



building
shock resistant
portfolios

Active Money

Providing 20/20 vision for embedded risks in your portfolio

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Agenda

- 1. Active Money – What is it?**
- 2. Active Money patterns through time**
- 3. Active Money vs Alpha**
- 4. Active Money vs Tracking Error**
- 5. Key takeaways**

Active Money – What is it?

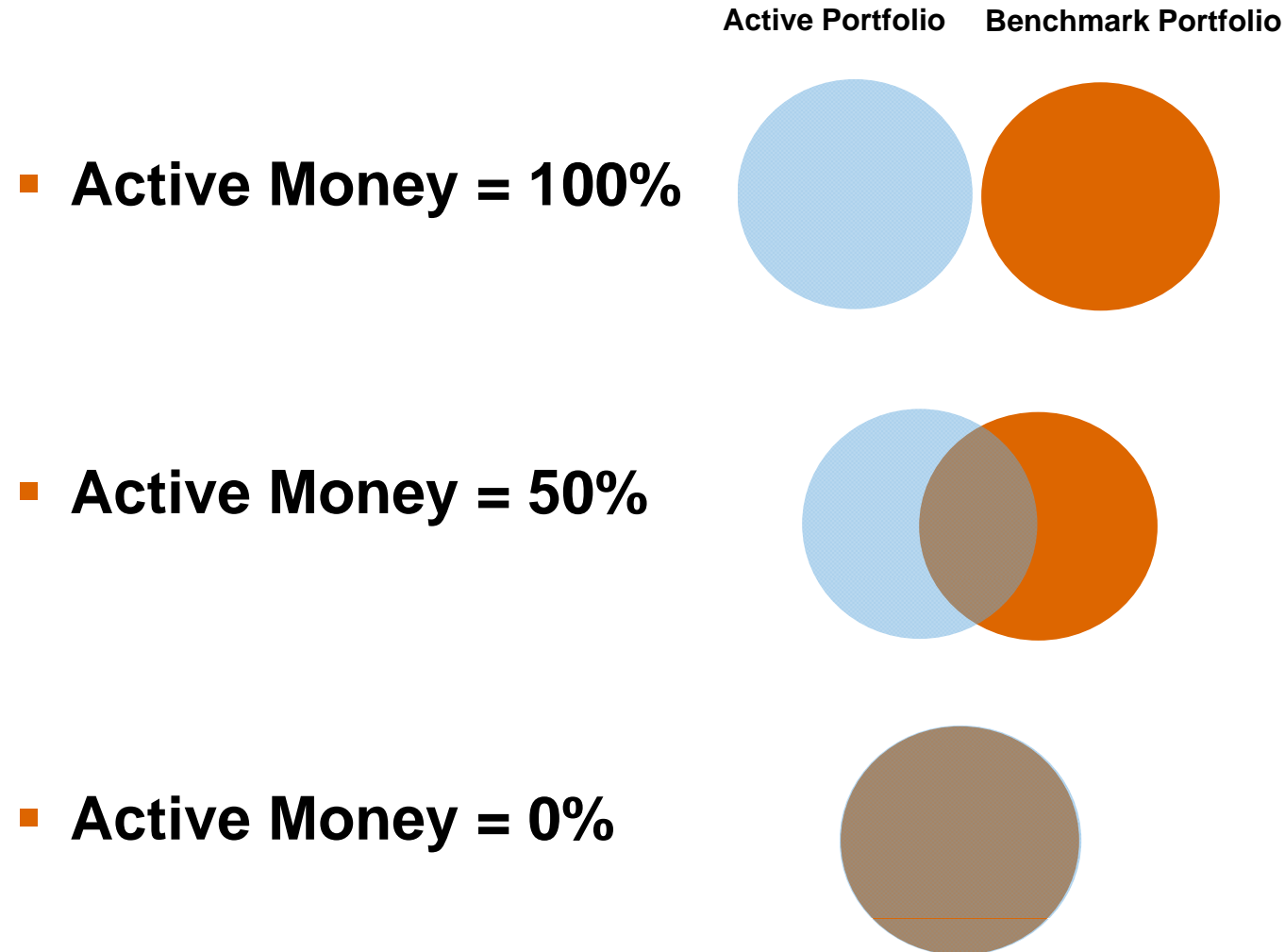
A measure of activeness in a portfolio

- **Active Money is a measure of how different the portfolio weights are from the benchmark weights**
- **Assigns 0% to the benchmark and 100% to a portfolio which holds all stocks outside the benchmark**

- **Active Money =**
$$\frac{1}{2} \sum_{i=1}^n |w_i^P - w_i^B|$$

Active Money – What is it?

