INNOVA
ASSET MANAGEMENT

THE INNOVA RISK DEFINED MANAGED ACCOUNT SOLUTION

RETURNS MATTER, BUT BEHAVIOUR MATTERS MORE

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01
INTRODUCTION TO INNOVA ASSET MANAGEMENT

Innova was founded on the principles of providing robust and research-intensive insights to help our investors meet their financial goals.

We focus on managing the multi-faceted nature of investment risk and have built our proprietary risk management framework based on rigorous academic research. Our successful history of navigating global markets through a rules-based approach means your business can have confidence navigating all market conditions.

BENEFITS OF PARTNERING WITH INNOVA:

An experienced investment team with institutional investment capabilities and a proven track record in risk management.

Multi-Faceted Approach to Risk: Innova's proprietary risk modelling ensures that portfolio construction is robust, and the main drivers of risk are managed effectively.

Dynamic Asset Allocation: a portfolio management strategy that actively adjusts a portfolio's asset allocation considering market conditions to manage risk.

Flexibility: advisers can take advantage of Innova's portfolios as part of a 'core' or 'satellite' approach for clients.

Goals-Based Advice Framework: offering an end-to-end solution utilising a goals-based framework that can be customised to the needs of your practice.

Real Returns: the portfolios aim to give investors a sustainable real rate of return.

Sensible diversification: Innova do not diversify for the sake of diversification. If markets are expensive (and risk is high), then diversification makes sense. If markets are undervalued and risk is low, then Innova will choose to concentrate positions instead.

Customisable adviser & client communication: we have a broad selection of communication pieces that you can have white-labelled to your practice.

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THE INNOVA RISK DEFINED PORTFOLIO SERIES

In order to make beneficial decisions, we need to understand ourselves. More specifically, we need to understand how we get in our own way. No matter how investment savvy one might be, our behaviours are influenced by a variety of internal and external forces, from media hype to peer pressure; from our memories of past events to our dreams for the future.

These behavioural forces are usually subconscious and typically cannot be educated away, therefore, Innova have developed portfolio options that are designed to work with investor behaviour, rather than against it.

To understand the rationale behind these portfolios, it is important to first understand that we all have a tendency, whether consciously or subconsciously, to separate our wealth into separate categories, or as they've come to be known – "buckets". Each bucket brings with it a different degree of risk that is defined by what you require from that bucket of wealth i.e. your financial goals.

The Innova risk defined portfolios are specifically designed to fund the most common goal buckets seen across investors. The portfolios can also be blended for those goals that may not fit into one bucket. They are referred to as the 'risk defined' series because each portfolio has a series of risk benchmarks that we strictly adhere to.

We use risk benchmarks for these portfolios because most people have a threshold for risk for each goal bucket, however, most of us do not know how to define this. This is because our threshold for risk is usually defined by our subconscious and this can be measured by the level of discomfort we feel if a particular goal bucket declines in value. At the point of peak discomfort, people may choose to switch to cash. Most people don't know what this maximum number actually is until the decline occurs, so we have helped define it for you.

"The Innova risk defined portfolios are specifically designed to fund the most common goal buckets seen across investors."

SAFETY

The Innova Lifestyle Preservation Portfolio:

This portfolio is designed for those goals that would usually make up your 'safety' bucket.

These are the goals that aren't up for negotiation, such as a sustainable retirement income or funds needed to send children to school. As this portfolio is designed for your highest priority goals, that are often shortest in timeframe, this portfolio has a lower degree of risk. The maximum risk benchmarks for this portfolio are designed based on years of experience and evidence-based research to determine the maximum loss that the majority of people could withstand for capital allocated to their safety goal bucket.

Lifestyle Preservation Benchmarks	
Maximum expected loss	-5%
Average expected loss	-2%
Maximum expected volatility	3%
Percentage chance of loss	10%
Return Target (after fees)	RBA Cash Rate + 1.5%

LIFESTYLE

The Innova Wealth Creation Portfolio:

This portfolio is designed for those goals that would usually make up your 'lifestyle' bucket. These are the core goals you may have that require some level of growth, such as building a retirement nest egg, balanced with a tolerable level of capital risk associated with that growth. These goals are longer term in nature but are still considered important. The goals in this bucket can afford a higher degree of risk due to the longer time horizon and because your essential living costs are covered in your lower risk safety bucket. Again, the maximum risk benchmarks for this portfolio are designed based on the maximum loss most people could withstand for any capital allocated to their lifestyle goal bucket.

