



Asset Allocation Policy

Release Date: January 2017
Version 1

Contents

1.	Asset Allocation Policy.....	3
1.1	Introduction.....	3
1.2	Asset Allocation Overview.....	3
1.3	Purpose of Asset Allocations	3
1.4	Asset Allocation categories	4
1.5	Asset Allocation Tolerances.....	4
1.6	Rebalancing Client's Asset Allocations Upon Review	5
2	Asset Allocation Benchmark with Alternatives	5
3	Asset Allocation Breakup:.....	6
3.1	Asset Allocation Benchmark With Alternatives & Risk Profiles.....	7
3.2	Comparison of Positions DAG, Morningstar and Mercer based on timeframe (years)	8
3.3	Mercer Position & Research	9
3.4	Morningstar Positon Asset Allocation & Position	11
4	Multi-Manager and Multi Asset Portfolio's	13
5	Non-Compliance with this Policy.....	13
6	Review:	13

1. Asset Allocation Policy

1.1 Introduction

This policy applies to Direction Advice Group (DAG) and all officers, employees and authorised and corporate authorised representatives (advisers)

As Australian Financial Services License (AFSL) holders, DAG has an obligation under section 912A(1) of the Corporations Act 2001 (Cth) to, among other things:

*'(a) do all things necessary to ensure that the financial services covered by the license are provided efficiently, honestly and fairly; and ...
(b) comply with the financial services laws'...*

Notwithstanding the competitive and highly regulated environment in which we operate, DAG recognizes the need for our advisers to be able to demonstrate compliance with the best interests and related obligations under the Corporations Act.

DAG are committed to an open and transparent culture of corporate compliance and to managing risk efficiently and effectively. Accordingly, this Policy represents an extension of our Compliance and Risk Management Policies, and as such, constitutes an important component of our overall corporate governance program.

Throughout this Policy, Direction Advice Group Pty Ltd (DAG) are referred to as DAG and respectively, 'we', 'us', 'our' or any variations.

1.2 Asset Allocation Overview

- Direction Advice Group Pty Ltd (DAG) requires that a client's asset allocation matches the client's risk profile. DAG will be adopting its own asset allocation model based on guidance from several sources, but primarily from Asset Allocation consultants such as Mercer Wealth Management and Morningstar. It may determine an asset allocation from time to time from other sources such as exchange traded funds, external fund managers and super funds and other asset consultants.
- Advisers can choose to select either the Mercer Asset Allocation, the Morningstar Asset Allocation or the Direction Advice Asset Allocation.
- There may be times where, due to extenuating circumstances, the asset allocation will deviate from the benchmark range for the short term. However, over the mid to long term the client's asset allocation should correspond with the outcome of the risk profiling process.
- DAG will allow advisers to deviate from the asset allocation by 10% providing the allocation between growth and income assets remains within 10% of the benchmark.

1.3 Purpose of Asset Allocations

The overriding objective is to assign an asset allocation or asset allocations which suit the client's objectives and/or risk profile. Such a process assists understanding what the client's attitude to risk is and how much volatility the client is prepared to accept.

When a client discusses their investment objectives with an Adviser, it is common practice to have the client complete a fact find which identifies the client's objectives. In addition, the client would complete a risk profiling exercise so as to determine the client's risk profile. This helps the Adviser understand what the client's attitude to risk is and how much volatility the client is prepared to accept.

Each risk profile comprises a number of asset classes, each of which has a target percentage and minimum to maximum range.

It is noted that the risk profiling process may identify gaps between a client's financial resources, their appetite for risk and the timeframe to achieve their stated objectives. In such circumstances some form of trade-off (goals versus risk versus financial outcome) may need to be determined.

