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Manager Blending – What Is It?

Why blend managers/investment styles?

Approaches to Manager Blending

Manager Blending Tools & Analysis

* Combining fund managers of differing investment styles in a portfolio with a view to constructing a portfolio that will provide more consistent returns and capital protection through differing economic and investment market cycles.
* Essentially attempting to build a portfolio on the efficient frontier which maximises return for the level of risk

(volatility).

* Diversify investment style
  + Portfolios should not be over exposed/dominated by specific style as they perform differently and if the portfolio is totally or overly exposed to one style that underperforms for a period, so too will the portfolio (e.g. value underperforming growth for the decade after the GFC)
  + Different manager investment styles will perform differently based on differing market conditions
* Diversify manager business risk within portfolio
  + Reduce manager organisational and key person risk

Why Blend Manager Investment Styles?

* Aim to use lowly correlated managers
  + Build a portfolio of managers whose returns are not highly correlated with each other such that when some funds are underperforming others are performing strongly and propping up the returns of the portfolio
* Avoid ‘Deworsification’ – combining too many funds/managers can result in creating an expensive index

portfolio

Value vs Growth During GFC Drawdown Value vs Growth During GFC Recovery

10%

20%

30%

40%

50%

60%

MSCI Aus Value (Local) MSCI Aus Growth (Local)

180%

160%

140%

120%

100%

80%

60%

40%

20%

0%

-20%

MSCI Aus Value (Local) MSCI Aus Growth (Local)

Nov-07 Jan-08 Mar-08 May-08 Jul-08 Sep-08 Nov-08 Jan-09 Mar-09 Mar-09 Sep-09 Mar-10 Sep-10 Mar-11 Sep-11 Mar-12 Sep-12 Mar-13 Sep-13

10%

20%

30%

40%

50%

60%

Value vs Growth During COVID-19 Drawdown

MSCI Aus Value (Local) MSCI Aus Growth (Local)

45%

40%

35%

30%

25%

20%

15%

10%

5%

0%

Value vs Growth During COVID-19 Recovery

MSCI Aus Value (Local) MSCI Aus Growth (Local)

20-Feb 25-Feb 01-Mar 06-Mar 11-Mar 16-Mar 21-Mar

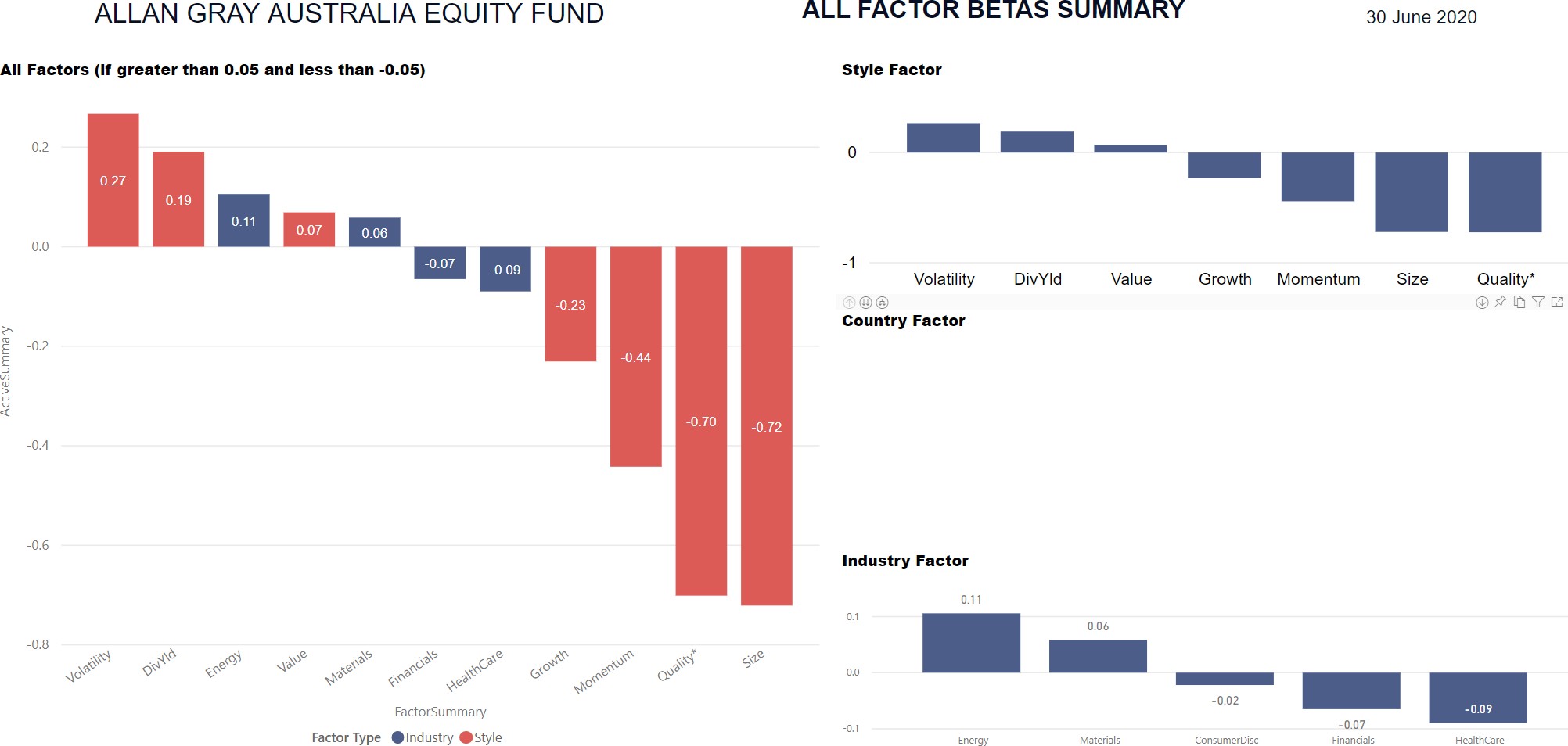
Source: Bloomberg

1. Mar 02-Apr 12-Apr 22-Apr 02-May 12-May 22-May 01-Jun 11-Jun
   * Investment Philosophy – are you a believer of active or passive? If active, in all asset classes or only less efficient markets?

