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Understanding Your Investment Exposure to China

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In recent weeks the Chinese sharemarket has fallen, reversing large parts of the strong gains seen over the last year. This has resulted in increased concerns that developments in China could be the catalyst for a significant fall in equity markets, particularly here in Australia. These worries have been heightened as they come hot on the heels of the falls seen in sharemarkets due to developments in Greece.

As we highlighted in our recent update on Greece, ***Greece Jitters No Cause for Concern for Ibbotson Investors***, the most concerning element about current investment markets is the increasingly stretched valuations of most assets. We've held the view for the past couple of years that Chinese shares are most certainly one of those assets and we reduced the Ibbotson portfolios exposure accordingly. For example, across Ibbotson's Managed Account portfolios, Chinese share exposure ranges from no exposure at all in the Defensive option to 3.4% in the High Growth Plus option. And across Ibbotson's Trusts, Chinese share exposure ranges from 0.06% in the Defensive option to 0.9% in the High Growth Plus option.

For some time now we have been wary of the high valuations across both share and bond markets so we have continued to adopt a more defensive position across all Managed Account and Trust Portfolios (the Portfolios). Developments like China and Greece are very hard to predict and in an environment where investors are not being rewarded for the risks they're taking, we believe the most prudent approach is to reduce market exposure.

This positioning has helped Ibbotson protect investors' capital and reduce the losses being felt by investors who have significant exposure to growth assets. What markets may do in the short term is uncertain, but should the current volatility continue, the Portfolios are well positioned to weather these conditions. In addition, the Portfolios are in a good position to deploy their large cash positions into better opportunities as and when they arise. This strategy, while helping to best preserve capital now, will also help to enhance future returns and help the Portfolios continue to exceed their CPI+ investment objectives.