MANAGING RISK WITH CONFIDENCE: PORTFOLIO RISK MANAGEMENT IN MANAGED PORTFOLIOS

Smarter Investment Solutions
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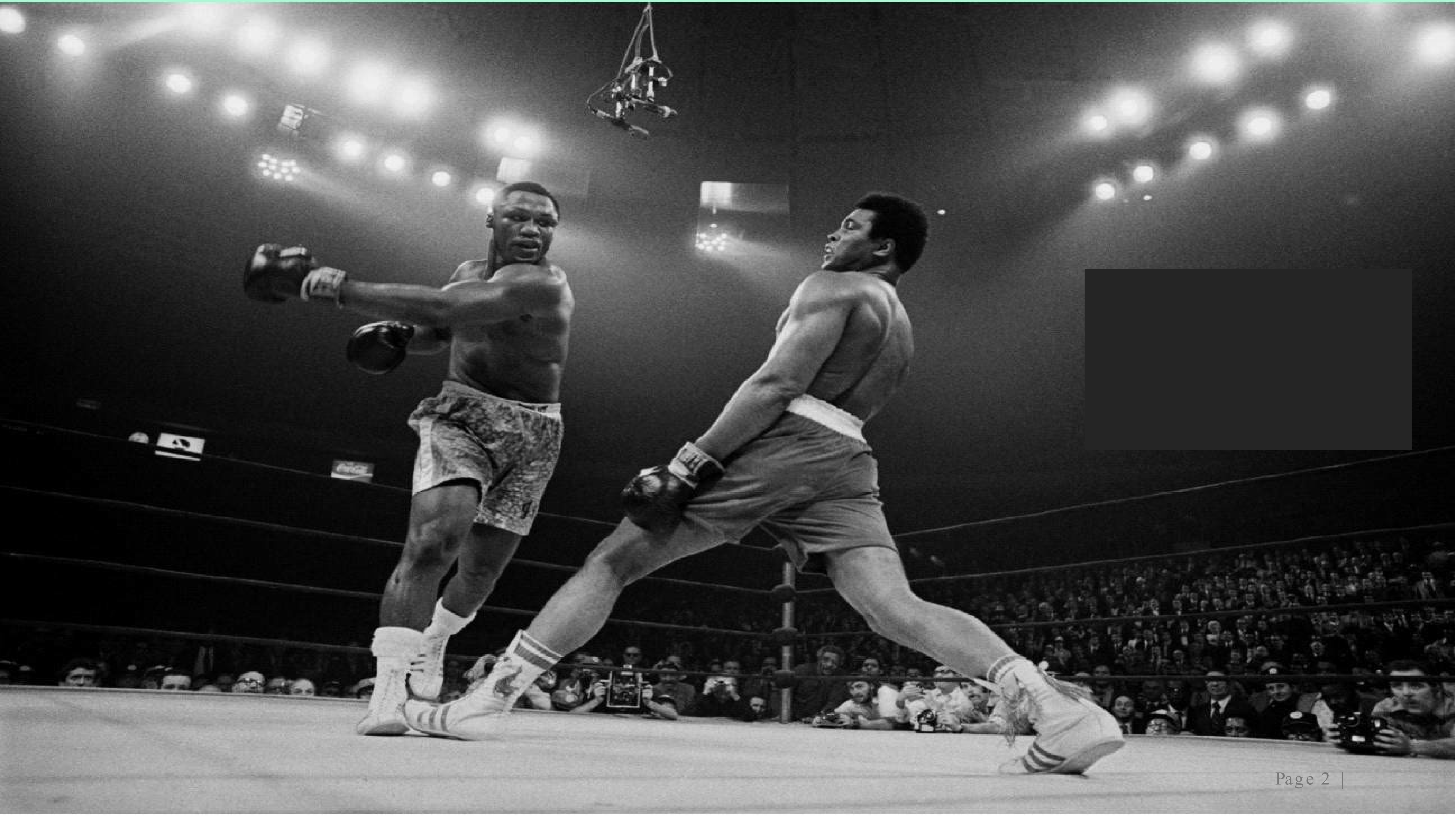

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What we will cover today

- Portfolio Risk Management Principles
- Managing Portfolio Risk within Managed Accounts
- Managed accounts role in reducing adviser and client risk
- Where to from here?

