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# **BetaShares Managed Risk Series: Navigating Challenging Markets**

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**BetaShares**



# Important Information

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# In this webinar we will discuss...

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Key findings of our whitepaper on 'The Case for Managed Risk Investments'



The BetaShares Managed Risk strategies



How these strategies can benefit client portfolios



# White Paper: Key Findings

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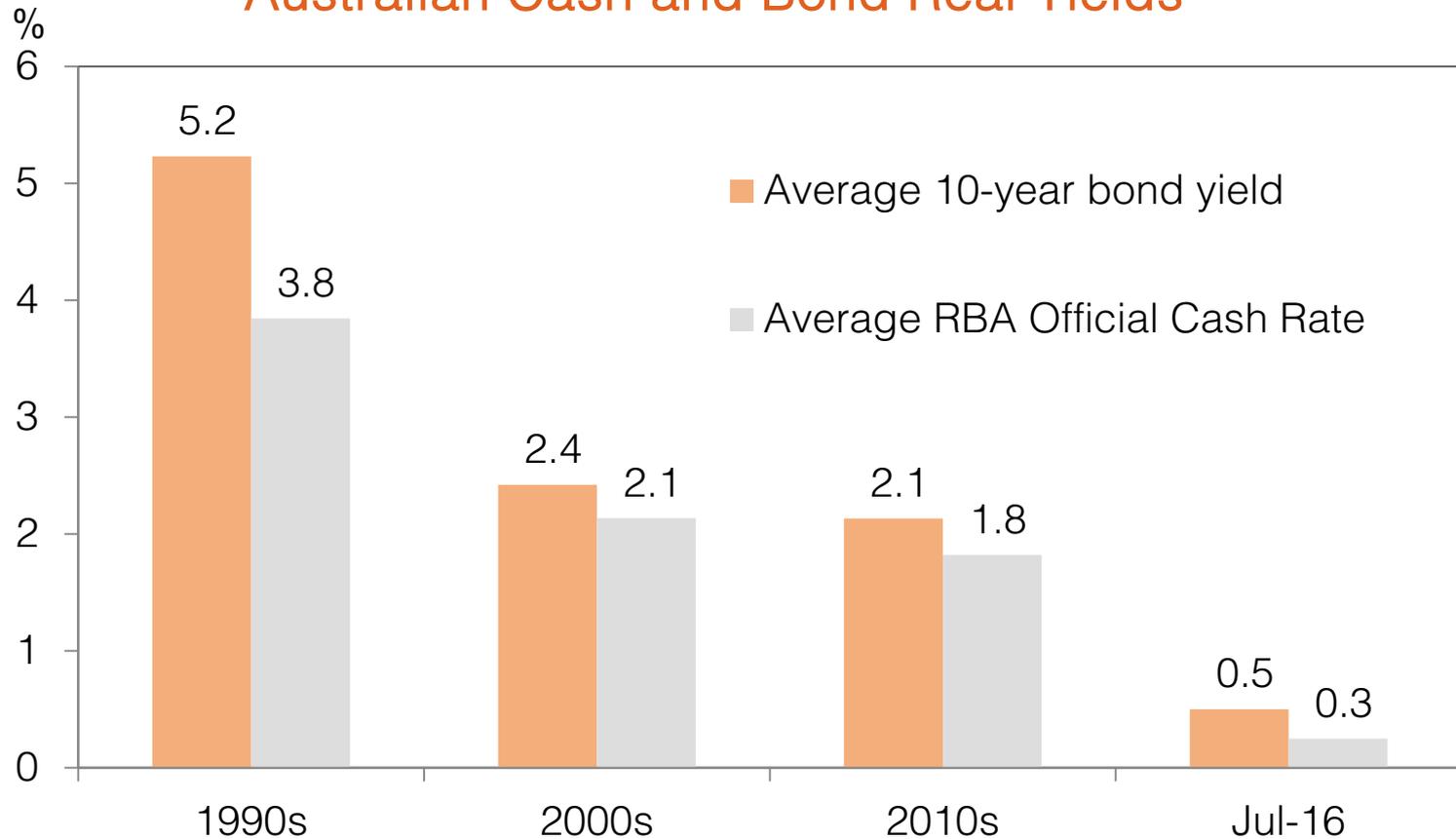
- Cash/bonds yields returns low – longevity risk
- Equities yields currently better
- But equities are risky – sequencing risk
- Better potential outcome
  - equity exposure with managed risk overlay



# Cash/Bond Yields Returns are Low

Poor returns increase the risk of running out of money in retirement - longevity risk

## Australian Cash and Bond Real Yields\*



\*Deflated by weighted median CPI

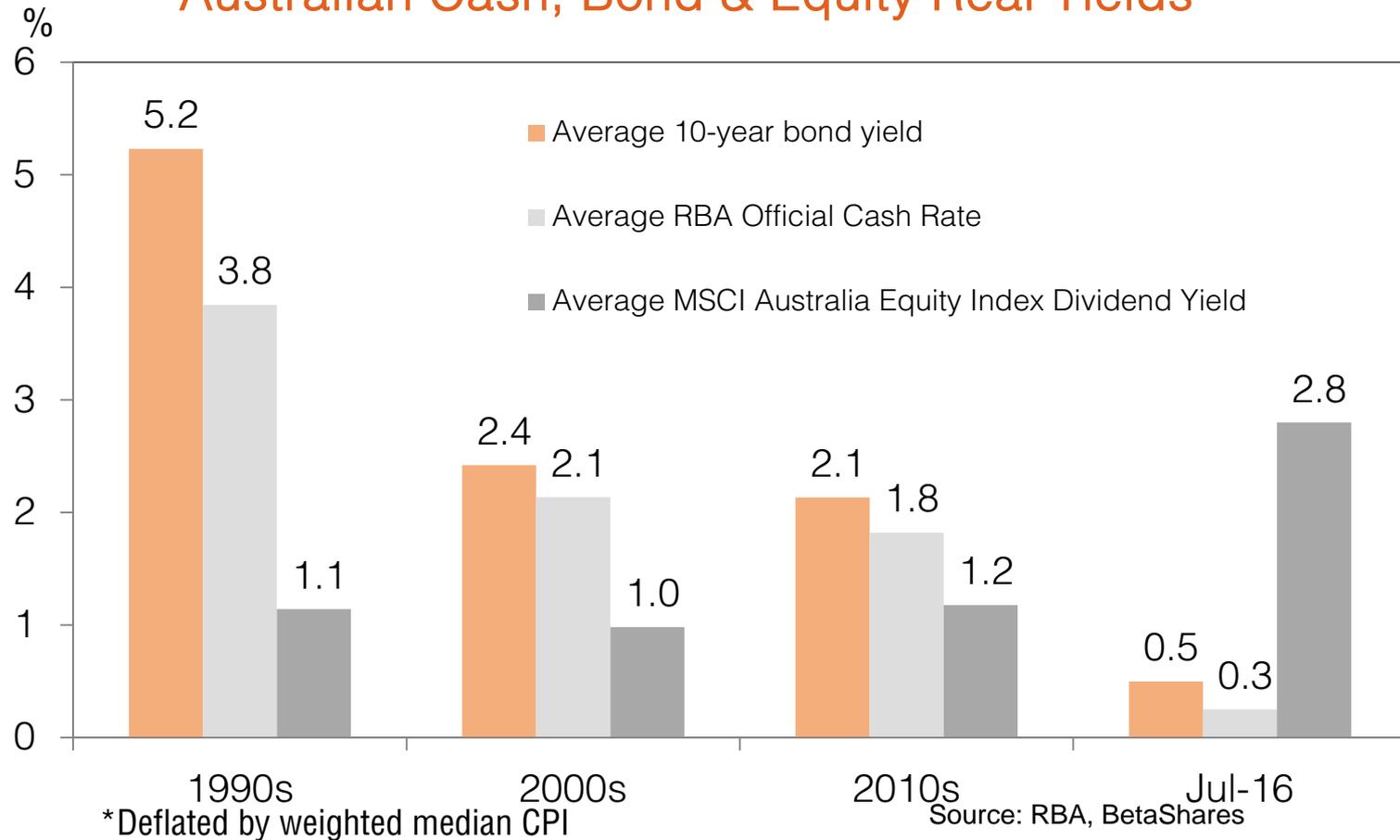
Source: RBA, BetaShares



# Equity yields remain good

Real equity dividend yields have in fact increased!

