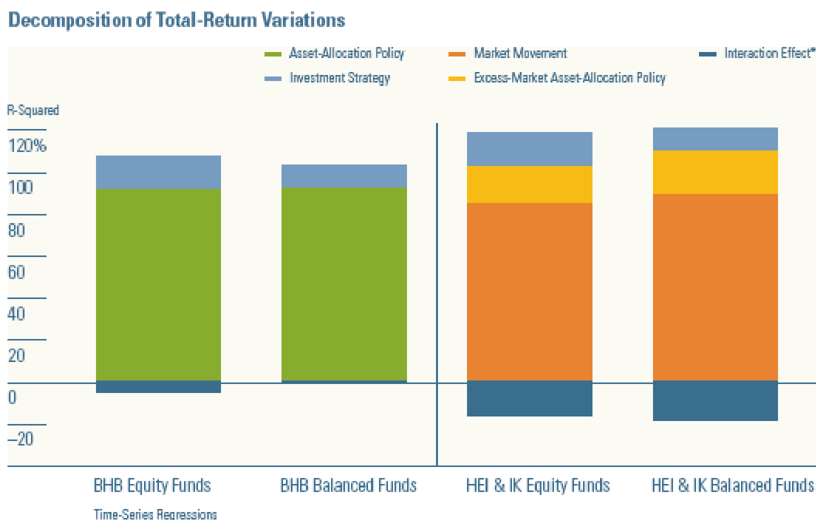
September 2012

# BIAS Strategic Asset Allocation Solution

An active asset allocation strategy that strategically targets certain sectors of the financial markets is likely to provide better results than a simple buy and hold strategy given today's volatile financial environment.

Furthermore studies have shown that asset allocation accounts for 100% of investment return when combined with appropriate active management.




BIAS' Strategic Asset Allocation Solution employs BIAS' Morningstar 4-Star rated mutual funds, designed specifically to be used as asset allocation tools enabling all investors the luxury of bespoke managed portfolios usually only enjoyed by multi-million dollar accounts.

# Asset Allocation Defined

A financial asset is anything that produces an income or that can be bought or sold, such as equities, bonds, etc.  Asset classes are groupings of assets with similar characteristics. Examples are government bonds or Treasury bills.

Every asset class has distinct characteristics and may perform differently in response to market changes.  Careful consideration should be given to determining which asset you should hold and the amount.

Factors influencing the asset allocation decision are financial needs and goals, length of investment time horizon and attitude towards risk.

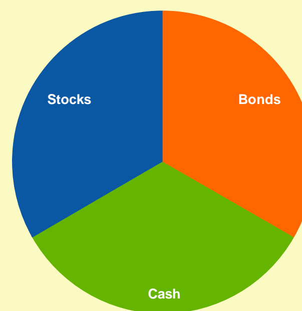
It is important to understand that asset allocation is not the process of buying and selling securities. That is trading. It is the process of combining various assets and asset classes in an optimal way that is right for <u>**you**</u> over the long term.

This therefore is a strategy and not simply a trading opportunity.

Furthermore this is <u>**your**</u> strategy and nobody else's.  What is right for you may not be right for someone else.

**What is Asset Allocation?**

Asset allocation is the process of combining asset classes such as stocks, bonds, and cash in a portfolio in order to meet your goals.

