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Opportunities amid the gloom

6 October 2016

Matthew Bullock
Investment Director

Key points

Increased policy uncertainty and richer valuations for risk assets may potentially leave portfolios with little margin for error

Favour a quality bias in portfolios: US assets over international, and US-duration and gold related assets

With Fed tightening likely limited, we expect the US dollar and interest rates to be range-bound

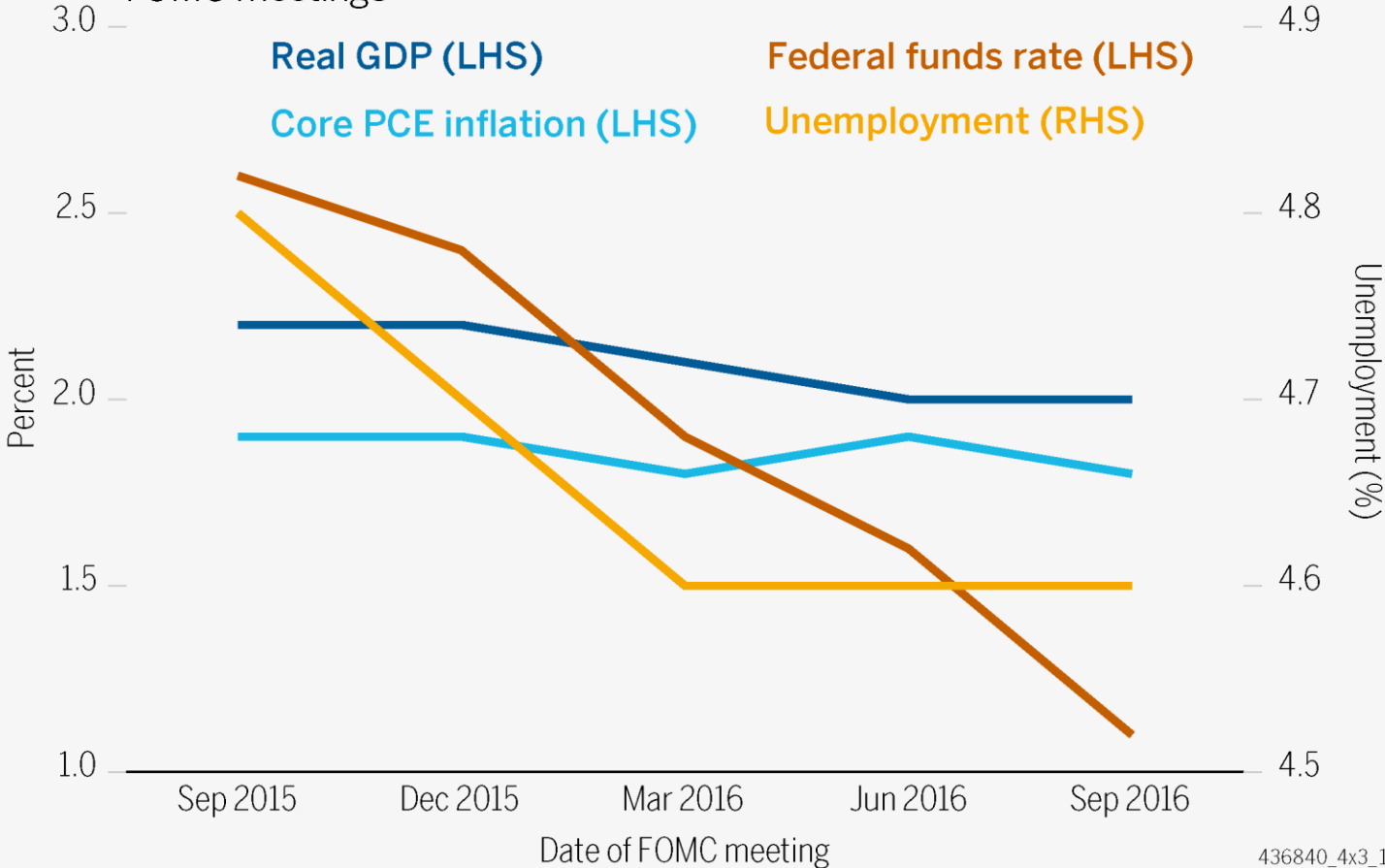
China's stimulus is lifting domestic demand, however the economy is still slowing amid high corporate debt and excess capacity

Falling Fed forecasts for 2017

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Lowered forecasts for the Fed funds rate and GDP growth suggest an even slower path toward higher rates

US Federal Reserve economic projections for 2017 released at recent FOMC meetings