## Australian Cash, Bond & Equity Real Yields\*



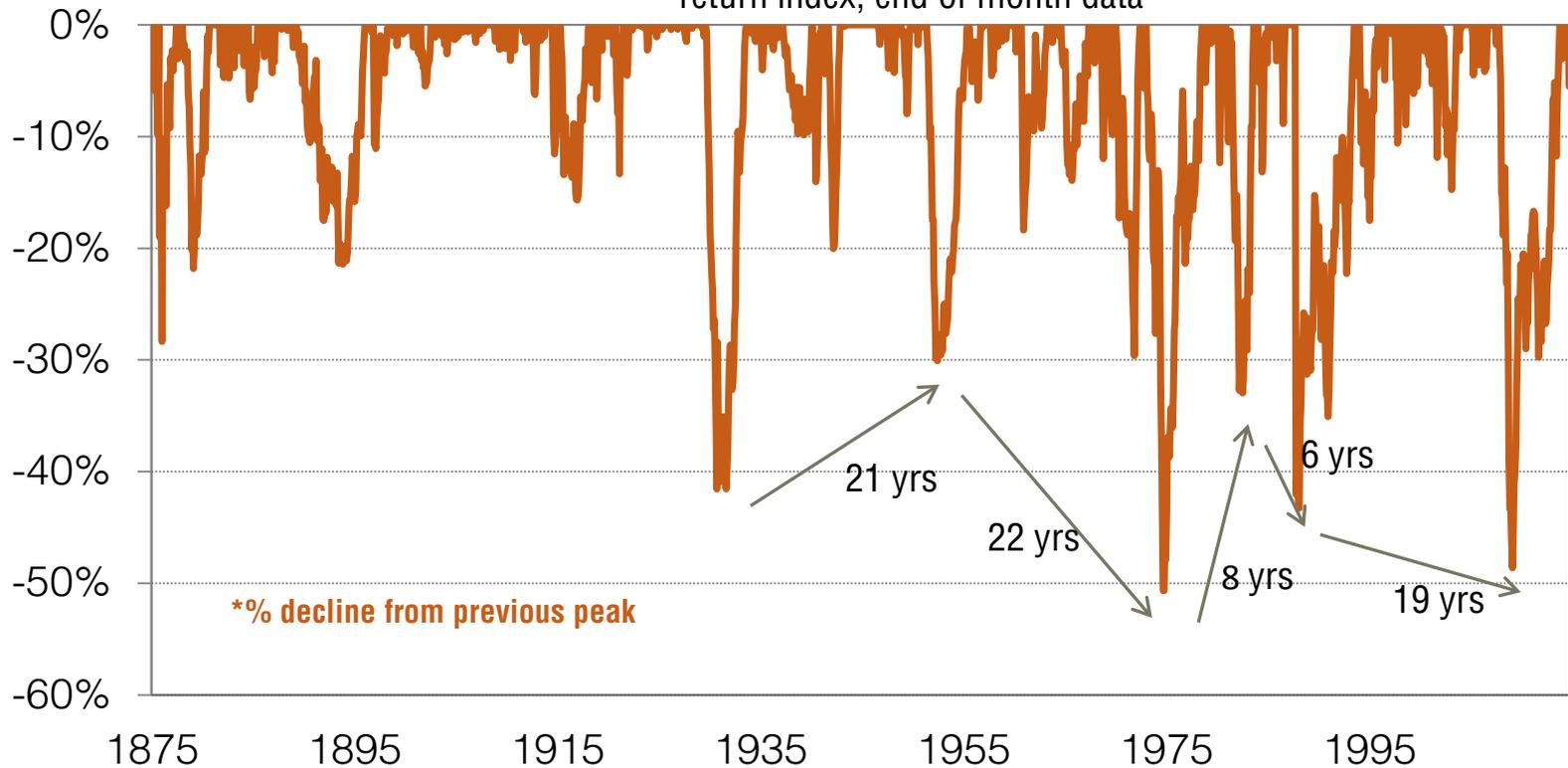


# But equity investing as risky as ever

The risk of market declines early in retirement gives rise to sequencing risk

## All Ordinaries Draw Down Curve\*: 1871-2014

return index, end of month data



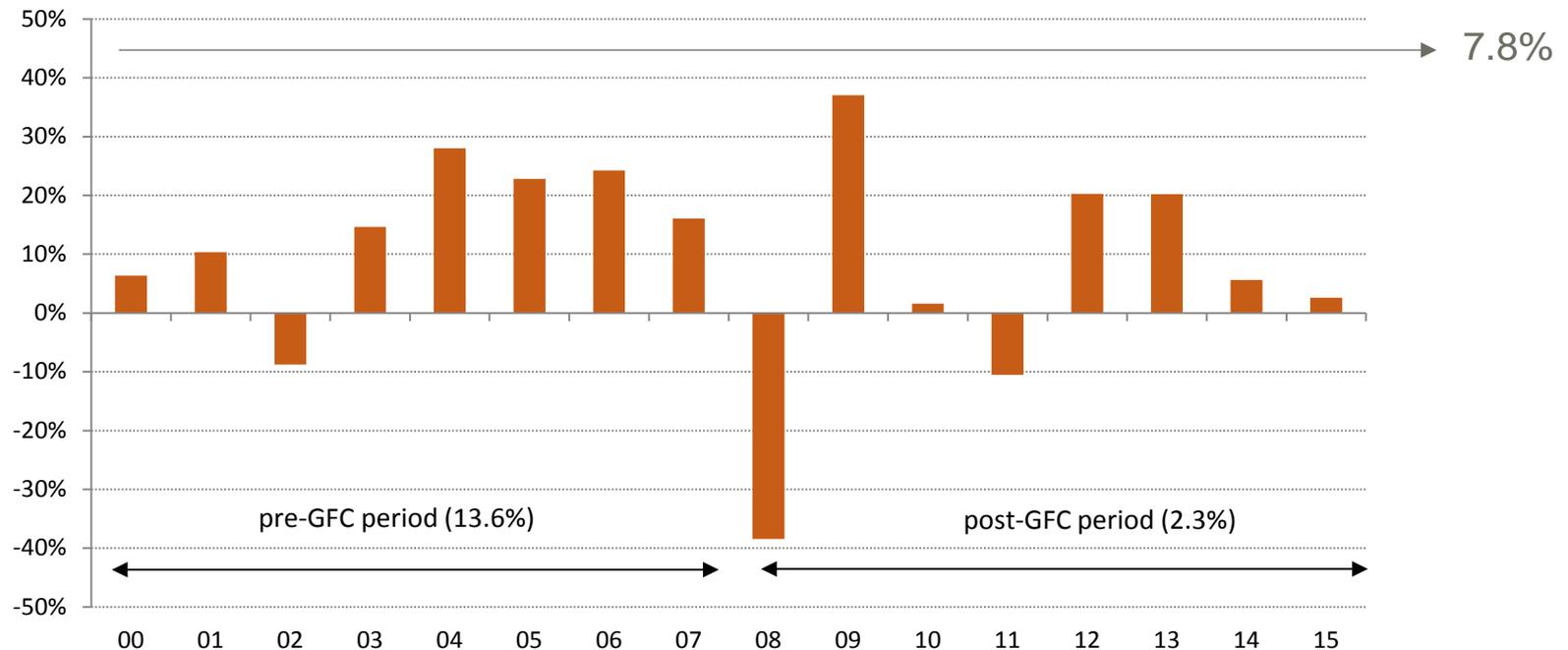
Source: Thomson Reuters, BetaShares



