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300 Club: Why Dumping Old Benchmarks Will Save the World

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A group of international influential investors have argued for a new approach that will benefit society—as well as your investments.

Asset managers need to ditch asset-weighted benchmarks to benefit both savers and the wider economy, according to a white paper issued by the 300 Club.

The paper is the latest published by the group of leading investment professionals and was penned by club member —and TOBAM founder—Yves Choueifaty. It said traditional equity indices were "biased" and "weaken the link between savers and the risk premium."

"A maximum diversification approach intrinsically promotes companies that stand out in terms of innovation, efficiency and strong governance." —Yves Choueifaty"Core asset managers should therefore be doing two things," he wrote. "Firstly, they should be moving away from asset-weighted benchmarks, which are inherently biased, in their efforts to provide access to true beta; secondly, they need to maximise diversification in order to achieve the best possible risk reward for savers."

Choueifaty argued that the source of wealth creation was not the asset managers who allocate to different stocks, but "the skills of employees working in the companies in which savings are invested."

"It is labour that, through innovation, productivity gains, and corporate governance, for example, create wealth for the investor," he added. "This is especially true in the case of equity holdings."

"Core" asset managers therefore need to align their interests with those of the economy at large, Choueifaty said, and protect savers from speculation on individual securities.

But traditional asset-weighted indices do precisely the opposite, he argued, as investors "are making maximum allocations to stocks on the day they crash, and minimum allocations on the day they start rising."

Instead, asset managers should be seeking out the least correlated securities from any benchmark or investment universe to achieve the "most diversified portfolio."

"By definition, a maximum diversification approach intrinsically promotes companies that stand out in terms of innovation, efficiency and strong governance," Choueifaty wrote. "It is these characteristics that, through time, create growth, wealth and improve the overall wellbeing of society."