

Centrepont Alliance Retirement Portfolio Construction Philosophy & Process

Release Date | 1 April 2020

1. POST RETIREMENT OBJECTIVES AND RISKS

Following retirement, a client's objectives for their life savings and the risks which they face are very different from those experienced earlier in their working lives while still accumulating wealth. The three most important objectives and risks which need to be addressed through portfolio construction of model portfolios suitable for clients in the retirement phase of their lifecycle are:

- Steady and sustainable income generation
- Sequencing risk
- Longevity risk

The Centrepont Alliance research team has developed a framework for advisers to use with clients approaching or in the retirement phase of their working life which seeks to address each of these requirements.

In addition to these requirements it is important that advisers work with clients who have a lower allocated pension account balance in order to maximise the likelihood of receiving a government age pension and the benefits associated with Centrelink payments, such as healthcare, utility bill and travel discounts. Centrepont Alliance has worked with Challenger in order to provide access to advisers in our network to tools which can be used with clients in order to address this issue based on individual clients' specific requirements.

INCOME GENERATION

Once a client has retired and reached their preservation age, they can start to withdraw their superannuation as an income stream, a lump sum or both. There is a minimum legislated annual withdrawal amount at July 1 each year based on the account balance and age.

To supplement the minimum pension amount, retirees look towards income generating assets to make ends meet. Falling interest rates over the past decade, however, have reduced the income generation of cash linked portfolios such as Term Deposits and market money accounts. The preference is for retirees to generate income from the underlying assets, to protect and grow their nest egg. Taking lump sum payments or sacrificing income at the expense of total returns may lead to longevity risk.

Strategies which have been incorporated into the retirement model portfolio framework include:

- Incorporating equity managers with more consistent income returns, while still focusing on total returns.
- Incorporating Fixed Income and credit managers with more consistent income returns.

SEQUENCING RISK

The Superannuation Guarantee, introduced in 1991 has provided a tailwind for investors, providing regular superannuation contributions during the accumulation phase. During the accumulation phase, regular contributions can smooth out market volatility through dollar cost averaging.

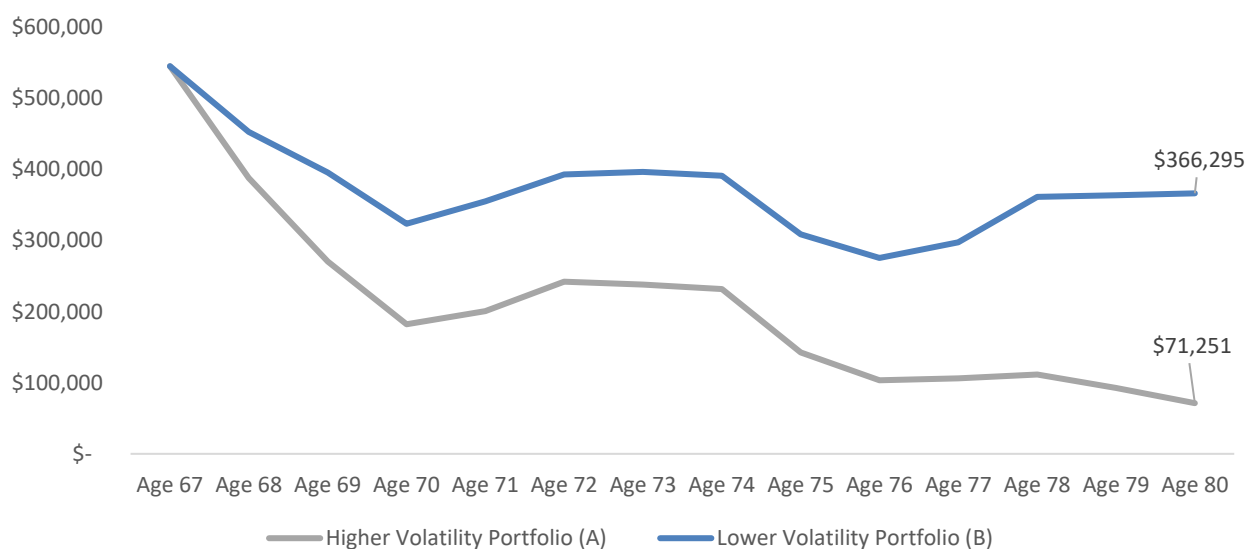
Towards the end of the accumulation phase and in early retirement, an investor's savings pool is generally at its largest and is more exposed to market movements given the volume of capital at risk. This concern is magnified in the retirement phase, as retiree's withdrawal money as a pension to fund their lifestyle. Retirees are exposed to market movements and withdrawing money during market corrections may have a significant effect on the retiree's portfolio. This risk is known as Sequencing risk, that the order and timing of investments and returns is unfavourable. Sequencing risk is most significant during the last 10 years of an investor's accumulation phase and