# Sequencing risk: Real Word Example

S&P/ASX 200 returns over the past 16 years

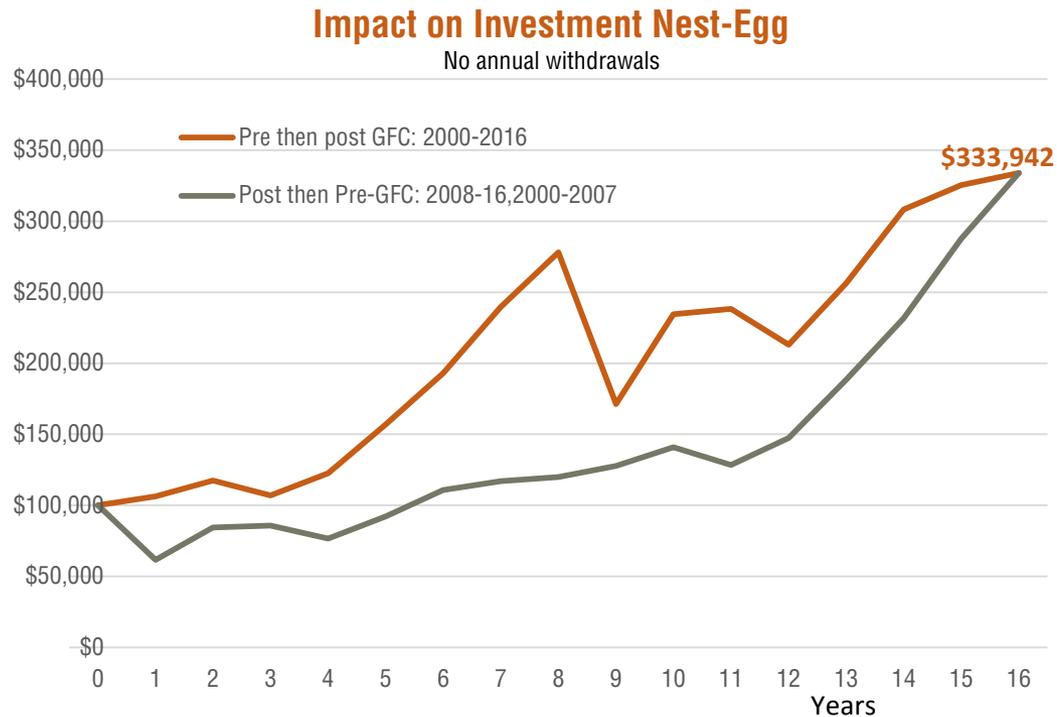
## S&P/ASX 200 Total Returns



Source: Bloomberg

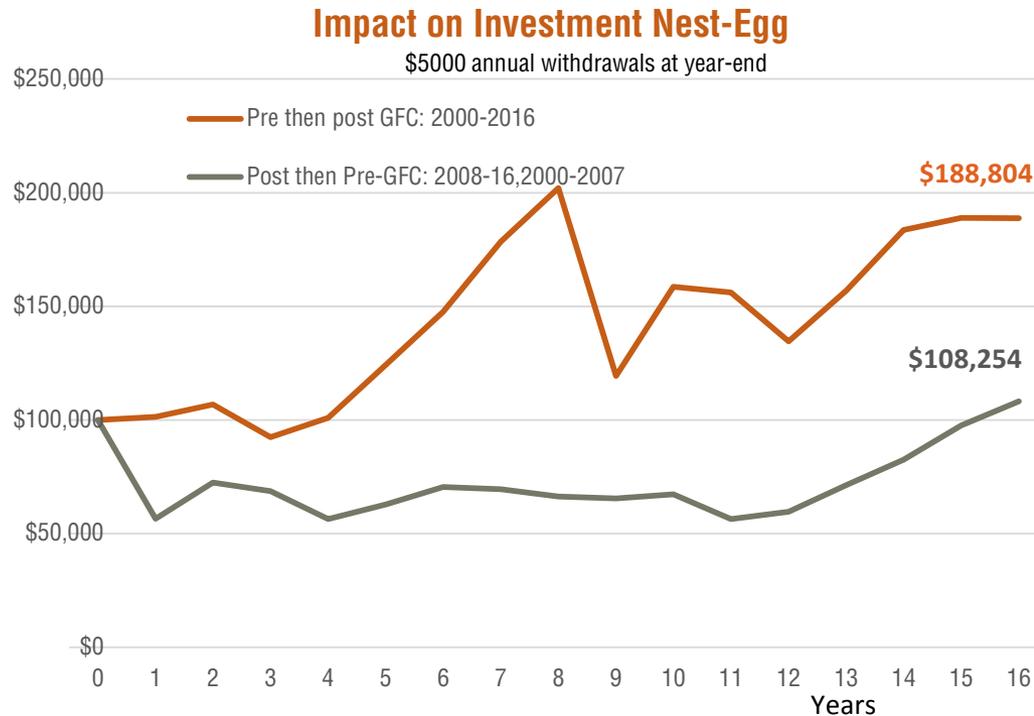


# Sequence of returns doesn't matter without withdrawals: S&P/ASX 200





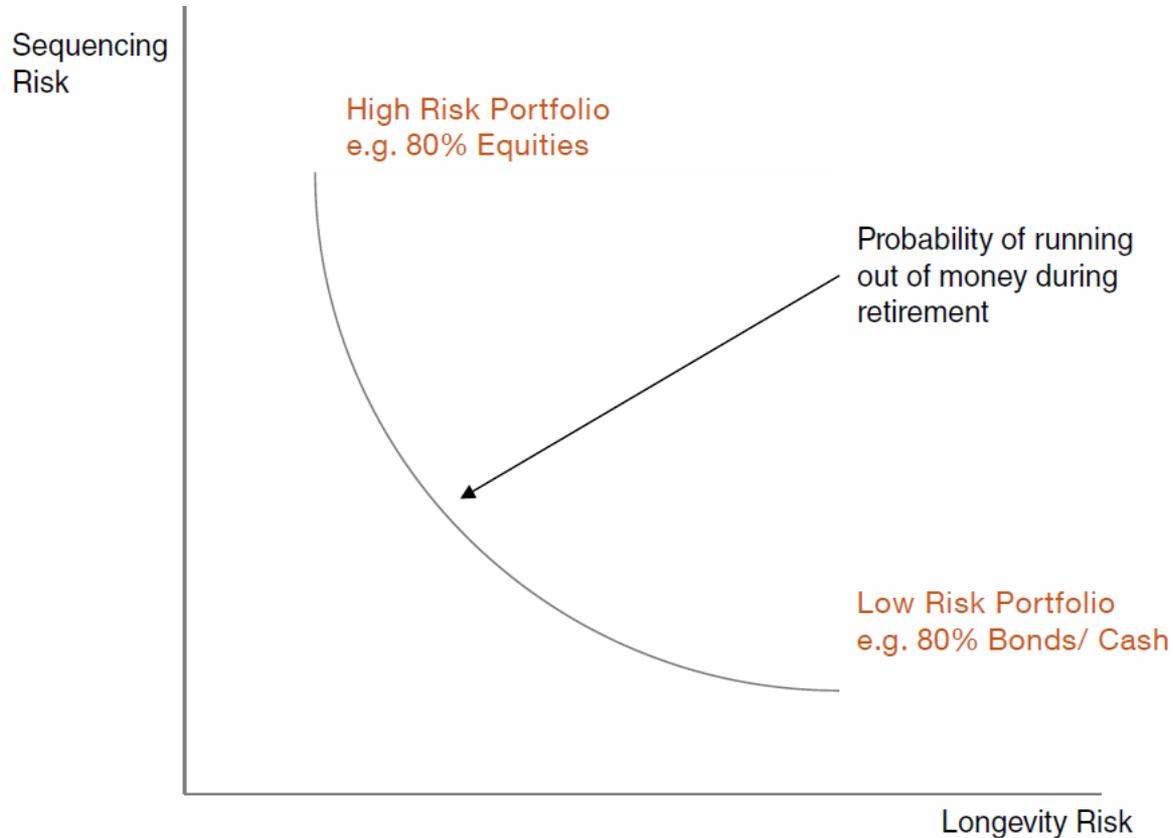
# Sequence of returns does matter with withdrawals





