Headland
Global Investment Management

Capital growth investment that compliments equities and reduces risk.

A brief history of diversification.

1623
William Shakespeare

"My ventures are not in one bottom trusted,
Nor to one place; nor is my whole estate upon the fortune of this present year; Therefore, my merchandise makes me not sad."

Antonio
Merchant of Venice

1883
Robert Louis Stevenson

"I puts it all away, some here, some there, none too much anywheres, by reason of suspicion."

Captain Long John Silver
Treasure Island

1959
Harry Markowitz

"To reduce risk it is necessary to avoid a portfolio whose securities are all correlated to one another"

Portfolio selection, efficient diversification of investments

Maximising the benefit of diversification

Harry Markowitz's ground breaking Modern Portfolio Theory is the benchmark for investors seeking to build diversified portfolios. In essence it states that investors should consider both the correlation and variance of the underlying assets when building diversified, risk efficient portfolios.

Whilst the logic is indisputable, creating diversified portfolios in practice is not so easy.

Uncorrelated assets are hard to find.

To minimize investment risk investors should select uncorrelated assets - markets that do not move in the same direction at the same time.

Unfortunately growth assets, in particular equities, are often highly correlated. This is because their returns are substantially influenced by one key factor - the economic cycle. Therefore they tend to move in the same direction at the same time.

The following table shows the correlation between Australian equities and various growth assets over the last 4 years. Diversification benefits are negligible once assets move in the same direction more than 40% of time (correlation >0.40).

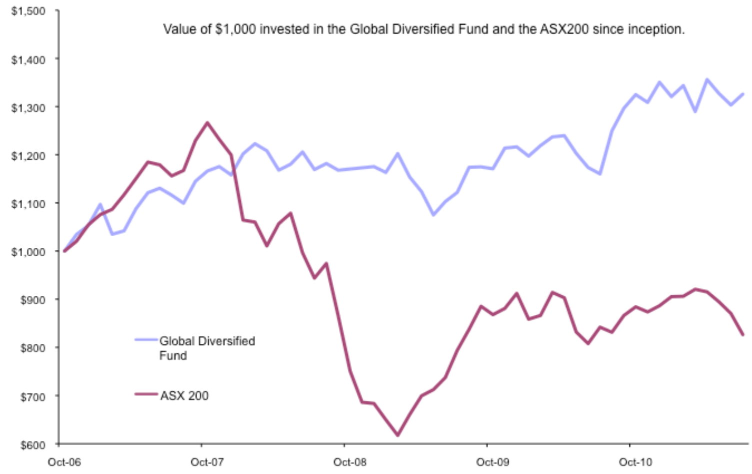
	World equities	Emerging markets	Listed property
Australian equities	0.90	0.84	0.70

Capital growth and an alternative to equities.

The Headland Global Diversified Fund is a capital growth investment that is designed to compliment traditional growth assets such as equities. It provides investors an opportunity to diversify their portfolios, which can reduce investment risk.

The Fund invests in a portfolio, which includes bonds, currencies and commodities. Equities are excluded in order to increase the diversification benefits for investors who already have exposure to that sector.

Capital growth and an alternative to equities.



Since inception in 2006 the Fund has returned over 35%, outperforming the Australian ASX 200 by 50%.

Finding un-correlated, growth investments.

The Fund's investment mandate is deliberately broad to include assets that are less correlated to equities. For example the Fund has exposure to agricultural commodities. This is because food prices are more influenced by fundamentals such as weather patterns and population growth, than the economic cycle.

The following table illustrates the correlation between typical Global Diversified Fund (GDF) assets and Australian equities.

	US bonds	Gold	Wheat	Australian dollar	GDF
Australian equities	-0.38	-0.05	-0.06	0.61	0.12

Dynamic investment process.

The Fund is also designed to be responsive to market changes. A dynamic asset allocation, risk adjusted market exposure and the ability to go both long and short assets, means the Fund can adjust investments to suit the current market environment.

Key features

- Absolute return - Capital growth regardless of the performance of traditional markets.
- Risk efficient portfolio with no direct emerging market exposure.
- Liquid & transparent.

To find out more information and to download the Global Diversified Fund's Information Memorandum visit our website www.headlandglobal.com.au

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