* Objective of the portfolio (focus on capital growth or capital protection or a hybrid of the two)
* Required Return Characteristics (Capital Appreciation or Income)

o For example a high portfolio turnover investment style will generally lead to a greater proportion of income in total return than a low turnover manager

* + Size of portfolio / investable amount will influence the number of investments used and ability to diversify investment styles
    - Avoid ‘Deworsification’ – large FUM for some institutions has resulted in combining too many funds/managers which can result in creating an expensive index portfolio
* Factor Analysis
* Ratios & Statistics
* Portfolio Holdings



**DELTA**

Research and Advisory

Delta Factors

Understand ing Invest ment Performance Beha viour Australian Eq uit ies Benchmarks

Rolling 36 months

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**ABN ;4 3 155 969 163 AFSL: 420093**

Benchmark

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Sector

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**APIR** Code Al l

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Allan Gra y Au stralia E quity TR i n AU

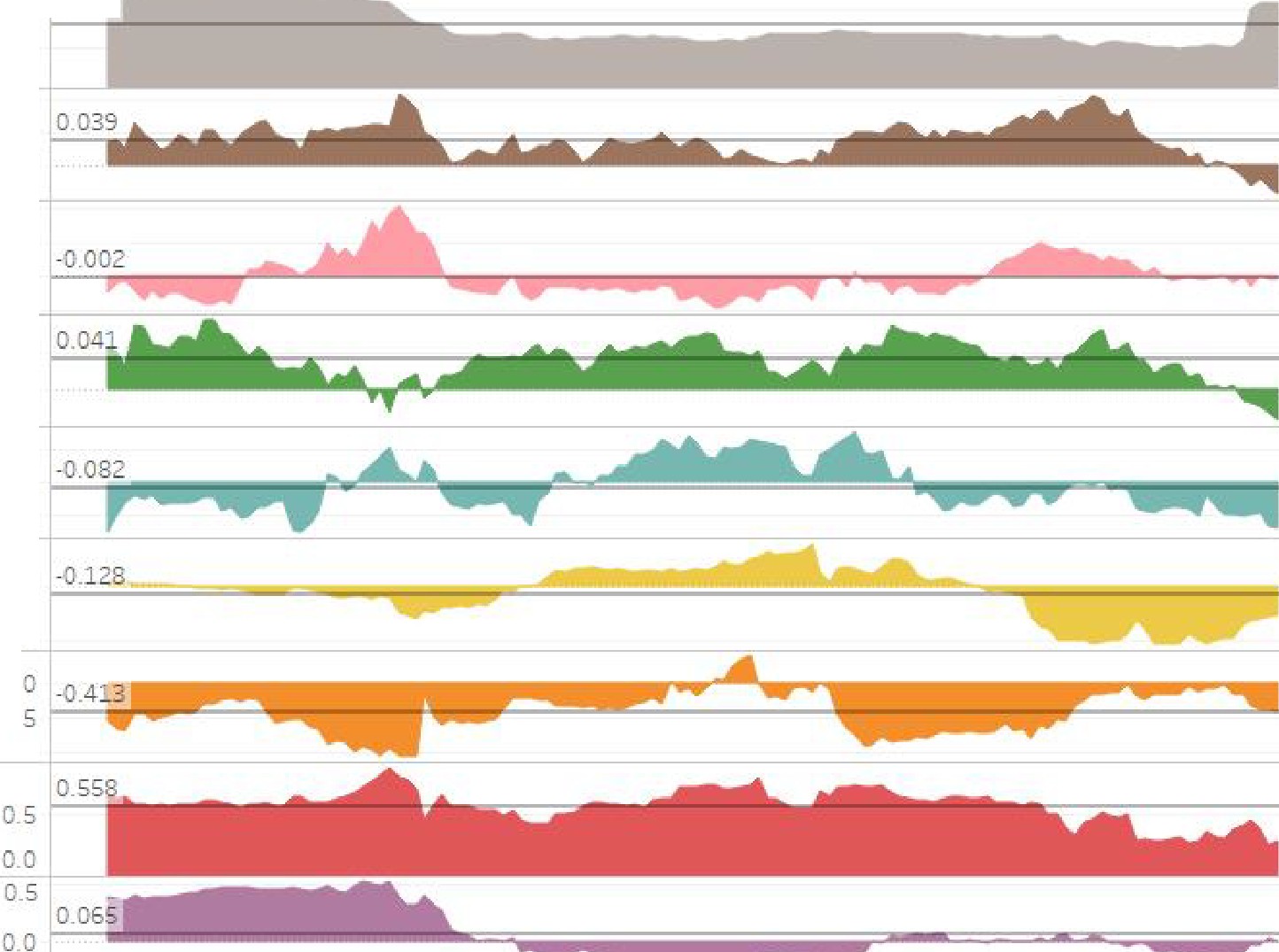
Exposures (Betas), Value -add (Alphas) and Volat ilit y of **Allan Gray Aust ra lia Equity TR in AU**

