DIVERSIFICATION DASHBOARD

February 2015

Diversification Ratios®

TOBAM's Diversification Ratio® (DR) measures to what extent a portfolio is diversified. The DR² (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 DR2, the table shows the DR2 of a well-diversified portfolio, and the fraction of available diversification used by the index.

Universe	DR^2 Index diversification	DR^2 Maximum diversification®	% diversification used by index
MSCI All Countries	5.95	25.52	23.3%
MSCI World	5.13	22.57	22.7%
MSCI Emerging	7.15	14.59	49.0%
MSCI Canada	4.53	9.60	47.2%
MSCI US	3.13	9.37	33.4%
MSCI Pacific ex-Japan	3.17	9.33	34.0%
MSCI EMU	2.09	5.56	37.6%
MSCI UK	3.14	5.54	56.8%
MSCI Japan	2.03	4.87	41.7%
MSCI Australia	2.39	4.32	55.3%

Source: TOBAM, figures as of January 31, 2015

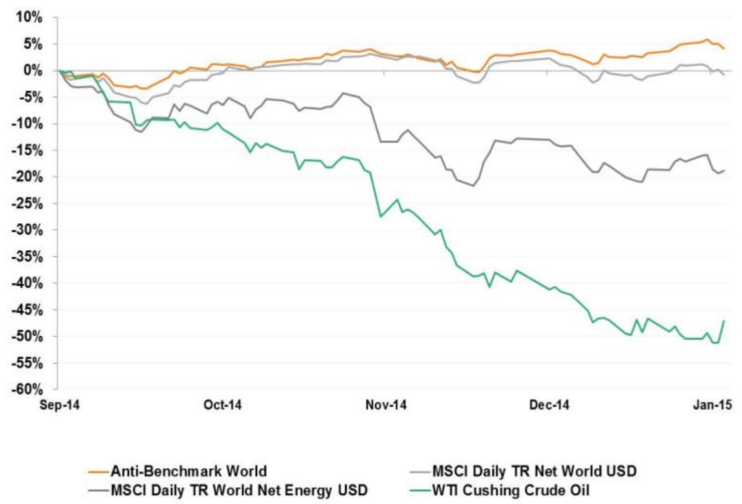
As goes the oil, so goes the energy sector…What is the impact on a global equity portfolio?

With the price of the Brent crude oil experiencing a drastic fall since end of September 2014 and continuing its slide in Jan 2015, dipping below 50$/barrel, some investors are concerned about the implications of this drop on their equity portfolios.

In this note, we will first focus on the performance of both the Anti-Benchmark World and the MSCI World for the period, and then analyse the changes in exposure to the energy sector of both portfolios.

How did the AB World and MSCI World behave?

Performance Review (30/09/2014 – 31/01/2015)



30/09/2014- 31/01/2015 Summary Statistics	Return	Volatility
Anti-Benchmark World	4.19%	9.94%
MSCI World Daily TR Net	-0.82%	12.39%
MSCI World Energy Daily TR Net	-18.88%	28.29%

Source TOBAM. Returns are stated in USD and are gross of fees. Past Performance is not indicative of future results.

As illustrated in the chart above, the Anti-Benchmark World returned +4.19% while the MSCI World posted negative returns for the period (-0.82%). In addition to its outperformance by +5.01%, the Anti-Benchmark World reduced volatility by 20%.

In order to measure the impact of the fall of the energy sector (approx. -20%) on both portfolios, we split the MSCI World universe in three buckets based on the stocks' correlations to the Energy sector and computed the return of each bucket as well as the average allocation of the AB World and MSCI World per tercile:

MSCI World Universe

Correlation to the Energy Sector 30/09/2014- 31/01/2015	AB World Average Weight	MSCI World Average Weight	Δ Weight	Return
Tercile 1 - Low Correlation	36.54%	16.99%	19.55%	3.22%
Tercile 2 - Medium Correlation	46.51%	44.10%	2.41%	2.10%
Tercile 3 - High Correlation	16.95%	38.90%	-21.96%	-5.43%
	100%	**100%**		

