The webinar will begin shortly

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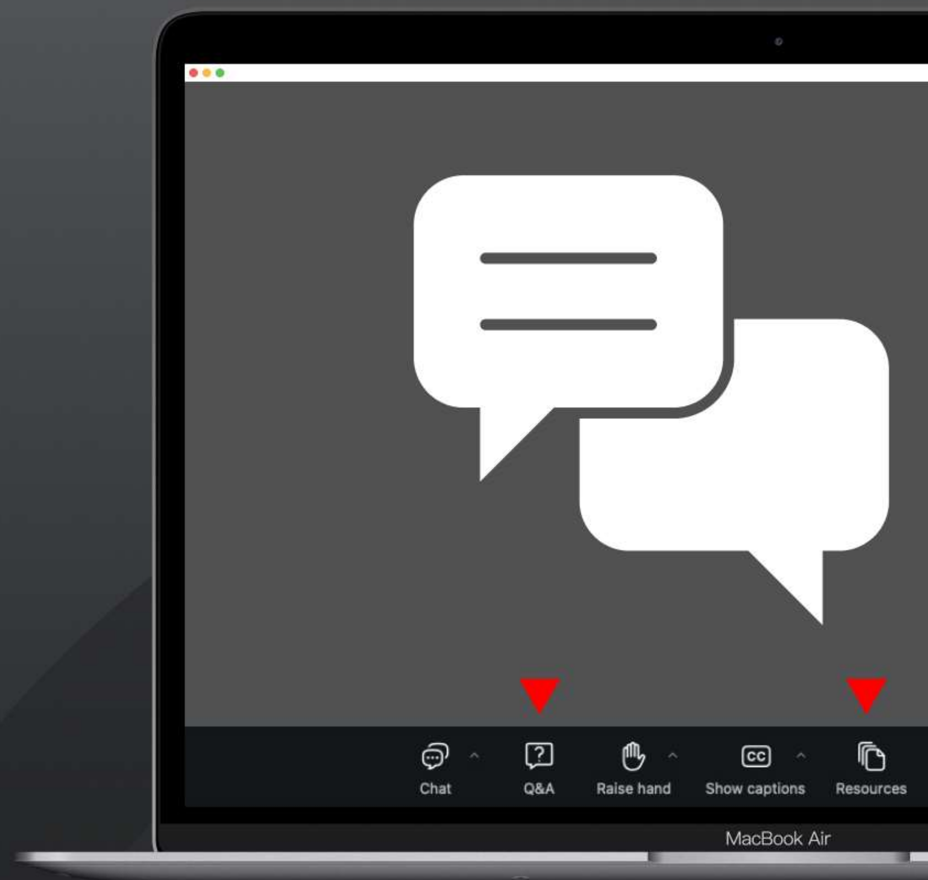
Please submit questions via the Zoom interface

You can also download extra material through ‘Resources’ which may also be found in the ‘More’ section



Morningstar retirement bootcamp

Webinar 1 - Retirement spending: How to estimate retirement spending and the basics of a safe withdrawal rate.

Webinar 2 - Creating a plan for retirement: A step-by-step process for estimating how much you need to retire and a plan to get there. As part of the presentation, we will address retiring early.

Webinar 3 - The transition to retirement: How to successfully navigate this challenging time for your finances and what to do it you don't have enough to retire.

Webinar 4 - How to manage your portfolio in retirement: Asset allocation in retirement including an income strategy for retirement and the bucket method.

