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Strategies to make the most of your investments

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The information contained within does not consider your personal circumstances and is of a general nature only.
We strongly suggest that you should not act on it without first obtaining professional advice specific to your circumstances.
This presentation holds information for Australian residents only.

Growth vs Defensive Assets

Growth Assets: Shares/ Property/ Alternatives

Defensive Assets: Cash/Term Deposits/Fixed Interest

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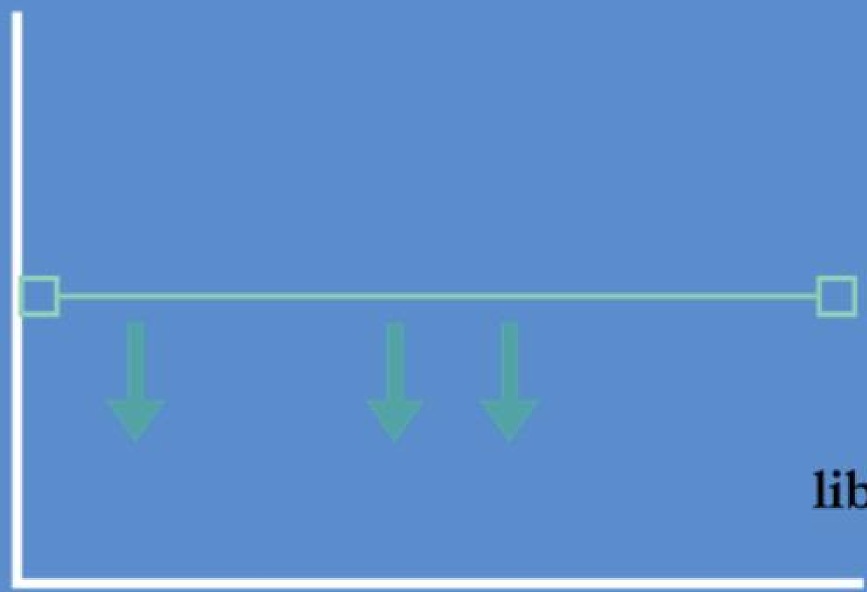
Growth vs Defensive

Growth Assets: Shares/ Property/ Alternatives

Defensive Assets: Cash/Term Deposits/Fixed Interest



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Start with the end in mind and be specific…

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Other Variables

How and what we invest in is dependent on client's needs/wants:

- **Tax situation**
- **Access to funds (liquidity)**
- **Control**
- **Other Preferences**

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What risks are you willing to take?

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Portfolio Construction

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Diversification

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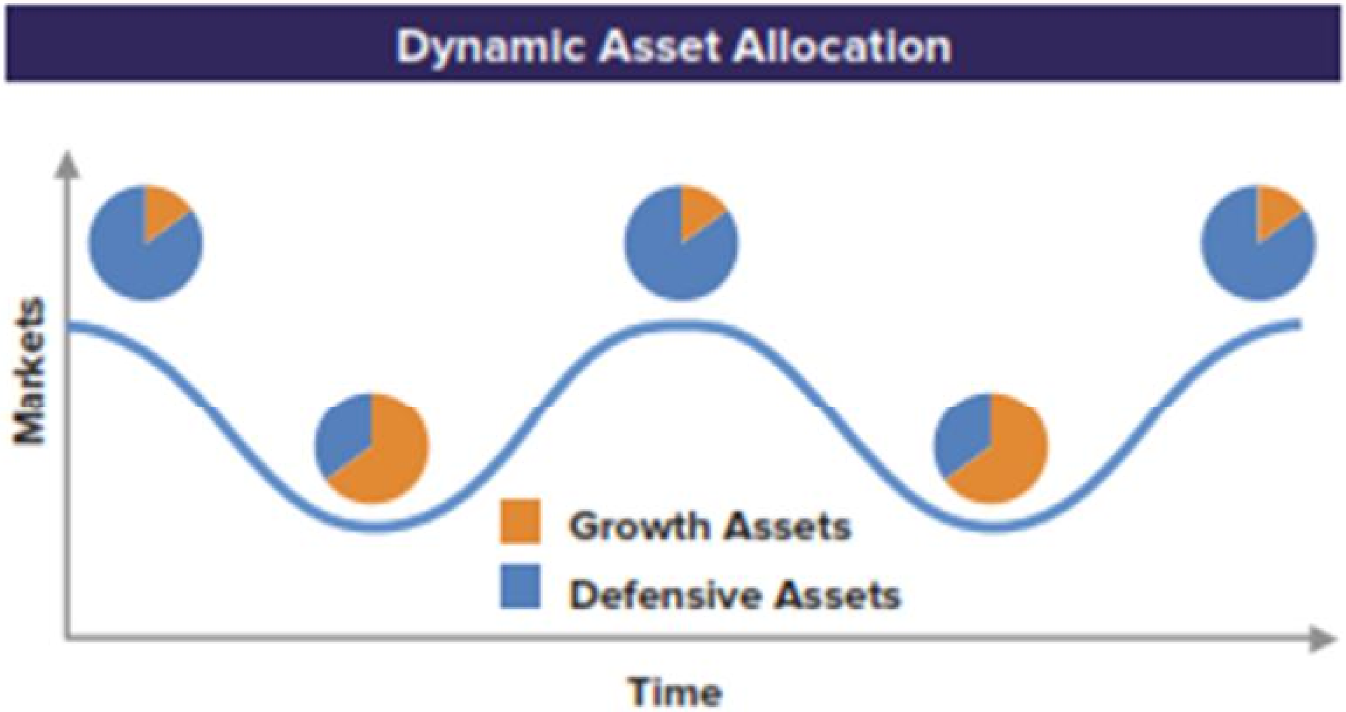

Like all investors, Innova's risk management process effectively seeks to buy low and sell high. Our process is designed to ensure we invest in assets when they are cheap and similarly, sell assets when they become overvalued and expensive.

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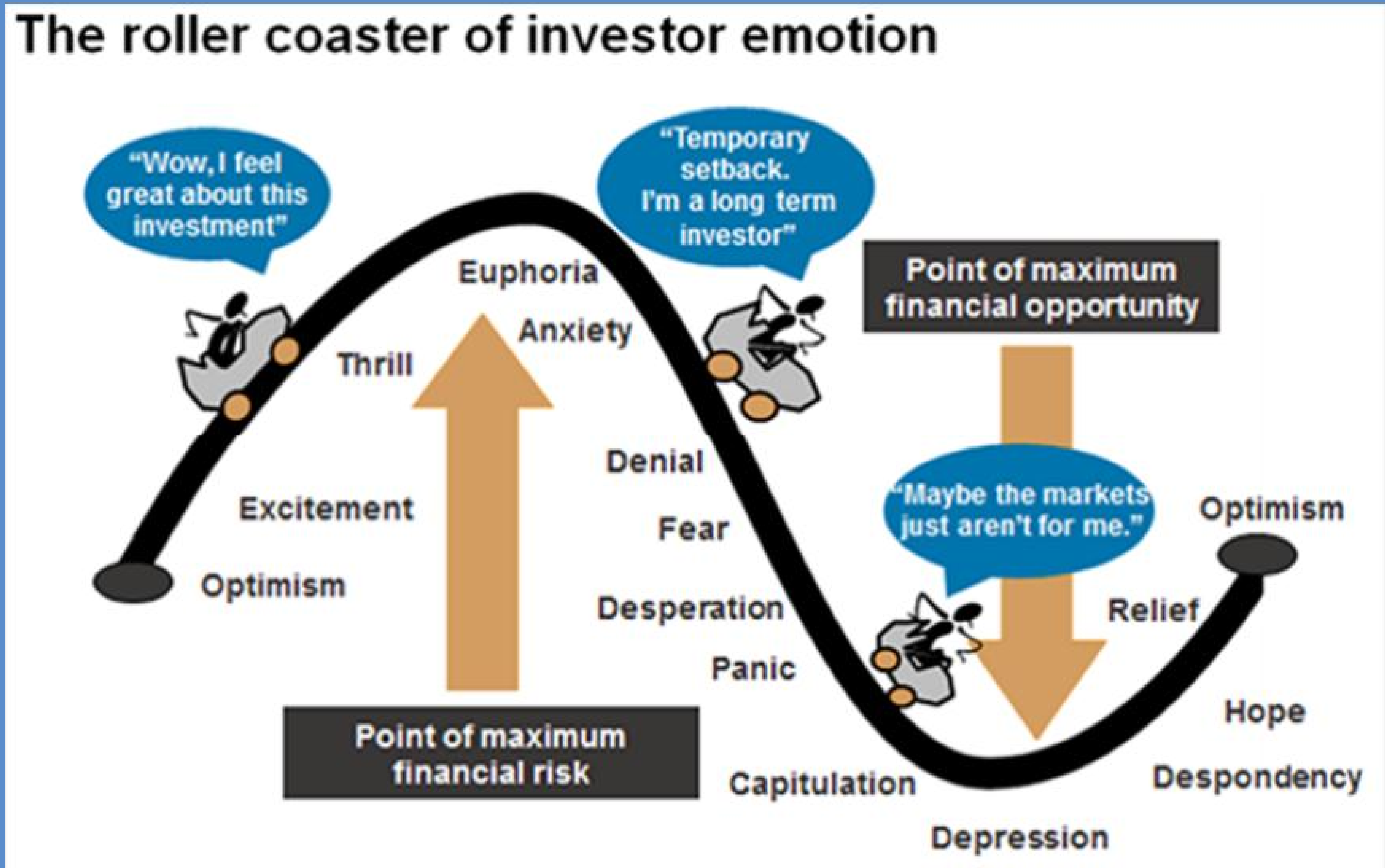
Don’t Follow The Crowd



