Asset allocation strategy workbook

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Workbook prepared for

securitor

The purpose of this workbook

Your financial adviser will use this workbook to help you determine an asset allocation that best meets your needs, taking into account the returns you want and the risks you are prepared to take to achieve those returns.

What is asset allocation?

Asset allocation is the name given to the mix of asset classes you choose to build your portfolio. The common asset classes are cash, fixed interest, property and shares.

Your asset allocation is the single most important factor in determining the returns and risk in your portfolio. Selecting a suitable mix will play a crucial role in ensuring your portfolio achieves your objectives within your comfort zone.

Your asset allocation is the first step towards developing your personalised investment portfolio.

Typical asset class characteristics

Investment assets fall into two broad categories, defensive and growth assets. The table below provides a guide to the characteristics of the common asset classes under each category.

If you would like further information about asset class characteristics please ask your financial adviser for a copy of the 'Guide to investment risk and return' brochure.

Please note this is a guide only as the actual investments your financial adviser chooses within each asset class may differ to the characteristics below. For example, Australian shares can be selected to provide high tax-effective income through dividends with imputation credits or selected to provide little income but high growth through rising share prices.

What is a benchmark portfolio?

This workbook uses six benchmark portfolios which range in return and risk characteristics. Benchmark portfolios are based on optimal asset allocation ranges. They represent the mix of asset classes which are most likely to produce the best returns with the lowest risk over their minimum timeframe.

The benchmark portfolios provided in this workbook are generally consistent with the asset allocations of most product providers and financial advisers. You may however vary your asset allocations to suit your personal preferences.

What happens after I've chosen a benchmark portfolio?

The asset allocations presented in this workbook are a starting point. Once you have determined your preferred asset allocation, your financial adviser will select your actual investments within each asset class and explain how this is appropriate to your needs and circumstances. This will also be recorded in your Statement of Advice.

Asset Class	Income	Capital Growth	Tax Effectiveness	Risk
Defensive Assets				
Cash	Medium	None	None	Low
Australian Fixed Interest	High	None	None	Medium
International Fixed Interest	High	None	None	Medium
Growth Assets				
Australian Shares	Medium	High	High	High
International Shares	Low	High	Low	High
Property	Low	Low	Medium	High

Stage one:
Making a preliminary view of your preferred portfolio

Consider the following

The four keys to choosing a suitable asset allocation strategy:

1. Ensure your investment timeframe is consistent with the recommended timeframe of your preferred asset allocation.
2. Ensure your preferred asset allocation is likely to achieve the return required to satisfy your objectives.
3. Ensure you are comfortable with the risk associated with your preferred asset allocation.
4. Ensure your financial situation can support your decision.

1. Your investment timeframe is crucial

History has shown that growth assets such as shares and property provide the best returns over long time periods (10 years or more). If you are able to leave your funds invested for 10 years it makes sense to invest in a portfolio that has a greater proportion of growth assets.

The downside of growth assets is that they have considerable volatility in the short term. Although they may rise significantly in any one year, they may also fall significantly. Over the long term this volatility usually smoothes out to produce good returns. However, this same volatility makes growth assets unsuitable for most investors with short investment time frames.

2. The importance of returns

Many people have specific goals (eg renovating their home, becoming debt-free or providing for retirement). In most cases, success in reaching your objectives will be largely dependent on returns. You will therefore require your investments to deliver sufficient returns to achieve your goals.

While investment returns are critical, it is crucial that you understand and are comfortable with the risk you are taking on in order to achieve that return.

3. What is risk and risk tolerance?

The most commonly understood meaning of risk is the probability of losing money. However, there are actually three key areas of risk you need to be aware of:

a. The value of your investment might decrease and you may lose your capital (ie finish with less than you started).

b. The investment does not provide the income or growth you're expecting, so you don't meet your investment goals.

c. Inflation increases at a higher rate than the performance of your investments – ie the 'real' value of your investments decreases.