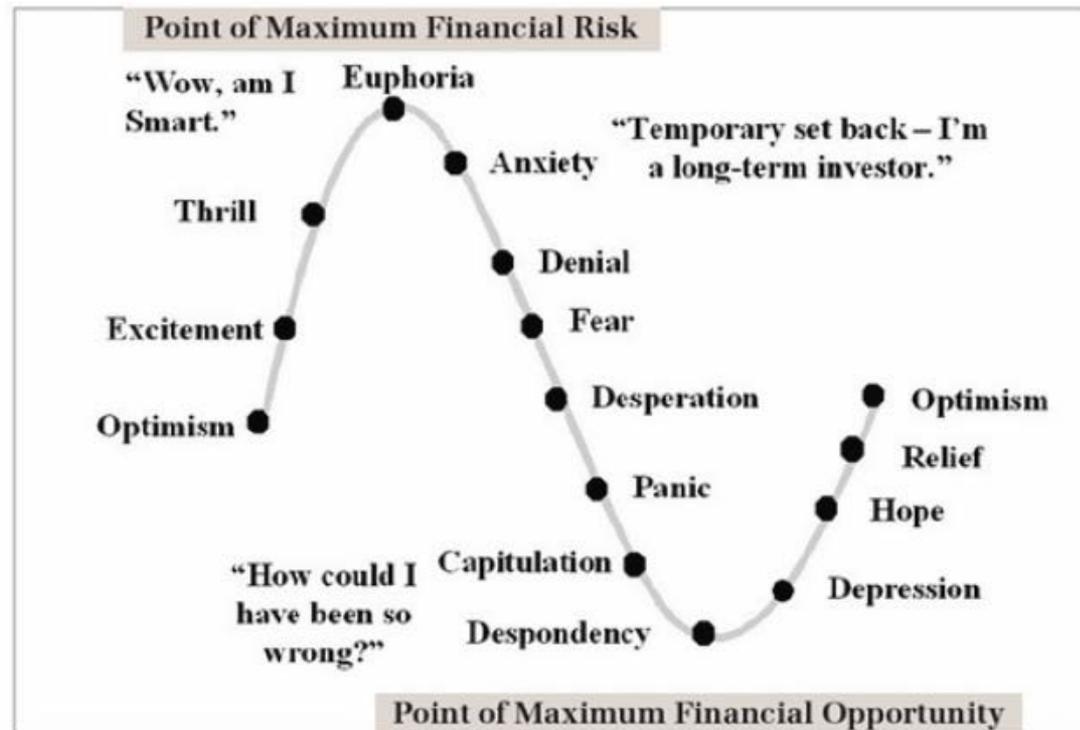
# A Difficult Trade-off

The need to balance sequencing risk and longevity risk



Source: BetaShares

# Investor's panic reactions can make sequencing risk worse



Source: The Big Picture



# More generally: investors find it hard to beat the market, hurting long-run returns

**Equity fund investor performance vs. S&P 500 performance**



Data for period ending Dec. 31, 2015

JOHN SOPINSKI/THE GLOBE AND MAIL ) SOURCE: DALBAR INC.

# A Managed Risk Alternative

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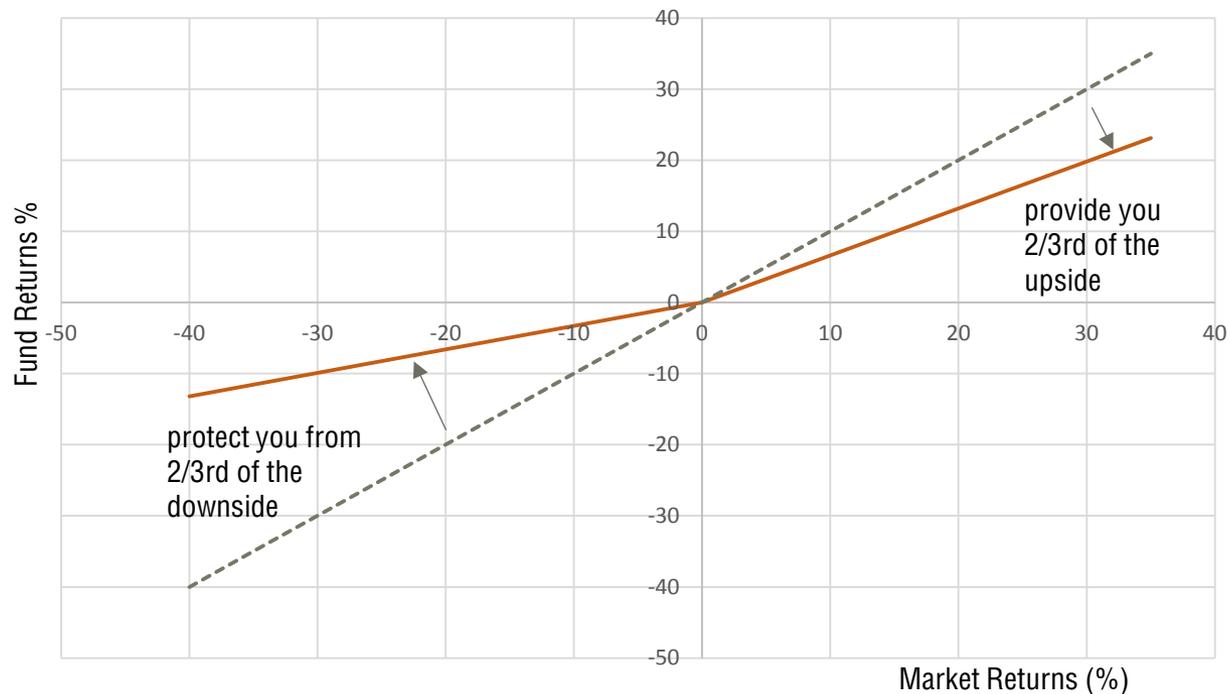
- Retain passive broad equity market exposure
- Non-discretionary or rules-based strategy to manage risk over the cycle
- Aim for better risk-adjusted returns than traditional low-risk strategic asset allocation portfolio