Wealth Creation Benchmarks	
Maximum expected loss	-15%
Average expected loss	-7%
Maximum expected volatility	8%
Percentage chance of loss	20%
Return Target (after fees)	RBA Cash Rate + 3%

FUTURE

The Innova Aspiration Portfolio:

This portfolio is designed for those goals that would usually make up your 'aspiration' bucket. These are your loftier goals such as extended overseas travel, a holiday home or creating a legacy for kids or grandkids. These goals tend to be lower in priority and longest in timeframe. Therefore, market swings are much less of a concern, so you can afford to take more risk with this bucket to prioritise capital growth. We have therefore set the risk benchmarks for this portfolio to reflect the maximum capital loss most people could withstand for those longer term/ aspirational goals.

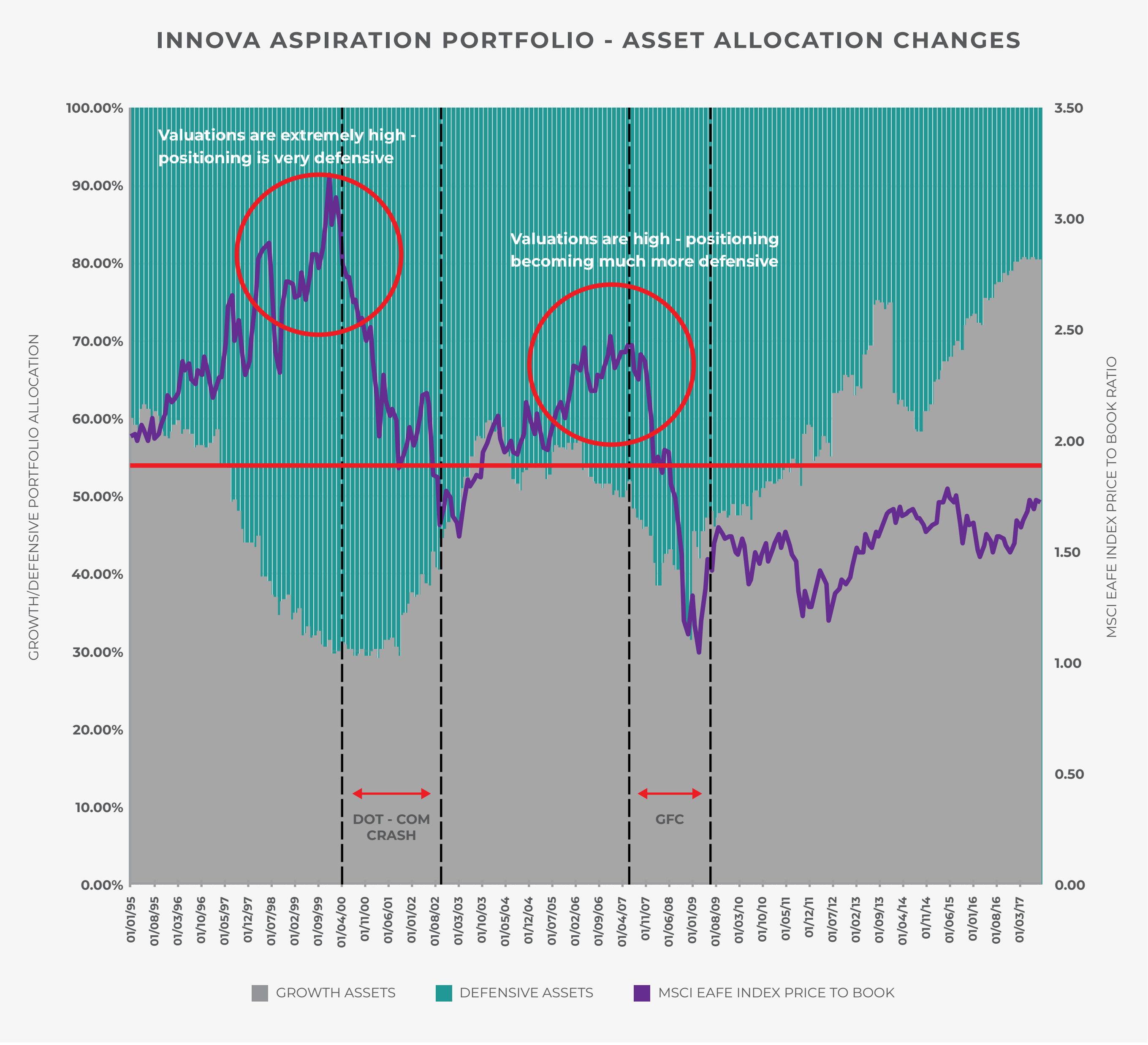
Aspiration Benchmarks	
Maximum expected loss	-40%
Average expected loss	-15%
Maximum expected volatility	15%
Percentage chance of loss	30%
Return Target (after fees)	RBA Cash Rate + 5%

