



**THE INNOVA
RISK DEFINED MANAGED
ACCOUNT SOLUTION**

RETURNS MATTER, BUT BEHAVIOUR MATTERS MORE



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01 INTRODUCTION TO INNOVA ASSET MANAGEMENT

Established in 2010, Innova believes in the use of innovative technologies (where advantageous), coupled with robust research-intensive insights to generate better outcomes for clients.

By managing risk in a multi-faceted way, Innova

believes over the long-term clients will experience a smoother and ultimately better investment outcome. This leads to clients that are more engaged in the advice process and more likely to achieve their financial goals.

BENEFITS OF PARTNERING WITH INNOVA:



EXPERIENCED INVESTMENT TEAM

Innova have a diverse and well-resourced investment team with two full time portfolio managers and two full time quantitative analysts.



THE MILLIMAN GROUP

Additional quantitative support is provided through Innova's unique partnership with the Milliman Group.



BOUTIQUE TEAM WITH INSTITUTIONAL CAPABILITIES

Innova's team consists of dedicated front, middle and back office staff. This means our full-time staff are well trained and equipped to service advisers and execute on client portfolios effectively and efficiently.



PRIVATE LABEL EXPERIENCE AND CAPABILITY

Innova have proven experience in building bespoke private label investment solutions for Advisory groups and licensees.



MANAGER REBATES

Innova negotiate lower fees on managed funds and ETFs through our collective buying power, with 100% of the cost saving paid back to client accounts on a quarterly basis.



GOALS BASED ADVICE FRAMEWORK

Innova offer an end-to-end advice solution under a goals-based framework that can be customised to the needs of your practice or licensee.



FLEXIBILITY

We operate on various platforms and offer a full suite of portfolios, under both a traditional and risk defined framework.



SCALABILITY

An outsourced professionally managed set of portfolios allows Advisers to focus on advice and extend their service offer to more clients.



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.



STRONG RISK-ADJUSTED PERFORMANCE

Innova seek to maximise returns, whilst adhering to strict risk constraints. This has resulted in a strong risk-adjusted performance track record.



SYSTEMATIC PROCESS

Innova run a quantitative risk allocation process that is not influenced by market noise or media hype.



CUSTOMISABLE ADVISER/CLIENT COMMUNICATIONS

Innova has a broad selection of communication pieces with a strong focus on investor behaviour.

02

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



LIFESTYLE



FUTURE

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.

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.

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.

03

HOW INNOVA MANAGES RISK WITHIN THE RISK DEFINED PORTFOLIO SERIES

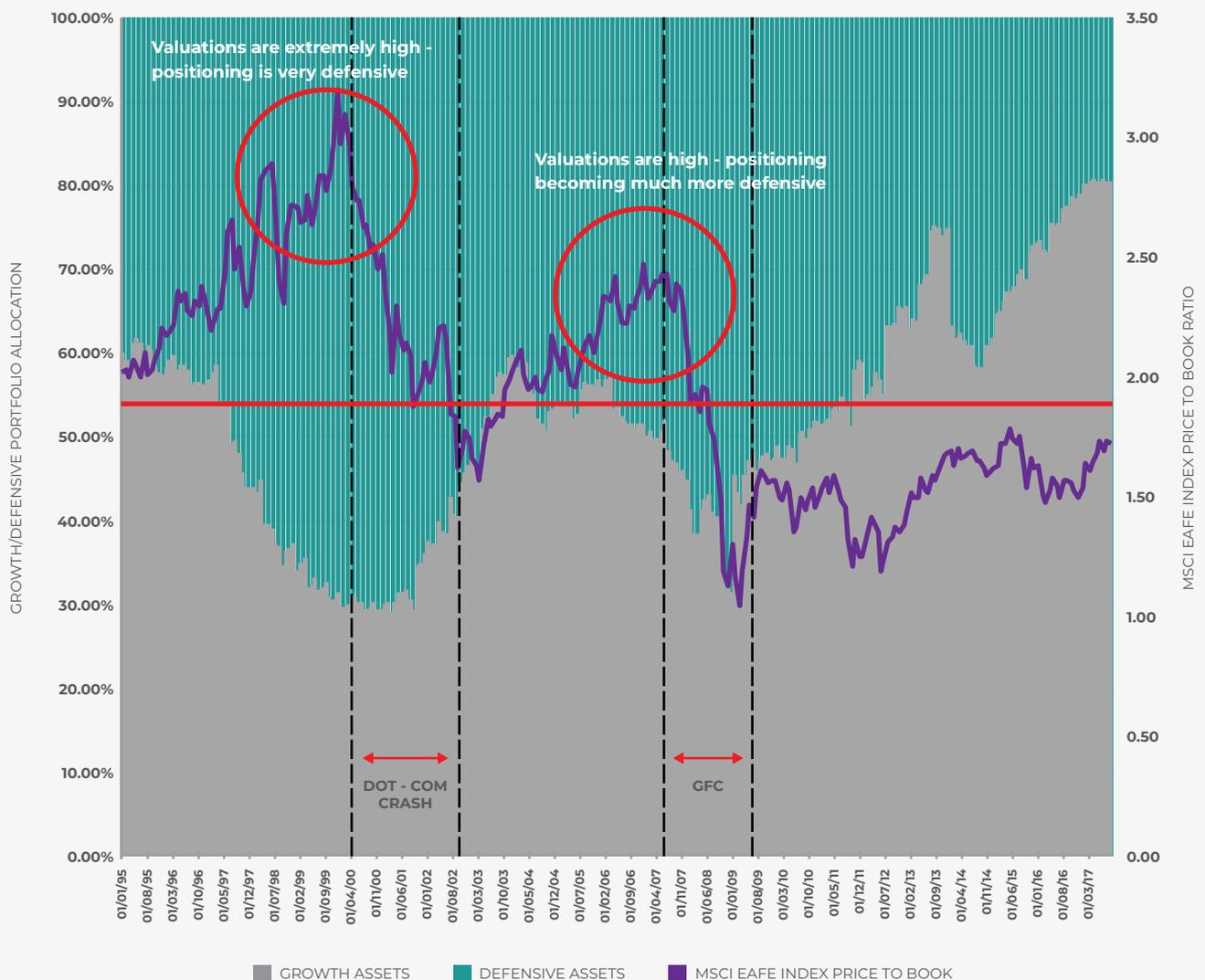
The 'risk defined' portfolios are constructed a bit differently to traditional diversified portfolios. This is because we believe, as evidence would suggest, that asset allocation is the most effective tool for managing risk in a portfolio. Risk also changes across assets throughout time and this is 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.

