

# The Importance of Asset Allocation & Diversification

So, what's this all about?

Not having all your Eggs in one Basket!

# Public Belief about Performance

- In **My** experience the public
  - Investment decisions = past performance
  - 80% of growth cycle.....then invest
  - Growth “always negative”
  - Say, “pensions are rubbish”
- The advisor’s role is to educate and guide

# Today

- Types of Investment Risk
- How asset classes relate to each other
- The best asset class
- How Templegate constructs a portfolio

# However, before that

- A question for you
  - What's a realistic long term growth?
    - 2% per annum?
    - 5% per annum?
    - 7% per annum?
    - 9% per annum?
- Answer to follow later

# Types of Risk

- Capital risk
  - But there are more types!
- Shortfall risk
- Interest risk
- Inflation risk

# Asset Classes

- Cash/Deposit
- Fixed Interest Securities
- Property
- Shares/Equity

# First main asset Class

- Cash Deposit
  - Main features
    - No Capital Risk, (if below £85,000)
    - Inflation Risk, (especially if taxed)
    - Shortfall Risk, (limited growth opportunities)

# Second main asset Class

- Fixed Interest Securities
  - Corporate Bonds and Gilts
    - Main features
      - Secure income and capital, (not guaranteed)
      - Loans made to companies for Fixed Interest return
      - Coupon, £1.00 nominal value on maturity
      - More capital risk than Cash
      - Growth more likely to exceed inflation than Cash
      - ↑ Interest Rates, say 5% to 10% capital value ↓
      - ↓ Interest Rates, say 10% to 5% capital value ↑