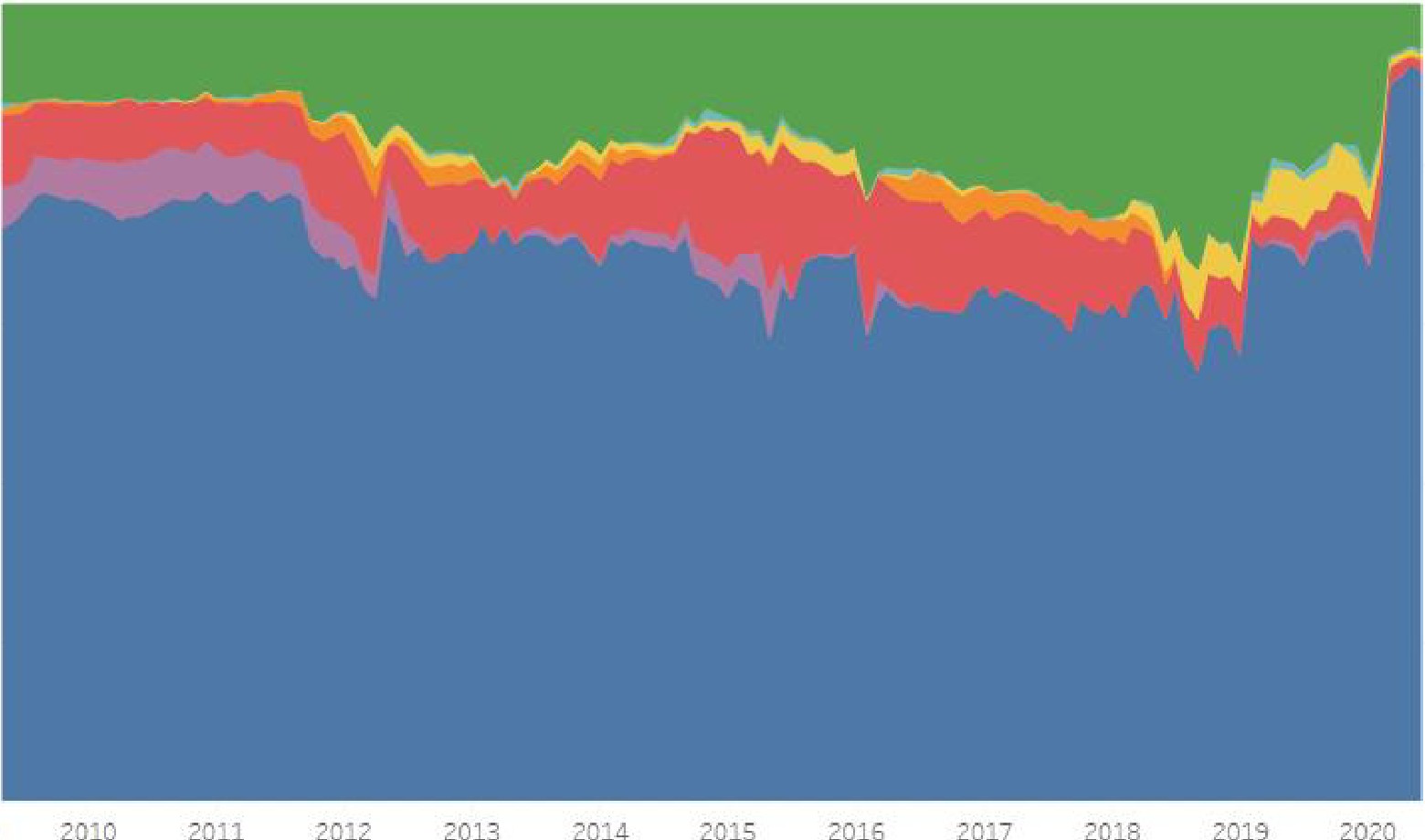
**Factor**

Port fo lio Risk Cont ribut ion of **Allan Gray Austra li,a Equity TR in AU**

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Return Vol ati li t y 0.1



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CAPM (Mark et )

