HAHN INVESTMENT STEWARDS

Rethinking Asset Allocation

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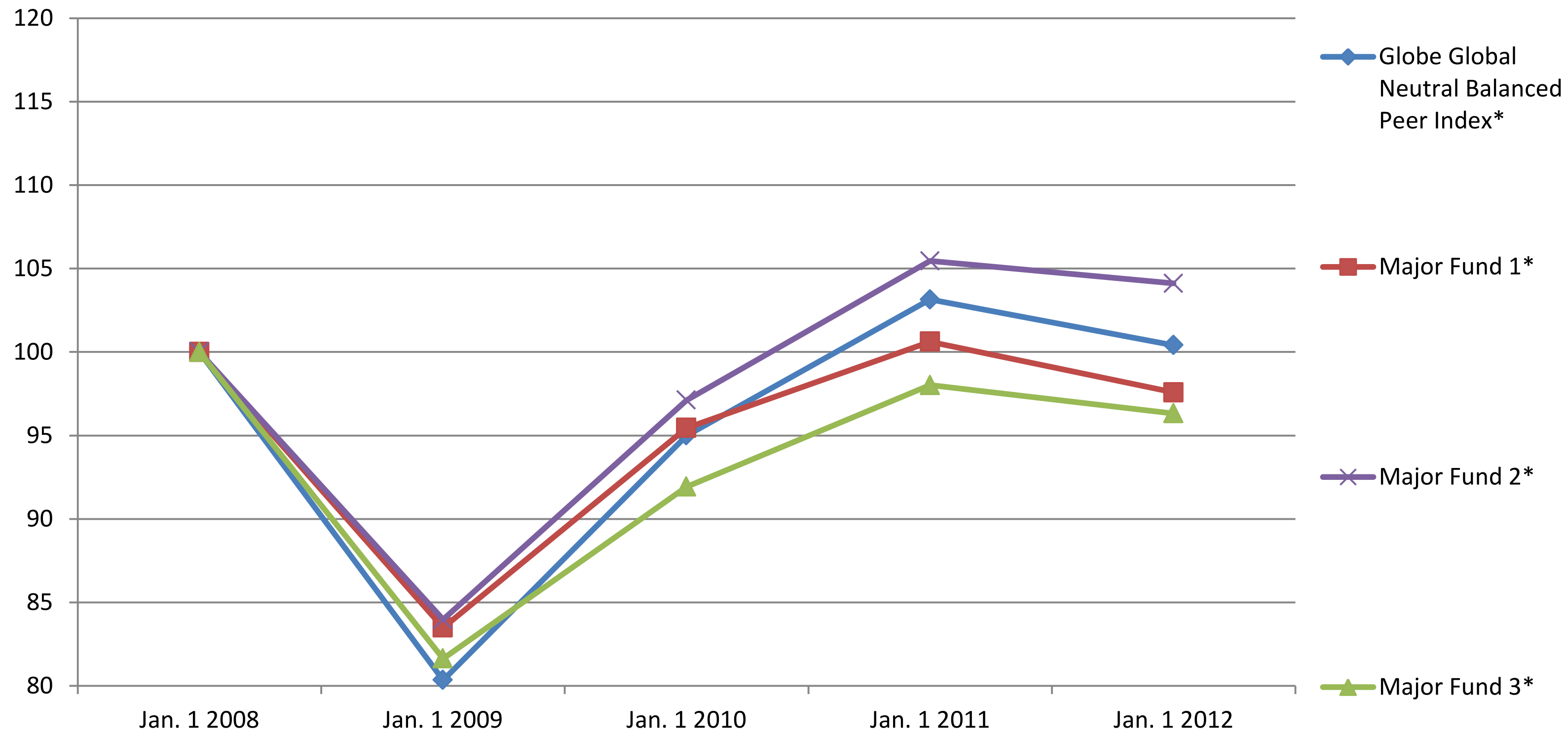
Rethinking Asset Allocation

The average balanced fund did not manage risk well through the financial crisis. Why?



*Source: Globefund .

