TOBAM*
Core investments

Diversification Dashboard
December 31, 2011

Diversification Update at 31/12/2011

TOBAM's Diversification Ratio (DR)[1] measures to what extent a portfolio is diversified. The DR^2 (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 DR^2, the table shows the DR^2 of a well-diversified portfolio, and the fraction of available diversification used by the index.

	DR^2 - Index diversification	***DR^2 - Maximum diversification***	***% diversification used by index***
MSCI EMU	1.66	3.53	*47%*
MSCI US	1.74	3.61	*48%*
MSCI UK	1.80	2.82	*64%*
MSCI Japan	2.04	4.75	*43%*
MSCI World	2.56	5.81	*44%*
MSCI Australia	1.66	2.76	*60%*
MSCI Emerging[2]	2.96	4.12	*72%*

Focus on the Anti-Benchmark US Equity in 2011

Ending a volatile, unpredictable year for global equity markets in general, the US equity market managed to deliver flat to mildly positive returns for the 4th quarter and year. Despite encouraging news on the domestic front – US companies churned out positive corporate profits, creating compelling buy opportunities, and macroeconomic indicators ticked up – these positives were overshadowed by the opacity of the drawn-out sovereign debt crisis in Europe, which weighed on business and consumer confidence worldwide. In short, systemic risk dominated markets, driving average correlations and market volatility higher in the US. During the second half of the year, average correlations rose by over 60%[3], and volatility rose significantly.

Against this backdrop, the US equity market, as measured by the MSCI USA index, returned 1.36% for the full year, with market volatility of about 24%. Over the period, the AB US Equity portfolio surpassed the benchmark by about 1%, returning 2.32% for the year gross of fees, with 19% volatility:

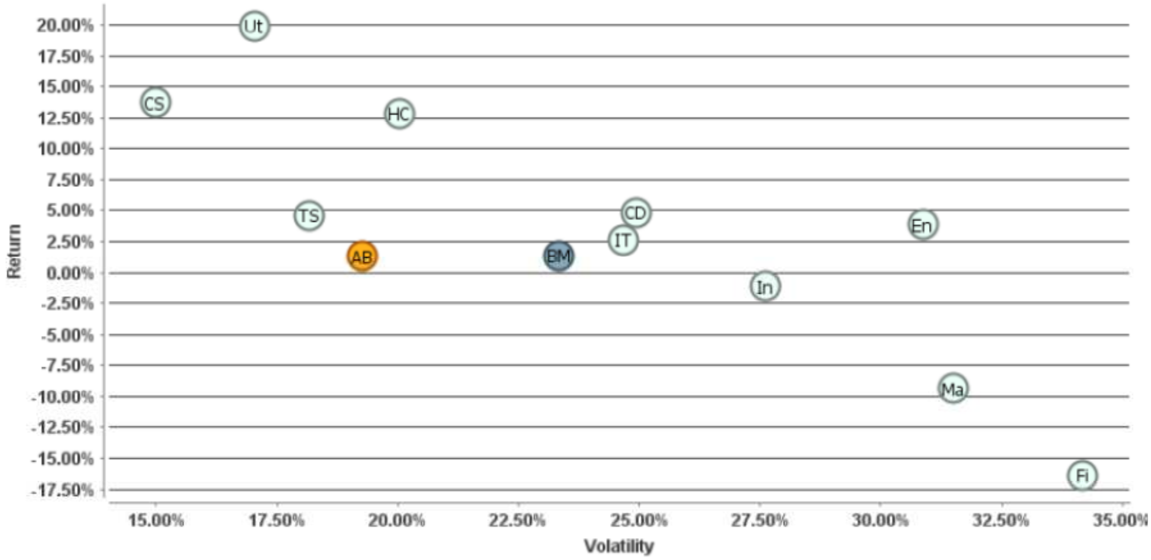
2011 Performance and volatility

	Performance	*Volatility*	*Sharpe Ratio*
	YTD 31 Dec 2011	YTD 31 Dec 2011	YTD 31 Dec 2011
US Anti-Benchmark Equities	2.32%	19.27%	0.11
MSCI US Net TRI	1.36%	23.61%	0.05
Difference	*+0.96%*	*-18%*	
S&P 500 TRI	2.11%	23.55%	0.08

[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.
[3] Between 29/07/11 and 31/12/11, average correlations between stocks in the S&P 500 index rose 61.1%. Source: Bloomberg, TOBAM.