the first 10 years in retirement.

The chart below illustrates how sequencing risk can affect a portfolio in retirement. We used \$545,000¹ as the starting balance in retirement at age 67 and annual withdrawals of \$27,646². We compared two portfolios, portfolio A is higher volatility and portfolio B is lower volatility. Both portfolios returned an average of 6.00% p.a.³ over the next 13 years, however the sequence of returns were very different. The higher volatility portfolio (A) suffered severe drawdowns in years 1-3 which hurt the overall portfolio. By year 13, the lower volatility portfolio had a portfolio balance of \$366,295, this is \$295,043 higher than the higher volatility portfolio, as illustrated in the below chart.

The results show that the inclusion of a lower volatility portfolio, not only reduces overall portfolio volatility but may also improve return outcomes over time. We see downside protection strategies useful in many roles including accumulation and retirement, to form a part of a diversified portfolio. Within retirement, downside protection strategies can address sequencing risk.

Portfolio Balance at Age 67 - Post Retirement with Annual Withdrawals



Source: AFSA and Centrepoint Alliance

Strategies which have been incorporated into the retirement model portfolio framework include:

- Incorporating equities managers with lower drawdowns and volatility than the market returns, while still focusing on total returns.
- Incorporating Fixed Income and credit managers with higher credit quality and lower drawdowns relative to their fixed income and credit peers.

¹ AFSA Comfortable lifestyle for a single person

² AFSA 'modest' retirement lifestyle and excludes age pension

³ Refer to Appendix 1 for assumptions.

LONGEVITY RISK

One of the biggest worries for people after they retire is the fear of running out of money. In fact, a recent study undertaken by Challenger and National Seniors Australia has found that 53% of Australians over the age of 50 are worried about outliving their savings.⁴

The fear of running out of money has increased as life expectancy has increased. Over the past 20 years, life expectancy in Australia has increased around 2 years. Once Australian women have reached the age of 65 years, they can now expect to live for another 22.3 years (to the age of 87.3) while the current life expectancy for Australia men at age 65 is currently 19.7 years (to the age of 84.7).

As Australians are generally living longer, they are also spending a longer amount of time in retirement. However, the size of nest eggs that retirees have available to fund this period in retirement has not increased proportionately. Hence the fear of running out of money is genuinely a much more valid concern for individuals approaching and in retirement in 2020 than it has been in the past.

Strategies which have been incorporated into the retirement model portfolio framework include:

- Incorporating an allocation to a guaranteed annuity product
- Ensuring an appropriate exposure to growth assets with larger expected returns, accumulated savings will likely last for a longer period of time as returns continue to compound, even as retirees start to drawdown an income stream.

⁴ "Retirement income worry: Who worries and why?" January 2020, Challenger & National Seniors Australia

2. MODEL PORTFOLIO CONSTRUCTION

INVESTMENT PHILOSOPHY

- The retirement model portfolios have a distinct focus on downside protection, capital preservation and sustainable income generation.
- A combination of active and passive strategies will be utilised. In sectors where active managers have not demonstrated a consistent ability to generate alpha then passive investment strategies will be utilised to gain market beta at a low cost.
- All risk profiles will include the following types of equity investments:
 1. A strategy providing downside protection
 2. Strategies providing income generation, while still focusing on total returns.
- All risk profiles will include the following types of fixed income investments:
 1. A strategy providing duration exposure
 2. A strategy providing exposure to higher credit quality relative to peers
 3. A strategy with an absolute return focus, where available
- The retirement model portfolios will not include exposure to the higher risk, alpha generation strategies included in the accumulation models such as small caps and high conviction equities.

