

Asset Allocation and Portfolio Optimisation 'Are we there yet?'

ASI plenary – 4 September 2019

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AA
doomed to navigate
two imperfect worlds



Are we there yet?

- **Groupings: asset class v other**
 - *risk premia, macro themes, yield, geography, duration...?*
- **Some asset class categorisations are controversial...**
 - *property, infrastructure, long-short equity*
- **... and some give a false sense of diversification**
 - *AU equities v REITs v commodities*
- **Peer sensitivity imposes imaginary AA rails**

Are we there yet? (2)

➤ **What if it doesn't fit neatly into an AA box?**

- *equities with call and/or put writing?*
- *lower-grade/higher risk credit?*
- *multi-asset?*
- *cash equitisation, agency execution, after-tax investing, centralised portfolio management?*

➤ **Dynamic AA**

- *limited by governance capacity*
- *costs of AA changes (transaction costs, tax) not part of the analysis*

Are we there yet? (3)

- **Resistant to external analyses of success**
(mix of member and fund activity)

- **AA paradigm doesn't map well to member objectives**

- **A victim of its own success?**
 - *powerful anchoring effect. AA is a means to an end, not an end in itself!*
 - *convenient thinking boxes, but do we really scrutinise inputs?*
 - *who's looking at the big ideas outside the paradigm?*

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