

Dynamic asset allocation look back financial year 2022/23

August 2023



Introduction

Frontier's dynamic asset allocation (DAA) tilts added value over the financial year

We look back at the performance of financial markets and review the performance of our dynamic asset allocation (DAA) advice over the 2022/23 financial year. Performance attribution in this paper is based on the Frontier model portfolio, which acts as a reference portfolio for our DAA advice to clients.

Frontier's Capital Market and Asset Allocation Team reviews our DAA advice on an ongoing basis, including formally in our Quarterly Market Outlook (QMO) publications. Our DAA investment time horizon is typically one to three years.

Across the 2022/23 year equities rebounded producing strong positive returns, although performance was quite different in the first half of the financial year versus the second half. Bonds produced low returns, global bonds negative returns, and unlisted property a small negative return. Portfolio returns over the 12 months were strong, driven by listed equities.

Frontier's DAA tilts added value over the 12 months and continue to outperform over longer time periods.

- Key contributors to performance over the year were:
 - Underweight unlisted property. Frontier introduced a negative view on property in April 2020 and has been recommending clients progressively reduce allocations over time.
 - Underweight international fixed interest.
 - Tilt to Australian inflation-linked bonds.
 - Overweight position in low duration credit.
- Key detractors to performance were:
 - Underweight equities.
 - Overweight listed real assets.
 - Underweight foreign currency.

Relative performance

Chart 1: Frontier DAA performance attribution to June 2023

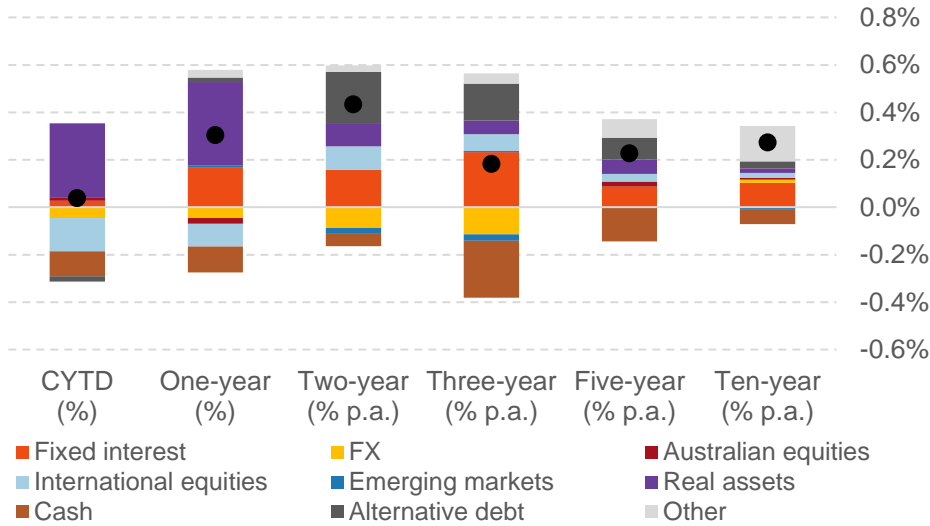
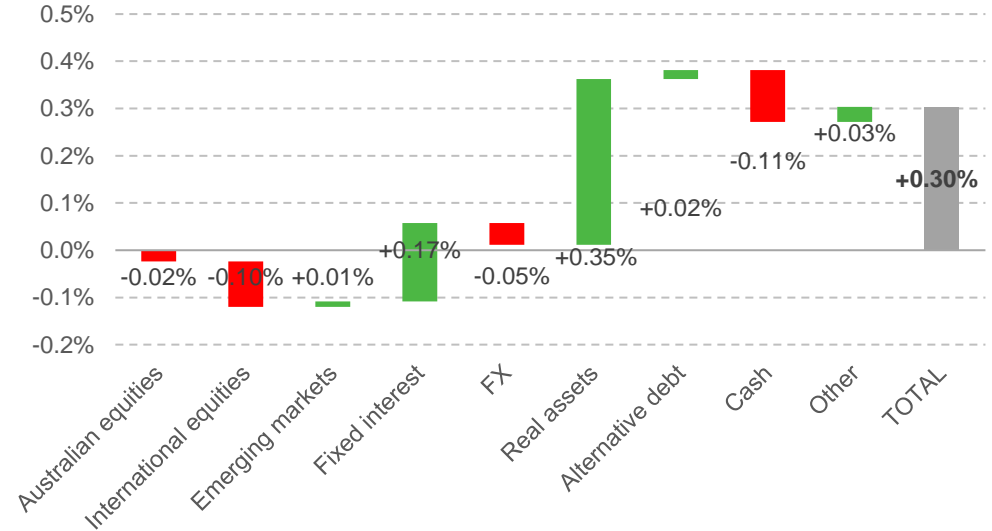


