

SRIR – 2011

Active Asset Allocation

October 5, 2011

Zevin Asset Management LLC

www.zevin.com

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Active Asset Allocation

Contrasted against buy-and-hold investing. Allocation changes based on current data. At different times there may be more or less allocated to large cap US stocks versus foreign stocks for example. The weightings (cash, bonds, commodities, large cap equities, small cap equities, international equities, industry sector weightings, etc.) vary based on determinations of the current and future relative risk and reward characteristics of the asset classes. Economic data and forecasts, asset class valuations and momentum compared to similar periods in the past and other factors are commonly used to determine allocations.

Active management strategies should lessen an investor's exposure to declining markets, blunting the impact of bear markets and preserving capital. Moving out of the market prior to, or early during a decline means there is more money to invest when the market heads upward. Active asset allocation is most effective over a full market cycle (3 to 5 years). -Wikinvest

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Active Strategies

- Quantitative timing. Shifting between equities and other asset classes based on signals from quantitative data
- Market Timing. Shifting in and out of equities based on technical analysis or charting signals
- Tactical asset allocation. Shifting between different asset classes to take advantage of mispriced assets.
- Active asset allocation is sometimes referred to as quantitative investing

- Li, Sullivan, 2011, “A Dynamic Future of Active Quant Investing”, *Journal of Portfolio Management*, vol. 37, no. 3: 29-36.
- Xiong, CFA, Ibbotson, Idzorek, CFA, Chen, 2010, “The Equal Importance of Asset Allocation and Active Management”, *Financial Analysts Journal*, Vol. 66, No 2: 22-30.
- Mebane T. Faber, 2009, “A Quantitative Approach to Tactical Asset Allocation”, *The Journal of Wealth Management*.
- Schizas and Thomakos, 2/16/2010, “Market Timing & Trading Strategies using Asset Rotation”, **working paper**, *University of Peloponnese*.

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What might happen?



Outlines of possible scenarios



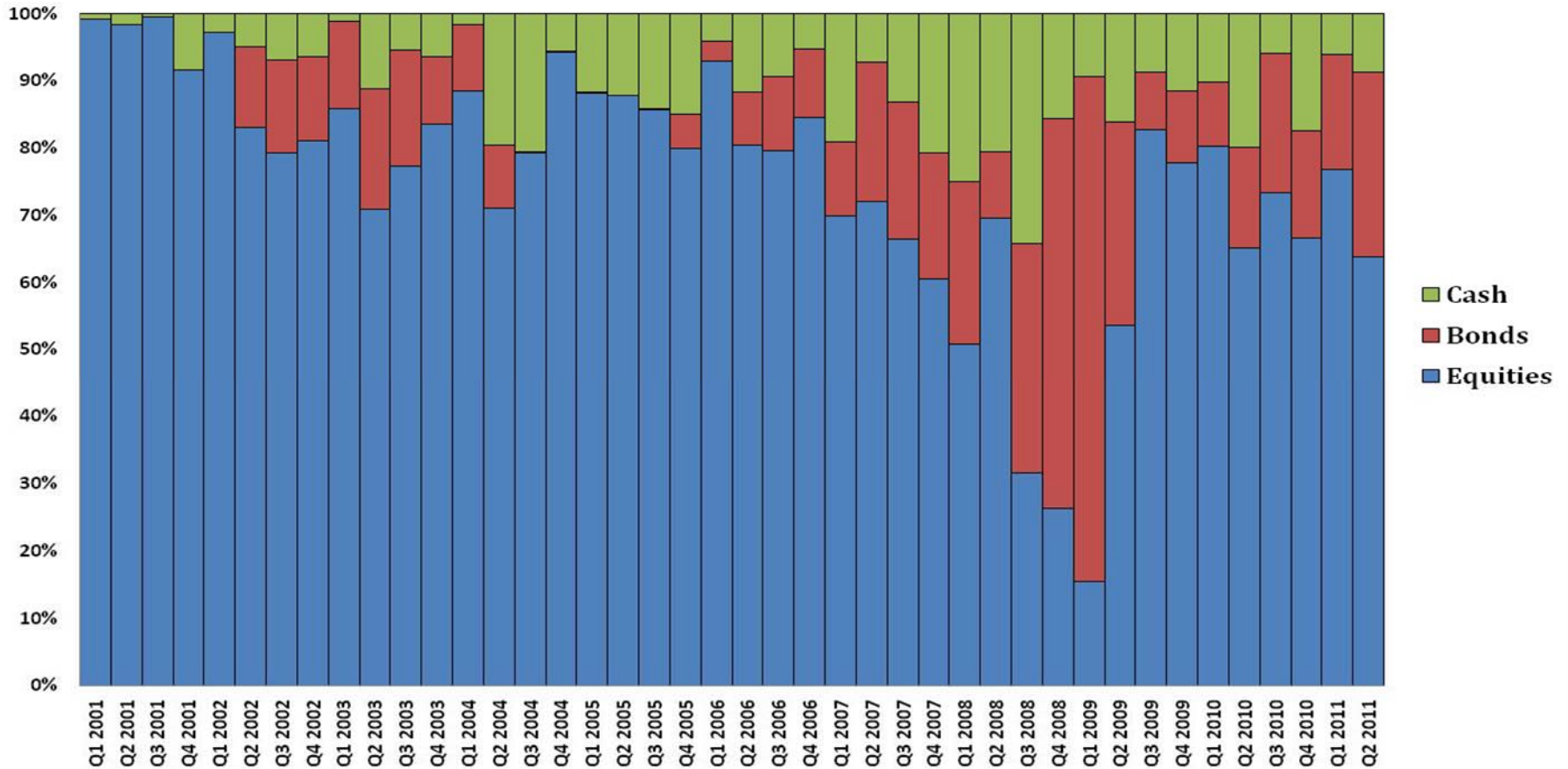
Detailed, internally consistent,
scenario descriptions



