

Diversification Dashboard – 31.12.2013,

TOBAM's Diversification Ratio (DR) ¹ measures to what extent a portfolio is diversified. The DR ² (square of the diversification ratio) measures the number of effective degrees of freedom to which a portfolio is exposed. 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.		<i>DR² - Index diversification</i>	<i>DR² - Maximum diversification</i>	<i>% diversification used by index</i>
	MSCI EMU	2.69	8.66	31.1%
	MSCI US	3.45	10.34	33.4%
	MSCI UK	2.81	5.26	53.4%
	MSCI Japan	2.04	5.20	39.3%
	MSCI World	5.05	18.24	27.7%
	MSCI Australia	2.63	4.90	53.7%
	MSCI Pacific ex-Japan	2.67	6.51	41.1%
	MSCI Canada	4.65	9.63	48.3%
	MSCI Emerging	4.99	10.07	49.5%
MSCI All Countries	5.56	24.35	22.8%	

2013 Performance Recap – Flagship strong outperformance²

The Anti-Benchmark "flagship"³ strategies outperformed their respective MSCI benchmark in 2013, by approximately 400bps to 800bps.

Global and US equities Anti-Benchmark strategies managed to outperform their market cap-weighted benchmarks in the context of high positive absolute performance (+20/30%), illustrating the outperformance capacity of diversification even in bull markets.

Anti-Benchmark Emerging Markets Equity managed to generate a positive return during 2013, a period during which MSCI EM performance was negative. ITD, the strategy has outperformed the benchmark every single calendar year and significantly reduced risk.

On the positive side, several other Anti-Benchmark strategies continued to build a very solid track record:

- Anti-Benchmark UK generated another year of positive relative return; it is the 5th calendar year in a row with an annualized +3.9% outperformance over this period,
- Anti-Benchmark Canada added more than 800bps to the benchmark in 2013, after adding 539bps in 2012 and 700bps in 2011.

On the other side, in some regions the benchmark concentrations were rewarded in 2013:

- Anti-Benchmark Pacific significantly underperformed the benchmark (-11.10%), as the concentration of the MSCI Pacific towards Japan has been highly rewarded in 2013 (MSCI Japan + 55% in JPY in 2013),
- The same phenomenon explains the relative return of the MSCI Pacific ex-Japan, where the concentration in Australian financials explains most of the strategy's underperformance.

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 Performance figures as gross of fees stated in the currency of the respective AB strategy

³ Ranked by assets under management

Anti-Benchmark Equity Strategies Update

As of December 31, 2013	Performance		Volatility
	YTD	Δ	YTD
Anti-Benchmark World Equity (USD) <i>MSCI Daily TR Net World USD</i>	31.14% 26.68%	4.46%	9.46% 10.23%
Anti-Benchmark Global Equity (EUR) <i>MSCI Daily TR Net World EUR</i>	24.62% 21.20%	3.42%	9.49% 10.15%
Anti-Benchmark Emerging Markets Equity (USD) <i>MSCI Daily TR Net Emerging Markets (USD)</i>	1.47% -2.60%	4.07%	11.56% 13.63%
Anti-Benchmark US Equity (USD) <i>MSCI Daily TR Net US Local</i>	39.84% 31.79%	8.05%	12.05% 11.35%
Anti-Benchmark UK Equity (GBP) <i>MSCI Daily TR Net UK Local</i>	18.76% 18.43%	0.33%	10.82% 12.35%
Anti-Benchmark All Countries World Equity (USD) * <i>MSCI Daily TR Net AC World (USD)</i>	1.89% 2.09%	-0.20%	n/a (<1 month)
Anti-Benchmark Euro Equity (EUR) <i>MSCI Daily TR Net EMU Local</i>	25.50% 23.36%	2.13%	10.04% 14.79%
Anti-Benchmark Canada Equity (CAD)** <i>S&P/TSX COMPOS TR INDEX (CAD)</i>	21.14% 12.99%	8.15%	8.38% 10.10%
Anti-Benchmark North America Equity (CHF)*** <i>MSCI Daily TR Net North America Hedged CHF</i>	10.51% 10.12%	0.39%	11.13% 10.37%
Anti-Benchmark Japan Equity (JPY) <i>MSCI Daily TR Net Japan Local</i>	50.24% 54.58%	-4.34%	18.92% 25.57%
Anti-Benchmark Pacific-ex Japan Equity (USD) <i>MSCI Daily TR Net Pacific ex-Japan USD</i>	0.32% 5.49%	-5.17%	10.93% 14.21%
Anti-Benchmark Europe Equity (EUR)**** <i>MSCI Daily TR Net Europe EUR</i>	18.05% 19.82%	-1.78%	10.11% 12.20%
Anti-Benchmark Pacific Equity (USD)**** <i>MSCI Daily TR Net Pacific USD</i>	7.17% 18.27%	-11.10%	12.54% 16.24%
Anti-Benchmark France Equity (EUR) <i>MSCI Daily TR Net France Local</i>	21.86% 20.87%	1.00%	11.98% 15.73%

Performance is calculated using time-weighted, geometrically-linked rates of return using end of month market values in the reference currency as noted. All returns are gross of fees and reflect the reinvestment of dividends and other income. Past performance is not indicative of future results.