03
HOW INNOVA MANAGES RISK WITHIN THE RISK DEFINED PORTFOLIO SERIES

The ‘risk defined’ portfolios are constructed a bit differently to traditional diversified portfolios. This is because we believe, as evidence would suggest, that asset allocation is the most effective tool for managing risk in a portfolio. Risk also changes across assets throughout time and this is largely driven by price. If you overpay for an asset, then you decrease the future return potential of that asset.

Therefore, instead of managing the risk defined portfolios to a long-term asset allocation framework, we manage these portfolios to risk benchmarks instead. This means there is no long-term asset allocation defined, because the asset allocation is instead determined by the risk inherent in that asset, which fluctuates over time.

The below graph illustrates this concept using out of sample and verified back tested data for the Innova Aspiration Portfolio.



As shown by this graph, the allocation to growth assets versus defensive assets in the Innova Aspiration portfolio fluctuates broadly over time. During the Dot-Com crash this portfolio would have been allocated 30% to growth assets, which is in stark contrast to the 80% growth allocation for the same portfolio in 2017.

This is because the risk inherent in growth assets were very different over these time periods. Before the Dot-Com crash, valuations were extremely expensive, as shown by the MSCI EAFE Index price to book ratio. As equity markets were very expensive, and therefore risk was high, Innova's proprietary risk management framework had already signalled to rotate out of growth assets and into a more defensive positioning.

The risk management framework does not attempt to time markets, it instead signals when assets are expensive (and risk is high). This means potentially losing some upside when markets are expensive, but conversely you should have much less exposure on the downside, as shown during the GFC and the Dot-Com crash.

Whilst the growth/defensive split within the risk defined portfolios can vary significantly, portfolio risk does not. This is because portfolio risk is tightly controlled according to the four predetermined risk benchmarks. The end result is a set of portfolios that cannot be defined within a traditional asset allocation framework and instead need to be defined by your goals and the maximum risk you are willing to take to achieve these goals.

"we believe, as evidence would suggest, that asset allocation is the most effective tool for managing risk in a portfolio."

04
INNOVA'S PROPRIETARY RISK MANAGEMENT FRAMEWORK

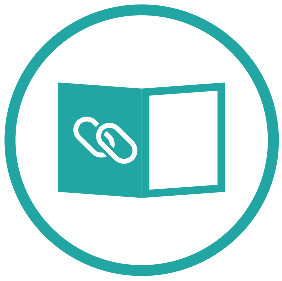
The core of Innova's risk management process is understanding that there are interdependencies between risks. In a market crash, asset classes that are commonly believed to be diversifiers to equity exposure may also experience significant loss if they are exposed to similar drivers of risk. Therefore, we first break asset classes up into the main drivers of the variability in their returns (i.e. their risk factors) and then construct portfolios based on these specific risk factors. This allows us to construct portfolios that are better diversified across the various drivers of portfolio risk. Innova approach portfolio construction in a systematic fashion, using a risk management framework to determine the most opportune investments given the current market environment. The numbers always lead the process and the 'why' is our common-sense check, occurring after the analysis rather than before.