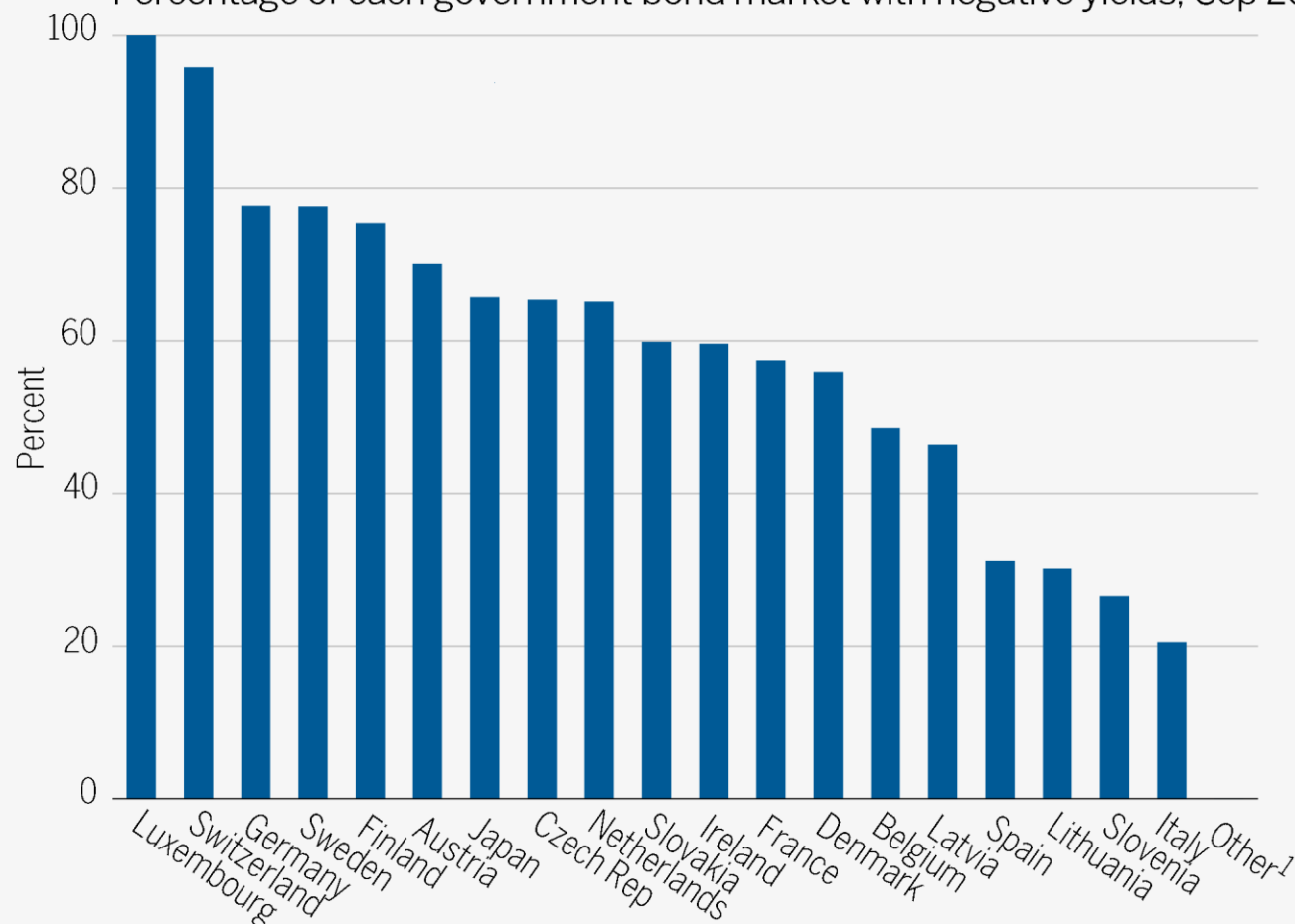
Sources: Federal Reserve,
Wellington Management

Negative bond yields more pervasive

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Almost US\$12 tril of the global government bond market currently has negative yields

