

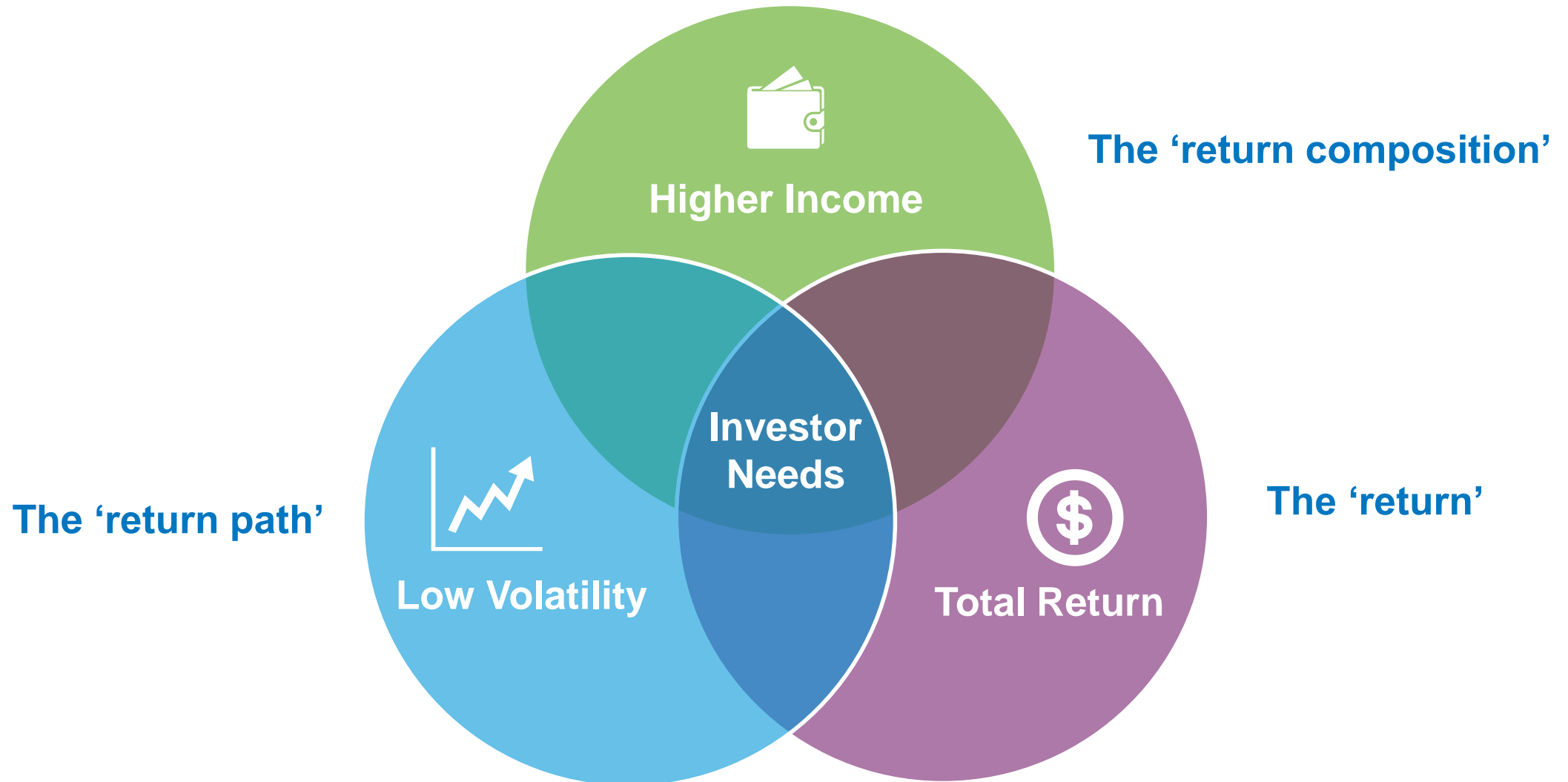
# Innovation in retirement income – Maximising income through Australian shares

Rudi Minbatiwala –  
Head of Equity Income



# The investment dilemma facing your clients

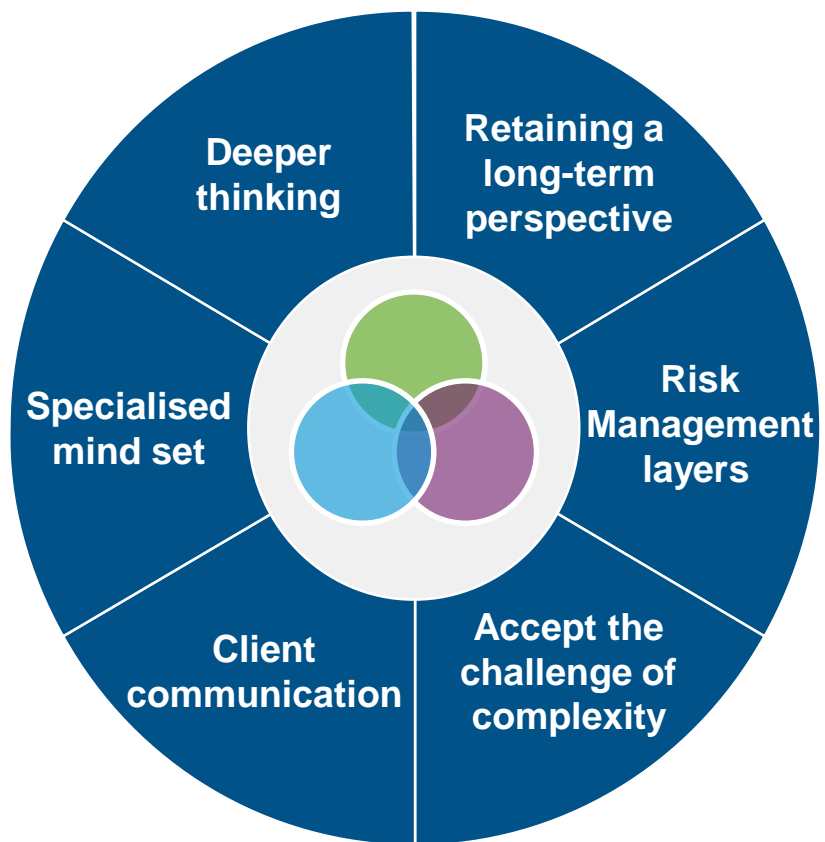
## Balancing multiple objectives



# Future-proofing retirement investment strategies

Adopting a 'Whole-of-Portfolio' approach

Retirement outcome-based  
strategies requirements



'Whole-of-Portfolio' approach

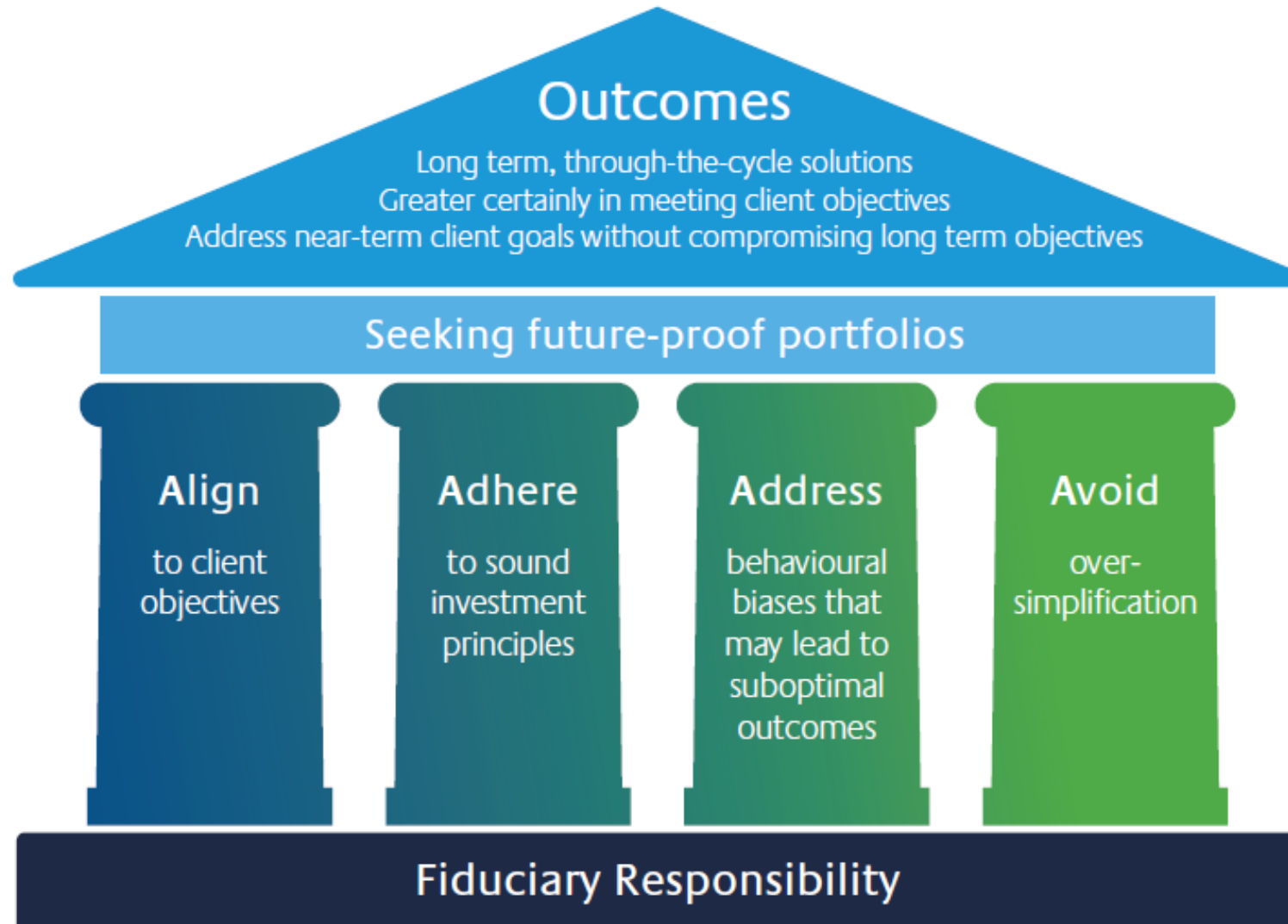
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**Asset allocation tailoring  
& risk management**

