

Risk profiles, portfolios and benchmarks for managed portfolios

October 2011

JYSKE GLOBAL
ASSET MANAGEMENT

1. Introduction

JGAM classify portfolios by combinations of risk profiles and asset classes. This memo describes the risk profiles and asset classes used and the maximum and minimums allowed for each asset class in specific managed portfolios.

The tables below shows the risk profiles, the asset classes and the maximum and minimum limits on the different asset classes, the neutral weights and the benchmark.

Neutral weight

Neutral weight is a term used for measuring if the tactical asset allocation is neutral, overweight or underweight.

Benchmark

The term benchmark is used to compare the performance of JGAM's managed portfolios against the benchmark performance. Often the benchmark corresponds to the neutral weight on asset classes in a given portfolio, but not always. Managed portfolios always have a defined benchmark but not always a neutral weight.

Benchmark are defined per risk class and hence all managed products within the same risk class uses a common benchmark. See section below on Managed FX Portfolios for specific comments on benchmark for this product.

2. Managed Asset Allocation Portfolios

Portfolio risk profile: Low risk				
Asset class	Min. %	Max. %	Neutral weight (interval) %	Benchmark %
Fixed income	0	100	75 (65 – 85)	75
Equities	0	40	15 (10 – 20)	15
Alternatives	0	20	5 (0 – 10)	5
Cash	0	100	5 (0 – 5)	5

Portfolio risk profile: Medium risk				
Asset class	Min. %	Max. %	Neutral weight (interval) %	Benchmark %
Fixed income	0	80	45 (37.5 – 52.5)	45
Equities	0	80	45 (37.5 – 52.5)	45
Alternatives	0	40	5 (0 – 10)	5
Cash	0	100	5 (0 – 5)	5

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Portfolio risk profile: Medium risk (comprising a Low risk-portfolio with max. 1x leverage)				
Asset class	Min. %	Max. %	Neutral weight (interval) %	Benchmark %
Fixed income	0	100	75 (65 – 85)	45
Equities	0	40	15 (10 – 20)	45
Alternatives	0	20	5 (0 – 10)	5
Cash	0	100	5 (0 – 5)	5

Portfolio risk profile: High risk				
Asset class	Min. %	Max. %	Neutral weight (interval) %	Benchmark %
Fixed income	0	40	15 (10 – 20)	15
Equities	0	100	75 (65 – 85)	75
Alternatives	0	60	5 (0 – 10)	5
Cash	0	100	5 (0 – 5)	5

Portfolio risk profile: High risk (comprising a Medium risk-portfolio with max. 1x leverage)				
Asset class	Min. %	Max. %	Neutral weight (interval) %	Benchmark %
Fixed income	0	80	45 (37.5 – 52.5)	15
Equities	0	80	45 (37.5 – 52.5)	75
Alternatives	0	40	5 (0 – 10)	5
Cash	0	100	5 (0 – 5)	5

Portfolio risk profile: High risk (comprising a Low risk-portfolio with max 2x leverage)				
Asset class	Min. %	Max. %	Neutral weight (interval) %	Benchmark %
Fixed income	0	100	75 (65 – 85)	15
Equities	0	40	15 (10 – 20)	75
Alternatives	0	20	5 (0 – 10)	5
Cash	0	100	5 (0 – 5)	5

Portfolio risk profile: Speculative				
Asset allocation may be individual or one of the above standard combinations may be chosen.				
Asset class	Min. %	Max. %	Neutral weight %	Benchmark %
Fixed income	0	100	Neutral weights shall be customized if one of the standard combinations of asset classes is not chosen.	Benchmark weights shall be customized if one of the standard combinations of asset classes is not chosen.
Equities	0	100		
Alternatives	0	100		
Cash	0	100		

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Mutual funds

Mutual fund units may be included in the respective asset classes where appropriate.

Leveraged investments

Benchmark on leveraged asset allocation investments is the non-leveraged benchmark for the risk level comparable to the risk profile of the leveraged investment, e.g. low risk with a onetime leverage equals a medium risk benchmark.