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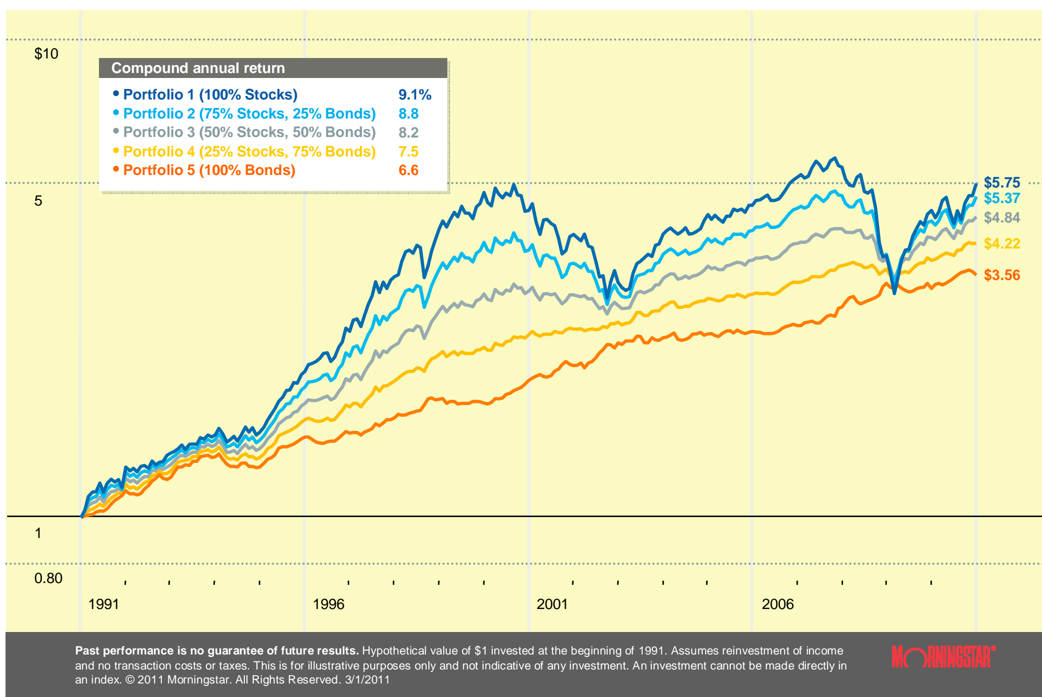
# Long-Term Portfolio Performance

Understanding how different asset classes operate over time is an important first step in creating an optimal asset allocation strategy.  Generally speaking, portfolios with a greater allocation to equities provide higher long term returns although with an elevated level of risk over a fixed income only strategy.

**20-Year Portfolio Performance**
1991–2010




The above chart shows 20 years worth of portfolio returns starting at $1 invested in 1991 concluding in 2010 using 5 various portfolio strategies ranging from 100% fixed income to 100% equities with varying mixed levels in between.

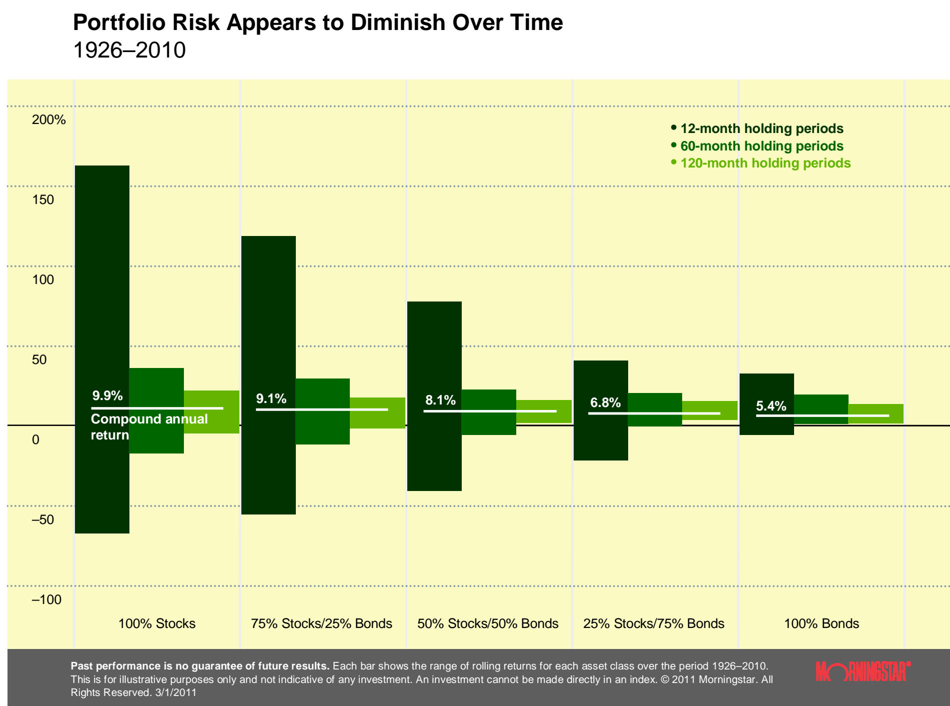
Portfolios with large equities allocations outperformed portfolios comprised mostly of bonds.  However the higher returns of these portfolios are associated with much greater volatility (i.e. risk).

