

ASSET ALLOCATION SUMMIT

23-26 February 2009, Star City, Sydney,

Asset Allocation Summit Australia 'Industry Survey Results' July 2008

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Executive Summary

- Entering into our 4th year, the Asset Allocation Summit Australia will feature a distinguished panel of 100 of the world's most strategic investment minds, and provide delegates with the latest global market outlooks, best practices and most innovative asset allocation strategies. 50% of delegates that you will meet at this event will be institutional investors.
- Extensive research is put into interviewing global pension fund and superannuation fund CIOs to ensure a top quality conference agenda. The content strives to be highly investor driven, and a reflection of the most critical issues that will impact institutional investors in the next 18-24 months.
- This survey aimed to **identify the most pertinent investment issues** facing the global institutional investor community under the current market climate.

Survey Methodology

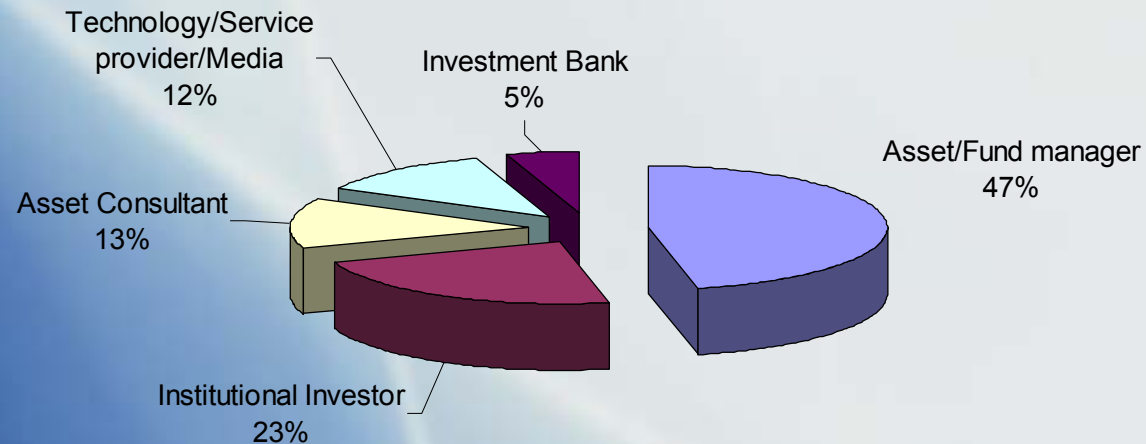
- This is the first Asset Allocation Industry Survey that has been conducted, compiled and edited by Terrapinn Australia's finance and investment team.
- In May 2008, we asked the global institutional investor community to participate in the first Asset Allocation Industry Survey. We received responses from more than 350 respondents.
- For more information please contact either

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Survey Respondents

Over 350 senior level decision makers from the global institutional investor community have taken part in this survey.



The background features a gradient from dark blue on the left to light blue on the right, with several bright, diagonal, glowing lines that create a sense of movement and depth.

