



THE MANAGED PORTFOLIO SERVICE

What is the Managed Portfolio Service?

The **Managed Portfolio Service** is a unique service which is available exclusively to clients of **Paul Melling Retirement Planning**. The **Managed Portfolio Service** enables Paul Melling Retirement Planning to actively manage your investment with the aim of providing higher net returns along with lower volatility.



What is a Managed Portfolio?

A Managed Portfolio has a spread of investment options **designed to give you a pre-determined minimum level of security** suited to meet your specific needs.

There are 11 separate Managed Portfolio options which offer a range of minimum levels of exposure to Defensive investments. At one extreme 100% of your funds can be invested in Defensive investment options whilst at the other extreme it could be that no portion of your funds will be invested in the Defensive investment options.

Each of the funds operates on the basis that you always have **at least a chosen minimum percentage of your funds invested in "Defensive" investment options**.

Funds which are invested outside of the "Defensive" portfolio are invested in a spread of "Volatile" investment options.

Managed Portfolio Options

Minimum 100% Defensive
Minimum 90% Defensive
Minimum 80% Defensive
Minimum 70% Defensive
Minimum 60% Defensive
Minimum 50% Defensive
Minimum 40% Defensive
Minimum 30% Defensive
Minimum 20% Defensive
Minimum 10% Defensive
No Minimum Defensive

Range of investment options

1 **"Defensive" investment options**

The Defensive portfolio is made up of investment options which should not fluctuate significantly in value. This will usually include cash. It can also include investment options which have exposure to government bonds, corporate bonds and hybrid securities.

2 **"Volatile" investment options**

The "Volatile" part of the Managed Portfolios includes investment in Australian and international shares investments, largely using specialist investment managers to invest in specific sectors such as the Australian and international share markets, Australian and international infrastructure, Australian and international property, small companies, Global Resources and Asian shares.

Investment allocation to each sector within the "Volatile" part of the portfolio is reviewed regularly and adjustments made when it is deemed appropriate, based on our view of the investment fundamentals and outlook for each sector. If a sector is deemed to be expensive, exposure to the sector would likely be reduced or even eliminated, and the proceeds invested in other sectors which represent more attractive investment fundamentals.

[Continued over....](#)

Suite 1, 486 Lower Heidelberg Road, Heidelberg Vic 3084

Phone 1300 50 5000 Fax 1300 50 5001 Email: ClientService@PaulMelling.com.au Web site: PaulMelling.com.au

Paul Melling and Associates Pty Ltd ABN 99 006 425 092 Australian Financial Services License No: 231247

Regular review and re-balancing

At least every 12 months (and possibly sooner in the event of any significant changes to the investment environment) each client will have their Managed Portfolio re-balanced. This ensures that clients in the **Managed Portfolio Service** lock-in profits in rising share markets and increase their exposure to markets when better value is available. This re-balancing should reduce both the portfolio risk and the volatility of your investment portfolio.

Each time the Managed Portfolio is re-balanced we take a view on the “value” represented by each of the investment markets. Furthermore, the investment allocation to sectors and funds may vary each time the portfolio is rebalanced. Such factors as future estimated price/earnings ratios, the economic outlook and even the “market sentiment” are taken into account when determining the allocation to Defensive Investments at the time. However, the allocation to secure investments will always be at or above the minimum specified level for that portfolio at each rebalance.

Steve’s approach to investment is in tune with Paul’s conservative actuarial approach. Our aim is to enable you to build-up your retirement funds in a way which will provide good investment returns whilst minimizing both volatility and the risk of capital loss. From time to time one-off opportunities will arise which require quick action – the **Managed Portfolio Service** allows us to make changes to your asset allocation at any time.

How the Managed Portfolio Service takes profits in a rising or expensive sharemarket....

A client is invested in a Managed Portfolio with a mix of 40% Defensive and 60% Volatile.

Over the next 12 months the sharemarket performs well and as a result the investment mix has become 35% Defensive and 65% Volatile (a rising sharemarket increases the balance of the volatile portfolio at a faster rate than the balance of the Defensive portfolio).

Unless we feel that there has been significant changes in the investment markets, we will rebalance back to the original 40% Defensive, 60% Volatile. We have not only locked-in the client’s sharemarket profits, we have reduced the client’s exposure to the sharemarket at a time when the market appears to be relatively high.

...and can take advantage of good opportunities in a falling or cheap sharemarket.

Similarly, in times of sharemarket weakness, good value can arise in the sharemarket. If, in the example above, the sharemarket falls and causes the asset mix to move to 45% secure, 55% volatile, we would likely rebalance back to a mix 40% defensive and 60% volatile, thereby increasing our exposure to the sharemarket at a time when this better value is available.

