

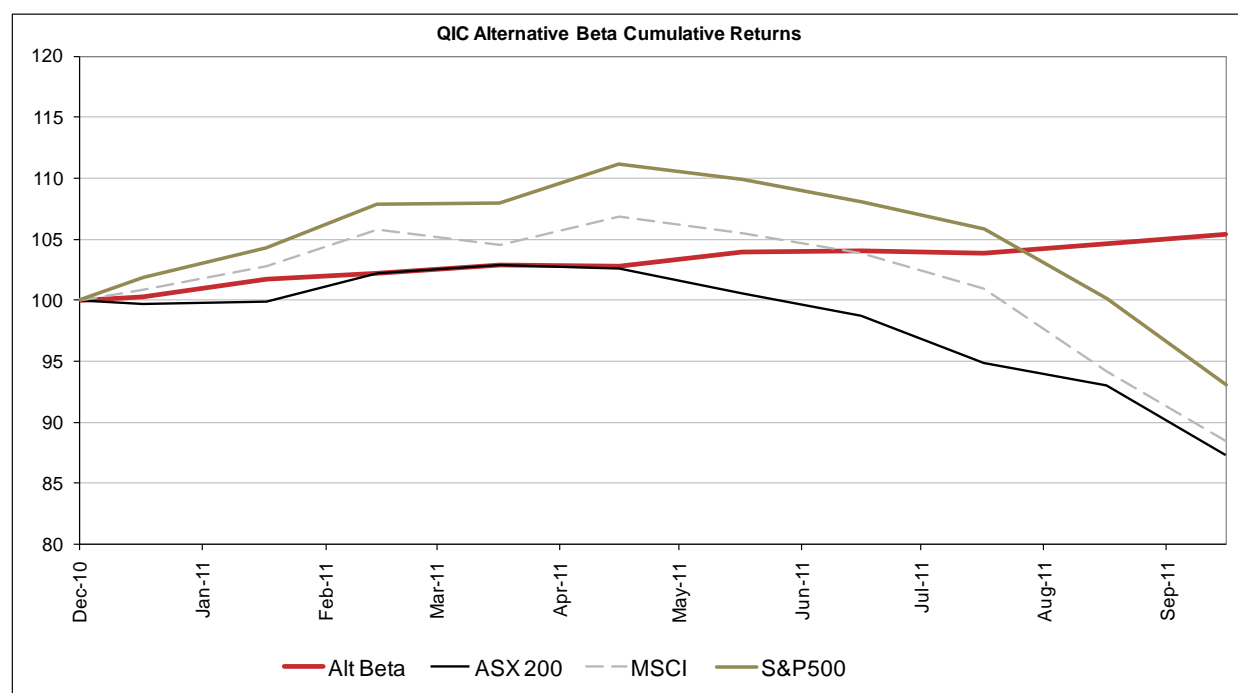
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DYNAMIC ALTERNATIVES COUNTER MARKET VOLATILITY

The extreme equity market volatility of the last few months has highlighted the importance of investing in assets that hold up well in the face of tough conditions. According to QIC Strategy's Head of Alternative Investments, James Dick, successful investing in these conditions requires a dynamic approach to seeking out alternatives that are true diversifiers relative to equity markets.

The QIC Alternative Beta Fund (Fund) was created at the end of 2010 specifically to provide meaningful defence against dramatic equity market swings. As such, the last few months have been the first big test for the Fund.

James commented: "To date, the QIC Alternative Beta Fund has more than satisfied its objectives. It returned 1.3%* for the September quarter, compared to falls in the MSCI global equity index, S&P 500 index and ASX200 index of -14.8%, -13.9% and -11.6%, respectively. Since the Fund's inception in December 2010, it has returned 5.4%* compared to falls of -11.56% for the MSCI global equity index, -6.96% for the S&P 500 Index and -12.69% for the ASX 200 index and this has been achieved with much less volatility than equity markets."



*Alt Beta returns after fees and expenses, index returns before fees

Source: QIC, Bloomberg

According to James, the Fund's success can be attributed to both the unique asset classes in which it invests and the way the Fund is put together.

“QIC has the resources and expertise to conduct the research and due diligence required to find the right mix of assets in relatively specialised niches. We manage the investments dynamically, adjusting exposures as necessary to ensure the Fund achieves optimal results in line with its purpose and we focus on outcomes rather than managing to standard benchmarks.”

He added that QIC’s scale also affords it access to assets that are usually very hard to acquire in small amounts.

Fund investments include listed infrastructure, insurance linked assets, commodities, timberland, alternative fixed interest and cash. None of the underlying asset classes underperformed equities over the last quarter, while the more defensive asset classes (e.g. insurance linked assets and timberland) delivered positive returns during this period.

The Fund’s commodity exposure provides a good example of how the Fund is put together.

“Commodities exposure is included in the Fund as a good inflation hedge. However, the Fund does not invest in the standard commodity benchmark, because doing so crimps the risk premia down. By stepping away from the standard benchmark the Fund focuses on achieving ‘better beta’ exposures without the pricing noise associated with buying a passive index. And because the Australian dollar fluctuates with commodities, we use foreign currency exposures to offset some of the short term volatility that commodities produce,” James said.

He concludes: “In building this Fund we have scooped the best of the pool, using a very robust methodology but avoiding unnecessary complexity. Portfolio construction is centred on weighing up different risks and using natural hedges to help smooth overall returns. QIC has created a truly diversified fund which offsets the risks of equities to provide a real buffer when equity markets slip and slide, as they have been doing recently and as they may continue to do.”

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