4. Your financial situation

You should also consider your personal financial circumstances. You need to make sure that you have enough money put to one side to cover any emergency expenses. You should also consider whether your current situation is likely to remain consistent over your investment timeframe. For example, do you expect to have the same level of income for the entirety of your investment timeframe?

Choosing your preferred portfolio

It may be that you have different timeframes, return objectives or risk tolerance for different investments. For example, your retirement may be 20 years away so the asset allocation you choose for your super may be different to the asset allocation you choose for the boat you want to buy in five years. You therefore need to treat each goal separately so that you have the correct asset allocation for each goal.

In the table below, please complete the details for each of your financial goals and then read pages 4 and 5 to form a preliminary view of your preferred portfolio.

	Financial goals	Timeframe (in years)	$ required	Client Partner or Joint	Preliminary view of preferred portfolio
(1)			$		
(2)			$		
(3)			$		
(4)			$		

How to read the asset allocation strategy worksheet

Step 1: Determine your investment timeframe

Choose a portfolio with a recommended timeframe that is consistent with your investment timeframe

Each benchmark portfolio has a recommended minimum amount of time you should hold your investment in order to achieve the portfolio's objectives. For example, you can see in the table that a 'Balanced' investor should invest for a minimum of five years.

Time reduces risk

You can see from the table on page 5 that the probable range of average returns for a Balanced investor in the first year of investing is -7.0% to 25.7%. Over ten years the range of expected average returns significantly reduces to 3.1% to 13.4% (ie any extreme years – good or bad – are balanced out by the other years). If you sell your investments before the recommended timeframe, your risk of losing money is much higher than if you hold them for the whole timeframe.

The higher the volatility, the greater the potential returns

The table on page 5 shows that a Defensive investor's portfolio, while relatively stable, has a forecast average value of $195,363 after ten years where as a High Growth investor's portfolio, which is very volatile, has a forecast average value of $249,169 over the same period.

Step 2: Determine which portfolio meets your required returns

Consider which portfolio has a similar objective to yours

Each benchmark portfolio has been developed with a return objective in mind. For example, the Balanced portfolio seeks a return of 5% over inflation. If the average inflation (CPI) over 10 years is 3.8%, then the balanced portfolio aims to achieve an average return of 8.8% over those 10 years.

Consider the long term impact of different returns to your portfolio

If you look at the forecast average annual return for each of the portfolios you will notice that they range from 6.1% to 9.6%*.

Although this appears to be a relatively small range, the impact of this difference over ten years for a $100,000 portfolio is significant. Average portfolio values projected over ten years range from $180,611 to $249,169.

Step 3: Consider how much risk you can live with – can you sleep at night with this portfolio?

Risk of negative returns

A Balanced investor could expect an 11.4%* probability that their portfolio will go backwards in any one year.

How long you are prepared to wait for your portfolio to return to its previous level after a market downturn.

How long could you put up with your portfolio being less than it was?

Assuming a Balanced portfolio which dropped 7.0% in the first year you invest, it is estimated that you would need to wait on average 12 months for your investment to return to its original value. You should ask yourself 'Am I prepared to tolerate a lower value than my initial investment for this period of time?'

Volatility

Based on the calculations on page 5, in the first year of investing, an investor with a balanced portfolio could experience a return anywhere between -7.0% and 25.7%*.

This means that you need to accept that if you start with $100,000, it is possible that you could have less than $93,000 by the end of the first year.