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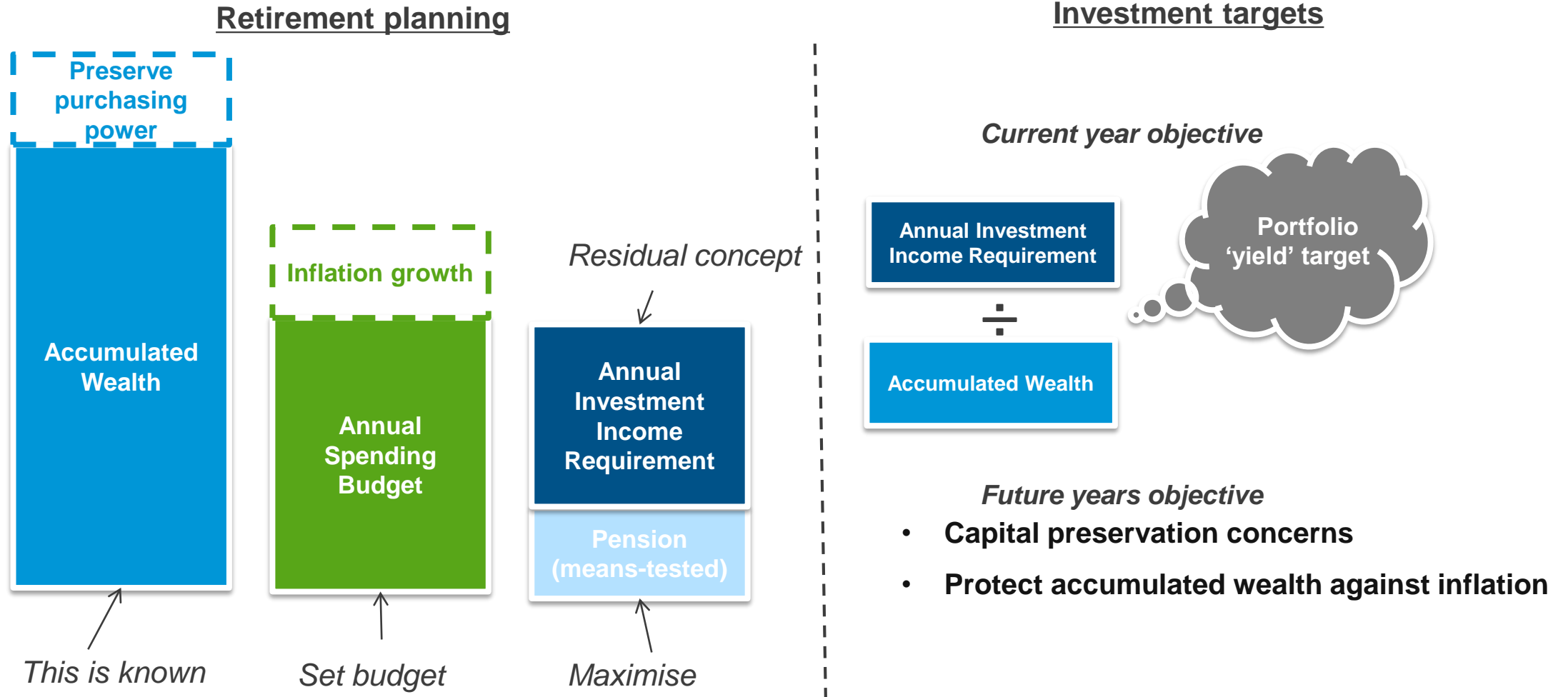
**Intra-asset tailoring  
& risk management**

# Future-proof framework for assessing retirement investment strategies



# Addressing the retirement income requirement

## The 'yield' concept...A 'short-termism' problem?



# A closer look at high dividend yield strategies

	Grossed-up dividend yields	July 2003	15 year average	July 2018
Typical 'Income' Stocks	Telstra Corporation	8.12%	9.41%	7.64%
	National Aust Bank	7.33%	9.08%	9.56%
Typical 'Growth' Stocks	Computershare	4.20%	3.16%	2.69%
	Ramsay Health Care	6.41%	4.00%	2.70%

Consider an investment of \$10,000 in these stocks in July 2003

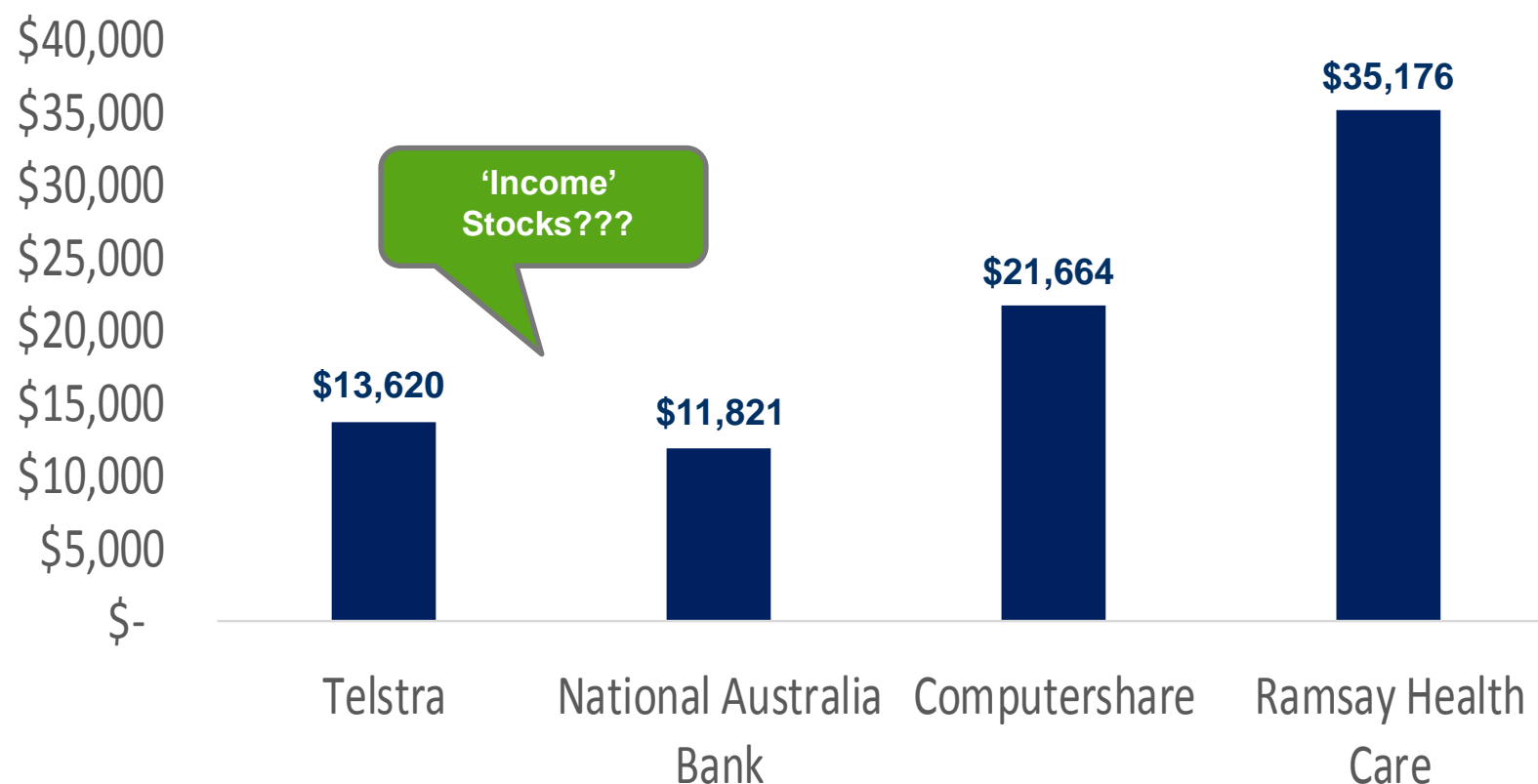
Which stocks are expected to provide more income over the 15 years?