# A Managed Risk Alternative

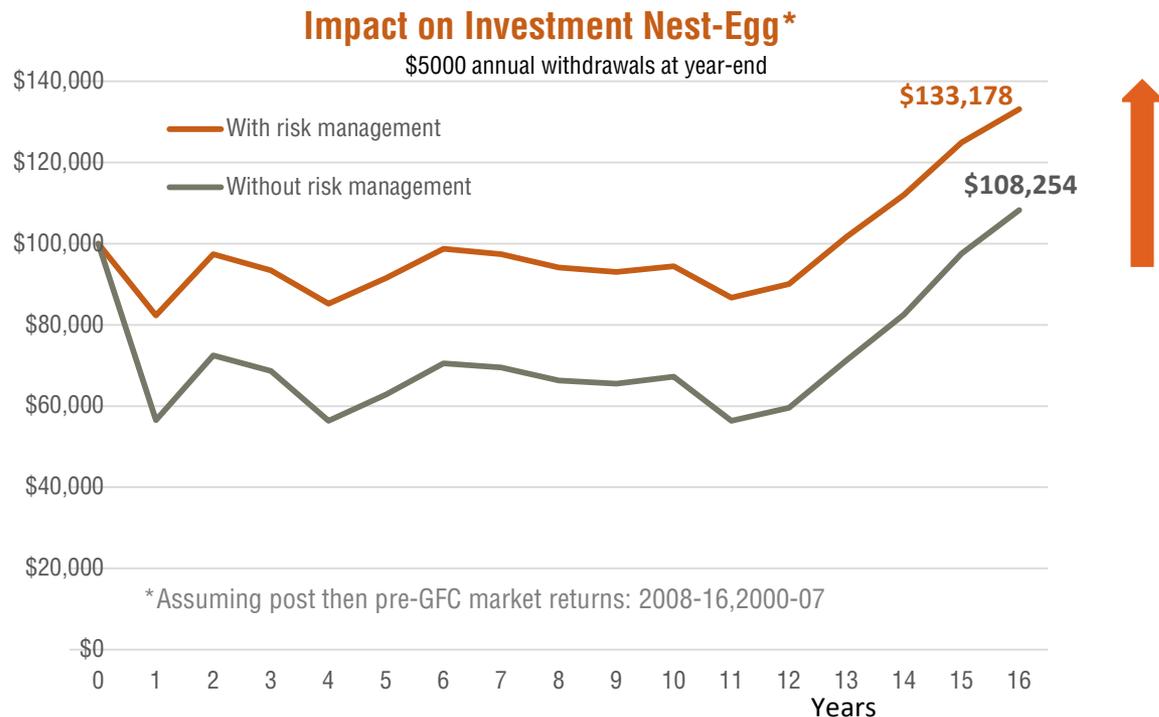
**Aim to achieve a better asymmetric return profile: 2/3rds downside protection and 2/3rds upside participation**

Aim of Managed Risk Strategy





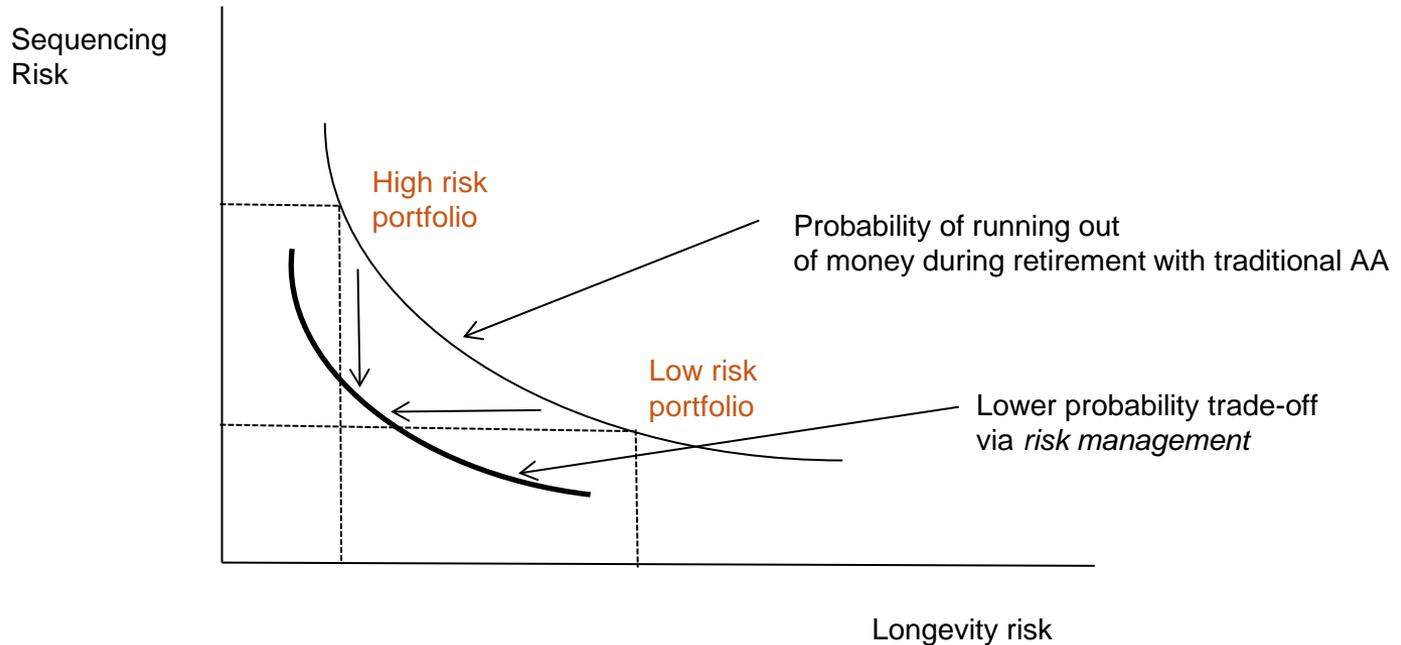
# Managed risk aims to provide better capital preservation in the face of early market weakness





# The aim: a more optimal risk-return trade-off

Equity income together with risk management may help reduce sequencing and/or longevity risk





# White Paper: Key Findings

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- Cash/bonds yields returns low – longevity risk
- Equities yields currently better
- But equities are risky – sequencing risk
- Better potential outcome
  - equity exposure with managed risk overlay



# Benefits of BetaShares Managed Risk Funds

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Using the Managed Risk Funds, investors have the potential to:

- ✓ Benefit from equity share market returns with the potential for **reduced downside in declining markets**
- ✓ Obtain exposure to **an income** stream from the **dividends and any associated franking credits** in the Australian share market
- ✓ Benefit from **reduced volatility and a smoother investor experience** despite changing market conditions
- ✓ Gain **cost-effective exposure to a diversified basket of shares** in a single trade on the ASX



# BetaShares Managed Risk Series: AUST & WRLD

These Funds were specifically designed with the aim of:

- providing exposure to a broadly diversified portfolio of shares
- reducing the volatility of the equity investment returns
- cushioning downside market risk.