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**Facto r**

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CAPM (Mark et ) Beta

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Mont h of Date

2016 2017 2018 2019 2020

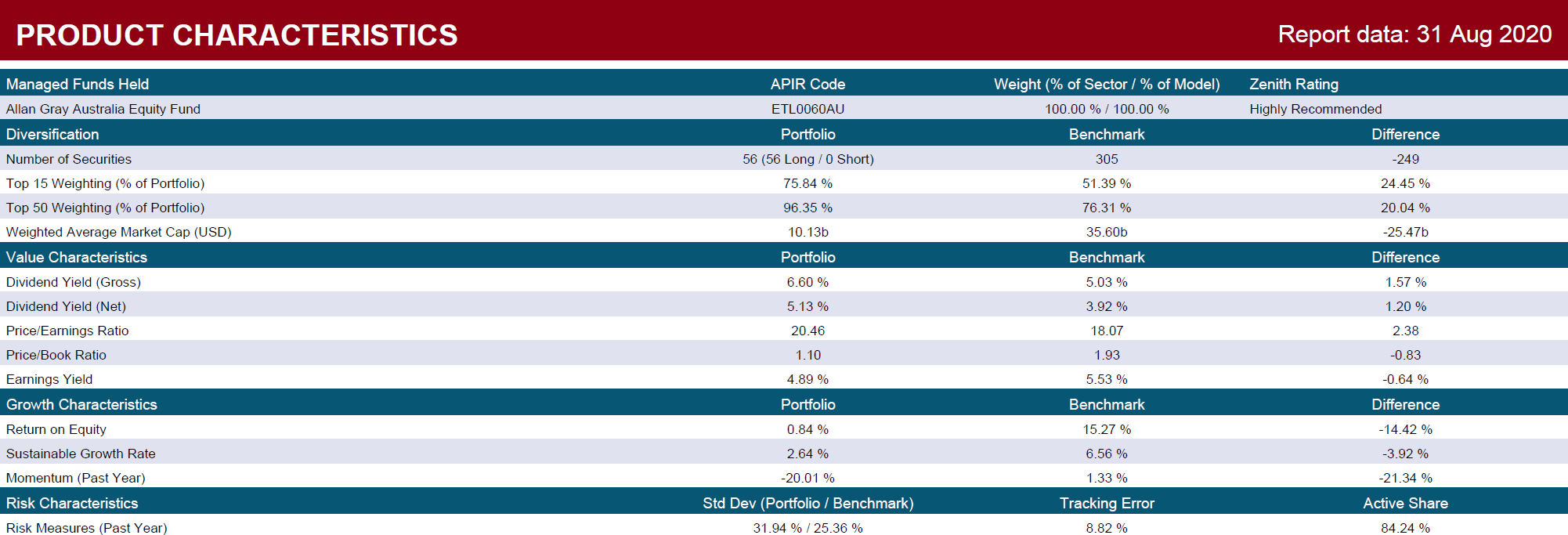
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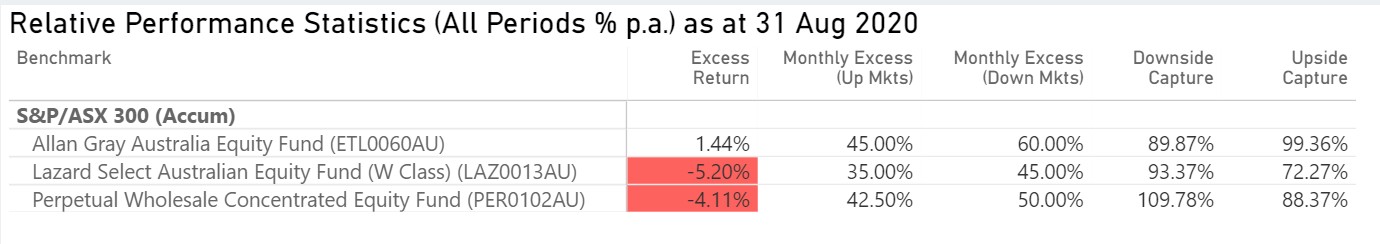
