seeing decisions as binary. There are also some "shoulds" that can improve DMUU, many of which are exposed by trespassing into other arenas that confront DMUU: politics, medicine, the military, engineering, game-theory, marriage and even (gulp) philosophy. Improvements from going short the "shoudn'ts" and long the "shoulds" can be enhanced by the 'right' temperament and organisational culture.

- Prof Jack Gray, Ph.D., Adj Professor of Economics, UTS Business School (Sydney)

CRITICAL ISSUES FORUM 10

C10.1 The Great Debate

This is your chance to begin to tie the myriad of threads together by asking questions about Crossroads, Dilemmas and Decisions of our eclectic Panel – a politician, a pastor, a professor, a portfolio manager, a practitioner, a provocateur, and a 'preneur – moderated by our Publisher. Any delegate can submit a question to our Panel. Questions will be pre-selected by our Publisher. If your question is selected, we'll contact you to explain how you'll be able to put it to the panel.

- The Prof – Prof Jack Gray, Ph.D., Adj Professor of Economics, UTS Business School (Sydney)
- The Portfolio Manager – Kate Howitt, Portfolio Mgr, Fidelity Worldwide Investment (Sydney)
- The Provocateur – Michael Kitces, Partner & Head of Rsh, Pinnacle Advisory (Washington, DC)
- The Pastor – Rev Graham Long, CEO, The Wayside Chapel (Sydney)
- The Practitioner – Kate McCallum, Dir & Wealth Adviser, Multiforte Financial Services (Sydney)
- The 'Preneur – Naomi Simson, Founding Director, RedBalloon
- The Politician – Hon. Wayne Swan, MP, Member for Lilley, Queensland (Brisbane)

C10.2 A few words from the Publisher...

- Graham Rich, Managing Partner & Publisher, PortfolioConstruction Forum (Sydney)

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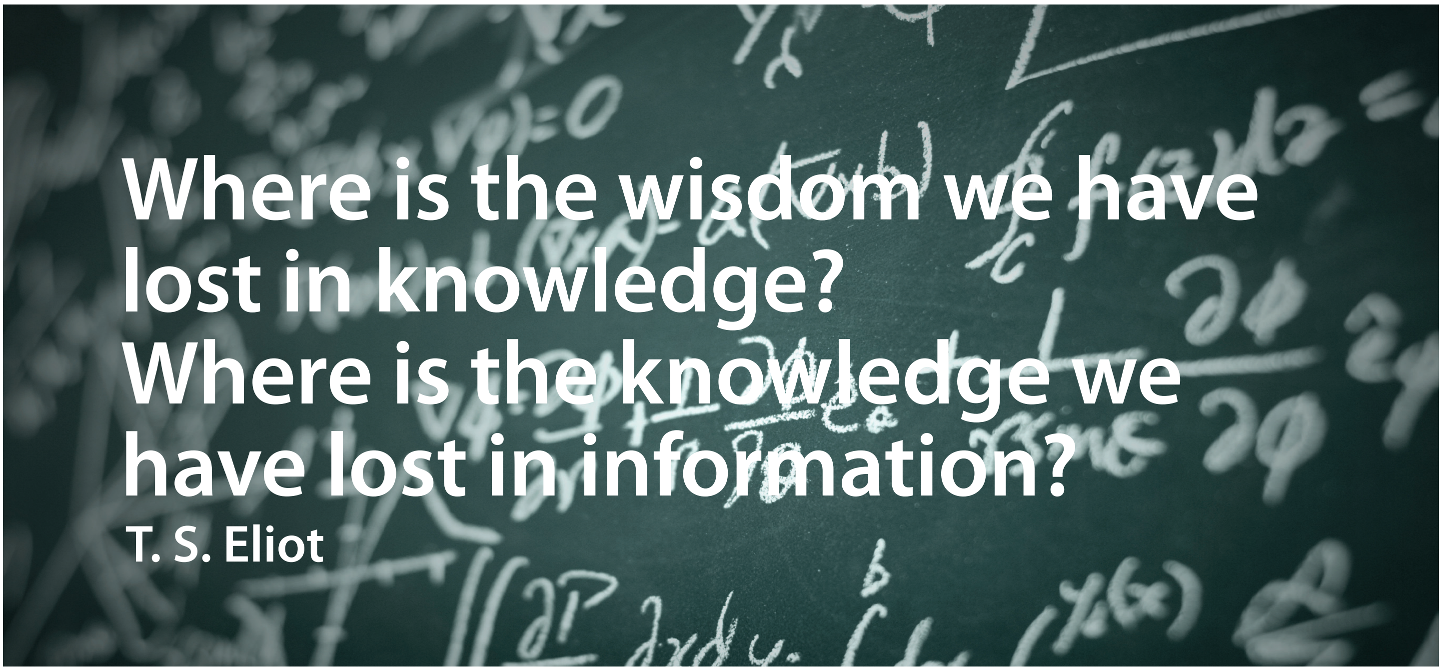
ACADEMY



advancing portfolio construction knowledge and wisdom

PortfolioConstruction Forum Academy is a post-graduate extension program to our other continuing education programs.

The annual curriculum comprises of four exclusive, one-day, research-based, active-learning Seminars on contemporary portfolio construction issues, plus optional, ad-hoc extension sessions including Research Roundtable. It is a small, high-quality peer group environment where in-depth Socratic debate and active discussion is expected!

Like all PortfolioConstruction Forum programs, Academy is focused on the three pillars for building better quality investor portfolios – markets, strategies and investing.

Academy is grounded in the belief that a robust and clear portfolio construction philosophy is essential, and that investing is as much art as it is science, so there is no 'one true way' to construct portfolios. Academy members are encouraged to advance, test and validate their own portfolio construction views through the fires of Socratic debate – not blindly follow or reject the views and positions of the Academy faculty or other Members.

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Finology Forum will grow your understanding of how to help clients make better quality decisions around money, in their best interests, which they are confident to implement and stick with.