FUND NAME	ASX TICKER	STRATEGY
BETASHARES MANAGED RISK AUSTRALIAN SHARE FUND (MANAGED FUND)	<b>AUST</b>	<ul style="list-style-type: none"><li>• Largest 200 Australian shares by market capitalisation</li><li>• Provide investors a smoother investment ride via the potential for significantly reduced volatility and cushioned downside market risk</li><li>• A rules based strategy that has the benefits of being a lower cost, transparent structure</li><li>• Risk management strategy</li></ul>
BETASHARES MANAGED RISK GLOBAL SHARE FUND (MANAGED FUND)	<b>WRLD</b>	<ul style="list-style-type: none"><li>• Diversified exposure to global shares (developed markets)</li><li>• Exposure to global shares whilst mitigating the risk of market volatility and large drawdowns.</li><li>• A rules based strategy that has the benefits of being a lower cost, transparent structure</li><li>• Risk management strategy</li></ul>

# The Fund's Risk Manager



## Sample Clients



## About Milliman

The risk management strategy employed by the Managed Risk Funds is being run in conjunction with Milliman, one of the largest institutional global risk managers in the world, assisting clients in managing risk on US\$500B worldwide

Milliman's risk management strategies have been used for the last 15 years by some of the largest firms and institutional investors in the world

Strategies used by Milliman helped their clients navigate the 'tech bubble' and global financial crisis

The Managed Risk Fund provide investors access to such a strategy, which was previously primarily confined to large institutional investors

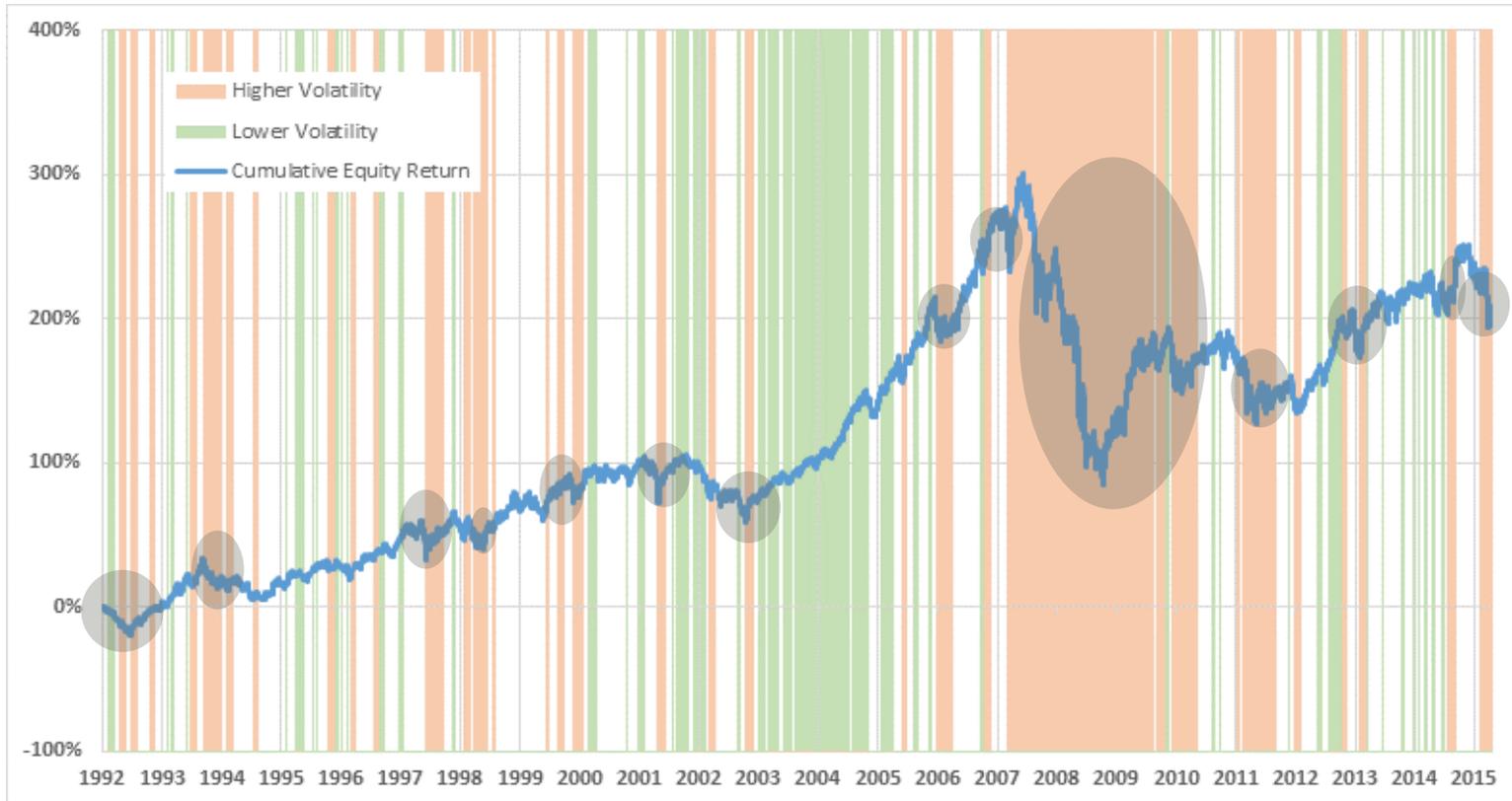
During market downturns, the risk management strategy seeks to curb potential portfolio losses while preserving principal and gains captured in favourable market conditions

**Milliman has 55 offices globally and employs more than 2,600 professionals, including more than 1,300 qualified consultants and actuaries**



# High volatility is frequently associated with sharply falling markets

## S&P/ASX 200 Index (1992-2015): Cumulative equity return and volatility



Selected periods when increased market volatility was associated with market declines

Source: Milliman Financial Risk Management LLC, 31/12/1991-30/09/2015. The chart above is historical and for illustrative purposes only. It does not represent actual performance of any investment. Past performance is no guarantee of future results.

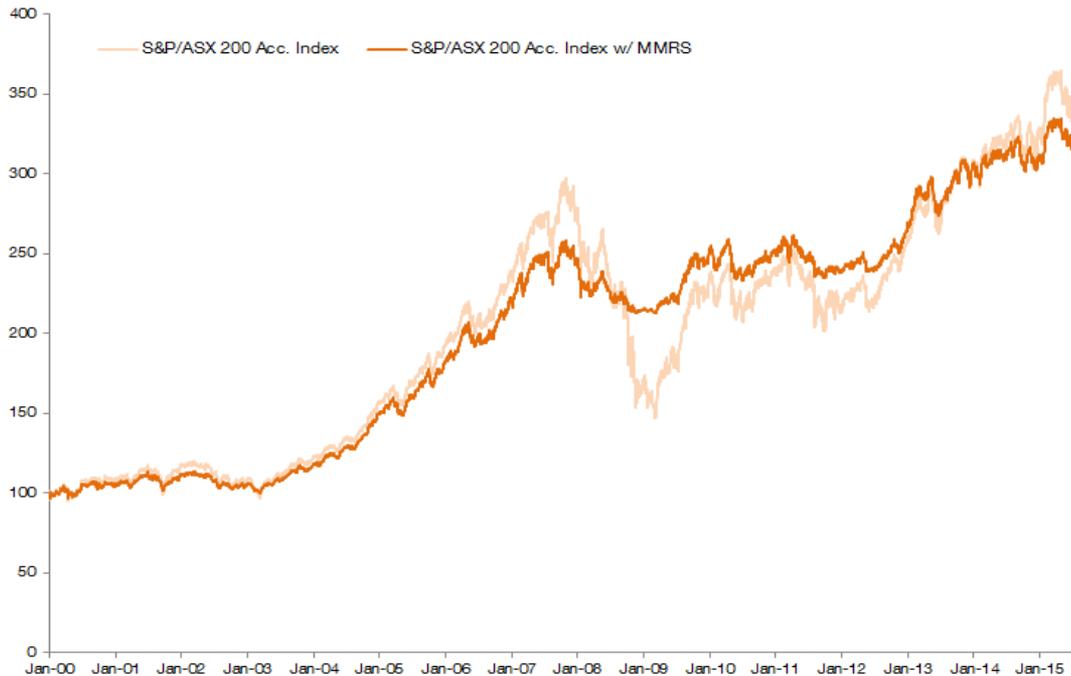


**BetaShares**



# AUST - strategy performance over the long-term shown to reduce volatility

## S&P/ASX 200 Index v S&P/ASX 200 Index + Milliman Managed Risk Strategy (Simulated) 1 Jan 2000 – 30 September 2015 (Indexed to 100)