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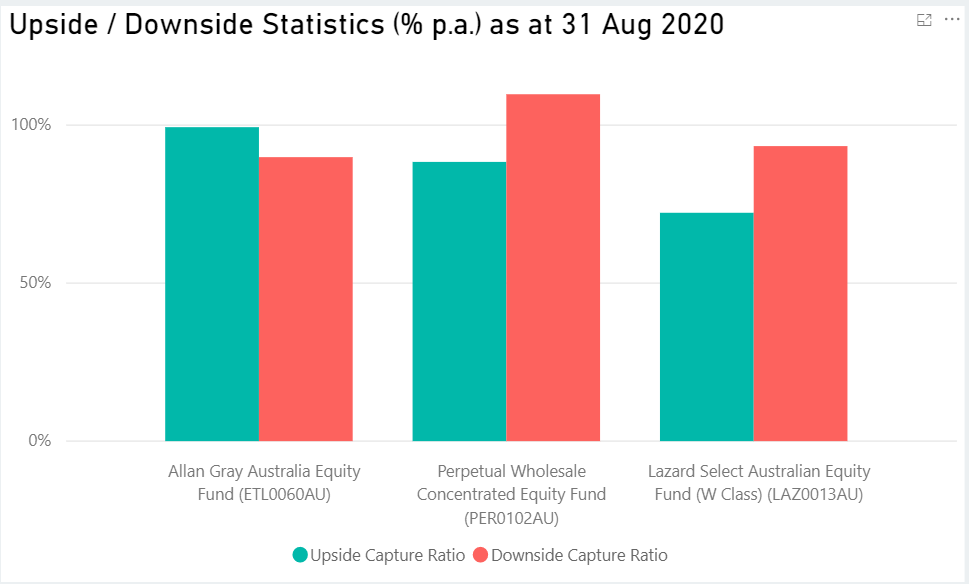
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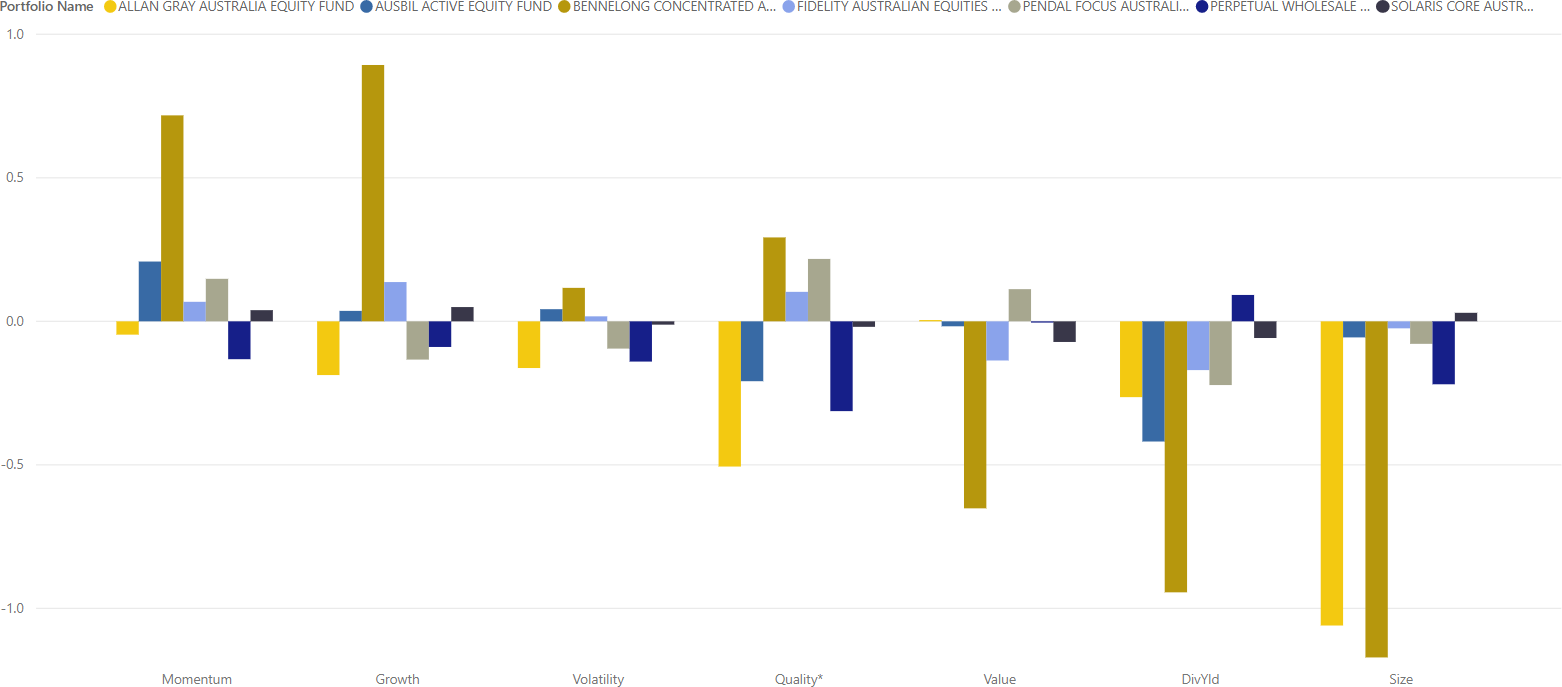
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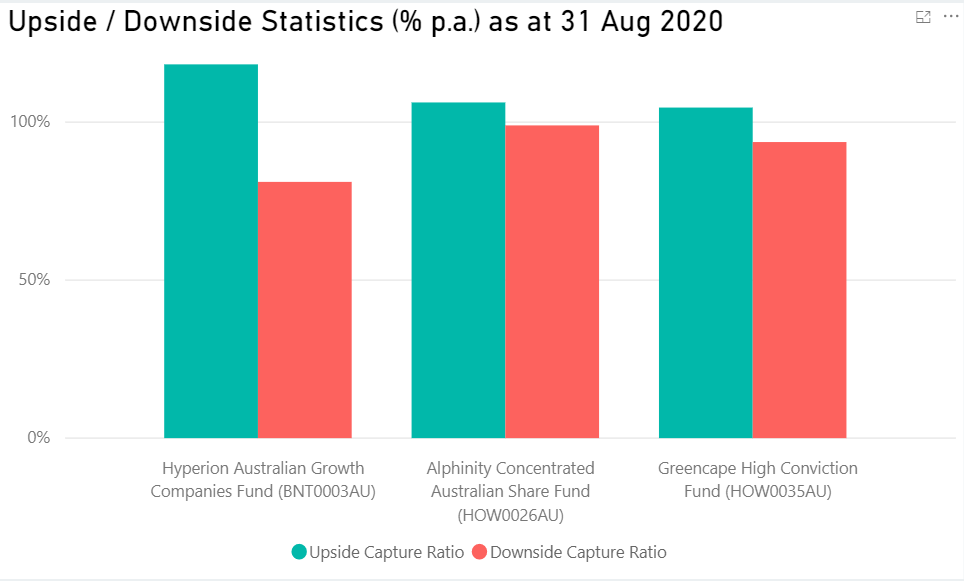
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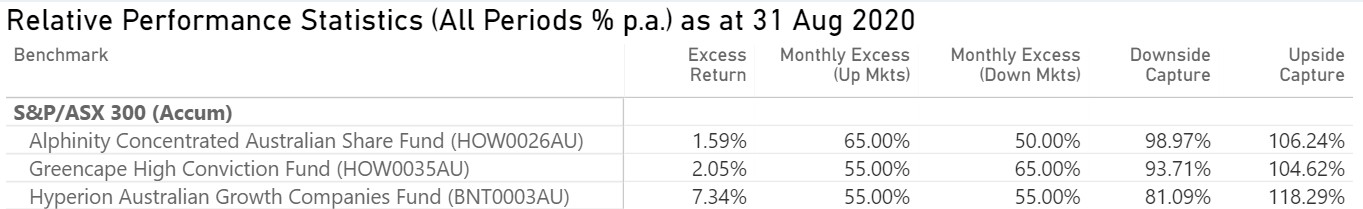