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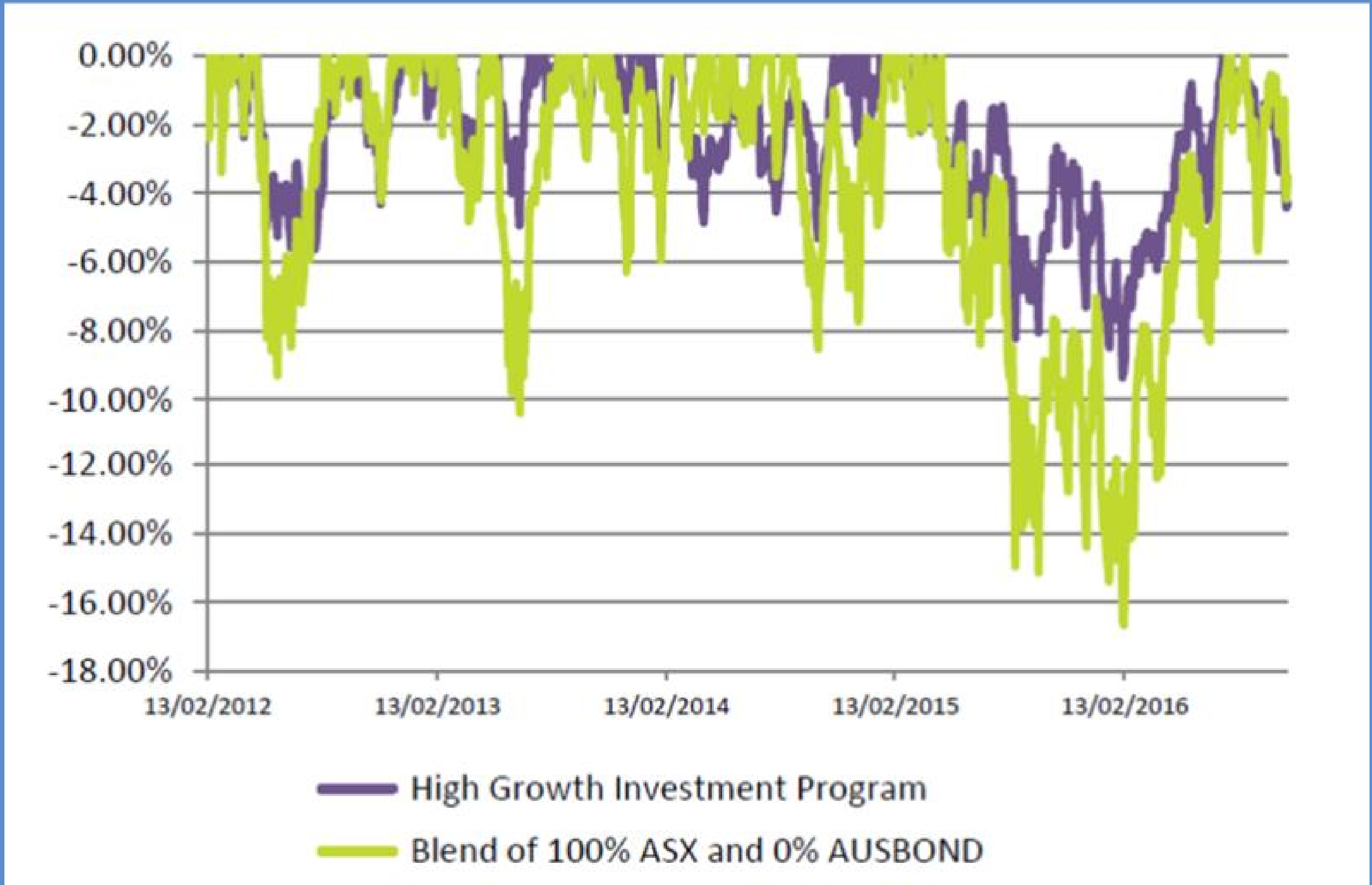
Dynamic Asset Allocation



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How do you protect your portfolio from events like the GFC?

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How do you protect your portfolio from events like the GFC?

This hypothetical illustration is based on a $100,000 initial investment in the Sanlam P2strategies Global Fund in December 2004 and is net of fees. The values shown for the Sanlam P2strategies Global Fund reflect the historical returns for the MSCI World Index with the assumption of a P2strategies overlay. It is not intended to project or predict future investment returns. Past performance is no guarantee of future returns.

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INNOVA
Asset Management

September 2017
Market update – Liberum Financial

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Important Information

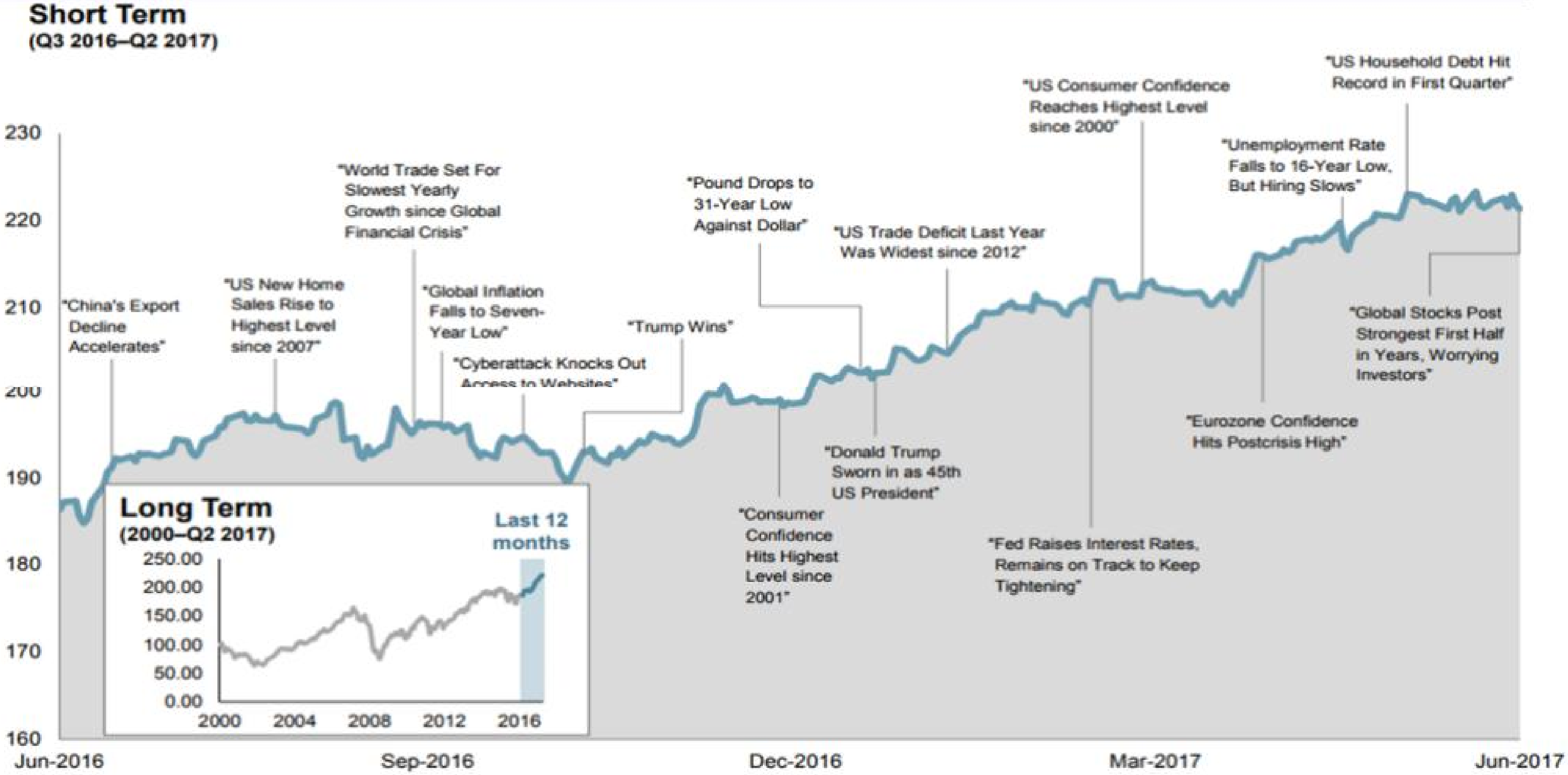
This document has been prepared by Innova Asset Management Pty Ltd, ABN 99 141 597 104, which is a Corporate Authorised Representative of Fortnum Private Wealth Ltd, AFSL 357306.