Learning objectives

1. Provide an overview of the traditional glide path approach to asset allocation in retirement
2. Provide an overview of a bucket approach to asset allocation in retirement
3. Provide an overview of a dividend-based approach to generate income to support withdrawals in retirement

The twin risks of retirement

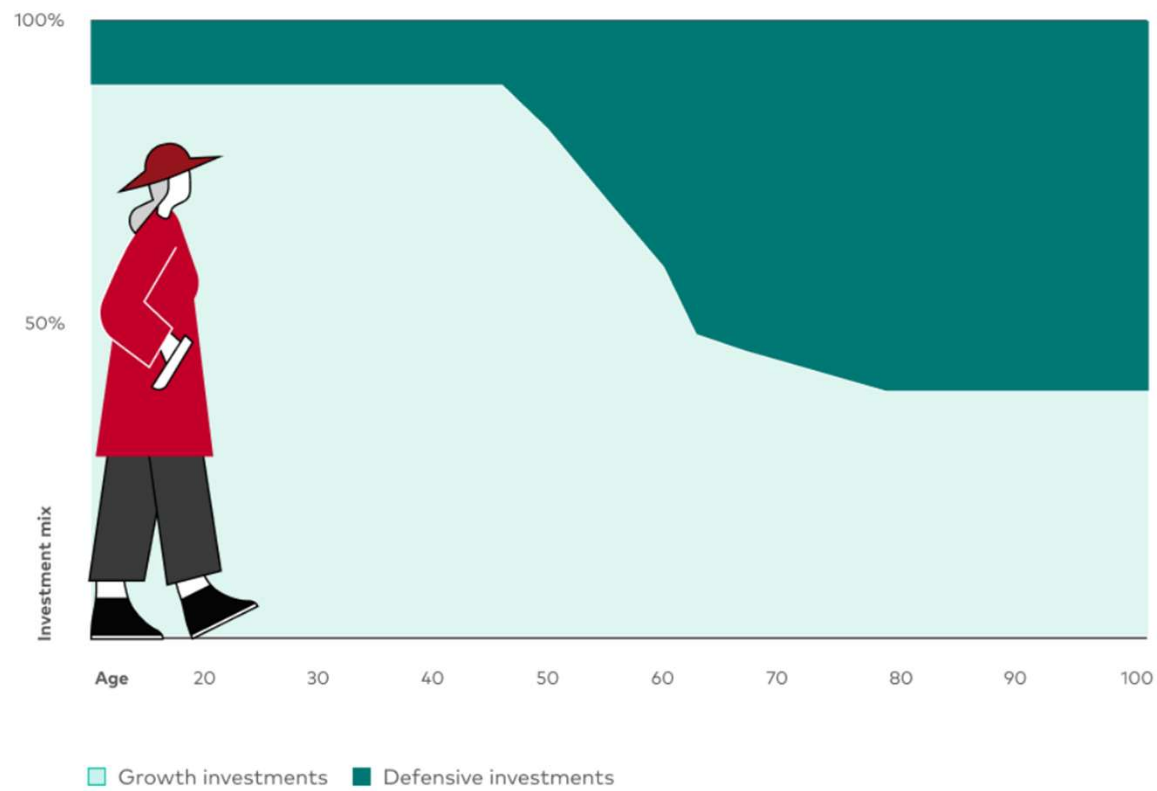
Longevity risk	Sequencing risk
Uncertainty: Actuarial tables tell us when the average person will die –however, we don't know when any one person will die	**Uncertainty:** Decades of market history suggest long-term average returns – however, we don't know what returns will be in the short-term
Risk mitigation: The approach to address longevity risk is to ensure your portfolio is not too conservative and have enough growth assets to earn higher returns over the long-term	**Risk mitigation:** The approach to address sequencing risk is by minimising volatility in your portfolio through greater allocation to defensive assets

We address this conflict by selecting a sustainable withdrawal rate that enables a portfolio to last for a long enough time to exceed ***most*** lifespans under ***most*** market conditions

Glide path approach to asset allocation

The glide path approach to asset allocation steadily increases the amount of defensive assets and reduces the amount of growth assets as an individual ages.

Target date funds including Vanguard's Lifecycle super option use this approach to asset allocation, but investors can do this on their own.