INVESTMENT PROCESS

Capital Market Assumptions

Morningstar has been appointed as an investment consultant by Centrepoin. In this capacity Morningstar provides capital market assumptions, strategic asset allocations and a risk tolerance questionnaire for adviser use. The assumptions developed by the dedicated capital markets team and are reviewed on a periodic basis, typically every 2-3 years or more frequently if macroeconomic and market conditions have changed dramatically.

Equity market returns are forecast by Morningstar using a supply-side building block approach. First introduced by Diermeier, Ibbotson, and Siegel (1984), and later adapted to stocks by Ibbotson and Chen (2003), the supply-side model is based on the idea that equity returns can be decomposed into underlying economic and corporate fundamentals. Fixed interest returns are derived using a similar approach based on expectations for cash rates, inflation and credit spreads. Standard deviation and correlation assumptions are also not solely a function of historical outcomes. The approach considers common market and economic factors driving returns and relationships.

Morningstar's capital market assumptions are long term (20 years) forecasts and as such it is possible that fluctuations in markets may move outcomes away from the base case strategic assumptions over the short to medium term.

Table 1: Asset Class Long Term Return and Risk Assumptions

Asset Classes	Expected Return (% p.a.)	Standard Deviation (% p.a.)
Australian Equity ¹	7.50	16.50
International Equity (50% Hedged)	7.25	13.00
Australian Listed Property	6.50	16.50
International Listed Property	6.75	18.00
Global Infrastructure	6.75	13.00
Diversified Alternatives	5.25	6.50
Australian Fixed Interest	3.75	5.25
International Fixed Interest	4.25	5.00
Cash	3.25	1.75

Source: Morningstar, October 2017

¹ Return expectations for Australian Equities incorporate franking credits

RISK PROFILES

Morningstar provides strategic asset allocations for the following six risk profiles.

Risk Profile	Growth Allocation
Defensive	15%
<p>This suits investors with a minimum two-year timeframe or those that seek a portfolio invested predominantly in interest bearing assets, with a small proportion of growth assets. This portfolio also suits investors who give a high priority to the preservation of capital (while understanding loss is still possible) and are therefore willing to accept lower potential investment performance, hence the 85 percent exposure to defensive assets (cash and fixed interest).</p>	
Conservative	30%
<p>This suits investors with a minimum three-year timeframe or those who seek a diversified portfolio of interest bearing and growth asset classes, with an emphasis on interest bearing assets. This portfolio also suits investors seeking a lower level of investment value volatility, and therefore willing to accept lower potential investment performance, hence the 70 percent exposure to defensive assets (cash and fixed interest).</p>	
Balanced	50%
<p>This suits investors with a minimum five-year timeframe. This portfolio also suits investors who desire a modest level of capital stability but are willing to accept moderate investment value volatility in return for commensurate potential investment performance, hence the 50 percent exposure to growth assets (shares, listed property and infrastructure) and 50 percent exposure to defensive assets (cash and fixed interest).</p>	
Growth	70%
<p>This suits investors with a minimum seven-year timeframe or those who are willing to accept higher levels of investment value volatility compared to more defensive options in return for higher potential investment performance. Some exposure to interest bearing assets is still desired, but the primary concern is a higher return, hence the 70 percent exposure to growth assets (shares, listed property and infrastructure).</p>	
High Growth	85%
<p>This suits investors with a minimum nine-year timeframe or those who are willing to accept high levels of investment value volatility in return for high potential investment performance. The 85 percent exposure to growth assets (shares, listed property and infrastructure) means that capital stability is only a minor consideration.</p>	
High Growth Plus	95%

This suits investors with a minimum ten-year timeframe or those who are willing to accept very high levels of investment value volatility to maximise potential investment performance. The 95 percent exposure to growth assets (shares, listed property and infrastructure) means that capital stability is not a consideration.

