1. **Summary**

Given YourSuper manages clients that are 75 and older, they should create a low-risk portfolio that will attempt to track the ASX200 at minimum with the intention to slightly outperform the index.

1. **Customer Risk Profile**

Elderly clients have a certain risk profile. Their financial investments are focused on capital preservation and returns that are geared toward cash inflows. Dividend and high yielding sectors are popular because of their payout profiles, while pure capital growth strategies are not due to their inherent capital risk. In saying this, much like many investors, they still require diversification as a protection strategy from sector specific falls.

1. **Overall Portfolio Strategy**

To achieve the goal of tracking the ASX200 and potentially outperforming the index, I recommend allocating the funds in a way that is mostly neutrally weighted (same weights as the index); however, in order to align the interests of the client as well as outperformance of the index, I recommend a slight overweight in Real Estate, Industrials and Consumer Discretionary, with a slight underweight in Materials and IT (reasoning below).

1. **Allocations**

I advise YourSuper to invest a portion of their capital ($900m) as per the below:

* 1. **Sector Weightings**

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| **Sector** | **Weighting** | **Rationale** |
| **Financials** | 40% ($360m) | Neutral weighting. Being the largest sector in the index, Financials are arguably the most important allocation when creating a portfolio. They also provide a solid income stream through dividends. As I do not want to risk being overweight or underweight Financials and potentially underperforming the index, I will maintain a neutral weighting; while benefitting from their dividend cash inflows. |
| **Materials** | 15% ($135m) | Slight Underweight. Whilst the material sector is a large proportion of the index, it is a sector that provides a high dividend yield but at a cost, with the cost being risk to the investors capital preservation. Due to Iron Ore’s recent rally, the Material sector has rallied significantly. As a result, I do not want to risk a selloff in commodity prices and intend to preserve my client’s capital. Therefore, I will be slightly underweight the Materials sector. |
| **Healthcare** | 9% ($81m) | Neutral. The Healthcare sector, due to its moderate weighting in the index, is a sector whereby one can seek outperformance. The stability of the sector is attractive; however, there has been a lot of M&A activity in the space and therefore navigating through each of the stocks can be tricky, As I do not have a clear view of each individual stock; I will simply maintain a neutral weighting |
| **Industrials** | 7% ($63m) | Overweight. The industrial sector has many facets. Some names in the sector are linked to bond yields due to their dividend payouts. Their dividend yield is attractive as is their capital preservation qualities. The RBA’s easing cycle should also provide room for further expansion and therefore capital growth. As a result, I will be overweight the sector. |
| **Real Estate** | 7% ($63m) | Overweight. Due to its structural nature (Trusts), REIT’s provide great cash flows via dividends and little risk for capital preservation because of the physical assets they own. This, paired with an RBA easing cycle, should benefit my portfolio and act as an outperforming sector. |
| **Consumer Discretionary** | 4% ($36m) | Overweight. Consumer spending can be analysed via multiple macro-economic factors. As I believe the RBA is in an easing cycle and therefore attempting to boost the economy and consumer spending, an overweight allocation is an appropriate way to benefit from the current economic climate |
| **Consumer Staples** | 8% ($72m) | Neutral. Staple sector is one that tracks inflation and various other micro-economic factors. Keeping a neutral weighting could offset the risk that the RBA does not ease substantially. |
| **Energy** | 4% ($36m) | The Energy sector is dictated by price movements in physical energy products. The sector is extremely volatile and without a clear indication of where physical prices are going, the sector remains a capital preservation risk. As a result, I will be neutral weighted in Energy. |
| **Communication Services** | 2% ($18m) | Neutral. Stability of the Communication sector is attractive. However, it does not account for a large proportion of the index and therefore one would have to be extremely overweight or underweight for its performance to affect the portfolio. As a result, we will remain neutral to allocate funds elsewhere. |
| **IT** | 1% ($9m) | Due to the nature of IT companies, the IT sector does not provide a dividend yield. Instead, the sector purely provides an opportunity for capital returns. Whilst the sector is only 1% of the index, one can be significantly overweight or underweight the sector to generate outperformance. Although I believe the IT sector will continue to experience capital returns, this type of investing does not suit my client’s needs, which is more focused on cash inflows and capital preservation, and so I recommend remaining neutral. |
| **Utilities** | 3% ($27m) | Neutral. Stability of the Utilities sector is attractive. However, it does not account for a large proportion of the index and therefore one would have to be extremely overweight or underweight for its performance to affect the portfolio. As a result, we will remain neutral to allocate funds elsewhere. |

* 1. **Bonds, Currencies, and Commodities**

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| **Instrument** | **Allocation** | **Rationale** |
| US 10yr US Govt Bonds | 6% ($50mm) | A long term, low risk government bond that provides a 2.5%-3% yield. |
| Gold | 6%($50mm) | A safe-haven commodity that can provide protection from volatile equity swings. |