INNOVA ASPIRATION PORTFOLIO - ASSET ALLOCATION CHANGES



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 wholly 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.



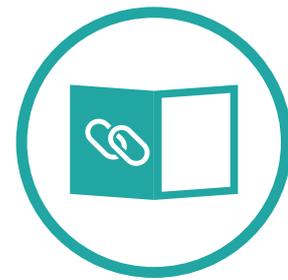
LONG TERM FORECASTS

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



SPECIFIC RISK CONSTRAINTS

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



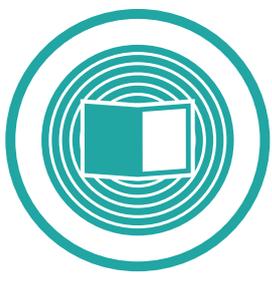
ROBUST OVER OPTIMAL PORTFOLIOS

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

OPEN THE DOOR TO PROFESSIONAL INVESTMENT, MANAGEMENT WITH GREATER FLEXIBILITY AND TRANSPARENCY.

Managed accounts are a great way for clients to access a professional investment manager whilst still retaining ownership of all their underlying investments.

Innova Asset Management run a number of ‘multi asset’ managed accounts on behalf of clients. This means that Innova will professionally select, implement and manage a diversified portfolio of assets (i.e. Cash, fixed interest, domestic and international equities, property and alternatives) on your behalf.

By investing on your behalf through a managed account you have considerably more advantages over a traditional ‘managed fund’ structure. The main benefits are outlined in the table to the right:

Benefits	Managed Account	Managed Fund	Direct Shares
Access To Professional Managers	✓	✓	✗
Beneficial Ownership Of Underlying Investments	✓	✗	✓
Active Portfolio Management	✓	✓	✗
Highly Transparent Investment Portfolio	✓	✗	✓
Institutional Grade Reporting Platform	✓	✗	✗
In-Specie Transfer	✓	✗	✗
Tax Efficient	✓	✗	✓
Ability To Monitor Transactions	✓	✗	✓



You own the underlying assets:

Unlike managed funds, when you invest via a managed account (also known as separately managed accounts or SMA), you own the underlying assets in the portfolio.



Customise with rules and exceptions:

You can choose to override the investment manager’s asset selection with exclude, substitute or lock features. Maybe you would like to substitute NAB with WBC or remove non-ethical stocks? This is possible. Also set tax preferences, minimum trade sizes and holdings.



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:

You get the full benefit of any franking credits and you also do not buy into any embedded tax liability which may be the case when investing in some managed funds.

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	Protected Traditional Portfolios	Risk-defined Fundamental Portfolios	Risk-defined Flagship Portfolios
HUB 24	X	X	X	X
Netwealth	X			X
CFS First Wrap	X	X	X	
Mason Stevens			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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Important Information

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