Chart 2: 12-month DAA performance attribution to June 2023



Source: Frontier Advisors

Source: Frontier Advisors

- Overall, DAA added +0.30% to performance and at a slightly lower volatility, producing a superior Sharpe ratio.
- Over longer time frames, DAA has consistently been value adding.

Chart 3: Portfolio volatility (three-years)



Source: Frontier Advisors

Summary of market performance and attribution

- Listed equities produced strong positive returns.
- Emerging markets equities underperformed developed markets equities.
- Foreign currency was a positive contributor to returns as the AUD depreciated.
- Bonds produced low returns, global bonds negative returns.
- Cash delivered small positive returns.
- Alternative debt produced strong positive returns.
- Returns for unlisted infrastructure were solid.
- Property produced a small negative return.
- Alternatives returns were moderately positive.

Table 1: Asset class performance and attribution financial year 2022/23

	One-year return (%)	Average DAA Position	Value add
Australian equities¹	14.4	-1.2	-0.0
Developed markets equities²	16.6	-1.2	-0.1
Foreign currency (MSCI World)³	5.2	-0.8	-0.0
Emerging markets equities⁴	5.1	-0.1	+0.0
Australian bonds⁵	1.2	+0.5	+0.0
Global bonds⁶	-1.2	-0.2	+0.1
Cash⁷	2.9	+2.2	-0.1
Alternative debt⁸	10.7	-0.1	0.0
Private equity⁹	4.1	-	-
Infrastructure¹⁰	8.9	+3.5	-0.1
Property¹¹	-1.1	-3.5	+0.4
Alternatives¹²	3.9	-	-
Model portfolio SAA	9.7		
Model portfolio DAA	10.0		

Source: Bloomberg, Datastream, Frontier Advisors

1. ASX 300
2. MSCI World ex-Aus (hedged A\$)
3. Developed market foreign currency DAA position
4. MSCI Emerging Markets (A\$)
5. Bloomberg AusBond Composite
6. Barclays Global Agg. (hedged A\$)
7. Bloomberg AusBond Bank Bill

8. CS Leveraged Loan Index (A\$ hedged)
9. Refinitiv PE buyout index
10. MSCI Aust Unlisted Infrastructure, sample of managers from Mar-23
11. Mercer Aust Unlisted Property
12. HFRI FoF Diversified Index

