



Distinction
Asset Management

Investment Process



Seven step investment process

Investment process:

1. Assignment of a risk budget to every portfolio and fund
2. Quantitative valuation and risk-premia forecasting of asset classes
3. Qualitative global macro economic idea generation and analysis
4. Investment vehicle selection and due diligence
5. Approval, documentation and implementation
6. Ongoing monitoring and due diligence
7. Portfolio construction and rebalancing via AIM-*folio*




Step 1: Assignment of a risk budget

How others discover risk


1 What investments should we buy?



2 How will we allocate between them?



3 How much risk have we taken?



Almost every investment manager starts their process by deciding what investments are high growth, or good value. The next decision is how much to put in each “good idea”.

The traditional process results with an undetermined risk as a by-product

How AIM controls risk

AIM start each portfolio with a risk budget. AIM then balance the contribution of each investment to the portfolio’s expected return and expected risk.

The result is:
Maximised risk adjusted returns


1 Where should we allocate our risk budget?



2 Balance the contribution to return and risk



3 Maximum returns for a pre-determined risk



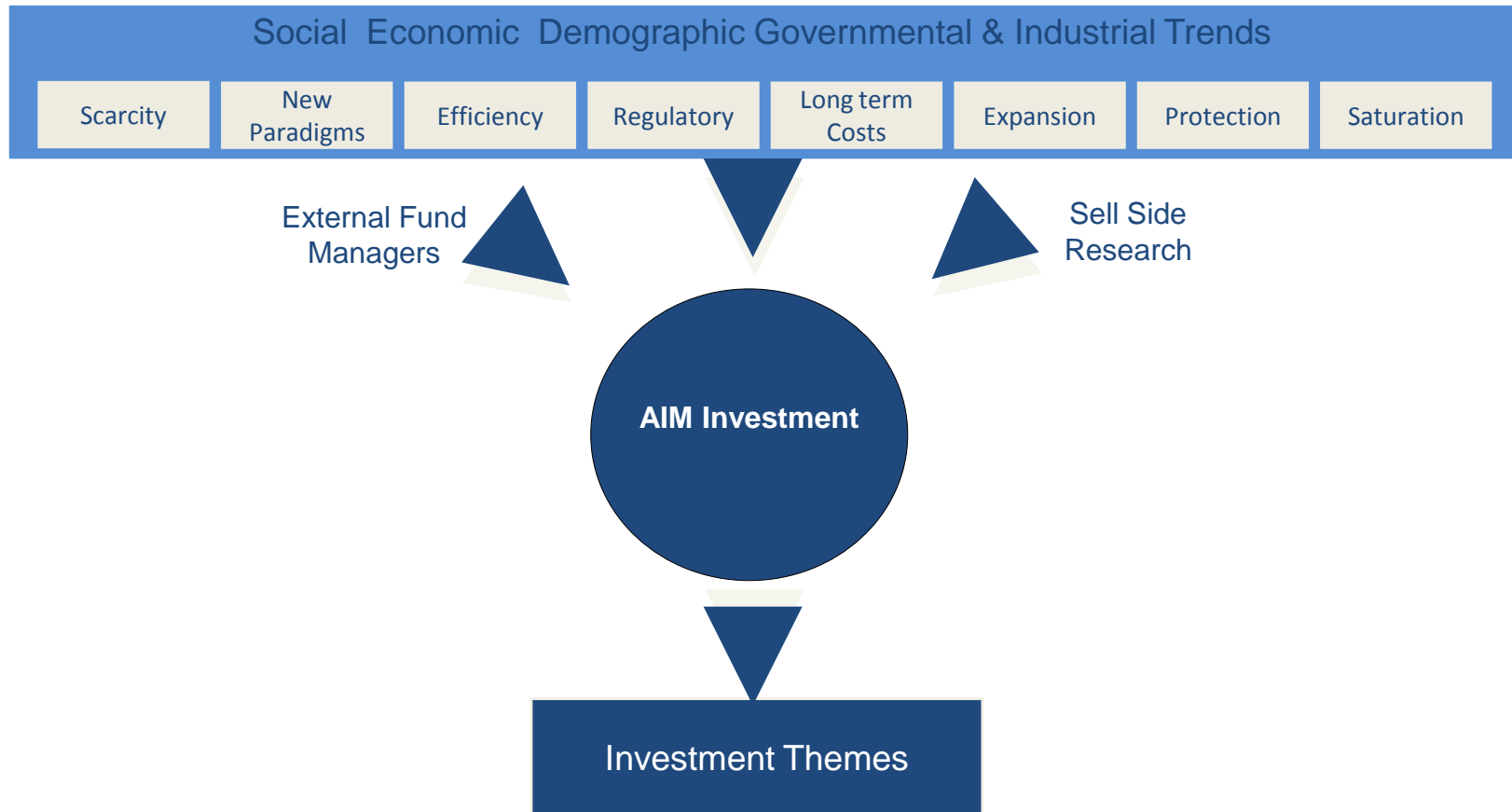


Step 2: Quantitative valuation & implied risk-premia

	Value	Growth	Quality	Momentum/Flows