Source Vanguard

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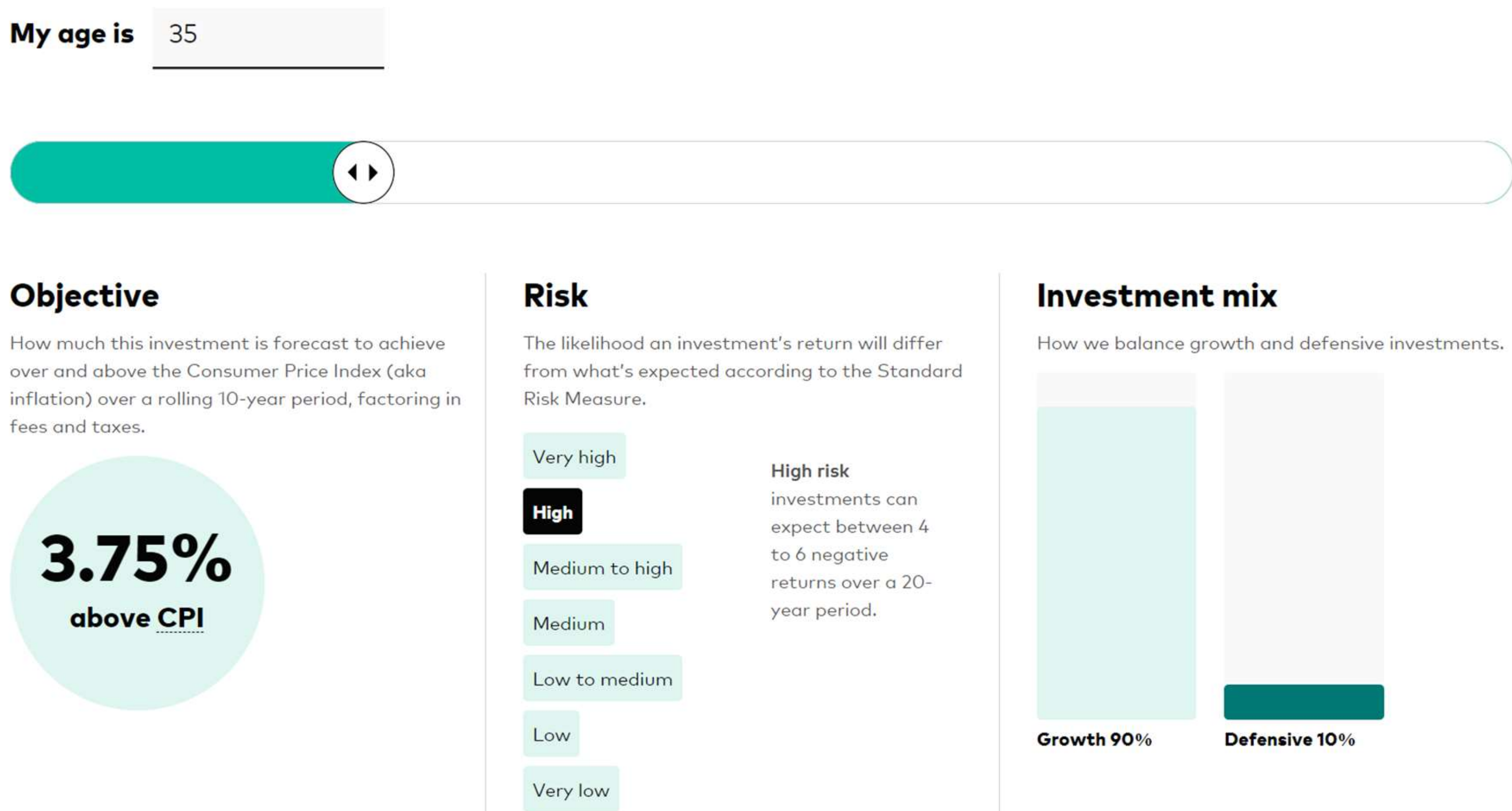
Glide path approach to asset allocation



Source Vanguard

Glide path approach to asset allocation

My age is 55

Objective

How much this investment is forecast to achieve over and above the Consumer Price Index (aka inflation) over a rolling 10-year period, factoring in fees and taxes.