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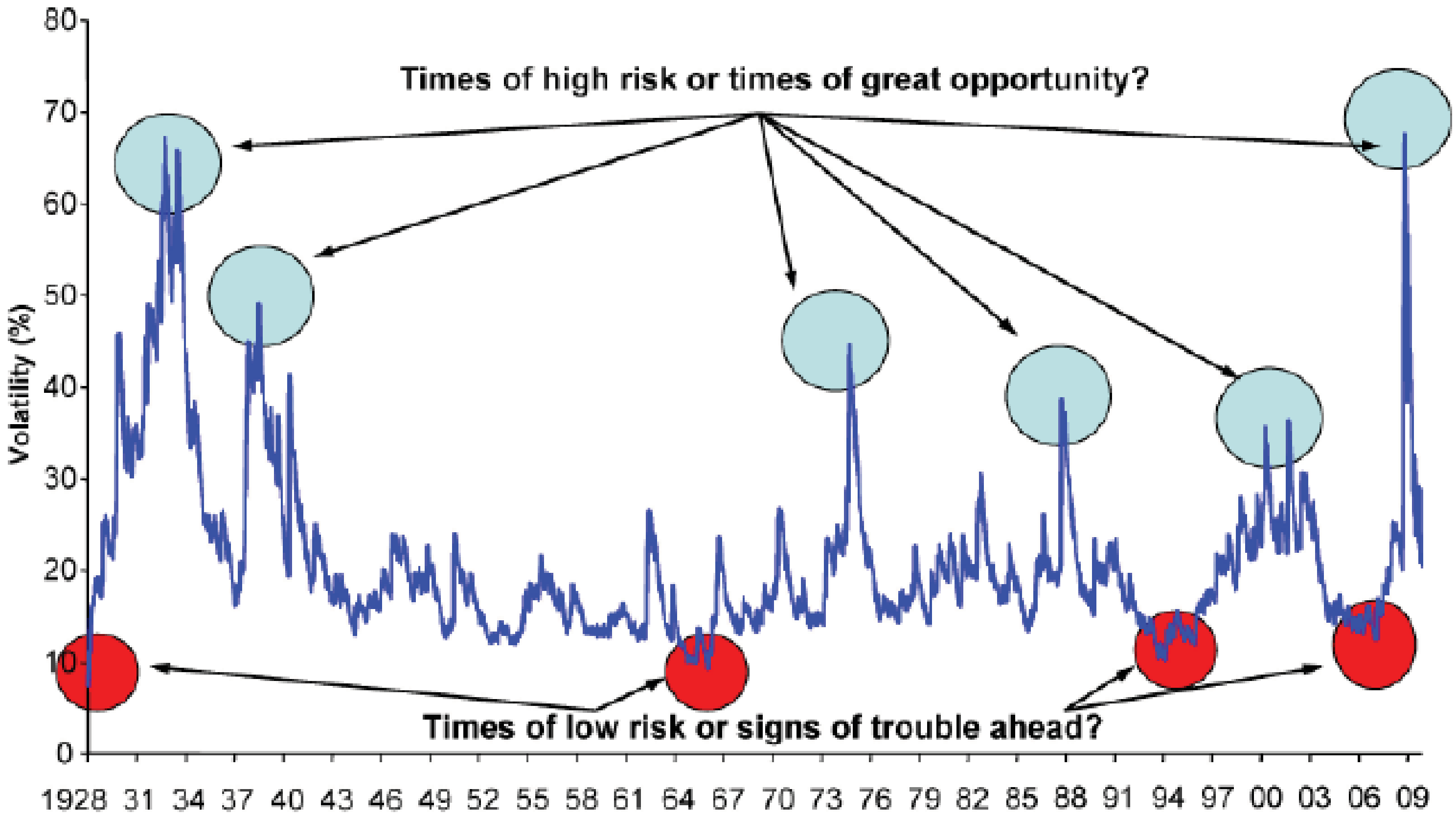
What is the definition of RISK?

Finance’s least favourite four-letter word.

- RISK is typically defined as standard deviation
- RISK is not a number, it is a concept (finance suffers from “physics envy”)
- <u>WANTED: a broader definition of RISK</u>

RISK ≠ VOLATILITY

Volatility creates opportunity, not risk.

