TOBAM*
Core investments

Diversification Update at 30/06/2012

TOBAM's Diversification Ratio (DR)[1] measures to what extent a portfolio is diversified. The DR² (square of the diversification ratio) corresponds to the number of independent degrees of freedom in a particular portfolio – or the number of independent variables at work. As the table shows, the "broad market" indices leave diversification on the table. In addition to a snapshot of each market's DR², the table shows the DR² of a well-diversified portfolio, and the fraction of available diversification used by the index.

	DR² - Index diversification	*DR² - Maximum diversification*	*% diversification used by index*
MSCI EMU	1.66	3.65	*46%*
MSCI US	1.72	3.76	*46%*
MSCI UK	1.77	2.77	*64%*
MSCI Japan	2.40	7.90	*30%*
MSCI World	2.24	5.15	*43%*
MSCI Australia	1.72	2.92	*59%*
MSCI Emerging[2]	2.90	4.27	*68%*

1st anniversary update: Maximum diversification in emerging markets

Since the launch of the TOBAM Anti-Benchmark Emerging Markets Equity fund on June 29, 2011, global emerging markets have had a turbulent ride. With over $150 million in the fund as of June 29, 2012, marking its first full year of live track record, the Anti-Benchmark Emerging Markets Equity fund has achieved its objective of capturing the emerging markets equity risk premium with lower risk, by applying TOBAM's patented Anti-Benchmark methodology to maximize diversification across the investment universe.

Live Track Record

Against a backdrop of turbulent markets for most of 2011 and well into 2012 TOBAM's Anti-Benchmark Emerging Markets Equity strategy remained focused on selecting the most diversified mix of stocks in the universe. For the inception-to-date period, the 12 months ended June 28, 2012, this strategy paid off as the fund has outperformed the MSCI EM benchmark by 6.17%, with close to 18% less volatility, as detailed below.

USD 6/30/2011 - 6/28/2012	Anti-Benchmark EM Equity	MSCI Emerging Market TR Net	Improvement
Performance	-8.77%	-14.94%	6.17%
Volatility	19.42%	23.66%	-17.92%
TE / MSCI EM	7.22%		

[1]TOBAM's Diversification Ratio measures a portfolio's or index's diversification. It is supported by original research and is based on a mathematical definition of diversification. TOBAM's "Anti-Benchmark" Most Diversified Portfolio® maximizes this Diversification Ratio. Maximizing diversification within a universe of securities provides a result closer to the true market risk premium from that universe. "Maximum Diversification®" and "MaxDiv®" are registered trademarks of TOBAM.
[2] The Anti-Benchmark Emerging Markets Equity strategy filters the reference index to the 200 largest market capitalizations.

AB Emerging: a better diversifier vs. MSCI EM and MSCI World…

Most investors would not question the benefits of allocating to Emerging Markets for diversification, but the table below shows that reaping the entire diversification potential of Emerging Markets requires going further than the MSCI index. The table compares correlations among the MSCI World and MSCI Emerging Markets indices, and the AB Emerging Markets portfolio:

Global and emerging markets equities correlations:
Anti-Benchmark Emerging Markets vs. the MSCI EM and MSCI World
Year ending June 29, 2012 (daily data)

Investment Universe	MSCI World	MSCI Emerging	AB EM
MSCI World	100%		
MSCI Emerging	73%	100%	
AB Emerging	60%	93%	100%