1.4 Asset Allocation categories

Direction Advice Group has assigned the following names to the asset allocation categories:

- Cash
- Conservative
- Moderate Conservative
- Moderate or Balanced
- Moderately Aggressive
- Aggressive

The reasons for these terms are:

- Consistent terminology – the terms conservative, moderate and aggressive were used consistently by a number (but not all) fund managers and associations.
- The words define and describe the investors profile, e.g., the investor is "conservative"
- Easy to remember
- Provide some consistency when clients read third party documents. Provide independence of terminology

1.5 Asset Allocation Tolerances

- Note, the asset allocations have a specific benchmark target, but also allow a range between minimum and maximum limits.
- However, although each asset class has a minimum and maximum range, the "growth/defensive assets" relationship cannot vary by more than 10%, be that over or under the target.
- Recommended asset allocations which diverge from the ones stated in the preceding table without an explanation in the SOA are not permitted. You must fully explain why and the implications.

- However, there are times when the asset allocation will exceed the range in the table in the long term. Such examples include: there may be capital gains tax issues, or where a client wishes to maintain exposure to a particular asset class (i.e. retention of an investment property); and the client having a number of specific goals which require a mix of risk profiles (i.e. saving for a house, going on a holiday or growing an education fund). Where this is the case, once again an explanation is required in the SOA.
- When selecting any multi-manager and multi-asset portfolio it is a requirement that the "growth/defensive assets" relationship of the multi-manager and multi-asset portfolio is within 10% of the strategic allocation of the "growth/defensive" as per the preceding asset allocation table.

1.6 Rebalancing Client's Asset Allocations Upon Review

- A review of the client's current asset allocation comparing it against the agreed target asset allocation should be undertaken in preparation for the regular review, and rebalancing back to the target position should be implemented if necessary. This approach, known as strategic asset allocation, is akin to a "buy and hold" action.
- Having said that, a tactical asset allocation is permitted which allows for a range of minimum and maximum percentages around the target asset allocation, in each asset class. Such an approach allows some flexibility to take advantage of market conditions as long as the asset allocation falls in the range between minimum and maximum exposure. Note once again, that the overall "defensive/growth assets" relationship is not permitted to be more than 10% under or over the target position of any one asset class and or the overall exposure to growth and income asset weighting.
- A newly completed risk profiling process would be required to amend the previously agreed asset allocation target.
- Whilst it may be difficult to achieve the same weighting when using multi-manager portfolio's, advisers when using Multi-manager portfolio's advisers should ensure that the overall exposure to growth and income assets are closely aligned to the risk profile. This is expanded upon in the Multi-Manager section.

2 Asset Allocation Benchmark with Alternatives

- The following table lists the Asset Allocation Benchmark for the various investor profiles prepared by DAG. Note, this position has been devised after consideration of risk profiles and asset allocation recommendations by Mercer and Morningstar in particular.
- Note, the following asset allocation and risk profile benchmarks selected by DAG do not exactly correspond with those utilised by Mercer and Morningstar, but have been fine-tuned to meet DAG's requirements cognisant of the researchers' benchmarks as detailed later in this document.

3 Asset Allocation Breakup:

After reviewing a number of asset allocations from various sources Direction Advice Group have adopted the following asset allocations over page.

3.1 Asset Allocation Benchmark With Alternatives & Risk Profiles



All figures are
in percentages

		Cash/Secure			Conservative			Moderately Conservative			Moderate/Balanced			Moderately Aggressive			Aggressive		
		Min	Target	Max	Min	Target	Max	Min	Target	Max	Min	Target	Max	Min	Target	Max	Min	Target	Max
Growth	Australian Shares	0	0	0	5	8	12	10	15	25	12	22	32	19	29	39	26	36	46
	International Shares	0	0	0	5	8	12	10	15	25	12	22	31	19	29	39	26	36	46
	Australian Property & Infrastructure	0	0	0	0	1	11	0	2	12	0	3	13	0	4	14	0	5	15
	International Property & Infrastructure	0	0	0	0	1	11	0	2	12	0	3	13	0	4	14	0	5	15
	Alternatives	0	0	0	0	2	12	0	6	16	0	10	20	0	14	24	0	18	28
	Total Growth	0	0	0	10	20	30	30	40	50	50	60	70	70	80	90	90	100	100
Defensive	Australian Fixed Interest	0	0	0	18	28	38	11	21	31	4	14	24	0	7	17	0	0	0
	International Fixed Interest	0	0	0	0	28	38	0	21	31	0	14	24	0	7	17	0	0	0
	Cash	100	100	100	4	24	44	0	18	33	0	12	22	0	6	16	0	0	10
	Total Defensive	100	100	100	70	80	90	50	60	70	30	40	50	10	20	30	0	0	10
Minimum Timeframe		Immediate			3 years			4 years			5 years			6 years			7 years		