The information contained in this document is commentary only. It is not intended to be, nor should it be construed as, investment advice. The views expressed are subject to change at any time based on market and other conditions. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Before making any investment decision you need to consider your particular investment needs, objectives and financial circumstances.

What do Innova do for clients?

First and foremost, we manage risk in client portfolios.

Always lots of headlines – the challenge is to ignore the noise



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.
Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2017, all rights reserved.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

Economies and Markets are different things

- Strong economic growth does not necessarily equate to strong market returns
- Conversely, slow economic growth doesn't necessarily mean poor returns
- When investing, you are buying financial instruments such as a piece of a business, the debt of a business, part of a property with leases in force etc.
- The greatest factor that drives return is the price you pay
  - Pay too much, and even great assets provide poor returns
  - Pay less than something is worth, and even bad assets can make money

This may seem counter-intuitive because of all the economists on TV talking about markets. The media usually get it wrong.

The two most important things to keep in mind are:

1. Always keep an eye on valuation and don't overpay for assets

2. Diversify your bets by risk factor when nothing appears cheap. The flipside of this is you should concentrate them when valuation is in your favour and you have high conviction

- If you follow these two rules, you will do well over time.

- The trick is in having:

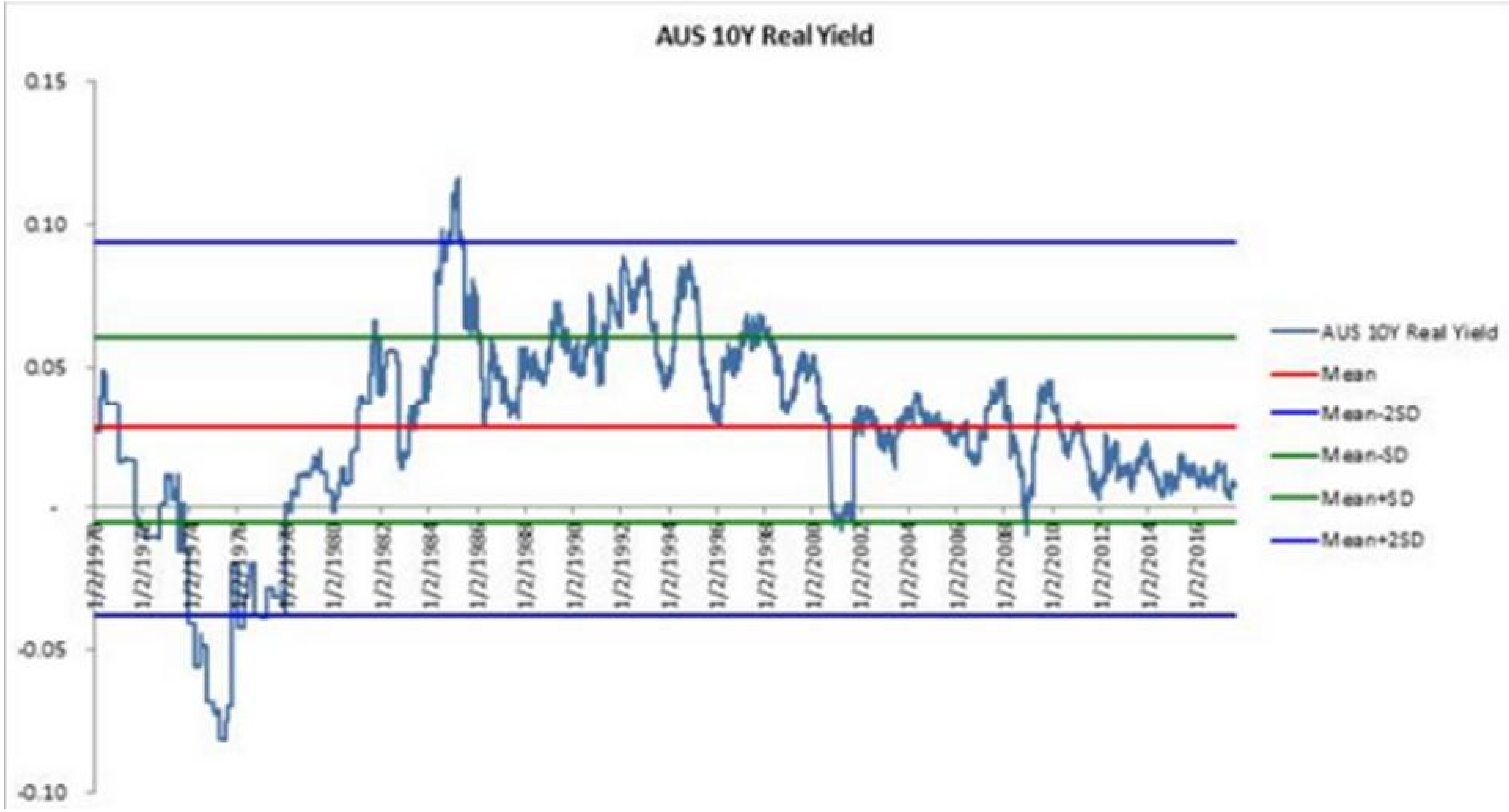
  a) the discipline to stick to these principles (it's easier said than done)

  b) having the correct valuation framework, database and analyst team to do this properly

INNOVA Asset Management

Investment Markets
Where are we today?

