

CONCLUSION: FOURTH PRINCIPLE OF SOUND INVESTING

THE BEST WAY TO INVEST IS TOTAL DIVERSIFICATION WITH FIXED ALLOCATION

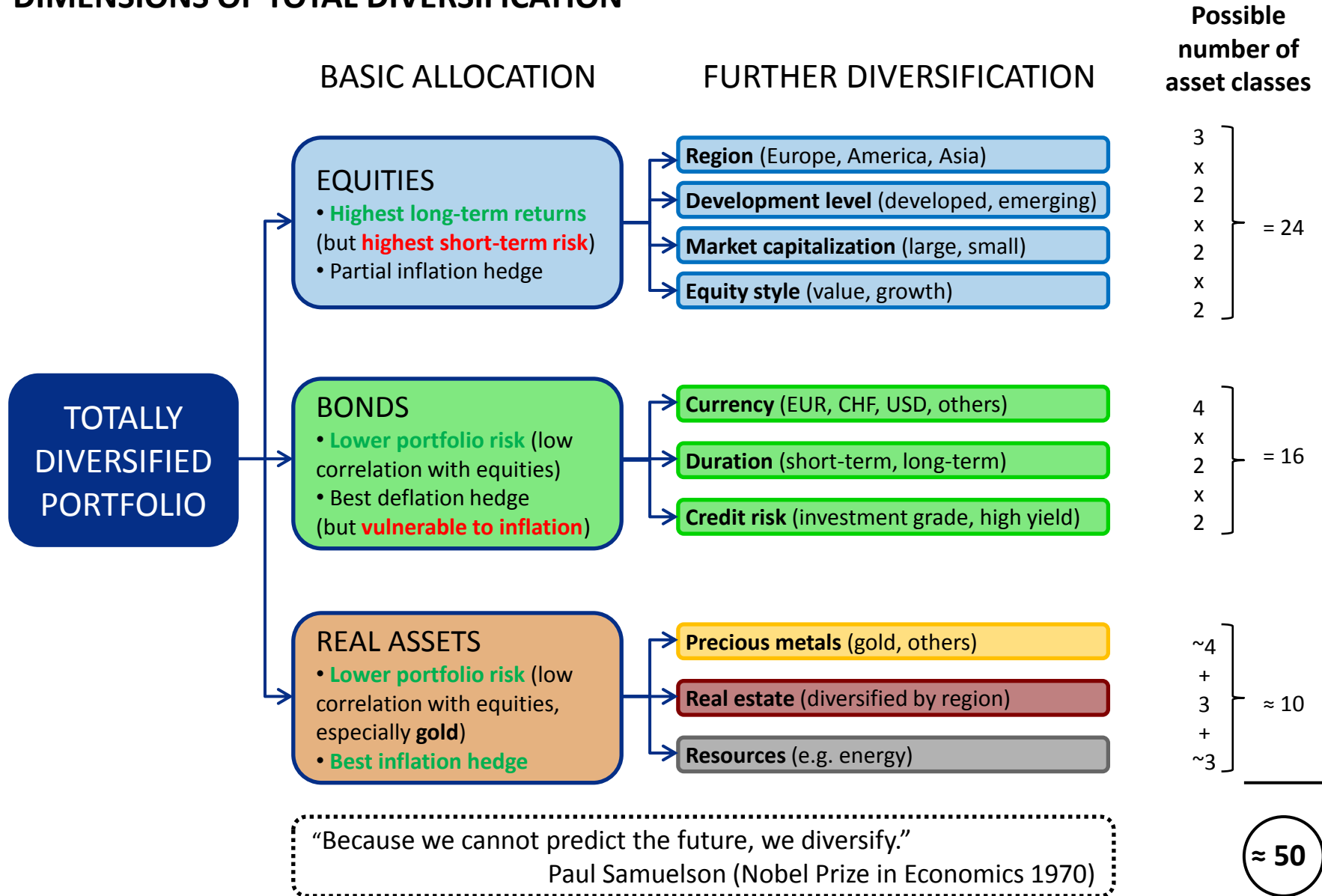
1. The only way to reduce risk is total diversification
2. Portfolio rebalancing with a fixed allocation means buying low and selling high
3. Portfolio rebalancing with a fixed allocation can generate higher returns
4. Flexible allocation seems to lower the return of managed ETF portfolios
5. A sound investment manager maintains a diversified fixed allocation of index funds