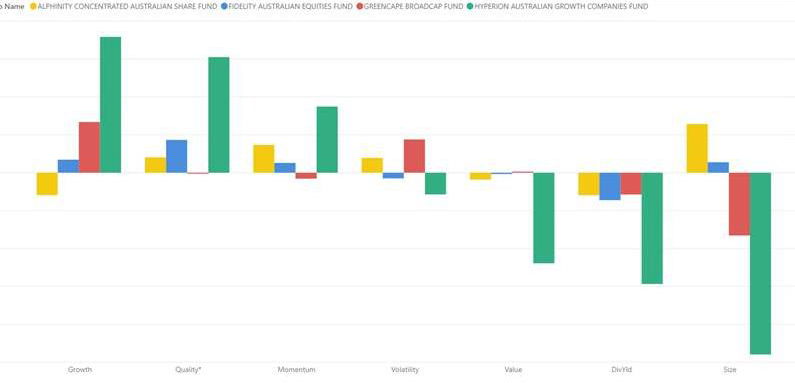


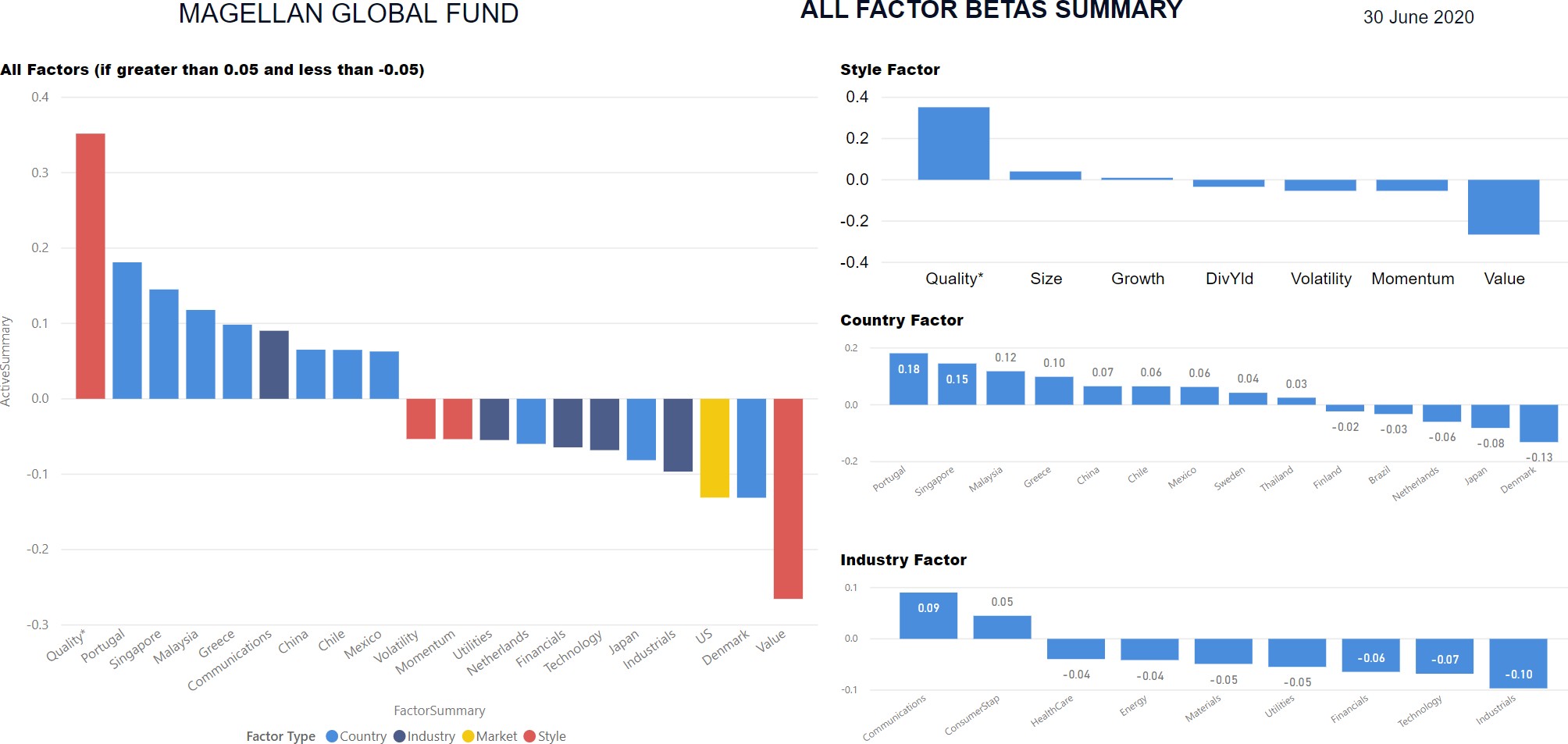






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**DELTA**

R=rch and Advlso

**Delta Factors**

**Underst and ing Investment Per formance Behav iour Globa l Equit ies Benchmarks**

**Rolling 36 months**

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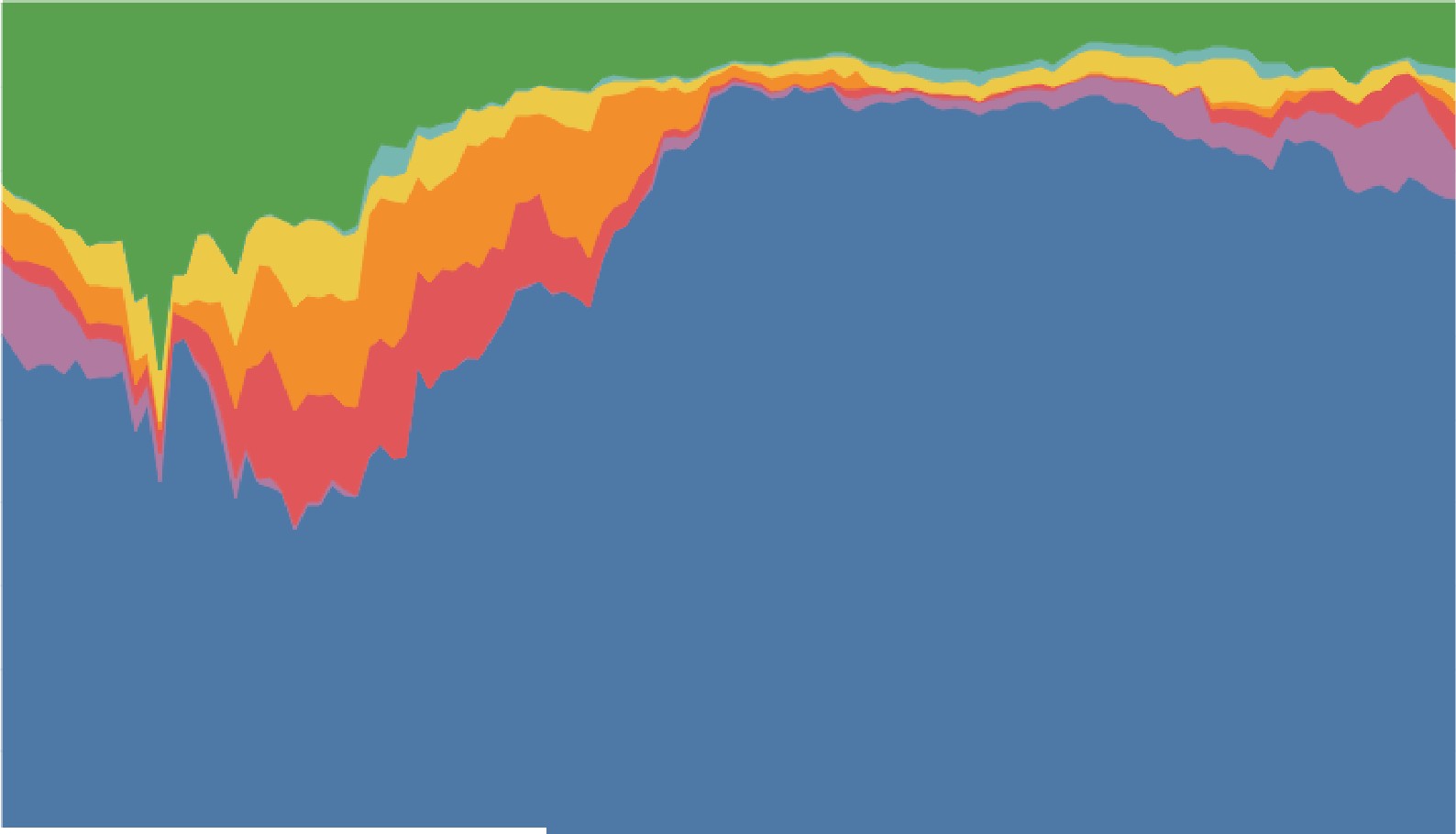
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**Exposu res** (Bet as ), Value-ad d (Alpnas) and Volat ili ty of **M agellan Global TR in AU**