STRATEGIC ASSET ALLOCATION

Morningstar's capital market assumptions are used as inputs into the portfolio construction process to determine the combination of assets with the highest expected returns for a given level of risk. The approach used combines traditional mean-variance optimisation with a Monte Carlo simulation to account for the uncertainty in forward-looking capital market assumptions. The simulated capital market assumptions are used to create multiple asset mixes, which are then grouped together and averaged.

A second optimisation is then undertaken using Conditional Value at Risk (CVaR) rather than standard deviation as a measure of volatility. CVaR is used to reflect investors' greater focus on downside risk rather than absolute risk and also to more accurately incorporate the non-normal distributions of most asset classes.

A qualitative overlay is then applied to account for elements that are not otherwise considered such as ensuring that no asset classes receive an immaterial or excessive allocation.

There is no attempt to try and time markets by introducing any form of Dynamic Asset Allocation (DAA).

The current CMAs and SAAs utilised for the model portfolios and portfolios construction guidelines are as follows and available on the adviser intranet.

Table 2: Strategic Asset Allocations (%)

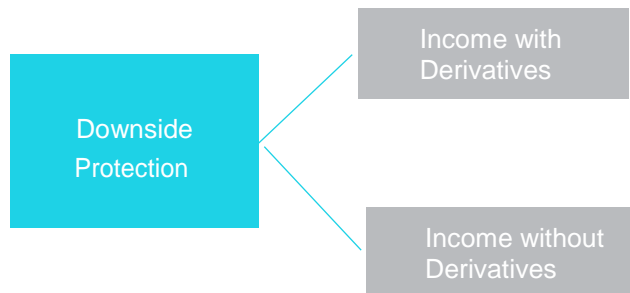
	G15	G30	G50	G70	G85	G95
Australian Equity	5	9	16	22	28	38
International Equity (50% Hedged)	7	13	23	33	41	47
Australian Listed Property	0	0	2	3	3	2
International Listed Property	3	3	4	5	6	3
Global Infrastructure	0	2	2	3	4	2
Diversified Alternatives	0	6	6	8	6	6
Australian Fixed Interest	28	23	20	12	6	0
International Fixed Interest	21	17	14	8	3	0
Cash	36	27	13	6	3	2

Source: Morningstar, October 2017

ASSET CLASS COMPONENTS

The Retirement model portfolios are constructed using a combination of investment styles within each asset class in order to address the objectives of income generation, sequencing risk and longevity risk. Within the equity asset classes a manager providing an explicit focus on downside protection and capital preservation is utilised along with several equity strategies focused on the generation of income. Multiple types of strategies using different methods of income generation are utilised in order to diversify the generation of income to reduce risk and improve consistency. The types of managers included to generate income can broadly be split into two categories: those using derivatives to generate income and those that do not utilise derivatives and rely on dividends to generate income.

Illustration 1: Equities Allocation



Within the fixed interest assets classes, the portfolio allocations will comprise an allocation to traditional fixed interest strategies with an exposure to duration, an exposure to floating rate credit and an absolute return strategy with a focus on capital preservation, where an appropriate strategy is available. Within the retirement model portfolios, the credit managers have been selected to have a greater focus on downside protection and risk control relative to the managers included in the accumulation model portfolios. The average credit quality of the fixed income sector in the retirement model portfolios is higher than that of the accumulation models.



INVESTMENT MANAGER SELECTION

Sub-Sector Universes

Sector reviews to identify short listed investment managers for the model portfolios are organised by sub-sectors within each broad asset class so that investment strategies are reviewed relative to peers with a similar investment approach and/or style bias. For example, global equity managers with a focus on downside protection will be reviewed as one peer group in order to ensure that strategies are compared with like strategies and not unfairly disadvantaged by recent market conditions. Reviews for each sub-sector will typically take place on an annual basis.