# High dividend yields ≠ high dividend income

Income and growth from \$10,000 invested over 15 years

Grossed-up dividend yields	15 year average
Telstra Corporation	9.41%
National Aust Bank	9.08%
Computershare	3.16%
Ramsay Health Care	4.00%

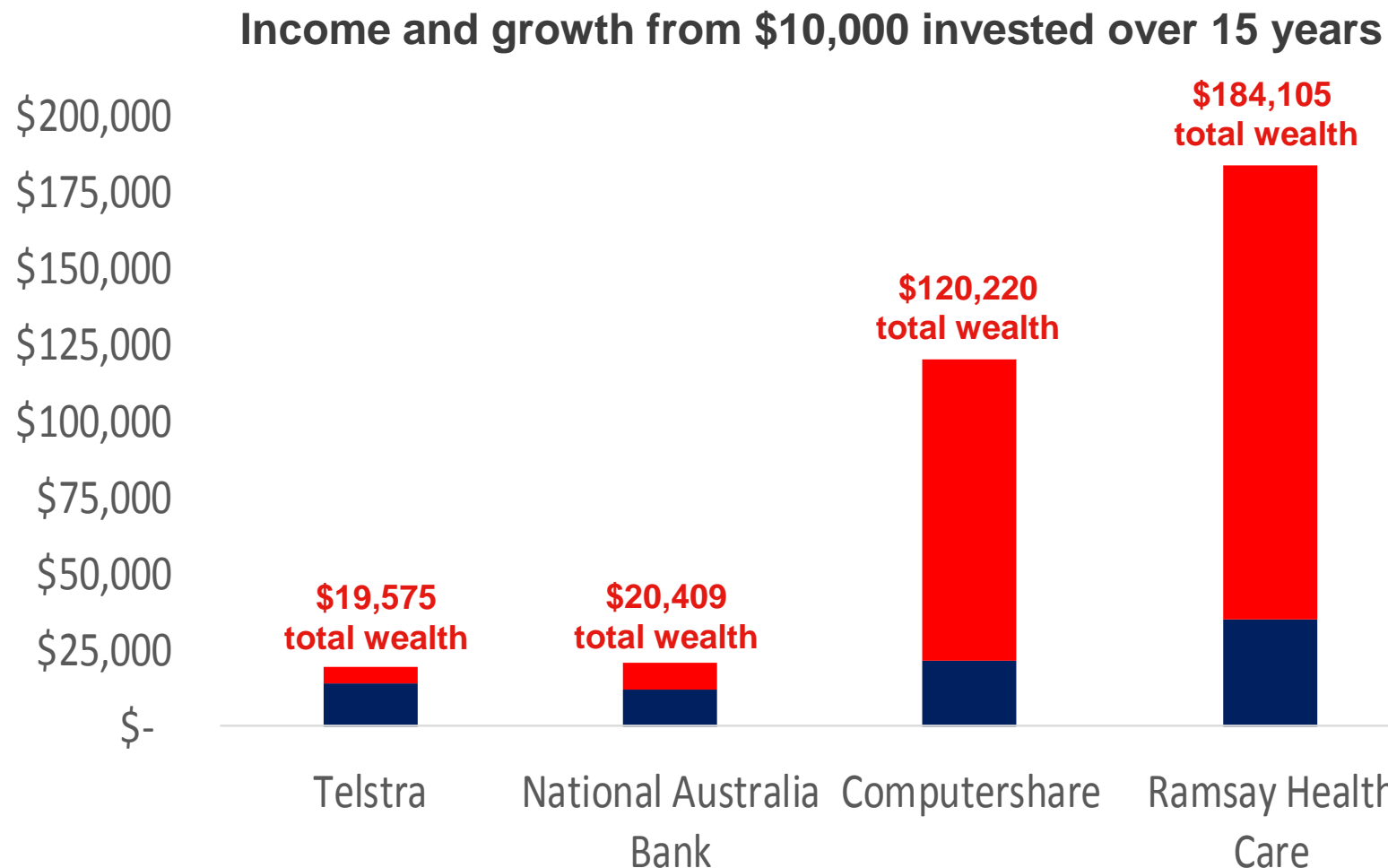
## Dividends and franking credit income from \$10,000 invested over 15 years



# High dividend yields ≠ high dividend income

Income and growth from \$10,000 invested over 15 years

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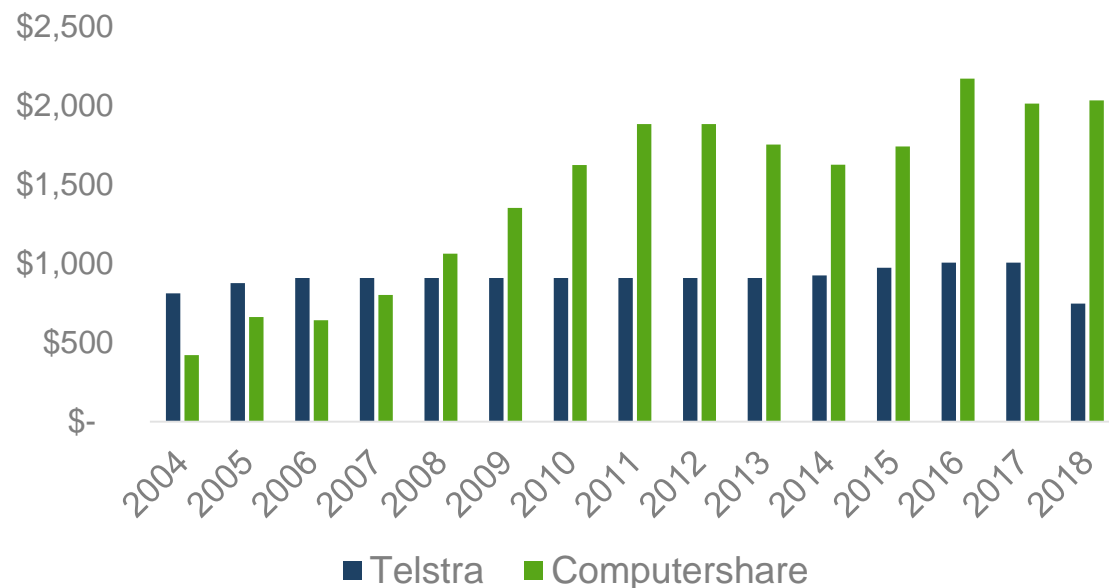




# High dividend yields ≠ high dividend income

## Income and growth from \$10,000 invested over 15 years

Income generated each year from  
\$10,000 invested 15 years ago



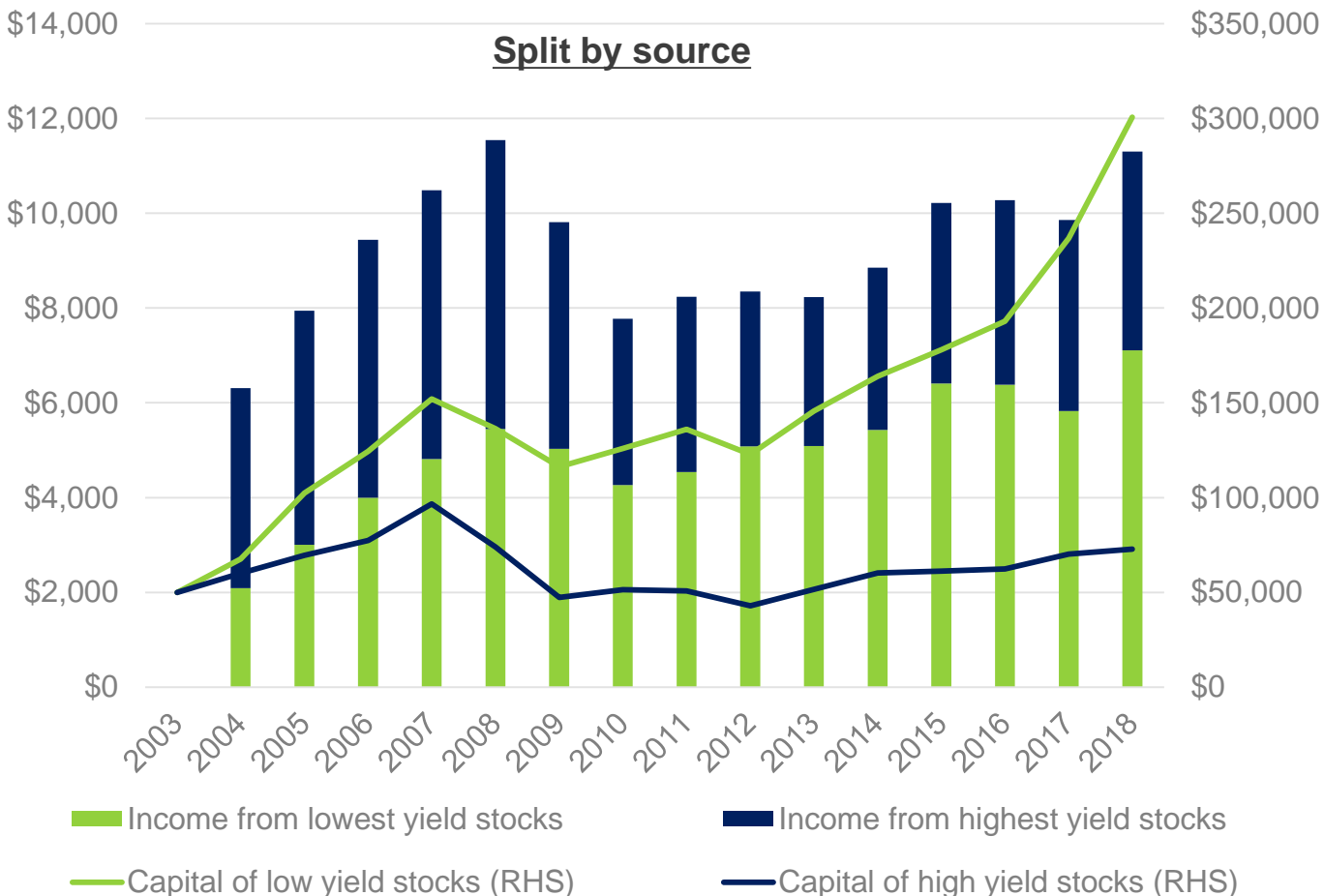
**Stock selection should not be compromised  
in pursuit of higher income generation**