Equities

Chart 4: MSCI equities local returns FY 2022/23



Source: Refinitiv Datastream

Chart 5: Emerging markets countries (MSCI indices) local returns FY2022/23

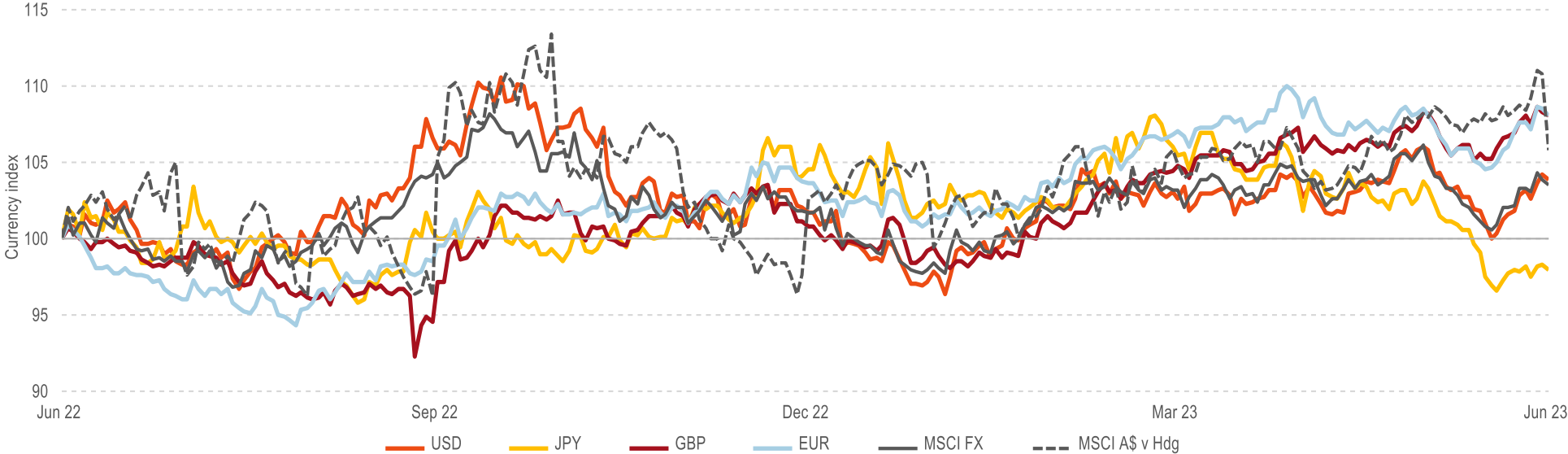


Source: Refinitiv Datastream

- The underweight equities position was negative, particularly developed market equities in the last six months.
- Overweight Japan equities tilt was a positive contributor.
- Overweight Value tilt was a negative contributor.
- The relatively more positive view of emerging markets was a detractor due to the large negative returns from China equities which dragged down the index performance. However, active emerging market equities managers typically had underweight China exposures and relatively outperformed the index.

Foreign currency

Chart 6: Major currencies versus AUD (indexed FY2022/23)



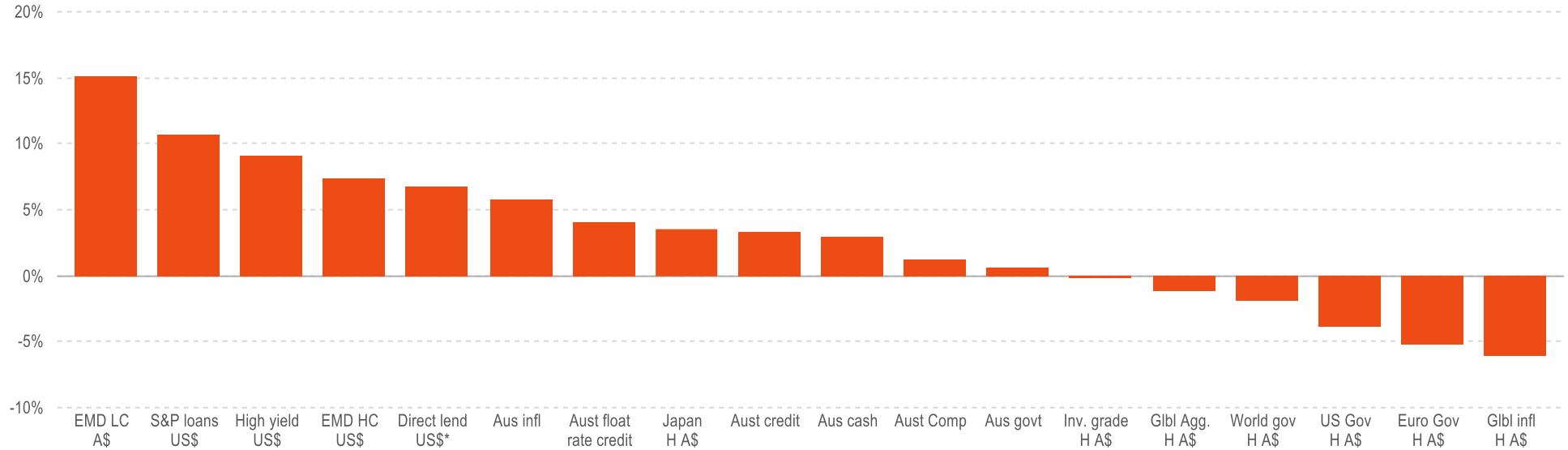
Source: Refinitiv Datastream

- The small underweight position to foreign currency detracted from performance.
- The overweight EUR and GBP were positive positions.
- The overweight JPY tilt detracted from performance.