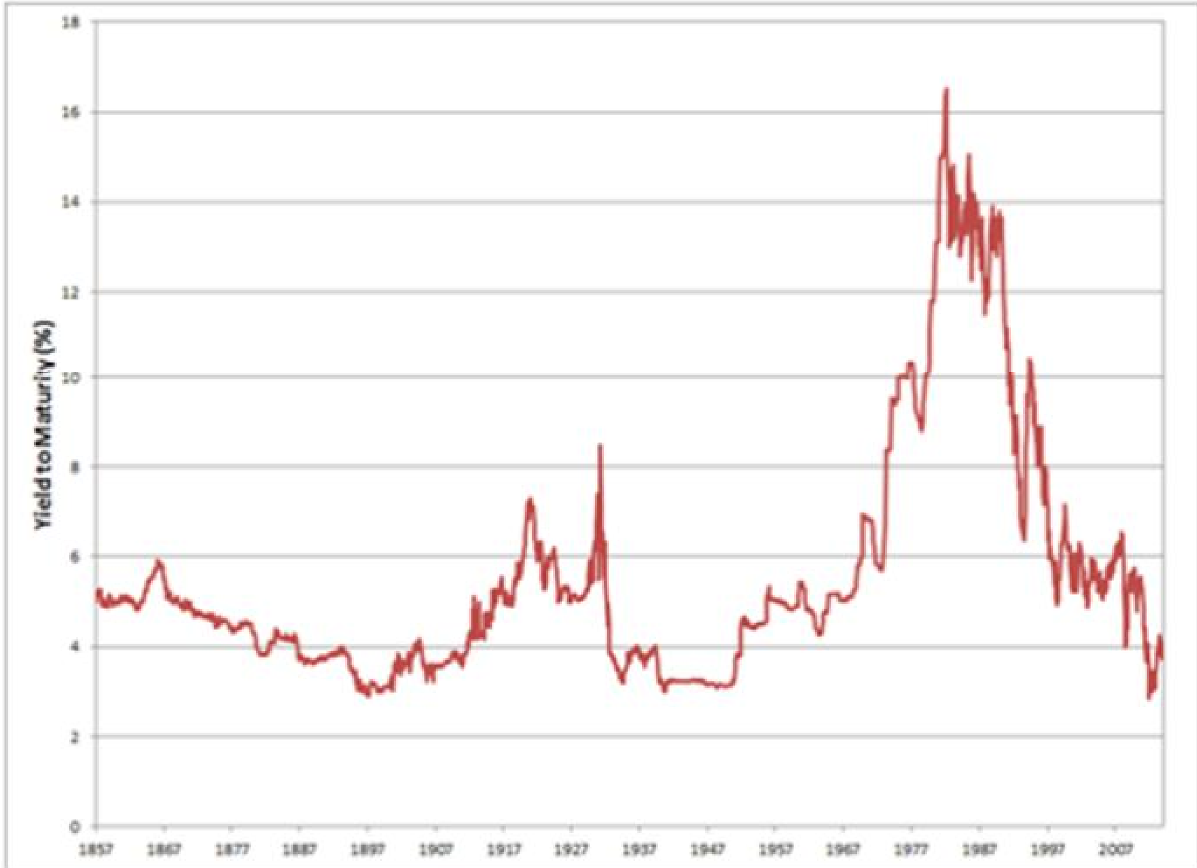
A war on savers encourages speculation



Source: Innova Asset Management, Bloomberg

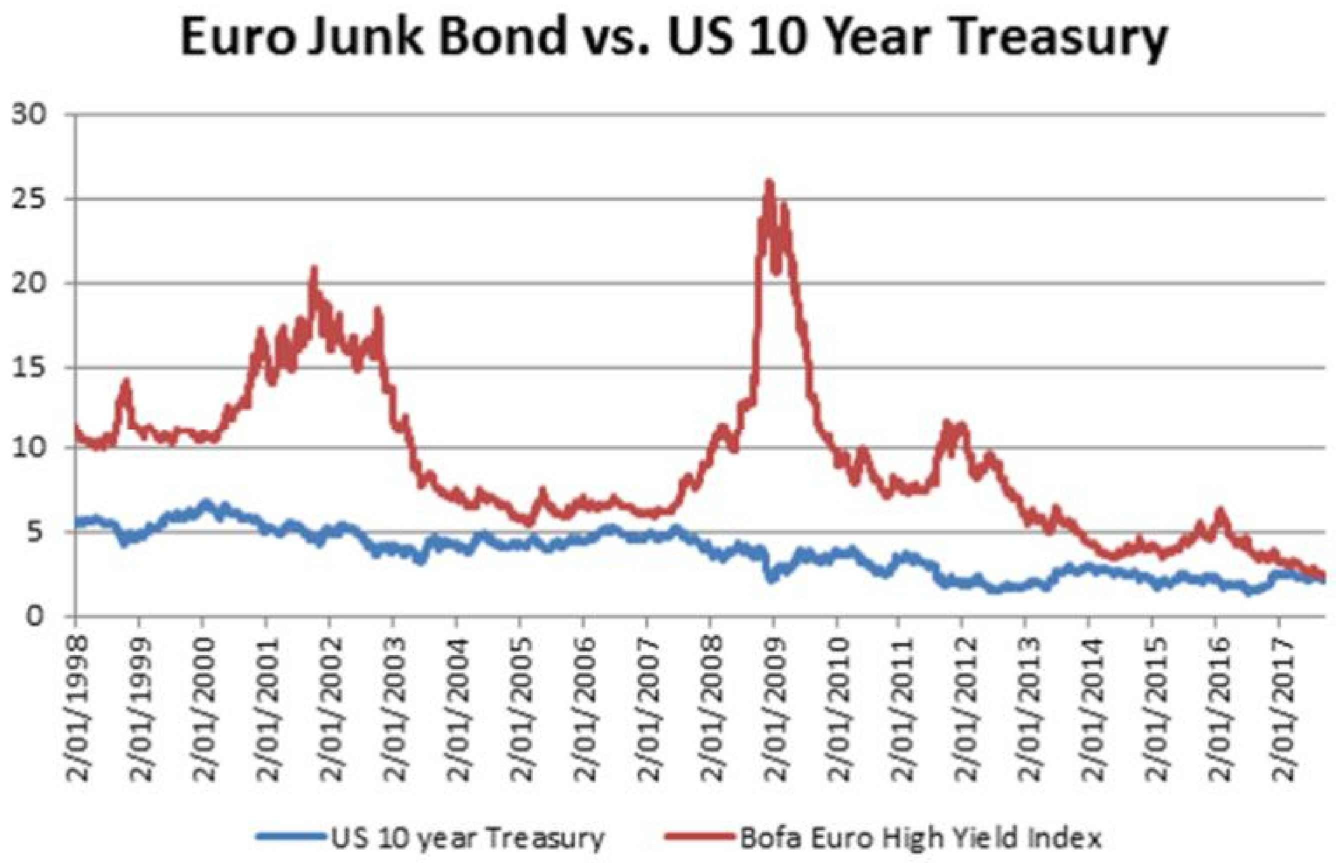
History of interest rates in Australia

Australian 10 year government bond yields from June-1857 to June 2014 (Source: Global Financial Data[1])



