

**Presenting  
debate on  
contemporary  
and emerging  
portfolio  
construction  
issues**



portfolio  
construction

CONFERENCE

15 & 16 August 2007 | AJC Convention Centre, Randwick, Sydney



# Tactical Asset Allocation:

Did you throw the baby out with the bathwater?

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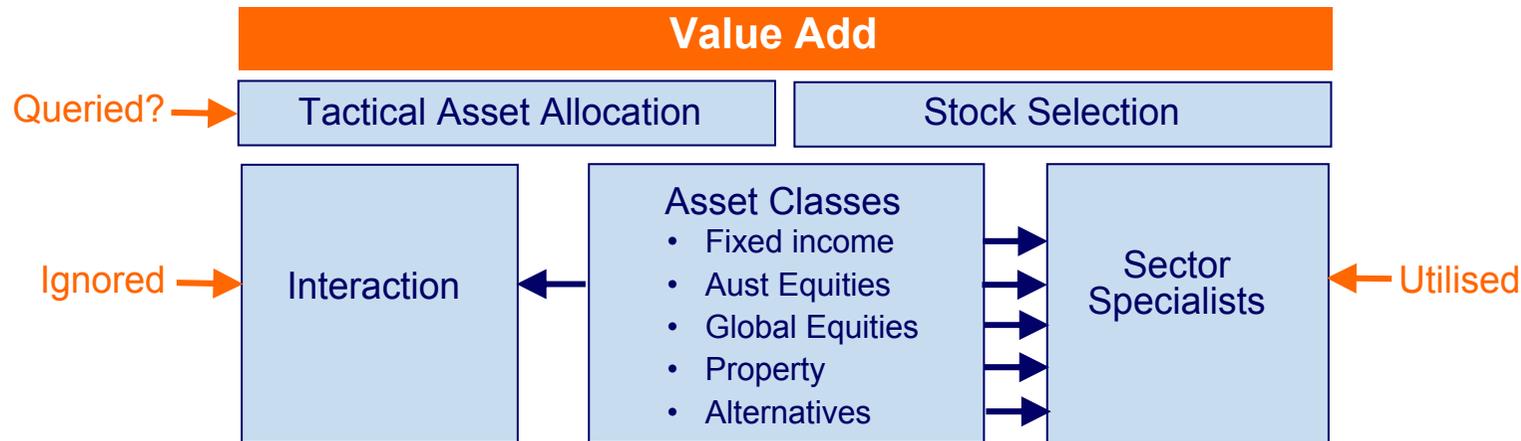
Presentation to PortfolioConstruction Conference 2007  
15-16 August 2007

INVESTMENT MANAGEMENT



# Synopsis

- TAA value add – has it delivered?
  - What is the evidence to date?
  - Our findings:
    - consistent and repeatable value-add over the long-term
    - a large increment in TAA value add due to “significant change”
  - How does this fit with the bias towards sector-specialists?
  - Who is looking after the interaction between asset classes?
- in general, and in the case of Australia, far reaching? robust?....**



# TAA Value-add – Entrée to the Evidence

Asset Allocation  
Summit  
March 2007

“Asset allocation is back”

- diversification
- alpha-beta separation
- alternatives
- asset class breadth

Research  
Studies

Brinson: c1986

- asset allocation does deliver
- exploration into the benefits of TAA is limited
- mixed views as to whether TAA delivers

The Australian  
Experience

Studies in Australia

- Mercer (2000), research house / consultant
- Faff, Gallagher and Wu (2005), academia
- S&P (2007), research house / consultant

“The Evidence”

Does TAA add value in Australia?