A measure of activeness in a portfolio



Active Money – Patterns through time

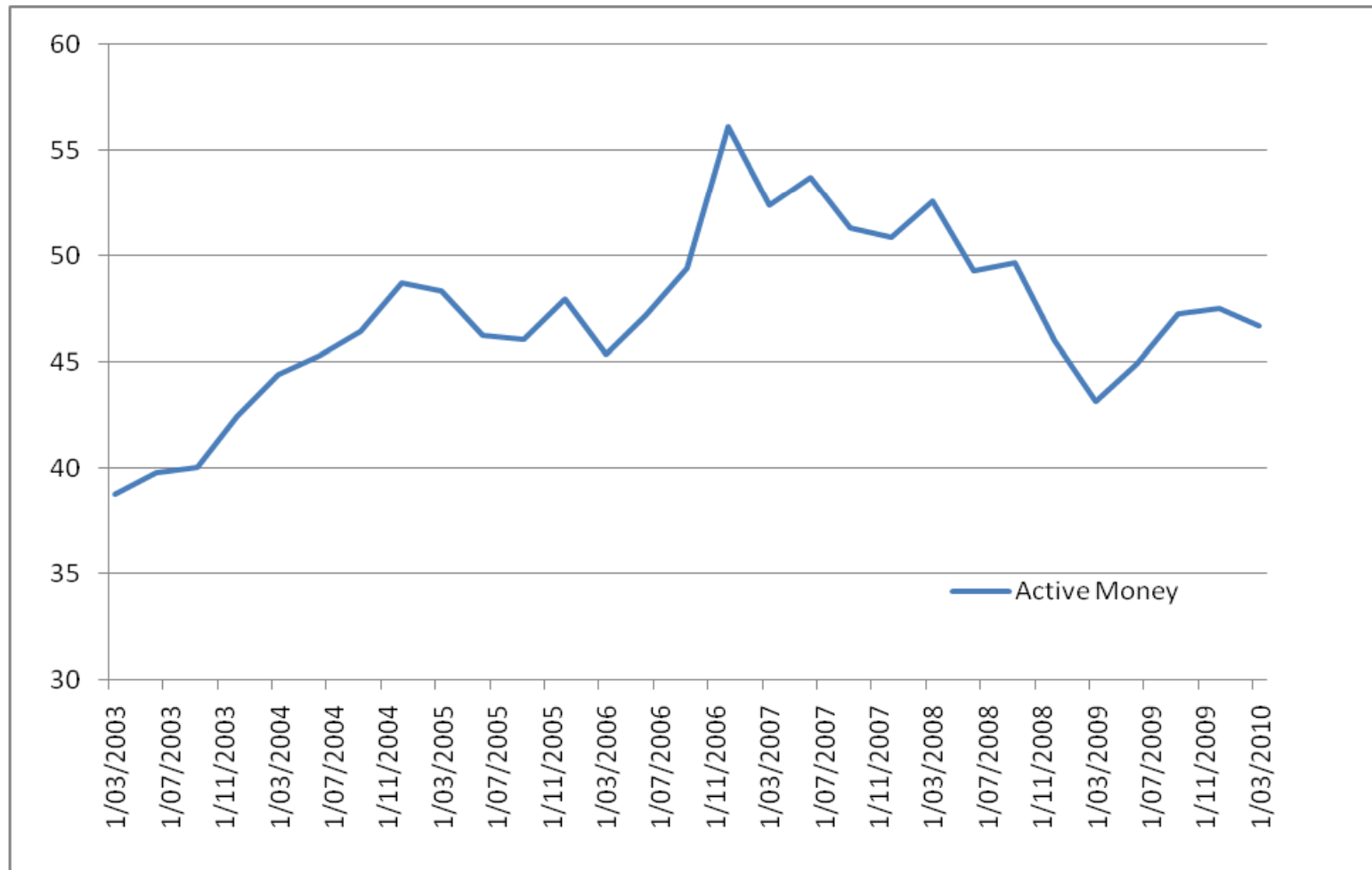
Clear cyclical pattern in Active Money

- **We find Active Money levels to be cyclical through time**
- **Cyclicalities appear to be in response to changes in risk/opportunity environments**
- **Supportive of “Guardian” mentality**
 - **Managers potentially more concerned with “not losing” than they are with winning**

