

INDEX OBJECTIVES

[ESBMDC Portfolio]

- The Elston Maximum Deconcentration Portfolio is a multi-asset diversification strategy that aims to maximize the effective number of asset class holdings, equivalent to minimising concentration of any single asset class.
- The portfolio strategy provides an Equal Weight approach to each major asset class with a maximum 5% weight to each regional equity market, alternative asset, and bond (by issuer type and currency).
- The portfolio provides an alternative approach to multi-asset diversification with differentiated risk-return characteristics.

Key Points

- 1 Multi-asset equal weight strategy.
- 2 Minimise concentration of any single asset class exposure.
- 3 Constructed with ETFs for transparency, liquidity and efficiency.

Portfolio Facts

Portfolio Code	ESBMDC
Asset Class	Multi-Asset
Base Currency	GBP
Rebalancing	Annual
Components	ETFs
Max Holdings	20
Launch Date	29-Sep-2017
ISIN	n.a.

Overview

This index strategy:

- Provides potential for returns from a diversified range of asset classes.
- Aims to provide an equally-weighted approach across all major asset class exposures.
- Minimises concentration to any single asset class exposure.

Applications

This strategy could provide:

- A **alternative equal weight** allocation strategy.
- **Reduced concentration** of any single asset class exposure.
- A **differentiated** approach.

Licensing

- For use as a research portfolio.
- Not a regulated benchmark.

THE THEORY

The theory is that despite its apparent simplicity, a naïve diversification “1/n” portfolio strategy can persistently outperform mean-variance optimised models.

For further reading on the study of equal weight multi-asset strategies, see *De Miguel, Garlappi and Uppal "Optimal Versus Naive Diversification: How Inefficient is the 1/N Portfolio Strategy?" The Review of Financial Studies, Volume 22, Issue (2009).*

1. BROAD BUILDING BLOCKS

The strategy uses a universe of major asset classes as building blocks. Overall allocation to Equities and Alternatives is capped at 50%. Overall allocation to Bonds is capped at 50%.



2. EQUAL WEIGHT EXPOSURES

The strategy reflects an equal weight allocation of 5% to each asset class exposure (regional equity market, alternative assets, and bonds (by issuer type and currency)).

3. BROAD DIVERSIFICATION

The asset allocation is a naïve diversification strategy that minimises the allocation to any given asset exposure. Also known as a “1 over N” approach, where N is the number of asset classes.



For illustrative purposes only

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