Learning Outcomes

RISK MANAGEMENT

- The principles of risk management and why they matter in volatile markets

MANAGING PORTFOLIO RISK

- How managed portfolios create consistency through diversification and structured rebalancing

APPLYING TO CLIENT NEEDS

- Practical strategies for aligning risk management with client objectives across different portfolio types
- The role of transparency and governance in reducing adviser and client risk

Portfolio Risk Management Principles

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YOU SHOULD INVEST ALL OF YOUR MONEY IN DISEASED LIVESTOCK.
scottadams@aol.com
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IT WOULD BE UNWISE TO INVEST IN JUST ONE SICK COW, BUT IF YOU AGGREGATE A BUNCH OF THEM TOGETHER, THE RISK GOES AWAY.
12·13·08 © 2008 Scott Adams, Inc./Dist. by UFS, Inc.
IT'S CALLED MATH.
SUDDENLY I FEEL ALL SAVVY.

Elements of a risk management framework

01

DIVERSIFY RISK EXPOSURES

Invest on the basis of fundamentals

02

SEEK UNCORRELATED ASSETS AND STRATEGIES

But understand inherent risks

03

RE-THINK TRADITIONAL EXPOSURES

There are better (more efficient) ways to invest

04

ACTIVELY MANAGE RISK

Anticipate what could happen

05

PREPARE FOR WHAT COULD GO WRONG

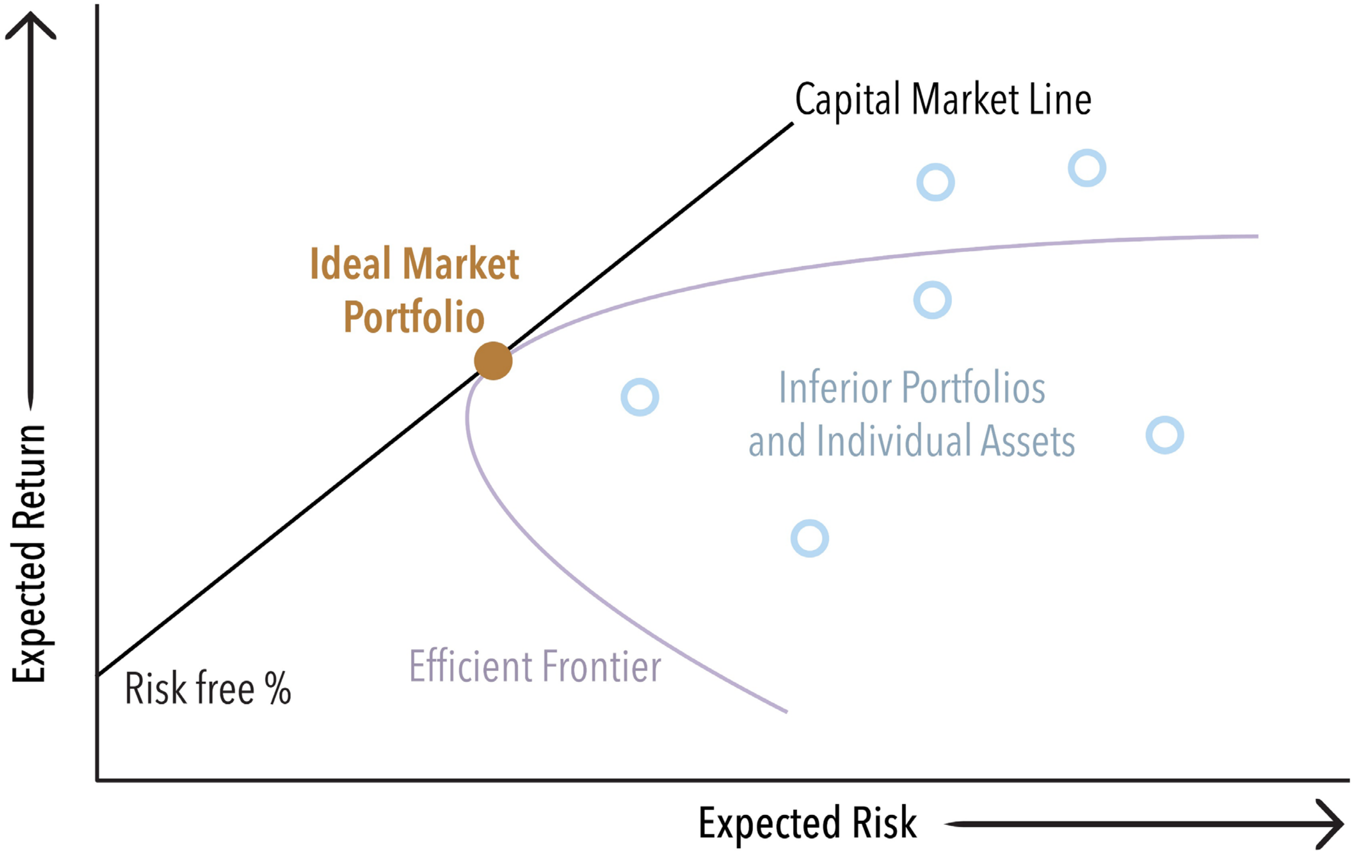
Don't bet on what will happen

06

MANAGE INVESTOR'S BEHAVIOURAL BIASES

Reduce investor regret by explaining trade-offs in advance

Portfolio risk & Modern Portfolio Theory



Risk in practice: a simple example

Who has a higher balance in Year 5?

	CLIENT A		CLIENT B	
Starting Balance:	**$1,000,000**	**Return**	**$1,000,000**	**Return**
Year 1	?	15%	?	14%
Year 2	?	20%	?	15%
Year 3	?	-19%	?	-10%
Year 4	?	15%	?	10%
Year 5	?	5%	?	5%
Total		**36%**		**34%**

A simple example with perhaps an unexpected winner

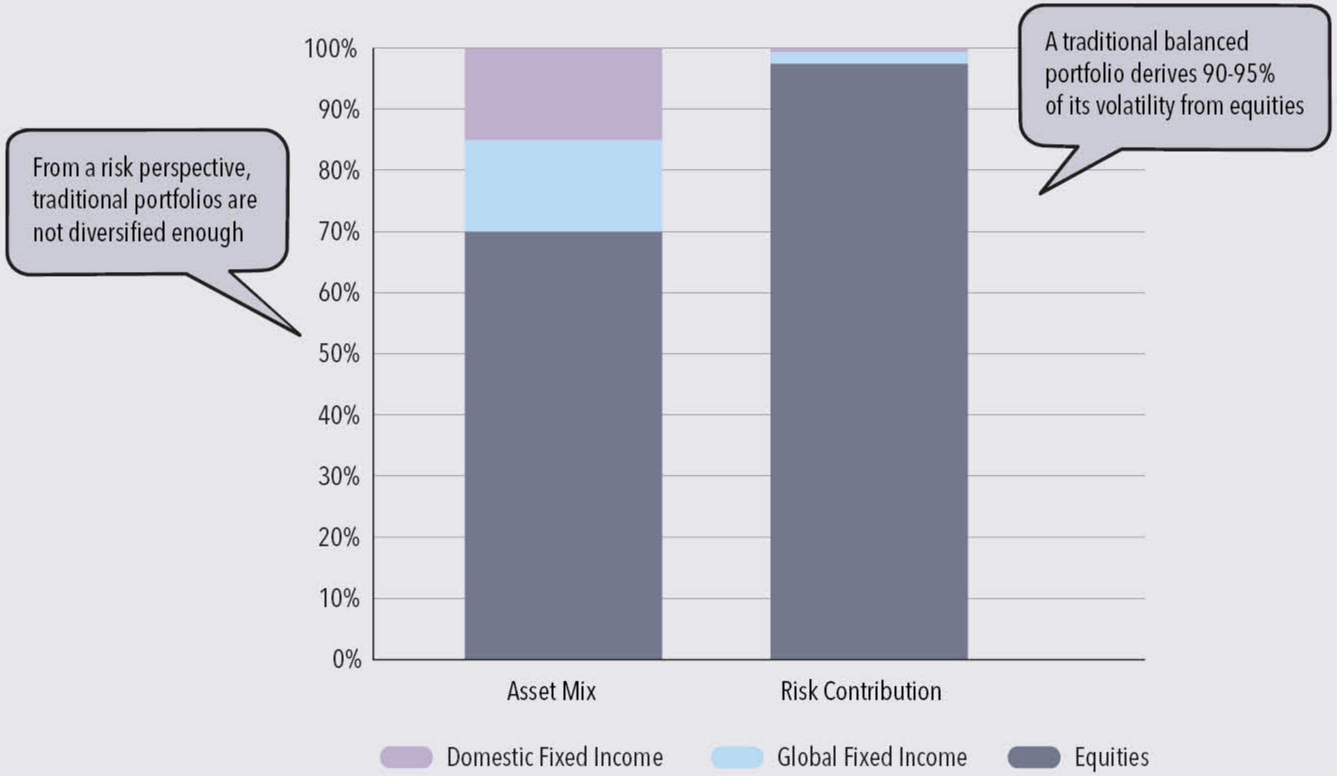
WINNER

	CLIENT A		CLIENT B	
Starting Balance:	**$1,000,000**	**Return**	**$1,000,000**	**Return**
Year 1	$1,150,000	15%	$1,140,000	14%
Year 2	$1,380,000	20%	$1,311,000	15%
Year 3	**$1,117,800**	**-19%**	**$1,179,900**	**-10%**
Year 4	$1,285,470	15%	$1,297,890	10%
Year 5	$1,349,744	5%	$1,362,785	5%