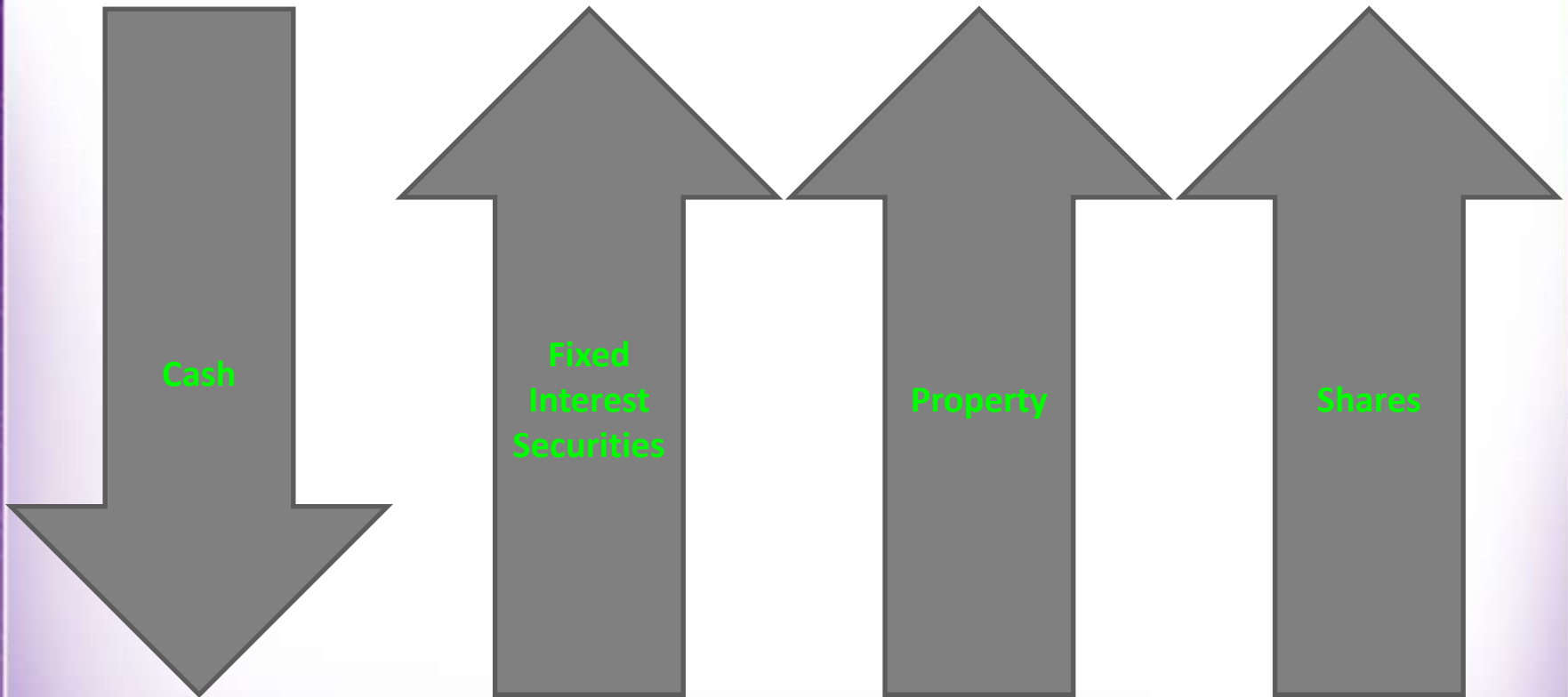
# Third main asset Class

- Property
  - Main features
    - Residential or Commercial
    - Good hedge against inflation over long term
    - Low volatility, direction of growth can be steady
    - More capital risk than Cash and Fixed Interest Securities
    - Beats Cash and Fixed Interest Securities, over long term
    - Access delays waiting for property to be sold
      - 6 months

# Last main asset Class

- Shares/Equities
  - Main features
    - Income and capital value - insecure
      - Income, (dividends)
      - Capital value, (share price)
    - Performance ☹️
      - Slow economic growth and rising interest rates
    - Performance 😊
      - Best asset class over the long term

# How they relate to each Other



# The best asset Class

- Mark Twain said, “The past does not repeat itself, but it rhymes”
- How does that relate to investments?
- Let me show you.....

# Historic Cycles

## IMA Peer Group Average - Calendar Performance

for professional advisers only

31 December 2010

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Best</b>	103.4	18.7	49.1	20.2	29.2	30.1	180.0	17.1	4.7	6.5	41.0	24.7	59.5	36.8	36.4	16.3	57.7	33.2
	84.7	15.0	34.2	16.5	25.5	25.0	112.1	12.7	4.2	6.3	40.4	22.9	50.7	26.3	34.8	11.8	52.4	35.5
	58.8	3.5	21.8	19.3	24.6	23.9	88.9	7.3	3.8	5.6	38.0	22.3	43.5	23.7	12.6	2.2	38.1	25.6
	44.3	2.2	21.8	18.5	24.0	23.5	72.1	6.9	3.7	4.2	34.1	21.5	32.9	18.8	11.3	-2.6	46.6	22.7
	41.5	0.6	20.2	17.0	23.9	22.1	67.0	6.6	1.9	4.1	33.3	15.8	32.3	16.5	8.8	-6.5	37.3	21.3
	39.4	-0.6	20.1	16.4	23.0	17.2	56.2	5.8	1.7	2.3	26.9	16.6	24.9	16.1	6.3	-10.3	30.4	19.5
	39.3	-1.3	19.2	13.7	20.7	16.0	51.0	5.4	1.3	-2.2	26.5	14.7	24.6	17.7	6.2	-15.2	24.3	19.1
	38.8	-1.6	18.8	13.3	21.4	16.0	32.5	5.4	-2.0	7.9	24.1	13.6	22.8	17.3	6.2	16.4	23.9	17.7
	36.9	-3.0	18.2	12.6	19.2	14.1	31.8	5.3	-2.5	-14.2	23.3	12.5	21.9	17.3	4.5	-16.9	23.4	17.3
	35.4	-4.0	17.8	12.5	16.2	13.9	30.3	4.3	-3.2	-16.7	22.3	10.9	20.7	17.2	4.1	-18.5	22.0	15.5
	34.4	-6.1	17.8	11.9	16.2	13.3	29.5	3.8	-5.6	-17.4	21.7	10.5	20.6	9.8	4.1	-21.8	21.8	14.7
	34.4	-5.5	17.4	10.2	14.4	12.3	27.8	3.5	-7.1	-17.7	20.9	9.1	20.5	9.8	3.8	-24.3	20.9	13.7
	33.8	-5.7	15.0	9.0	13.6	12.0	27.0	3.2	-10.5	-18.2	20.2	9.0	20.5	7.4	2.9	-24.6	20.5	12.3
	30.9	-5.8	14.6	8.7	13.0	11.3	23.3	2.3	-12.5	-19.5	20.0	8.6	18.3	6.9	1.8	-25.7	18.9	11.8
	30.3	-5.8	14.3	8.1	12.6	10.9	19.9	1.2	-13.3	-19.8	17.5	6.9	18.9	5.5	1.8	-26.9	19.4	10.4
	29.3	-6.2	14.4	7.3	12.3	10.4	17.8	0.9	-13.4	-21.1	17.4	7.7	18.5	2.7	1.2	-28.1	18.1	10.3
	27.7	-6.4	13.7	6.5	11.5	10.3	16.3	-2.4	-13.6	-23.0	14.3	7.3	16.3	1.7	-0.2	-26.7	16.6	8.7
	27.4	-6.5	12.9	5.0	10.2	7.9	9.2	-2.8	-17.0	-23.7	13.4	7.1	12.3	-0.7	-0.3	-29.3	14.3	8.3
	22.8	-8.2	7.2	4.3	4.9	5.6	3.9	-4.1	-18.2	-24.7	12.0	6.1	7.2	-1.0	0.7	-31.3	12.7	7.9
	20.9	-8.3	4.5	4.1	4.6	3.5	3.2	-4.6	-18.4	-25.8	10.3	5.4	6.8	-1.4	-1.7	-32.3	5.9	7.3
	20.8	-8.8	1.7	2.6	1.5	-4.9	-2.8	-18.3	-19.3	-26.0	7.3	4.5	6.4	-2.4	-6.8	-33.2	2.9	6.8
	18.0	-10.4	-2.3	-1.6	-20.3	-5.3	-1.6	-24.1	-26.9	-27.1	5.3	3.8	6.8	-3.9	-11.0	-34.5	0.4	5.9
	16.9	-19.5	-6.2	-21.5	-31.1	-8.8	-2.2	-29.3	-26.7	-32.7	2.0	2.3	4.3	-14.5	-13.4	-37.0	-2.5	0.4
<b>Worst</b>	4.5	-20.7	-10.0	-22.4	-33.7	-29.0	-3.4	-37.0	-30.9	-33.0	1.0	1.2	3.2	-30.9	-18.0	-40.7	-3.4	10.4