Debt

Chart 7: Debt returns FY2022/23



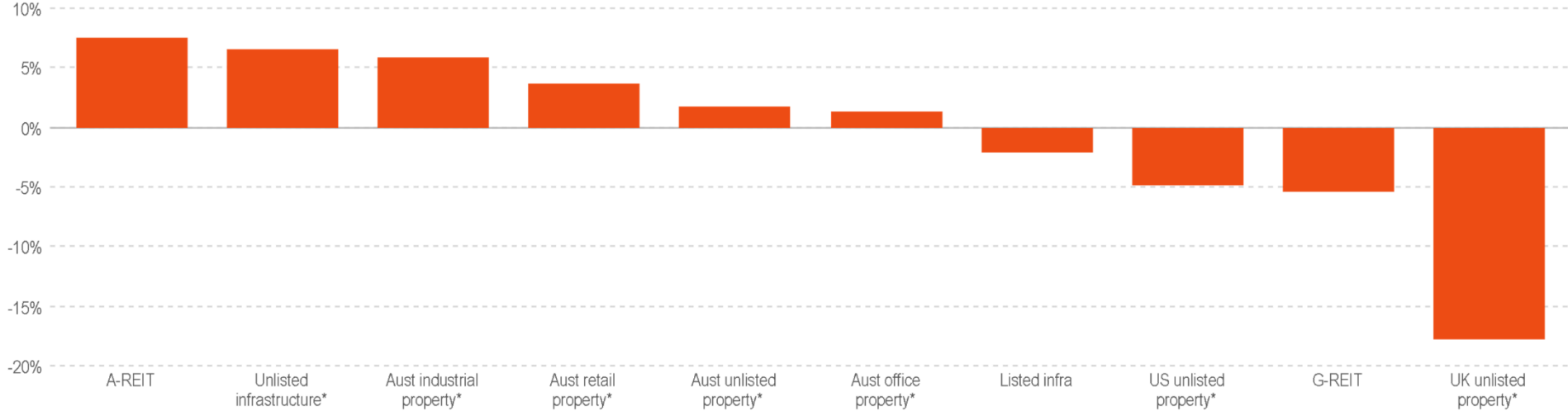
Source: Refinitiv Datastream

*Returns to 31 Mar 2023

- Underweight government bonds, particularly international government bonds was a strong positive contributor.
- Tilt towards Australian inflation-linked bonds (ILBs) added value, although international inflation-linked bonds (excluding US) were significantly negative.
- The preference for loans versus high yield bonds was moderately positive, although high yield bonds also produced strong returns.
- The relative favourable view of Australian credit was positive.
- Preference for US government bonds detracted value, while preference for Australian government bonds was relatively positive.
- The relatively positive view of emerging markets debt (EMD) contributed to performance, although the preference for hard currency (HC) was relatively negative versus local currency (LC), which was the strongest performed debt sector.

Real assets

Chart 8: Real assets returns FY2022/23



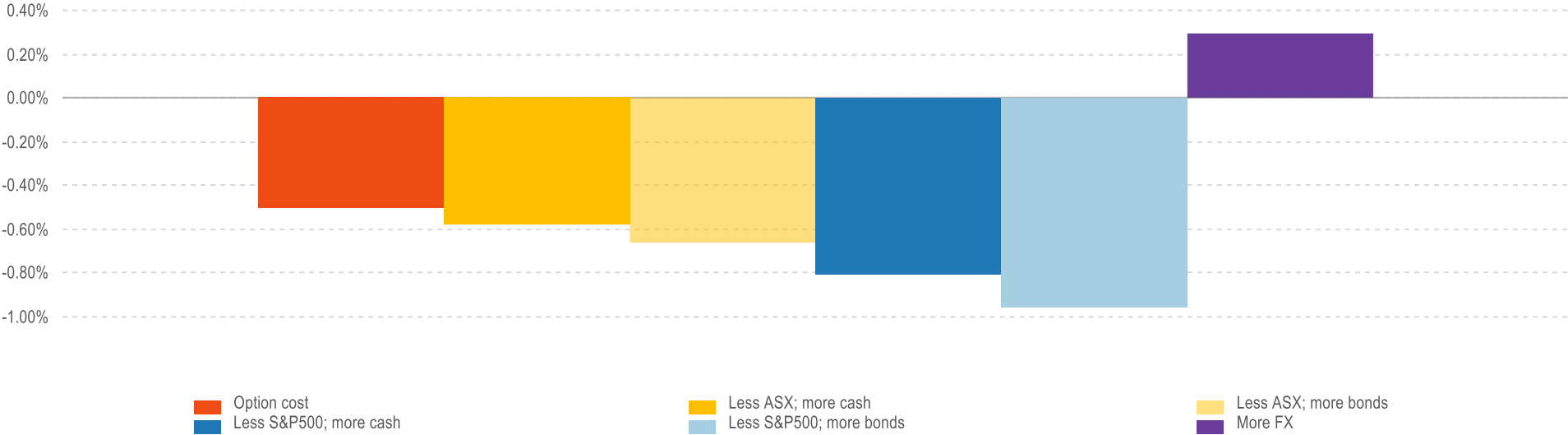
Source: Refinitiv Datastream
*Returns to 31 Mar 2023