Stock	Industry	Average yield rank	Actual income generated rank	Actual total wealth rank
Tabcorp Holdings	Consumer Discretionary	1	11	38
Telstra Corporation	Telecommunication	2	37	60
National Australia Bank	Financials	3	44	59
Westpac Bank	Financials	4	17	35
Bendigo and Adelaide Bank	Financials	5	31	49
Bank of Queensland	Financials	6	25	46
ANZ Banking Group	Financials	7	23	41
Sydney Airport	Industrials	8	7	11
Commonwealth Bank	Financials	9	13	26
CSR	Materials	10	35	50
APA Group	Utilities	11	19	21
Suncorp Group	Financials	12	38	51
Perpetual	Financials	13	30	48
Wesfarmers	Consumer Staple	14	21	30
AMP	Financials	15	16	43

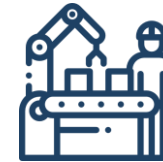
# Attractive income driven by interaction of yield and growth over time

Dividend (and franking) income generated each year from \$100,000 invested across stocks in the S&P/ASX 100 at June 2003 that remain listed today (57 stocks)

Split by source



Business execution



Profit generation



Retained profits  
reinvested for  
future growth



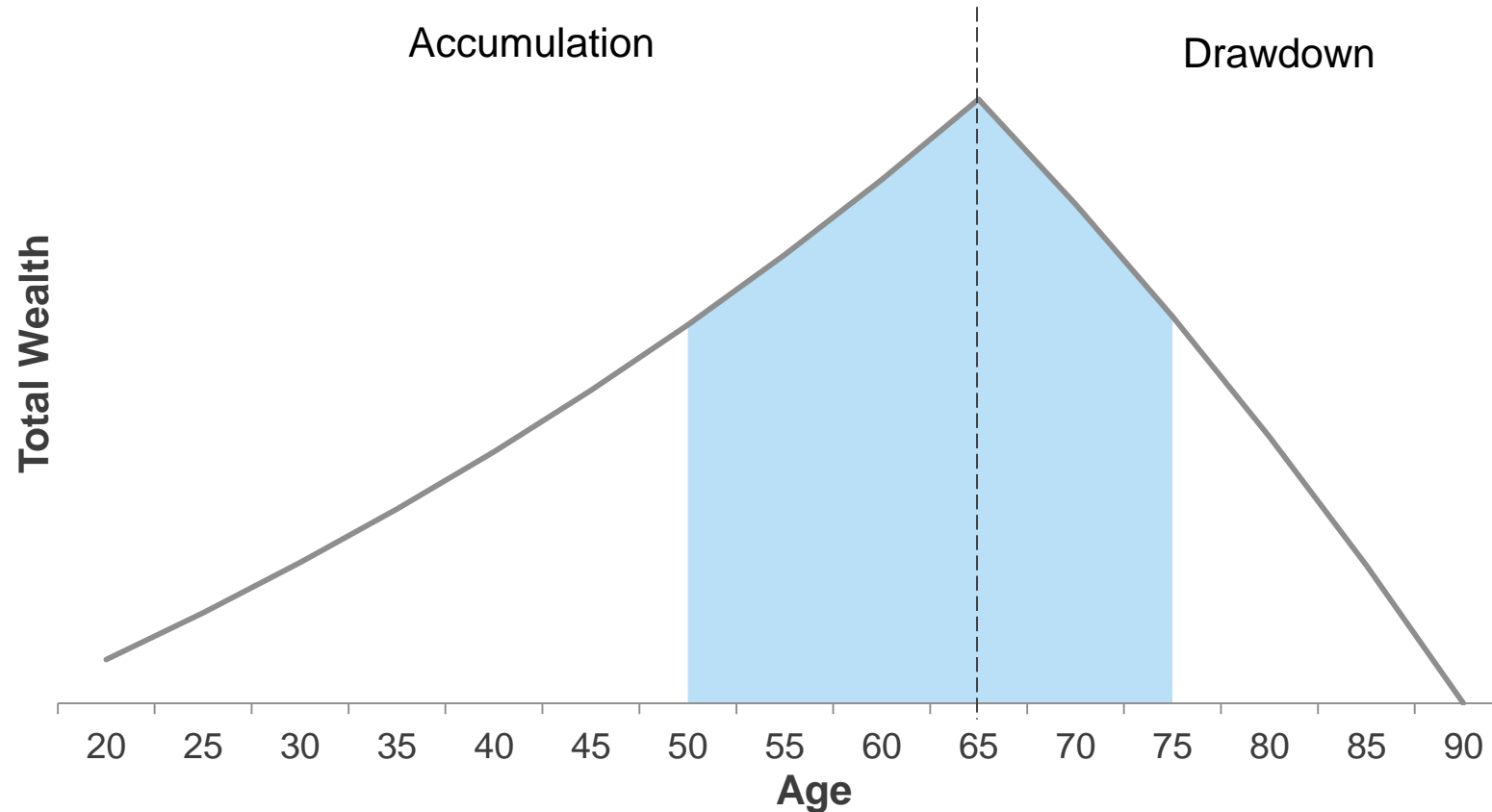
Dividends paid out to  
shareholders



Sources: Colonial First State Global Asset Management, FactSet. Income and capital over 15 years calculated assuming a total investment of \$100,000 equally weighted across all index constituents of the S&P/ASX 100 index as at 30 June 2003 that have the required 15 year price and dividend history (57 stocks). Data to 30 June 2018. Any fund or stock mentioned in this presentation does not constitute any offer or inducement to enter into any investment activity. Icons sourced from flaticon.com

# The 'Retirement Risk Zone'

Understanding the concept of 'sequencing risk'



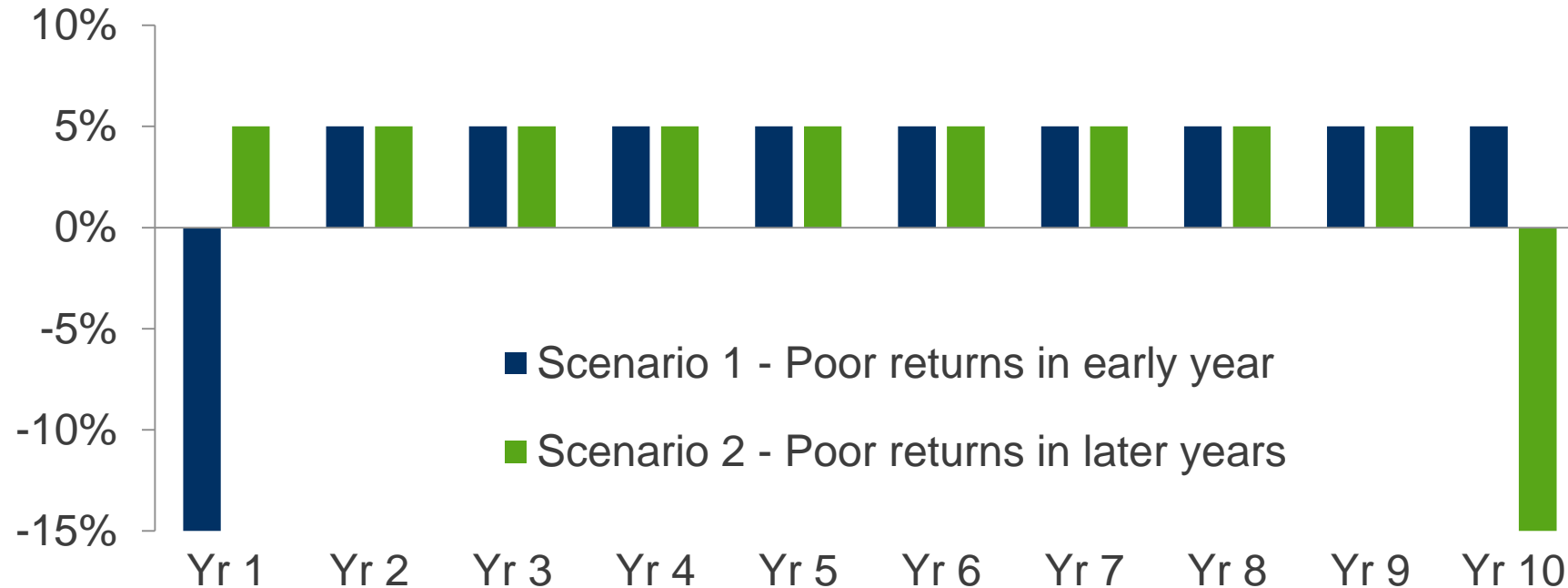
- *Retirement Risk Zone* - Critical investment period near retirement or just post retirement
- Need to manage risks whilst addressing retirement challenge

Should we focus on the size of returns? Or the order of returns?

# The 'Retirement Risk Zone'

## Understanding the concept of 'sequencing risk'

Consider an investor that saves \$10,000 a year for 10 years



- Is there a difference?

