



Understanding Asset Allocation and Risk

This document contains factual and general information only to assist you in understanding financial planning concepts. It is designed to be used in conjunction with the Risk Profile Questionnaire.

Investment fundamentals

Investing can invoke strong emotions in all of us. Even the most seasoned investors worry about market volatility, time in the market and the impact decisions can have on long term plans. It is important for us to understand your attitude to investing and different investments.

What is a Risk Profile?

- A Risk Profile is a way of finding out a person’s willingness to take on risks.
- There are six Risk Profiles, each with their own risk and return characteristics.
- Each Risk Profile is linked to investment asset class allocations.
- These Risk Profiles are designed with reference to Morningstar Research¹, which provides historical and forecast data on risk, returns and asset classes.

How does my adviser use a Risk Profile in their recommendations?

Your Risk Profile is determined by understanding your attitudes to risk and other factors. Once your Risk Profile is agreed, your Financial Adviser will recommend specific investments which reflect the asset allocation and risk characteristics of your Risk Profile.

Focusing on asset allocation

Asset allocation is a way of investing in a mix of investment types or classes such as Cash, Fixed Interest, Shares, Listed Property and Alternatives/Infrastructure. Shares can be further broken down into International and Australian asset classes.

Defensive Assets	Growth Assets
Cash Fixed Interest	Shares Managed Funds Listed Property Alternatives/ Infrastructure
Income in the form of interest but no growth of the initial investment amount	Capital growth of the initial investment and generally some income

Advantages	Disadvantages	Advantages	Disadvantages
Value does not generally fall Less volatile	Inflation may erode real value	Growth means investment has a better chance to keep pace with inflation	Volatile - investment value goes up and down
Income is generally fixed or known for a certain time frame	Generally lower rate of return than growth investments	Generally higher rate of return than defensive assets	Income is not guaranteed or fixed
Easy access to funds	Returns are generally fully taxable at the marginal rate	Returns usually more tax efficient	Returns are not guaranteed and can be positive and negative
Security of capital	Little opportunity to find better rates as providers tend to match rates	More chance for diversity across different industries and countries	In some cases the initial value of the investment can be lost e.g. purchasing shares in a company which fails

¹ Morningstar is one of Australia's well-known research and investment companies

Risk and Return trade off

Investment decisions involve taking risks. In planning to meet your goals, objectives and future needs, you need to consider what level of risk you are willing to take or tolerate to achieve your aims.

What is risk and return?