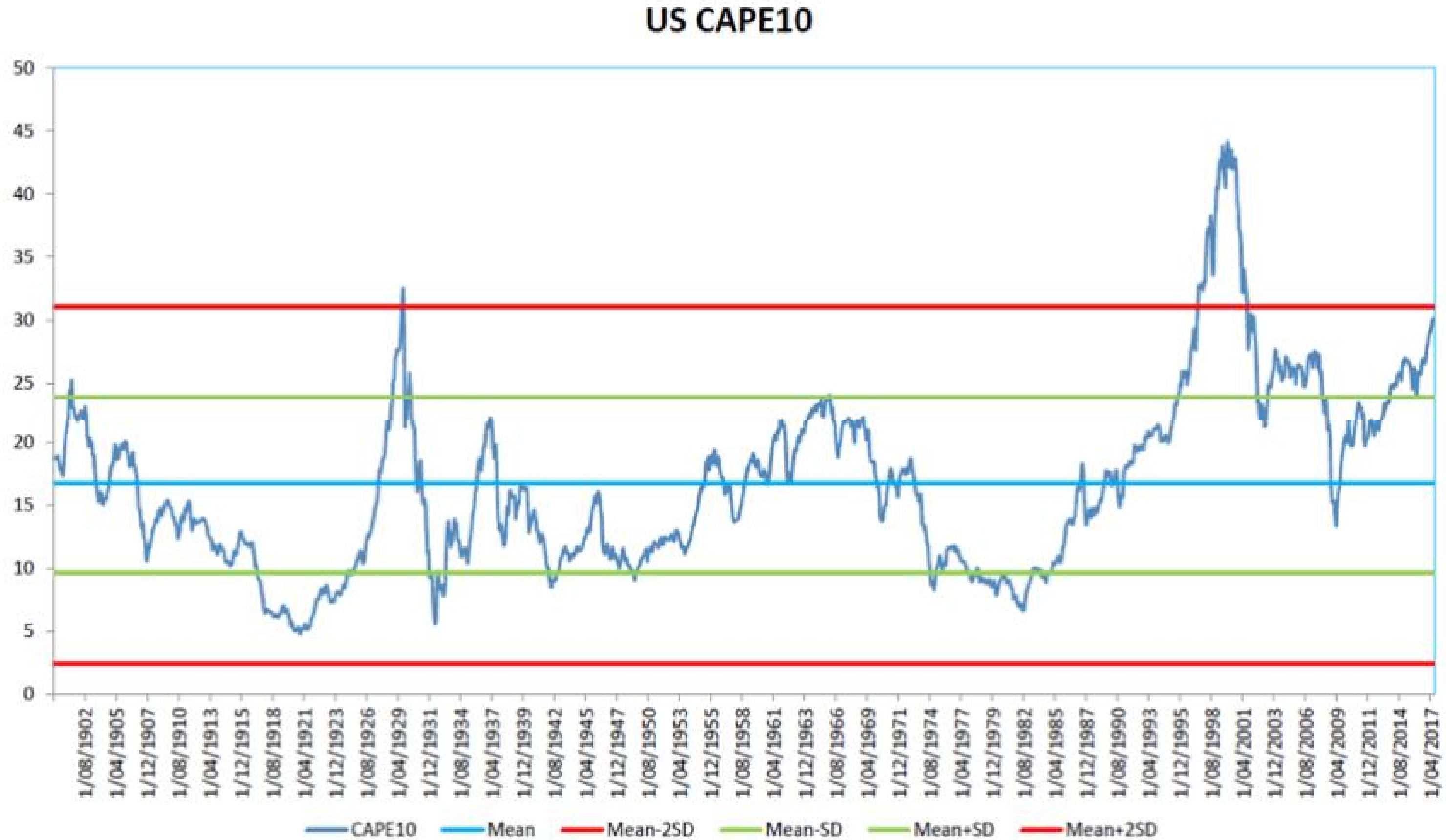
nt, Bloomberg

Global central banking policies – creating further imbalances



Source: Innova Asset Management, Bloomberg

US equity market is expensive on cyclically adjusted P/E

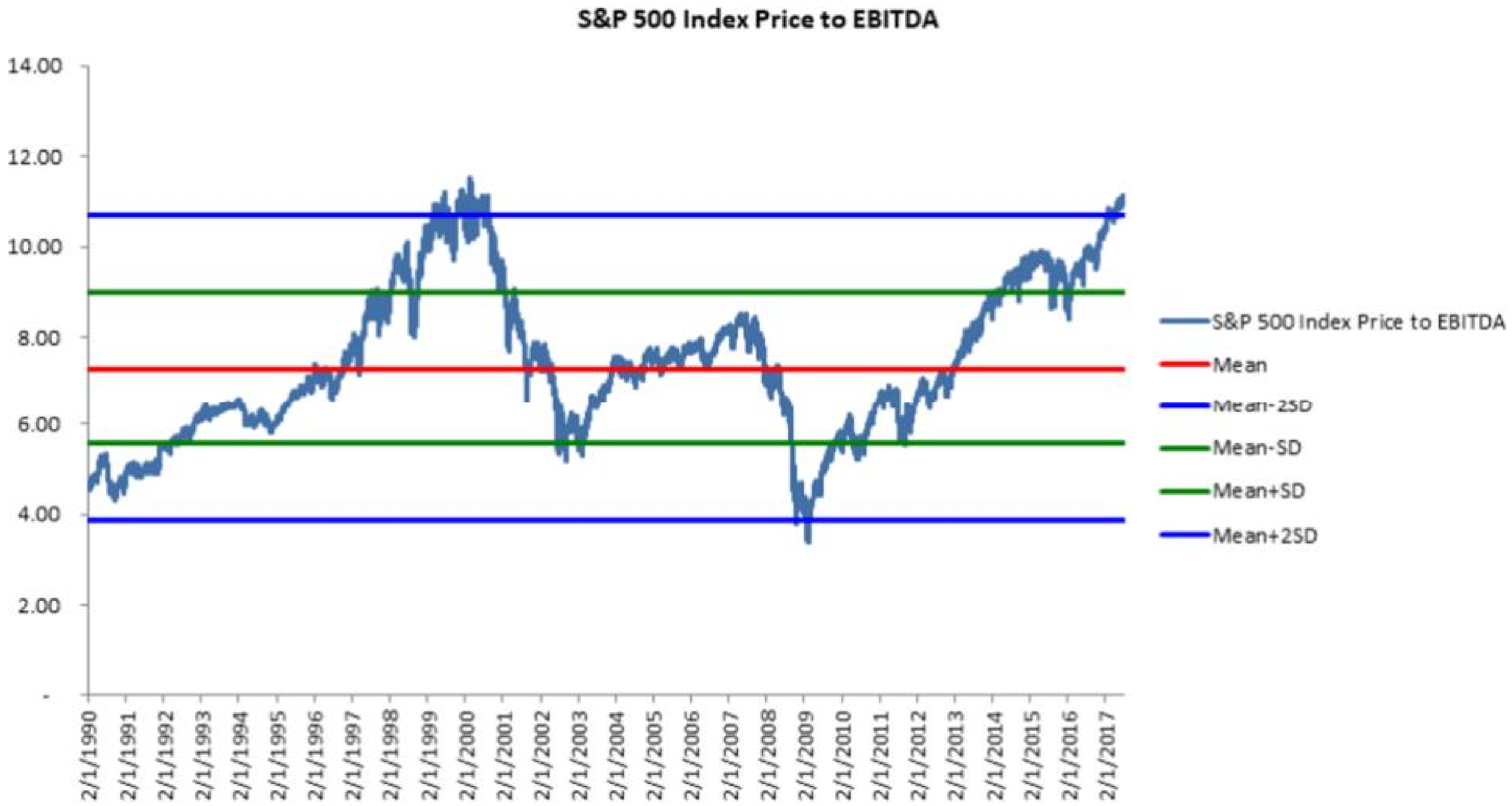


Source: Innova Asset Management, Bloomberg

Ditto on P/EBITDA

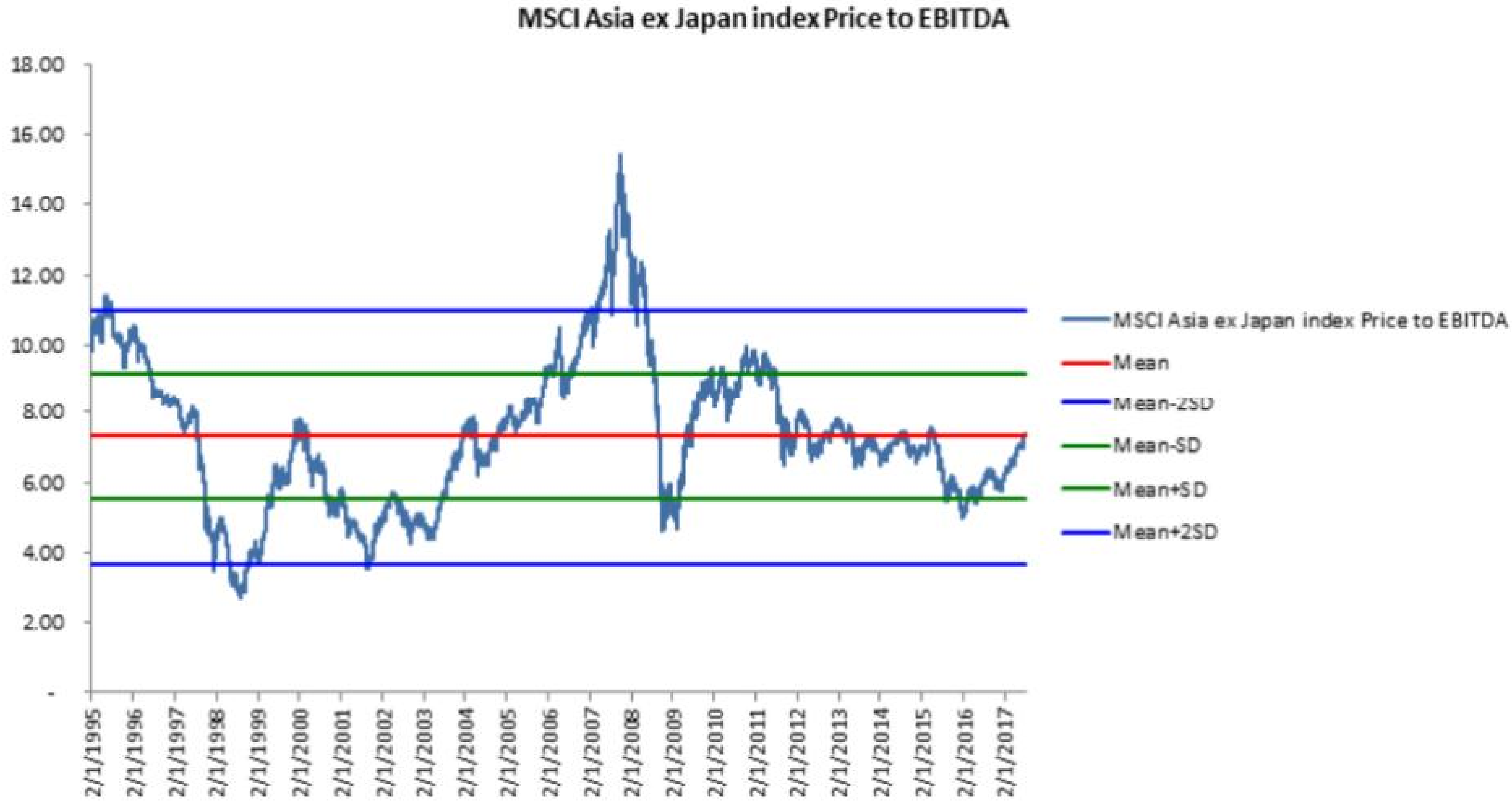
Source: Innova Asset Management, Bloomberg

