TOBAM*
Core investments

Diversification Dashboard
October 31, 2011

Diversification Update at 31/10/2011

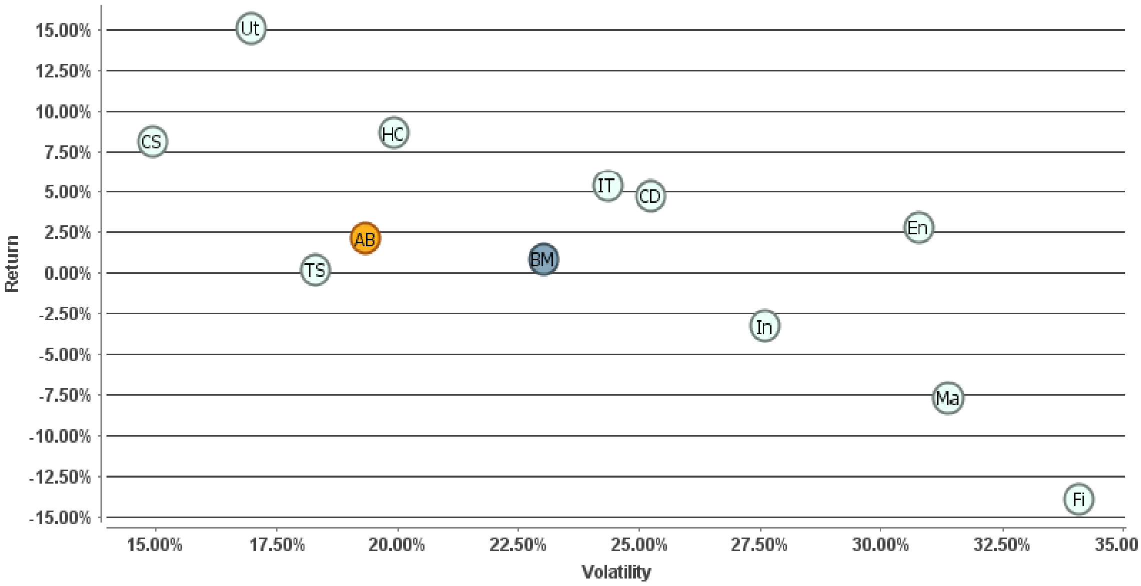
TOBAM's Diversification Ratio (DR)[1] measures how much a portfolio is diversified. The DR^2 (square of the diversification ratio) corresponds to the number of independent degrees of freedom in a particular portfolio – or the number of independent variables at work. As the table shows, the "broad market" 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	1.74	4.04	*43%*
MSCI US	1.82	3.92	*46%*
MSCI UK	1.85	2.89	*64%*
MSCI Japan	2.04	4.62	*44%*
MSCI World	2.46	5.52	*45%*
MSCI Australia	1.80	3.24	*55%*
MSCI Emerging[2]	3.03	4.12	*73%*

October 2011: risk unrewarded

Global stock markets bounced back in October, and the US equity market was no exception. The MSCI USA index staved off fears of a bear market, returning 10.94% for the month, led by the Energy, Materials and Financials sectors. Despite this short term encouraging news, a quick look at year-to-date risk and returns tells a different story: similarly to global markets, a few specific risk factors continue to eat up a large portion of the risk in the cap-weighted benchmark – but not with the commensurate performance investors should expect. The risk return tradeoff in the cap-weighted benchmark is particularly lopsided, as the best performing sectors were those with the lowest risk, but the cap-weighted benchmark continued to allocate more heavily to the riskiest – i.e., the most volatile – stocks.

Risk-Return for the US equity market – MSCI USA vs. Most Diversified US Equity portfolio
Year to date through October 31, 2011



A full half of the risk in the cap-weighted benchmark (the MSCI USA in this example) remains concentrated in only three of the ten sectors – the volatile Energy, Materials and Financials sectors. Just

[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.

by virtue of their exposure to a "passive" index, most investors were essentially – and unknowingly - taking large bets in these sectors.

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. TOBAM also publishes the Maximum Diversification® Index series (or MaxDiv® Index) based on the Anti-Benchmark equity portfolio construction methodology. The company manages over USD 2.0 billion via its Anti-Benchmark strategies for institutional clients worldwide. Its team includes seventeen financial professionals based in Paris, Los Angeles and Amsterdam (30.06.2011).

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