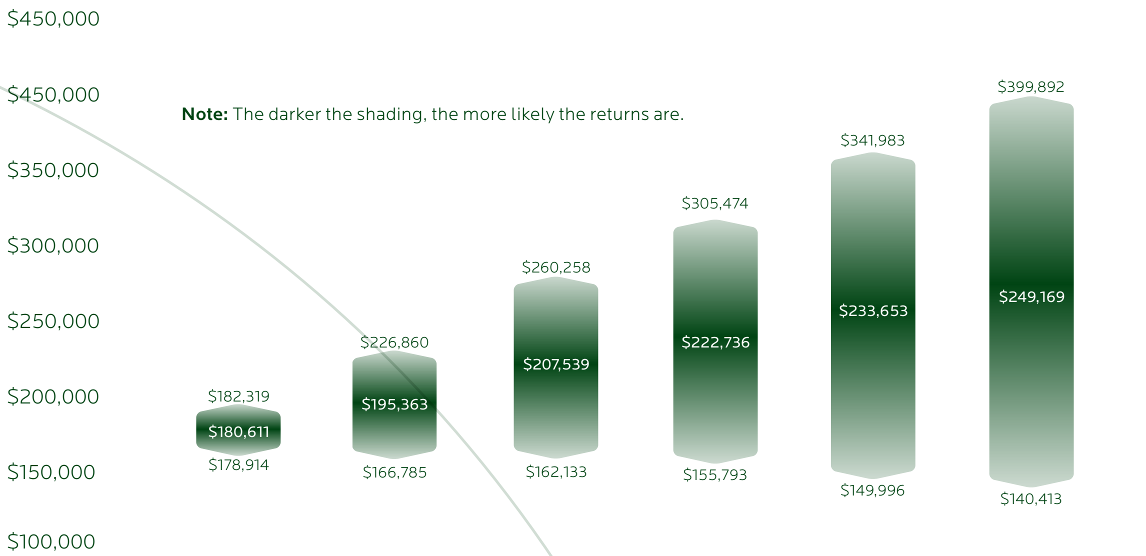
Step 4: Ensure your financial situation can support your Asset Allocation Strategy decision

You need to ensure that you can leave your portfolio for the required timeframe, and that you have other money available for emergencies.

Note: All information presented should be read with reference to the important information statement on page 10.

Benchmark Portfolios	Cash	Defensive	Moderate	Balanced	Growth	High Growth
Minimum Timeframe	Any	3 years	4 years	5 years	7 years	10 years
Asset allocation (%)						
Australian cash	100	25	10	7	3	0
Australian fixed interest	-	25	23	14	7	0
International fixed interest	-	20	19	11	8	0
Total defensive assets	**100**	**70**	**52**	**32**	**18**	**0**
Australian shares	-	13	22	31	37	45
International shares	-	10	18	28	36	49
Property	-	7	8	9	9	6
Total growth assets	**0**	**30**	**48**	**68**	**82**	**100**
Returns						
Portfolio target return	N/A	Inflation +3.0%	Inflation +4.0%	Inflation +5.0%	Inflation +5.5%	Inflation +6.0%
Forecast return	6.1%	6.9%	7.6%	8.3%	8.9%	9.6%

Value of $100,000 invested for 10 years (90% confidence)*



Risk							
Probability of a **positive** return in any particular year		100.0%	98.8%	94.3%	88.6%	84.9%	80.5%
Probability of a **negative** return in any particular year		0.0%	1.2%	5.7%	11.4%	15.1%	19.5%
Range of Returns (p.a.) – (98% confidence)*	1 Year	5.6% to 6.5%	-0.2% to 14.5%	-3.4% to 19.5%	-7.0% to 25.7%	-9.8% to 30.5%	-13.8% to 37.8%
	5 Years	5.9% to 6.3%	3.6% to 10.2%	2.5% to 12.7%	1.1% to 15.7%	-0.1% to 17.9%	-1.9% to 21.1%
	10 Years	5.9% to 6.2%	4.6% to 9.2%	3.9% to 11.1%	3.1% to 13.4%	2.4% to 15.0%	1.2% to 17.4%
Capital volatility		None	Low	Medium	Med/High	High	Very High
Probability of a negative return in any one year		0%	1%	6%	11%	15%	20%
Likely maximum drop in capital in any one year		0%	1%	3%	7%	10%	14%
Likely time required to recover from this drop		N/A	1 month	6 months	11 months	15 months	20 months

* See 'Important information' on page 10 for the meaning of 'confidence'

Stage two:
The 'comfort test'

The comfort test will help your financial adviser confirm your understanding of the risk aspects of your preferred portfolio(s). It allows you to compare the characteristics of each of the different portfolios and confirm your tolerance to risk against these.

Only complete the comfort test for your preferred portfolio with the longest timeframe. Put a tick against your preferred portfolio at the top of the asset allocation worksheet on page 7.

