



Asset Allocation **Maximising returns –** **minimising risks**

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Development

Please note

This document is for investment professionals only. The content is not to be viewed by or used with retail investors.

Agenda

- ▶ The problems with traditional asset allocation approaches
- ▶ Strategic Asset Allocation
 - ▶ Risk, return and correlation
- ▶ Creating optimal portfolios
 - ▶ Getting the asset class mix right
 - ▶ Working with unreliable fund manager skill
- ▶ Lessons learned

The problems with traditional asset allocation approaches

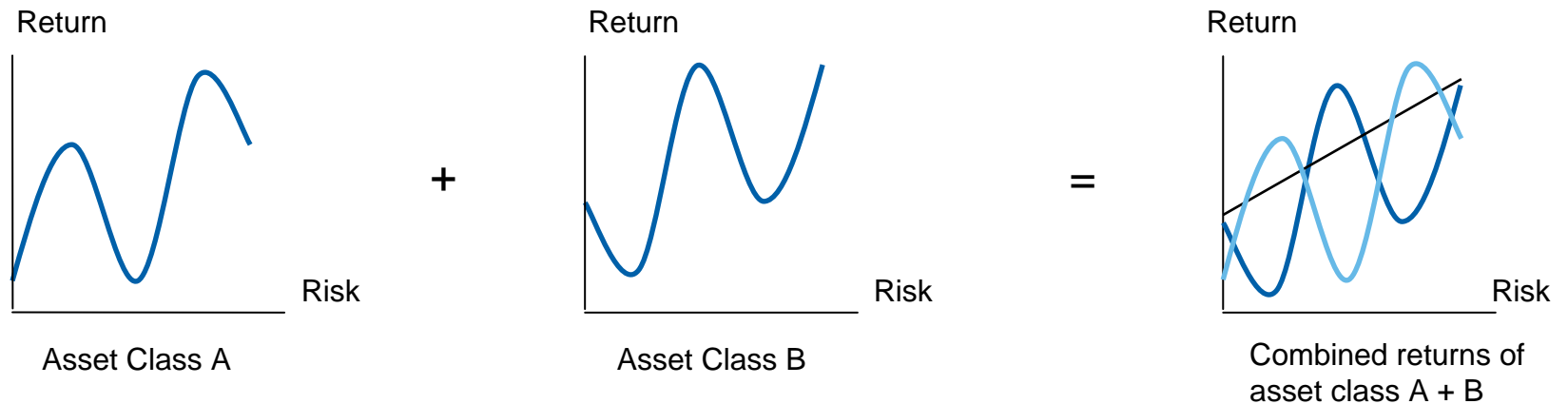
Peer group benchmarks result in:

- ▶ herd-like mentality with
- ▶ constrained asset allocation
- ▶ In practice this has resulted in over reliance on equities which:
 - ▶ creates problems because of volatility
 - ▶ Are rarely diversified across markets
 - ▶ inconsistent with regulatory valuation requirements
- ▶ Alternatives to conventional equity-dependant portfolios combine a wide range of assets – including alternatives – into a single diversified product aiming to deliver absolute returns without the volatility associated with conventional portfolios



Diversification benefits

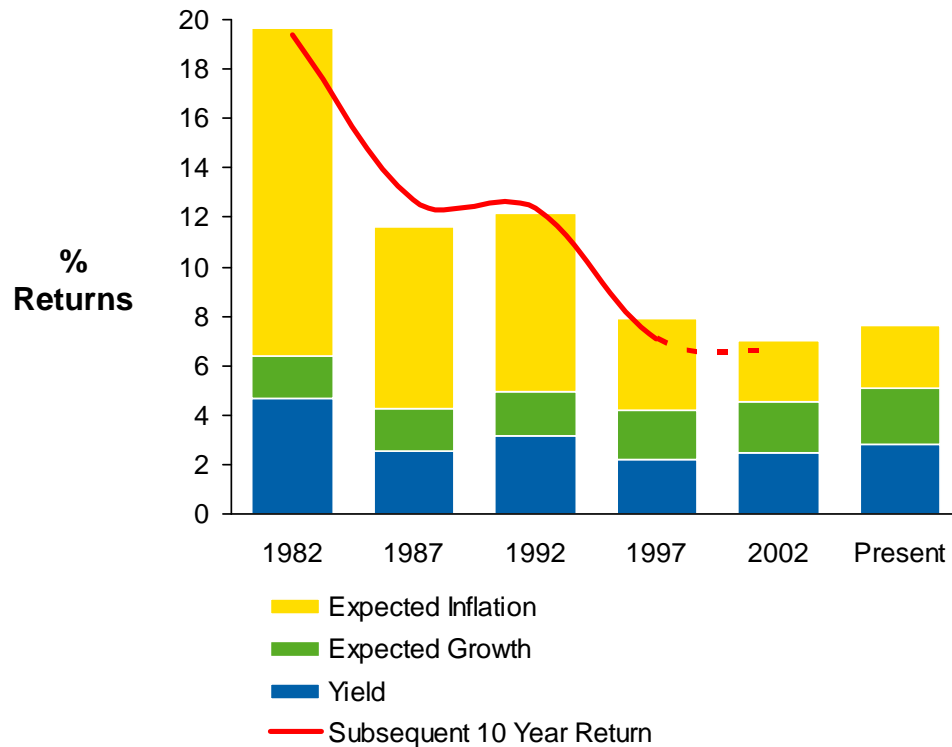
- ▶ Improve overall risk budget by combining less correlated assets