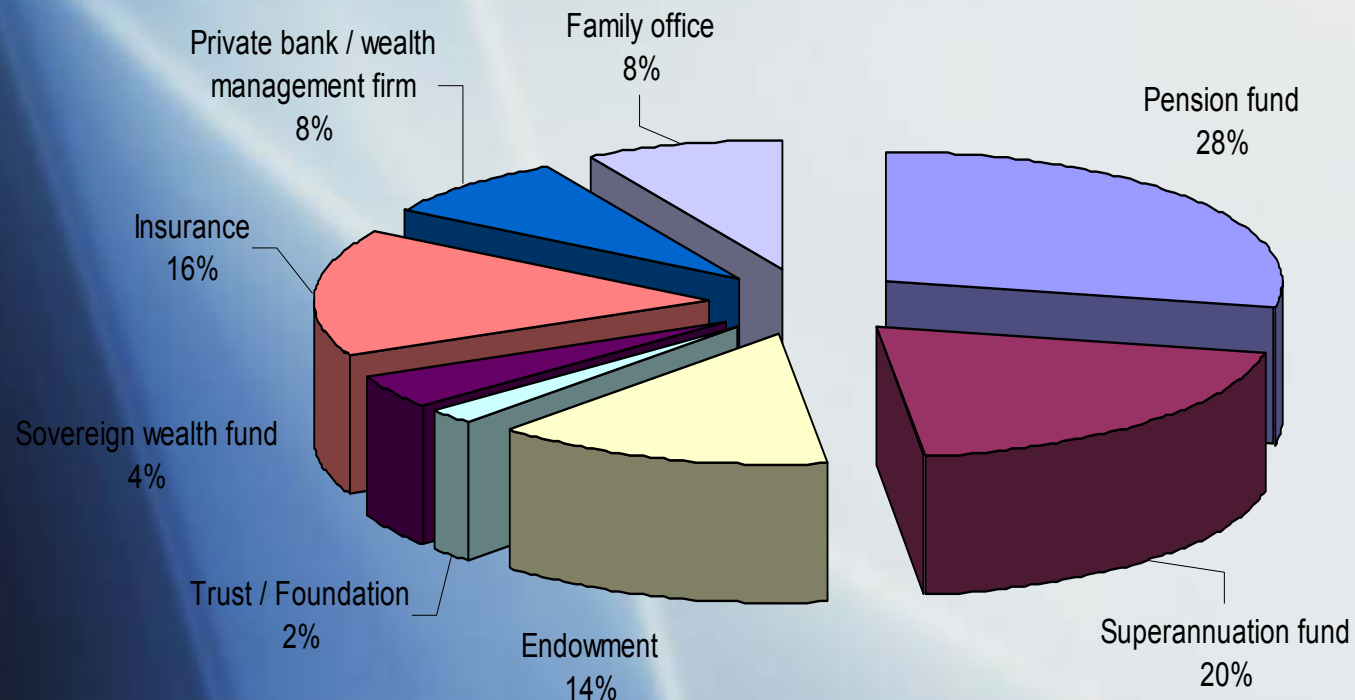
INSTITUTIONAL INVESTORS

Major themes impacting institutional investors

- Top market events that will impact portfolio performance include: uncertainty over global credit crisis, inflation, volatility and recession. They were the least concerned with the rise and politics of sovereign wealth funds
- Top asset classes that they are looking to invest into include: emerging markets, infrastructure assets and distressed debt. The asset class that they are least likely to look at are green investments
- In the next 12-18 months, they are most likely to increase allocations to Alternatives, private equity and infrastructure; and decrease allocations to fixed interest, Australian shares and listed property
- According to institutional investors, the top three roles of asset consultants in their organisations were: defining the asset allocation strategy, identifying new asset classes and investment managers, and risk management

Institutional Investors

Of the institutional investors who took part, they came from the following types of organisations:



Which of the following market events will have the greatest impact on your organisation's performance?

• Uncertainty over full extent of global credit crisis	59.2%
• Inflation	30.6%
• Volatility	28.6%
• Recession	28.6%
• Liquidity	18.4%
• Stagflation	16.3%
• Resource demands of China and India	8.2%
• Rise and politics of sovereign wealth funds	2.0%

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Institutional Investors

Of the Institutional investors surveyed, they're looking to invest in the following:

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Institutional Investors

In the next 12-18 months, institutional investors will be adjusting allocations across the following asset classes:

<u>Asset class</u>	<u>Increase</u>	<u>Decrease</u>
Australian shares	29.4% (5)	70.6% (12)
International shares	69.2% (18)	30.8% (8)
Direct property	74.1% (20)	25.9% (7)
Listed property	33.3% (6)	66.7% (12)
Alternative investments	89.2% (33)	10.8% (4)
Australian fixed interest	7.1% (1)	92.9% (13)
International fixed interest	42.9% (9)	57.1% (12)
Infrastructure	88.5% (23)	11.5% (3)
Private equity	82.8% (24)	17.2% (5)
Indexed bonds	41.2% (7)	58.8% (10)
Cash	59.1% (13)	40.9% (9)
Exchange traded funds	68.8% (11)	31.3% (5)

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Institutional Investors

What role do asset consultants play in your organisation?

- **Asset allocation strategy** **61.7%**
- Identifying new asset classes and investment managers 44.7%
- Risk management 27.7%
- Not applicable 27.7%
- Fund policy and governance 23.4%

Other:

- Assist with manager selection
- Assist Staff with Investment Structure & Manger selection
- Used for ad hoc projects
- Extension of staff
- The consultant brings ideas, we make the decisions
- General research and preliminary manager identification

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Institutional Investors

Institutional Investors considered the following as authorities in asset allocation:

Australia

- Australian super funds
- Jana
- Mercer
- Russells
- Watson Wyatt
- AMP Capital
- QIC
- Russell Clarke, CIO
Mercers
- David Neal, CIO, Future
Fund
- Leo de Bever, CIO, VFMC