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Por tfo lio R isk Cont ribut ion of **Mage ll an Globa'I TR in AU**

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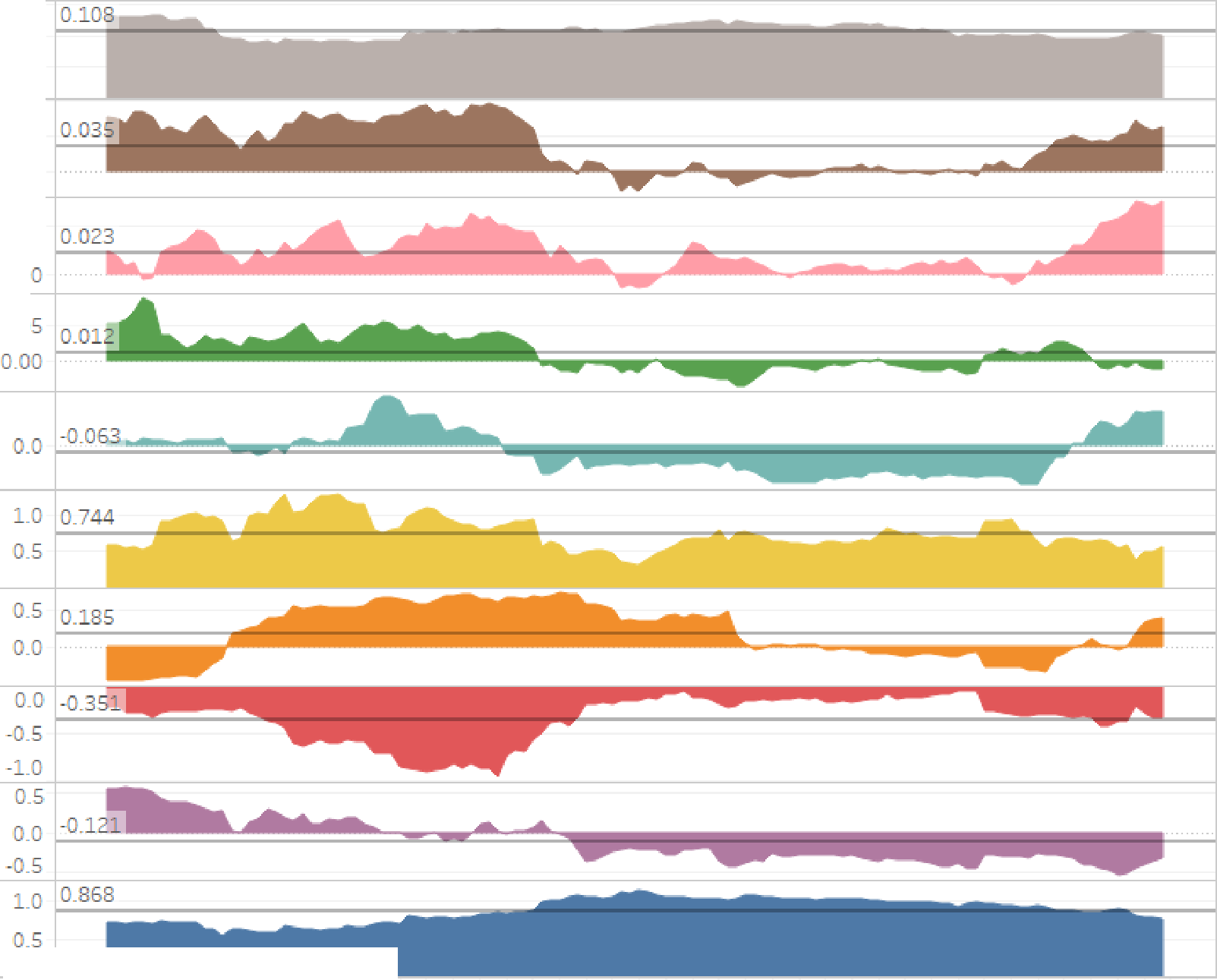
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2017 2018 2019 2020

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Gro w t h (VMG)

CAPM (Ma rket )

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* M in Volat i li t y i sk Con t r i but i o n

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* SM B Risk Con t r ibut ion
* VMG Ri sk Co n t r ib u t i on
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2010 2011 2012 2013 2014 2015 2016

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2017 2018 2019 2020

Date

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**l n 11 e s1 me n t P a r tn er s**