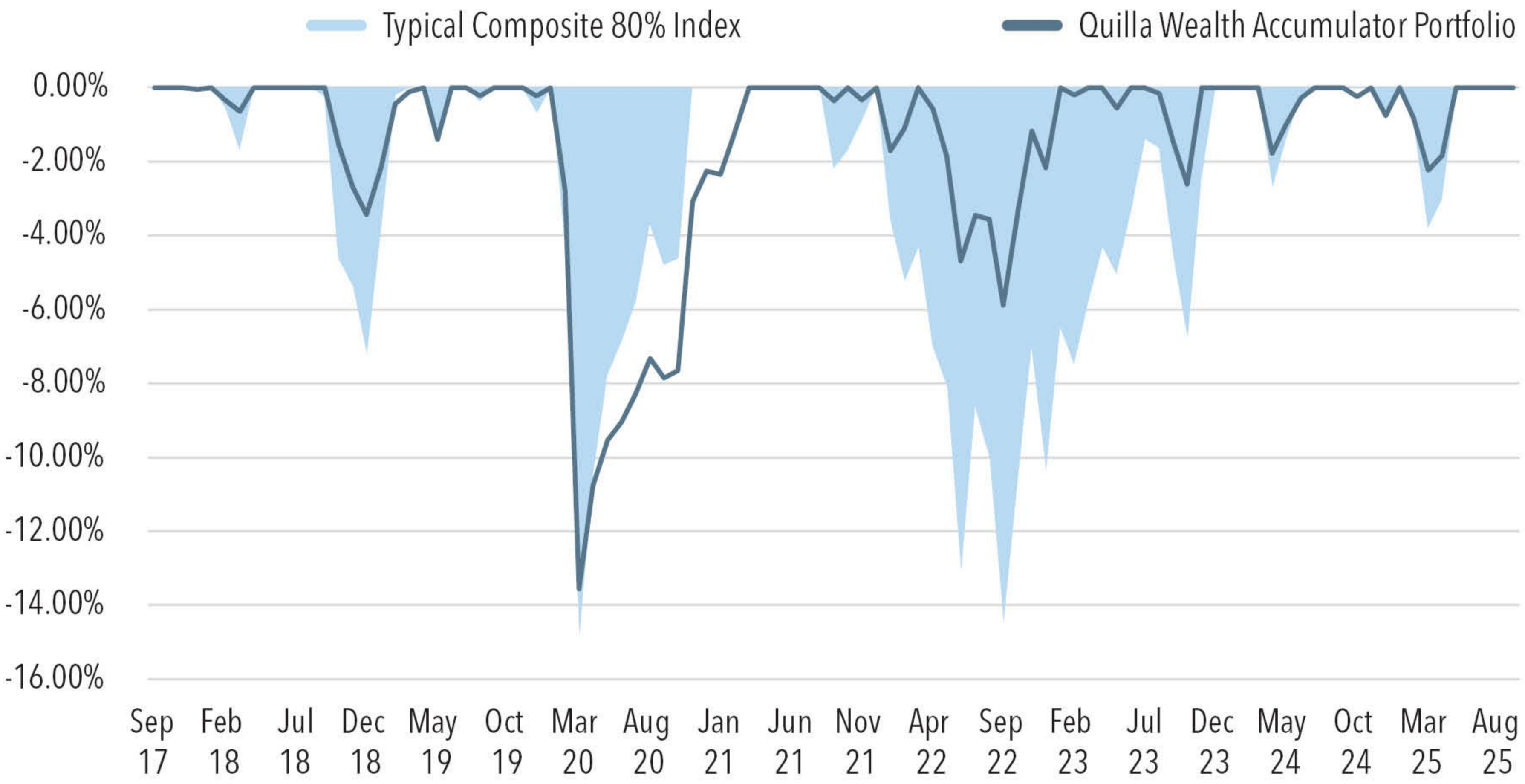
Managing Portfolio Risk within Managed Accounts