Active Money – Patterns through time

No linear trend, rather conscious adjustments by money managers

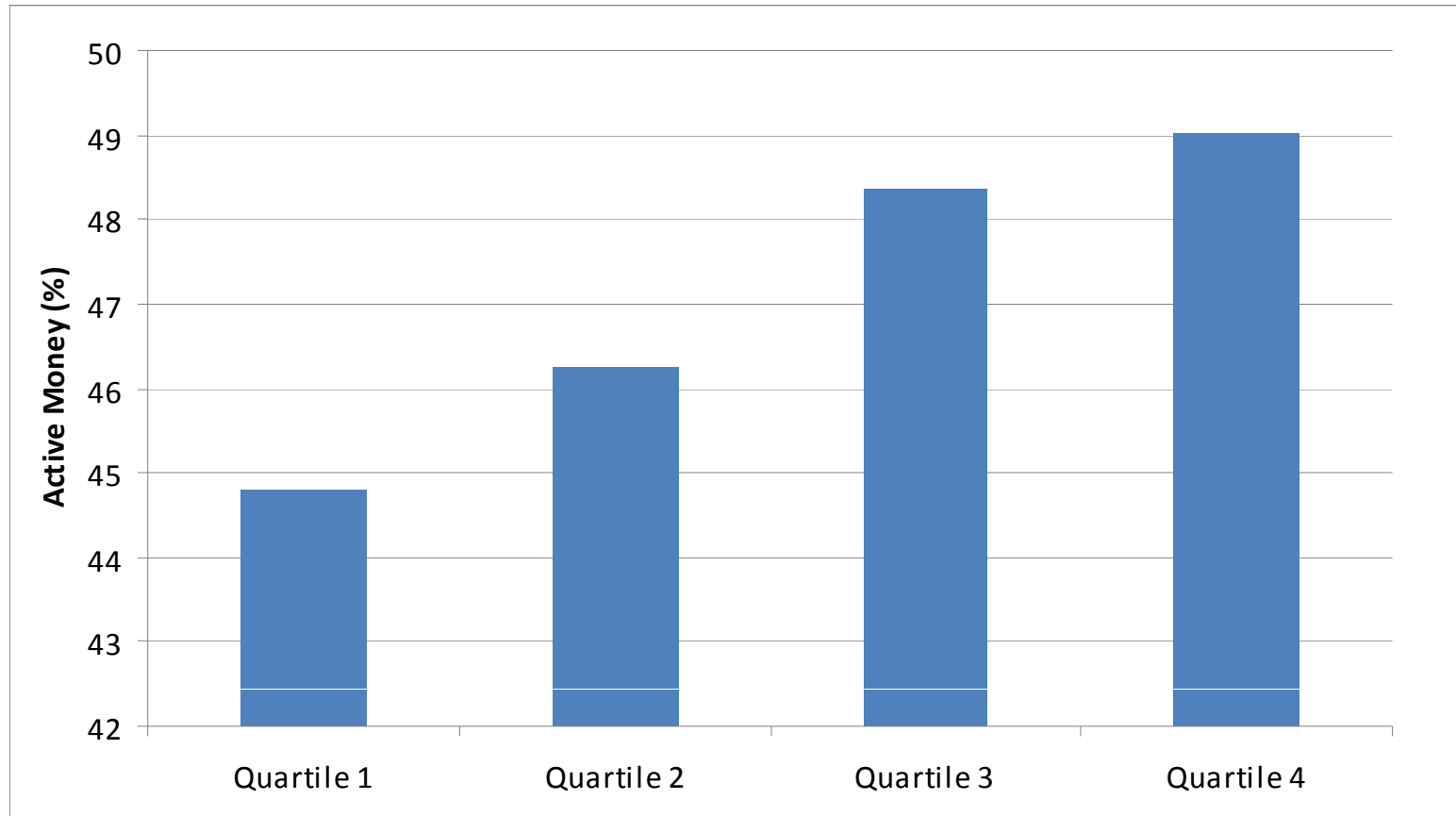
Median Active Money Levels



Active Money – Patterns through time