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| --- | --- | --- | --- | --- | --- | --- |
| **Name** | **Asset Class** | **Defensive** | **Moderate** | **Balanced** | **Growth** | **High Growth** |
| CASH | | | | | | |
| Cash Account | Cash | 20.00% | 15.00% |  |  |  |
|  | Sector Total | 20.00% | 15.00% | 0.00% | 0.00% | 0.00% |
| DIVERSIFED FIXED INCOME | ] |  |  |  |  |  |
| Fund 1 | Global Bonds | 15.00% | 10.00% | 10.00% | 10.00% |  |
| Fund 2 | Australian Fixed Interest | 10.00% | 10.00% | 10.00% |  |  |
| Fund 3 | Diversified Fixed Interest | 15.00% | 10.00% | 10.00% | 10.00% |  |
| Fund 4 | Diversified Fixed Interest | 10.00% | 10.00% | 10.00% |  |  |
| Fund 5 | Diversified Corporate Debt | 10.00% | 5.00% |  |  |  |
|  | Sector Total | 60.00% | 45.00% | 40.00% | 20.00% | 0.00% |
| AUSTRALIAN SHARES |  |  |  |  |  |  |
| Fund 1 | Australian Shares - Large Companies - Growth | 4.50% | 3.00% | 4.50% | 6.00% | 7.50% |
| Fund 2 | Australian Shares - Large Companies - Value |  | 3.00% | 4.50% | 6.00% | 7.50% |
| Fund 3 | Australian Shares - Active Extension (130-30) |  | 3.00% | 4.50% | 6.00% | 7.50% |
| Fund 4 | Australian Shares - Mid Cap Companies - Growth | 2.50% | 3.00% | 4.50% | 6.00% | 7.50% |
| Fund 5 | Australian Shares - Small Companies - Value |  | 3.00% | 4.50% | 6.00% | 7.50% |
|  | Sector Total | 7.00% | 15.00% | 22.50% | 30.00% | 37.50% |
| INTERNATIONAL SHARES |  |  |  |  |  |  |
| Fund 1 | Global Unhedged - Value |  | 5.00% | 7.50% | 5.00% | 6.75% |
| Fund 2 | Global Unhedged - Growth |  |  |  | 5.00% | 6.00% |
| Fund 3 | Global - Variable Long Short | 7.00% | 5.00% | 3.75% | 5.00% | 6.00% |
| Fund 4 | Global Hedged - Neutral |  | 3.00% | 4.25% | 6.00% | 7.75% |
| Fund 5 | Emerging Markets - Unhedged |  |  | 2.00% | 2.50% | 3.00% |
| Fund 6 | Global Resources - Unhedged |  |  | 2.00% | 2.50% | 3.00% |
| Fund 7 | Global Listed Infrastructure - Hedged |  | 2.00% | 3.00% | 4.00% | 5.00% |
|  | Sector Total | 7.00% | 15.00% | 22.50% | 30.00% | 37.50% |
| REITs | | | | | | |
| Fund 1 | AREITs | 3.00% | 2.00% | 3.00% | 4.00% | 5.00% |
| Fund 2 | GREITs - Hedged |  | 2.00% | 3.00% | 4.00% | 5.00% |
|  | Sector Total | 3.00% | 4.00% | 6.00% | 8.00% | 10.00% |
| ALTERNATIVES | | | | | | |
| Fund 1 | Market Neutral |  | 2.00% | 3.00% | 4.00% | 5.00% |
| Fund 2 | Macro |  | 2.00% | 3.00% | 4.00% | 5.00% |
| Fund 3 | CTA | 3.00% | 2.00% | 3.00% | 4.00% | 5.00% |
|  | Sector Total | 3.00% | 6.00% | 9.00% | 12.00% | 15.00% |
| Defensive |  | 80.00% | 60.00% | 40.00% | 20.00% | 0.00% |
| Growth |  | 20.00% | 40.00% | 60.00% | 80.00% | 100.00% |
| **TOTAL** |  | **100.00%** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |

* + Blending of Manager Investment Styles is a critical component of portfolio construction
  + Different investment styles perform differently and in different investment market and economic conditions
  + Style diversity is an essential risk management tool in portfolio construction

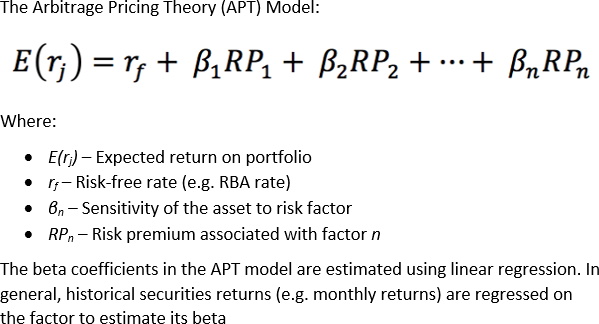
Delta Research Factor Background

Delta Research Factor Definitions

Portfolio Holdings

* + A combination of:
    - Performance Based Style Analysis – William Sharpe
    - Arbitrage Pricing Theory – Stephen Ross

2 of 3 total Wharton Jacobs-Levy Prizewinners for Quantitative Financial Innovation



* Market – MSCI World, MSCI ACWI, MSCI Australia, MSCI Australia IMI
* Value minus Growth (VMG) – This is the value factor and the beta is positive if value style, or negative if growth style.
  + Value securities have low Price/Book, Fwd PE, or high Dividend Yield;
  + Growth securities have high EPS Growth, Revenue growth, and/or Internal growth
* Small minus Big (SMB) – This is the Size factor and the beta is positive if the portfolio is biased towards

smaller securities and negative for large-cap securities.

* + Size is based on market capitalisation
* Momentum – Positive Momentum beta occurs if a portfolio is biased towards holding best performing securities over previous 6/12 months
* Quality – Quality securities generally have low levels of debt; positive and consistent profit
* Minimum Volatility – Minimum Volatility securities generally have low levels of volatility or low market beta

