Asset Allocation

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What is Asset Allocation

- Assets Allocation is the strategy that an investor uses to distribute his or her investments among various classes of investments. Eg. equities(stocks), bonds, real estate, etc.

- It is based on the idea that different assets perform differently each year.

Why Asset Allocation is Important

- Assets are not perfectly correlated to each other. Risk can be managed.
- Allocating to assets in times of economic turmoil helps preserve capital.
- Asset allocation decision forms a major part of portfolio return.
- A key principle of asset allocation is diversification

Why Diversify?

- Diversification involves splitting your money up so that it can be invested in several different areas.
- In a nutshell, it means not putting all your eggs into one basket.
- But why diversify in the first place?
- Here's an illustration on diversification.

Why Diversify?

Fund A	Fund B	Fund C	Fund D	Fund E
$5,000	$5,000	$5,000	$5,000	$5,000
Assuming the investments were left untouched. After 20 years, they had the following annualised returns.				
+15% per annum	+5% per annum	+0% per annum	-5% per annum	-15% per annum
Question: How did the portfolio perform overall after 20 years?				

Why Diversify?

- How many of you feel that the exercise was a big waste of time and that after 20 years, you made zero money?

- In actual fact, after 20 years, the total amount of the previous portfolio is … $102,085 !!

- This is 4 times higher and effectively, the portfolio delivered an annualised 7.29% each year on average!

Why Diversify?

Year	Fund A	Fund B	Fund C	Fund D	Fund E	Total
Starting Amount	$5,000	$5,000	$5,000	$5,000	$5,000	$25,000
2005	$5,750	$5,250	$5,000	$4,750	$4,250	$25,000
2006	$6,613	$5,513	$5,000	$4,513	$3,613	$25,250
2007	$7,604	$5,788	$5,000	$4,287	$3,071	$25,750
2008	$8,745	$6,078	$5,000	$4,073	$2,610	$26,505
⋮	⋮	⋮	⋮	⋮	⋮	⋮
2019	$40,685	$10,395	$5,000	$2,316	$437	$58,833
2020	$46,788	$10,914	$5,000	$2,201	$371	$65,274
2021	$53,806	$11,460	$5,000	$2,091	$316	$72,673
2022	$61,877	$12,033	$5,000	$1,986	$268	$81,165
2023	$71,159	$12,635	$5,000	$1,887	$228	$90,908
2024	$81.833	$13,266	$5,000	$1,792	$194	$102,085
Annualised Returns	+15%	+5%	+0%	-5%	-15%	+7.3%

Why Diversify?

•The example highlights both the power of compounding as well as the power of diversification.

•The key to it all, is that when you diversify, you do not need all your investments to make it big. Just some of them becoming successes is enough.

Why Asset Allocation is Important

- In the past, when investment options were much more limited, most people here just swung between stocks and cash.

- This was not really diversifying, it was whether you were "in the market" or "out of the market".

- Today, there are far more options for diversifying within asset allocation, many of which are within reach to the average man on the street.

A variety of asset classes

- Equities
  - Region, single country, sectors
- Bonds
  - Sovereign, corporate, region, investment grade & high yield
- Property
  - Physical, REITs, equity
- Commodities
  - Futures, resource equity
- Others
  - Wine, Fine art, landbanks, derivatives

