

# Session 3: Australian investment portfolio implications

2024 Frontier Advisors Annual Conference

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# Three key themes drive Frontier's research

## Resilience across cycles



### Climate change

Climate change is a major systemic issue for the economy and investments.



### New investment regime

Interest rates are at levels not experienced for more than a decade.

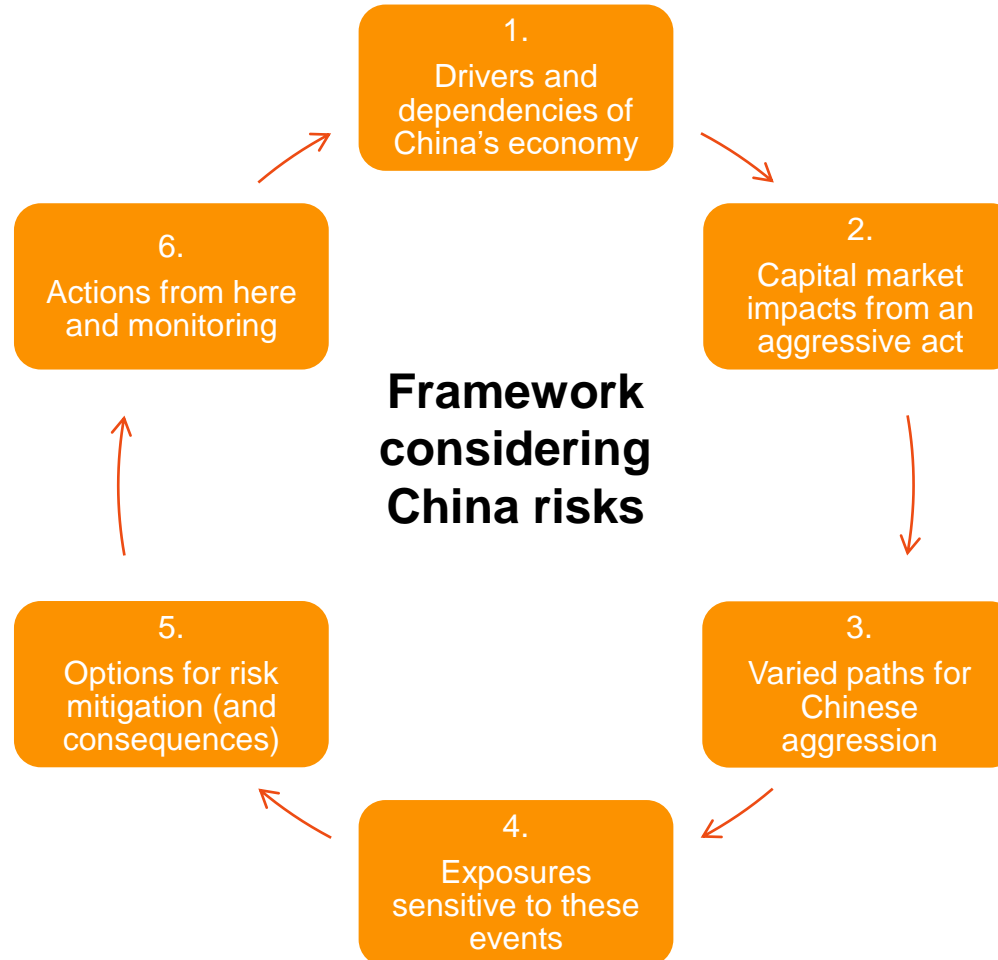


### Geopolitics

Geopolitical events and risks are increasingly priority considerations.

# Managing geopolitical risk is not easy...

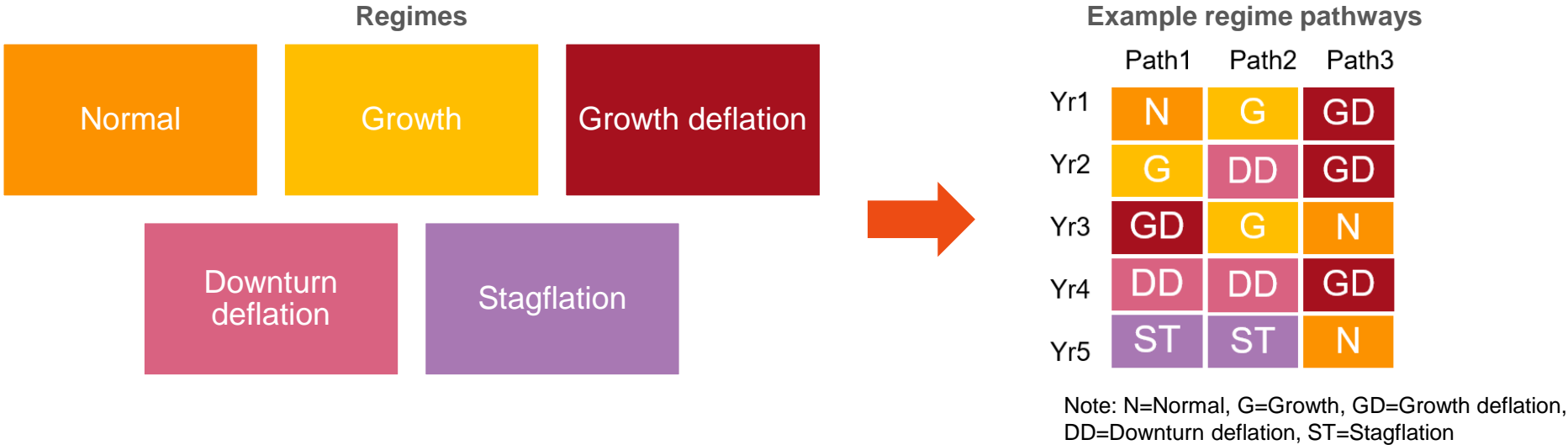
Sensible frameworks and work before potential events are necessary





