MANAGER POINT OF VIEW

Seeyond's High Dividend Minimum Volatility: what does it bring to the table?

BY THE SEEYOND[1]
QUANTITATIVE RESEARCH TEAM

As presented in the previous papers, Seeyond's High Dividend Minimum Volatility (HDMV) proposes to look at equity markets from a different angle: aiming at minimizing risk, increasing diversification and generating higher dividends than the reference investment universe. Through its original approach, this strategy aims to present an alternative to traditional equities and bond portfolio allocation to investors looking for yields and an asymmetric risk/return profile. In this new paper, we aim to assess the impacts of such a strategy in the typical allocation profiles of Singaporean retail investors: what does HDMV bring to the investors' allocation? And what weight should be added to a typical allocation?

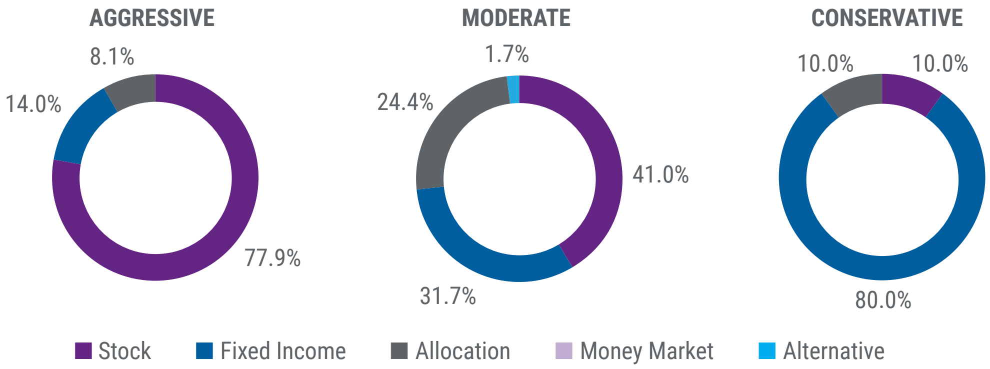
KEY POINTS

- A potential improvement of risk/return profile and diversification
- An optimum amount has to be determined according to the investor's profile

1- How does HDMV impact an investor's allocation?

As there is no unique typical investor but, on the contrary, differences between investors, we took in reference the three typical profiles for Singaporean retail investors:
(1) **Aggressive profile:** high risk tolerance with high Equity allocations;
(2) **Moderate profile:** an overall balanced allocation;
(3) **Conservative profile:** low risk tolerance with typically lower allocations to Equities.
Figure 1 depicts the average allocation for each of those profiles.

Figure-1: Portfolio allocation by risk-tolerance profiles for Singapore Retail Investors



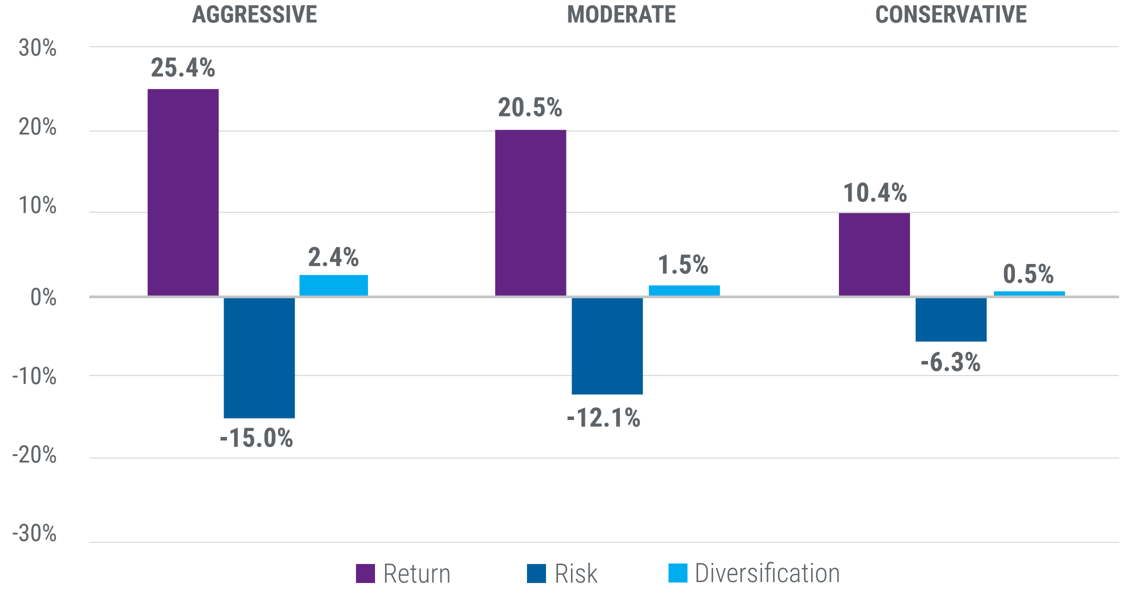
Source: Portfolio Research and Consulting Group, Natixis Investment Managers. Investor data collected over the period from 01/01/2017 and 31/12/2018.