- mixed views, biased to the negative
- backdrop: studies are scarce, not robust

# TAA Value-add – The Research Evidence

## Faff, Gallagher and Wu

Australian Journal of Management ( Dec 2005)



Active managers were **unable to deliver superior returns** through TAA

## Mercer

**MERCER**  
Investment Consulting

- traditional active balanced fund manager = **subtracted value**
- specialist TAA managers = **add value**
- specialist TAA overlay manager = **modest increase to return/risk ratio**
- lack of a long-term performance history = **made conclusions difficult**

## Standard & Poor's

**STANDARD  
& POOR'S**

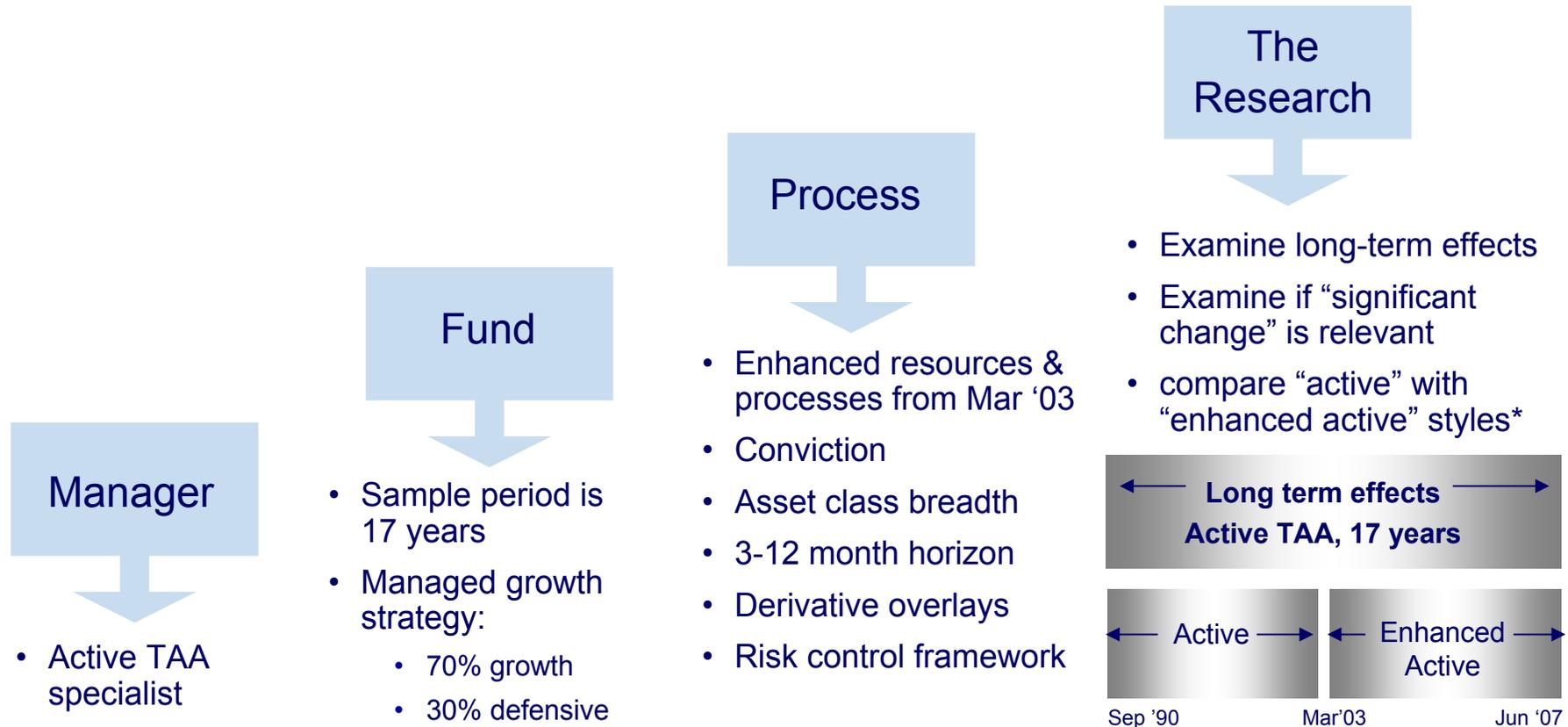
- **no evidence** that active TAA adds value
- **difficult to extract information** from managers
- **long-term analysis not possible** due to **significant change** in management and processes

# Perspective on the Evidence, Cause to Action

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- Scarce evidence, less than robust, and mixed views
- At worst value-destructing, at best marginally value-adding
- Lack of consistency over the long-term, but problems with data & “change”
- S&P recognises TAA as a dynamic, evolving, specialty area
- **A new exploration adding to the debate**
  - find long-term track record of a specialist TAA manager
  - investigate whether TAA consistently adds value over the long term
  - examine the issue of “significant change” – in teams and processes and ask does it support or detract from TAA?