Active Money lowest when value dispersion at its highest

P/E Dispersion Quartiles Relative to Active Money Levels



High ← → Low

Active Money vs Alpha

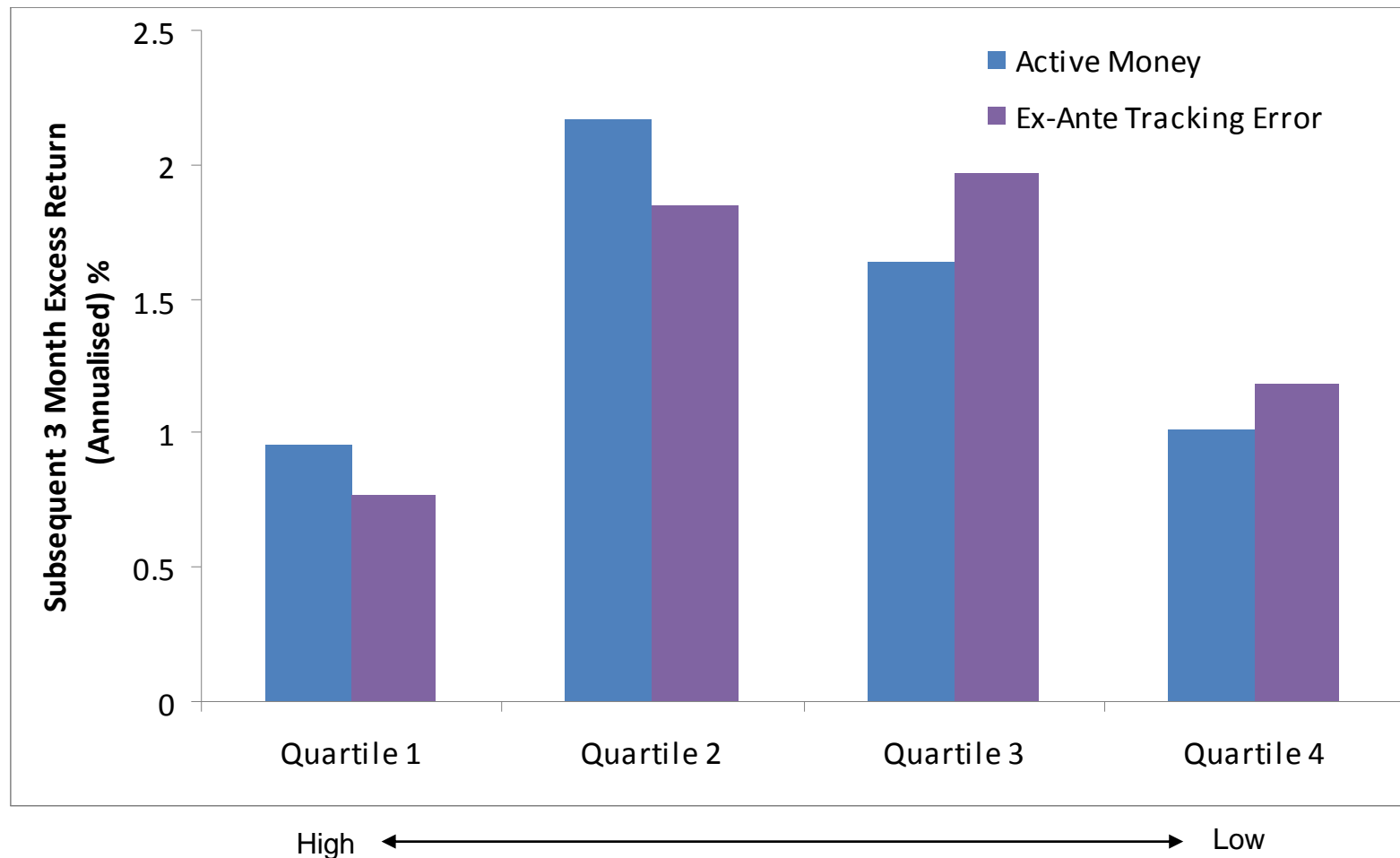
No clear relationship between Active Money and Alpha