S&P ASX 200 Acc. Index	S&P ASX 200 Acc. Index + Risk Strategy
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Annual return (% p.a.)	7.5%	7.4%
Volatility (% p.a.)	15.9%	8.8%
Risk Adjusted Return (p.a.)	0.47	<b>0.84</b>

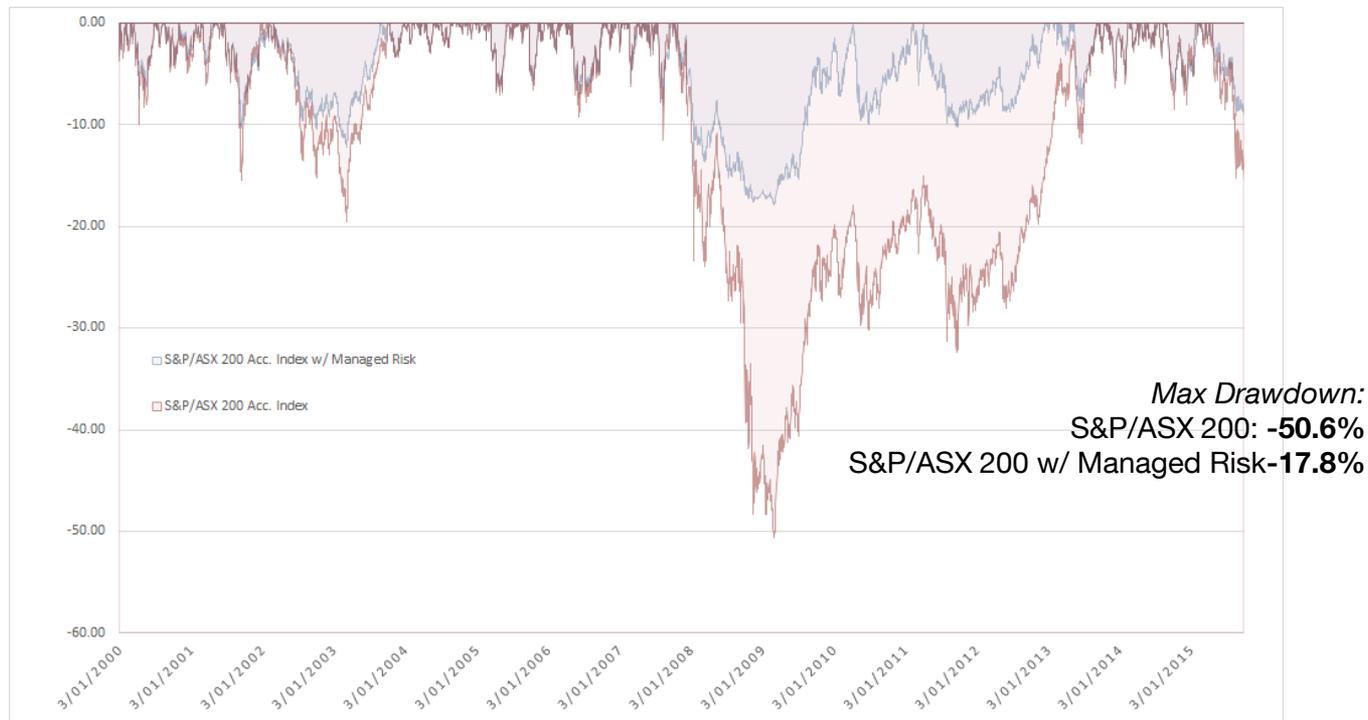
### Volatility reduction of 45% over last 15 years

**Adviser use only. Not for distribution to retail clients.** Chart compares S&P/ASX 200 Accumulation Index with and without the “Milliman Managed Risk Strategy” (as used by the AUST Fund). **Excludes the effects of management costs, transaction costs and cash held for futures margins.** Simulated performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading, are based on certain assumptions, and are produced with the benefit of hindsight. Also, since the trades have not actually been executed, the results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. No representation is being made that the AUST Fund will achieve results similar to those shown. Past performance, simulated or actual, is not an indication of future performance. Source: BetaShares, Milliman, Bloomberg



# BetaShares Managed Risk Australian Shares – Drawdown Analysis

**S&P/ASX 200 Index v S&P/ASX 200 Index + Milliman Managed Risk Strategy (Simulated) 1 Jan 2000 – 30 September 2015 (Indexed to 100)**

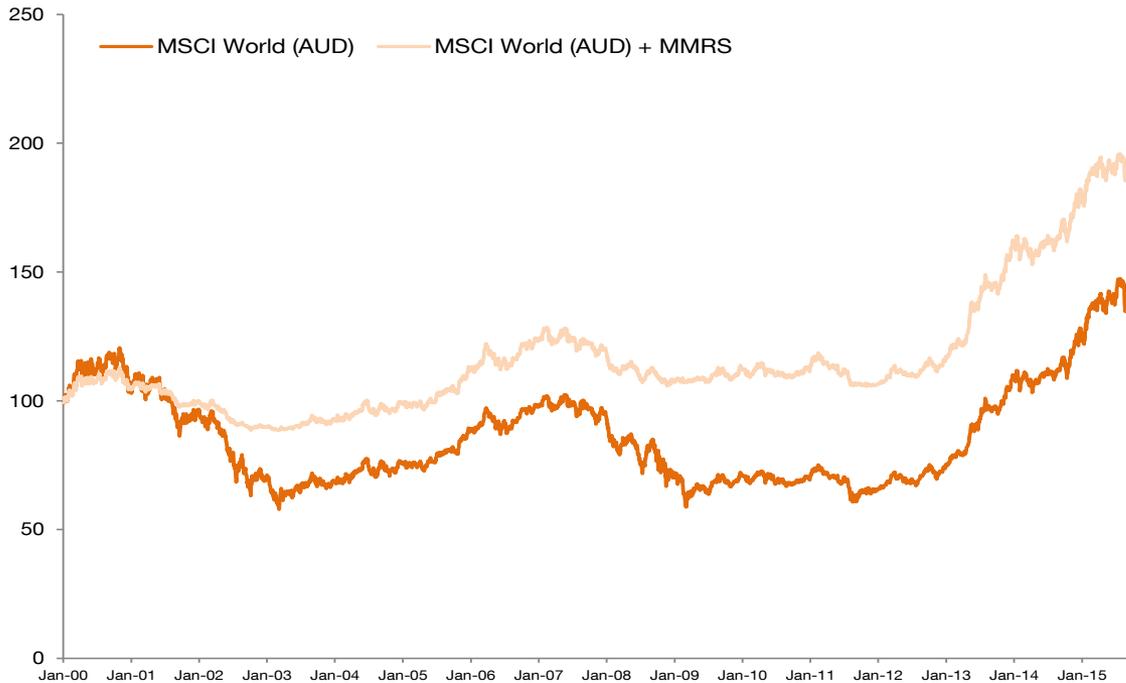


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# WRLD - strategy performance over the long-term shown to reduce volatility