Globally

- Roger Urwin, Watson Wyatt
- Russell Investment Group
- New England Pension
Consultants
- Mercer Investment Consulting
- Yale
- Cambridge Associates
- Leading fund managers

Institutional Investors

In relation to asset allocation, Institutional Investors were most interested in finding out more about:

Innovations in asset allocation models / strategies	60.8%
Identification & access to new asset classes	51.0%
Investing in Alternatives	49.0%
Active investment strategies	45.1%
Tactical asset allocation	45.1%
Global macro economic and geo-political overview	43.1%
Identification of key risks and opportunities	41.2%
Asset allocation strategies of global pension funds	33.3%
Asset allocation strategies of endowment funds	29.4%
Investment strategies of sovereign wealth funds	17.6%
Asset allocation strategies of Australian superannuation funds	21.6%
Passive investment strategies	21.6%
Liability driven investing	19.6%

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ASSET CONSULTANTS

Major themes impacting asset consultants

- Top market events that will impact portfolio performance for clients include: inflation, uncertainty over global credit crisis and liquidity. They were the least concern with the rise and politics of sovereign wealth funds
- Top asset classes that they are looking to recommend to clients include: emerging markets, energy resources and infrastructure assets. The asset class that they are least likely to look at are green investments and frontier markets
- In the next 12-18 months, they are most likely to recommend increasing allocations to Alternatives, international shares and infrastructure; and decrease allocations to direct property, Australian shares, listed property and fixed interest
- Asset consultants are currently assisting clients with two most important areas: defining the asset allocation strategy, identifying new asset classes and investment managers.

Asset Consultants

Which of the following investors do you currently advise?

• Trust / Foundation	52.4%
• Family office	47.6%
• Pension fund	42.9%
• Superannuation fund	33.3%
• Endowment	28.6%
• Private bank / wealth management firm	14.3%
• Sovereign wealth fund	14.3%
• Insurance	9.5%

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Asset Consultants

According to Asset Consultants, the following market events will have the greatest impact on performance returns for investors?

- **Inflation** **70.0%**
- Uncertainty over full extent of global credit crisis 50.0%
- Volatility 30.0%
- Liquidity 25.0%
- Resource demands of China and India 25.0%
- Stagflation 20.0%
- Rise and politics of sovereign wealth funds 5.0%

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Asset Consultants

Would you recommend the following investment sectors for your clients?

• Emerging markets (B.R.I.C.)	71.4%
• Energy resources	47.6%
• Infrastructure assets	42.9%
• Distressed debt	38.1%
• Agriculture	28.6%
• Pre-emerging markets (UAE, etc.)	28.6%
• Frontier markets (Kazakhstan, Slovenia, etc.)	19.0%
• Green investments	19.0%
• None of the above	0.0%
▪ Other: Mature markets as well in the near future : Europe, Water, Assets - hedge funds	

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Asset Consultants

In the next 12-18 months, Asset Consultants are recommending adjusting allocations across the following asset classes?

<u>Asset Classes</u>	<u>Increase</u>	<u>Decrease</u>
Australian shares	26.7% (4)	73.3% (11)
International shares	73.7% (14)	26.3% (5)
Direct property	12.5% (2)	87.5% (14)
Listed property	26.7% (4)	73.3% (11)
Alternative investments	88.2% (15)	11.8% (2)
Australian fixed interest	35.7% (5)	64.3% (9)
International fixed interest	41.2% (7)	58.8% (10)
Infrastructure	80.0% (12)	20.0% (3)
Private equity	76.9% (10)	23.1% (3)
Indexed bonds	64.3% (9)	35.7% (5)
Cash	64.3% (9)	35.7% (5)
Exchange traded funds	61.5% (8)	38.5% (5)

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Asset Consultants

Asset consultants are currently assist institutional investor clients with the following?