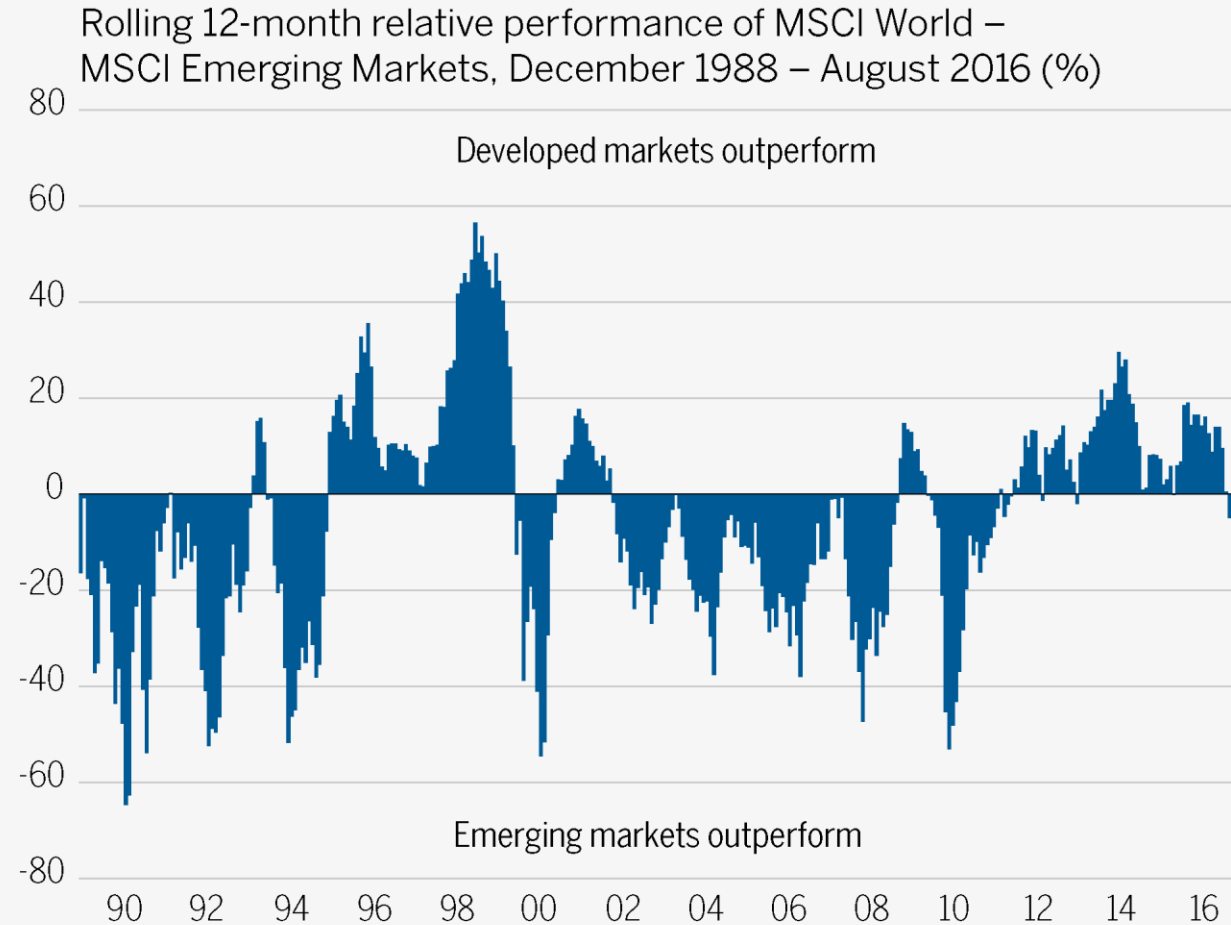
Percentage of each government bond market with negative yields, Sep 2016



¹Includes: Australia, Canada, Chile, Hong Kong, Israel, Malaysia, Malta, Mexico, New Zealand, Norway, Poland, Russia, S Africa, S Korea, Singapore, Thailand, Turkey, United Kingdom, United States | As of 23 September 2016 | Sources: Barclays, Wellington Management

Where are the potential return opportunities?