- ▶ Our process considers the asset class returns, correlation and consequently the optimal mix
- ▶ Correlation is the degree to which two assets have a tendency to move together ranging from (1) perfect correlation to (-1) perfect inverse correlation

Predictability in long-term return prospects

UK equities

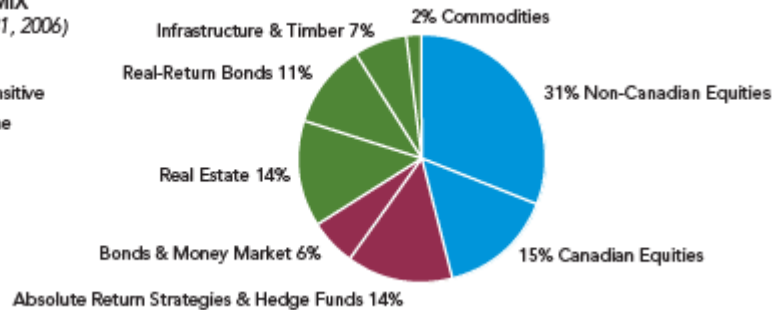


- ▶ Long-term returns far more predictable than short-term returns
- ▶ Back-testing shows returns vary significantly over time and assets

Illustrative purposes only

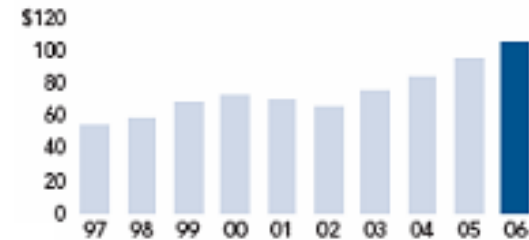
ACTUAL ASSET MIX
(as at December 31, 2006)

- 46% Equities
- 34% Inflation Sensitive
- 20% Fixed Income



NET ASSETS

(for the year ended December 31) (\$ billions)



Performance (%) for the year ended December 31

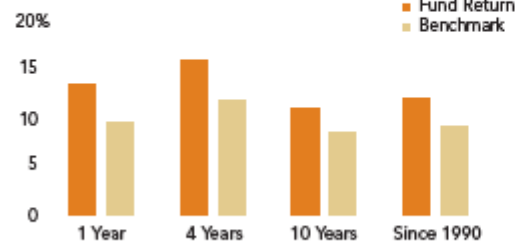
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Rate of return	13.2	17.2	14.7	18.0	(2.0)	(2.3)	9.3	17.4	9.9	15.6	19.0
Benchmark	9.4	12.7	10.6	13.5	(4.8)	(5.3)	5.3	17.6	11.9	15.6	18.1

Net assets have grown to \$106 billion from \$19 billion in 1990.

Total fund value added

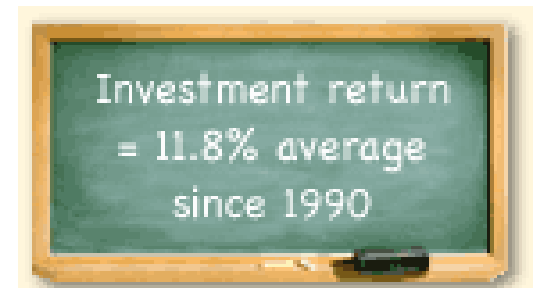
LONG-TERM PERFORMANCE VS. BENCHMARK

(%)