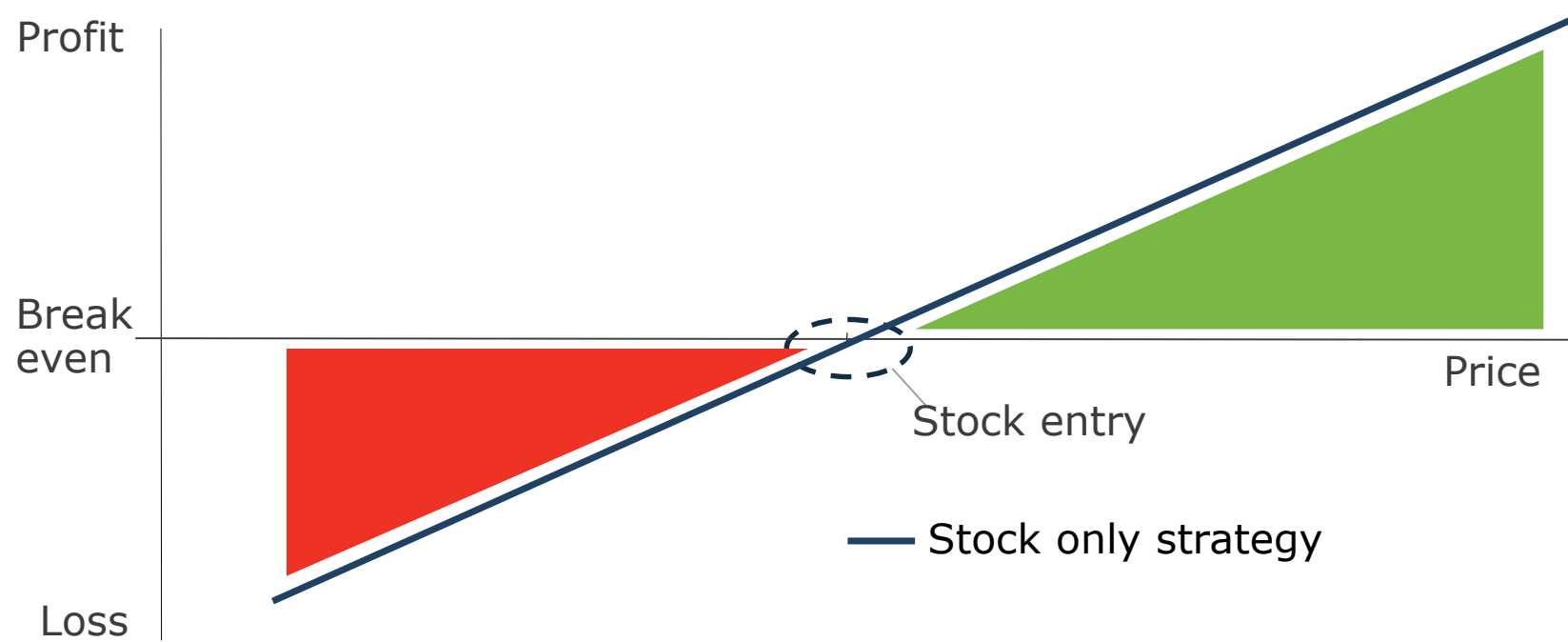
	Market return outcome	Client portfolio outcome
Scenario 1	31.9%	\$128,965
Scenario 2	31.9%	\$106,912
Difference	0%	-17.1%

# Equities tailored to retiree requirements

## Understanding equity income strategies

*Well understood starting point...*

Investor profits if share price rises and makes loss if share price declines

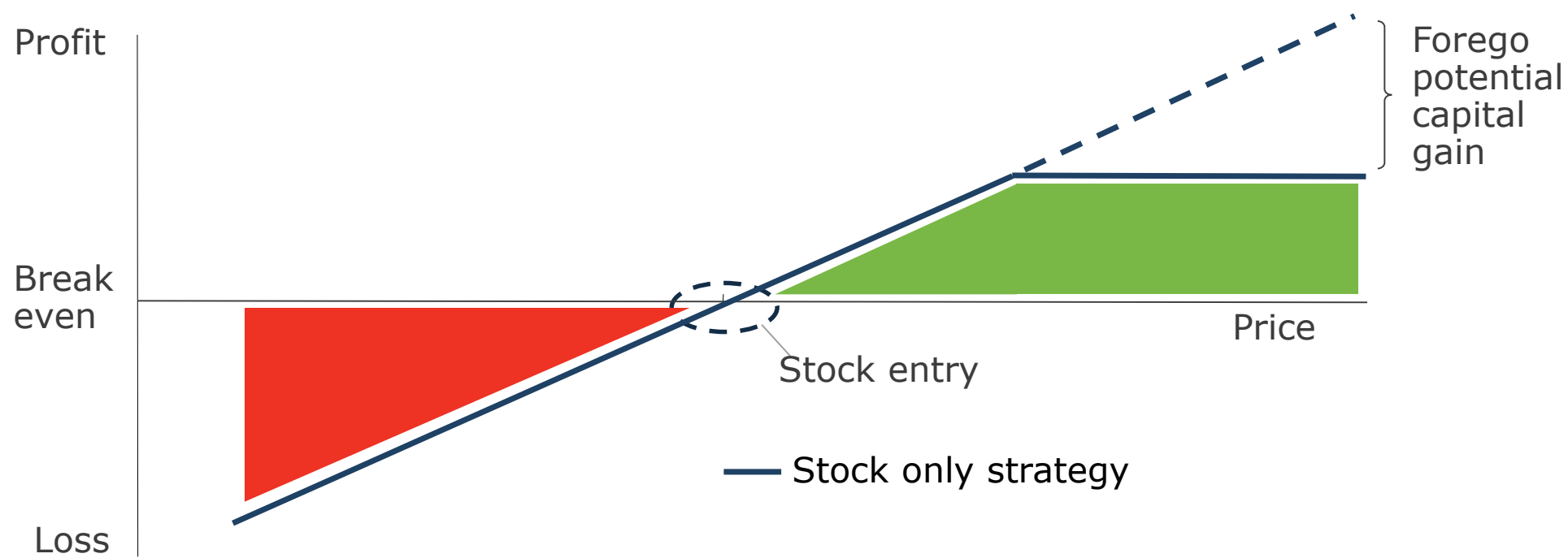


# Equities tailored to retiree requirements

## Understanding equity income strategies

*Now a slight variation...*

What would be your response if you're asked to cap the potential profit you could make?

