

Australian Securitisation Forum Conference

Asset Allocation

22 November 2011



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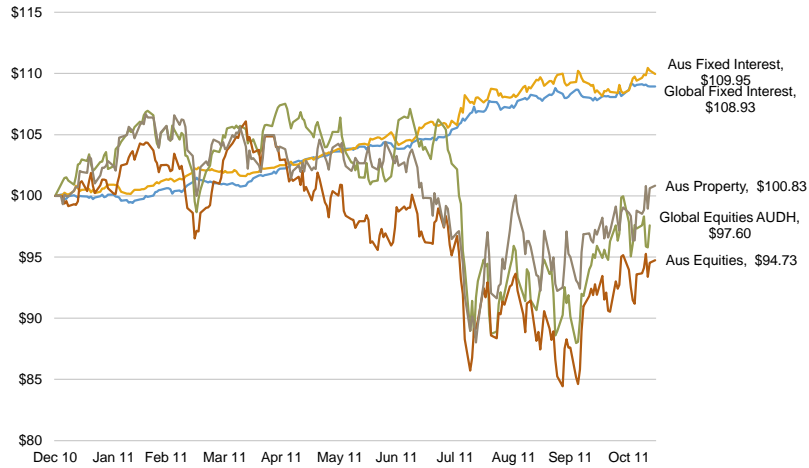
What do low interest rates tell you about asset allocation?

- A. Sell all defensive assets - not a lot of upside to fixed interest

- B. Analyse what these low yields are signaling about expected economic growth and the likely returns from risky assets

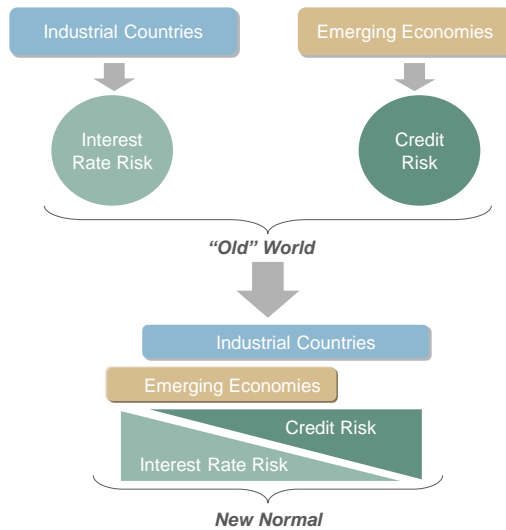
Relative asset class performance YTD 2011

Index Performance CYTD11 - Growth of \$100



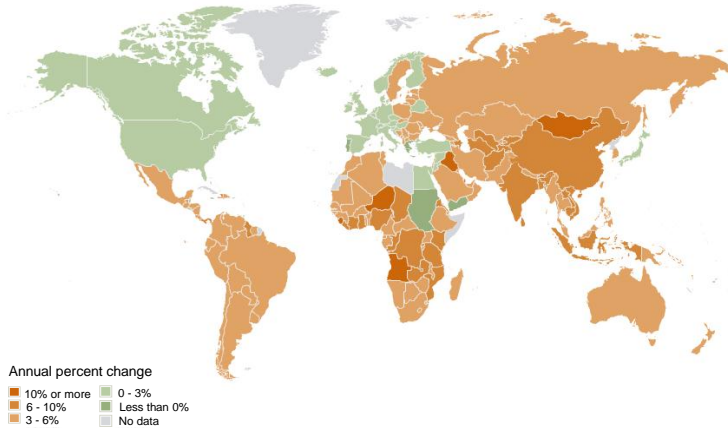
As of 14 November 2011
 SOURCE: Barclays Capital, PIMCO, Bloomberg Financial Markets

The New Normal: Deleveraging, De-globalisation and Re-regulation!