Returns shown are illustrative only and should not be considered real or guaranteed. Past performance is no guide to the future.

# Risk Reduction Over Time

One of the primary factors to consider when creating a portfolio is the amount of risk (or volatility) you are prepared to assume.  However the range of returns appears less volatile with longer holding periods.

Over the long term periods of high returns tend to offset periods of low returns.  With this passage of time these offsetting periods result in a lower average; or, in other words, holding the portfolio for longer results in decreased volatility.




The graph illustrates the range of compound annual returns for the 5 portfolios over 12, 60 and 120 month holding periods.  On a 12-month rolling basis since 1926 (a period which included the Great Depression and WWII), the returns of (for example) a 50/50 portfolio have ranged from a high of +78% to a low of -41% – a very wide range indeed!  For longer periods of both 60 and even more so of 120 months, however, this changes.  Average 60-month returns range from +22% to -6% but for 120-months this narrows even further to a range of +16% to +2%.

The risk consequently appears to diminish with time.

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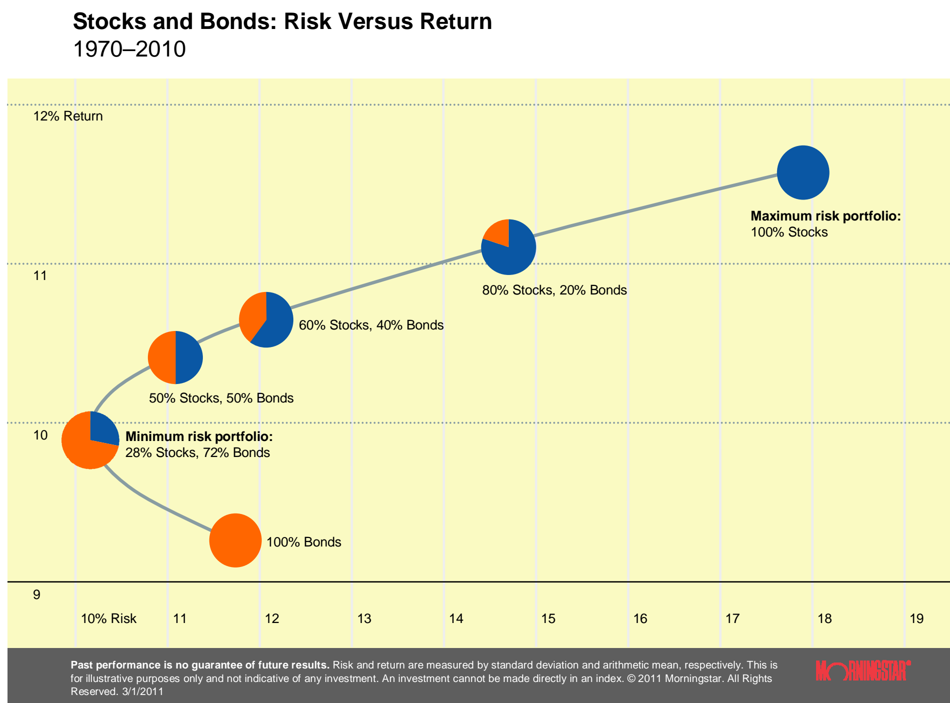
## Optimal Portfolios

The graph below represents a line called the 'efficient frontier' which represents every possible combination of assets that maximizes return at each level of portfolio risk and minimizes risk at each level of portfolio return (the horizontal axis measure risk while the vertical axis shows return). At any point it is simply the optimal asset mix for a particular level of risk or particular level of return.

This chart includes only two assets: equities and bonds.

Although bonds are considered less risky than equities, the minimum risk portfolio does not consist entirely of bonds. This is because equities and bonds are not correlated and move independently of each other (i.e. generally in opposite directions). These offsetting movements help reduce portfolio volatility (risk).

As a result adding a small amount of equities (for the period 1970-2010 this was 28%) actually reduces overall portfolio risk. Beyond this point however both risk <u>**and**</u> return increase over time.

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## BIAS' 3-Step Process Defined

1. The first step is to determine an appropriate level of risk that is right for you. BIAS has developed a questionnaire that asks you questions that specifically lead to this primary first step objective.