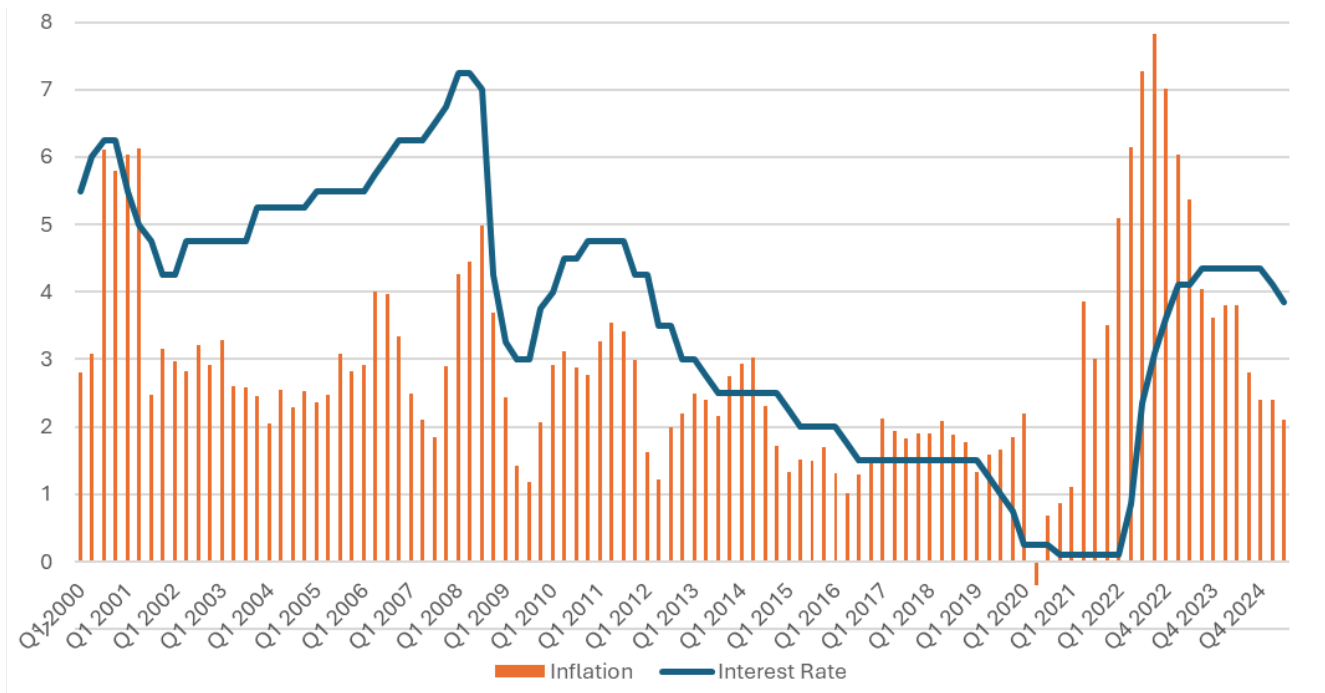
Return is the reward received for investing. It can be income such as dividends or an increase in value or growth of investments. Risk is the possibility of losing money, real or unrealised. The graph below demonstrates the higher the risk, the higher the potential return.



There are 3 main risks you need to consider:

1. **Inflation:** Where inflation or the cost of your lifestyle expenses exceeds the return of your investments. The table below illustrates that a low-risk investment like 'cash' with a fluctuating interest rate can be eaten away at by inflation at times. This effectively reduces the purchasing power and ability to fund lifestyle and expenses based on savings alone.

Inflation vs Interest



Source: Morningstar data Cash rate to 30 June 2025. Inflation rate to 30 June 2025. Past performance is not an indicator of future performance.

2. **Investment:** Where the performance or return of your investments does not meet the income and/or growth expected and potentially you end up with less than when you started (loss of capital). Specific investments may have other risks.
3. **Volatility:** Is the ability to ride out fluctuations in the value and performance of investments.

Diversify to reduce risk

Diversification is investing into a mix of different asset classes and even underlying funds, fund styles, companies, industries and economies around the world. Diversification can assist in reducing risk.

The table below shows asset classes in order of best to worst performance since 1994. Green is the best performing year for the asset and red is the worst. History shows you can't predict with certainty the best performing investment year to year, so don't try.

Calendar year returns by year and asset class (%)

Year	Cash	Aust Bonds	Aust Shares	Int'l Shares	Listed Property	US Shares
1994	5.34	-4.69	-8.67	-8.05	-6.32	-10.73
1995	8.01	18.61	20.19	26.05	14.28	44.09
1996	7.61	11.92	13.44	6.24	14.24	16.18
1997	5.63	12.23	14.69	41.64	21.76	63.45
1998	5.14	9.54	10.35	32.34	18.37	38.86
1999	5.01	-1.22	16.10	17.19	-4.20	14.71
2000	6.24	12.04	3.60	2.19	18.87	3.00
2001	5.28	5.48	10.13	-9.97	14.84	-4.51
2002	4.77	8.81	-8.10	-27.44	11.81	-29.74
2003	4.90	3.05	15.86	-0.76	8.81	-3.51
2004	5.62	6.96	27.57	9.94	32.18	6.41
2005	5.73	5.79	21.09	16.84	12.70	12.98
2006	6.00	3.12	24.97	11.49	34.05	7.32