3.3 Mercer Position & Research

The below tables are from Mercer's *SAA & Portfolio Construction Review* of June 2011. Note, the below Mercer table falls within the DAG above allocation ranges, but not usually with the absolute target allocation. It is noted that Mercer does not include a "Cash/Secure" risk profile. Property and Fixed Interest have the most deviation, and also Cash in Balanced portfolio.

Asset Class	Conservative	Moderately Conservative	Balanced	Growth	High Growth
Australian Equity	7.5	15.0	22.5	32.0	37.0
International Equity	7.5	15.0	22.5	32.0	37.0
Property	7.0	7.0	7.5	8.0	8.5
Real Alternatives	3.0	5.5	7.5	8.0	9.0
Absolute Return Alternatives	2.0	5.0	7.5	7.5	6.0
Fixed Interest	45.0	32.5	27.5	10.0	0.0
Cash	28.0	20.0	5.0	2.5	2.5
Total Growth Assets (%)	25.0	45.0	65.0	85.0	97.5
Total Defensive Assets (%)	75.0	55.0	35.0	15.0	2.5

Risk Profile	Conservative	Moderately Conservative	Balanced	Growth	High Growth
Performance objective (average return per annum)	CPI + 2.5%	CPI + 3.5%	CPI + 4.0%	CPI + 4.5%	CPI + 5.0%

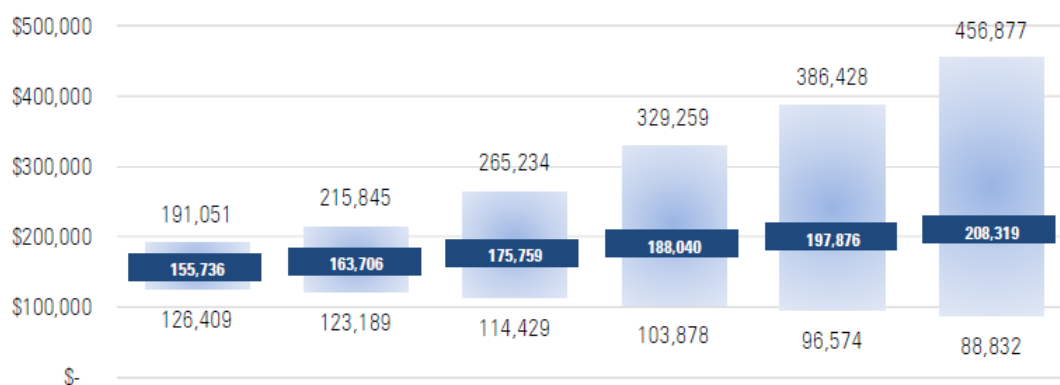
	Conservative	Moderately Conservative	Balanced	Growth	High Growth
Minimum time horizon	3	5	6	7	8
Performance goal	Capital preservation	Stable returns	Medium term capital growth	Medium term/long term capital growth	High growth over the long term
Expected return	Cash like	Low	Moderate	Medium/high	High
Tolerance of volatility	Very low	Low	Moderate	Medium/high	High
Tolerance of negative returns	Very low	Low	Moderate	Medium/high	High

3.4 Morningstar Positon Asset Allocation & Position

The below tables are from Morningstar's *Risk Profiles and Strategic Asset Allocation* document of March 2016. Reference has also been made to Morningstar's *Strategic Asset Allocation Methodology* document of March 2016 also.