For each sub-sector the Research team will initially focus on the following questions, which will assist in framing the focus of the review:

- What purpose would the strategy play in a model portfolio?
- What are the desirable attributes for this type of strategy in order to fulfil this role?

Screening

The objective of the universe screening process is to develop a short list of the highest quality managed funds in each sub-sector which are contenders for inclusion in the model portfolios. The initial universe for the screen will be comprised of:

- Strategies with the minimum required Morningstar & Lonsec Rating to have an Approved or Recommended status on the Centrepoin APL

Once the universe of Funds has been determined, Morningstar Direct and Lonsec iRate are used to screen for the following general attributes which are relevant to all asset classes:

- Fund & Strategy FUM – Insufficient FUM raises questions over the sustainability of the strategy. In certain sectors, FUM which is too large may inhibit the manager's ability to generate alpha.
- Parent Company – The financial strength of the parent company is important as is a physical presence in Australia, to ensure commitment to the strategy in the local market and an appropriate level of client service.
- Fees – Load relative to peers and an appropriate structure to align interests.
- Historic Performance – Relative to investment objectives over rolling time periods.
- Realised volatility and risk adjusted returns.

In addition to the general attributes above, characteristics which are relevant for specific asset classes and sub-sectors are incorporated into the screening process. Examples of these include:

- Downside protection strategies: upside and downside capture ratios, maximum drawdown and time to recover from maximum drawdown.

Desk Review

Once the universe has been screened to create a short list then a due diligence pack of documents is requested from each short-listed manager. The following documents are requested:

- Financial Services Council Investment Management Questionnaire (FSC IMQ)
- Product Disclosure Statement (PDS)
- Derivative Risk Statements
- Stress testing methodology and most recent stress test results

- Liquidity analysis
- Trade allocation policy
- Most recent Guidance Statement 'Audit Implications of the Use of Service Organisations for Investment management Services (GS007)' or audited internal controls reports
- Most recent monthly and quarterly reports
- External research reports
- Evidence of insurance arrangements
- Recent portfolio holdings including weights, sector, region/country (if applicable) and mcap
- Operational Due Diligence report produced by a third party

The lead analyst for the sector will review the documents provided from the investment managers in order to establish a view of the investment strategy, relative to peers, focussing on the following aspects of the strategy:

- Investment philosophy and process
- Investment team
- Investment risk management
- Operational risk management
- Parent company
- Risk, return and attribution analysis

Soft copies of the due diligence documents and the lead analyst's screening, analysis and summary notes are saved in the shared research drive in the relevant sector review folder.

Review meetings

Following the due diligence process for each of the short-listed strategies, the lead and backup analysts will determine the highest quality strategies within the sub-sector. Formal review meetings will be set up with key members of the strategy's investment team preferably face to face, or via video conference or telephone conference if the managers are located offshore or interstate.

A minimum of 2 members of the Research team will attend the investment manager review. The focus of the meeting should be on clarifying areas of concern from the desk review, having the investment team provide examples of investment decisions to bring the philosophy and process to life and gaining a deep understanding of the team's approach and outlook to markets. The review should not focus on the factual information which has already been provided and assessed through the screening and desk review process.

The lead analyst will produce meeting notes from the strategy review using the standard template and save in the shared research team drive in OneNote.

Following the review meeting, the lead analyst will complete the analysis, assess any additional information requested from the manager and may schedule a further review meeting if required. At the end of each quarter the Research team will meet to discuss the findings from each review and formulate any recommendations.

The outcome of the sector reviews is to identify 2-3 strategies within each sub-sector which will be used in the model portfolio and as back-up managers, if an allocation is made to that style of investment strategy.

PORTFOLIO CONSTRUCTION

Once a short list of Funds has been determined within each sub-sector then portfolio analysis will be undertaken within each asset class and at the total portfolio level to determine the final selection of managers to be included in the model portfolios.

The blend of styles to be included in each asset class will be determined by incorporating the team's investment philosophy, current market and economic conditions and outlook. Once the allocation to styles has been determined, then the most highly regarded managers from the sector review process for each of the sectors where a portfolio allocation will be made, are blended together and analysed as a multi-manager portfolio for the total asset class.