- **Our findings suggests no relationship between Active Money and subsequent Alpha**
- **While our findings contradict other studies, we believe that our findings are more intuitive**
 - **If Active Money determined future excess returns then manager selection would become a simple task**

Active Money vs Alpha

No clear relationship between Active Money and Alpha

Excess Return and Active Money



Active Money vs Tracking Error

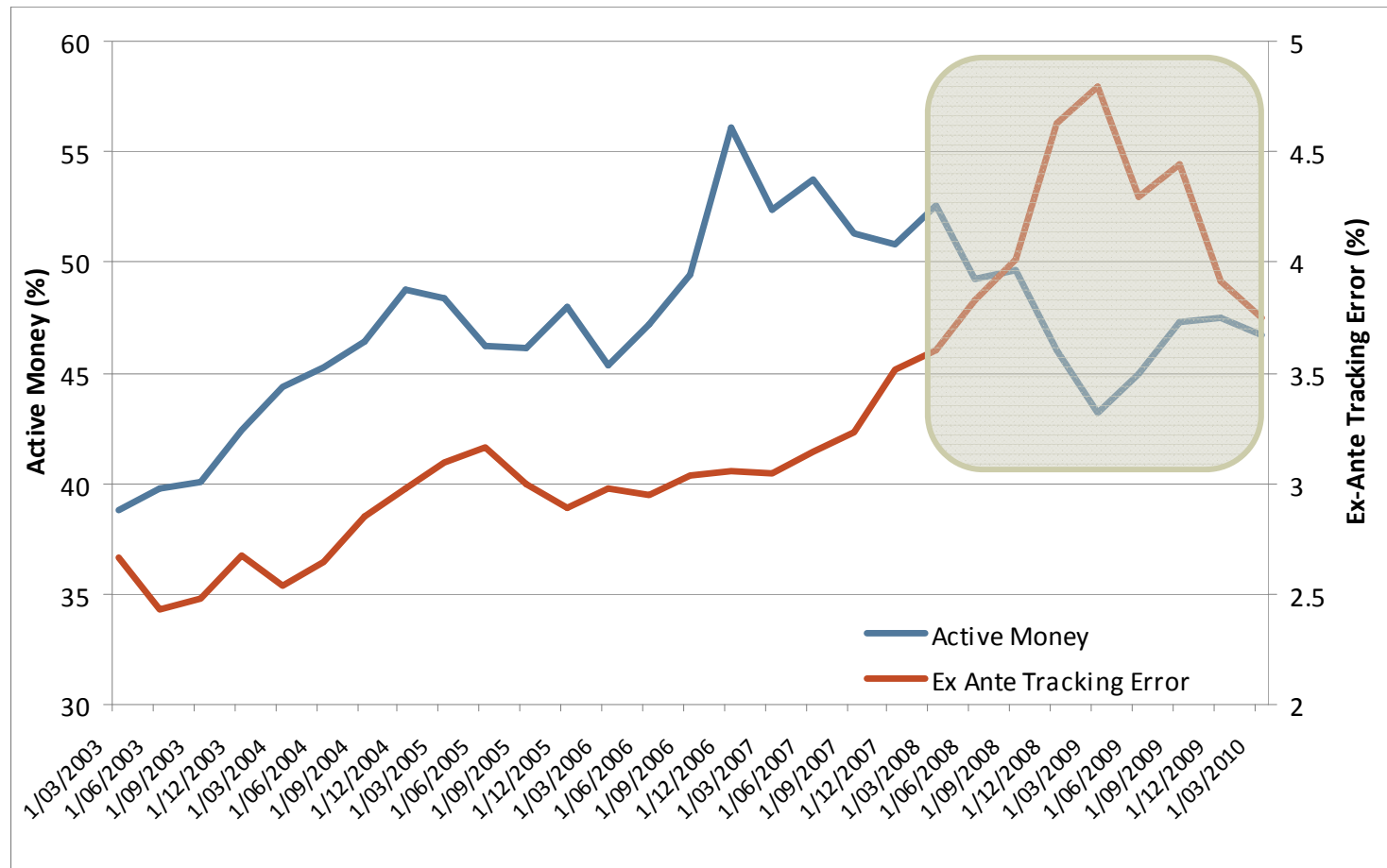
A complementary measure of risk

- **Active Money measure is differentiated and complementary to standard factor risk models.**
- **Ex-ante (and ex-post) risk can be difficult to interpret**
 - **Can increase/decrease with no corresponding change in the portfolio.**
- **Active money provides greater insight into manager activity**
 - **Tracking error provides greater insight into the market environment**

Active Money vs Tracking Error

However, can provide different interpretations of manager behaviour

Median Active Money vs Median ex-ante Tracking Error



Active Money – Key takeaways

- **Active Money is a useful additional measure of risk**