We assessed the impacts of adding the HDMV strategy by using the three most common criteria investors use to evaluate their allocations: **risk, return and diversification**.

1. Seeyond is an affiliate of Natixis Investment Managers.

Figure 2 demonstrates the relative impact of replacing a percentage of the Equities in the allocation by the HDMV strategy.

Figure-2: Relative impacts (in %) on Singapore Investors' profiles when introducing HDMV to their allocation



Source: Seeyond analysis based on $ monthly returns data from 31/10/2001 to 31/08/2018. Following indices are used as proxies of asset classes within the three investor's allocation profiles: stocks (MSCI Asia Ex-Japan Index $), Fixed Income (Credit Suisse Asia Bonds corporate Index $), Diversified (EAA Fund Moderate Allocation), Alternative (Credit Suisse Hedge Fund Index $). Investors profile analysis is provided by Natixis Investment Managers' Portfolio Research and Consulting Group based on data collected over the period from 01/01/2017 and 31/12/2018.
Past simulated performance does not guarantee future results.

Overall, in average over the observation period, substituting traditional equities by the HDMV strategy resulted in the following impacts on the portfolio attributes:

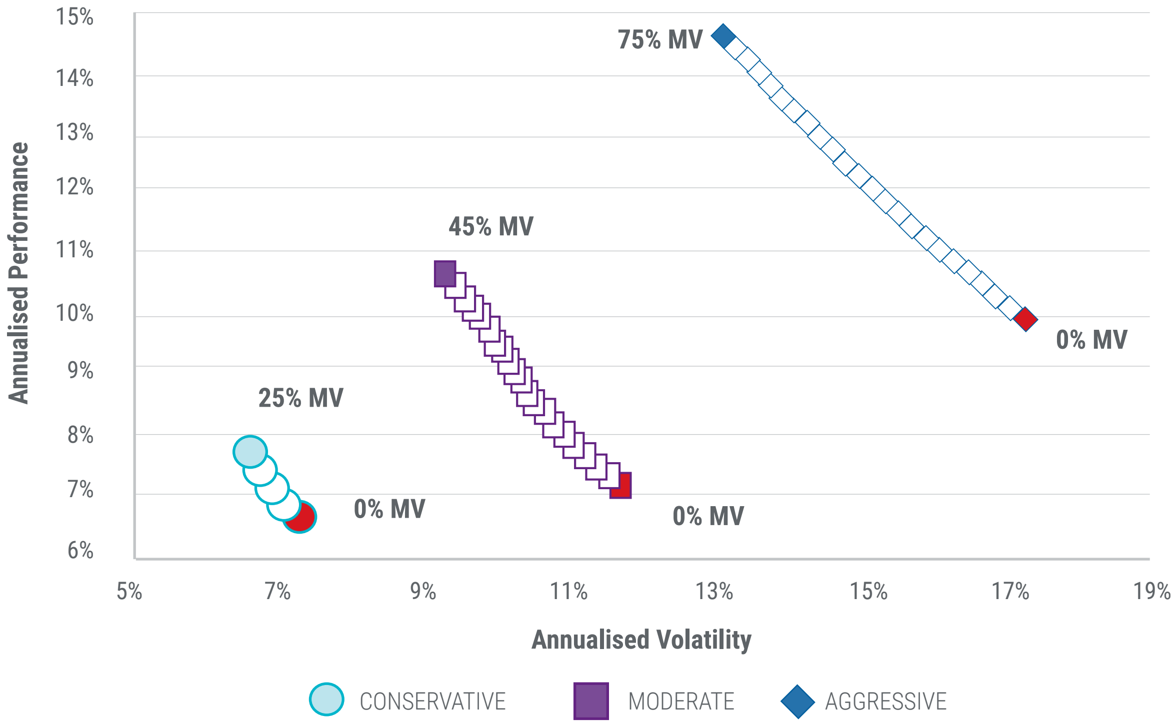
- **higher relative annualized returns:** returns globally improve, more or less importantly depending on the profile. For example, aggressive investors would potentially have received returns more than 25% superior relatively with the appropriate allocation to HDMV equities instead of their traditional equities;
- **lower risk:** volatility is reduced in average by 11points across profiles;
- **increased diversification:** the diversification ratio is improved by around +1.5% in average across all profiles.