# Examining changing regimes over time

The five regimes can be used as building blocks for portfolio scenario modelling



Over a ten-year timeframe used for most portfolio modelling, there are  $5^{10}$  possible regime paths ~ 9,800,000 different paths which we can model!

# Regimes change modelling inputs

Macro-economic outcomes and capital market assumptions change with regimes!

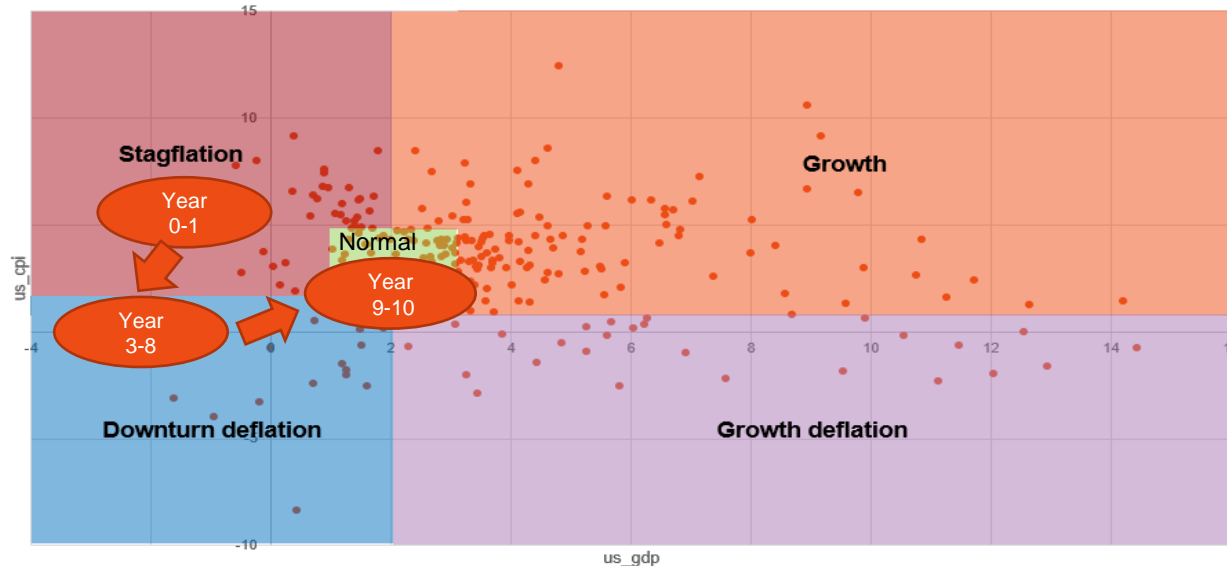
Economic scenario

Year	1	2	3	4	5	6	7	8	9	10
CPI (%)	6.2	2.5	-1.5	-1.1	-0.6	-0.2	0.3	0.7	1.1	1.6
GDP (%)	1.5	-0.5	-2.5	-0.8	1.6	1.6	1.6	1.6	1.6	1.6
Regime	ST	ST	DD	DD	DD	DD	DD	N	N	N

Note: ST: Stagflation; DD: Downturn deflation; N: Normal.  
The numbers in the table are for demonstration purpose only.