- Underweight unlisted property was a key positive contributor, and overweight unlisted infrastructure continued to produce solid returns.
- Positions in listed property (REITs) and listed infrastructure detracted value over the year.
- The relative underperformance of office property was consistent with our negative view on office property relative to other property sectors.



Downside protection

Chart 9: Total portfolio return impact FY2022/23
0.5% option spend versus 5% less equities versus 5% more FX



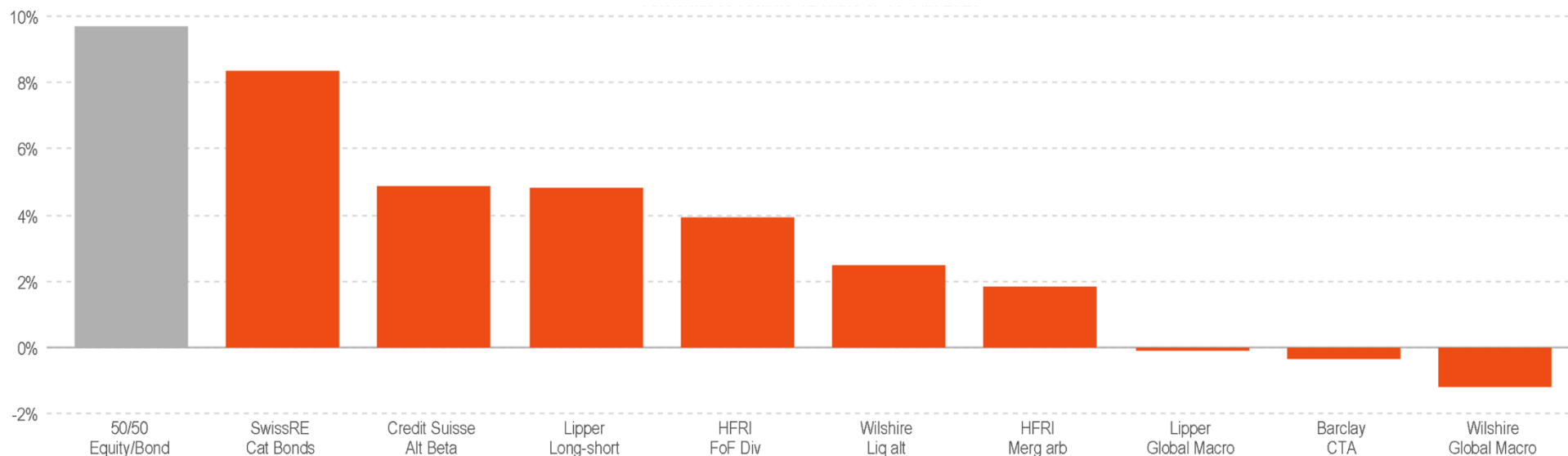
Source: Refinitiv Datastream

- Put options were a cost over the financial year.
- But an option program was likely a better outcome than selling out of equities given the strong returns from equities.
 - In particular, US equities performed strongly while holding US bonds produced negative returns.
- Foreign currency added value over the calendar year, even though growth assets outperformed.