IMA UK All Companies	IMA Europe Excluding UK	IMA Global Growth	IMA Global Bonds
IMA UK Equity Income	IMA Europe Including UK	IMA Global Emerging Markets	IMA UK Gil
IMA UK Equity Income & Dividends	IMA European Smaller Companies	IMA Active Managed	IMA E Corporate Bond
IMA UK Smaller Companies	IMA Japan	IMA Balanced Managed	IMA E Strategic Bond
IMA North America	IMA Japanese Smaller Companies	IMA Cashflow Managed	IMA E High Yield
IMA North American Smaller Companies	IMA Asia Pacific Excluding Japan	IMA Property	IMA Money Market

# Portfolio Construction

- Templegate's portfolio style depends on the client's need
  - Portfolios styles
    - Defensive
    - Cautious
    - Mixed
      - 0% - 35% shares
      - 20% - 60% shares
      - 40% - 85% shares
      - 60% - 100% shares
    - Tracker
      - FTSE 100, typically
      - Many more indexes

# Portfolio Construction

- Fund of Funds, (FoF)
  - Broad diversification with an appropriate asset allocation, all wrapped up into one portfolio.
- Manager of Manager, (MoM)
  - Investment house, i.e. Fidelity, Skandia, Jupiter
    - oversees client's investment fund
    - tracks the performance of investment managers within portfolio
    - fire ineffective managers then hires replacements on a client's behalf.

**Note** - If FoF or MoM carries an operating expense, investors pay double for an expenses already included in the expense figures of the underlying funds.

# Portfolio Construction

- Bespoke portfolio
  - All funds chosen and managed by Templegate
  - Reviewed regularly for
    - Asset Allocation
    - Diversification
    - Fund Performance
    - Alpha
    - Beta
    - Client view on risk regularly reviewed

# Portfolio Construction

- Research filters
  - Past performance over 1, 3 and 5 years
  - Alpha coefficient
    - Defines the extra return awarded to the investor for taking a risk. A positive alpha is the extra value over and above its sector average.
    - Theoretically, alpha varies from 0 to 1. However, alpha can take on any value less than or equal to 1, including negative values, although **only positive values make sense**.

# Portfolio Construction

- Research filters continued
  - Beta coefficient
    - A means of measuring the volatility of a fund in comparison with the sector average.
    - Beta of 1.0: fund moves up and down exactly with the market. i.e. Market moves 10% so fund moves 10%
    - Beta of 2.0: fund moves up and down at double the rate of the market. i.e. Market moves at 10%, fund moves at 20% so, more volatile!
      - Can be +ve and -ve figures
      - Ideally less than 1.0

# Portfolio Construction

- Financial Strength
  - Old Broad Street Research , (OBSR) funds ratings
    - Group ownership and stability
    - Investment philosophy and objectives
    - Personnel
    - Investment process
    - Research resources
    - Portfolio construction and risk controls

# So, to my question posed Earlier!

- What's a realistic long term growth rate?
  - Anything above inflation!
  - Ideal growth rate ? Client's view on **volatility**.

# Today

- Investment Risk
  - 4 different types
- Asset Classes
  - 4 main types, many derivatives
  - How they relate to each other
  - One goes up the other goes down.....mostly
- The Best Asset Class
  - They all perform well at some point in the cycle
- How Templegate constructs a Portfolio
  - Research
  - Understanding client drivers

# Thank you for Listening!

Any questions?