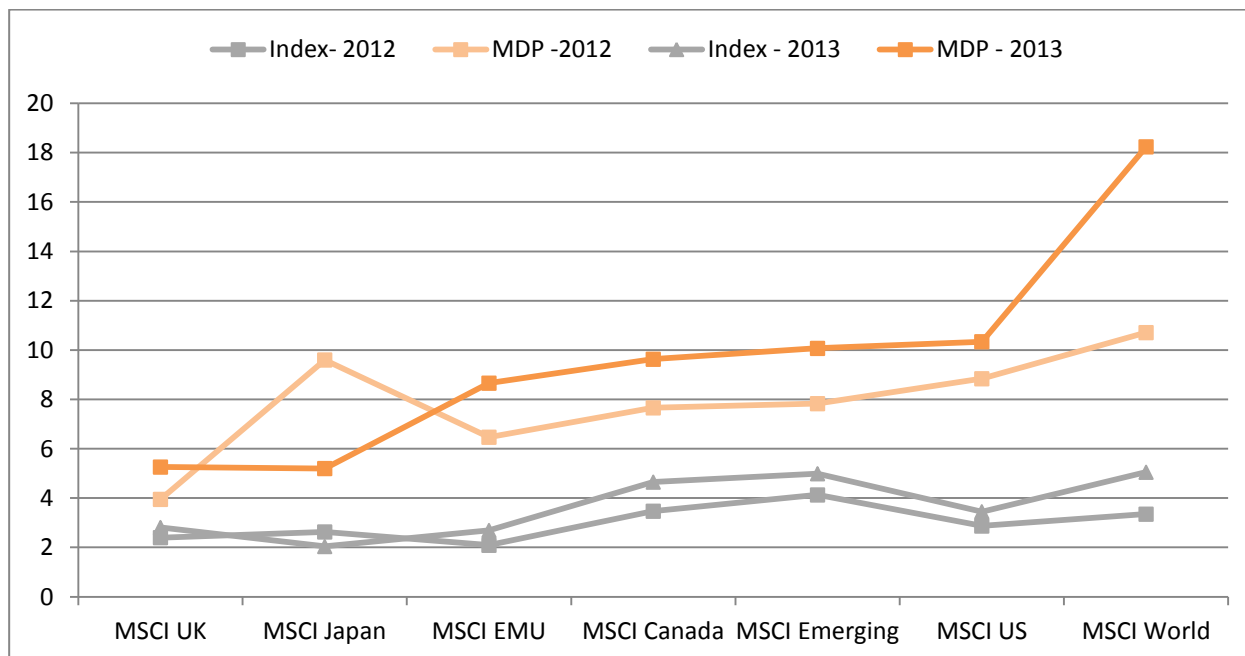
*Since inception on 20/12/2013

** Returns after March 28, 2013 reflect the open-ended Anti-Benchmark Canada Equity fund, launched on March 28, 2013. Prior to the Fund launch, returns reflect the Anti-Benchmark Canada Equity strategy, launched on April 29, 2011, which is managed identically as a carve-out of a global equity portfolio. Carve-outs are managed separately and are representative of a stand-alone portfolio managed to the same strategy. Since strategy inception 29/04/2011.

*** Since inception on 29/07/13

**** Returns reflect a carve-out of a multi-sector global equity portfolio. Carve-outs are managed separately and are representative of a stand-alone portfolio managed to the same strategy. Carve-out returns include cash returns, are gross of fees and reflect the reinvestment of dividends and other income.

DR trends over 2013



The chart above shows the evolution of the DR squared from 31.12.2012 to 31.12.2013 for the strategies that were already launched on 31st December 2012.

An environment of rising diversification availability

The first observable trend is that the levels of diversification for all regions (except Japan) were materially higher at the end of 2013, compared to the end of 2012. The strong performance of the year (except EM) has been realised in a generally more diversified market environment. Yet benchmarks only enjoyed a modest increase of diversification compared to the Anti-Benchmarks.

Ability of the Benchmarks and Anti-Benchmarks to differentiate regional Diversification potentials

At the beginning of the year, the benchmarks had not only lower diversification levels than the Anti-Benchmarks; they were also less able to clearly discriminate between regions in diversification terms. The minimum to maximum range of the Benchmark Diversification Ratios Squared is 2.4 to 3.35 (UK vs. World), which stands at 3.95 to 10.71 for the Anti-benchmarks.

Evolution of the diversification gap between regions over 2013.

The diversification gap between the most diversified region and the least diversified one⁴ has increased during the course of 2013. At the start of the year the World vs. UK Diversification margin was 6.76, while it stood at 12.98 at year end.

An outlier in the trend of increased diversification.

It is worth noting the drop of Japan in the hierarchy of DR squared, signalling the increase of correlations in the country.

Finally, looking simultaneously at this chart and the previous table, the 'flagship' Anti-Benchmark strategies have delivered the highest outperformance, with these regions enjoying the largest diversification gap against their benchmark.

⁴ It is calculated as the largest minus the smallest DR squared

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. The company manages over \$5.6 billion via its Anti-Benchmark strategies for institutional clients worldwide. Its team includes twenty four financial professionals.

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