“Since the future cannot be predicted, it is impossible to specify in advance what the best asset allocation will be. Rather, our job is to find **an allocation that will do reasonably well under a wide range of circumstances...**”

William Bernstein, *The Intelligent Asset Allocator* (2001)

As no investment is safe, the only way to reduce risk is total diversification

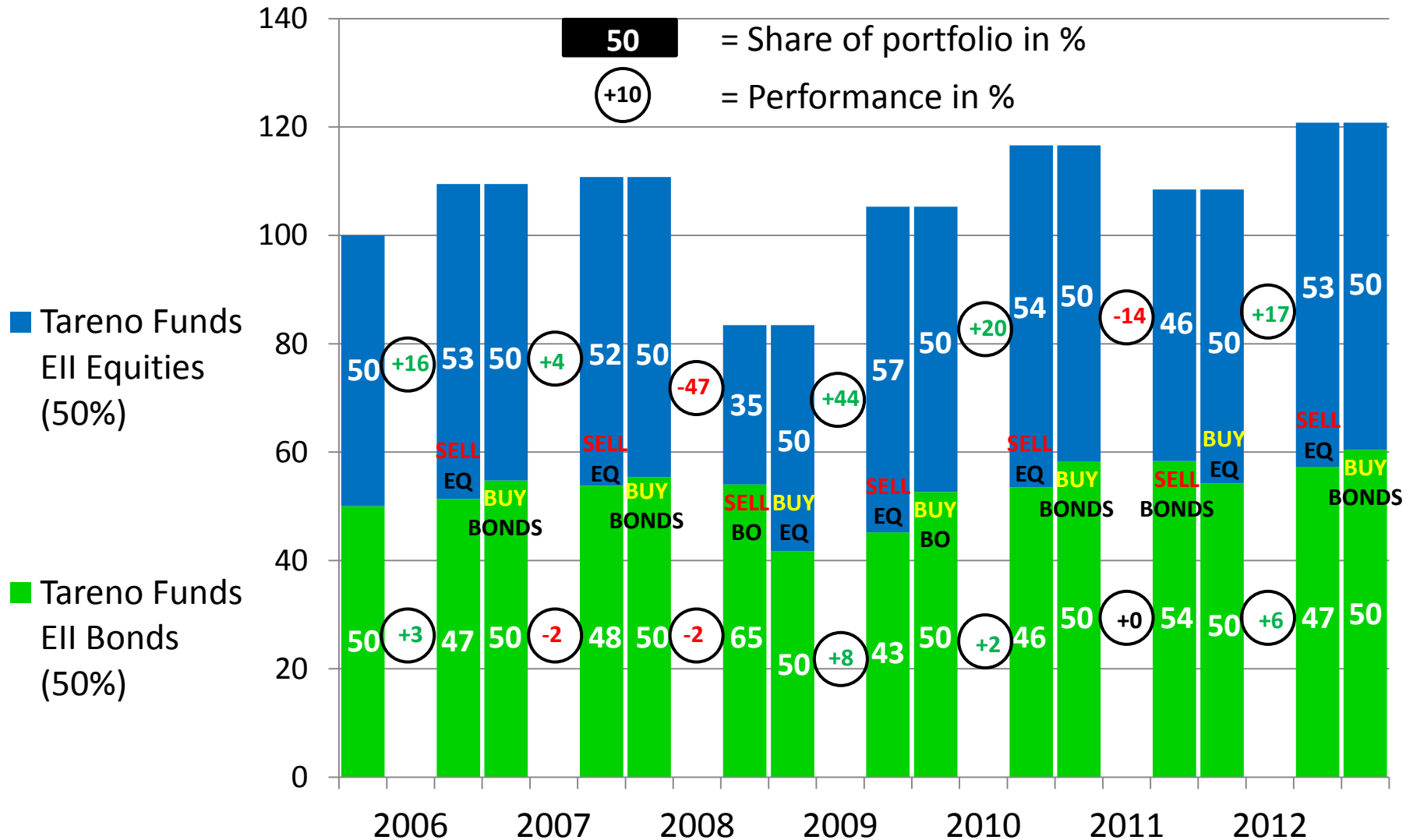
DIMENSIONS OF TOTAL DIVERSIFICATION



Portfolio rebalancing with a fixed allocation means buying low and selling high

REBALANCING EXAMPLE (1/2)