Cyclical pattern of developed and emerging market performance

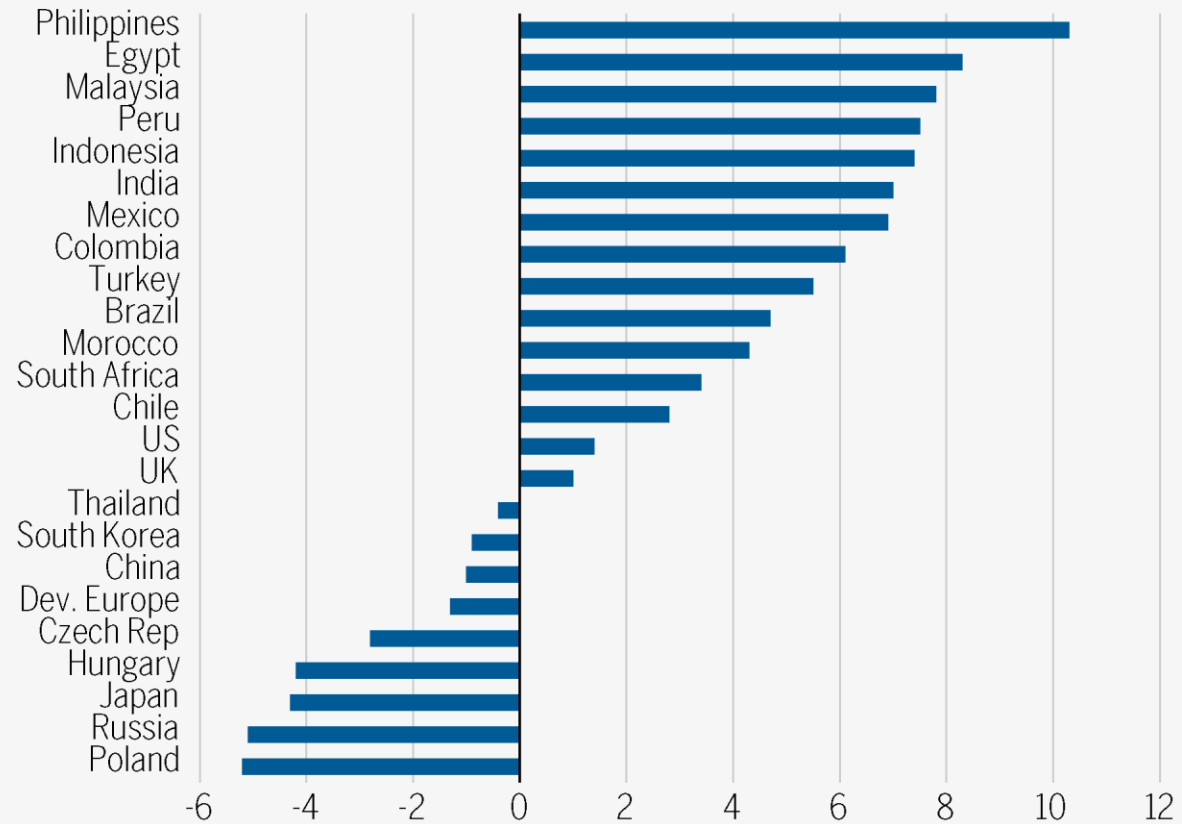


Source: MSCI

Where are the potential return opportunities?