Although remaining a full equity investment solution therefore subject to potential loss, the relative impact of substituting traditional equities by the HDMV strategy can be interesting for investors. The most significant improvement is for aggressive investors as they have the highest Equity allocations.

2 - Optimum HDMV allocation

From the above results, HDMV could turn out to be a good alternative to traditional equity strategies in a diversified portfolio, but how much should you add? Figure 3 aims to illustrate the risk-return tradeoff for each investor profile.

Figure-3: Risk reward results with the % of HDMV in the allocation / investor profile



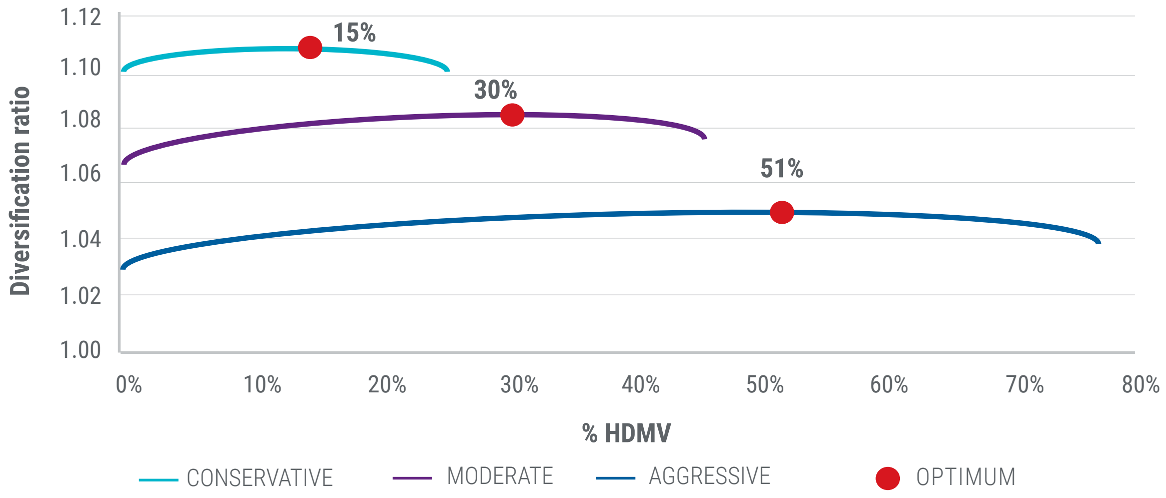
This strategy presents a risk of capital loss. Past simulated performance does not guarantee future results.

Source: Seeyond analysis based on $ monthly returns data from 31/10/2001 to 31/08/2018. Following indices are used as proxies of asset classes within the three investor's allocation profiles: stocks (MSCI Asia Ex-Japan Index $), Fixed Income (Credit Suisse Asia Bonds corporate Index $), Diversified (EAA Fund Moderate Allocation), Alternative (Credit Suisse Hedge Fund Index $). Investors profile analysis is provided by Natixis Investment Managers' Portfolio Research and Consulting Group based on data collected over the period from 01/01/2017 and 31/12/2018.