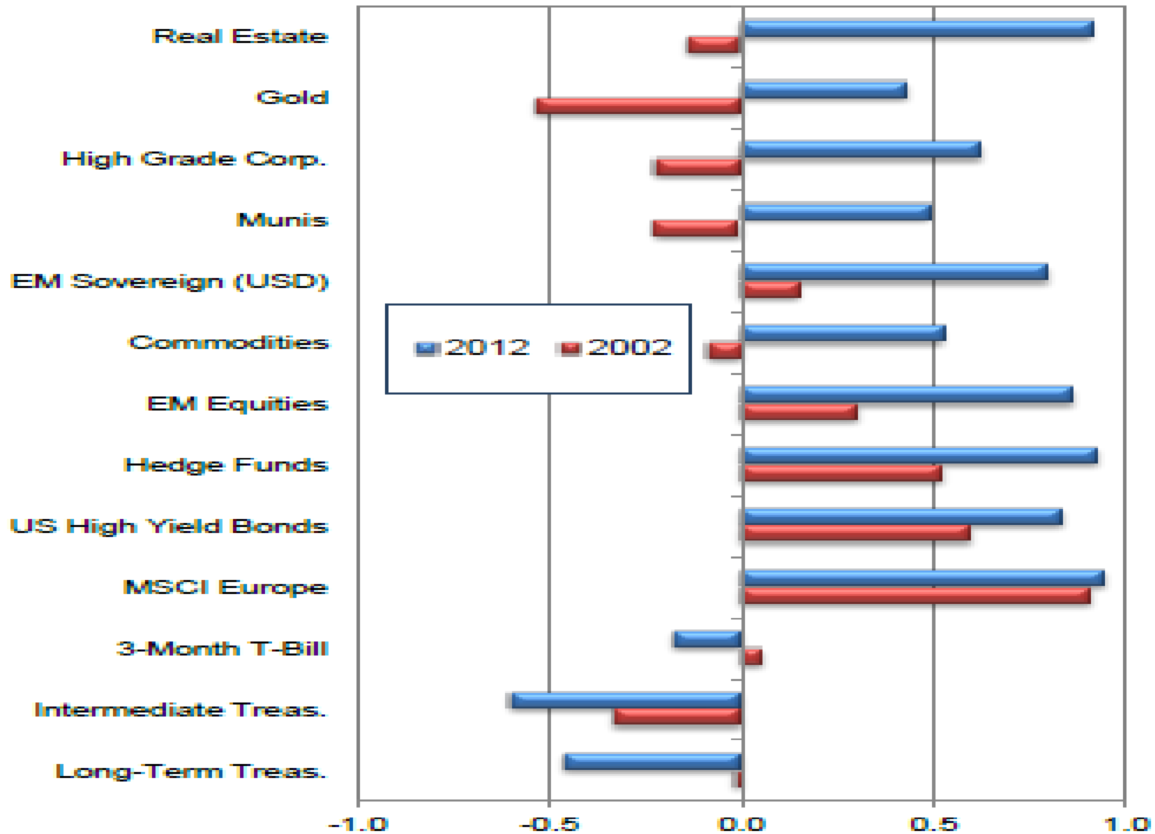


Source: James Montier.

Market Relationships Change

Asset class correlations are dynamic, not static. Yet, many risk models extrapolate historical market conditions (rear-view mirror investing).

5-Year Correlations to S&P 500



Source: Richard Bernstein Advisors.

How to invest after the global financial crisis?

Portfolios need to adapt to secular shifts and heightened volatility.

- Weakest recovery of any post WW2 recession
- Developed nation safe haven status turned upside down
- A “flattening” world – the rise of emerging markets standard of living
- Aging populations present pension and workforce issues for many countries
- Extra-ordinary monetary policies produce financial market dysfunctionalities and perverse trends