LONG TERM FORECASTS

Firstly, we calculate valuation forecasts over a 10-year time horizon

SPECIFC RISK CONSTRAINTS

Secondly, we apply constraints to ensure that our portfolio risk benchmarks are not breached

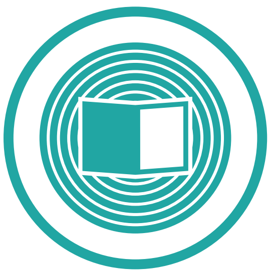


ROBUST OVER OPTIMAL PORTFOLIOS

Thirdly, we ensure our portfolios are properly diversified across the specific drivers of risk

SHORTER-TERM RISK FORECASTS

Fourthly, we control for potential short-term risks that while unlikely could have a large impact on the portfolio



STRESS TESTS

Fifthly, we recreate stressed market environments to test the robustness of the portfolio

COMMON SENSE OVERLAY

Finally, we apply a common sense overlay to ensure the reasonableness of our final portfolio

05
THE BENEFITS OF A MANAGED ACCOUNT

MANAGED ACCOUNTS PROVIDE PROFESSIONAL INVESTMENT MANAGEMENT, WITH GREATER TRANSPARENCY AND FLEXIBILITY

Managed Accounts are a great way for investors to access professional investment management whilst retaining ownership of the underlying investments. They offer a cost-effective solution, that is customisable, tax efficient and provide access to investment solutions that may not normally be available for individual investors.

Innova offer a range of multi-asset managed account solutions that are available on a number of administration platforms. This offers considerable advantages over a traditional managed fund structure. The main benefits of this are outlined in the table to the right:

Benefits	Managed Account	Managed Fund	Direct Share Portfolios
Professional management	✓	✓	✗
Beneficial ownership of assets	✓	✗	✓
Transparent investment portfolio	✓	✗	✓
Ability to in-specie transfer underlying assets	✓	✗	✓
Portfolio reporting and administration	✓	✗	✗
Ability to monitor transactions	✓	✗	✓
Tax efficient (don't purchase embedded CGT)	✓	✗	✓
Portfolio customisation	✓	✗	✓

You own the underlying assets:
Unlike managed funds, when you invest via a managed account, you retain the beneficial ownership of the underlying assets in the portfolio.

Customise with rules and exceptions:
You can choose to override the investment selection in your managed account with exclude, substitute or lock features. This is helpful if you have existing exposure to a similar asset that you would like to substitute or if you simply prefer not to hold a certain investment. You can also set tax preferences (how capital gains are treated), as well as minimum trade and holding sizes.

Investment transparency:
See exactly where your money has been invested and what investment decisions have been made on your behalf to better understand the make-up of your portfolio and how each asset contributes to overall investment performance.

Tax optimisation:
Unlike managed funds, you do not buy into any embedded capital gains tax (CGT) liabilities with a managed account. Also the ability to in-specie transfer your underlying investments out of the managed account, means that you do not have to incur CGT if you no longer wish to have your investments professionally managed.

06
INTRODUCTION TO OUR PLATFORM PARTNERS

Innova choose to partner with some of the best managed account providers in the market. We undertake a rigorous due diligence process when selecting platforms, based on our extensive experience across managed account operations.

All the platform providers we have partnered with offer first-class technology and we believe are the current market leaders within the managed accounts space.

However, every platform is different, and one may be better suited to your client base than others. We can utilise our experience across managed account operations to help you decide what managed account provider would work best for your business. This depends on your client base and the things you value most when looking for a managed account provider.

These are the platform providers available for the Innova Managed Account solutions:

	Traditional Portfolios	Risk-defined Fundamental Portfolios	Risk-defined Flagship Portfolios
HUB 24	X	X	X
Netwealth	X		X
CFS First Wrap	X	X	
Praemium	X		X
BT Panorama	X		

Managed Account features of our platform providers at a glance:

- Fee rebates on managed accounts
- Blended managed account solutions
- Broad investment options
- Low transaction costs
- Competitive administration fees
- Excellent reporting functionality
- Intuitive and easy to use interface
- Outstanding client service

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