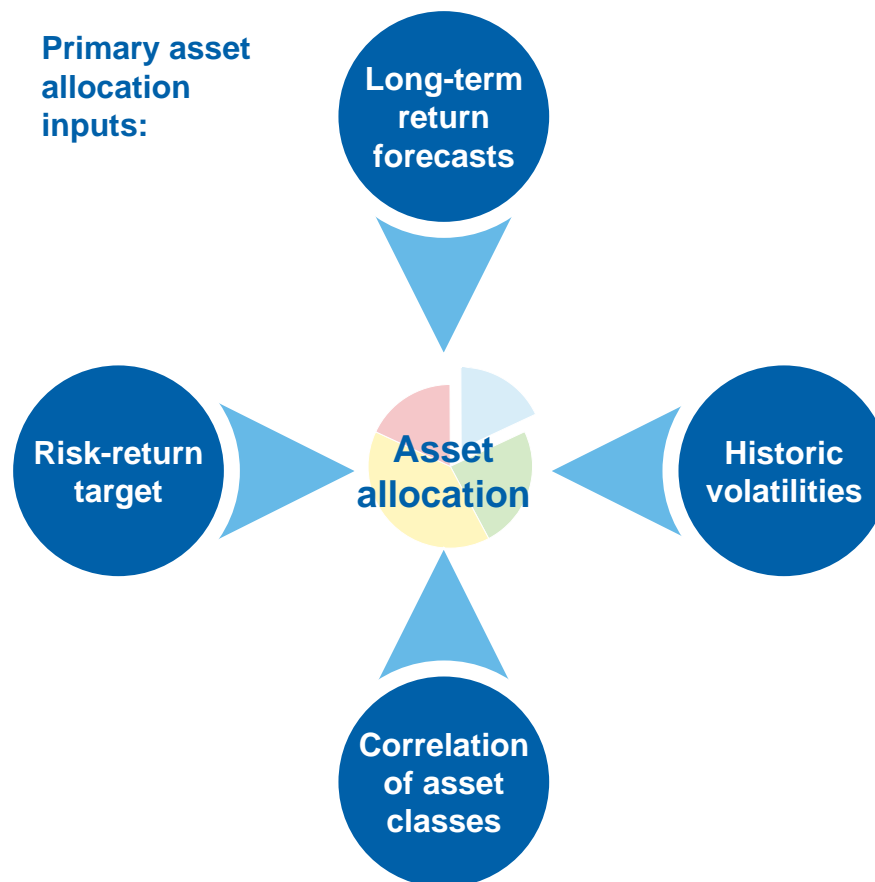


Since 1990, outperforming the fund's benchmarks has added \$22.7 billion in extra value to the fund.

"Since the beginning of 2003, our investment income has totalled \$48.6 billion; that total includes \$12.6 billion earned above market benchmarks, also known as value added".

