Oreana
PORTFOLIO ADVISORY

Portfolio Advisory Service Insights

May 2021

Why the long-term matters.

One of our core beliefs is that asset allocation and diversification are the most important elements of achieving long-term returns. This is hardly controversial. Theory, empirics, and experience support this belief. From a practical perspective, we live this belief by thinking deeply about sensible Strategic Asset Allocations (SAA) for our portfolios. These portfolios – which also embed our Dynamic Asset Allocation (DAA) - are available in managed accounts in Australia and Hong Kong.

All of our clients share our belief about the importance of SAA. But not all of them want a DAA overlay. That is OK. Our advisory service is available to help build objective-focused, evidence-based, exceptionally well-researched, long-term focussed SAA portfolios. These bespoke portfolios help investors focus on the long-term and rely on asset allocation and diversification to drive returns.

How should I manage the long-term?

From our perspective, a reasonable SAA will provide clear guidance on allocation to cash, fixed interest, equities, alternatives and currency hedge ratios.

A better SAA will provide clear guidance on the underlying assets. Australian vs global developed vs EM equities. Value vs growth. Sovereign debt vs corporate credit. Duration vs spread. The list goes on.

A great SAA will provide clear guidance around implementation. It will match the underlying asset exposures to managers and strategies. It will risk weight those exposures. It will identify alpha opportunities. And it will provide guidance on how to implement, and how and when to rebalance.

When should I manage the long-term?

It will also be reviewed regularly.

SAA stands for Strategic Asset Allocation. Not Static Asset Allocation. That means the SAA needs to be reviewed. At least annually. For every client. It is not sufficient to set and forget.

We have recently reviewed our portfolio SAAs. We have also helped many clients review their own bespoke SAA. But we know from experience that so many investors have SAAs that have not been reviewed for a long time.

We have just been through a major global pandemic. Market pricing has moved materially. Forward looking returns – both over the medium- and long-term have shifted. That means the prospect of hitting long-term return and risk objectives has changed.

SAA investors need to look through volatility and focus on the long-term. They should not take knee-jerk reactions to near-term market movements. But that does not mean doing nothing.

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Forward-looking cash returns are lower. From a simple asset class arithmetic perspective, that means other asset class prospective returns are lower. That has implications for the level of risk required to achieve a given long-term return. We expect that strategies that were appropriate 18 months ago are less appropriate now. The appropriate split between sub-asset classes has changed.

Who can help?

Building and reviewing an SAA that is defensible and will achieve a given objective is not easy. It involves deep research, challenging mathematics, stress testing, and a clear manager review process. This can take a lot of time, even with the expertise on hand.

The Portfolio Advisory Service has been working closely with clients across Australia and Asia to help build SAAs. These are managed within a governance framework that is robust and will stand the test of time. It is supported by deep asset class research and manager review expertise within the team.

For all investors, now is the time to be reviewing the SAA. Challenging whether it is robust to various regimes. Understanding the risks inside the portfolio. And managing resilience for the future. The Portfolio Advisory Service has a range of advisory and consulting services that can help in this area.

Reach out to our Portfolio Advisory Service to find out how we can assist you with managing your investment challenges.

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