TOBAM*

Core investments

Diversification Dashboard
May 31, 2011

Diversification Update at 31/05/2011

TOBAM's Diversification Ratio (DR)[1] measures how much 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	2.22	6.66	*33%*
MSCI US	2.43	7.13	*34%*
MSCI UK	2.56	4.49	*57%*
MSCI Japan	1.93	4.24	*46%*
MSCI World	3.31	8.53	*39%*
MSCI Australia	2.25	4.41	*51%*

Focus on US equities: it's diversification, stupid![2]

As of May 31st, 2011	Performance				Volatility
	May 2011	Δ	YTD	Δ	1-year
Anti-Benchmark US Equity (USD) *MSCI Daily TR Net US Local*	**+1.86%** *-1.15%*	**+3.01%**	**+12.28%** *+7.76%*	**+4.52%**	**12.23%** *15.60%*

Source: TOBAM.
Past performance is not indicative of future results. All returns are gross of fees.

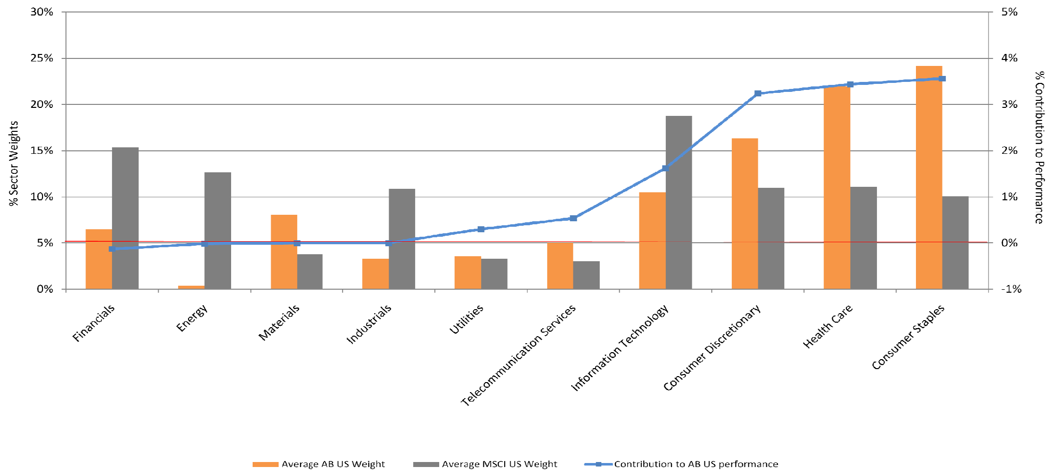
Few market pundits would have predicted that the US equity market would have started the year 2011 so positively. Though beleaguered with macro and micro challenges and risks, the US equity market (as measured by the MSCI USA index) has returned a respectable 7.76% year to date through May 31. For the same five-month period, the Most Diversified Portfolio returned 12.28%, outperforming the index by 4.52%, simply by maximizing diversification.

[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] **"It's the economy, stupid"** was a phrase in American politics widely used during Bill Clinton's successful 1992 presidential campaign against George H. W. Bush. For a time, Bush was considered unbeatable because of foreign policy developments such as the end of the Cold War and the Persian Gulf War. The phrase, made popular by Clinton campaign strategist James Carville, refers to the notion that Clinton was a better choice because Bush had not adequately addressed the economy, which had recently undergone a recession. The phrase has become a snowclone repeated often in American political culture, usually starting with the word "it's" and with commentators sometimes using a different word in place of "economy."
Source: http://en.wikipedia.org/wiki/It's_the_economy,_stupid

How does the Most Diversified Portfolio generate outperformance?

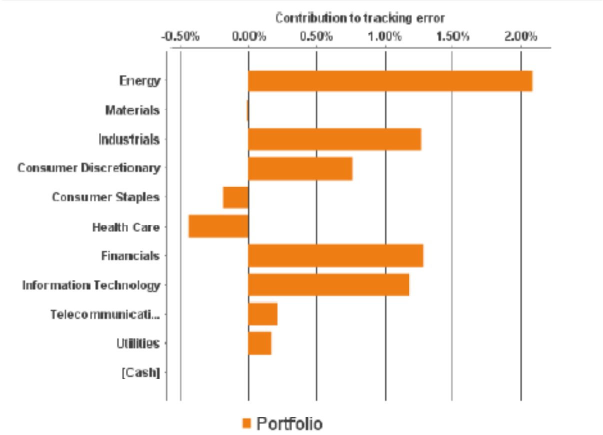
Performance Attribution: Anti-Benchmark US Equity vs. MSCI USA index
May 31, 2011 year to date