3.50%
above CPI

Risk

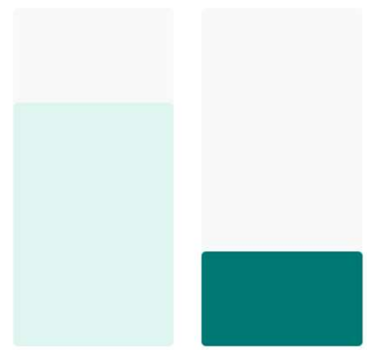
The likelihood an investment's return will differ from what's expected according to the Standard Risk Measure.

- Very high
- **High**
- Medium to high
- Medium
- Low to medium
- Low
- Very low

High risk investments can expect between 4 to 6 negative returns over a 20-year period.

Investment mix

How we balance growth and defensive investments.



Growth 72% **Defensive 28%**

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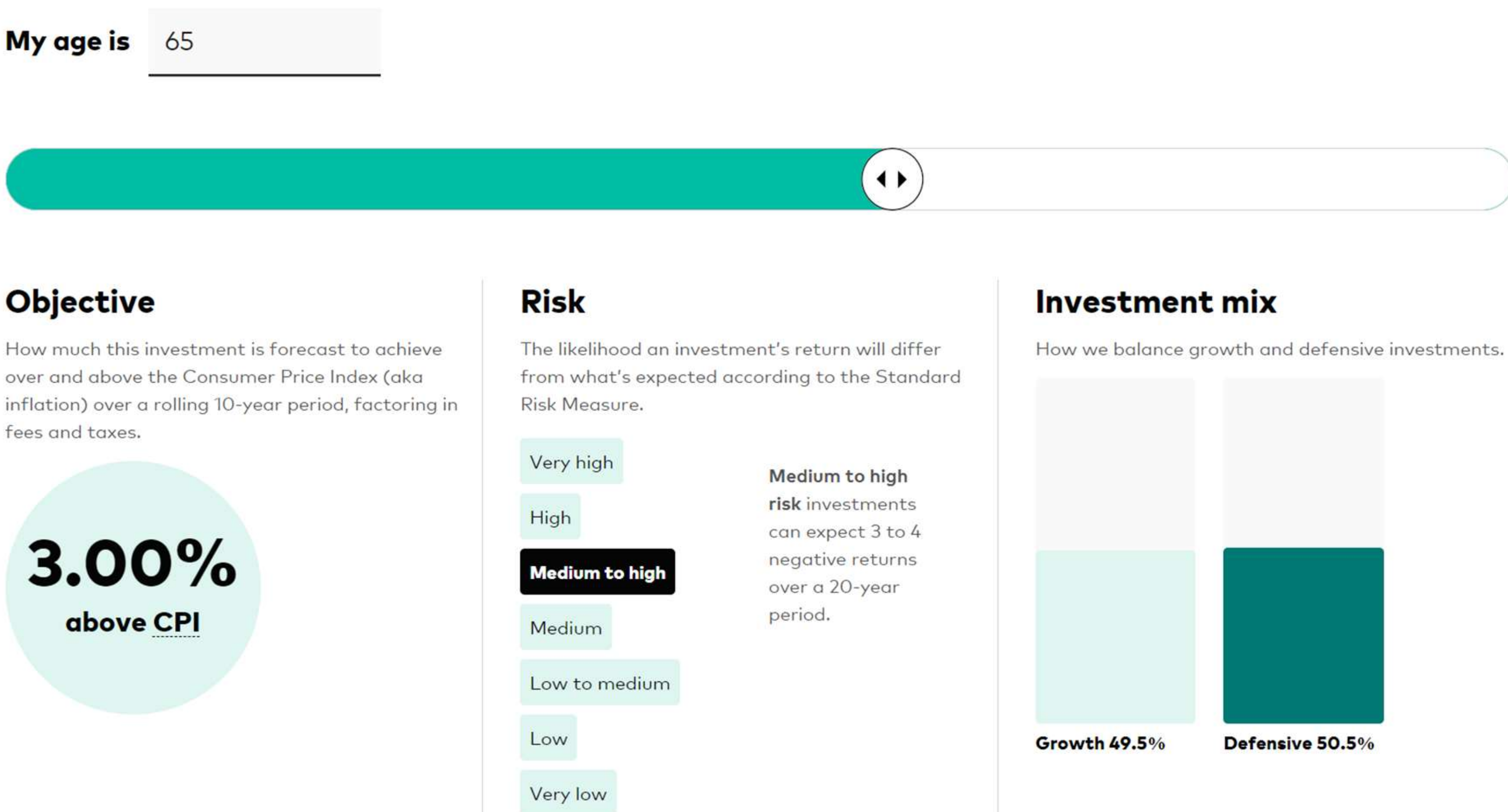
Glide path approach to asset allocation