Pros and Cons

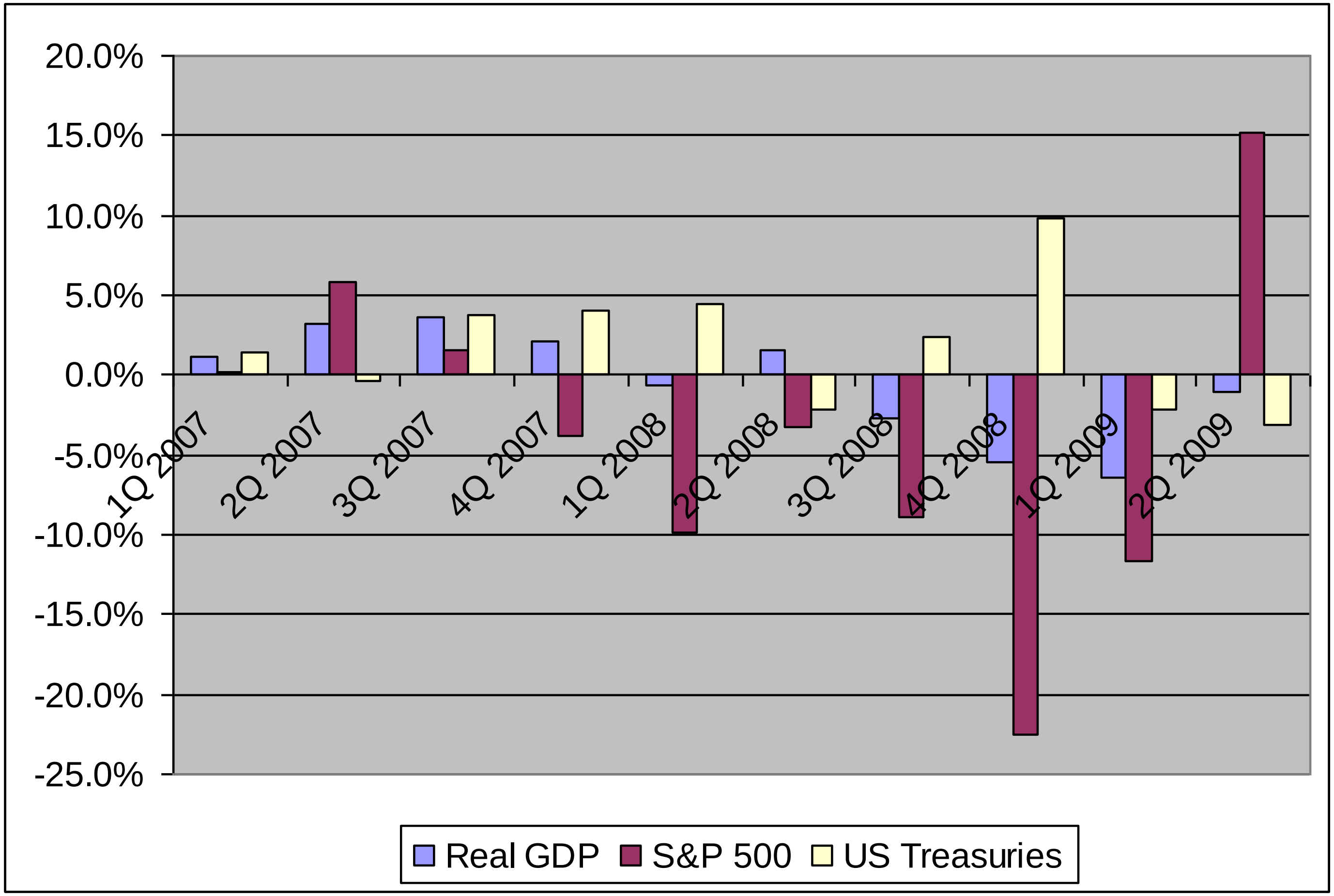
- Equities
  - Highest Return, very volatile, very high risk
- Bonds
  - Lower risk, steady returns, Low returns
- Property
  - Requires large amount of money, illiquid
- Commodities
  - Long cycle, exposure through derivatives carries risk,
- Others – Wine, Fine art, landbanks
  - Not regulated, illiquid, not easily accessable

Assets are not perfectly correlated

	S&P 500	Commodity	Oil	Gold	US Treasuries	US Investment Grade Corporate	US High Yield Corporate
S&P 500	1.00	0.40	0.38	-0.10	-0.39	0.38	0.74
Commodity		1.00	0.96	0.36	-0.28	0.08	0.30
Oil			1.00	0.32	-0.25	0.07	0.27
Gold				1.00	0.06	-0.21	-0.19
US Treasuries					1.00	0.30	-0.27
US Investment Grade Corporate						1.00	0.63
US High Yield Corporate							1.00