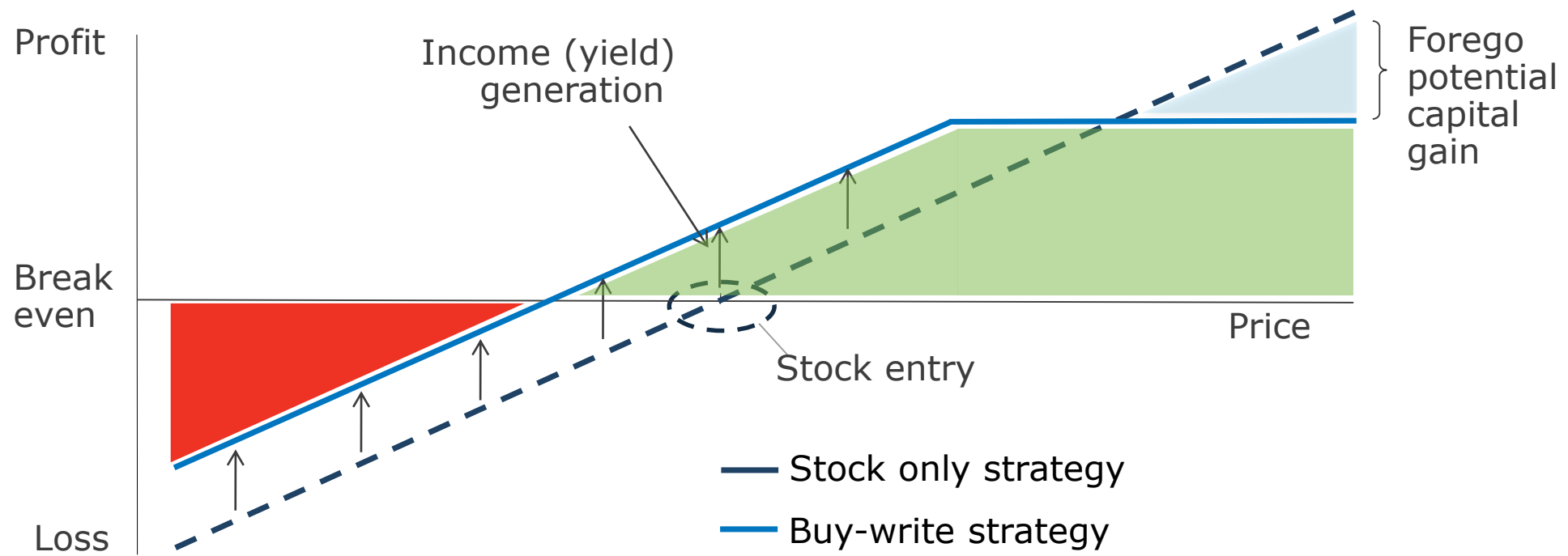


# Equities tailored to retiree requirements

## Understanding equity income strategies

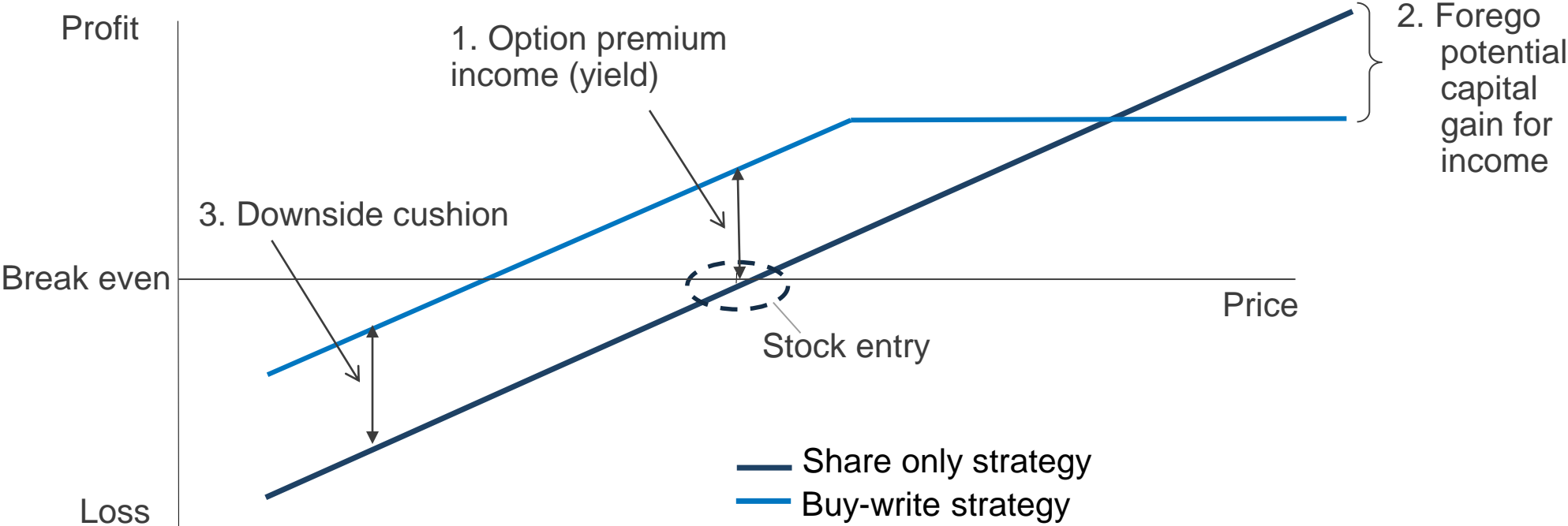
*...with an additional change*

Would your response change if you were compensated in the form of upfront income?



# Equities tailored to retiree requirements

## How equity options help address your clients needs



Higher Stock Alpha	Less options use	Larger upside potential	Lower income	Less downside cushion
Modest Stock Alpha	Greater options use	Smaller upside potential	Higher income	Greater downside cushion

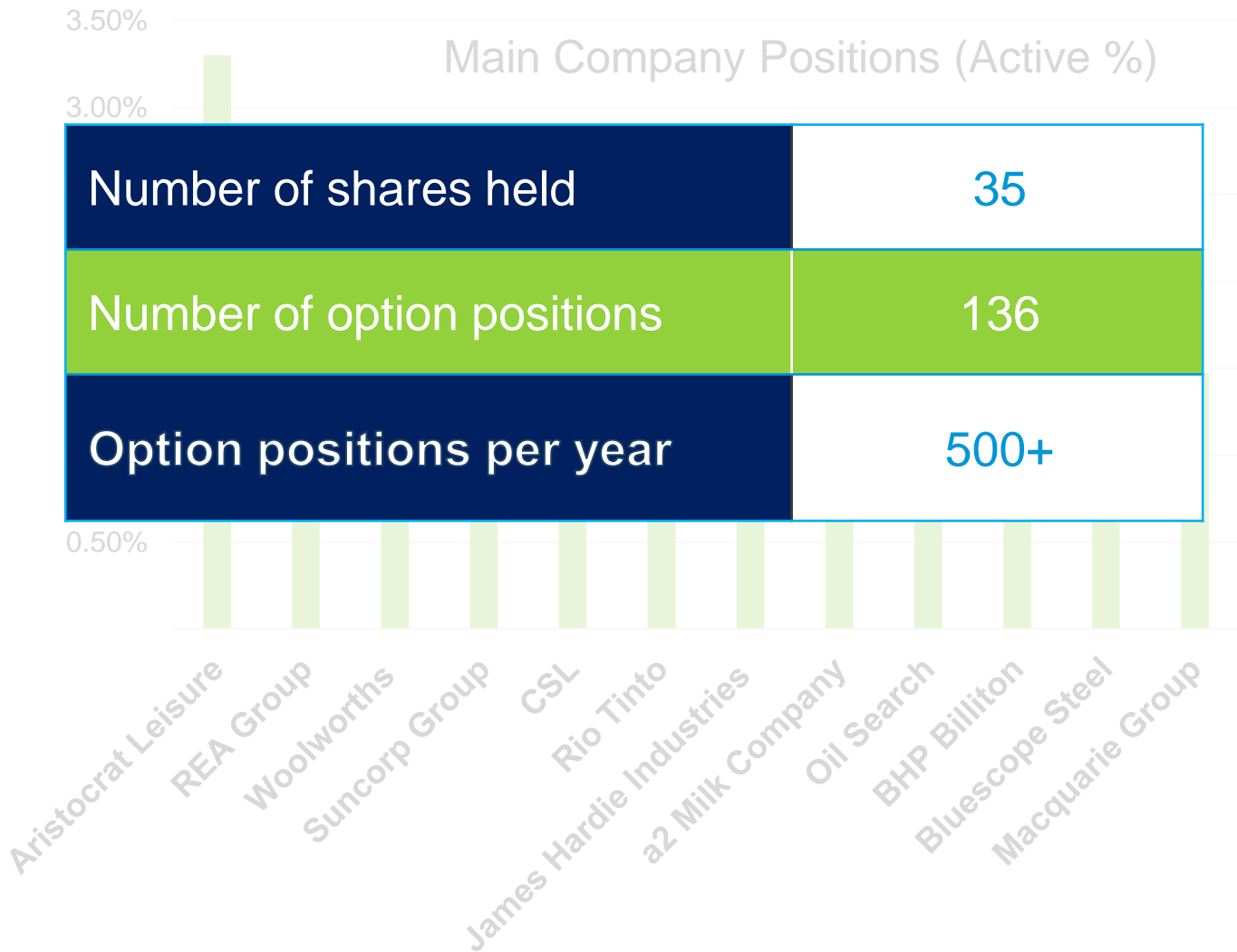
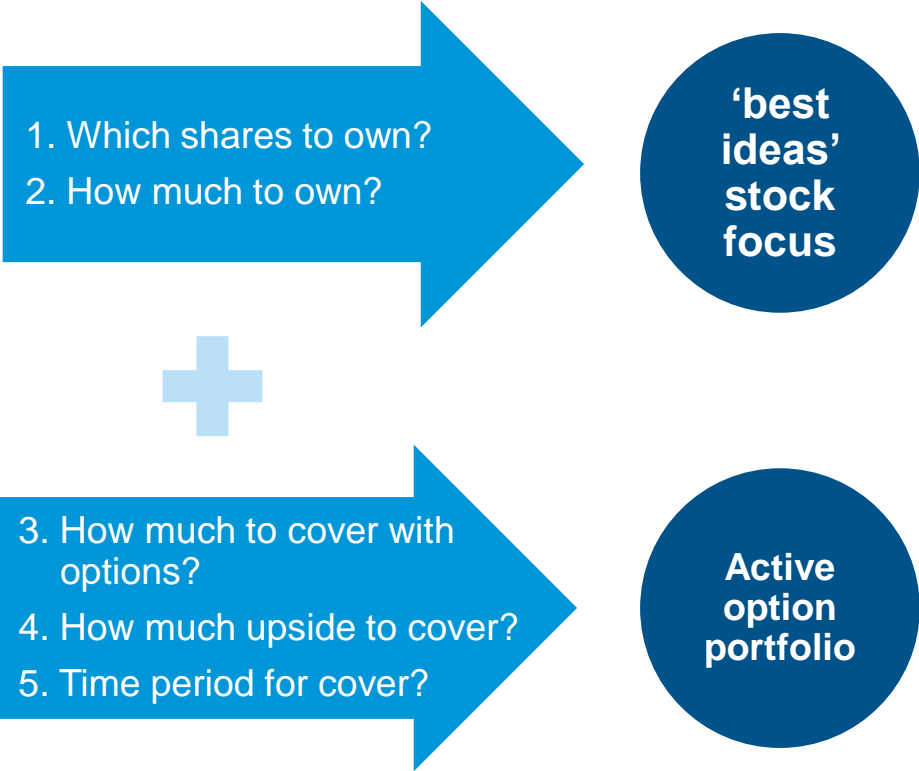
Alpha remains the key focus of the retirement income strategy