Year	Cash	Aust Bonds	Aust Shares	Int'l Shares	Listed Property	US Shares
2007	6.77	3.50	17.95	-2.60	-8.36	-4.82
2008	7.60	14.95	-40.38	-24.92	-55.31	-20.83
2009	3.47	1.73	39.58	-0.30	9.56	-1.43
2010	4.66	6.04	3.31	-2.04	-0.68	1.29
2011	5.00	11.37	-11.43	-5.34	-1.56	1.98
2012	3.97	7.70	18.84	14.14	32.79	14.68
2013	2.87	1.99	19.66	48.03	7.27	53.89
2014	2.69	9.81	5.02	15.01	26.79	23.93
2015	2.33	2.59	3.78	11.80	14.38	13.96
2016	2.07	2.92	11.65	7.92	13.18	12.14
2017	1.70	3.70	12.50	13.40	6.40	12.80
2018	1.82	3.09	13.01	15.39	13.20	14.37
2019	1.85	9.57	11.55	11.95	19.39	10.42
2020	0.71	4.18	-7.68	5.76	-20.71	9.57
2021	0.03	-2.87	17.23	29.67	27.03	28.71
2022	1.25	-9.71	-1.08	-12.44	-20.06	-18.11
2023	3.89	5.06	12.98	23.29	16.90	26.29
2024	4.47	2.78	11.44	31.14	17.63	25.02
Average	4.27	5.49	9.65	9.60	9.33	11.69
Best	8.01	18.61	39.58	48.03	34.05	63.45
Worst	0.03	-9.71	-40.38	-27.44	-55.31	-29.74

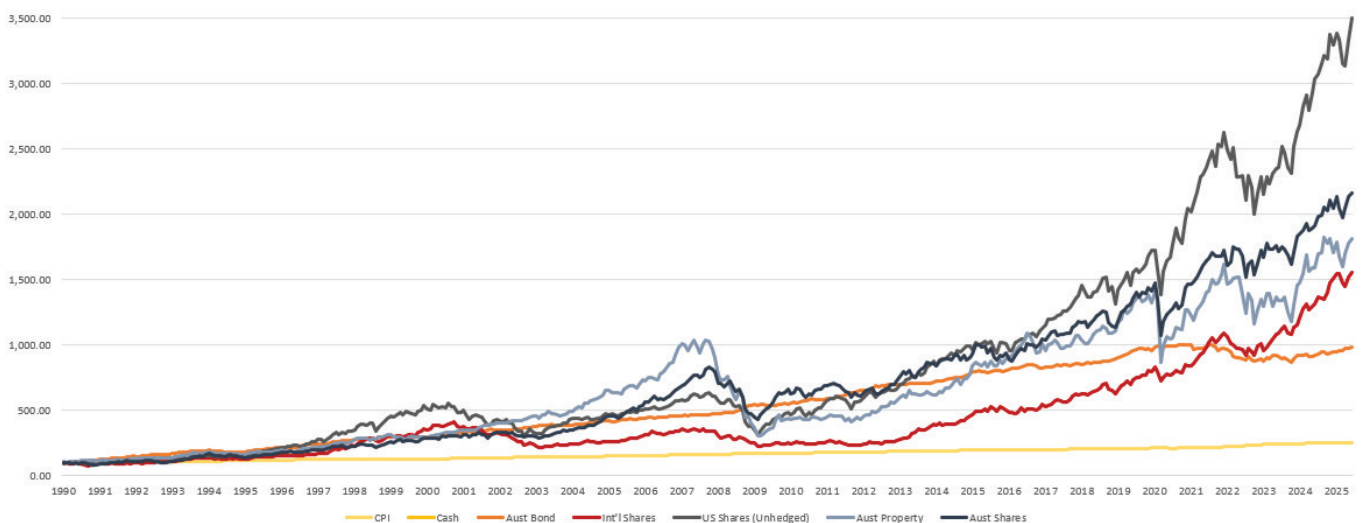
Source: Morningstar data 31 December 2024. Past Performance is not an indicator of future performance

Time in the Market, not timing the Market

The length of time you wish to invest – your investment time horizon - is critical to improving the probability of meeting your investment goals. You need to consider when you may need to cash in your investment or start to draw an income.