Source: Bloomberg & iFast Compilations. Data from 08 September 2006 to 31 August 2009

Equities closely correlated to economy



Source: Bloomberg, US National Bureau of Economic Research. Performance in the tables are in USD terms.
Data as at 30 Jun 09

Even if you are good at picking stocks

Straits Times Index Components	% Change in 2008
SMRT Corp Ltd	0.0%
ComfortDelgro Corp Ltd	-17.1%
Singapore Press Holdings Ltd	-28.2%
StarHub Ltd	-31.2%
Jardine Matheson Holdings Ltd	-32.5%
Singapore Technologies Engineering Ltd	-33.8%
Jardine Strategic Holdings Ltd	-33.9%
Singapore Airlines Ltd	-34.2%
Genting Singapore PLC	-34.3%
United Overseas Bank Ltd	-34.5%
Singapore Government Bonds	7.40%

Source: Bloomberg, UOB, iFast Financial Compilations. Performance in the tables are in SGD terms.

Top Performing Equity Funds in 2008

Fund Name	Performance	Region
UOB United Global Healthcare Fund	-21.30%	Global
Henderson Japanese Equity	-23.20%	Japan
Aberdeen Malaysian Equity	-24.40%	Malaysia
Fidelity Glb Health Care EUR	-25.20%	Global
DWS Jpn Small/Mid Cap A SGD	-28.30%	Japan
AB Int Health Care-A SGD	-28.50%	Global
DBS Japan Growth	-30.50%	Japan
UOB United Japan Growth Fund	-31.60%	Japan
Aberdeen Japan Equity	-32.10%	Japan
Fidelity AP Gth&Inc A-SGD	-32.80%	Asia ex Japan

Source: iFast Financial Compilations; performance in the tables are in SGD terms, calculated using bid-to-bid prices, with any income or dividend reinvested.

Top Performing Funds in 2008

Fund Name	Performance	Region/Asset Class
UOB United Global Bond SGD	8.90%	Global Fixed Income
Henderson Global Bond Fund - Class A Units	8.50%	Global Fixed Income
Legg Mason Global Bond Trust	4.70%	Global Fixed Income
PIMCO Total Return Bond USD	3.50%	US Centric Fixed Income
LionGlobal Spore Fixed Inc-A	2.20%	Singapore Fixed Income
PRU Protected Global Titans Fund (S$)	2.10%	Global Protected
LionGlobal SGD Money Market	1.60%	Singapore Money Market
Phillip Money Market	1.40%	Singapore Money Market
DWS Lion Bond Cl A	1.40%	Singapore Fixed Income
Cash Fund	1.20%	Singapore Money Market

Source: iFast Financial Compilations; performance in the tables are in SGD terms, calculated using bid-to-bid prices, with any income or dividend reinvested.

Selected Funds in 2008

Fund Name	Performance	Region/Asset Class
Schroder AS Commodity Fund	-39.36%	Global Commodities
Henderson Global Property Equity Fund	-47.46%	Global Properties
United Gold and General Fund	-35.15%	Global Gold & Minerals

Performance of these Funds in 1H2009

Fund Name	Performance	Region/Asset Class
Schroder AS Commodity Fund	20.33%	Global Commodities
Henderson Global Property Equity Fund	12.62%	Global Properties
United Gold and General Fund	25.02%	Global Gold & Minerals

Source: iFast Financial Compilations; performance in the tables are in SGD terms, calculated using bid-to-bid prices, with any income or dividend reinvested.