Risk and diversification

A traditional balanced fund gets around 90% of its risk from its equity exposure



Negative impacts of a big drawdown



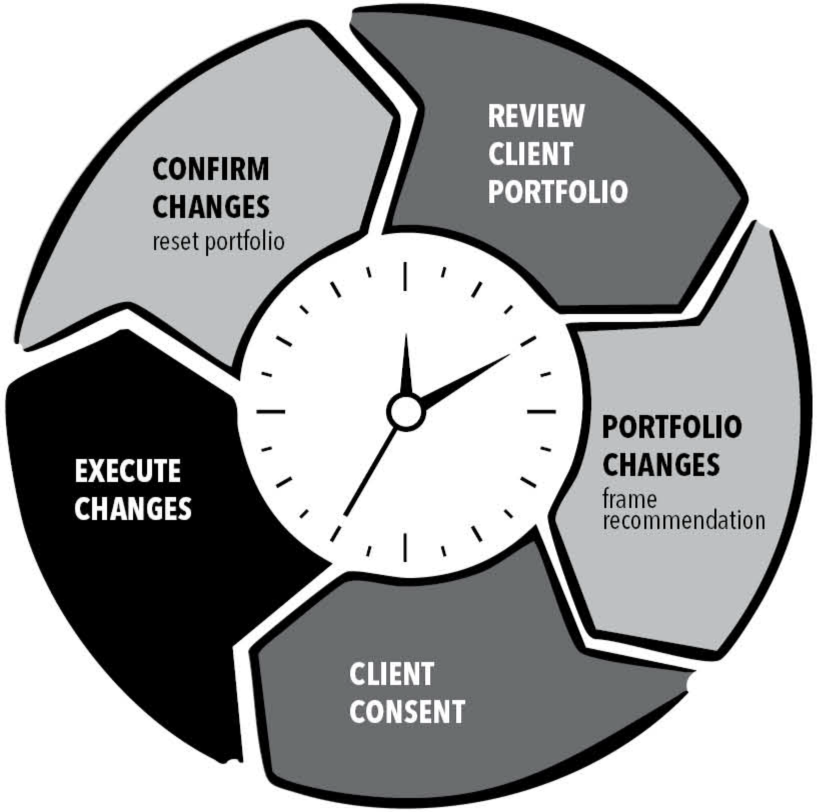
Scenario Analysis – prepare for what could go wrong

	Scenario 1: Tail Risks	Scenario 2: Below Trend Growth	Scenario 3: Growth Stabilisation/Acceleration
Probability	**10% (Unchanged)**	**60% (Unchanged)**	**30% (Unchanged)**
Detail	• Most major economies' growth slows meaningfully, leading to recession. • Inflation spikes unexpectedly, limiting the magnitude of rate cuts, negatively impacting both equities and bond markets. • Alternatively, in an unexpectedly weaker growth scenario, bonds rally and equity markets sell off. • Potential for an unexpected escalation in geopolitical risk (China, Iran, Russia, Taiwan). • Potential market risk that AI disappoints meaningfully. EPS and economic growth are impacted. • The US dollar strengthens in the risk-off environment, impacting both developed and emerging markets.	• Global economic growth maintains a below-trend trajectory. • Global central banks implement several rate cuts to stimulate growth, with the Fed cutting rates 2-3 times, the Reserve Bank of Australia (RBA) stays on hold, but data dependent, with the rising risk of rate hikes. Global bond yields balance softer growth with risks of resurgent inflation. • Higher fiscal spending leads to larger budget deficits and rising debt, leading to a steeper yield curve. • Tariff affected sectors experience subdued earnings growth. Earnings, however, improve more broadly across other sectors and regions. • Structural themes like AI, as well as pro-growth government policies, support the global economy and equity markets. • The US dollar trends weaker under structural pressures, supporting emerging and other developed markets outside of the US.	• Growth rates move back to long-term trends with economic momentum gaining. • Inflation picks up and central banks hold rates steady. • Global bond yields remain rangebound, while longer dated bond yields are pushed higher by larger deficit spending. • Pro-growth policies are implemented, such as fiscal spending and tax cuts, to support economic growth. • Earnings are materially revised higher as sentiment improves. • Structural themes like AI drive productivity. Economic growth and equity returns improve. • The US dollar remains rangebound.