If you are investing jointly with a partner, you need to agree on a portfolio you are both comfortable with. We recommend that you complete the comfort test as a couple, deciding the answers on a consensus basis. However, you could also consider the comfort test questions individually on separate worksheets, compare any differences and then reach a consensus.

You are now ready to complete the comfort test. Please note your answers to the questions below on the asset allocation worksheet at the bottom of page 7. If you aren't sure what a question means, read the more detailed information and examples on pages 4 and 5 again.

(1) It is widely accepted that the higher risk that you are willing to accept, the higher return you could expect. With this in mind, what level of fluctuations in the value of your money would you be willing to accept to achieve your goals?

a) No fluctuations in capital would be acceptable
b) Low fluctuations in my capital value over the short term
c) Medium fluctuations in my capital value in short term
d) Medium to high fluctuations in my capital value in the short to medium term
e) High fluctuations in my capital value in the short to medium term
f) Very high fluctuations in my capital value in the short to medium term

(2) What probability of a negative return in any one year would you be willing to accept to achieve your goals?

a) 0%
b) 1%
c) 6%
d) 11%
e) 15%
f) 20%

(3) By what amount could your portfolio drop before you would begin to feel uncomfortable and question your initial investment decision?

	Percentage decrease	Value of $100,000
a)	0%	$100,000
b)	1%	$99,000
c)	3%	$97,000
d)	7%	$93,000
e)	10%	$90,000
f)	14%	$86,000

(4) Assuming your portfolio starts to drop in the first year you hold it, what would be the maximum period you would be prepared to wait for the market to return to its previous level?

a) Any fall in value would be unacceptable.
b) 1 month
c) 6 months
d) 11 months
e) 15 months
f) 20 months

You may feel that the responses to these questions are now not entirely consistent with your preferred asset allocation. Likewise it's not uncommon for your answers to the four questions to lead to more than one asset allocation. This is a natural part of the process and highlights the trade-offs that you need to make when selecting an asset allocation. Do you go with higher returns and accept the higher risk or do you reduce your risk and live with lower returns?

There is no right or wrong answer in relation to the risk you are willing to accept. The key is that you need to feel comfortable sticking with the risk of the asset allocation for the required timeframe. Your financial adviser can only encourage you to make an informed decision.

You can now select the asset allocation you wish your financial adviser to consider when developing your investment recommendations.

Asset allocation strategy worksheet

Note: All information presented should be read with reference to the important information statement on page 10.

Preferred Portfolio	☐ Cash	☐ Defensive	☐ Moderate	☐ Balanced	☐ Growth	☐ High Growth
Minimum Timeframe	Any	3 years	4 years	5 years	7 years	10 years
Asset allocation (%)						
Australian cash	100	25	10	7	3	0
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Portfolio target return	N/A	Inflation +3.0%	Inflation +4.0%	Inflation +5.0%	Inflation +5.5%	Inflation +6.0%
Forecast return	6.1%	6.9%	7.6%	8.3%	8.9%	9.6%