2. The second step is the derivation of your risk tolerance.

3. The final step is the asset allocation decision.

## Risk Assessment Quiz

Answer the questions on our Risk Assessment Quiz (see below) located either on our web site or in questionnaire form at our offices.

If you take the quiz online, you (and BIAS) will receive an automatic response showing your risk tolerance. If you complete the form in BIAS' office, we can immediately provide a similar response.

Now you can move on to the next step.

## Risk Tolerance Identified

Your risk tolerance will be one of the following six alternatives. Each alternative should be examined carefully in light of your particular circumstances to decide which one suits you best. We can help you do this.

Now you can decide on your optimal asset allocation strategy – the final step.

**VERY LOW RISK**

You are close to retirement or simply cannot tolerate any risk. Security of principal is more important than growth or even income.

**LOW RISK**

You may be approaching retirement or you may simply prefer to take less risk. Income and security are your most important objectives.

**CONSERVATIVE**

You want a mixed, equal weighted strategy combining both security and growth. You are prepared to accept a little risk in order to have the potential for higher returns over time.

**MODERATE**

You want a mixed, balanced strategy combining security and growth. You are prepared to accept some risk for the potential for higher long term returns over time.

**GROWTH**

The growth of capital is your primary goal and you plan to be invested for a relatively long period of time. You are comfortable riding the ups and downs of the market in exchange for the possibility of higher long term returns.

**AGGRESSIVE**

You are knowledgeable, plan to be invested for a very long time and are willing to accept additional risk and volatility in exchange for a potentially higher rate of growth.

## The Asset Allocation Decision

Select the asset allocation mix from the below table by following the 'Risk Classification' heading down the page. The fund allocations are those currently in force as determined by BIAS' CFA led team of investment professionals. The asset allocation outcome is shown on the boxes to the far right.

Funds used include BIAS Global Portfolios' 4-Star Morningstar rated funds as follows:

- EQ Global Equities Fund (4-Star rated)
- GDI Global Dividend Income Fund (launched September 2012)
- BAL Global Balanced Fund (4-Star rated)
- SDI Short Duration Income Fund (4-Star rated)

| Risk Classification | Fund Allocations | | | | | Asset Allocation | | |
|---|---|---|---|---|---|---|---|---|
| | EQ | GDI | BAL | SDI | Total | Equities | Bonds | Total |
| **Very Low Risk** | | | | **100%** | **100%** | **0%** | **100%** | **100%** |
| **Low Risk** | | **10%** | **25%** | **65%** | **100%** | **25%** | **75%** | **100%** |
| **Conservative** | | **30%** | **30%** | **40%** | **100%** | **48%** | **52%** | **100%** |
| **Moderate** | **20%** | **25%** | **25%** | **30%** | **100%** | **60%** | **40%** | **100%** |
| **Growth** | **40%** | **30%** | **30%** | | **100%** | **88%** | **12%** | **100%** |
| **Aggressive** | **75%** | **25%** | | | **100%** | **100%** | **0%** | **100%** |

The fund allocation mix will be rebalanced quarterly by BIAS' team of investment professionals so that all current market dynamics are always reflected in your investment portfolio.

Morningstar Rating for Funds

Morningstar rates funds from 1 to 5 stars based on how well they've performed (after adjusting for risk and sales charges). The top 10% of funds receive 5 stars, the next 22.5% 4 stars, the middle 35% 3 stars, the next 22.5% 2 stars, and the bottom 10% 1 star. Funds are rated for up to three periods: 3, 5 and 10 years. Funds with less than 3 years of history are not rated. All existing BIAS funds are 4-star rated.