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Glide path approach to asset allocation

1. Following a set glide path is not going to meet everyone's needs as they are not personalised and don't account for the asset allocation to achieve individual goals and differences in salary and retirement ages.
2. A glide path approach is unlikely to maximise returns over the long-term given the allocation to defensive assets…..however, the approach reduces sequencing risk by lower volatility during the run-up to retirement and early retirement. This is a sensible approach to safely achieve good retirement outcomes as long as an investor saves appropriately to meet goals and account for longevity risk.

Alternate approach to investing in retirement

Treat the disease and not the symptoms…..the problem is not volatility. The problem is selling at after the market has dropped and not staying invested until there is recovery.

To do this involves two things:

1. Not panicking when the market drops – it is easy to say you won't. It is hard to do. Don't forget how challenging this is in practice.
2. Being able to hold on until there is a recovery. AsJohn Maynard Keynes said, "the markets can remain irrational longer than you can remain solvent".

The longest bear markets since WWII

Peak	Trough	% decline	Peak to trough (months)	Breakeven from bottom (months)	Bear market length (months
29/5/46	9/10/46	-26.6-%	4	36	40
29/11/68	26/5/70	-36.10%	18	20	38
7/1/73	3/10/74	-48.20%	21	46	67
24/3/00	9/10/02	-49.10%	31	48	79
9/10/07	9/3/09	-56.80%	17	37	54
Average		**-43.40%**	**18**	**37**	**55**

Bucket approach to asset allocation

- Assets are grouped into buckets of cash, less volatile investments like bonds and large dividend paying companies, and growth assets like shares. This gives retirees more flexibility to replenish the first two buckets when market conditions warrant.

	Bucket one: Cash	**Bucket two: Defensive assets + lower volatility growth assets**	**Bucket three: Growth assets**
Normal market conditions	Fund withdrawals	Sell and replenish bucket one	Sell and replenish bucket two
Down markets	Fund withdrawals	Hold and selectively sell	Hold and wait for recovery

- The allocation between different buckets is based on how much risk an investor can / is willing to take.

Bucket approach to asset allocation

- The allocation between different buckets is based on how much risk an investor can / is willing to take. Below are some suggested allocations by Morningstar's Christine Benz.

	Bucket one: Cash	Bucket two: Defensive assets + lower volatility growth assets	Bucket three: Growth assets
Conservative	12%	59%	29%
Moderate	12%	53%	35%
Growth	8%	35%	57%

Dividend approach to funding retirement withdrawals

- If retirement withdrawals can be funded by income generated by a portfolio a retiree wouldn't have to sell assets to support spending.
- There are two important considerations – enough income would have to be generated to support desired spending and income would have to grow over time to support increasing spending needs to maintain a real standard of living (inflation adjusted).
- The biggest challenge is to balance high yield and income growth.
- The biggest risk is that dividends are not guaranteed and can be reduced meaningfully in poor economic conditions.
- How long this approach is sustainable is also influenced by ATO mandated withdrawals which escalate quickly by age.
- There is the opportunity to combine a cash bucket to support spending during periods where dividends fluctuate.

