

Q&A with Cantab Asset Management's Investment Team

The Investment Committee of a major institution asked Cantab Asset Management ('Cantab') questions after a presentation, some of which may be interesting to existing and prospective clients

Help us understand your investment approach: Do you work top down or bottom up? Geographically? Sectorally?

Cantab holds a quarterly Investment Committee meeting, during which asset allocation and fund selection are discussed. The Committee sets asset allocation on a top down basis, with a focus on attaining geographic diversification appropriate for different risk profiles. Fund selection is bottom up, with an initial screening producing a short-list based on quantitative measures, followed by a qualitative assessment of fund strategy, holdings and an assessment of manager quality. As an independent financial advisor, Cantab's Investment Committee is focussed only on setting allocations and fund selection in what our team believes is the best interest of our clients.

What would you recommend for us as an asset allocation?

Cantab will recommend an asset allocation when it has fully understood and analysed the needs of the Client, including the returns required, the attitude to risk and any specific requirements such as income or ethical constraints. Our portfolios typically contain an allocation to Equities, Fixed Interest, Commercial Property and Infrastructure.

In the interests of cost minimization: how often do you trade?

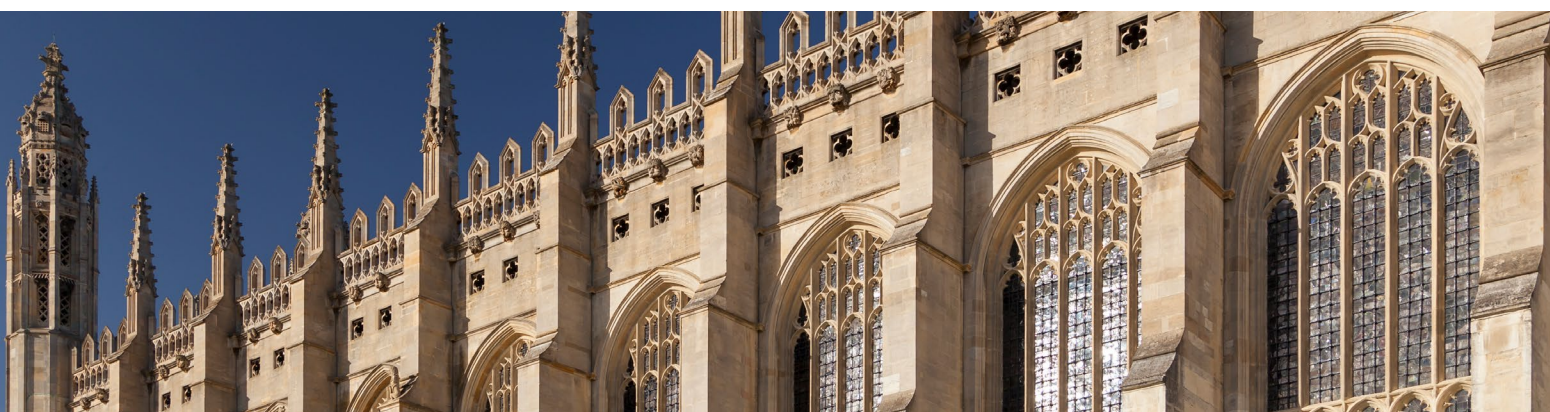
As little as possible, considering the investment vehicle and the client.

You discussed the issue of a major historic shareholding, into what do you diversify?

Cantab would typically recommend diversification into a wider spread of equities and other asset classes, depending on the client's risk profile.

How does your investment performance compare with others? What is your long-term track record?

Our fund model portfolios have a track record going back over 15 years. According to Asset Risk Consultants ('ARC') Private Client Surveys in recent years, Cantab is placed in the second quartile of wealth managers in the UK for the 10-year Balanced portfolio performance.



How do you explain Downside risk?

Downside risk usually refers to maximum drawdown, which is defined as the largest fall as a percentage (peak to trough) of a portfolio over a defined period. We also consider other measures of risk in our analysis of portfolios.

How do you understand the Sharpe ratio?

In 1966, William Sharpe defined a “reward-to-variability ratio”, later named after him. The formula relates to the asset return in excess of the ‘risk-free’ return, over the standard deviation of the asset. Negative numbers represent performance below a risk-free rate, usually taken to be the Government Bond yield. The Sharpe ratio is a measure of risk-adjusted return. We prefer to refer to the less well-known Sortino ratio; an extension of the Sharpe ratio which considers only downside variation, since upside volatility is favourable to clients.

What would you have done in 2007 to our portfolio?

At later points in the economic cycle, Cantab recommends a gradual rotation into more defensive sectors and asset classes. Clients have a long-term need for returns to meet their liabilities, resulting in a desire to stay invested. Timing the market is difficult, and there are potential costs associated with being uninvested. Cantab considers a variety of macroeconomic factors in the asset allocation process but would not advise clients with long-term horizons to make radical moves into cash.

How do you research the market for niche fund managers?

Cantab uses quantitative and qualitative approaches. Cantab conducts its own due diligence on individual stocks which allows additional insight to be gained into the way fund managers are working.

A variety of research tools are used to identify funds with good metrics. Meetings are held regularly with fund managers to understand their approaches. Cantab performs various in-depth analyses, looking not only at returns (in absolute terms), but also risk-adjusted returns, with comparison of risk metrics such as Sortino ratios and maximum drawdown. Comprehension of the composition of the fund is important to understand the drivers of performance; emphasis is placed on managers employing clear, transparent and consistent strategies.

Risk Warnings This document has been prepared based on our understanding of current UK law and HM Revenue and Customs practice as at 1 April 2024, both of which may be the subject of change in the future. It is important to have a well-diversified portfolio invested in the major asset classes, in line with your objectives and attitude to investment risk. Any changes in asset allocation should be gradual, because of the difficulty with precisely timing the markets. Past performance is not a guide to future performance. The value of investments and the income therefrom is not guaranteed and can fall as well as rise due to stockmarket and currency movements. When you sell your investment, you may get back less than you originally invested. The value of overseas securities will be influenced by the rate of exchange which is used to convert these to sterling. The opinions expressed herein are those of Cantab Asset Management Ltd and should not be construed as investment advice. Cantab Asset Management Ltd is authorised and regulated by the Financial Conduct Authority.

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