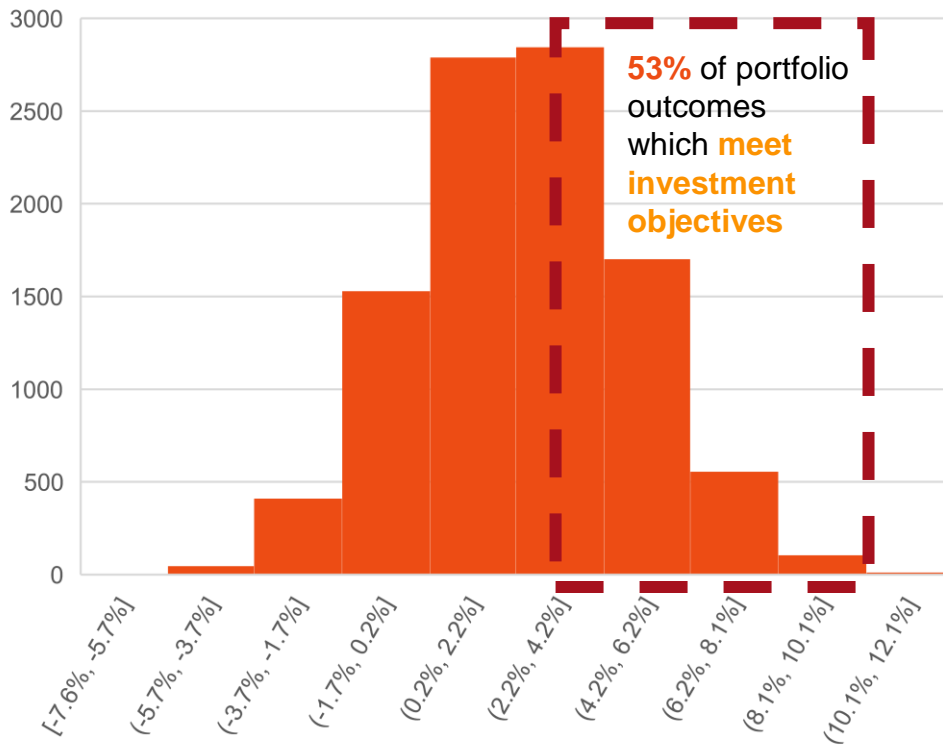
Regime pathway mapped into scatterplot



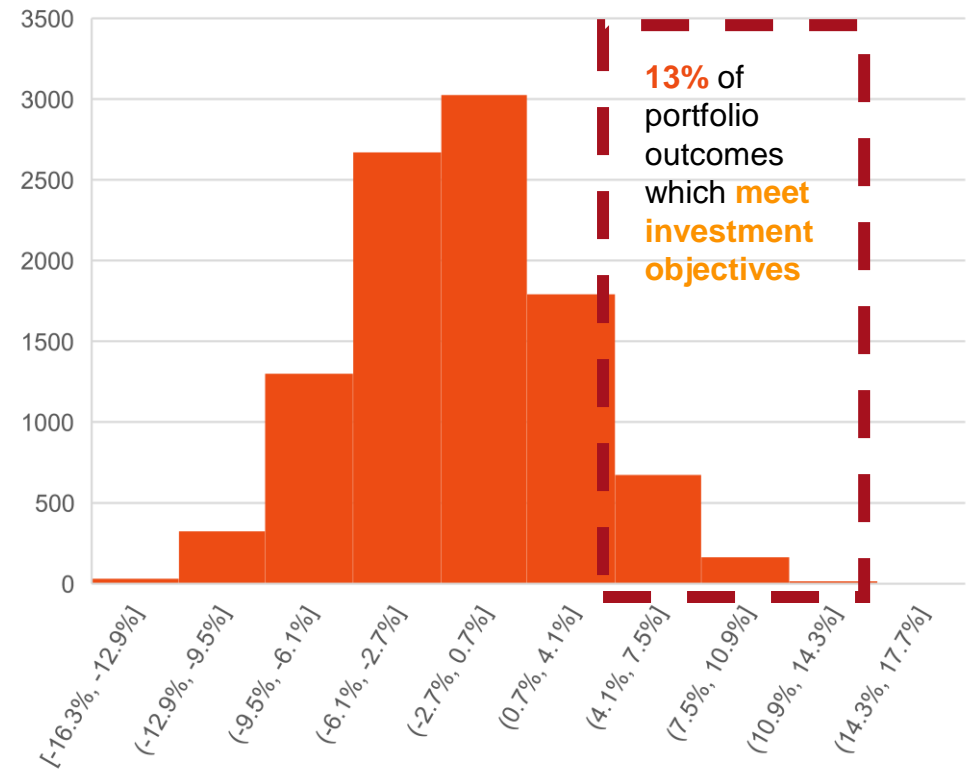
# Regimes mean different outcomes for investors

## And allow a deeper examination and understanding of your portfolio

Histogram of ten-year portfolio return (p.a.) – equilibrium assumptions



Histogram of ten-year portfolio return (p.a.) – regime pathway



Pathway: ST,ST,DD,DD,DD,DD,DD,N,N,N (ST=Stagflation, DD=Downturn deflation, N=Normal), used for demonstration purpose only.

# What should clients do?

**The cycle is heading towards stabilisation. We expect strong tactical pathways for rebalancing portfolios**

## Action for clients

- Review your portfolio from the ground up and select areas of geopolitical concern (and do the deep dive work).
- Consider different economic regimes (and asset classes/investments which protect against downside scenarios and higher inflation).
- Monitor geopolitical risks (which Frontier does in our market review work).
- Talk to Frontier – and read our Look Forward (for clients).





# Thank you for joining us.

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