Top Performing Funds in 1H2009

Fund Name	Performance	Region/Asset Class
Henderson Horizon China Equity	88.2%	China Equities
FLF Equity Indonesia USD	81.2%	Indonesia Equities
HGIF Indian Equity	69.4%	India Equities
Legg Mason SEA Special Situations	66.8%	South East Asia Equities
FLF Equity Russia	64.3%	Russia Equities
Fidelity Indonesia	61.7%	Indonesia Equities
SGAM India Infratructure	59.0%	India Equities
United Asian Growth Opportunities	57.4%	Asia ex-Japan Equities
HSBC BRIC Freestyle	56.0%	BRIC Equities
Parvest Brazil	55.3%	Brazil Equities

Source: iFast Financial Compilations; performance in the tables are in SGD terms, calculated using bid-to-bid prices, with any income or dividend reinvested.

Top Bond Funds in 1H2009

Fund Name	Performance	Region/Asset Class
Fidelity Europe High Yield	32.3%	Europe High Yield
ING RF Emerging Market Debt	27.1%	Global Emerging Mkt Bonds
Fidelity Emerging Market Debt	27.0%	Global Emerging Mkt Bonds
FLF Bond Best Selection World Emerging	26.4%	Global Emerging Mkt Bonds
Fidelity US High Yield	25.7%	US High Yield
Parvest Asian Convertible Bond	24.1%	Asian Bonds
Lionglobal AUD Short Duration Fund	21.5%	Australia Fixed Income
Schroder Global High Yield Fund	20.4%	Global High Yield
Aberdeen Asian Credit Fund	18.7%	Asian Bonds
PRU Monthly Income Plan Class A	17.4%	US/Asia High Yield

Source: iFast Financial Compilations; performance in the tables are in SGD terms, calculated using bid-to-bid prices, with any income or dividend reinvested.

The Perfect Asset Allocation

- The perfect Asset Allocation doesn’t not exist

- Each person should to looks at his own risk appetite, objectives, expected returns, and then determine their own asset allocation.

- General asset allocations are only guidelines. Here’s the one we have at Fundsupermart

Portfolios should consist of equities and bonds

Risk Profile	Neutral allocation (Equities: Bonds)	Equity OW	Equity UW
Conservative	10:90	20:80	0:100
Moderately Conservative	30:70	40:60	20:80
Balanced	50:50	60:40	40:60
Moderately Aggressive	70:30	80:20	60:40
Aggressive	90:10	100:0	80:20

Sample Balanced Portfolio

Core Portfolio	Allocation	Core	Equity	2003	2002
Asia ex Japan Equity Fund	35%			52.43%	0.39%
US Equity Fund	25%	90%		26.89%	-26.51%
Europe Equity Fund	30%			41.52%	-9.12%
Japan Equity Fund	10%		60%	71.95%	-13.90%
Supplementary Portfolio	**Allocation**	**Supple-mentary**			
Technology Equity Fund	50%	10%		45.78%	-49.70%
Greater China Equity Fund	50%			60.61%	-25.56%
			Bonds		
Global Bond Fund	50%			9.25%	8.28%
Singapore Bond Fund	30%		40%	0.24%	5.19%
Asia Bond Fund	20%			9.15%	4.43%
Portfolio Returns				**29.95%**	**-5.36%**

FSM Research View

- Global recovery will continue. This is not fully priced in yet. Equity markets will continue their uptrend over the next 2 years despite ongoing volatility.

- Interest rates are likely to stay at their current lows for some time to come. The hyper inflation scenario is unlikely to happen.

- US dollar will remain weak, though it will not crash. Gold cannot and will not replace USD. Neither will the Euro or the Yen.

FSM Research View

- Within equities, we like Asia ex-Japan.
- For more focused markets, we like Global Financials, Technology, Singapore.
- We are cautiously positive on commodities.
- Within the bonds universe, we are not that keen on investment grade government issued bonds given the low interest rate environment.
- We prefer emerging market and high yield bonds at this moment.

Conclusion

- Different assets behave differently during the economic cycle.
- Asset allocation is as important as security selection.
- Learning just one more asset class (bonds) would help investors manage portfolio better.