Economic “mush” calls for a nimble stance in the financial marketplace

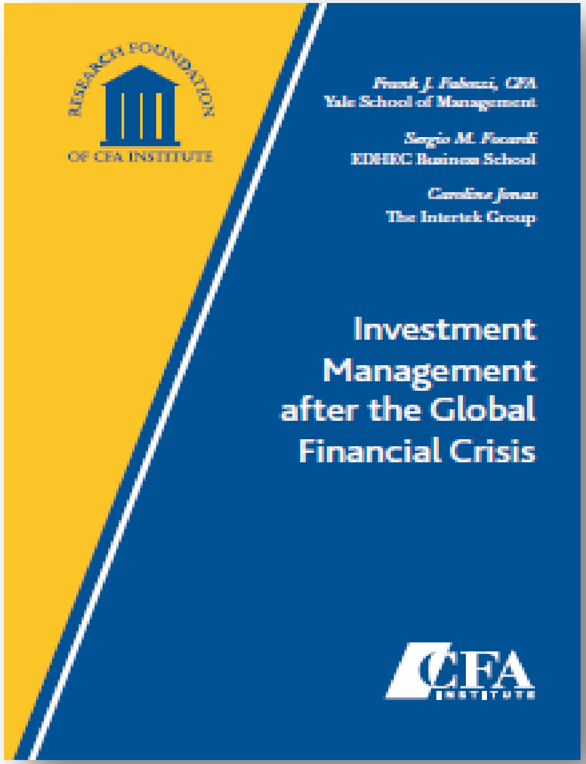
= Tactical Investing

Investing Has Changed

Research stresses the need for a different approach

CFA Institute Research Findings - Published 2010

- "The events of 2007–2009 highlighted **the need for a top-down approach."**
- "Given high levels of volatility...which are expected to continue, **asset allocation is also becoming more dynamic."**
- "Investors are turning to **greater diversification** in asset classes."
- "The affluent are moving toward simpler, more transparent products, such as **exchange-traded funds."**
- **"Demand is up for managers with asset allocation and multi-asset experience...** but such expertise and experience are difficult to find."



Source: Fabozzi, Focardi, Jonas, Investment Management after the Global Financial Crisis (Research Foundation of CFA Institute, 2010)

Seven Sins of Risk Management

Many have a legacy portfolio architecture that is increasingly dissonant with economic and financial realities

Sin City

1. Benchmarking (Sloth)

2. “Diworsification” (Lust)

3. Illiquidity (Gluttony)

4. Ignoring Secular Shifts (Envy)

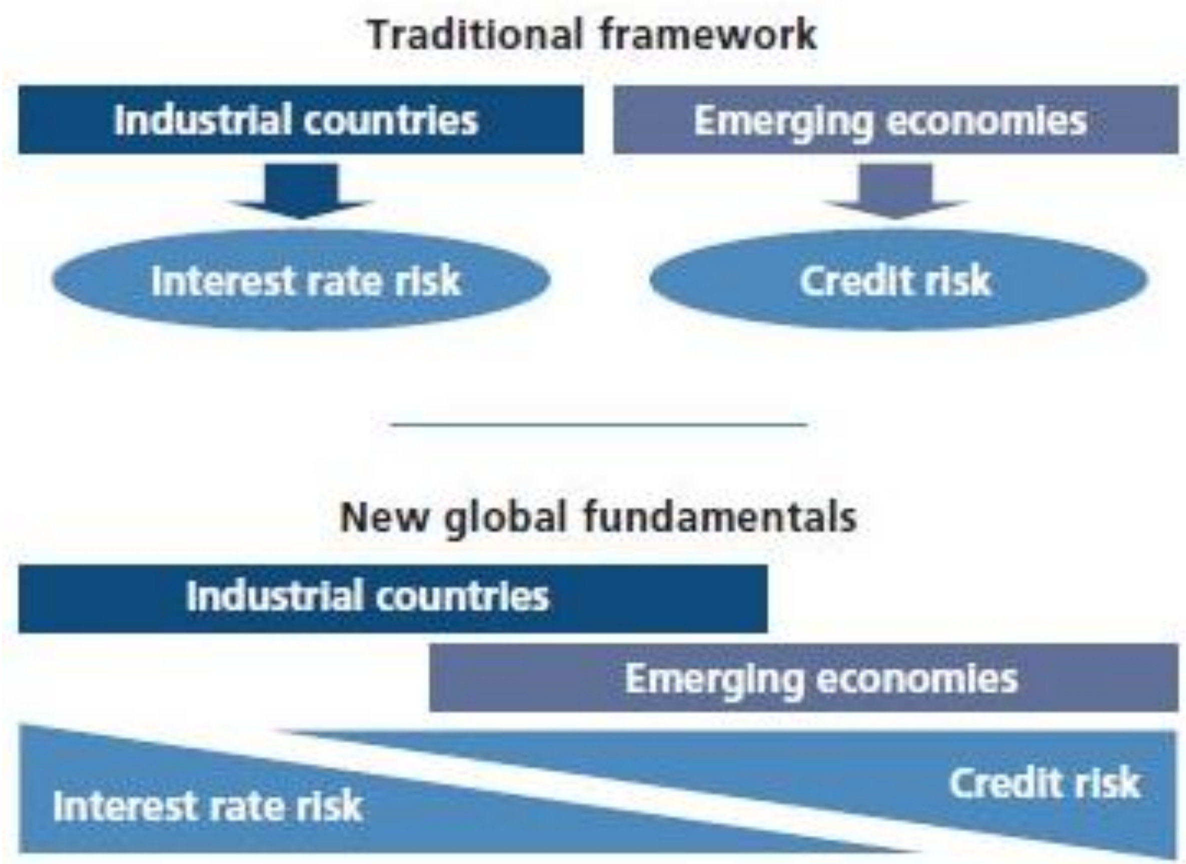
5. Valuation Indifference (Greed)