# 'Through the cycle' investment solution

Actively address your client needs

More active...  
Extend the use of our fundamental stock insights

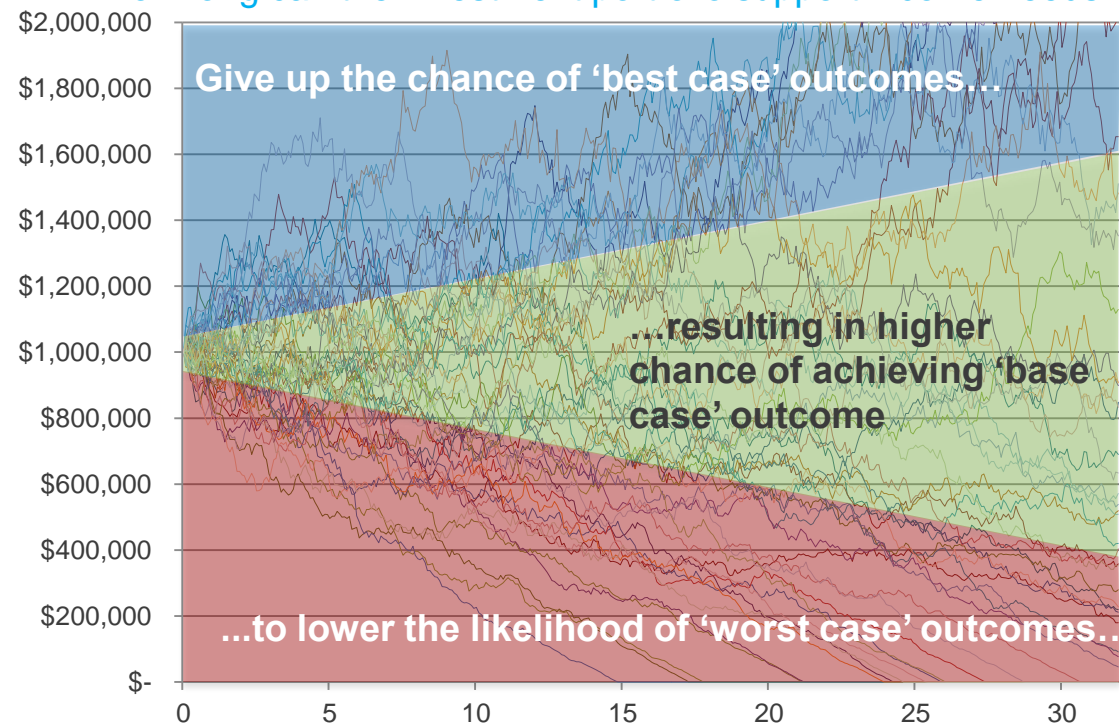


Source: Colonial First State Global Asset Management. Portfolio holdings shown for CFS Wholesale Equity Income Fund as at 31 October 2018  
Any fund or stock mentioned in this presentation does not constitute any offer or inducement to enter into any investment activity

# The role of defensive equities

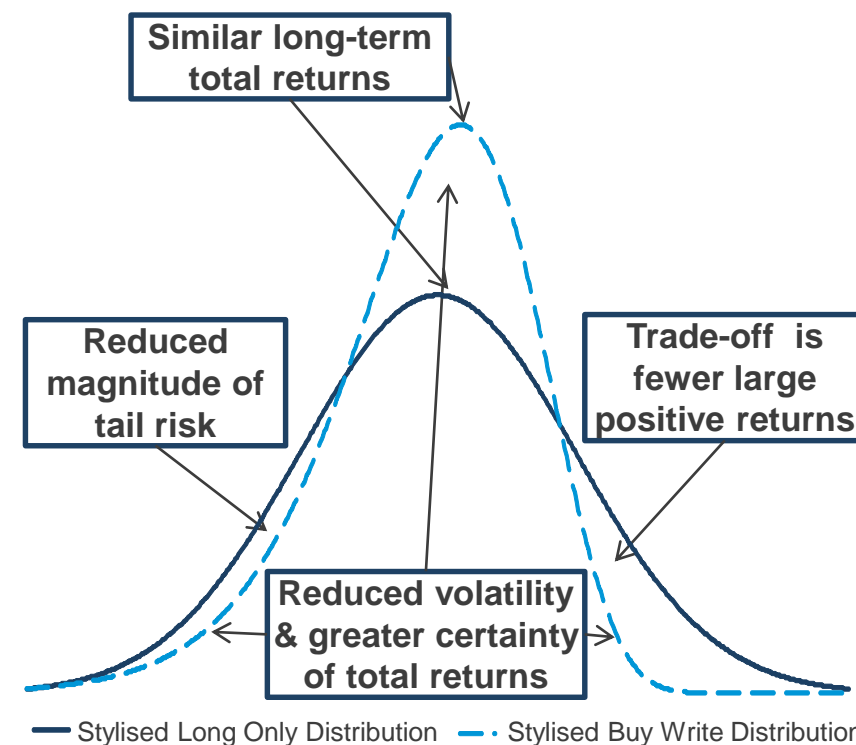
## Intra-asset risk management

How long can the investment portfolio support income needs?



Range of possible end account balances for an income-drawing investor (years)

The role of the CFS Wholesale Equity Income Fund in a portfolio

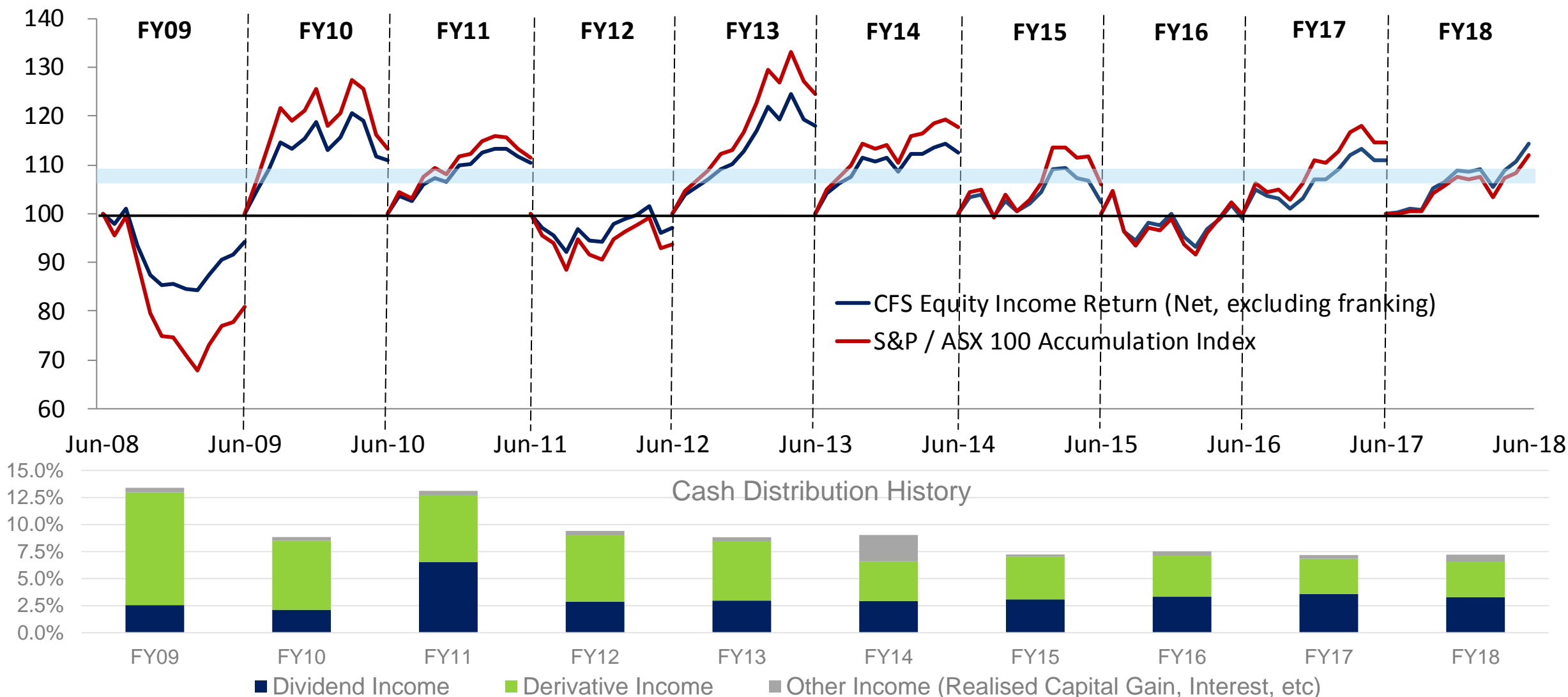


- Added layer of risk management designed for more risk averse investors beyond asset allocation
- Focus on 'confidence intervals' as well as 'average' outcomes

Strategy aims to smooth the investment journey over the long term

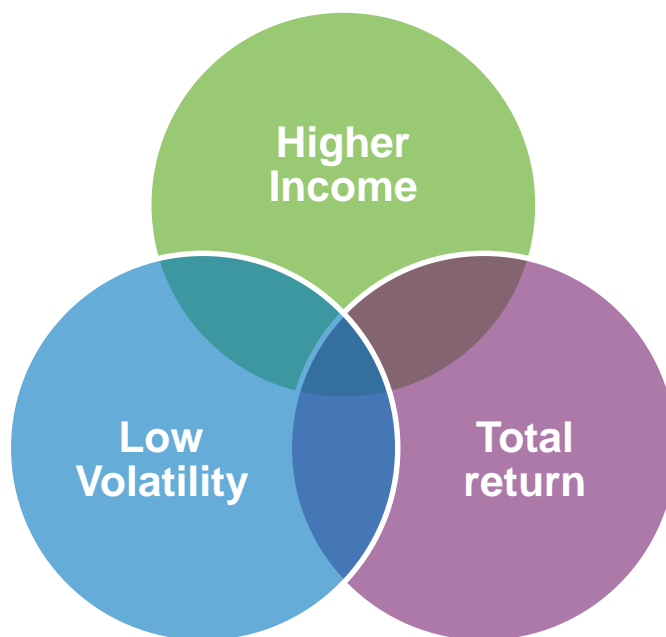
# Performance profile for a 'low volatility' equity income portfolio

