T.A.M.R.I.S

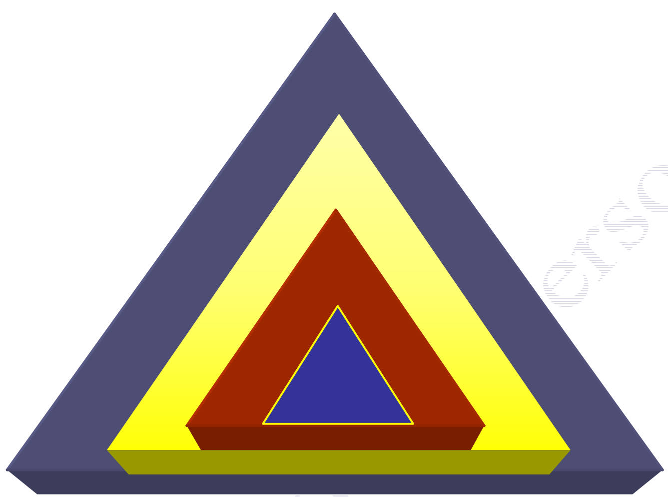
The

TAMRIS CONSULTANCY

Valuation, Allocation and Management

and the

"Personalised Model Portfolio"



"Personalisation is either a cost that is borne by the client or a return created by the manager. The ability to solve and manage it lies at the heart of the financial services solution."

VALUATION, ALLOCATION AND MANAGEMENT

The ability to personalise a portfolio is critical to the ability to meet client financial needs and risk preferences.

In fact, there is no real need to manage the portfolio personally to achieve true personalisation. By personally, we mean decentralised allocation, construction, planning and management.

First and foremost all clients have relative financial needs and relative risk preferences and these relative positions can be systemised within an investment construction, planning and management process.

> *Personalisation of asset allocation is only impossible* if there is no relationship between assets and liabilities, which, within systems that deal only with risk and return, is true.

Providing your range of portfolio options deal sufficiently with the universe of client net yield requirements and return objectives (TAMRIS covers a range of 0% to 8% plus), providing your portfolio selection can be adjusted for risk aversion and your global allocation adjusted for performance risk aversion, you can achieve all the personalisation you would normally achieve via personally managed portfolios more efficiently and with better risk/return management.

Why?

TAMRIS's liability management framework already covers the liability planning. Much of the work of portfolio personalisation in the past was related to making sure portfolios were structured to provide the income a client needed and to relate to their general risk preferences and over time to adjust to capital demands and changes in financial needs.

Now, the cash and fixed interest and the application and management of inflows and outflows are automatically worked out and, the liability model ensures that you only need to meet a smooth yield/liquidity/return objective on the equity portfolio. Management is much easier. The liability management framework also tells you when you need to restructure your equity/low risk allocation.

As a result you can focus on your core equity portfolios and your allocation strategy instead of managing and personalising individual allocation and strategy. The investment planning and asset management system and the organisation's decision rules do the management and personalisation. For the larger organisation, thousands of recommended portfolios are actually reduced to between 5 and 10 model portfolios.

However, you still need to be able to deliver your portfolios, implement them and you need to be able to manage them.

Delivering your "recommended" portfolio option to your clients is the easy part. All you need is a matrix which deals with the relationship between net yield requirements, risk aversions, portfolio selection and global allocation strategy and the recommended portfolio and allocation is instantaneous.

This is where most systems end, the recommended portfolio.

If you are delivering a model portfolio and all holdings and market allocations within the model portfolio are identical for all clients and, all transactions occur only within the model portfolio framework at the same time, then this is not a personalised portfolio. It is a model portfolio with all the attendant problems of model portfolios.

Why?

If you are managing all the client's investments you are going to have to sell existing holdings, or ignore them. If you ignore existing holdings the equity portfolio is not personalised to the client's financial position. If you do not manage all the client's financial assets, you are managing only a portion of assets in accordance with a risk return brief. This is not a personalised portfolio in the sense that you cannot personalise a component of a total return whole, since the whole determines the component and not vice versa.

Unfortunately all clients have existing investments. If you cannot incorporate existing assets within your portfolio, or cannot manage the implementation of their integration then you are unable to manage the process. If you cannot manage the process the client becomes a risk and a cost to both advisor and client.

The problem is this.

If you want to incorporate existing assets or be able to integrate existing assets over time, you need to effectively have a "personalised model portfolio". The problems associated with running "personalised model portfolios" individual to the client are the same problems that plagued traditional personal portfolio management.

How do you manage all assets as a "personal model portfolio" while retaining the simplicity of a model portfolio?

Simple! All portfolios, whether constructed top down or bottom up, have an asset allocation profile; market cap, sector, style, risk. These are related to a valuation framework, or should be. As such, they not only distribute recommended allocations to the model portfolios but also recommended allocations to the actual portfolio management interface.

> Within an investment planning and asset management system portfolio options are constructed and managed centrally by a small focussed central investment unit. The same inputs that the central unit develop and use to construct and manage the recommended portfolios are used by the system to manage existing portfolios and guide investment planners in the actual management of the *personal model portfolio*.

These *"allocation benchmarks"* can be used to manage the allocation of all portfolios. If you have an allocation profile, you can accommodate existing assets and manage change. Some existing assets you may want to hold irrespective. Throughout all this the allocation, the strategy and security selection remain centrally managed.

How do you manage all ***"personalised model portfolios"***?

If you are personalising from a model security and allocation base (the recommended portfolio option), you are going to end up with thousands of different portfolios.

Why?

Every time a price or a "price relative" changes, so does the risk and return profile of assets. As such, the allocation within the "recommended" portfolio options are constantly changing, albeit minutely. Because you cannot be changing existing portfolios in the same fashion, if you are running personalised asset and security allocation you will end up with thousands of different portfolios. Do you buy and sell every time your allocation deviates from the recommended?

No!

All you do is set up benchmarks to deal with change, thereby bringing all your 1,000s of portfolios back under "model portfolio" control via "model portfolio benchmarks".

The other factor which personalisation is important for is the initial investment decision. At extreme market valuations, the investment of new capital (cash) may need to be handled differently than existing invested capital. Non personalised model portfolios cannot deal with this.

A ***"personalised model portfolio"*** structure does deal with this.

Tie your equity portfolio management to your liability structure and you can manage your liability profile hand in hand with your equities. Future capital coming in and out of the portfolio can be used to make lower costs changes to portfolio structure.

Being able to realise gains and solve portfolio imbalances at the same time as crystallising gains for future consumption reduces costs and enhances the potential total return significantly. Sell high for consumption, buy low for investment.

The TAMRIS Solution

The objective of personalisation is to deliver personalised equity portfolios at volume, at quality and at a fixed cost capable of justifying the necessary allocation of capital and expertise.

By formalising your valuation disciplines into a structure which relates to your portfolio construction disciplines, by determining your investment universe, the universe of portfolio options and the relationship of portfolio options with the client liability and risk universe, you have created a dynamic portfolio management framework.

This is a Valuation, Allocation and Management framework!!

In today's highly competitive environment the costs and complexity of applying central investment expertise to the personalised management of assets, liabilities and risk preferences have prohibited its effective distribution.

The ability to automate the distribution and management of these disciplines profitably and efficiently within an asset/liability management environment is crucial to the ability to compete in tomorrow's financial services environment.

For further information please read TAMRIS Valuation, Allocation & Management.