6. Policy Confidence (Pride)

7. Overlooking Macro (Wrath)

Different Eras Require Different Positioning

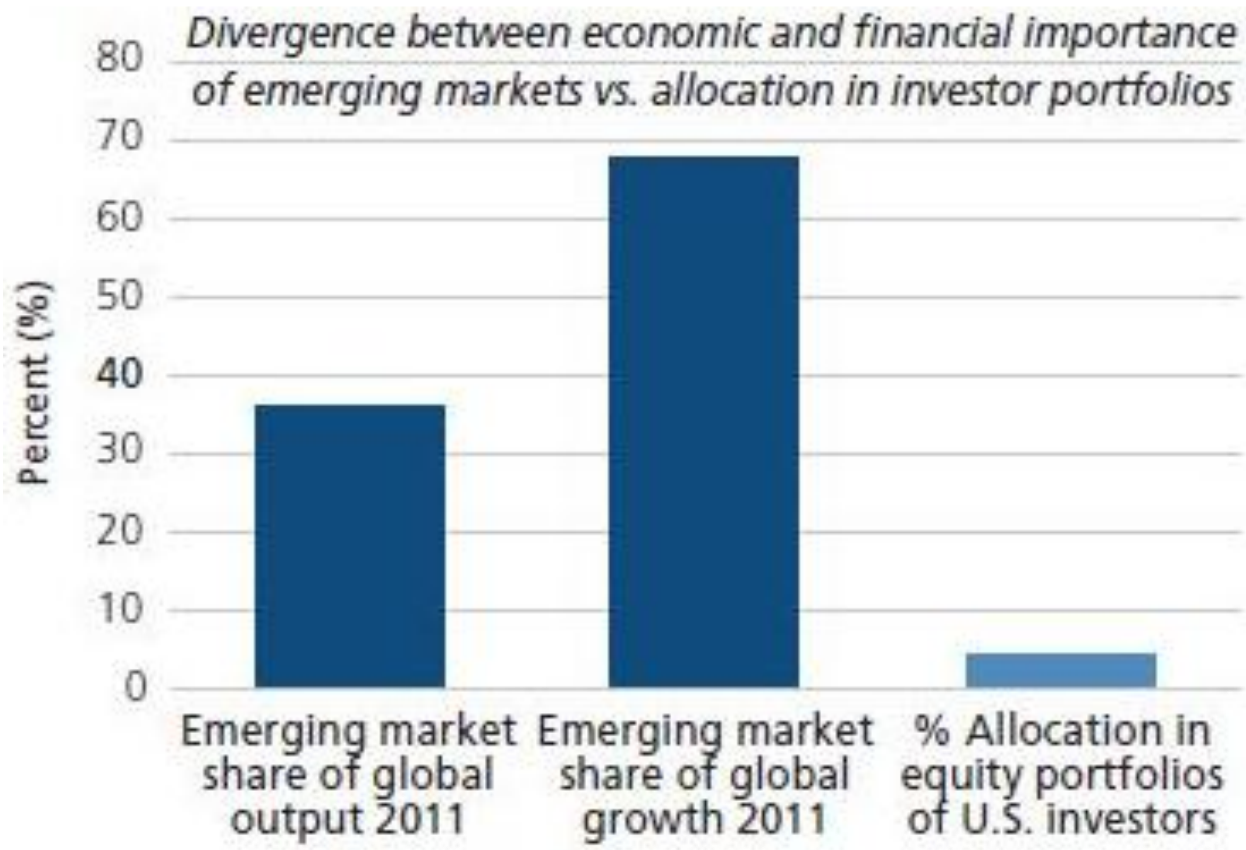
Many have a legacy portfolio architecture that is increasingly dissonant with economic and financial realities



Source: PIMCo.