Blended Asset Class Analysis

The correlation between the individual strategies within each asset class are reviewed to ensure that the combination of strategies will provide diversification benefits to the portfolio. The blended portfolio for each individual asset class is then uploaded into Lonsec iRate and Morningstar Direct in order to undertake analysis of the multi-manager portfolio. The characteristics which are assessed include:

- Strong and stable income generation
- Style exposure
- Market Cap exposure
- Sector & Industry exposure (including cyclical versus defensive exposure)
- Geographic exposure
- Correlation to benchmark index and other asset classes
- Drawdowns and upside/downside capture
- Risk and return characteristics

Total Portfolio Analysis

Following the analysis and review at the asset class level, these portfolios are combined according to the strategic asset allocation to form the diversified portfolios for the six risk profiles. The total portfolio is analysed and assessed for the above criteria and the performance and risk attributes compared to the peer group and weighted index benchmark.

MODEL PORTFOLIO REVIEWS AND APPROVALS

The model portfolios are reviewed and approved by the Centrepoint Research Investment Committee (RIC). The current voting members of the RIC are:

- Angus Benbow, Centrepoint Alliance Chief Executive Officer (RIC Chairperson)
- Tara Foulkes, Centrepoint Alliance Head of Compliance Obligations
- Ben Jessop, Authorised Representative of Professional Investment Services Pty Ltd
- Claudio Orrico, Authorised Representative of Professional Investment Services Pty Ltd

The Centrepoint Research agenda includes a review of each sub-sector included in the model portfolios every 12 months. During these sub sector reviews the incumbent model portfolio strategies will be

assessed against their universe peers to ensure that the highest quality strategies are selected as model portfolio and backup managers. In addition to this, the Research team will meet with the model portfolio managers at least every 6 months. The blending analysis at the asset class and total portfolio level will be undertaken whenever there is a change recommended to be made to the model portfolios and on an annual basis. Other circumstances which would trigger a review of the styles and managers included in the models include a major change in the market and economic outlook and a significant change at an investment management firm.

PLATFORM MENU CONSIDERATIONS

A suite of model portfolios across the six risk profiles is provided for each platform available on the Centrepoint APL. Where possible, the same investment strategies are used across all platforms, however in instances where the preferred strategy for a sub-sector is not available on a particular platform's investment menu, then one of the short listed managers which was highly rated in that sub-sector will be appointed to fulfil that role in the model portfolios for that platform only.

3. ADDITIONAL DOWNSIDE PROTECTION

It may be appropriate for some clients to include a strategy with hard downside protection within a retirement investment portfolio. This type of strategy can provide certainty for a client (at an explicit cost) with the maximum loss which can be realised on the portion of the portfolio allocated to this strategy guaranteed at a certain floor. Clients who may benefit from allocating a sleeve of their retirement portfolio to a strategy providing guaranteed downside protection include:

- Clients with a heightened level of loss aversion, which may result in the client investing into a lower risk profile than one which would best help them achieve their retirement income and longevity requirements.
- Clients approaching retirement, or in the early phase of retirement, where their superannuation balance is at its maximum level.
- Clients who are concerned with the outlook and expected returns from equity markets.

Following a review of products providing hard downside protection in the Australian market, the recommended product to be used alongside the retirement model portfolios is the Allianz Retire+ Future Safe product.