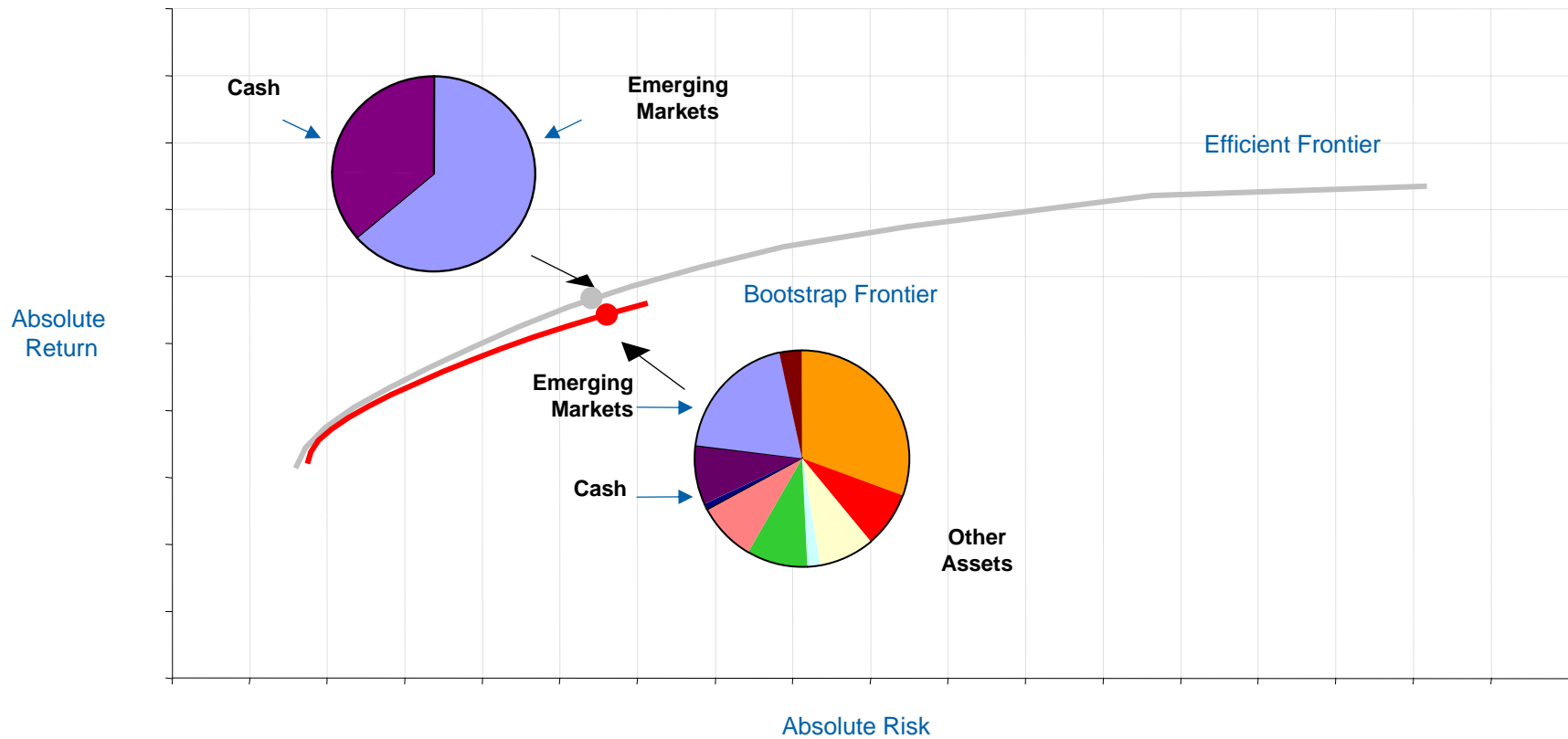


Strategic Asset allocation has a major influence on investment performance



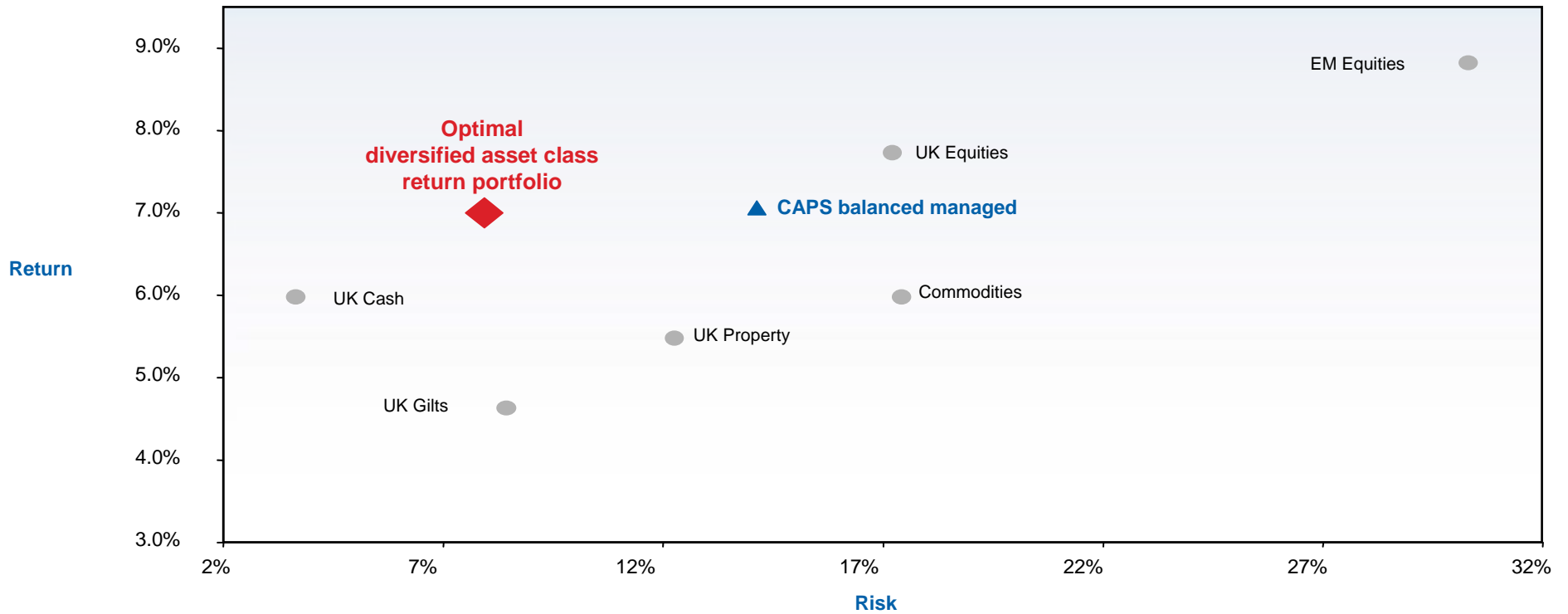
Evidence shows asset allocation contributes up to 95% of return variance*