Ditto on Market size vs size of underlying Economy



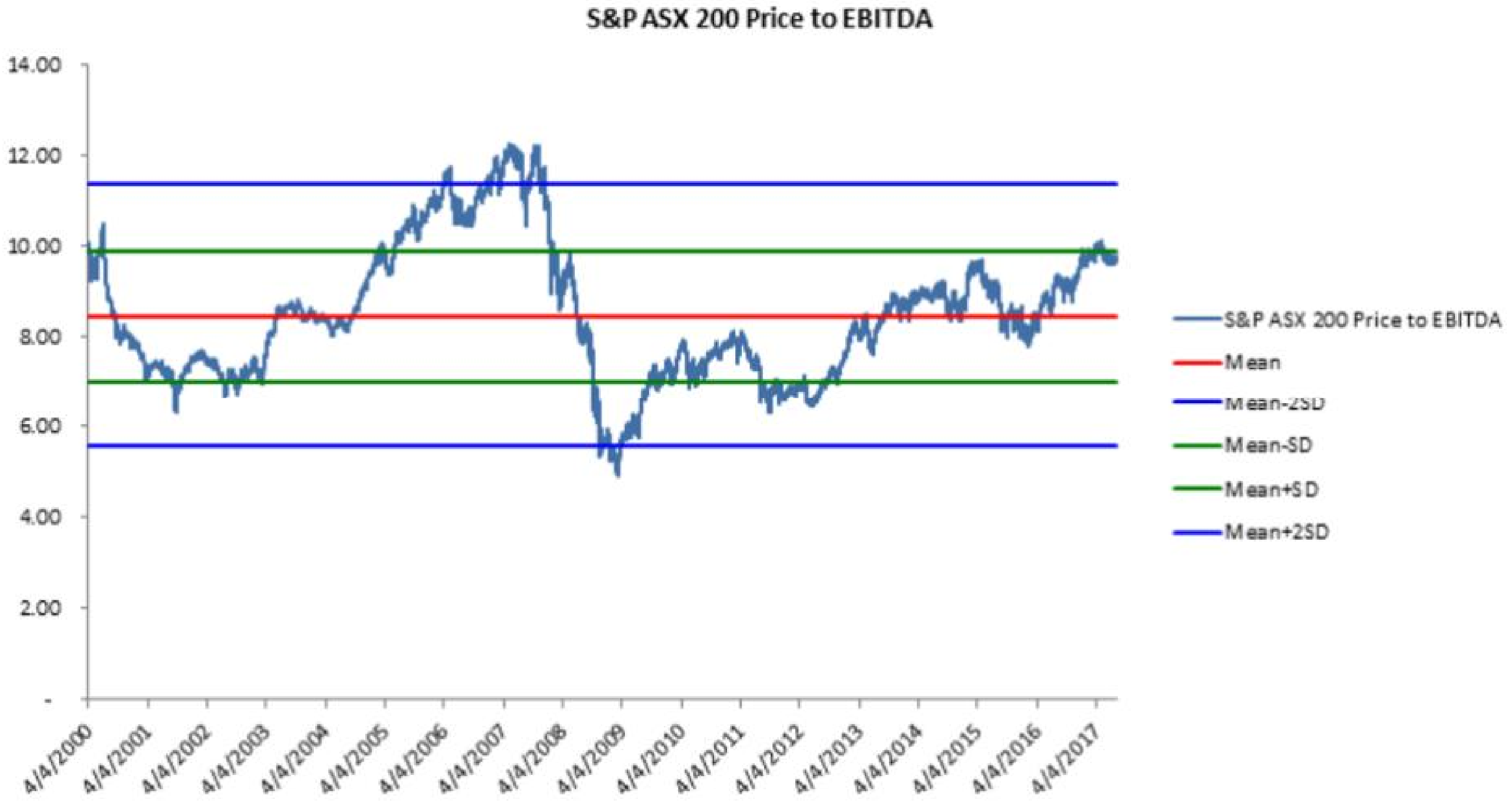
Source: Innova Asset Management, Bloomberg

Asian equities are more reasonably priced with better growth



Source: Innova Asset Management, Bloomberg

Australian equities are reasonably priced, but lacking diversity



Source: Innova Asset Management, Bloomberg

Not much is cheap, but this has been a problem for a while

"This might just be the cruellest time to be an asset allocator. Normally we find ourselves in situations in which at least something is cheap;…
…However, today we see something very different… today's opportunity set is characterized by almost everything being expensive"
James Montier, *The Purgatory of Low Returns,* GMO (2013)

"Given today's low yields and high valuations across almost all asset classes, there are no particularly good outcomes available for investors. We believe that either valuations will revert to historically normal levels and near-term returns will be very bad, or valuations will remain elevated relative to history. If valuations remain elevated indefinitely, near-term returns will be less bad but still insufficient for investors to achieve their goals."
Ben Inker, *Hellish Choices: What's An Asset Owner To Do?*, GMO (2016)

INNOVA Asset Management

Not much is cheap right now

	Strong O/W	O/W	Neutral	U/W	Strong U/W
Australian Equities	0	0	1	0	0
US Equities	0	0	0	0	1
European Equities	0	0	1	0	0
Global Equities	0	0	0	1	0
Asian Equities	0	0	1	0	0
A-REITs	0	0	1	0	0
G-REITs	0	0	0	1	0
Global Infrastructure	0	0	1	0	0
Australian Government Bonds	0	0	0	1	0
Australian Invest. Grade Credit	0	0	1	0	0
Global Sovereign Bonds	0	0	0	0	1
Australian Invest. Grade Loans	0	0	1	0	0
High Yield Bonds	0	0	0	1	0
Short Volatility Trading	0	0	0	0	1
Long Volatility Trading	0	0	1	0	0
VIX	1	0	0	0	0
A-VIX	0	1	0	0	0
Purchasing Power of Gold	0	0	0	1	0
Steepness of Curve		Normal			
AUD/USD	0	0	1	0	0
AUD/World	0	0	1	0	0
Price/Free Cash Flow	0	0	1	0	0
Price/EBITDA	0	0	1	0	0

INNOVA Asset Management

Not much is cheap right now

10 Year Asset Class Forecasts

	Return	Volatility (10 yr)
Cash	2%	0.5%
Australian Equity	8.1%	18%
United States Equity	3.1%	13.5%
World Equity	4.9%	16%
Asian ex Japan Equity	9.2%	26%
Australian Sovereign Bonds	2.7%	6.7%
United States Sovereign Bonds	2.4%	4.2%
United Kingdom Sovereign Bonds	1.2%	7%
Japanese Sovereign Bonds	0%	2.5%
Australian Corporate Bonds	3.2%	3%
REITs	3.9%	18%
Managed Futures	8%	22%
Diversified Alternative Beta	5%	7.5%

Not much is cheap right now

- Right now is difficult

- Very little is cheap, most things are at fair value, and some things are expensive (like long duration bonds) , or too hard to reliably value (like cryptocurrencies)

- Australia
  - Equities at fair value – franking credits help, but market lacks diversity
  - Bonds look expensive, cash pays a negative real yield
  - Listed property looks less expensive than it did, but we still hold concerns around commercial property (disruption to retail, flow on to industrial logistics. Office space trends, the rise of AI, automated vehicles etc)
- Globally
  - US stocks and bonds look expensive
  - European stocks are relatively cheap, their bonds outrageously expensive
  - Asia looks more reasonably valued but people are still worried about financial sector and governance issues

What do you do if nothing is particularly cheap?