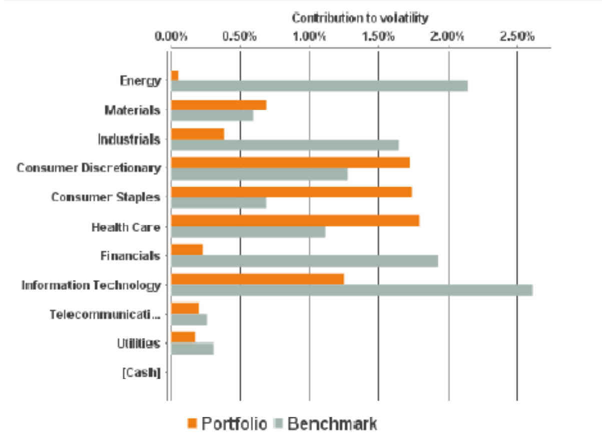
The Most Diversified Portfolio allocates more of its risk budget to the diversified - and diversifying - Consumer Staples, Health Care and Consumer Cyclicals sectors, whereas the MSCI USA (15.6% volatility) is heavily concentrated in Financials, IT and Energy – among the most correlated and volatile sectors in the index.

Presented differently, the largest source of tracking error for the Most Diversified Portfolio as of May 31st, 2011, precisely corresponds to the largest bets of the benchmark, namely IT, Energy and Financials:

*** Sources of Tracking Error (3M)**



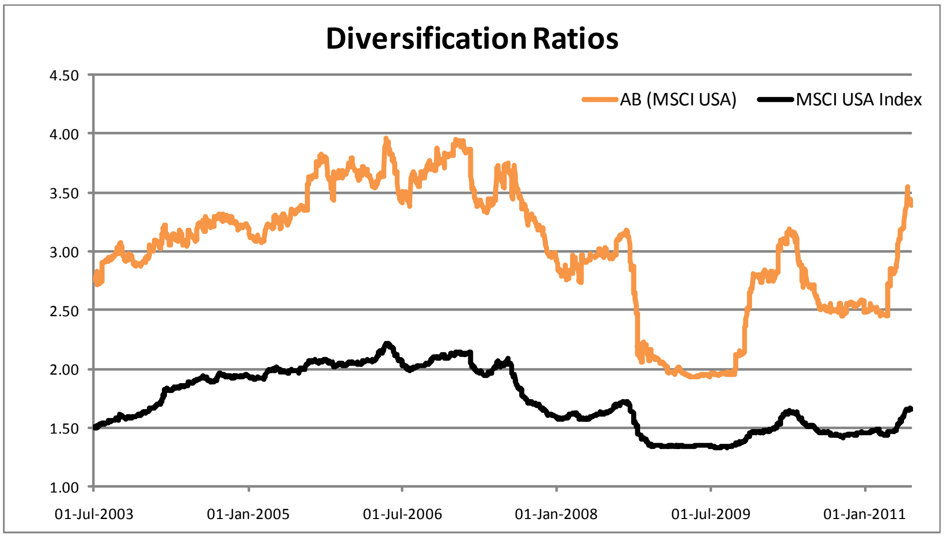
*** Sources of Volatility (3M)**



Where do we stand now in terms of diversification?

The US equity market is in fact deeper and broader than indicated by its “representative” market index. The gap between the long-term level of diversification for the MSCI USA and for the Most Diversified Portfolio, which simply maximizes the diversification ratio, is persistent through 2011:

Diversification in the US Equity market
July 2003 – May 2011



The diversification gap between the benchmark and the Most Diversified Portfolio is structural, and is illustrated by the DR2s in the table at the top of page 1: only 34% of available diversification was used by the benchmark as of May 31, 2011.

Long-term investors see investing styles come in and out of favor, and correctly forecasting these transition points is close to an impossible task. As a result, despite their best intentions, one could argue that very few investors do possess a crystal ball. When investors lack any predictability about the future, the best solution is simply to diversify by holding portfolios which are exposed to all of the available risk factors, and hence provide systematic exposure to all of the relevant dimensions of risk.

For more information:

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About TOBAM

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. TOBAM also publishes the Maximum Diversification® Index series (or MaxDiv® Index) based on the Anti-Benchmark equity portfolio construction methodology.

The company manages about USD 2.0 billion through its Anti-Benchmark strategies for institutional clients worldwide. Its team includes seventeen financial professionals based in Paris, Los Angeles and Amsterdam.