Creating optimal portfolios



Optimal diversified asset class return

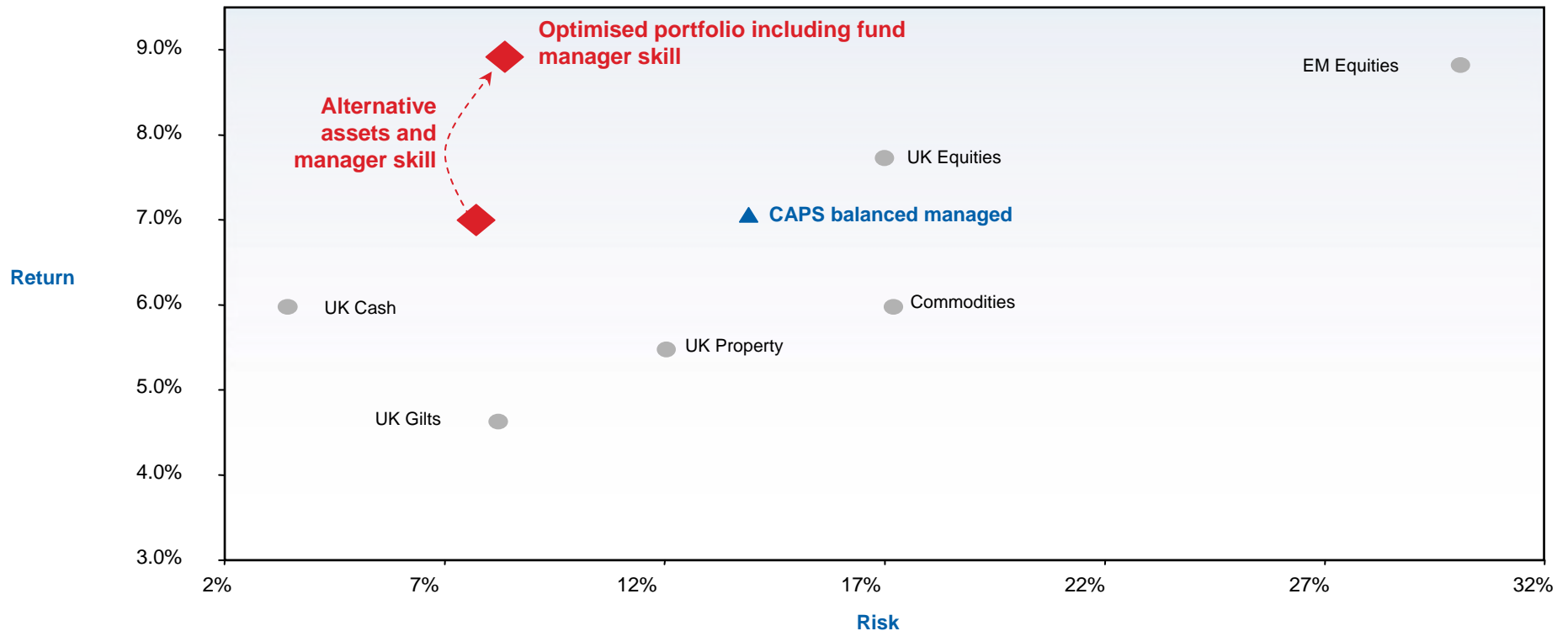
Risk and return



Getting the right mix of asset classes

Optimised portfolio including fund manager skill

Risk and return



Resulting in a highly diversified portfolio targeting equity-like returns for bond-like risk

Lessons learned

- ▶ Dynamic Strategic Asset Allocation captures time-varying opportunities
- ▶ Unconstrained asset allocation makes sense
- ▶ Asset class returns are predictable over the longer-term
- ▶ It makes sense to consider the widest array of asset classes

Important notes

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Where past performance has been illustrated it is not intended to be a guide to the future.

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