

# What we and our strategic partners do

We manage uncertainty about the future by considering many possible market environments

We are risk managers, not risk avoiders.

**By applying this philosophy, we can deliver more reliable returns to clients**



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# Scenarios Approach

Does not  
predict  
the future

Seeks to  
understand  
what could  
happen



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# We can manage uncertainty about the future by considering many possible market environments

<b>1</b> Equilibrium Steady State	<b>2</b> Steady State	<b>3</b> Deflation – productivity driven boom	<b>4</b> Stagflation	<b>5</b> Rising inflation/ shock (reverse of disinflation)	<b>6</b> Debt driven growth	<b>7</b> Disinflation	<b>8</b> Generalised global growth boom – investor optimism	<b>9</b> Investor pessimism – rise in risk premiums	<b>10</b> Prolonged global growth & productivity Boom BRICs Res boom
<b>11</b> Australia boom	<b>12</b> Australia only bust (world economy not weak)	<b>13</b> Aust econ crisis (world weak)	<b>14</b> Profit share mean reversion	<b>15</b> Credit / monetary expansion	<b>16</b> Credit / Monetary contraction	<b>17</b> Steady / trend growth with mean reversion	<b>18</b> Slowdown	<b>19</b> Recession	<b>20</b> Recovery
<b>21</b> Aust Deflation – destructive (Japan 1990s)	<b>22</b> Global depression stagnation (1930s)	<b>23</b> Severe inflation risk	<b>24</b> Financial collapse risk	<b>25</b> Oil price shock – geopolitical risk	<b>26</b> Global pandemic	<b>27</b> Global catastrophe	<b>28</b> Global catastrophe adverse economic environment	<b>29</b> Global war / conflict	<b>30</b> Protectionism – adverse growth & inflation
<b>31</b> Exogenous risk drives investor uncertainty	<b>32</b> China turmoil –hard landing	<b>33</b> Demographics – commodity inflation, divergent growth, currency realignment, income focus	<b>34</b> Market bust econ not okay (rise in correlations)	<b>35</b> Developed world reform & Asian leadership (partial US earnings reversion)	<b>36</b> Paradigm shift – lower vals for equities (higher rp)	<b>37</b> Paradigm shift – lower vals for equities (lower rp)	<b>38</b> Speculative bubble	<b>39</b> Bubble bursts (economy okay)	<b>40</b> Central banks inflation mistake



# What does “risk” mean to you?

- Volatility?
- Safety of capital?
- Negative returns?
- Keeping up with inflation?

There is no such thing as a free lunch. Risk cannot be avoided if we want to generate returns, but it must be managed.

Risk management to us is about more reliably achieving objectives.



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# Strategic Overlay

## A risk management exercise

Look at what's happening today..

..and imagine how the world might evolve over the medium term (3 yrs +)

Identify risks and opportunities

What can we do today to mitigate these risks..

..and capture the opportunities.

**BUT** it takes  
patience  
to benefit from  
this!!



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# What's in it for investors?

No Nasty surprises, which means..  
..Greater reliability of returns

# ..it has to work like clockwork. We will never 'set and forget.'

We are responsible for *ALL* aspects of portfolio management

## Asset allocation

- Strategic asset allocations
- Strategic overlay
- Researching new asset classes and strategies

## Manager selection

- External managers combined with state of the art internal capabilities.
- Active vs passive
- Ongoing monitoring of managers
- Researching potential managers

## Efficient Implementation

- Re-balancing
- Liquidity
- Tax
- Managing cashflows



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# How do we narrow down the manager universe?

**Manager universe**

**Initial screen**

**Manager meetings**

**Managers of interest**

**Further screening**

**Appointment**

Manager database of circa 900 managers

Does the managers' strategy meet our requirements, do they invest in markets that interest us?

Initial quantitative and qualitative judgement of managers – is the organisation and investment team stable?

Meet managers and determine whether their process and philosophy is consistent with the aims of MLC funds

Is the manager investment grade?

Can we engage with the manager commercially?