Portfolio value (31.12.2005 = 100)

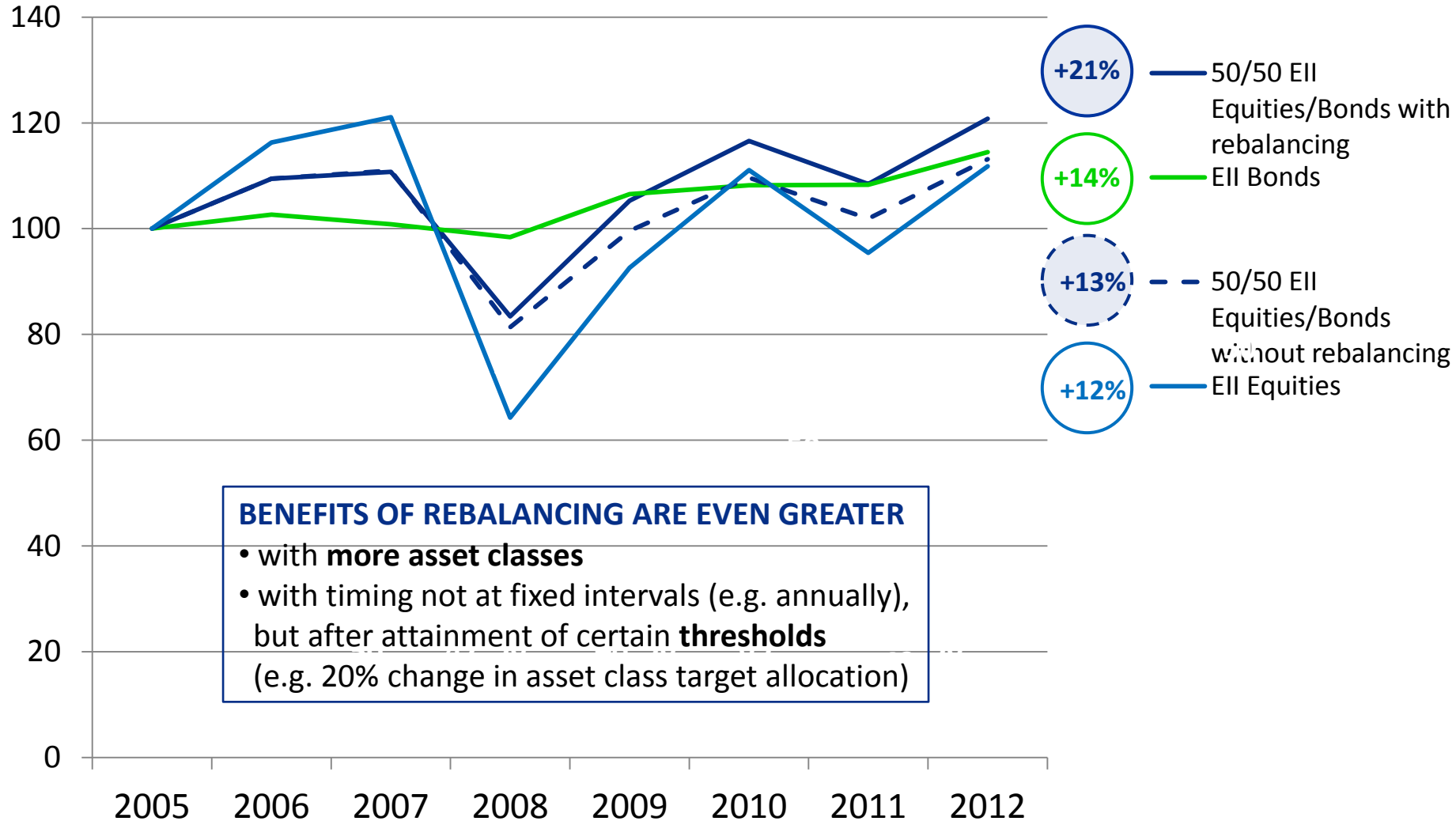


Source: Tareno (Luxembourg) S.A.