Gradually replacing traditional equity resulted in a progressive reduction in risk and a proportional increase in returns, thus improving the overall allocation's risk-return profile. For instance, in the case of the aggressive allocation profile, each 5% increase of HDMV in the allocation results in a decrease of around 0.3% in the volatility of the allocation and an increase of around 0.3% in returns.

Based on risk-return only, one could be tempted to replace their full Equity allocation by HDMV. **However, the diversification benefits should be considered**. In figure 4, we analyze diversification within the portfolio.

Figure-4: Impacts on the Diversification ratio of gradual integration of the HDMV strategy



Source: Seeyond analysis based on $ monthly returns data from 31/10/2001 to 31/08/2018. Following indices are used as proxies of asset classes within the three investor's allocation profiles: stocks (MSCI Asia Ex-Japan Index $), Fixed Income (Credit Suisse Asia Bonds corporate Index $), Diversified (EAA Fund Moderate Allocation), Alternative (Credit Suisse Hedge Fund Index $). Investors profile analysis is provided by Natixis Investment Managers' Portfolio Research and Consulting Group based on data collected over the period from 01/01/2017 and 31/12/2018.

Diversification Ratio is the ratio of the weighted average volatility of individual indexes to the volatility of the portfolio. Past simulated performance does not guarantee future results. This strategy presents a risk of capital loss.

Here we analyzed the increase in diversification (defined by the diversification ratio) when progressively replacing the Equity allocation with HDMV. The red dots represent the optimum amount to allocate to HDMV in order to maximize diversification. From this angle, optimal allocations would be 15%, 30% and 51% for respectively the conservative, moderate and aggressive profiles.

Conclusion

In conclusion, we believe the HDMV investment solution could succeed in providing significant improvement to a global allocation in terms of risk, reward and diversification. However, allocating to the strategy should be considered in the context of each allocation and investors should also consider their risk-tolerance profile before investing. From our results, potential improvements are the most significant for aggressive investment profiles for instance. These findings call for further analysis (e.g. in terms of factor, style shifts) to find out how HDMV brings changes to a portfolio's overall profile.

Main risks of the strategy: Capital loss, equity securities, small and mid capitalization companies, emerging markets, exchange rates, geographic and portfolio concentration, counterparty, financial derivatives instruments, and changes in laws and/or tax regimes.

SEEYOND – AT GLANCE

Seeyond specializes in active quantitative portfolio management. By adding active oversight to disciplined quantitative investment processes, Seeyond' investment strategies seek to optimally reward risk within three core expertise: equity strategies, multi-asset strategies, volatility & overlay strategies. The strategies leverage strong proprietary quantitative skills and long-term market experience. Asset Under Management: $9.7 billion Source Natixis Investment Managers, as of 31/12/2018.

- **Overview of the Seeyond Minimum Volatility Investment team**
  Nicolas Just, CFA®: Deputy CEO, CIO, began investment career in 1994.
  Juan-Sebastian Caicedo, CFA®: Senior Portfolio Manager, began investment career in 2009.
- **Overview of the Seeyond Research team**
  Alexis Flageollet, PhD: Financial Engineer, began career in 2006

NATIXIS INVESTMENT MANAGERS – AT GLANCE

Natixis Investment Managers serves financial professionals with more insightful ways to construct portfolios. Powered by the expertise of 26 specialized investment managers globally, we apply **Active Thinking®** to deliver proactive solutions that help clients pursue better outcomes in all markets. Natixis ranks among the world's largest asset management firms[1] ($917.1 billion AUM[2]).

1. Cerulli Quantitative Update: Global Markets 2017 ranked Natixis Investment Managers (formerly Natixis Global Asset Management) as the 15th largest asset manager in the world based on assets under management as of December 31, 2016.
2. Net asset value as of 31/12/2018. Assets under management ("AUM"), as reported, may include notional assets, assets serviced, gross assets and other types of non-regulatory AUM.

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