3. Managed FX portfolios

For all risk types, the tables show the asset classes, the maximum and minimum limits on the different asset types and the benchmark. Neutral weights are not used for Managed FX portfolios as a “neutral investment” in a foreign exchange portfolio corresponds to a money market placement in the investors base currency.

Managed FX – Low Risk with no leverage				
Asset class	Min. %	Max. %	Neutral weight %	Benchmark %
Fixed income	0	100	NA	75
Equities	0	0		15
Alternatives	0	0		5
Cash	0	100		5

Managed FX – Medium Risk equal to max 1 times leverage				
Asset class	Min. %	Max. %	Neutral weight %	Benchmark %
Fixed income	0	100	NA	45
Equities	0	0		45
Alternatives	0	0		5
Cash	0	100		5

Managed FX – High Risk equal to max 2 times leverage				
Asset class	Min. %	Max. %	Neutral weight %	Benchmark %
Fixed income	0	100	NA	15
Equities	0	0		75
Alternatives	0	0		5
Cash	0	100		5

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Managed FX – Speculative Risk equal to max 4 times leverage				
Asset class	Min. %	Max. %	Neutral weight %	Benchmark %
Fixed income	0	100	NA	0
Equities	0	0		90
Alternatives	0	0		5
Cash	0	100		5

Benchmarks on Managed FX are the same as for other portfolios within the same risk class (“Speculative” assumed to be an almost 100% equity investment). Normally, you would benchmark an FX investment against an interest rate.¹ However, we have chosen to compare portfolios within the same “risk family” with a common benchmark as we consider portfolios with the same risk profile to be comparable and alternatives our investors can choose between.

4. Tactical Asset Allocation Strategy

At any time, the present tactical asset allocation strategy is available on jgam.com under Investment news. The tactical asset allocation strategy is JGAM’s decision to deviate from neutral weights if JGAM believe such deviation will cause our portfolios to outperform the benchmarks.

5. Asset classes and financial instruments

Fixed income covers bonds as well as currency deposits other than USD on-demand account. Bonds are defined as government bonds, mortgage bonds or corporate bonds.

Equities (or shares) covers instruments which represent ownership of share of companies, so the shareholders become co-owners of the company in question.

Alternatives include investments which cannot be considered ordinary equity and fixed income investments or cash investments. Such investments may e.g. include hedge funds, mutual fund units in commodities, mutual fund units in property or structured products. Alternatives may consist of combinations of several asset types.

Cash is defined as the balance on the USD account only.

¹ The theoretical argument for an interest rate benchmark is the so called Interest Rate Parity (IRP). The IRP hypothesis state that in an efficient market interest rate spreads corresponds to the depreciation or appreciation expectations of the involved currencies. Hence, if expectations are fulfilled (as they will be in an efficient market with rational investors) investing in foreign currencies does not give an extra return compared to a money market placement in your base currency. However, we believe that markets are not always efficient and investors not always rational and therefore we expect to be able to make a profit by investing in currencies where we think the IRP hypothesis will not be fulfilled in a given period of time.

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Mutual fund units, structured products, certificates and hedge funds and other financial instruments may be included in the respective asset classes where appropriate.

For further information about the financial instruments category and types of transactions see the document "Instrument Category".

6. Standard JGAM benchmark blends for managed portfolios as per 1 October 2011.

Asset class	Index	Benchmark blends			
		Low risk portfolios	Medium risk portfolios	High risk portfolios	Speculative risk portfolios (Managed FX only)
Fixed Income	JP Morgan Global Govt Bond Global Unhedged USD Bloomberg: JPMGGLBL JGAM report: JPMGGBGU	75%	45%	15%	0%
Equities	MSCI All Countries World Daily TR Net USD Bloomberg: NDUEACWF JGAM report: MS_ACND	15%	45%	75%	90%
Alternatives	Reuters/Jefferies CRB Index Bloomberg: CRY JGAM report: RJ_CRB	5%	5%	5%	5%
Cash	JP Morgan Prime Money Market Fund U.S. Bloomberg: CJPXX US JGAM report: JPMPMMF	5%	5%	5%	5%