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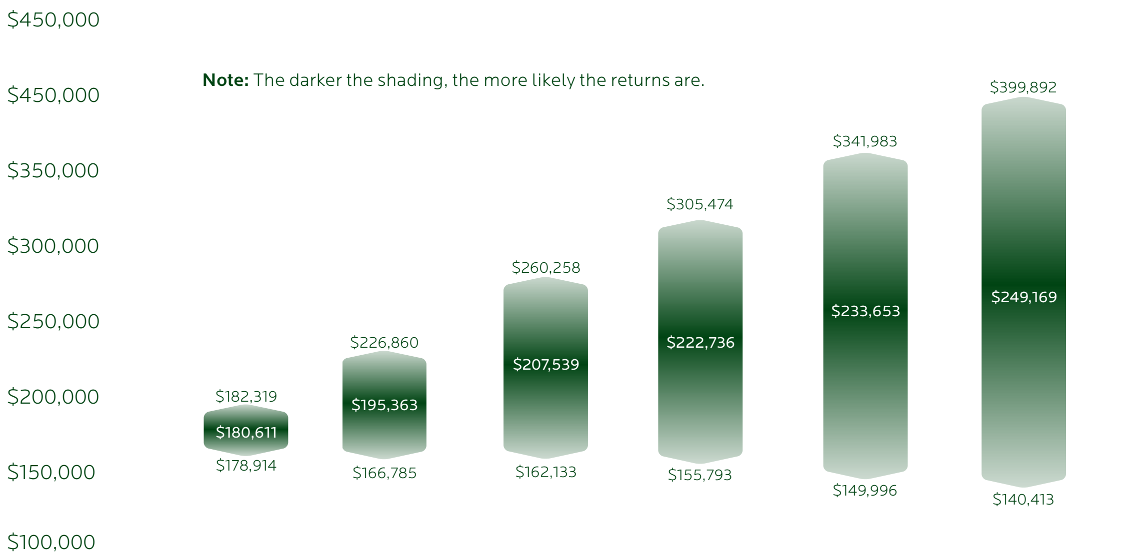

Risk							
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	5 Years	5.9% to 6.3%	3.6% to 10.2%	2.5% to 12.7%	1.1% to 15.7%	-0.1% to 17.9%	-1.9% to 21.1%
	10 Years	5.9% to 6.2%	4.6% to 9.2%	3.9% to 11.1%	3.1% to 13.4%	2.4% to 15.0%	1.2% to 17.4%
1) Capital volatility		☐ None	☐ Low	☐ Medium	☐ Med/High	☐ High	☐ Very High
2) Probability of a negative return in any one year		☐ 0%	☐ 1%	☐ 6%	☐ 11%	☐ 15%	☐ 20%
3) Likely maximum drop in capital in any one year		☐ 0%	☐ 1%	☐ 3%	☐ 7%	☐ 10%	☐ 14%
4) Likely time required to recover from this drop		☐ N/A	☐ 1 month	☐ 6 months	☐ 11 months	☐ 15 months	☐ 20 months

* See 'Important information' on page 10 for the meaning of 'confidence'

Stage three:
My preferred asset allocation

1. **Please complete the table below with the goals and benchmark portfolios you would like your financial adviser to use when constructing your portfolio.**

	Financial goals	Benchmark Portfolios
(1)		
(2)		
(3)		
(4)		

OR

Alternative asset allocation

☐ I would like to choose my own Asset allocation

Cash		%
Australian Fixed Interest		%
International Fixed Interest		%
Property		%
Australian Shares		%
International Shares		%

2. **Did you find that any of your answers to the comfort test covered more than one asset allocation strategy?**

☐ Yes ☐ No

If Yes, please note your basis for choosing the above asset allocation:

____

____

____

____

3. **Did you use more than one comfort test when considering your tolerance to risk?**

☐ Yes ☐ No ☐ Attached

Please note that your chosen asset allocation provides a starting point for your financial adviser to map your investment recommendations. Your final asset allocation may differ slightly for a number of reasons. These include market conditions and your own individual specific needs. Your Statement of Advice will always clearly outline your final asset allocation for your approval.

Stage four:
Are my objectives achievable or is there a gap?

By this stage you should feel comfortable with the level of risk in your asset allocation, but the question remains, will it meet your investment objectives? Even though your financial adviser can explain how to maximise your current investments, you may still find that there is a gap between where you want to be and where your chosen asset allocation will allow you to go.

For example, you may have selected a defensive portfolio but given the time you have to invest you may only be able to meet your objective by taking a growth portfolio. If any gaps are identified, you may need to reconsider your options and make the necessary trade-offs. Good planning is about helping you understand your options so you can select the ones that suit you best.

Your financial adviser will conduct further analysis of any gaps as required. However, it is helpful in the planning stage for your financial adviser to understand any trade-offs you might consider.