Portfolio rebalancing with a fixed allocation can generate higher returns

REBALANCING EXAMPLE (2/2)

Growth of portfolio value (31.12.2005 = 100)



BENEFITS OF REBALANCING ARE EVEN GREATER

- with **more asset classes**
- with timing not at fixed intervals (e.g. annually), but after attainment of certain **thresholds** (e.g. 20% change in asset class target allocation)

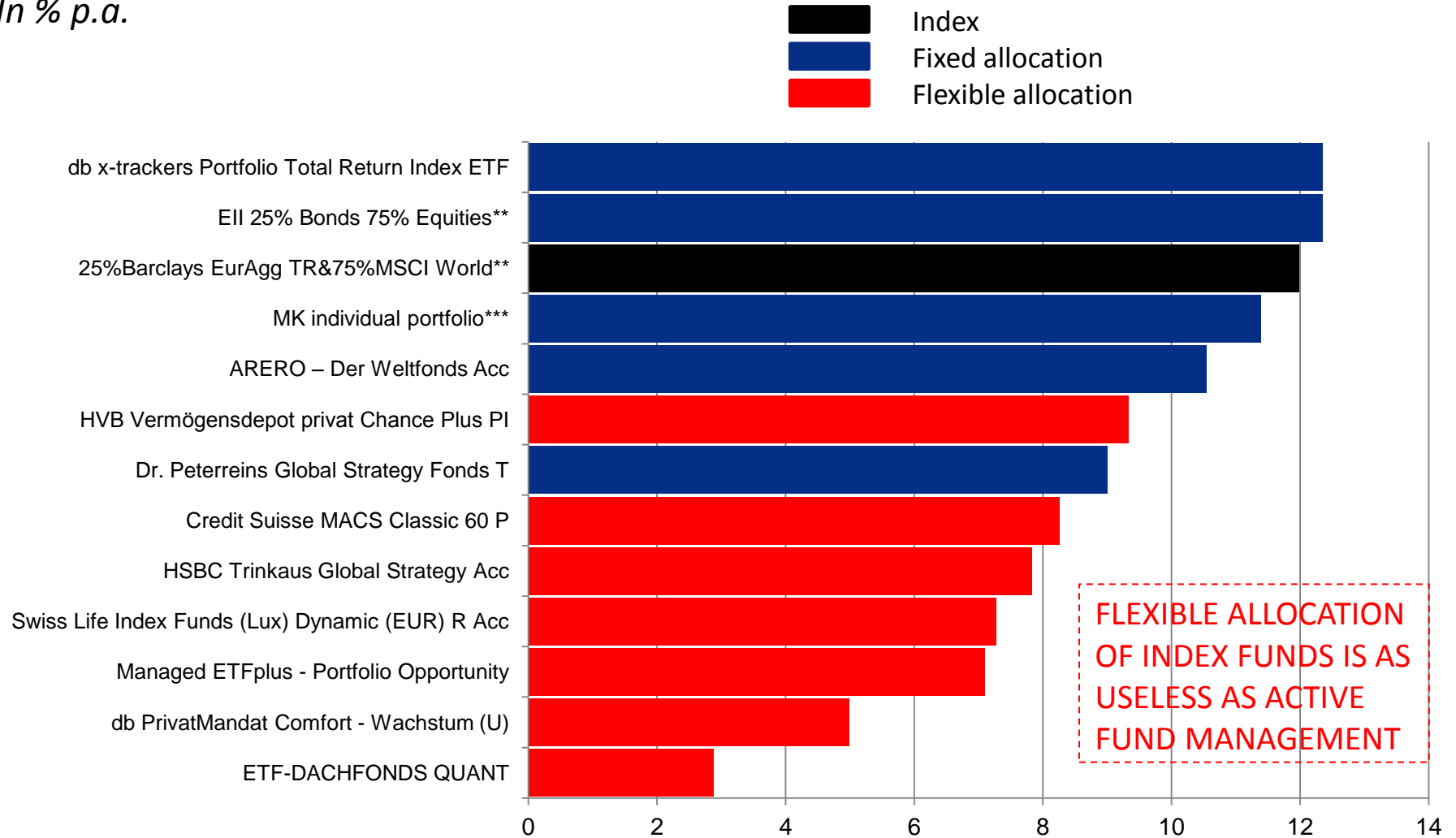
Source: Tareno (Luxembourg) S.A.

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Flexible allocation seems to lower the return of managed ETF portfolios

RETURN OF MIXED INDEX PORTFOLIOS (75% EQUITIES/25% BONDS)* 2009-2012

In % p.a.