Eg. fees, capacity

Further indepth research on remaining managers

Managers either appointed or monitored for future bench strength as required

**Approx number of managers**

**400**

**200**

**80**

**45**



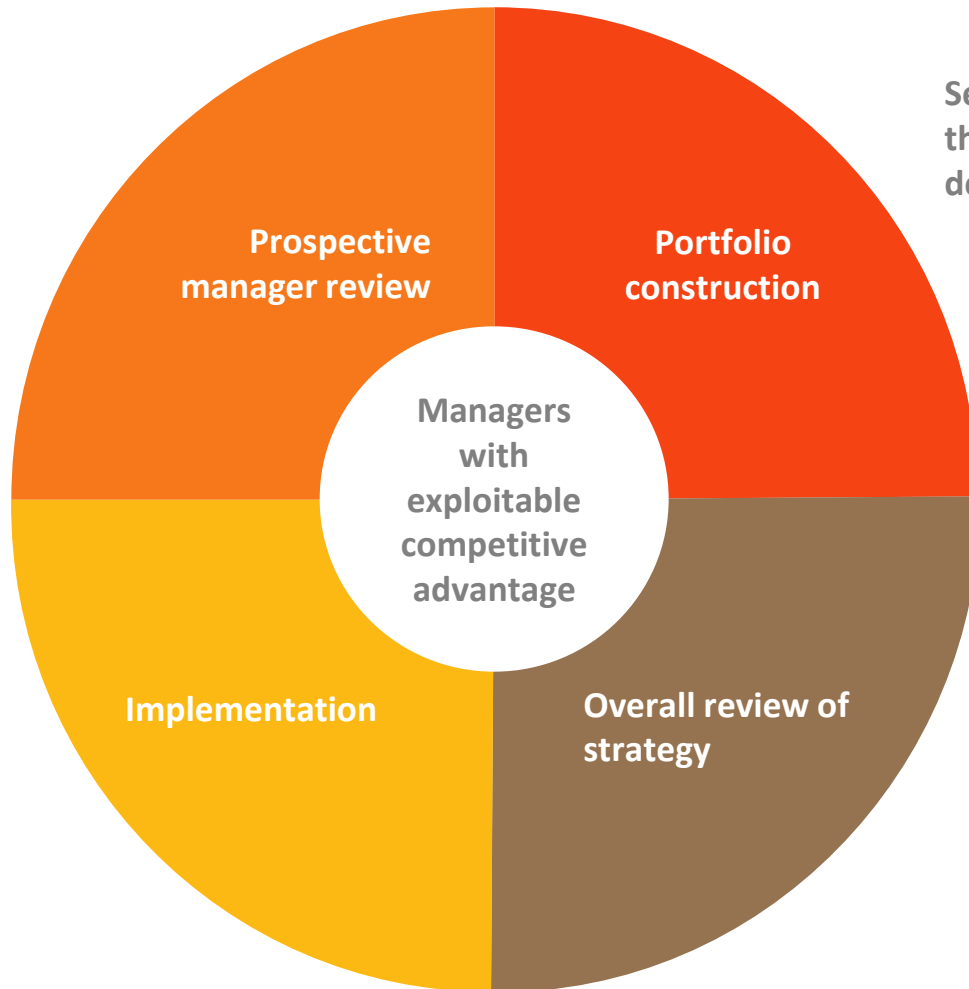
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# Manager Research Process

Finding managers with consistent investment process and an ability to provide sustainable, tax effective returns

Selecting managers and blending them in a way that meets the desired objective of the fund



Implementing the portfolio in the most market efficient way

Active surveillance of managers to ensure the portfolio meets the desired objective of the fund



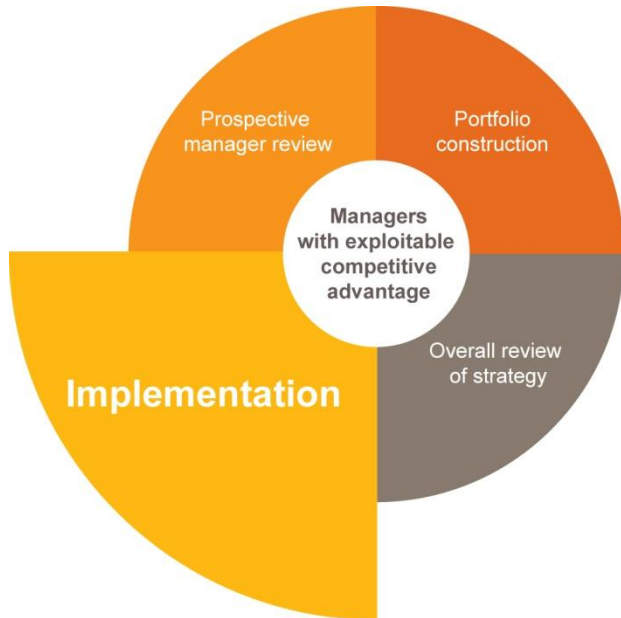
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# Developing opinions on managers

Some of the areas that we research and rate

- Firm profile (ownership structure)
- Investment staff
- FUM Capacity
- Investment Philosophy
- Research
- Security Selection
- Sector, Duration, Yield Curve Selection
- Country Selection
- Currency Selection
- Portfolio Construction
- Trading controls

# Efficient Implementation



- Appropriate investment structures
- Cash flow management
- Rebalancing
- Transition management
- Operational risk management
- Mandate due diligence
- Legal agreements

# What's in it for our clients?

Common sense, innovative investment strategies that stand the test of time, and deliver..

..Greater reliability of returns