Risk Profile	Conservative	Moderate	Balanced	Growth	Aggressive	Very Aggressive
Minimum Investment Period	2 years	3 years	5 years	7 years	9 years	10 years
Portfolio Characteristics %						
● Growth Assets	15	30	50	70	85	100
● Income Assets	85	70	50	30	15	0
Strategic Asset Allocation %						
● Australian Equity	5	9	16	23	29	39
● International Equity (50% Hedged)	6	12	23	34	41	45
● Australian Listed Property	4	6	7	6	7	8
● International Listed Property	0	0	0	3	3	3
● Global Infrastructure	0	3	4	4	5	5
● Australian Fixed Interest	30	25	19	12	6	0
● International Fixed Interest	19	15	11	6	3	0
● Cash	36	30	20	12	6	0
Returns %						
Objective	CPI + 0.5	CPI + 1.0	CPI + 2.5	CPI + 3.5	CPI + 4.0	CPI + 4.5
Expected Long-Term Returns¹						
Total	4.5	5.1	5.8	6.5	7.1	7.6
Income	3.9	3.8	3.7	3.4	3.3	3.2
Growth	0.6	1.3	2.1	3.1	3.8	4.4

Projected wealth level of \$100,000 invested over a decade (in dark blue) and the likely range of outcomes (95% confidence interval)²



Projected Range of Returns % pa (95% confidence interval)²

1 year	-2.1 to 11.6	-3.9 to 14.8	-7.7 to 20.5	-12.1 to 26.8	-15.4 to 31.5	-19.0 to 36.6
5 years	1.5 to 7.6	0.9 to 9.2	-0.5 to 12.1	-2.2 to 15.2	-3.4 to 17.5	-4.8 to 20.0
10 years	2.4 to 6.7	2.1 to 8.0	1.4 to 10.2	0.4 to 12.7	-0.3 to 14.5	-1.2 to 16.4

Risk²

Simulated maximum drawdown %	-9	-15	-23	-34	-40	-46
Expected probability of a negative return over any single year %	8.5	12.6	18.6	22.9	25.0	26.8
Expected number of negative years in 20 years	1.7 yrs.	2.5 yrs.	3.7 yrs.	4.6 yrs.	5.0 yrs.	5.4 yrs.

¹ Income, growth and total return assumptions refer to long term expectations over multiple decades. Over shorter periods outcomes may vary significantly.

² Based on long term assumptions. Losses and gains may occur more often or fall outside the specified ranges more regularly than the modelling implies. Simulated maximum drawdowns may also be exceeded.

Expected Long-Term Return and Volatility Assumptions¹

Asset Class	Compound		Standard Deviation %
	Total Return %	Income %	
Australian Equity ³	7.75	4.00	18.00
International Equity (50% Hedged)	7.75	2.00	15.00
Australian Listed Property	7.00	5.50	15.00
International Listed Property	6.50	4.00	17.00
Global Infrastructure	7.00	4.00	13.00
Australian Fixed Interest	4.40	4.40	5.00
International Fixed Interest	4.30	4.30	6.00
Cash	3.50	3.50	1.50

Expected Asset Class Correlations ¹	Australian		International		Global	Australian		Cash
	Equity	Equity	Listed Property	Listed Property		Fixed Interest	Fixed Interest	
Australian Equity	1.00	0.65	0.65	0.70	0.70	0.05	0.05	0.00
International Equity (50% Hedged)	0.65	1.00	0.45	0.65	0.70	0.05	0.05	0.00
Australian Listed Property	0.65	0.45	1.00	0.70	0.65	0.20	0.20	0.00
International Listed Property	0.70	0.65	0.70	1.00	0.80	0.10	0.20	0.00
Global Infrastructure	0.70	0.70	0.65	0.80	1.00	0.10	0.20	0.00
Australian Fixed Interest	0.05	0.05	0.20	0.10	0.10	1.00	0.65	0.30
International Fixed Interest	0.05	0.05	0.20	0.20	0.20	0.65	1.00	0.20
Cash	0.00	0.00	0.00	0.00	0.00	0.30	0.20	1.00

¹ Income, total return and other capital market assumptions refer to the long term i.e. multiple decades. Over shorter periods outcomes may vary significantly.