## CFS Wholesale Equity Income Fund – More consistent total returns from Australian shares



# Thinking deeper about equity income strategies

## Beware the lure of simplicity...



# The lure of simplicity

A closer look at...a lower return environment

## Common claim...

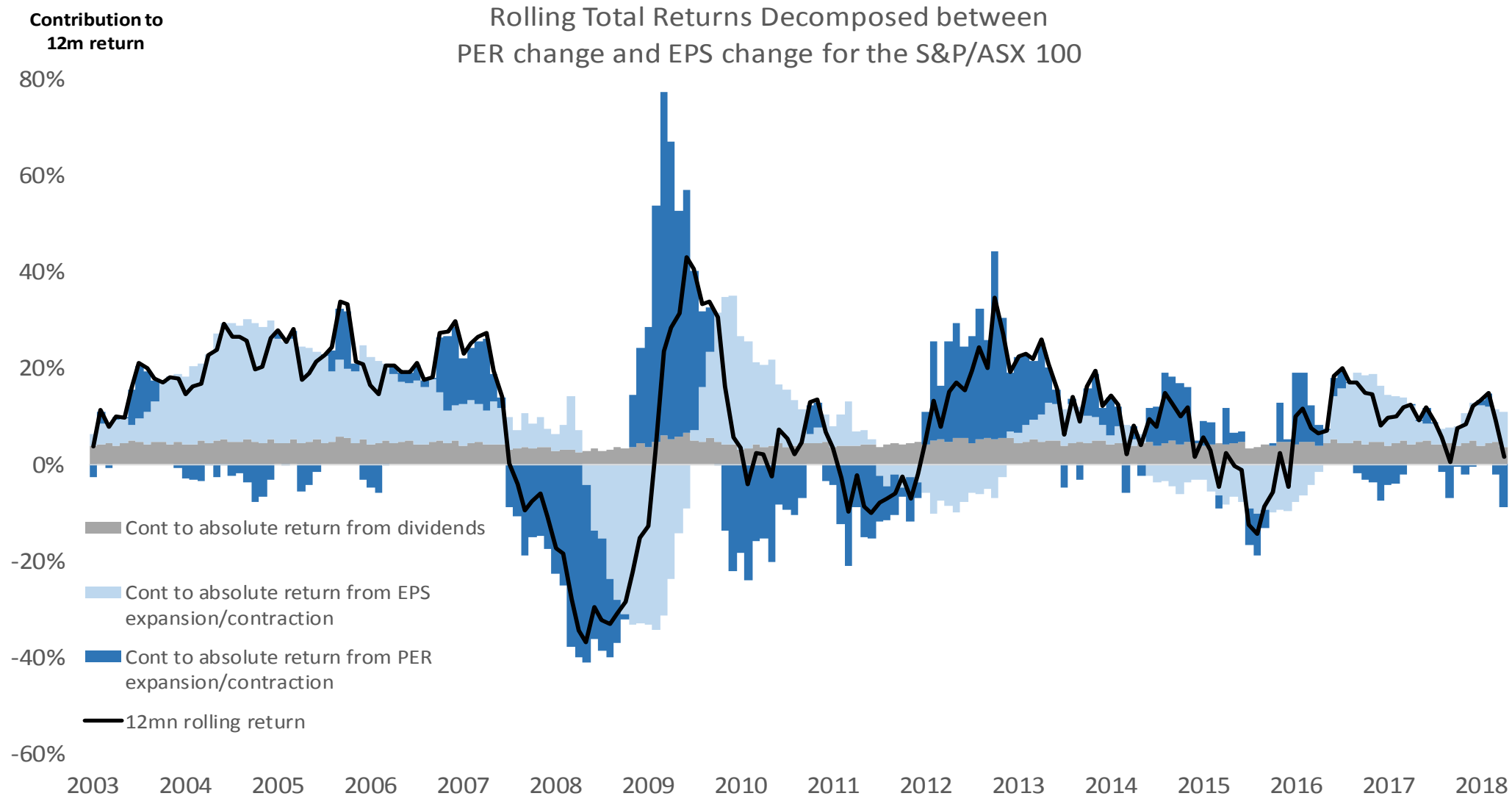
*“In the resultant lower return environment, dividend yields become a more important component of total share holder returns”*

## Taking a closer look...

	Index weight	Income return	Share price return	Total return
Stock ABC	50%	10%	-8%	2%
Stock XYZ	50%	0%	10%	10%
50/50 Market Index		5%	1%	6%

# The lure of simplicity

A closer look at...‘consistency of dividends’



# The lure of simplicity

A closer look at...yield targeting

A quick exercise...

## XYZ STOCK RESEARCH

### SUSTAINABLE HIGH YIELD SCREEN

	DIVIDEND YIELD	FRANKING	GROSSED- UP YIELD	DPS GROWTH	ROE	12-MTH PRICE VOLATILITY
High Yield Bank	6.9%	100%	9.9%	-4%	6.1%	16%
High Yield REIT	6.7%	0%	6.7%	1%	9.8%	13%
Income Infrastructure	6.6%	0%	6.6%	2%	6.9%	15%
Mega Yield Co	6.2%	50%	7.5%	7%	7.2%	16%
Big Income Inc	6.1%	100%	8.7%	3%	13.5%	14%
Dividends R Us	6.0%	33%	6.9%	2%	7.7%	17%
The Income Company	5.8%	100%	8.3%	-4%	8.8%	21%
FullyFranked.com	5.8%	100%	8.3%	6%	10.4%	18%
Income Warehouse	5.7%	100%	8.1%	5%	14.6%	14%
Utility Yield Co	5.6%	0%	5.6%	4%	15.8%	15%

Numbers are for  
illustrative  
purposes only.



# Australian equities in an outcomes-based world

## Applications for a low-volatility equity income strategy

- ✓ Growth asset exposure maintained but with improved defensive characteristics
- ✓ Progressive transition of risk profile between late accumulation and drawdown phase
- ✓ Intra-asset approach to manage sequencing risk concerns



**Approaching retirement**



**Early accumulation**

Future-proofing  
your client's  
retirement investment strategy

### **Post-retirement (drawdown)**

- ✓ More consistent income distributions
- ✓ More consistently achieve total return requirement from Australian shares
- ✓ Portfolio volatility from equities can be actively reduced

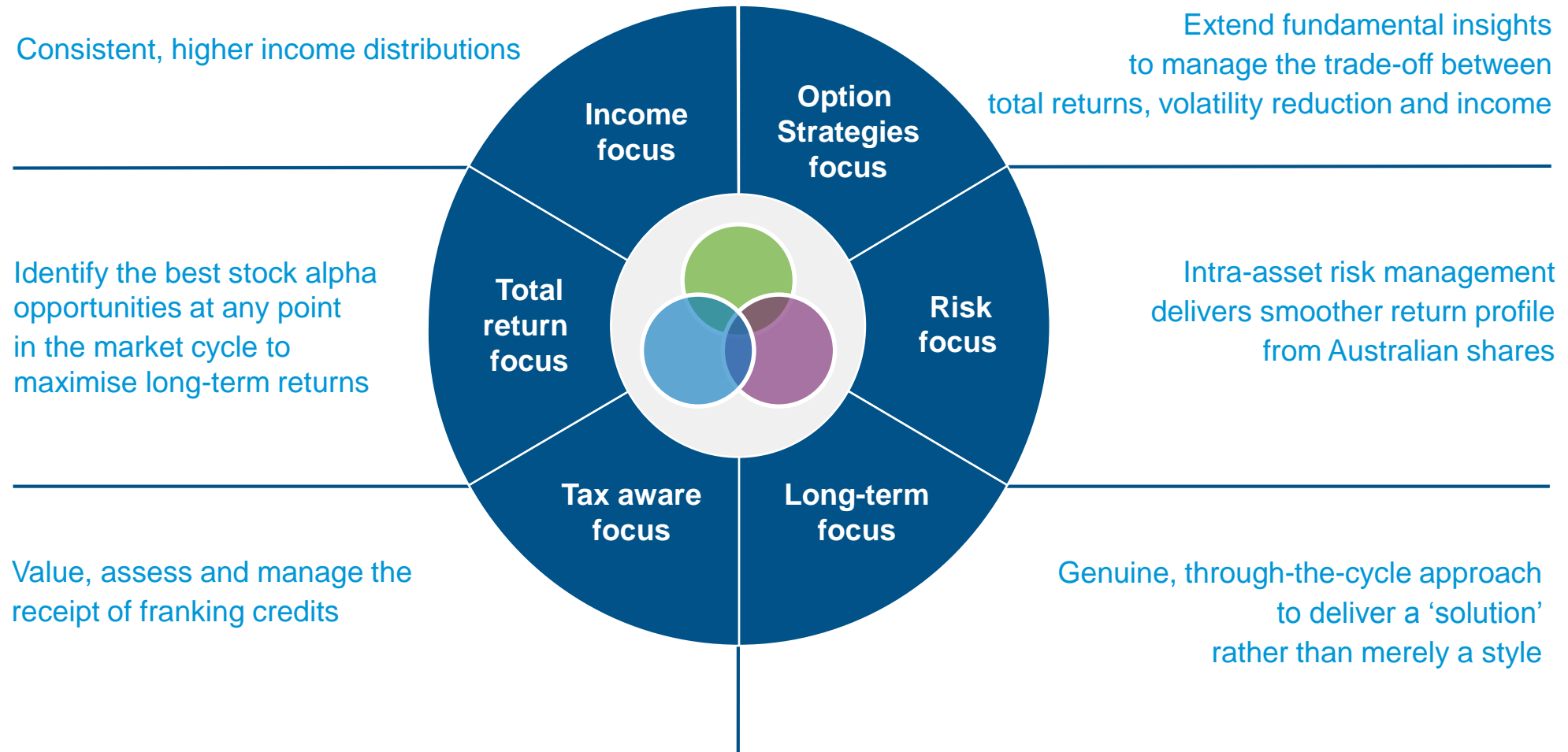




# Australian equities in an outcomes-based world

## Final thoughts...Retirement income strategy requirements

### CFS Wholesale Equity Income Fund – Balancing investor needs



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