# Approach and Method to the New Research



Analysis was conducted on the ING Managed Growth Superannuation Fund, a \$3.5 billion flagship fund managed by ING Investment Management.



# Findings from Long Term analysis

	Sep'90-Jun'07
TAA Value Add – monthly avg	0.04%
Tracking Error (Risk) – monthly avg	0.26%
<i>t-statistic</i>	2.09
<i>Probability of Manager Skill</i>	98.20%
TAA Value Add – annualised	0.46%
Tracking Error – annualised	0.91%
Information Ratio	0.51

- TAA manager skill has been demonstrated over the long term

- TAA value add has been consistently positive over the long term

Statistics derived from the performance of the ING Managed Growth Superannuation Fund



# Findings from “Significant Change” analysis

	Sep 90-Feb 03	Mar 03-Jun 07	Difference
TAA Value Add – monthly avg	0.03%	0.08%	0.05%
Tracking Error (Risk) – monthly avg	0.29%	0.18%	-0.11%
t-statistic	1.12	3.03	1.91
Probability of Manager Skill	86.8%	99.9%	13.0%
TAA Value Add – annualised	0.31%	0.90%	0.59%
Tracking Error – annualised	0.99%	0.62%	-0.37%
Information Ratio	0.31	1.46	1.15

## Impacts of Significant Change:

- Strong rise in TAA value add
- Significant reduction in risk
- Vast improvement in information ratio
- Sharp rise in manager skill

Statistics derived from the performance of the ING Managed Growth Superannuation Fund



# Key Conclusions

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- TAA has delivered
  - through an active, specialty approach
  - in a consistent, repeatable manner over the long term
  - via manager skill
- Significant change (through added resources & process enhancements)
  - materially improves TAA value add
  - achieves this with reduced risk
  - in a consistent, repeatable manner over the long term
  - Evidenced by an extremely high probability of manager skill

# Observations & Takeaways

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- How does this fit with the trend to sector-specialist programmes?
- TAA has been by-passed
  - lack of evidence?
  - lack of robustness?
  - mixed views? uncertainty?
  - not enough specialty? .....
- Who is looking after the interaction between asset classes?
  - TAA specialists **can** add value to a multi-sector investment portfolio
  - TAA is worthy of consideration



# Did you throw the baby out with the bathwater?

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**QUESTIONS?**

# Wrap-up: What does this mean for you?

## 1. Manager Selection & Structure is Important



### **Eric Siegloff, Director of TAA and Investment Strategy**

- Directly responsible and accountable TAA, RAA & Currency Management
- 19 years experience



### **Steve Barraclough, Senior Portfolio Manager**

- Responsible for Currency Management and Overlay Management, implementation & operations
- 11 years experience



### **Mark Robertson, Portfolio Manager**

- Responsible for RAA and Overlay Management, implementation & operations
- 6 years experience