The Security “Buffer”

From time to time the investment risks associated with sharemarket investment increase significantly – usually as a result of the sharemarket become expensive (investor overconfidence) or by deteriorating fundamentals (eg European Sovereign Debt Crisis). By using the **Managed Portfolio Service** we are able to increase your “Security Buffer” at these times. For example, if you are invested in the Minimum 40% Defensive portfolio, you could have significantly more Defensive funds than the Minimum of 40%, at a time when we regard sharemarket investment risk as high.

Competitive management fees

There is no additional charge for the **Managed Portfolio Service** – our competitive fee of 0.5%pa (plus GST) applies. The cost of investment management and administration varies according to the portfolio used - from less than 1%pa for the more conservative portfolios to 1.5%pa for the more aggressively invested Managed Portfolios.



Managed Portfolio Service (MPS)

FREQUENTLY ASKED QUESTIONS (FAQ)

Q1 What are the advantages I will enjoy by using the MPS?

Firstly, and of greatest importance, **it will allow you to relax and enjoy your retirement.** This will be achieved by ensuring that you have sufficient secure funds (eg cash) to meet your income and capital needs without having to worry about volatile movements associated with "growth" investments such as shares and property.

Secondly, it should **improve the investment return on your portfolio** because we will be monitoring your investments on a continuous basis. When we regard a particular market as being expensive (typically following a period of strong investment performance) we will ensure that you lock-in some profits by transferring funds into your Defensive Portfolio. Similarly when we feel that a particular market offers good value we will transfer some funds from your Defensive Portfolio to the relevant "growth" market(s) subject to your Minimum % Defensive requirements.

Thirdly, when using the MPS we are able to transfer funds between investments in a **timely and efficient** manner, typically less than 24 hours. This can be very important particular at times when the various markets are exhibiting extreme volatility.

Q2 How do you know which Minimum % Defensive portfolio I should be using?

The minimum amount which you should hold in your Defensive Portfolio will be a function of **the income and capital that you anticipate you will need over the years.** Our Managed Portfolio Determinator (a computer spreadsheet which uses conservative actuarial assumptions) enables us to make a recommendation as to the Minimum % Secure portfolio which would be suited to you. The Determinator takes into account both your current financial position and any income which you may be entitled to or may become entitled to from annuities, superannuation pension and Age Pensions. Typically we recommend a portfolio which makes it unlikely that you would be forced to sell volatile investments at an inappropriate time. You may of course choose to be even more conservative than our recommendation.

Q3 How often is my MPS portfolio rebalanced?

Your portfolio will be regularly rebalanced (at least every 12 months) to ensure that your fund meets the Minimum % Defensive applicable to your chosen Managed Portfolio.

Q4 Do I need to review the Minimum % Defensive level chosen?

On joining the MPS we will be determining the appropriate level of security required based on your income and capital needs. We will assume that those income and capital requirements remain unchanged unless you tell us otherwise. Our regular re-balancing process will take place at least every 12 months and as such it should not normally be necessary to review the Minimum % Defensive level.

You may find that your regular expenditure is much higher than you originally anticipated or you may require a large lump sum which was not anticipated. In these circumstances you should contact our office so that we can determine whether a higher Minimum % Defensive portfolio should be considered.

Q5 Should I be concerned about the volatility of my total account balance?

You should be placing emphasis on the size of your Defensive Portfolio rather than your total account balance. This is because you will be drawing your income from your Defensive Portfolio

Q6 Will the value of my Defensive Portfolio change from time to time?

Your Defensive Portfolio will be credited with interest received from the underlying investments. From time to time, particularly after a period of strong investment returns, funds will be transferred from the Volatile Portfolio into your Defensive Portfolio.

The value of your Defensive Portfolio will decrease when Allocated Pension payments are paid into your nominated bank account. Also, from time to time (particularly after a period of falling sharemarket values and/or when we anticipate good growth in company profits) we will transfer funds from your Defensive Portfolio to your Volatile Portfolio ensuring that your Defensive Portfolio will still meet the Minimum % Secure requirement.

Q7 How do you choose the investment options included in MPS?

There are currently over 130 investment options available on the Colonial First State administration platform. These funds are researched both internally and by external research houses. Using this research, Steve Melling selects investment options which he considers to be appropriate for each Managed Portfolio.

Q8 How is the asset allocation of the MPS determined?

Steve reviews the asset allocation on a regular basis. Following these reviews a decision is made as to whether any changes should be made to the asset allocation. From time to time one-off opportunities may arise which require quick action so changes to asset allocation can occur at any time.

Q9 How will I be notified about changes to my portfolio?

The administrators of your fund (Colonial First State) will notify you of alterations in your fund as a result of any changes to your portfolio within 2 weeks of our implementing those changes. Whilst we are not intending to write to you concerning regular re-balances, we do plan to write to you concerning any significant changes in asset allocation.

Q10 Do I need to change my Colonial First State account number to join the MPS?

No, the MPS is available on all existing CFS FirstChoice accounts. You will keep the same account number.