Equities	Yield P/Book P/E EV/EBIT Yield Gap	Forecast Earnings Growth Forecast Dividend Growth Currency Strength Economic Cycle	ROE Debt/Equity ratio	Earnings Upgrades Positive Price Momentum Recent flows
Bonds	Yield Gap		Yield Curve Dynamics Default Rates	Momentum, Flows
Cash	Real Yield			
Real Estate	Yield Gap	Currency Strength Rental Growth	Stage of Property Cycle Vacancy rates	
Currency	Yield Trend Carry PPP	Yield Curve	Current/Fiscal account Economic growth Money Supply growth	Momentum, Flows Carry trade vs. Safe Haven premium
Commodities	Carry – shape of curve	Global Supply/Demand Economic Cycle	Scarcity vs. Marginal cost	Momentum



Step 3: Qualitative global macro idea generation





Step 4: Portfolio construction (Alpha and Beta)

Excess Return Set

Broad Opportunity Set
 β

Equity
Fixed income
Commodities
Private equity
Currency
Property

Skill
 α

Arbitrage
Asset Allocation
External Manager
(Mandate permitting)

+

Diversification

Regions
Asset Classes
Style
Investment Vehicles

+

Portfolio Construction

Risk management (VaR, MVaR, Correlation, Regression etc.)
Hedging strategies
Optimisation based on risk budget

=

Consistently strong risk adjusted returns

Risk Management

Outcome



Step 5: Investment vehicle selection

Investment Themes

Derivatives

Direct
Positions

Exchange
Traded Funds

Structured
Products

Active
Funds

Managed
Accounts

(Mandate Permitting)