The chart below shows the performance of various asset classes over the last 25 years. As you can see, in the last 25 years, all asset classes have increased over the long term. The chart also illustrates the benefit of diversifying investments across asset classes to help reduce volatility and smooth out returns over time. Blending asset classes over longer time horizons helps reduce risk.

Asset Returns 1990-2023



Source: Morningstar data 31 June 2025 (Vertical is growth of index %) Past Performance is not an indicator of future performance

Volatility

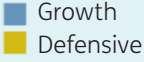






Market volatility refers to the movement of the value of investments in the market. Sometimes the values can move rapidly, and this movement can be stressful for investors when they see these values rise and fall quickly. Although market volatility is out of your hands, it can impact on your personal financial situation. There are two types of volatility:




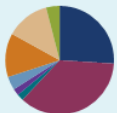
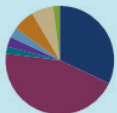
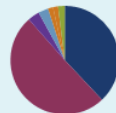
- **Value Volatility** - the value of growth investments fluctuates. This in the short term can be a concern but long-term asset values eventually rise as can be seen from the chart. What is important is investing in the right asset class for the length of time you intend to invest to minimise the chance you need to sell down an investment at a low point.
- **Return Volatility** - changes in the return or income received from investments. This is extremely important where you are relying on the income from investments to fund your lifestyle like in retirement.

Risk Profiles

Risk Profile	Time frame	Description
15% Growth 85% Defensive	3 years	This risk profile is designed for investors with a minimum three-year timeframe or those that seek a portfolio invested predominantly in interest bearing assets, with a small proportion of growth assets. This portfolio also suits investors who give a high priority to the preservation of capital (while understanding loss is still possible) and are therefore willing to accept lower potential investment performance, hence the 85 percent exposure to defensive assets (cash and fixed interest). If the risk tolerance score is zero, a cash account should be considered.
30% Growth 70% Defensive	3 years	This risk profile is designed for investors with a minimum three-year timeframe or those who seek a diversified portfolio of interest bearing and growth asset classes, with an emphasis on interest bearing assets. This portfolio also suits investors seeking a lower level of investment value volatility, and therefore willing to accept lower potential investment performance, hence the 70 percent exposure to defensive assets (cash and fixed interest).
50% Growth 50% Defensive	5 years	This risk profile is designed for investors with a minimum five-year timeframe. This portfolio also suits investors who desire a modest level of capital stability but are willing to accept moderate investment value volatility in return for commensurate potential investment performance, hence the 50 percent exposure to growth assets (shares, listed property and infrastructure) and 50 percent exposure to defensive assets (cash and fixed interest).
70% Growth 30% Defensive	7 years	This risk profile is designed for investors with a minimum seven-year timeframe or those who are willing to accept higher levels of investment value volatility compared to more defensive options in return for higher potential investment performance. Some exposure to interest bearing assets is still desired, but the primary concern is a higher return, hence the 70 percent exposure to growth assets (shares, listed property and infrastructure).
85% Growth 15% Defensive	9 years	This risk profile is designed for investors with a minimum nine-year timeframe or those who are willing to accept high levels of investment value volatility in return for high potential investment performance. The 85 percent exposure to growth assets (shares, listed property and infrastructure) means that capital stability is only a minor consideration.
95% Growth 5% Defensive	10 years +	This risk profile is designed for investors with a minimum ten-year timeframe or those who are willing to accept very high levels of investment value volatility to maximise potential investment performance. The 95 percent exposure to growth assets (shares, listed property and infrastructure) means that capital stability is not a consideration.