Managed accounts role in reducing adviser and client risk

Traditional investment model management vs SMAs: advisers

PROBLEM ⊗ **Inefficiency of traditional model management**



SOLUTION ✓ **SMAs**

- ✓ Portfolio changes implemented seamlessly across all client portfolios concurrently, without requirement for client consent
- ✓ Tactical adjustments made in real time
- ✓ Fewer errors, less admin, all clients treated equally
- ✓ More time to spend with clients
- ✓ Consistency of client outcomes

Managed Accounts:
Enhanced transparency and governance

MANAGED ACCOUNTS: Additional layer of risk management

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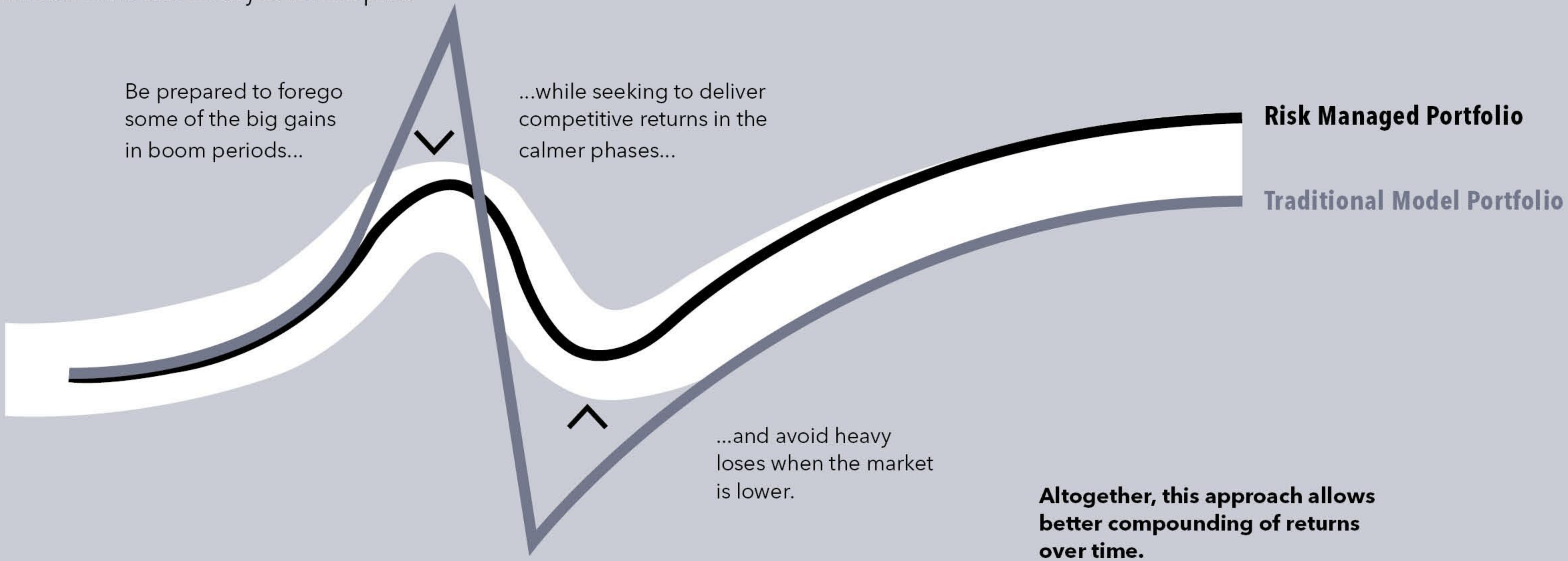
Managed Accounts:
Client Outcomes with Active Risk Management

It's best not to lose money in the first place



Altogether, this approach allows better compounding of returns over time.

Quilla snapshot

A leading investment manager partnering with wealth advisers to deliver smarter investment solutions, enabling scalable growth and elevating the investor experience.

FOUNDED IN 2014

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We think like business owners

MARKET LEADER

In delivering customised portfolios, utilising a collaborative approach

HIGHLY EXPERIENCED TEAM

Investment team with an average of 15 years' experience in managing money

INDEPENDENCE

Independent research and inputs – diversification of thought

Key Learning Take Outs

Next steps: A few questions to get you thinking:

- Do you have a risk management framework in place? If yes, when was it last reviewed?
- If you run paper models, or use multi-asset strategies, are you managing risk effectively?
- Additional layers of risk and governance reduce the potential for mistakes and poor decision making - does your process have enough checks and balances to avoid issues in the future?
- Perhaps you have made a recent business acquisition, or brought on a new adviser/associate, and you want to review the investment philosophy or segment the client offerings to get team alignment.

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Thank you