Dividend approach to funding retirement withdrawals

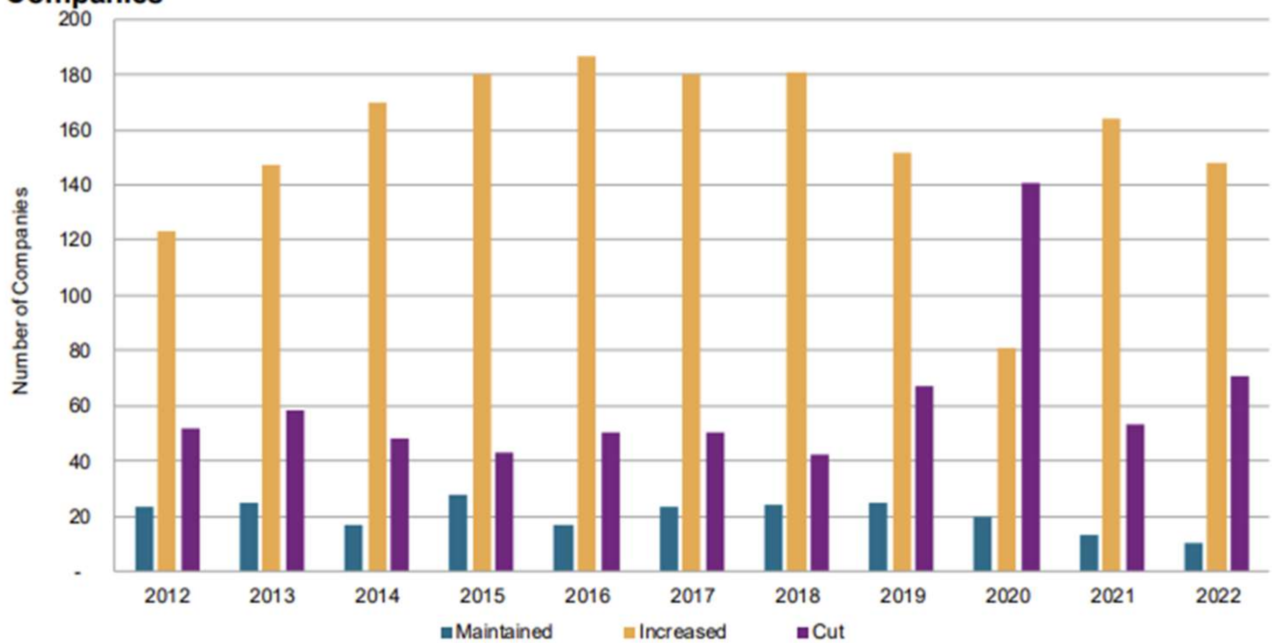
Exhibit 3: Evolution of Dividend Payments in the Australian Market

Year	Size of Dividend Pool (AUD Billions)	Earnings (AUD Billions)	Payout Ratio (%)	Trailing 12-Month Dividend Yield (%)	Number of Companies That Paid Dividends
2012	60.42	71.14	84.9	4.4	193
2013	67.26	75.63	88.9	4.1	219
2014	72.29	97.64	74.0	4.4	228
2015	78.65	70.09	112.2	4.8	243
2016	62.60	69.02	90.7	4.1	245
2017	78.88	108.87	72.5	4.1	248
2018	81.77	118.31	69.1	4.5	236
2019	80.45	107.25	75.0	4.0	233
2020	66.83	56.57	118.1	2.7	222
2021	98.14	141.94	69.1	3.5	215
2022	113.14	185.85	60.9	4.5	216

Source: S&P Dow Jones Indices LLC, FactSet. Data as of Dec. 31, 2022. Only includes companies in the S&P/ASX 300 that paid dividends. Dividends are calculated before imputation. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Dividend approach to funding retirement withdrawals

Exhibit 4: Comparing Change of Dividend Payments Year-over-Year from S&P/ASX 300 Companies



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