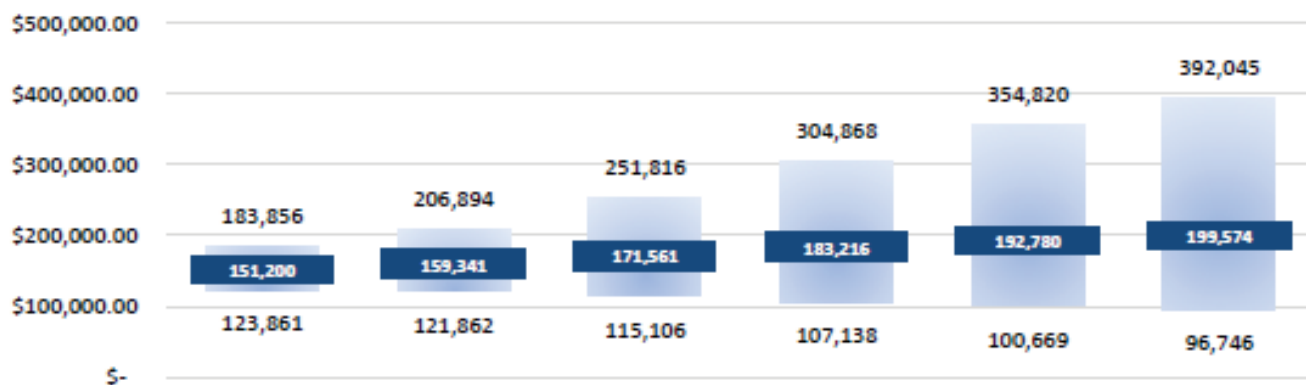
Risk Profile

Asset Class	15% Growth/ 85% Defensive	30% Growth/ 70% Defensive	50% Growth/ 50% Defensive	70% Growth/ 30% Defensive	85% Growth/ 15% Defensive	95% Growth Assets
Growth Defensive Spilt % 						
Growth Assets	15	30	50	70	85	95
Defensive Assets	85	70	50	30	15	5
Minimum investment time frame	3 years	3 years	5 years	7 years	9 years	10 years
Expected range of annual gross returns for 5 years	1.3 to 7.1	0.8 to 8.7	-0.3 to 11.4	-1.6 to 14.1	-2.7 to 16.3	-3.4 to 17.7
Expected range of annual gross returns for 10 years	2.2 to 6.3	2 to 7.5	1.4 to 9.7	0.7 to 11.8	0.1 to 13.5	-0.3 to 14.6
Expected probability of negative return over any single year	10.2	14.3	20.3	24.3	26.6	27.7
Magnitude of loss over 1 year % (3 standard deviations)	-5.7	-8.6	-14.4	-20.6	-25.7	-29.1

Benchmarks						
						
Australian Shares	5.0	10.0	18.0	26.0	32.0	38.0
International Shares ¹	10.0	15.0	26.0	36.0	45.0	50.5
Australian Property ⁵	0.0	0.0	0.0	2.0	2.0	0.0
International Property ⁵	0.0	2.0	3.0	2.0	3.0	3.5
Alternatives	0.0	3.0	3.0	4.0	3.0	3.0
Australian Fixed Interest ²	29.0	26.5	21.5	13.0	6.5	1.5
International Fixed Interest ²	29.0	25.5	20.5	13.0	6.5	1.5
Cash	27.0	18.0	8.0	4.0	2.0	2.0

Sourced from Morningstar February 2025. Actual asset class allocation may be +/- 15% either side of this benchmark depending on current economic and your personal circumstances. Over shorter periods outcomes can vary significantly. Past performance is not an indication of future performance.

Projected wealth level of \$100,000 invested after 10 years (in black band) and the likely range of outcomes (95% confidence interval).



Source: Morningstar data May 2025. Past Performance is not an indicator of future performance.

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