³ Total return incorporates franking. Income return is cash yield.

Risk Profile Definitions

Risk profile	Growth/Income Split %		Definition
Conservative		15/85	This suits investors with a minimum two-year timeframe or those that seek a portfolio invested predominantly in interest bearing assets, with a small proportion of growth assets. This portfolio also suits investors who give a high priority to the preservation of capital and are therefore willing to accept lower potential investment performance, hence the 85 percent exposure to income assets (cash and fixed interest).
Moderate		30/70	This suits investors with a minimum three-year timeframe or those who seek a portfolio with an emphasis on interest bearing assets, with some exposure to growth asset classes. This portfolio also suits investors seeking a lower level of investment value volatility, and therefore willing to accept lower potential investment performance, hence the 70 percent exposure to income assets (cash and fixed interest).
Balanced		50/50	This suits investors with a minimum five-year timeframe. This portfolio also suits investors who desire a modest level of capital stability but are willing to accept moderate investment value volatility in return for commensurate potential investment performance, hence the 50 percent exposure to growth assets (shares, listed property and infrastructure) and 50 percent exposure to income assets (cash and fixed interest).
Growth		70/30	This suits investors with a minimum seven-year timeframe or those who are willing to accept higher levels of investment value volatility in return for higher potential investment performance. Some exposure to interest bearing assets is still desired, but the primary concern is a higher return, hence the 70 percent exposure to growth assets (shares, listed property and infrastructure).
Aggressive		85/15	This suits investors with a minimum nine-year timeframe or those who are willing to accept high levels of investment value volatility in return for high potential investment performance. The 85 percent exposure to growth assets (shares, listed property and infrastructure) means that capital stability is only a minor concern.
Very Aggressive		100/0	This suits investors with a minimum ten-year timeframe or those who are willing to accept very high levels of investment value volatility to maximise potential investment performance. The 100 percent exposure to growth assets (shares, listed property and infrastructure) means that capital stability is not a consideration.

4 Multi-Manager and Multi Asset Portfolio's.

When selecting any multi-manager portfolio constructed by an approved asset consultant, Advisers do not need to ensure the allocations to each individual asset class fits within the selected ranges. Instead, advisers only need to ensure the “growth/defensive” strategic asset allocation of the investment consultant’s portfolio is within 10% of the strategic allocation of the “growth/defensive” section of the client’s risk profile. E.g., if the risk profile of the client is moderate then the adviser may select an investment consultant’s portfolio which has a strategic allocation of either 50% growth/ 50% defensive or 70% growth/30% defensive. The individual mix of each single asset (such as Australian shares) within growth or defensive boundaries, does not need to be considered by the adviser. This approach then allows the adviser not to be concerned about specific asset allocations and instead lets the asset consultant get on with the business of doing what they do best – investing into assets.

For non-multi-manager portfolios, advisers will need to ensure the portfolio is within the selected ranges.

5 Non-Compliance with this Policy

Non-compliance with this Policy without prior approval from Centrepont Research and Professional Standards may result in disciplinary action and could include the termination of a relationship with Professional Investment Services or Alliance Wealth if the breach is considered serious.

6 Review:

This Policy will be reviewed at least annually, or as changing circumstances warrant. The policy may be reviewed earlier should there be significant changes as a result of either industry findings or legal developments.

Note: RG 175.325 The best interests duty does not prevent or require the use of approved product lists.