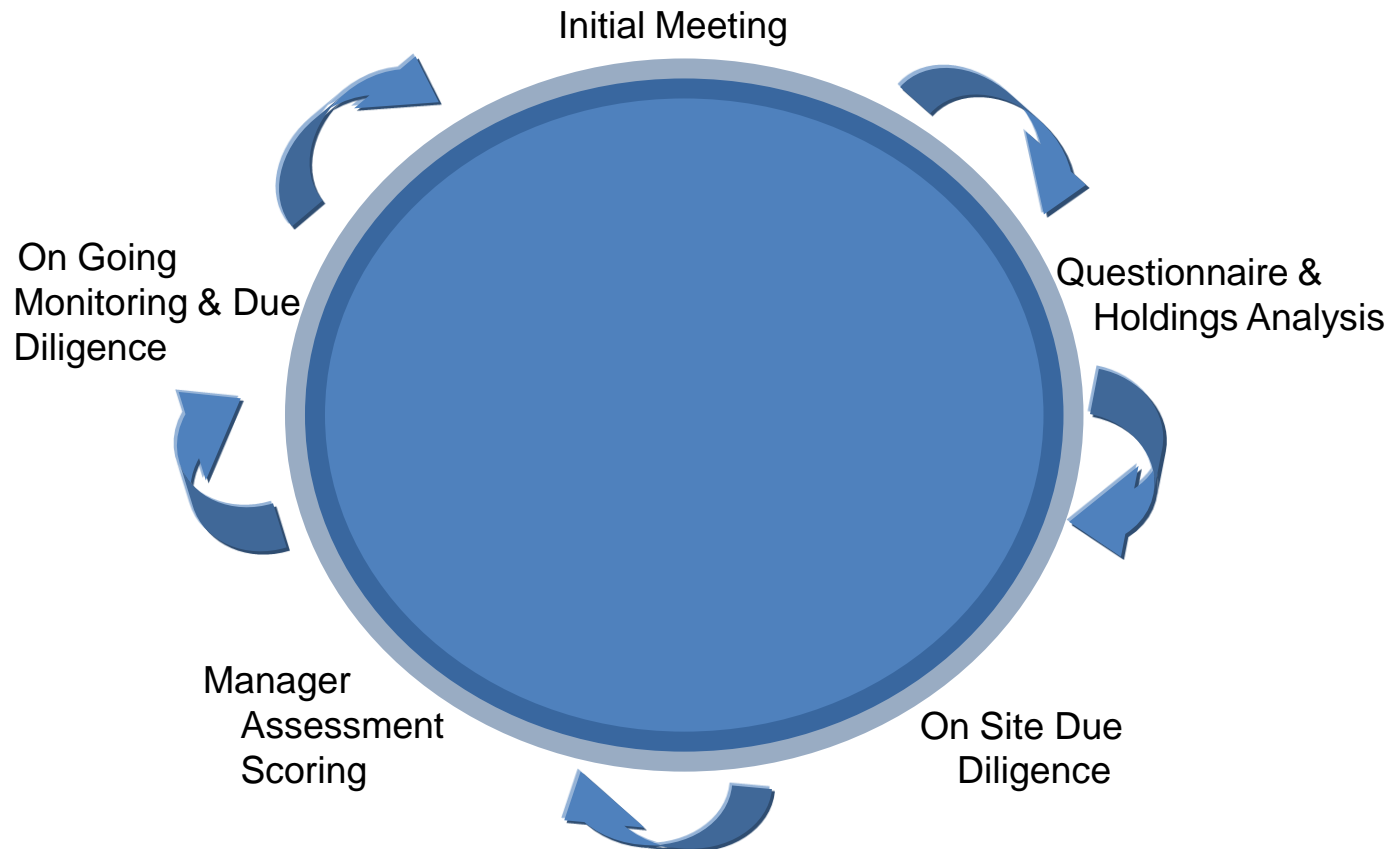
Agnostic: Different investment vehicles for different asset classes and parts of the cycle

Flexible: Adaptable approach creates opportunities

External Alpha: Manager Selection process created and refined over years (Mandate Permitting)



Step 5: Manager selection (Mandate permitting)





Step 6: Approval, documentation and implementation

- Dr Ana Armstrong chairs weekly asset allocation meeting
- All investment team members participate
- Views are exchanged and discussed
- Not a voting process
- Positions are tested via AIM-folio
- Formation of consensus
- Trades are placed via Bloomberg with relevant brokers
- Bloomberg feeds into AIM-folio
- Trades are automatically logged on AIM-folio
- Trades are matched
- Settlement

Step 7: Ongoing monitoring via AIM-folio



Proprietary Risk Management System

Allocation decisions are risk-based downside risk controls suggest optimal allocations to risky assets

Primary criteria is achieving return objective given downside risk constraint

Effective combination of proprietary tools and judgment

Source: AIM

Distinction

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