Case Study: Emerging Markets

The Great Migration: portfolio rebalancing ahead.



Source: PIMCo.

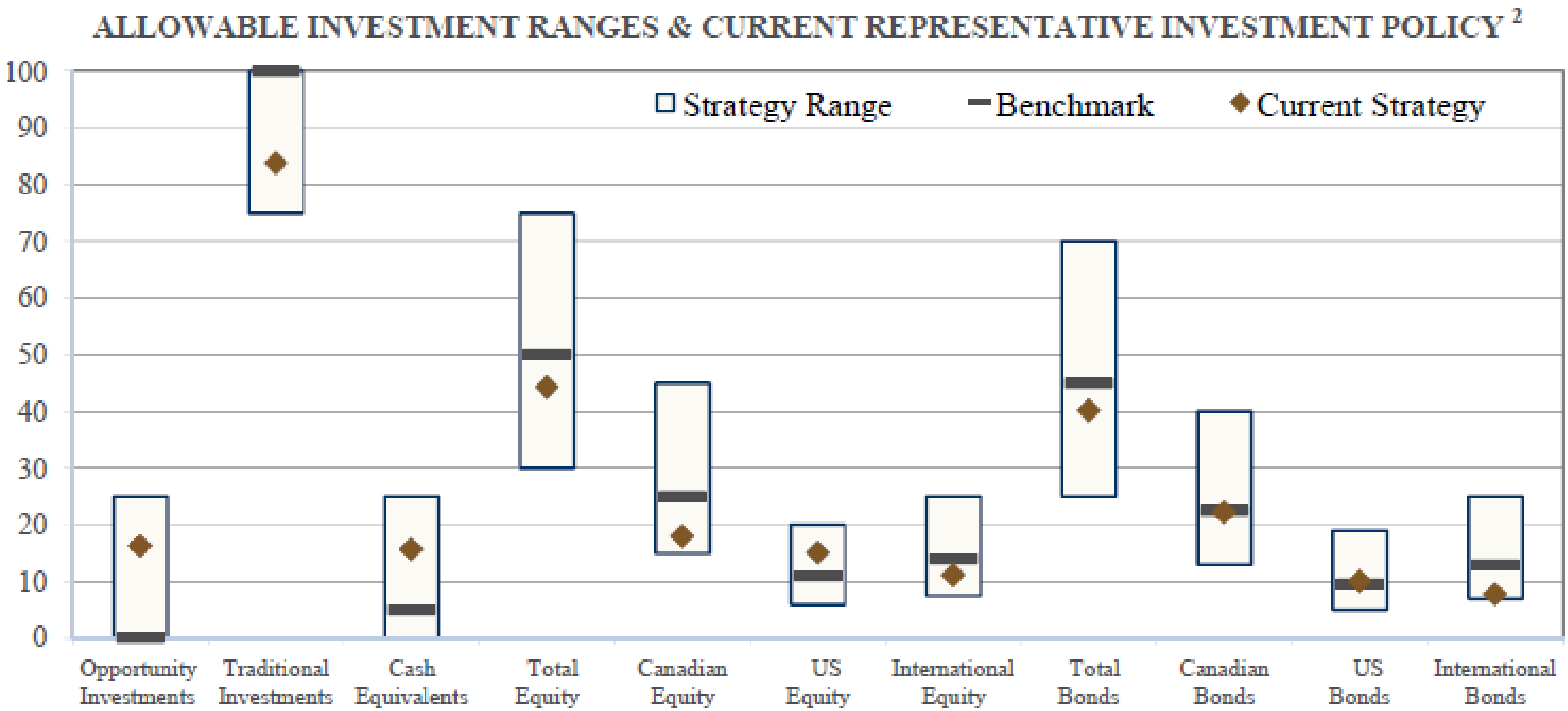
Learning the Right Lessons

"Super trends" identify secular inflection points, and establish longer-term investment guardrails. "Tactical themes" allow us to pause and pass.