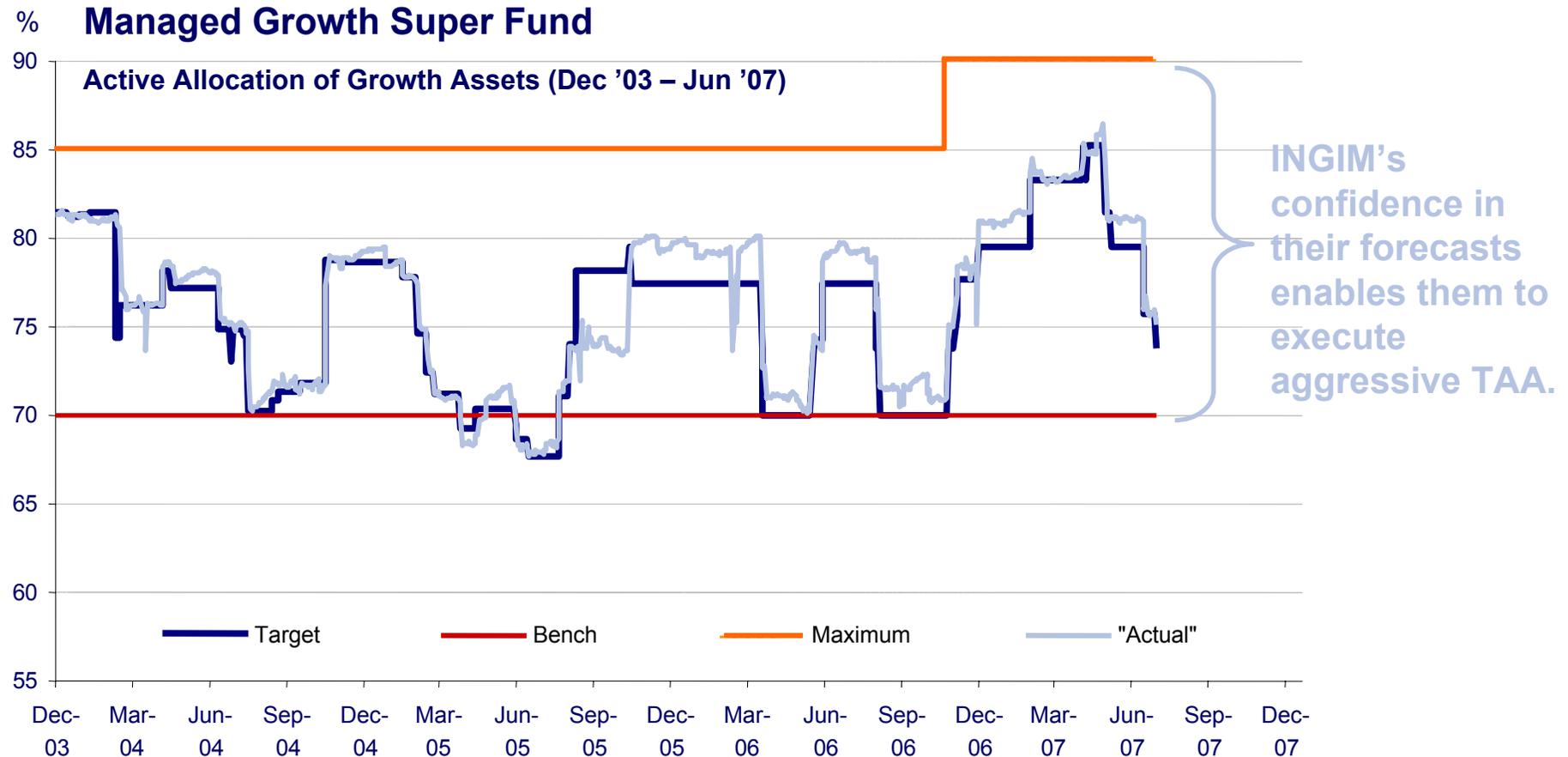
### **Werner Halbich, Portfolio Manager**

- Responsible for Implementation and Operations
- 39 years experience

INGIM's TAA function is driven by leaders with clear objectives to deliver value-added output.