ALLIANZ RETIRE+ FUTURE SAFE

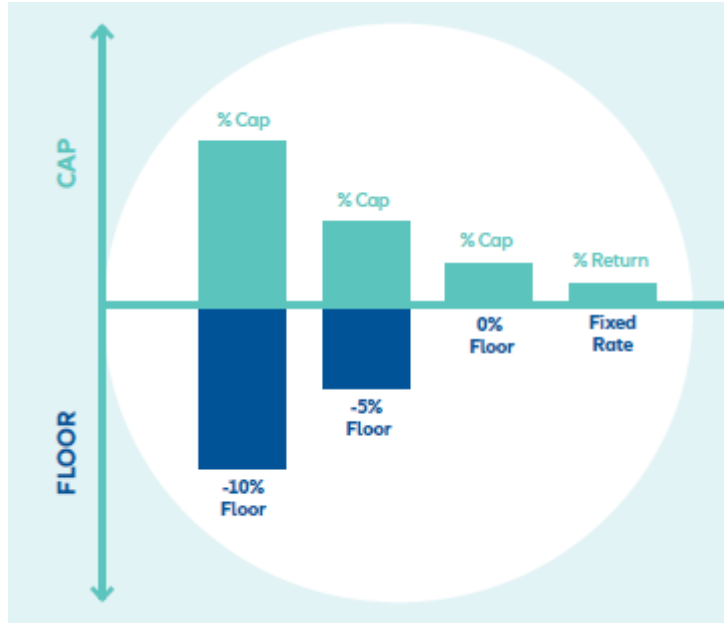
Product features

Future Safe is a fixed seven-year policy issued by life insurance company, Allianz. The product provides retirees with a way to access sharemarket exposure with the certainty of a range of returns. Investors can select exposure to the following investment options or a mix of options to suit their investment objectives:

- Australian Equities (S&P/ASX 200 Accumulation Index)
- Global Equities (MSCI World Net in AUD)
- Fixed Rate (one year fixed rate of return)

The investment option is selected at the commencement of the policy and may be reviewed annually to reflect a client's changing circumstances or objectives or to reflect the changing macroeconomic or market outlook.

The product provides hard protection against losses by offering a range of protection options – expressed as Caps and Floors – allowing investors to benefit from market growth up to the selected Cap, while limiting losses to the selected Floor. The protection option is selected at the commencement of a client's policy, based on their risk tolerance and preferences and can be reviewed annually. The floor is pre-determined for the seven-year term of the product and the caps that are applicable to policy holders will change on each anniversary date. Caps and fixed rates are updated each month by Allianz, reflecting market conditions. The protection options can be visually depicted as follows:



Source: Allianz

The product offers the ability to generate an income stream which can be paid at regular intervals or a lump sum and may be tax-free for clients over 60 years of age. Regular withdrawals can be made monthly, quarterly, half-yearly or annually.

Recommended investment and asset allocation

For those clients where an adviser determines that an allocation to a hard protection strategy is appropriate, the recommendation is to allocate up to 20% of the client’s total portfolio into the Allianz product. Allianz will be providing the Investfit tool for advisers to determine the most appropriate bespoke allocation which best meet’s individual clients’ needs and preferences.

Research house Lonsec has provided the following guidance for what they consider to be the most suitable product classification from an asset class / portfolio construction perspective. These classifications have been approved by the Centrepont Alliance research and professional standards teams and the product provider will be implementing this mapping through IRESS to be reflected in Compass.

INVESTMENT OPTION	ASSET CLASS
-5% and -10% Floors	Growth Assets
S&P/ASX 200 Total Return Index	Australian Equities
MSCI AD Unhedged World Index (ex-Australia)	Global Equities
	Defensive Assets
0% Floor and Fixed Rate	Fixed Income

4. GUARANTEED ANNUITY PRODUCTS

It may be appropriate for some clients to include a strategy providing a guaranteed lifetime income stream within a retirement investment portfolio. A lifetime annuity product provides a guaranteed level of income for a client, backed by the issuing life insurance company. Clients who may benefit from allocating a sleeve of their retirement portfolio to a guaranteed annuity include:

- Clients with a low superannuation balance at retirement, where the additional income provided by an annuity can provide a buffer above the age pension.
- Clients with a likely longer than average life expectancy e.g. if their family has a history of longevity.
- Clients with a heightened fear of running out of money.
- For some clients, an allocation to an annuity may favourably impact their asset or income test outcome for social security purposes.

Following a review of guaranteed lifetime annuity products in the Australian market, the recommended product to be used alongside the retirement model portfolios is the Challenger Guaranteed Annuity (Liquid Lifetime) with the Flexible Income (Deferred payments) option.