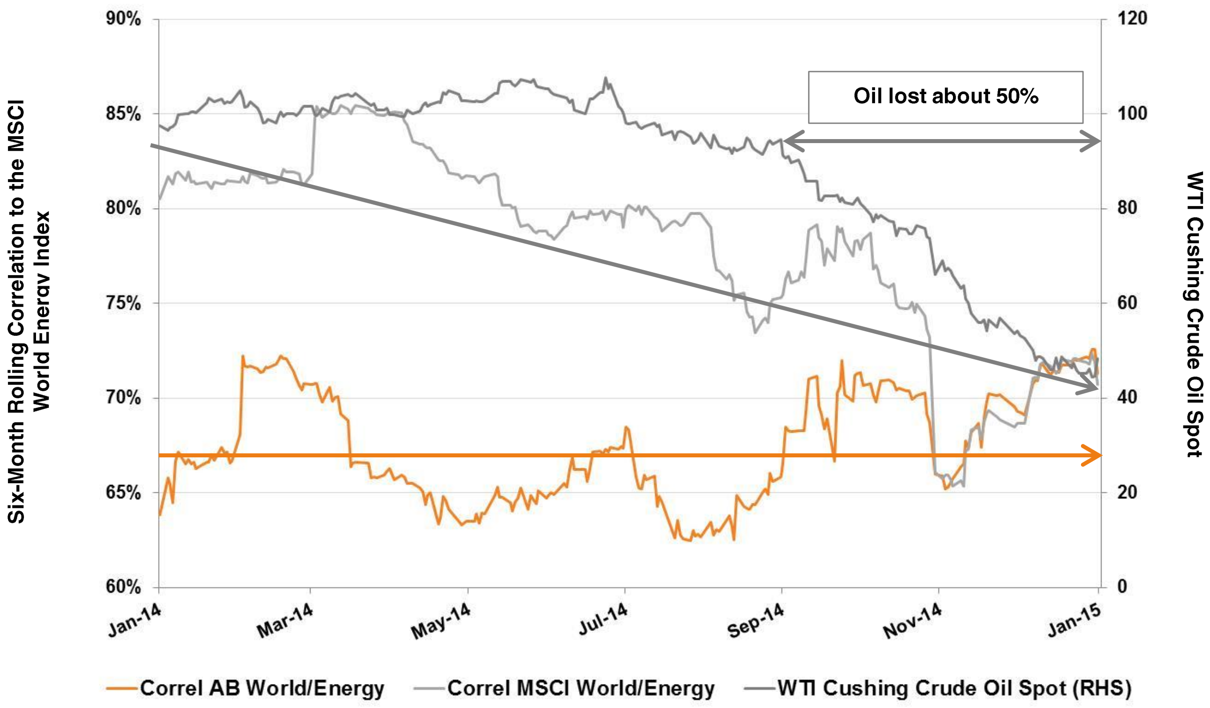
Source TOBAM. Returns are stated in USD. Past Performance is not indicative of future results.

As illustrated in the table, over the period:

- Close to 40% of the MSCI World's average allocation was toward securities that were the most correlated to the energy sector (vs. less than 17% for the AB World).
- The bucket which was the most correlated to the energy sector was the only one in negative territory for the period (-5.43%).

AB World vs. MSCI World: Correlation to the Energy Sector

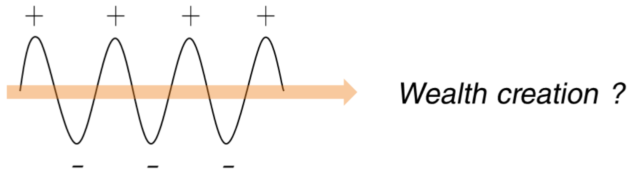
In order to measure the changes in exposure to the energy sector of both portfolios, we illustrated in the chart below their six-month rolling correlation to the MSCI World Energy Index. As a reference, the chart also includes the WTI Cushing Crude Oil Spot (RHS) over the period:



Source TOBAM

As illustrated in the chart above:

- The exposure of the MSCI World to the energy sector, as measured by correlations, changed considerably over the period, going from a high of 85% to a low of 65%. This illustrates how cap-weighted indices:
    - Take on heavy structural biases while implementing bets that evolve dynamically over time.
    - Mechanically maximise their exposure to risk factors at their peaks and conversely minimize it at their bottom.



- The correlation of the Anti-Benchmark World remained fairly stable over the period, staying around 65-70%. This illustrates how the Anti-Benchmark strategy is evenly exposed to all sources of risk available in a given universe without implementing "dynamic" bets.

- The delta in exposure to the energy sector (as measured by the difference in correlations) was at its highs just before the fall in oil prices. In fact, the delta in exposure moved from 15-20% prior to September 2014 to 0% after the severe drop in oil prices.

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 exposure in equity and fixed-income markets. The company manages about $8.0 billion (Feb 2015) via its Anti-Benchmark strategies for clients worldwide. Its team includes 33 financial professionals.

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