1. **If your goals are unlikely to be met, please indicate which options you would consider**:

- ☐ Save more (spend less)
- ☐ Downsize lifestyle assets
- ☐ Increase your income resources: work longer, part-time
- ☐ Increase your investment risk
- ☐ Borrow to invest
- ☐ Revise your goals
- ☐ None
- ☐ Other

Comments

2. **Conversely, if it is likely that you will clearly meet your needs and objectives, would you like to make any adjustments?**

- ☐ Spend more (save less)
- ☐ Decrease your income, retire earlier or work part time
- ☐ Decrease your investment risk
- ☐ Revise your goals
- ☐ Other

Comments

Important information

Do not act solely on this workbook

The information in this workbook has been prepared as a guide only to help you choose an asset allocation for your investment or superannuation portfolio. Any investment decision you make should consider a number of issues as well as those considered through this workbook. You should consider the specific risks and other characteristics of a particular financial product before acquiring that product.

Please note that this guide provides information relating to common asset classes only. A particular investment may not fall within the asset classes described in this guide and this guide will therefore not apply in relation to that investment. You should speak with your financial adviser to obtain information about that investment and other asset classes.

Your financial adviser will now continue to work through the financial planning process with you to fully understand your objectives, financial situation and needs. You should not make any investment decisions until your financial adviser has fully considered your personal circumstances and you have been provided with, and have read, a Statement of Advice and any relevant Product Disclosure Statements.

Forecast return information

The forecast information in this workbook has been prepared by St.George Investment Solutions. Forecast returns and risk for each asset class have been based on the analysis of historical market data, fundamental economic factors and historical co-variances between the asset classes and are best estimates of asset class returns and risk.

These forecast figures provide a guide as to the likely future behaviour of returns for diversified portfolios and specific asset classes over time. The forecast returns in no way provide any guarantees of future performance.

The forecast returns are based on the strategic long-term view of each asset class as at the end of December 2007.

The forecast average return for each portfolio is based on the return forecast of each asset class within the portfolio and the weight allocated to each asset class within the portfolio. Currently this produces higher forecast returns than the portfolio target returns.

An inflation rate of 3% has been used for the Australian asset classes, while the exposure to international asset classes required consideration of relevant economic factors for each country exposed.

A confidence level is a statistical measure that illustrates the likelihood of an event taking place. In the case of this workbook, it looks at the likelihood of a return falling within the stated range and the likelihood of the value of an investment of $100,000 over 10 years falling within a stated range. '90% confidence' means that for the Value of $100,000 invested for 10 years, there is a 10% probability that the expected returns fall outside the stated range. For the range of returns, there is a 2% probability that the expected returns fall outside the stated range. This is described as '98% confidence'.

Forecast returns don't make provision for investment fees and taxation as this will depend on the investments you select and your personal financial circumstances. However, the domestic equity forecasts do incorporate grossed-up franking credits and assume 70% of the dividends accrue franking credits.

What's happened in the past

Historical market data from 31 August 1997 to 31 August 2007 has been used in preparing the Asset allocation strategy worksheet.

Historical market data demonstrates how each of the asset classes has performed in the past. From this we can gain insights into typical market trends, cycles and the relationships between different asset classes. These insights allow us to establish a starting point for the construction of the benchmark portfolios. It's important to note that because no two market cycles are ever the same, historical returns aren't an accurate indicator of likely future returns. We therefore also need to consider the economic outlook.

The economic outlook

The long-term economic environment and outlook sets the scene for what to expect from investments in the future. Fundamental economic factors such as the expected rate of inflation and the expected growth rate of companies provide indicators as to the direction of the economy and the potential for returns.

Client declaration

I/We can confirm that my/our financial adviser has helped me/us make an informed decision about my/our asset allocation strategy by explaining and or confirming my/our understanding of:

- investment risks, including volatility and the risk of capital loss
- the characteristics of each of the asset classes and the likely nature of risk and return
- the benefits of diversification
- the recommended minimum timeframes for different asset allocations

My/Our financial adviser has done this by using:

☐ The asset allocation worksheet

☐ Other educational material

I/we understand that the information in this workbook is subject to the Important Information on page 10.

Notes

Client Name

Client Signature

Date

Client Name

Client Signature

Date

For further information