## MSCI World v MSCI World + Milliman Managed Risk Strategy (Simulated) 1 Jan 2000 – 30 November 2015 (Indexed to 100)



**Volatility reduction of 51% over last 15 years**

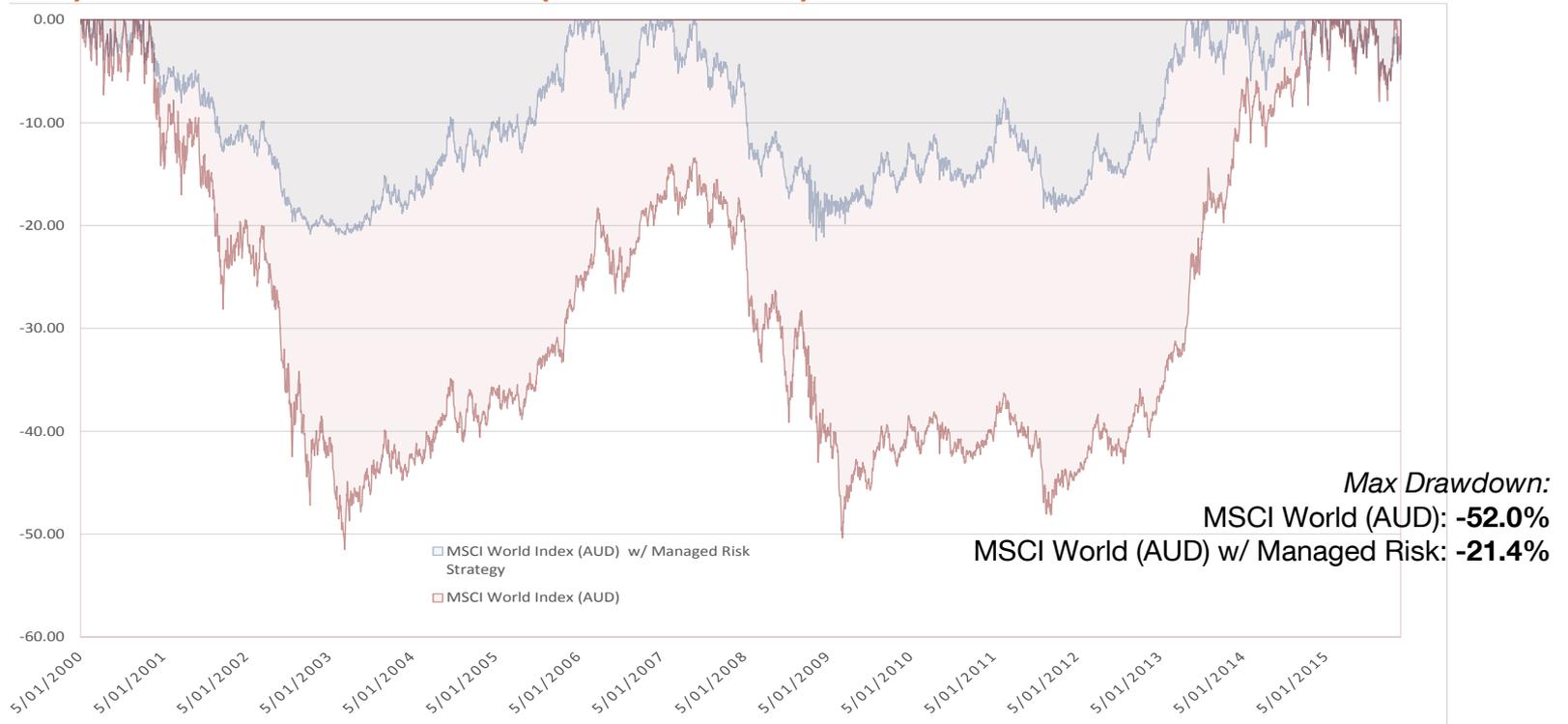
	MSCI World Aust. Index	MSCI World. Index + MMRS
Annual return (% p.a.)	2.3%	4.2%
Volatility (% p.a.)	15.9%	7.8%
Risk Adjusted Return (p.a.)	0.15	<b>0.54</b>

**Adviser use only. Not for distribution to retail clients.** Chart compares MSCI World Index with and without the “Milliman Managed Risk Strategy”. **Excludes the effects of management costs, transaction costs and cash held for futures margins.** Simulated performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading, are based on certain assumptions, and are produced with the benefit of hindsight. Also, since the trades have not actually been executed, the results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. No representation is being made that the WRLD Fund will achieve results similar to those shown. Past performance, simulated or actual, is not an indication. Source: BetaShares, Milliman, Bloomberg.



# BetaShares Managed Risk Global Shares – Drawdown Analysis

## MSCI World Index (AUD) v MSCI World Index (AUD) + Milliman Managed Risk Strategy (Simulated) 1 Jan 2000 – 30 Nov 2015 (Indexed to 100)



**Adviser use only. Not for distribution to retail clients.** Chart compares MSCI World Index (in AUD) with and without the “Milliman Managed Risk Strategy”. **Excludes the effects of management costs, transaction costs and cash held for futures margins.** Simulated performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading, are based on certain assumptions, and are produced with the benefit of hindsight. Also, since the trades have not actually been executed, the results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. No representation is being made that the WRLD Fund will achieve results similar to those shown. Past performance, simulated or actual, is not an indication of future performance. Source: BetaShares, Milliman, Bloomberg



# Navigating market volatility - **live results**

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Following the landmark referendum whereby the United Kingdom decided to exit from the European Union, announced on 24 June, the financial markets across the globe have experienced increased volatility.

**The following two slides** show how AUST and WRLD performed in the volatile 2 week period leading up to the Brexit decision.

The data finishes on the day of the result announcement.



# AUST in practice – 2 weeks leading up to Brexit

10/6/16 to 24/6/16

	AUST	S&P/ ASX 200 Index	Difference
Return	-0.73%	-3.75%	↑ 3.02%
Volatility (annualised)	8.4%	20.6%	↓ 59.2%



Performance up to day of Brexit result announcement- AUST

AUST's portfolio was 35% hedged and, as such, did not experience the sharp decline of the S&P/ASX 200 on the day the Brexit result was announced (24<sup>th</sup> June 2016)

By the end of the trading day, **AUST had outperformed the S&P/ASX 200 by 3.02%** and was 59% less volatile than the S&P/ASX 200 over the 2 week period



# WRLD in practice – 2 weeks leading up to Brexit

10/6/16 to 24/6/16

	WRLD	MSCI World Index	Difference
Return	-1.79%	-3.34%	↑ 1.55%
Volatility (annualised)	9.5%	27.4%	↓ 65.3%

Performance up to day of Brexit result announcement- WRLD

WRLD, in the same 2 weeks leading up to the result announcement on 24 June, was 24% hedged.



At close of business on that Friday, **WRLD had outperformed the MSCI World Index by 1.55%** and was 65% less volatile over the same period.



# Why you should consider our Managed Risk Funds

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The BetaShares Managed Risk Funds have to date **met their objectives**. Our Investors have benefitted from:

- ✓ **Equity returns with reduced downside risk** – potential to obtain exposure to the majority of the upside potential of the sharemarket, with the benefit of potentially reduced downside in declining markets
- ✓ **Income** - opportunity to benefit from the dividends (AUST & WRLD) and associated franking credits in the Australian share market (AUST)
- ✓ **A smoother ride** - potential for reduced volatility and a smoother investor experience despite changing market conditions
- ✓ **Diversification** - gain exposure to a portfolio of Australian shares or international shares in a single trade
- ✓ **Cost effective** - no performance fees
- ✓ **Liquidity** - trades on ASX during the trading day
- ✓ **Transparent** - Fund's portfolio, value of the Fund's assets and net asset value per unit available daily on BetaShares' website



# BetaShares Managed Risk Series: AUST & WRLD

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# Questions?

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Keep in touch



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