2011 Risk & Return by sector

The most volatile sectors also performed the worst:

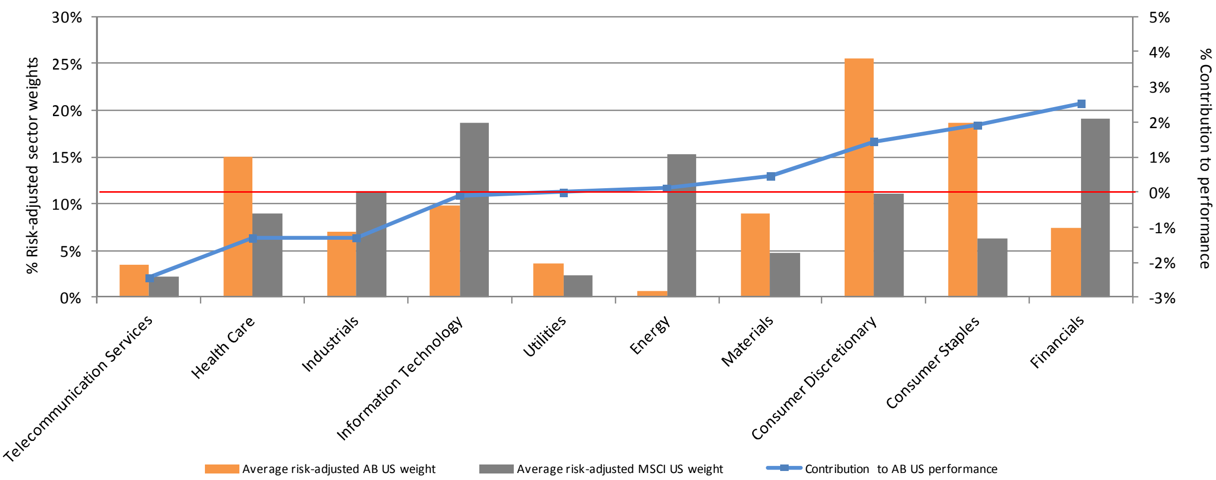


Ex-post percentage Returns and Annualized Volatilities for the year ended 31 Dec 2011. The US Anti-Benchmark Strategy (AB) and MSCI USA Index (BM) are represented, along with the following GICS MSCI Sectors: Consumer Discretionary (CD), Consumer Staples (CS), Energy (EN), Financials (FN), Health Care (HC), Industrials (IN), Information Technology (IT), Materials (MT), Telecom Services (TS) and Utilities (UT). Volatilities estimated using daily data. Returns are in USD.

Despite the major distraction posed by high systemic risk linked to events overseas, the US market (as measured by the MSCI USA) still managed to deliver mildly positive returns in 2011. Moreover, in spite of higher average correlations, particularly at year end, the AB US strategy still found diversification opportunities, and spread risk allocation across both diversified and diversifying sectors. In particular, the AB made higher allocations to the Consumer Discretionary, Consumer Staples and Health Care sectors due to their higher level of diversification, both within and among sectors. This led to modest outperformance (+0.96% vs. the index for the year) and 20% less volatility than the benchmark.

2011 US Sector Weights and Return Contributors (full year)

Risk-adjusted sector weights (bars, LH axis) vs. % performance contribution (line, RH axis)



Conclusion

Although 2011 was dominated by market volatility, with systemic risk taking on a disproportionate importance in equity market performance, the AB US portfolio nonetheless captured more of the equity risk premium. The flood of headlines from Europe, Asia and the Middle East all but drowned out positive fundamentals in the US stock market. Reading between the lines, this trend underscores the rising impact of systemic risk drivers as opposed to traditional style drivers (value vs. growth) in equity markets. As demonstrated in 2011, by continuously maximizing diversification, the AB US portfolio aims to continue to capture diversification across all risk factors in the market.

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 $2.0 billion via its Anti-Benchmark strategies for institutional clients worldwide. Its team includes sixteen financial professionals based in Paris, Los Angeles and Amsterdam (31.12.2011).

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