Morningstar Risk

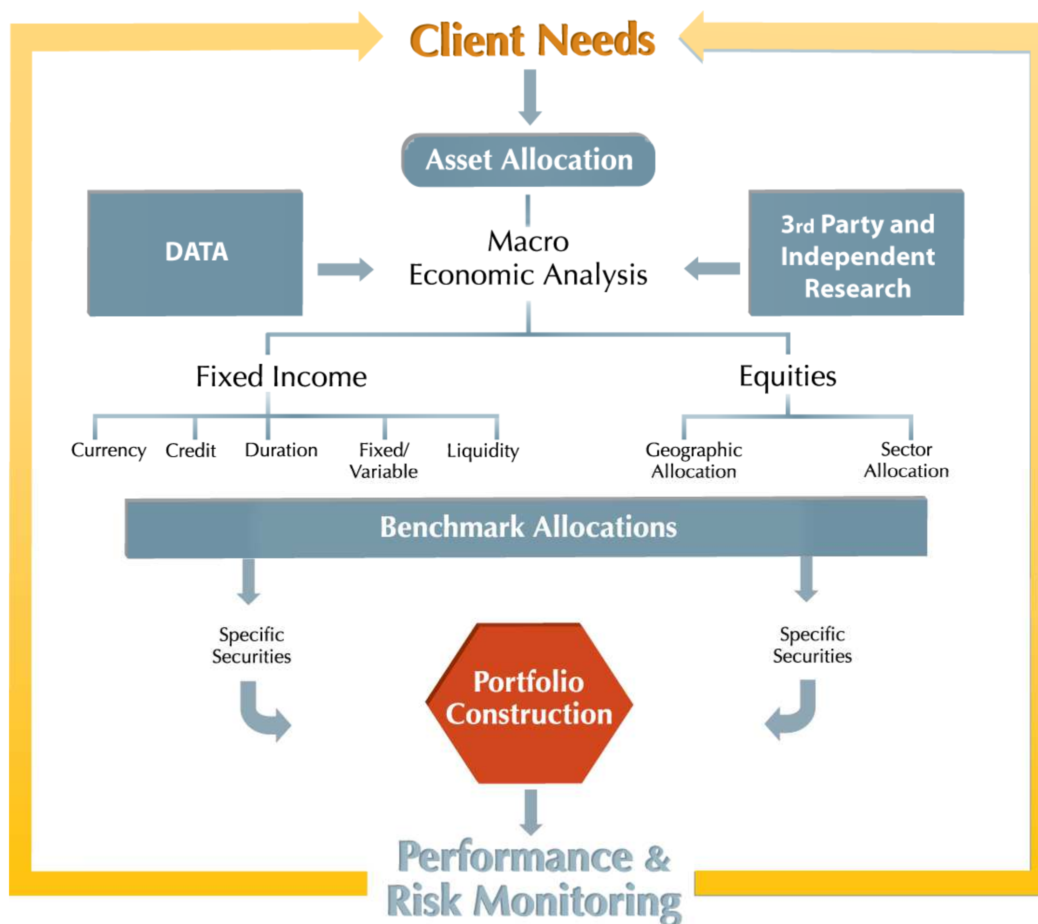
Morningstar assesses variations in funds' monthly returns in comparison to similar funds, with an emphasis on downward variation. The greater the variation, the larger (or worse) the risk score. The first 10% of funds with the lowest measured risk are considered 'Low Risk', the next 22.5% 'Below Average', the middle 35% 'Average', the next 22.5% 'Above Average', and the final 10% 'High'. The Global Equities Fund is 'Low', Global Balanced Fund 'Below Average' and Short Duration Income Fund 'Average'.

## Rebalancing

Active management is the cornerstone of a continually optimal asset allocation strategy and at BIAS this is handled by our CFA-led Investment Strategy Committee who meet at least twice weekly to decide the investment strategy that drives our portfolio management decisions.

The graph represents our client needs driven Life Cycle Approach which constantly tests and re-tests our beliefs and knowledge with the aim of producing the best level of investment return per element of risk always keeping the clients' needs in the forefront of our decision making.

Our investment approach is global, thematic and macro-driven.



## The Value Proposition

BIAS' Strategic Asset Allocation Solution is available as follows:

- Freedom Trading clients invested in BIAS Global Portfolios funds ($25,000 - $100,000) will have their portfolios automatically rebalanced every 6 months.
- Freedom Trading clients invested in BIAS Global Portfolios funds (over $100,000) will have their portfolios automatically rebalanced every 3 months.
- WealthBuilder clients will have their portfolios automatically rebalanced according to asset size described above either every 3 months or 6 months.


BERMUDA

Bermuda Investment Advisory Services Limited
1st Floor Wessex House
45 Reid Street
Hamilton, HM 12
Bermuda

Tel: (441) 292-4292
Fax: (441) 292-7292

CAYMAN

BIAS (Cayman) Limited
P.O. Box 30862
Grand Cayman KY1-1204
Cayman Islands

Tel: (345) 943-0003
Fax: (345) 943-0004