- | | |
|---|--------------|
| ▪ Asset allocation strategy | 85.7% |
| • Identifying new asset classes and investment managers | 71.4% |
| • Fund policy and governance | 38.1% |
| • Risk management | 38.1% |

Other: due diligence, performance measurement

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Asset Consultants

Asset / Fund Managers

Major themes impacting asset/fund managers

- Top market events that will impact the organisation's performance returns include: uncertainty over global credit crisis, liquidity and the recession.
- Top asset classes that they identify as potential investment opportunities for institutional investors include: emerging markets, infrastructure assets, distressed debt, agriculture and green investments. The asset class that they are least likely to recommend is frontier markets.
- In the next 12-18 months, they are most likely to recommend increasing allocations to Alternatives, international shares and infrastructure; and decrease allocations to direct property, Australian shares, listed property and fixed interest

Asset/Fund Managers

▪ Asset manager	49.5%
• Multi-manager / FOF	29.7%
• Hedge fund	24.8%
• Private equity	15.8%
• Property trust	4.0%

Other: Performance Analytics Mgr, family office, private banking, Fund distributor, Investor Relations, Combined Family, Office/Hedge fund, Sales Institutional Investors, Commodities, run funds - outsource funds management, Advisor to asset managers/ sponsor of asset management businesses

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Fund Managers

Which of the following market events will have the greatest impact on your organisation's performance returns?

▪ Uncertainty over full extent of global credit crisis	40.6%
▪ Liquidity	31.1%
▪ Recession	27.4%
▪ Volatility	26.4%
▪ Inflation	25.5%
▪ Stagflation	13.2%
▪ Resource demands of China and India	13.2%
▪ Rise and politics of sovereign wealth funds	5.7%

Other: We build our portfolios to have no environmental bias.

Growth - Inflation trade off; Transfer of wealth to commodity producers

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Fund Managers

Which areas would you identify as potential investment opportunities for institutional investors?

▪ Emerging markets (B.R.I.C.)	48.6%
• Pre-emerging markets (UAE, etc.)	13.3%
• Frontier markets (Kazakhstan, Slovenia, etc.)	17.1%
• Distressed debt	37.1%
• Infrastructure assets	43.8%
• Agriculture	37.1%
• Energy Resources	40.0%
• Green Investments	27.6%
• None of the above	4.8%

Other:

- Global high yield bonds and bank loans
- Assets positively correlated to inflation i.e. direct property
- New physics-based Asset Allocation models
- M&A, specifically transactions under \$2B market cap
- U.S. Venture Capital
- Managed Futures
- Hedge Fund with quant+automatic=sustain alpha

Fund Managers



Technology & Service Providers

Technology/Service Providers

- **Media/Press 33.3%**
- **Market maker / broker-dealer 22.2%**
- **Accountant 16.7%**
- **Transition management 11.1%**
- **Custodian 11.1%**
- **Law firm 5.6%**
- **Exchange 0.0%**

Other:

- Electronic Brokerage
- research firm
- oil
- sustainable investment advice
- Financial service provider - quantitative equity asset class M
- Real estate service provider
- Business Consultant
- Responsible entity and administrator
- Database Provider
- specifically Int'l Central Securities Depository

Service Providers

Which of the following market events will have the greatest impact on your clients?

- | | |
|---|--------------|
| ▪ Uncertainty over full extent of global credit crisis | 63.6% |
| • Recession | 33.3% |
| • Inflation | 24.2% |
| • Liquidity | 24.2% |
| • Volatility | 36.4% |
| • Resource demands of China and India | 18.2% |
| • Stagflation | 15.2% |
| • Rise and politics of sovereign wealth funds | 12.1% |
| Other: concentration in the Australian banking sector | |

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Service Providers



The Institutional hunt for Alpha

Asset Allocation Summit Australia is the regions' only forum that determines the strategic investment direction of Australia's AU\$1.3 trillion superannuation fund industry. Where superannuation fund CIOs, pension funds and endowment fund CIOs meet to determine new sources of returns and the most optimal asset allocation strategies.

Speakers already confirmed for 2009:

Dr Horace "Woody" Brock, President, **Strategic Economic Decisions, USA**

Sean Rogister, SVP, Fixed Income and TAA, **Ontario Teachers Pension Plan, Canada**

Dr Leo de Bever, Chief Executive Officer, **Alberta Investment Management Corporation, Canada**

Syd Bone, Chief Executive Officer, **Victorian Funds Management Corporation**

Erik Valtonen, Chief Investment Officer, **AP3, Sweden**

Tomas Franzen, Chief Investment Strategist, **AP2, Sweden**

Roger Urwin, Global Head of Investment Consulting, **Watson Wyatt, UK**

Farouki Majeed, Senior Investment Officer, **CaIPERS, USA**

Dr Michael Drew, General Manager – Investments, **QSuper, Australia**

Tim Hughes, Chief Investment Officer, **Catholic Super, Australia**

Andrew Proebstl, Chief Executive, **Legal Super, Australia**

Register to attend by booking online at

www.terrapinn.com/2009/aas_au

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ASSET ALLOCATION SUMMIT 2009

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