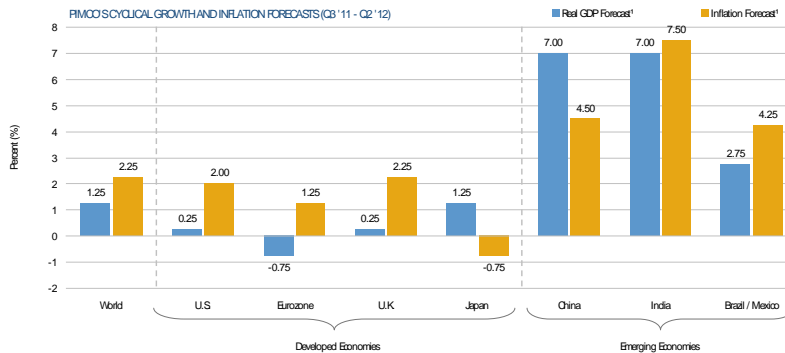
Structure of global economy and growth dynamics are changing rapidly

Average real GDP growth forecasted for 2012



SOURCE: International Monetary Fund (IMF), World Economic Outlook September 2011.

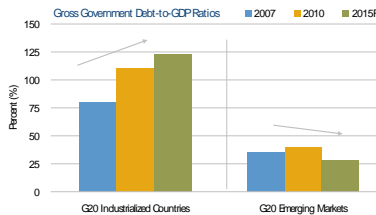
Subdued outlook for the global economy



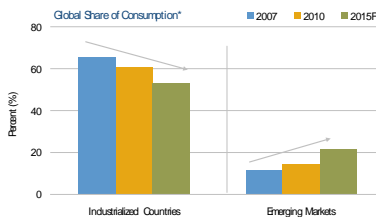
SOURCE: PIMCO. As of 30 September 2011.
* Midpoint of range.

Traditional patterns of global indebtedness are being reversed

▪ Industrialised countries are expanding their indebtedness at an unprecedented pace...

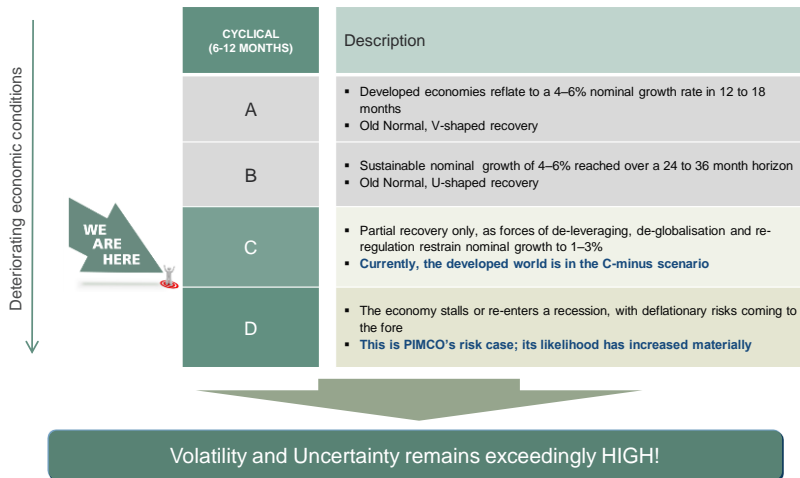


▪ ...even as their share of global economic activity is declining precipitously



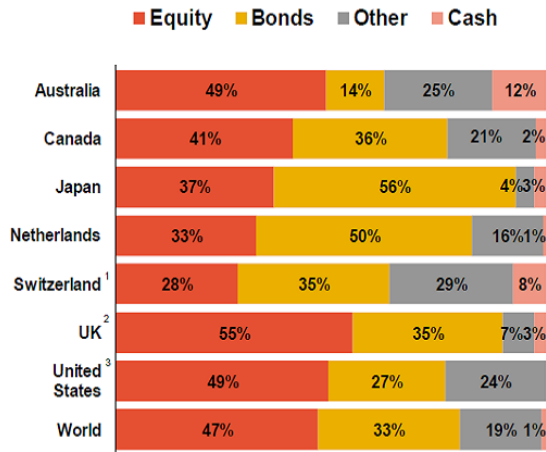
As of 30 September 2011
 SOURCE: International Monetary Fund (IMF), Credit Suisse
 Industrialized Countries: U.S., Japan, Germany, U.K., France, Italy, Spain and Canada. Emerging Market Countries: China, India, Indonesia, Malaysia, Philippines, Thailand, Hong Kong, Korea and Singapore.
 Refer to Appendix for additional outlook information.

