

ipac enhances DIS 1



New managers with more defensive strategies have been added to Diversified Investment Strategy 1 (DIS 1) to reduce overall portfolio volatility while maintaining long term return prospects.



DIS 1 is at the conservative end of the risk spectrum with around 30% exposure to growth assets. The performance of DIS 1 over the last two years compares favourably to peers. While this outcome validates the strategies in the portfolio, we are aware that the pattern of return was more volatile than investors expected.

While a reduction in the allocation to growth assets might serve to dampen volatility, such a move would reduce return prospects. In reviewing the strategy for DIS 1, ipac sought to maintain the current asset allocation and return prospects while reducing overall portfolio volatility. ipac's research identified several securities managers whose investment processes created portfolios with less sensitivity to changes in the market outlook. A number of these strategies have been incorporated into DIS 1. The key enhancements are:

- ~ In Australian and international shares the new strategies have an emphasis on companies that pay above average dividends. The managers we have identified with skill in building portfolios with an income focus are Ankura Capital and Legg Mason in Australian shares and Epoch in international shares.
- ~ Ankura Capital and Legg Mason will also deliver exposure to select listed property trusts where most of the return is delivered through sustainable rental income.
- ~ In fixed interest, the focus is on bond strategies that reduce interest rate risk and therefore volatility. Existing Australian fixed interest manager, Macquarie Investment Management, will add a lower duration portfolio to the existing exposure. Macquarie will also manage an allocation to inflation linked bonds as part of the new mandate.
- ~ The allocation to inflation linked bonds together with a small allocation to hybrid securities, managed by Goldman Sachs J B Were, provide diversifying sources of return. Hybrid securities are debt instruments issued by companies.

An overview of the new managers follows. For details on the allocations to each manager please see the quarterly investment briefing at the end of the June quarter 2010.

asset class	new manager/s	description
Australian shares and property	 	<p>ipac has developed tailored mandates with Ankura Capital and Legg Mason. They use their unique processes to identify companies and property trusts that can deliver sustainable and higher yield than the broader market. These companies also offer long term capital growth potential. Both managers construct share portfolios that have little reference to core equity portfolios.</p> <p>Ankura Capital is one of the affiliate investment firms owned by Bank of New York Mellon. Ankura take a quantitative approach that places more emphasis on medium to smaller companies. Legg Mason is a global asset management business with Legg Mason Australian Equities one of the affiliates. Legg Mason has a qualitative process that has a greater focus on medium to large companies.</p>

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International shares		Epoch Investment Partners (Epoch) is a boutique investment manager based in the US. Epoch invests in companies with an ability to consistently generate free cash flow and to effectively allocate it among dividends, share repurchases, debt pay downs, internal reinvestment opportunities, and/or acquisitions. The focus on these types of companies differentiates the Epoch process from other international shares managers in the sector.
Alternative income – hybrid securities		Goldman Sachs JB Were is the asset management arm of the merged Goldman Sachs and JBWere business. The fund employs an active, research driven investment approach to select hybrid securities. This investment process seeks to add value from top-down economic and market analysis as well as security selection.

For more information on these enhancements please contact Hilary Kermode on 02 9274 1843.

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