- **We see clear cyclical patterns in Active Money through time**
- **We do not believe that active money/portfolio concentration drives alpha**
 - **Australian data is in line with our beliefs**
- **The universe levels of Active Money and Tracking Error can at times yield very different interpretations of risk**

Active Money

How active is your portfolio?

Fund Manager A

Top Ten Holdings	Weight
BHP Billiton Ltd.	13.63
Westpac Banking Corp.	7.32
ANZ Banking Group Ltd.	7.07
National Australia Bank Ltd.	5.96
Rio Tinto Ltd.	4.67
Telstra Corp. Ltd.	4.17
Woolworths Ltd.	3.99
Orica Ltd.	2.51
Suncorp-Metway Ltd.	2.38
Macquarie Group Ltd.	2.20

Tracking Error (Ex-Ante): 2.3%

Active Money: 42%

Fund Manager B

Top Ten Holdings	Weight
Westpac Banking Corp.	13.60
BHP Billiton Ltd.	11.74
ANZ Banking Group Ltd.	10.03
Lend Lease Group	6.64
Commonwealth Bank of Australia	6.39
Telstra Corp. Ltd.	6.11
National Australia Bank Ltd.	6.07
Qantas Airways Ltd.	4.69
Woolworths Ltd.	4.42
Suncorp-Metway Ltd.	3.79

Tracking Error (Ex-Ante): 4.2%

Active Money: 45%

Important information

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