> "All is not hopeless. Markets are turbulent, deceptive, prone to bubbles, infested by false trends. It may well be that you cannot forecast prices. But evaluating risk is another matter entirely."
> --Benoit Mandelbrot

Case Study:
International Balanced Fund

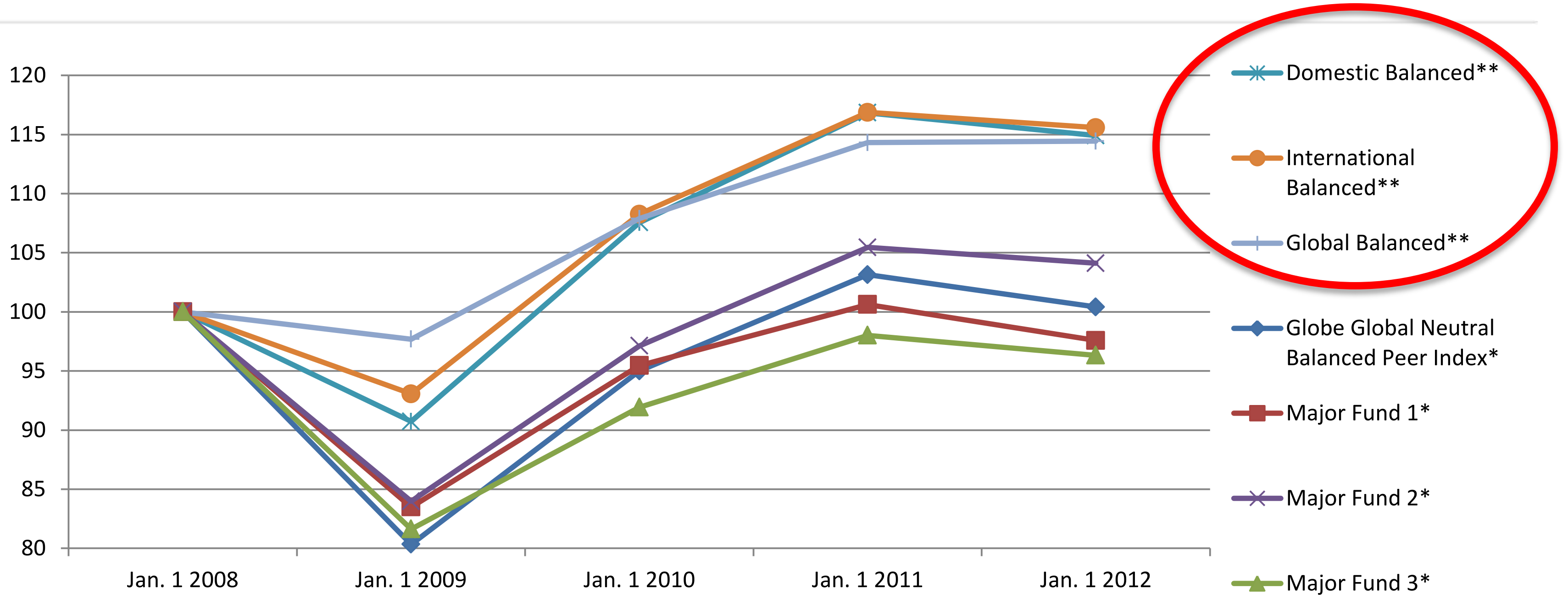
HAHN Managed ETF Portfolios



2. Benchmark performances do not include the impact of any fees. The composite benchmark for this portfolio is comprised of the following indices and weights: CAD 90-day Treasury Bill index (5%), MSCI EAFE Index in $Cdn (14%), S&P 500 Index in $CDN (11%), S&P/TSX 60 Index (25%), Citigroup World BIG Non-USD Bonds in $Cdn (13%), Barclays Capital U.S. Aggregate Bonds in $Cdn (9.5%), DEX Universe Bonds (22.5%).

Rethinking Asset Allocation: A Better Approach

HAHN outperformed by adhering to its risk management process



*Source: Globefund .

**Performance statistics for HAHN Managed ETF Portfolio mandates are calculated from documented actual investment strategies as set by HAHN's Investment Committee and applied to its portfolios mandates, and are intended to provide an approximation of composite results for separately managed accounts. Actual performance of individual separate accounts may vary with average net "composite" performance statistics presented here due to client-specific portfolio differences with respect to size, inflow/outflow history, and inception dates, as well as intra-day market volatilities versus daily closing prices. Hahn performance numbers are net of total ETF expense ratios, and Hahn investment management and advisor fees, but before witholding taxes and transaction costs. Past investment results provide no indication of future performance. Future returns are dependent on the general investment environment, the nature of the investment mandate and specific portfolio risks.

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