Alternatives

Chart 10: Alternatives returns 12-months to 30 June 2023

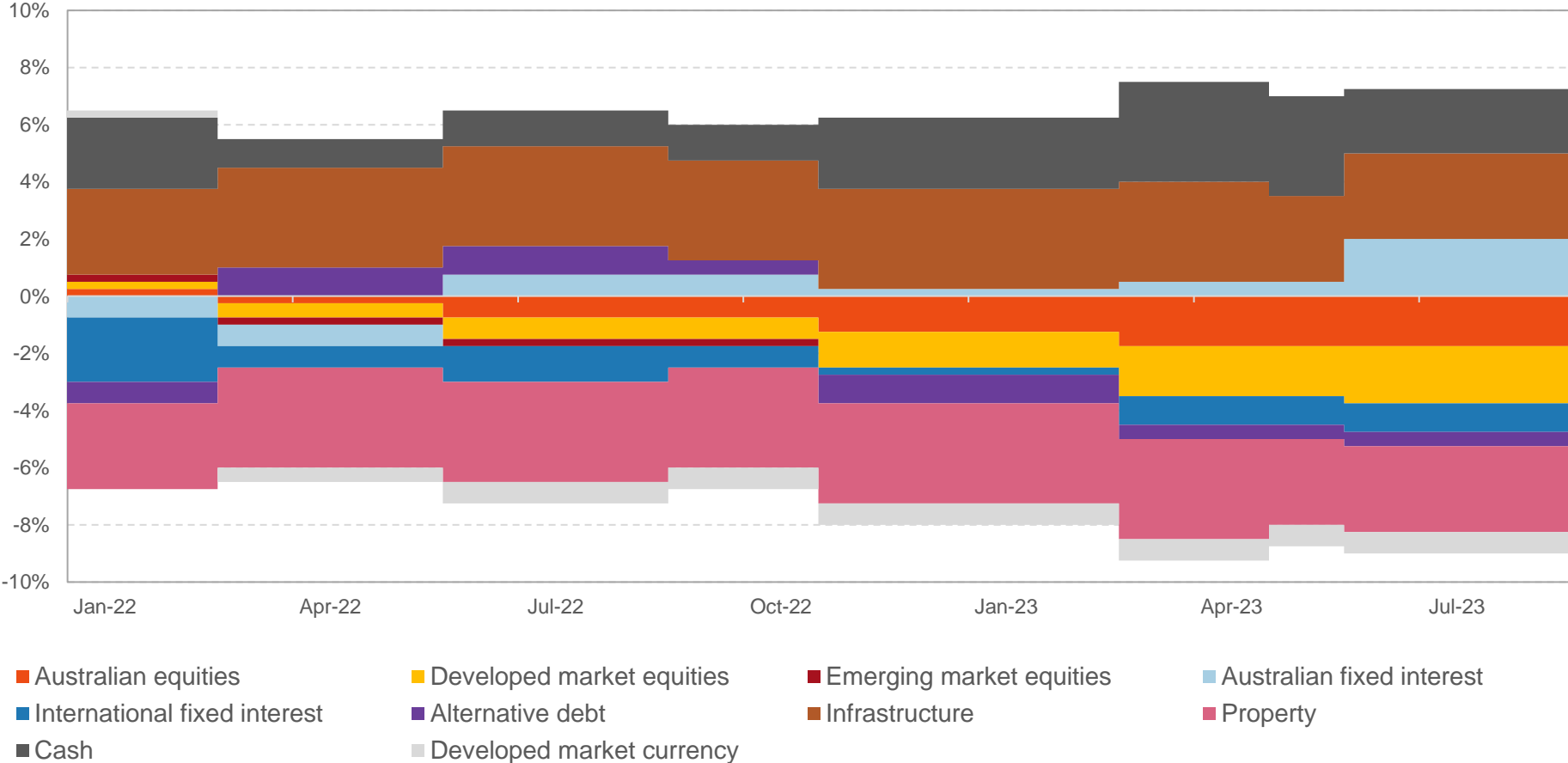


Source: Refinitiv Datastream

- Alternatives relatively underperformed strong returns from equities.
- Insurance-linked securities produced solid returns, after previous underperformance linked to Hurricane Ian proved not as negative as initially forecast.
- Commodity Trading Advisor (CTA) (trend) strategies struggled after previous very positive performance during the market downturns.
- The HFRI FoF Diversified index produced a moderate positive return.

Frontier model portfolio historical DAA

Chart 11: Frontier DAA tilts



Source: Frontier Advisors
 * may sum to more than 0% with foreign currency tilts





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