The structural case: Favourable demographics in emerging markets

5-year % change in working age population,
ages 15 – 64, 2015 – 2020F

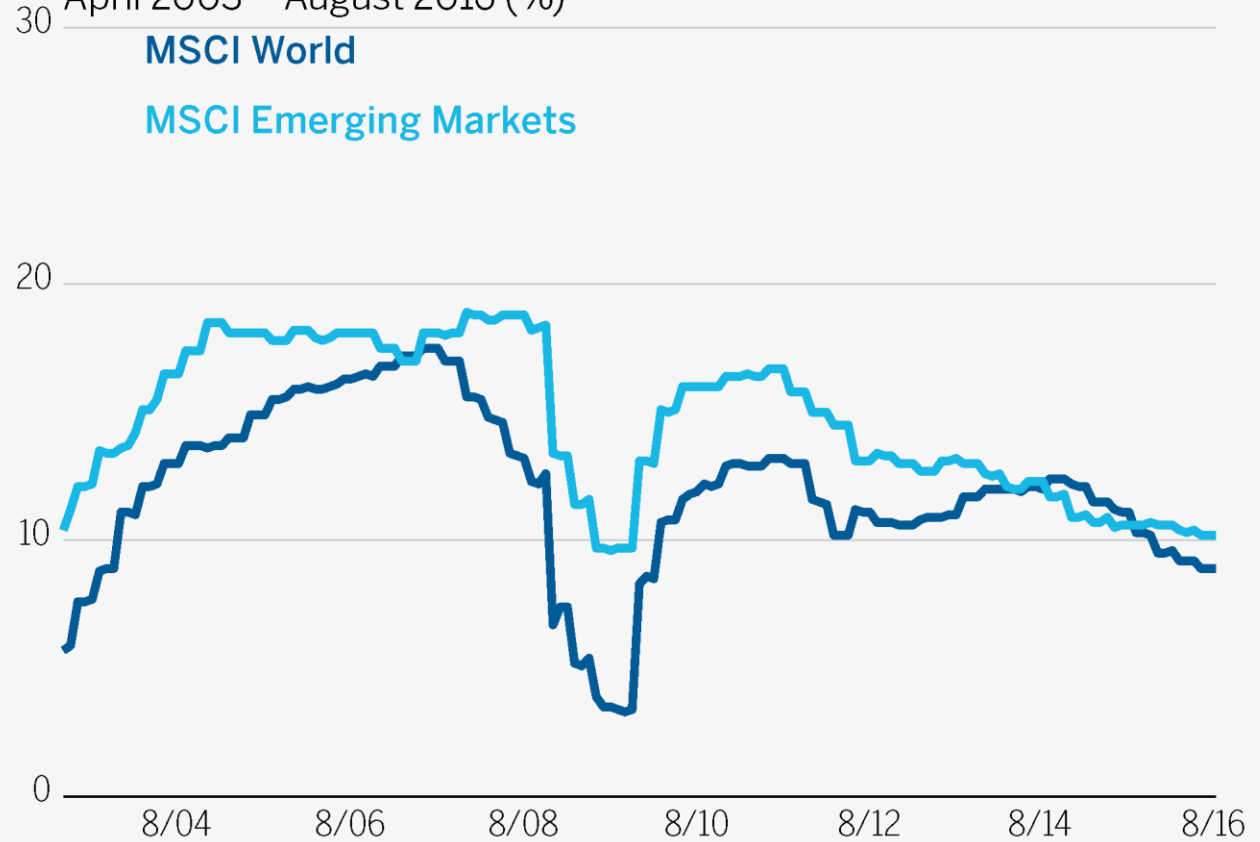


Actual results may vary significantly from forecasts. | Source: UN
Forecasts generated in 2015

Where are the potential return opportunities?

Attractiveness of emerging mkts – ROE is improving...and now exceeding developed mkts

MSCI World vs MSCI Emerging Markets – ROE comparison,
April 2003 – August 2016 (%)



Source: Bloomberg,
Wellington Management

Global Impact

“Impact investments are **investments** made into companies, organisations, and funds with the intention to generate social and environmental **impact** alongside a financial **return**.”

– Global Impact Investing Network (GIIN)

We have an obligation

But...does that mean sacrificing returns?



More than 900 million people suffer from chronic hunger¹



1.6 billion people live in sub-standard housing²



600 million people lack an improved source of drinking water³

¹Source: Freedom from Hunger, World Hunger Facts | ²Source: Habitat for Humanity, The Global Housing Need | ³Source: Unicef, WHO, 25-year Progress on Sanitation and Drinking Water | ⁴Source: The World Bank, The Global Index Database 2014 | ⁵Source: Internet World Stats, www.internetworldstats.com/stats.htm



38% of the world's adult population is unbanked⁴



58% of the world's population has no access to the Internet⁵

Consider this...

60% of investors consider social + environmental impact¹

85% of millennials consider social, political, or environment impact as important¹

In 2011, 20% of S&P 500 companies issued corporate responsibility reports²

\$45 trillion is in mainstream funds that have publicly committed to incorporating ESG³

Global fund managers raised \$6.7 bil in 2015 and expect this to double in 2016⁴

In 1995 there were 55 funds incorporating ESG...now over 1,000¹

¹US Trust 2015 Insights on Wealth and Worth Highlights. Data available at: www.ustrust.com/ust/pages/insights-on-wealth-and-worth-2015.aspx. | ²Source: Impact Investing: The Performance Realities, Merrill Lynch November 2015 | ³Source: Impact Investment: The Invisible Heart of Markets, Social Impact Investment Taskforce, 15 September 2014 | ⁴Source: GIIN Annual Impact Investor Survey, Global Impact Investment Network 2016

Global Impact

Impact themes

Life essentials Grameenphone

Digital divide



Key Performance Indicator (KPI) Provide mobile phone and data services to 57 million Bengali subscribers

Human empowerment Xylem

Clean water and sanitation



Building out engineering centers of excellence in India and China. Adoption of water-as-a-service offering.

Environment Pattern Energy Group

Alternative energy



Deliver 160 MW of new wind capacity

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Global Impact

Role in overall portfolio

Potential return
enhancement

Exposure to disruptive, innovative companies
targeting large, under-serviced markets

Values alignment

Companies whose core business address
critical social and environmental issues

Diversification/
completion

Exposure to companies and secular themes
that tend to be under-represented in
traditional strategies

Liquid complement

Public-markets security component of an
overall impact strategy

In conclusion...

Ongoing policy uncertainty leading to a need to change the way we invest

Some opportunities exist to capitalise on divergence in equity factors; e.g., Value

Impact strategies invest in companies focused on the future and often better insulated from the factors driving traditional investments

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