- Diversify, diversify, diversify

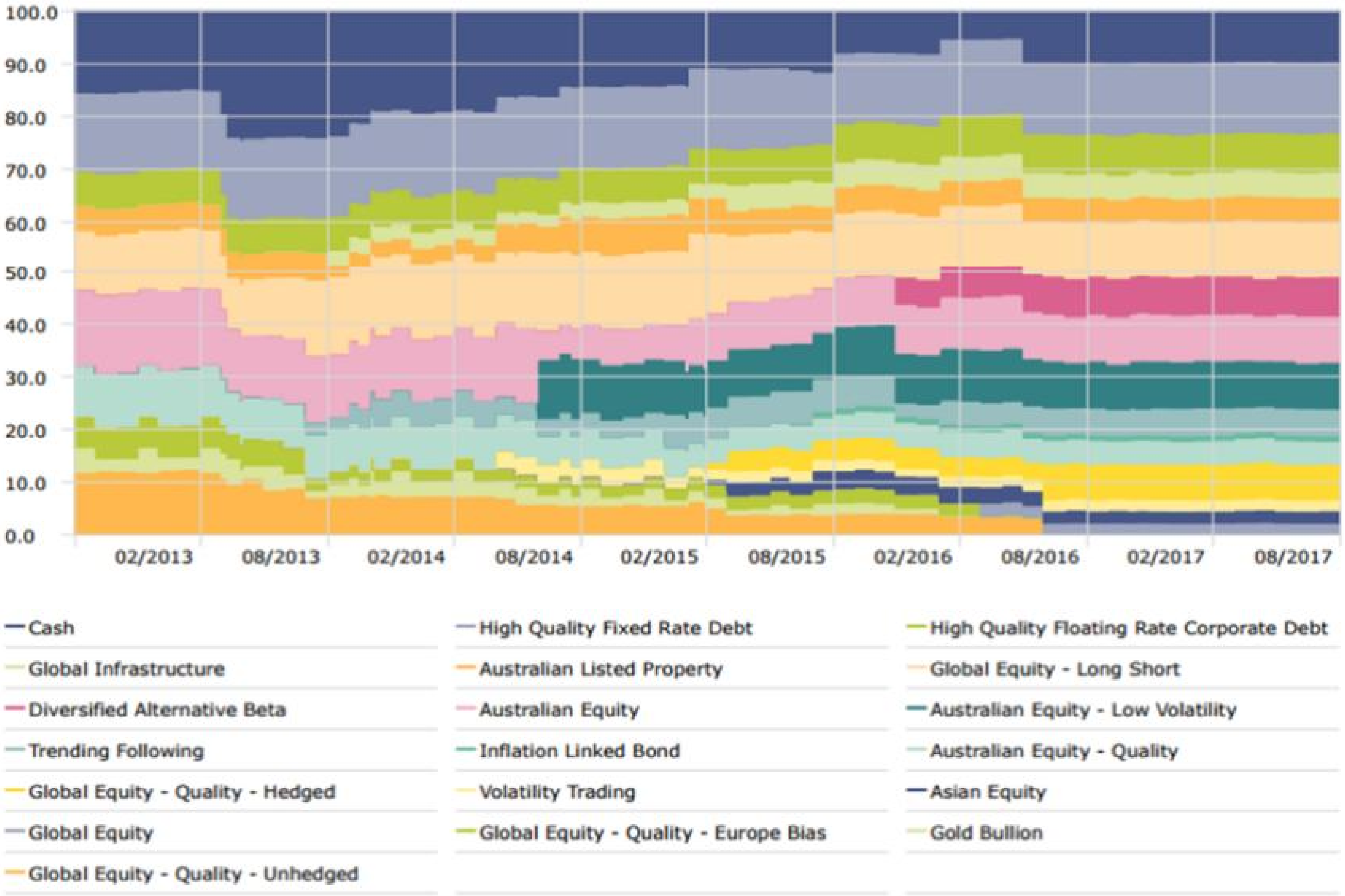
- When you have high conviction, take big positions. When conviction is low or outlook is cloudy, reduce your position sizes and take more of them

- How are we diversifying?
  - Using non benchmark aware managers
  - An allocation to Asian Value
  - Significantly reduced US exposure
  - Low duration bonds (prefer floating rate instruments) + secured bank loans
  - Increased Alternatives (Market Neutral Strategies + Momentum + Selling Insurance (FX and Option premium)

- Get good advice – it's easy to make money when everything goes up, it's harder during the tough times