PIMCO's cyclical framework for growth in the developed world



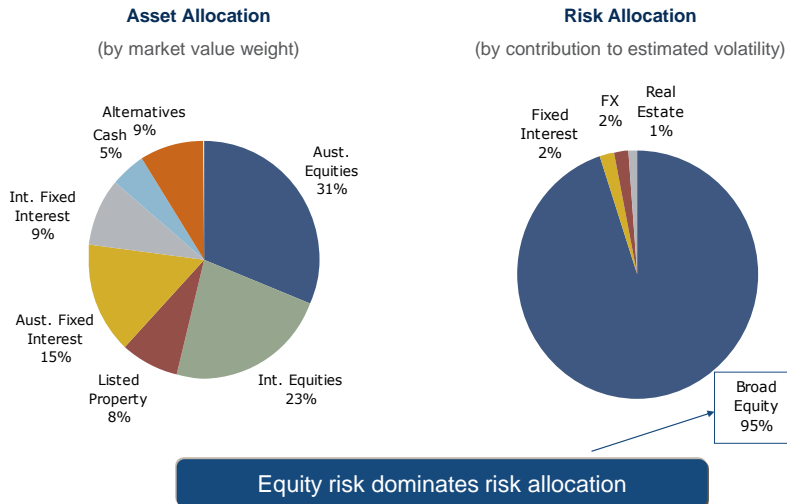
As of 30 September 2011
 Refer to Appendix for additional forecast and outlook information.

Average Pension Fund Asset Allocation



SOURCE: Towers Watson and secondary sources
 Assets/GDP ratio for the world is calculated in USD and assets were estimated as of 31 December 2010

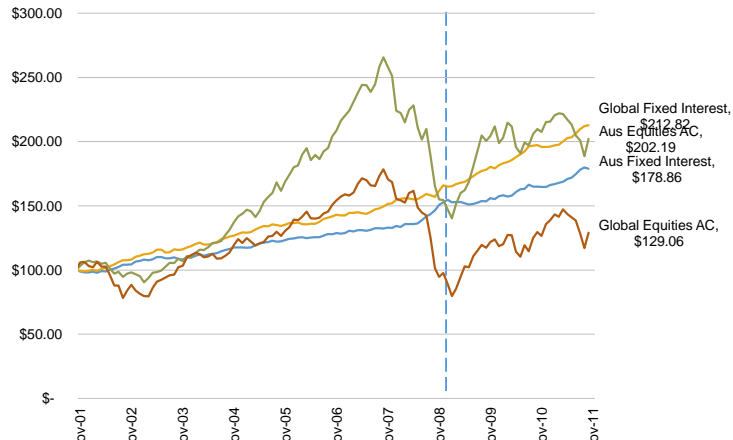
Average Asset Allocation of a Balanced Portfolio



SOURCE: Large Dealer Group Balanced model portfolio, PIMCO Analysis

The end of the Great Moderation - more volatility, lower realised returns

Index Returns - Growth of \$100 over 10 years



As of 31 October 2011
 SOURCE: Bloomberg Markets, PIMCO, MSCI World Unhedged, ASX 200 Accumulation, UBS Australian Composite Bond, Global Aggregate AUD Hedged

100 year investment horizon...?

1. **Jane Gray** 109 years, 353 days
2. **Blanche Coward** 109 years, 337 days
3. **Vi Robbins** 109 years, 264 days
4. **Caroline** 109 years, 50 days
5. **Ethel Farrell** 108 years, 357 days

As of 18 November 2011
 SOURCE: Wikipedia

What does the structured community need to do?

- **Education Education Education...**
- **Efficient funding of our banking system:**
 - **Good for borrowers**
 - **Otherwise:**
 - **ROEs will continue to fall**
 - **Balance Sheets will contract**
- **Fund managers are willing buyers of quality ("bulletproof"?) structured credit, but appetite largely depends upon long-term allocations to fixed income**

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