# Wrap-up: What does this mean for you?

## 2. Look for Evidence of TAA Conviction



# Wrap-up: What does this mean for you?

## 3. ING Has Consistently Added Value

### Value Added Through Tactical Asset Allocation to May 2007

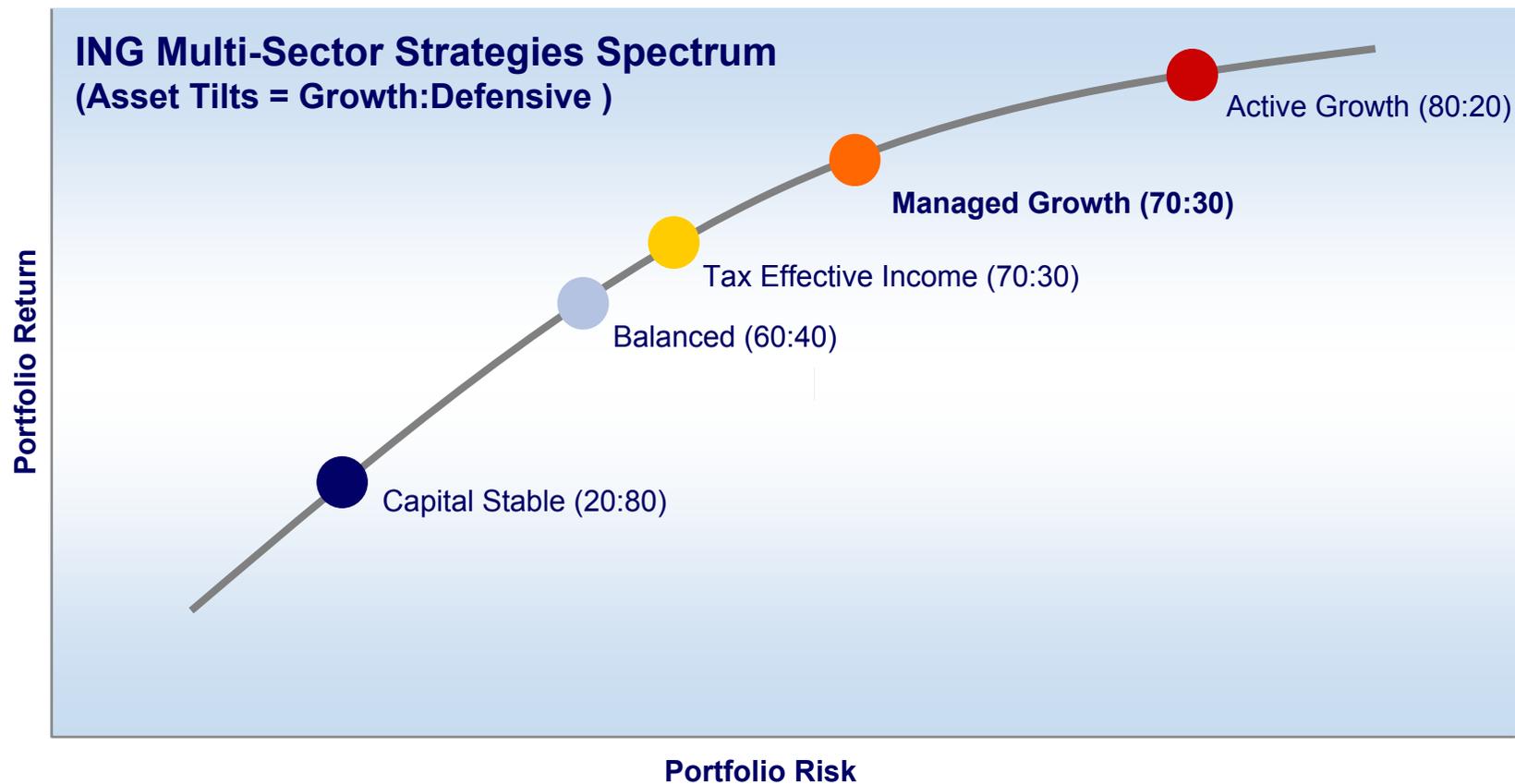
	1 yr	2 yrs	3 yrs	4 yrs	5 yrs	6 yrs	7 yrs	8 yrs	9 yrs	10yrs
<b>ING Ranking</b>	Q1	Q1	Q1	Q1	Q1	Q1	Q1	Q1	Q1	Q1
<b>No. of Funds</b>	22	22	21	21	21	19	18	18	17	16
<b>ING Value Add</b>	1.9	3.9	5.2	8.4	5.2	6.2	6.9	6.5	6.4	5.5
<b>Competitor Avg</b>	0.6	1.3	1.4	2.4	1.3	1.1	1.0	0.6	0.5	-2.0

Source: Mercer Survey: Pooled Fund Asset Allocations. Performance is based on the value added through asset allocation relative to the managers' own benchmarks. Figures are the value added for the whole period (they are not annualised).



# Wrap-up: What does this mean for you?

## 4. Choose the Right Solution



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