FACT SHEET

AZ SESTANTE
AZIMUT GROUP

DYNAMIC ASSET ALLOCATION

WHY IT IS IMPORTANT TO YOUR INVESTMENT PORTFOLIO

AZ Sestante manages your model portfolio using a Dynamic Asset Allocation (DAA) approach. This means actively changing your exposure to various asset classes based on market conditions and our views on future performance and the risks inherent in investment markets.

STARTING WITH STRATEGIC ASSET ALLOCATION (SAA)

We begin with Strategic Asset Allocation which is the long term allocation to various assets to meet your defined risk and return requirement. The SAA also defines the minimum and maximum amount we can allocate to each asset class.

The SAA is then adjusted and managed to reflect our short term views and forecasts for markets and asset classes – this is referred to as Dynamic Asset Allocation (DAA). This allows the portfolio to reflect our current global views on investment markets and implement them in your model portfolio. There is a constant monitoring of the DAA to ensure it remains consistent with our views.

BLENDING GROWTH VS DEFENSIVE ASSET CLASSES

As part of the overall strategic asset allocation, your portfolio is divided into growth and defensive assets, and further into the sub-categories.

- **Growth assets** generally provide higher returns with more volatility, especially over the shorter time horizon, eg. Australian shares, international shares, property and infrastructure.
- **Defensive assets** are generally more stable, have lower investment risk compared to growth assets, and the aim is to provide income rather than capital growth, eg. cash, Australian fixed income, and international fixed income.

GROWTH ASSETS

Australian Shares (Equities)
- Australian large cap
- Australian small cap

International Shares (Equities)
- United States
- Europe
- Asia
- Emerging markets

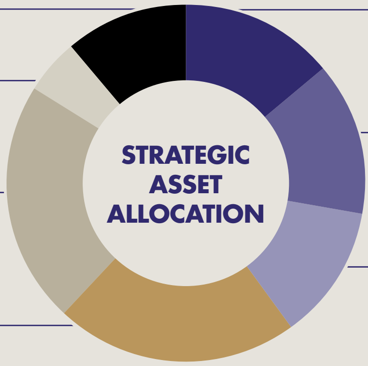
Real Assets
- Infrastructure
- Property

DEFENSIVE ASSETS

Fixed Interest
- Bonds & debentures
- Credit
- Income securities

Cash

To the right is an example of SAA blending growth assets and defensive assets to match a balanced risk profile. The SAA determines how much to invest in Australian shares vs. international shares. DAA would then determine when to change the allocation and by how much.



IMPLEMENTATION & MANAGING RISKS

Once we have determined our DAA we then look to implement in the most cost-efficient way. We use both active and indexed capabilities via managed funds, Exchange Traded Funds (ETFs) or other investments where suitable. Our model portfolios are managed to a risk profile which defines the allowable asset classes for that particular risk profile as well as the minimum and maximum allocation to each of those asset classes. The objective is to provide the best risk-adjusted return for that risk profile.

THE BLACK-LITTERMAN MODEL

Our dynamic asset allocation process uses a modelling tool called the Black-Litterman Model to optimise asset allocation to provide the highest estimated risk adjusted return based on the portfolio's objectives and constraints.

The way this works is that we provide the model with the 10 year expected returns for each asset class we intend to invest in (provided by Research Affiliates), the historical volatility of that asset class and its correlation and covariance to the other asset classes in the portfolio. We then overlay these inputs with our current fundamental short-term view for return and volatility based on the research of our global investment team. This fundamental short-term view allows us to take advantage of current market conditions to add additional return and better manage volatility.

TO FIND OUT MORE, SPEAK TO YOUR ADVISER OR VISIT AZSESTANTE.COM

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