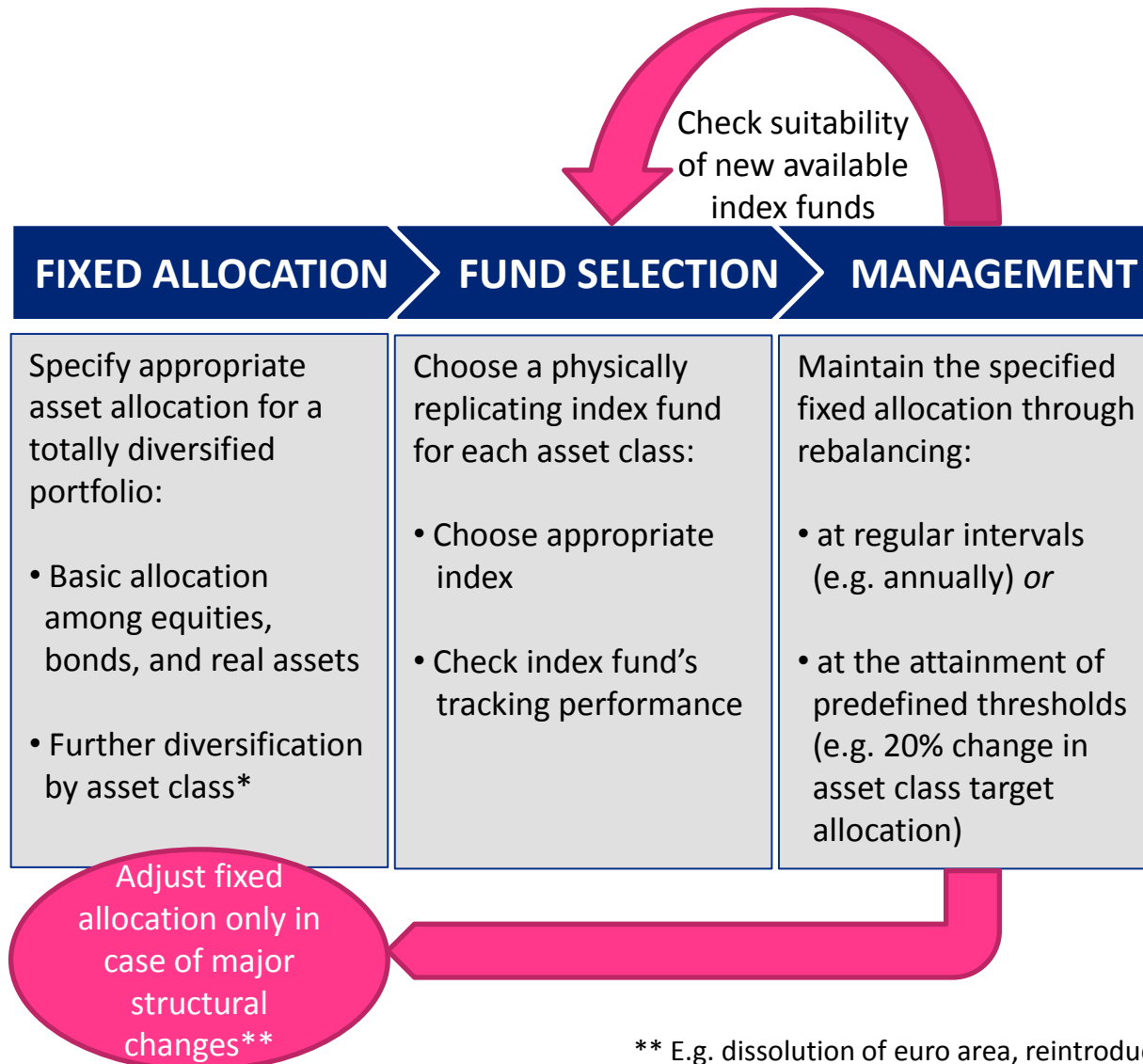


* With Morningstar benchmark 25% Barclays Eur Agg TR & 75% FTSE World TR ** With annual rebalancing
 *** Client portfolio with fixed allocation managed by MK

Source: Morningstar Germany, Tareno (Luxembourg) S.A.

A sound investment manager performs three specific tasks

TASKS OF INVESTMENT MANAGER APPLYING PRINCIPLES OF SOUND INVESTING



* Maximum one asset class per 100.000 € to limit transaction costs

** E.g. dissolution of euro area, reintroduction of gold standard, abolishment of market economy in specific countries etc.

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