Lifetime annuity products provide a guaranteed level of income for a client, backed by the issuing life insurance company. Annuity products offered today offer far greater flexibility than those historically available with clients having the ability to access capital, if required, with lower penalties and flexible deferral periods available before the commencement of income payments, which can help in meeting an individual's unique circumstances.

CHALLENGER GUARANTEED ANNUITY (LIQUID LIFETIME) – FLEXIBLE INCOME (DEFERRED PAYMENTS)

Product features

The recommended Challenger product is a secure investment that pays a regular income for life in return for a lump sum payment. The Flexible Income (Deferred payments) option starts paying the client a lifelong income after a deferral period of their choice. The longer the deferral period, the higher the value of the starting payments. Once the payments commence, they will be made monthly for life.

Under legislation from 1 July 2019, under the income test 60% of payments will be assessed once they start. Under the assets test, 60% of any investment amount will count as an asset to age 84 (or for a minimum of five years) and 30% will count as an asset thereafter.

Recommended investment and asset allocation

For those clients where an adviser determines that an allocation to a guaranteed annuity is appropriate, the recommendation is to allocate up to 20% of the client's total portfolio into the Challenger product. Challenger has a tool for advisers to determine the most appropriate bespoke allocation which best meet's individual clients' needs and preferences. The client's individual inputs which an adviser may adjust through the tool in order to determine

the annuity allocation to best meet their clients' needs include:

- Superannuation balance at retirement date – impacted by retirement date and decisions around working part time, casually or on a consulting basis after ceasing full time work
- Post retirement income requirements – broken down between needs and wants
- Risk profile for allocated pension investment portfolio
- Deferral period for income payments
- Allocation of total superannuation balance to annuity

An allocation to a deferred lifetime annuity should be made from a client's defensive assets and the annuity product is classified as 100% Fixed Interest assets which sits within the defensive portion of a client's risk profile. This classification has been approved by the Centrepoint Alliance research and professional standards teams and the product provider will be implementing this mapping through IRESS to be reflected in Compass.

Appendix 1. Assumptions used in Sequencing Risk chart.

Table 2 Comparison of Higher and Lower Volatility Portfolios at retirement with regular withdrawal's

Year		Higher Volatility Portfolio (A)	Annual Withdrawal	Higher Volatility Portfolio (A) returns	Lower Volatility Portfolio (B)	Annual Withdrawal	Lower Volatility Portfolio (B) returns	
Year 0	Age 67	\$545,000	\$27,646		\$545,000	\$27,646		
Year 1	Age 68	\$388,016	\$27,646	-25.0%	\$452,685	\$27,646	-12.5%	
Year 2	Age 69	\$270,277	\$27,646	-25.0%	\$395,286	\$27,646	-7.0%	
Year 3	Age 70	\$181,973	\$27,646	-25.0%	\$323,523	\$27,646	-12.0%	
Year 4	Age 71	\$200,626	\$27,646	30.0%	\$355,053	\$27,646	20.0%	
Year 5	Age 72	\$242,171	\$27,646	40.0%	\$392,888	\$27,646	20.0%	
Year 6	Age 73	\$238,123	\$27,646	11.0%	\$396,288	\$27,646	8.5%	
Year 7	Age 74	\$231,525	\$27,646	10.0%	\$390,760	\$27,646	6.0%	
Year 8	Age 75	\$142,715	\$27,646	-30.0%	\$308,647	\$27,646	-15.0%	
Year 9	Age 76	\$103,562	\$27,646	-10.0%	\$275,381	\$27,646	-2.0%	
Year 10	Age 77	\$106,283	\$27,646	40.0%	\$297,282	\$27,646	20.0%	
Year 11	Age 78	\$111,664	\$27,646	42.0%	\$361,312	\$27,646	34.0%	
Year 12	Age 79	\$92,420	\$27,646	10.0%	\$363,696	\$27,646	9.0%	
Year 13	Age 80	\$71,251		10.0%	\$366,295		9.0%	
Average Returns				6.00%	6.00%			