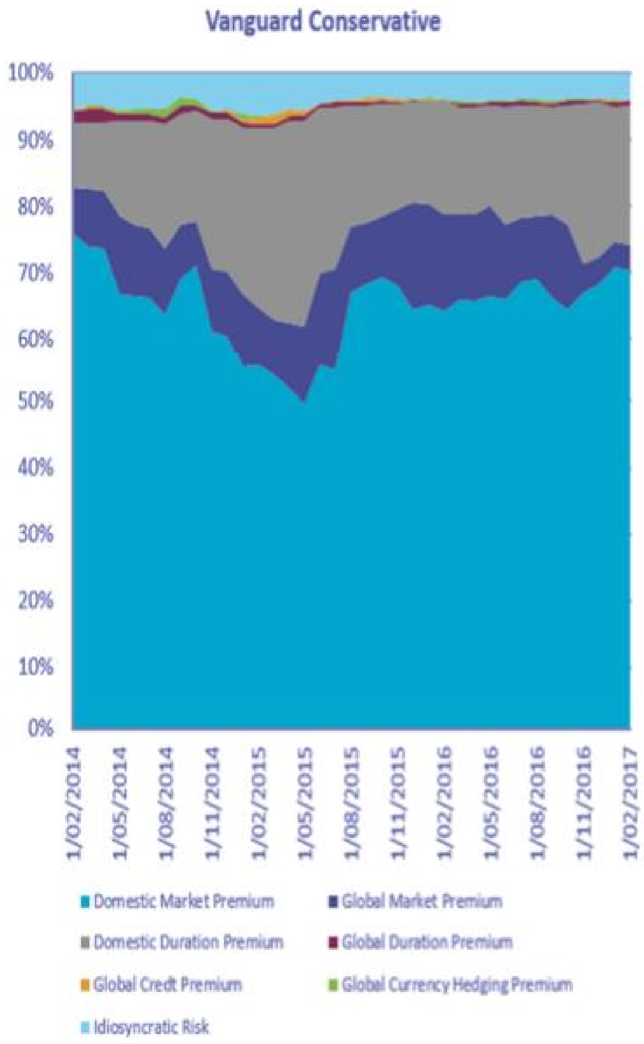
Historical Strategy Allocation

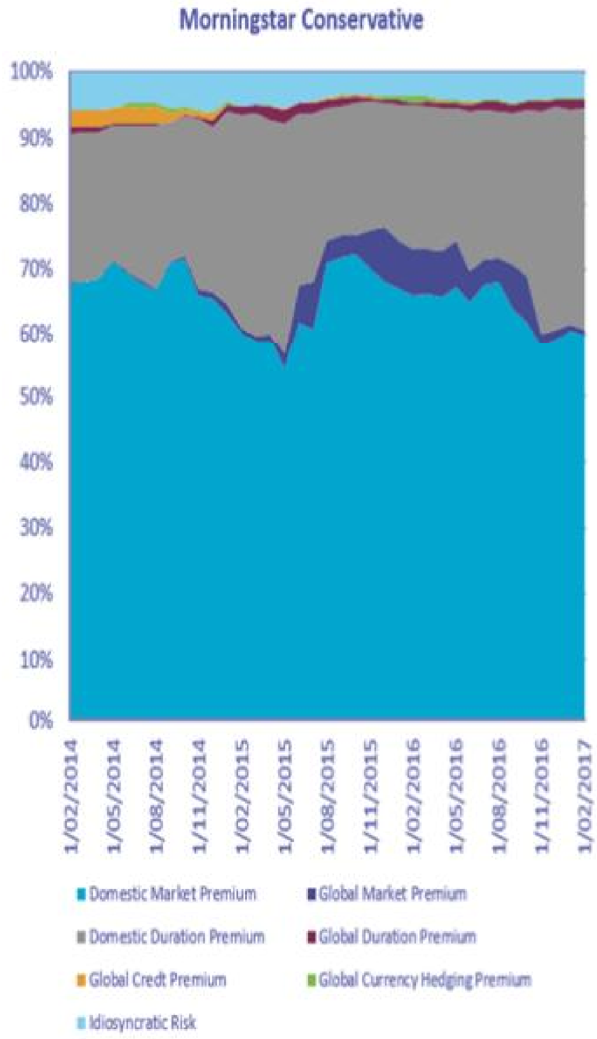
Time Period: 1/09/2012 to 31/08/2017

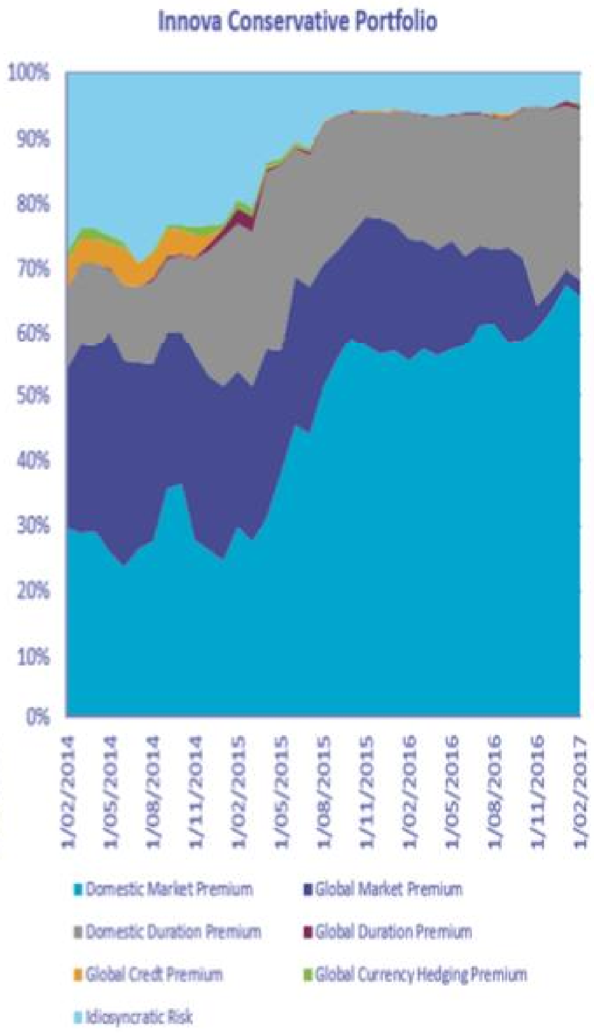


Source: Morningstar Direct

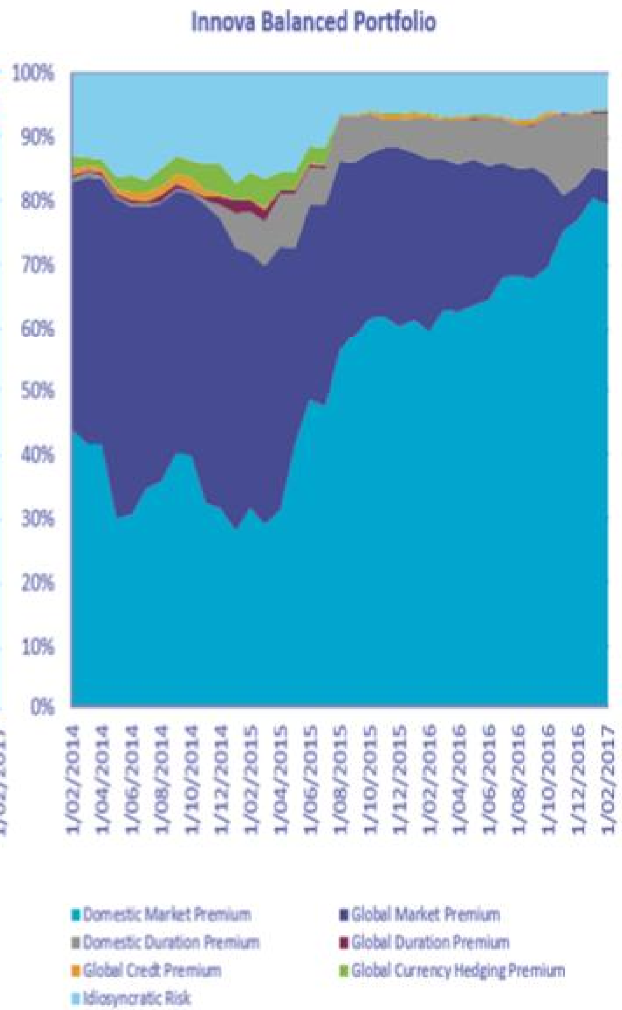
More robust, diversified portfolios



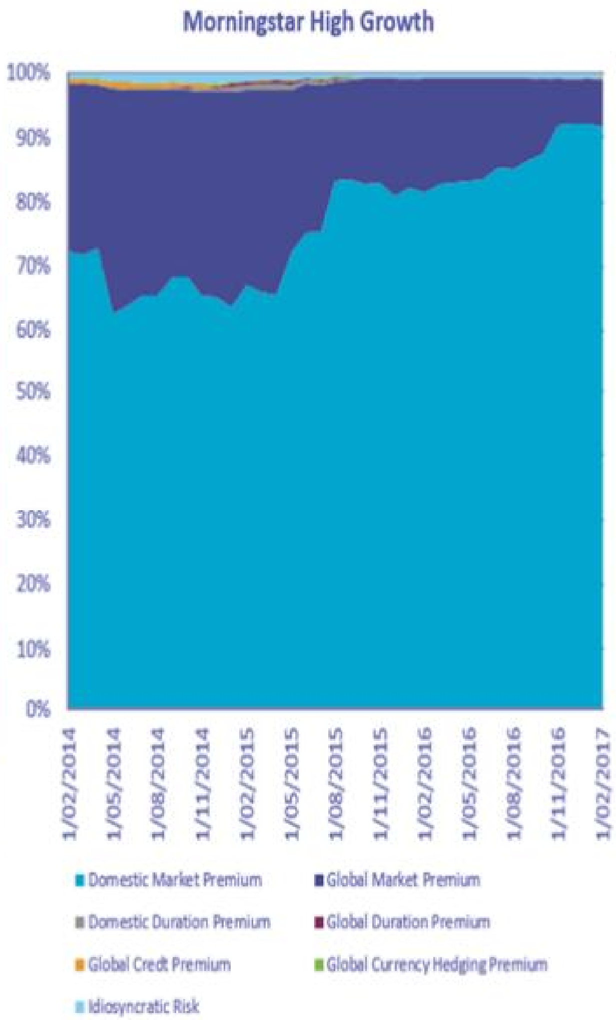


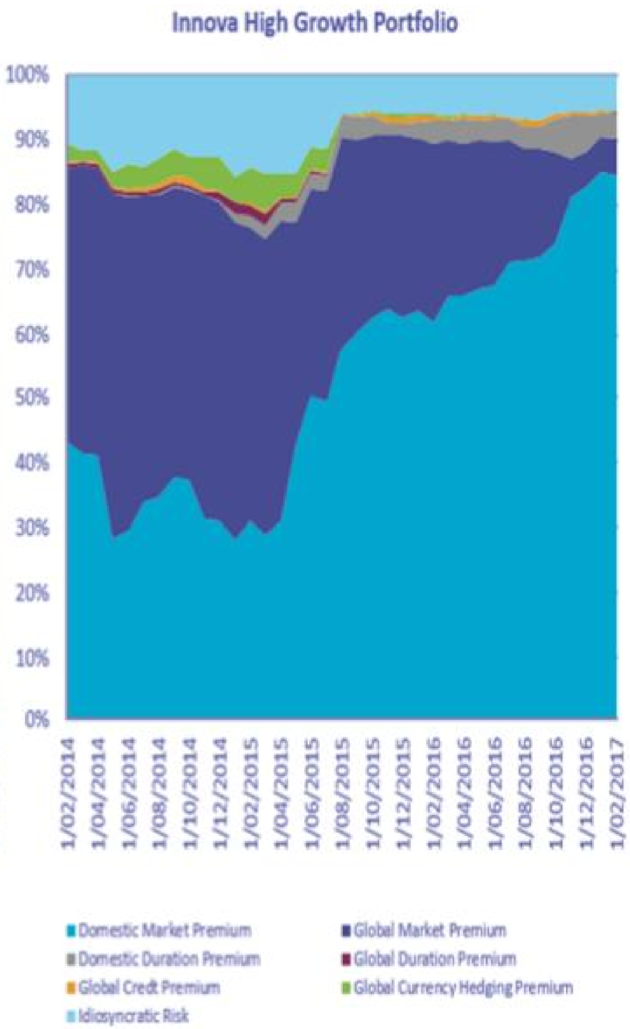


More robust, diversified portfolios



More robust, diversified portfolios





Appendix – Innova's proposed new solutions

	Innova Preservation Portfolio	Innova Creation Portfolio	Innova Aspiration Portfolio
Maximum expected loss	-5%	-15%	-40%
Average expected loss	-2%	-7%	-15%
Maximum expected Volatility	3%	8%	15%
Targeted Returns (after fees)[2]	Cash + 1.5%	Cash + 3%	Cash + 5%

Appendix -

Innova proposes portfolios focused on managing risk first and foremost

If you can manage risk well, you win by losing less, and help in managing capitulation behavior

Based on the current Asset Allocation of these portfolios, the return forecasts (based on above methodology, and ZERO value added from asset allocation):

Lifestyle Preservation = 3.6%

Wealth Creation = 6%

Aspiration = 7.4%

Soon to launch ‘Fundamental’ (low cost, listed-only) versions.

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