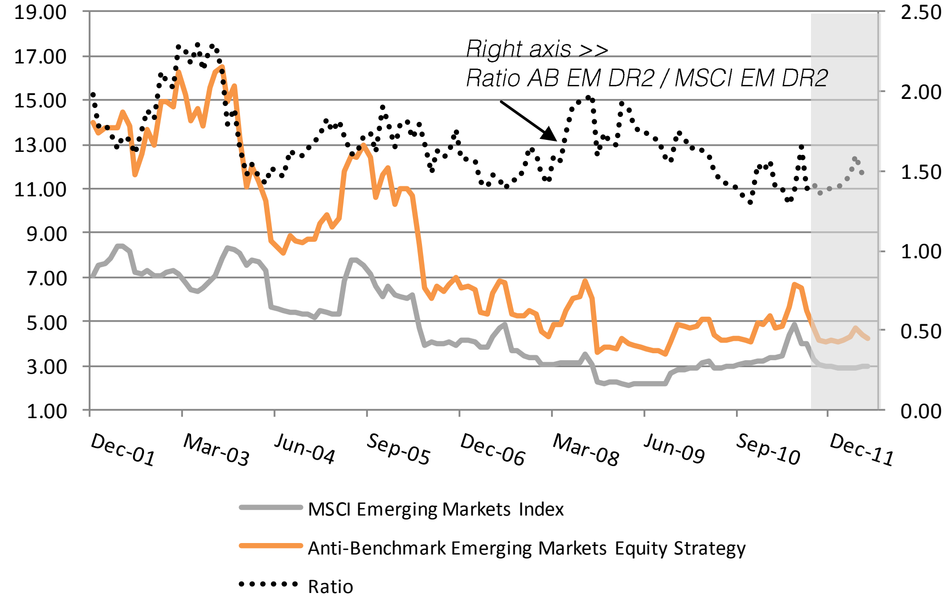
The MSCI Emerging Markets index's 73% correlation to the MSCI World index is significantly higher than the 60% correlation between the AB Emerging Markets portfolio and the MSCI World. This can be attributed to the MSCI Emerging Markets index's high exposure to two of the most globally-influenced industry sector groups, Financials and Energy/Materials. It should be no surprise that these sectors account for over 55% of index volatility, a trend similar to that seen in developed equity markets.

The AB Emerging Markets portfolio, which explicitly seeks to avoid such biases, is thus significantly more diversifying than the MSCI Emerging Markets index. Choosing emerging markets for diversification and performance should imply choosing a truly diversified emerging markets portfolio to ensure that the two objectives are met.

Most investors associate emerging markets – rife with geopolitical, sector and idiosyncratic risk – with potentially higher returns, but higher risk – a multitude of risk factors that make for a greater diversification potential. Indeed, the diversification gap between the benchmark and the Most Diversified Portfolio is structural, as illustrated by the DR2s in the following chart: only 68% of available diversification was used by the benchmark as of June 30, 2012 (the gray shaded area indicates live performance history).

Long-term diversification compared to the MSCI EM index

DR2s for the AB Emerging Markets strategy and the MSCI EM index



Anti-Benchmark Emerging Markets: robust and cost-effective for the long term

A number of implementation difficulties can confront traditional emerging markets equity investors. First, the task of researching every single emerging market stock across regions can be cost prohibitive and even confine managers to a regional specialization, whereas the opportunity set is global. Especially in a market whose macroeconomic and revenue dynamics are constantly changing, it is critical to be able to tap into all of the available sources of risk premium.

Next, traditional emerging market managers also risk subjecting their portfolios to the index's significant price swings at each index rebalancing. An additional roadblock to effective emerging markets equity implementation is limited capacity. Anti-Benchmark implementation both bypasses the cap-weighted index's bets and the capacity problems inherent in managing against this index. The Anti-Benchmark is not only indifferent to the cap-weighted index composition, and thus to its implementation challenges, but it is also relatively indifferent to which securities are included; the AB can hold different mixes of stocks yet remain very well diversified.

A third compelling argument for the Anti-Benchmark approach is its inherent efficiency. By applying a systematic methodology that targets maximum diversification while optimizing turnover and penalizing illiquidity, the Anti-Benchmark portfolio delivers a highly scalable and cost-effective portfolio. We feel that this unbiased investment methodology can be most rewarding for investors, both in terms of cost and accessibility.

As such, a portfolio that maximizes diversification across the stocks in the emerging markets equity universe can deliver the full equity risk premium to investors. The most diversified emerging markets equity portfolio has shown its ability to tap into the different risk factors underlying these (albeit volatile) equity returns, which translates into a win-win investment strategy: reaping greater investment returns while reducing portfolio risk.

For more information

TOBAM is an asset management company offering innovative investment capabilities whose aim is to maximize diversification. TOBAM's flagship Anti-Benchmark® strategies, supported by original research and a mathematical definition of diversification, provide clients with diversified core equity exposure, both globally and in domestic markets. FTSE also publishes the FTSE TOBAM Maximum Diversification Index Series based on the Anti-Benchmark equity portfolio construction methodology. The company manages over $2.3 billion via its Anti-Benchmark strategies for institutional clients worldwide. Its team includes seventeen financial professionals based in Paris, Los Angeles and Amsterdam (30.06.2012).

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