

# Asset Allocation Strategy

30 September 2010

Investment Committee

## Asset Allocation summary

The table summarizes investment decisions on Asset Allocation and loan currencies made by JGAM and relevant for Managed Asset Allocation Portfolios.

Asset Allocation	
Fixed Income	<b>N</b>
Equities	<b>N</b>
Alternatives	<b>N</b>
Cash	<b>N</b>

Loan mix	Low Risk	Medium Risk
USD	<b>100%</b>	<b>100%</b>

Note: N = Neutral, O = Overweight, U = Underweight.

## A currency war

Recently, the US dollar (USD) broke through an important technical support level and relative to other currencies USD is under pressure from Fed's expected willingness to engage in another round of Quantitative Easing (QE). QE means that the Fed print money and buy government bonds and hence, inflate global financial markets with more USD.

A "currency war" is going on where major countries try to depreciate their currencies vis-à-vis each other. The US is prepared to use "heavy armor" in the battle to win the war (i.e. depreciate its currency most), armor no other countries have in their arsenal as USD is still the worlds reserve currency.

The risk to the scenario of a weakening USD is a renewed euro (EUR) crisis. However, a high risk premium is already priced in, in the European bond markets as Irish and Greek government bonds pay a record high premium of more than 4% and 6% respectively, above the German Bund.

## Asset allocation

### Foreign exchange

- The currency mix is left unchanged on the asset side of our Managed Asset Allocation portfolios.

### Fixed income

- We maintain a **neutral weight**.

### Equities

- We maintain our **neutral weight**.

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## Alternatives

- We hold a **neutral** position in gold.

## Cash

- We hold a **neutral** position in cash.
- Thereby, we have reduced the cash position in leveraged low risk portfolios from overweight to neutral. The cash has been used to reduce the USD loan and hence, reduce the level of gearing.

## Loan mix

- The currency mix is **100% USD**.

## Leverage

- Leverage is below maximum levels and reduced in the leveraged low risk portfolios.

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## Analysis and investment approach

JGAM make macroeconomic research and financial analysis on various types of securities. These analyses form the basis for JGAM's decision on asset allocation, i.e. the tactical weighting on asset classes.

JGAM does not make analysis on specific securities. Instead JGAM uses analysis from external sources to decide what specific securities to invest in.

JGAM follow a top-down approach when deciding how to invest. First, the economic and financial trends are examined. Second, JGAM's asset allocation is determined including currency exposure, the composition of loan mix in leveraged portfolios and level of gearing. Third, we select specific securities within the asset classes.

Tactical weights in JGAM portfolios are equal to market determined dynamic weights unless JGAM decide to change the asset allocation or positions in specific securities.

JGAM's analysis, recommendations and investment decisions on Managed Asset Allocation Portfolios are presented in the following reports:

- JGAM Portfolio Update
- Asset Allocation Strategy
- Foreign Exchange Strategy
- Fixed Income Portfolio
- Equity Portfolio
- Alternatives Portfolio

Further, recommendations and decisions on Managed Foreign Exchange Portfolios are presented in the following report:

- Foreign Exchange Update

Finally, recommendations for Advisory Accounts are presented in the following report:

- JGAM Investment Cases

## Editors

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Investments on the basis of this publication are subject to risk. The price of and return on securities may fall as well as rise. Past performance is not a guide to the future, and investors may not get back the full amount invested. The price of emerging-market securities can be extremely volatile.

When an investment is denominated in a currency other than the investor's base currency, the investor must be warned that changes in exchange rates may have an adverse effect on the value and price of or return on an investment.

Bond investment involves risk. Many factors, including the country's credit quality, willingness to pay, liquidity, social conditions and economic developments may affect the price of a bond. Indirect factors may also affect the price of a bond, for instance global economic factors, global risk tolerance and geopolitical risks.

Equity investments are associated with risk. Movements in the equity market, the sector and/or news flow, etc. regarding the company may affect the price of the equity. In connection with an ADR or similar papers, the foreign exchange risk exists relative to the currency in which the underlying equity trades.

Alternative investments (including commodity investments) involve risk. Movements in the credit market, the sector and/or the news flow, etc. regarding the issuer may affect the price of an alternative investment.

Leveraged investments are very risky, exposed to all the above mentioned factors as well as a fall in the value of collaterals combined with an increase in the value of the loan currencies. Leveraged investments are only recommended for investors with a suitable risk profile.

All of the above mentioned risk factors should not be regarded as exhaustive.