Four to six scenarios with subjective
probabilities and expected results
for ten sectors in four global regions

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Asset Allocation History for ZAM Global Appreciation non-taxable composite*

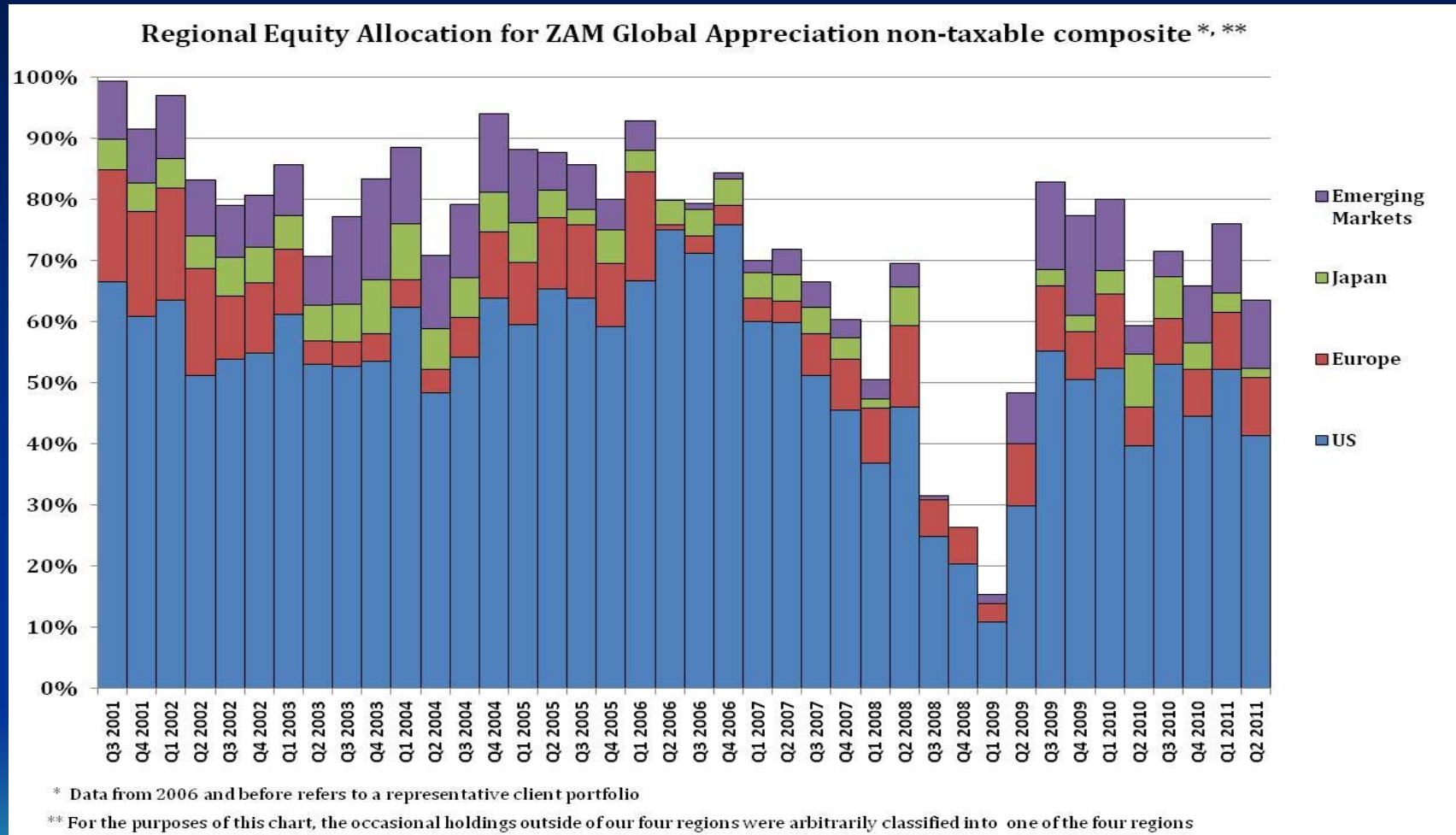


* Data from 2006 and before refers to a representative client portfolio

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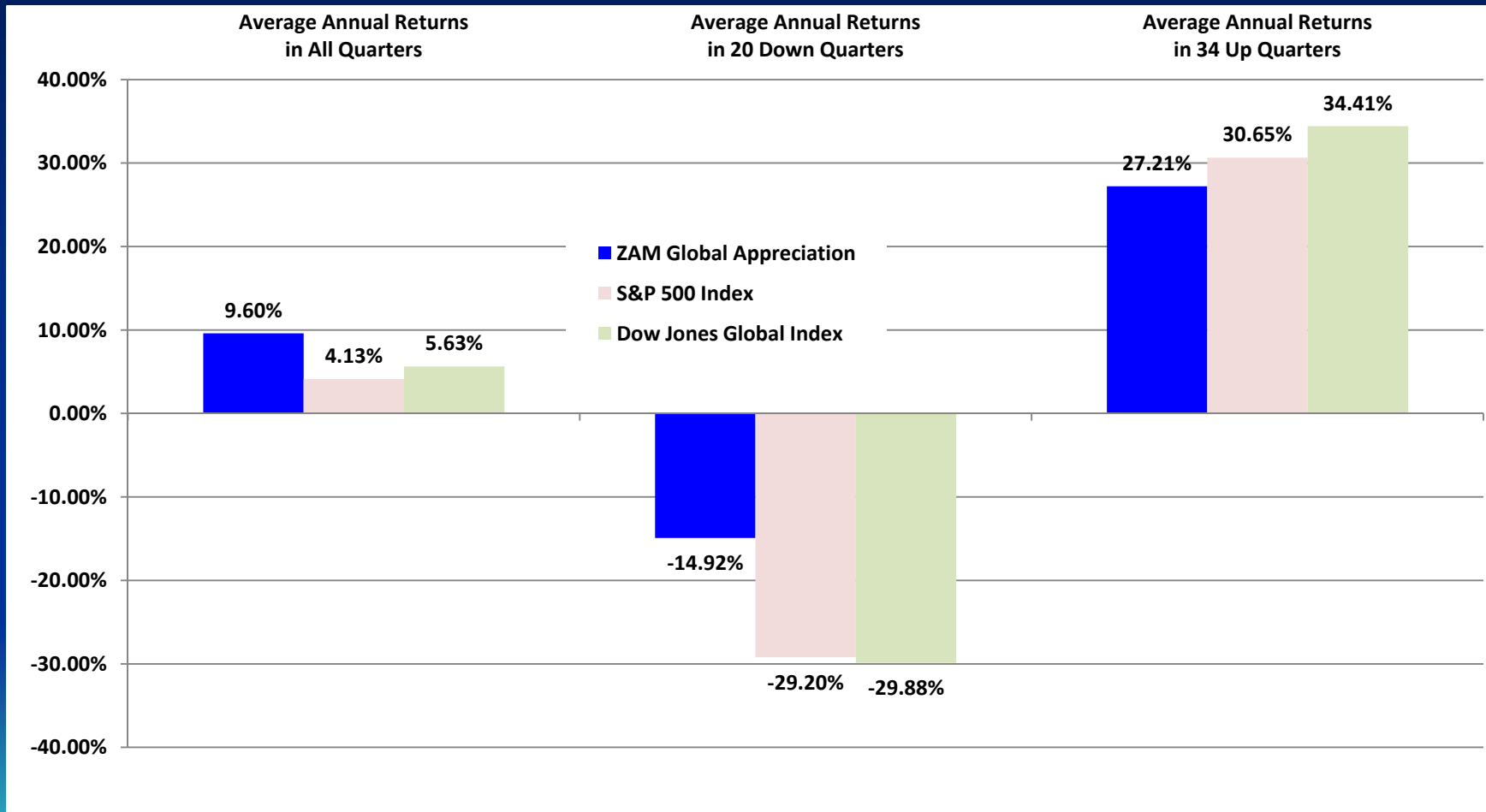
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- Our first rule of making money is not to lose it. Serious losses can often be reduced or avoided by making protective asset, region, and sector allocation decisions
- Aware that the future is uncertain despite our best forecasts – therefore we always consider a range of possible outcomes

Disciplined process gives up potential gains to insure against significant losses

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54 quarters – December 1997 through June 2011



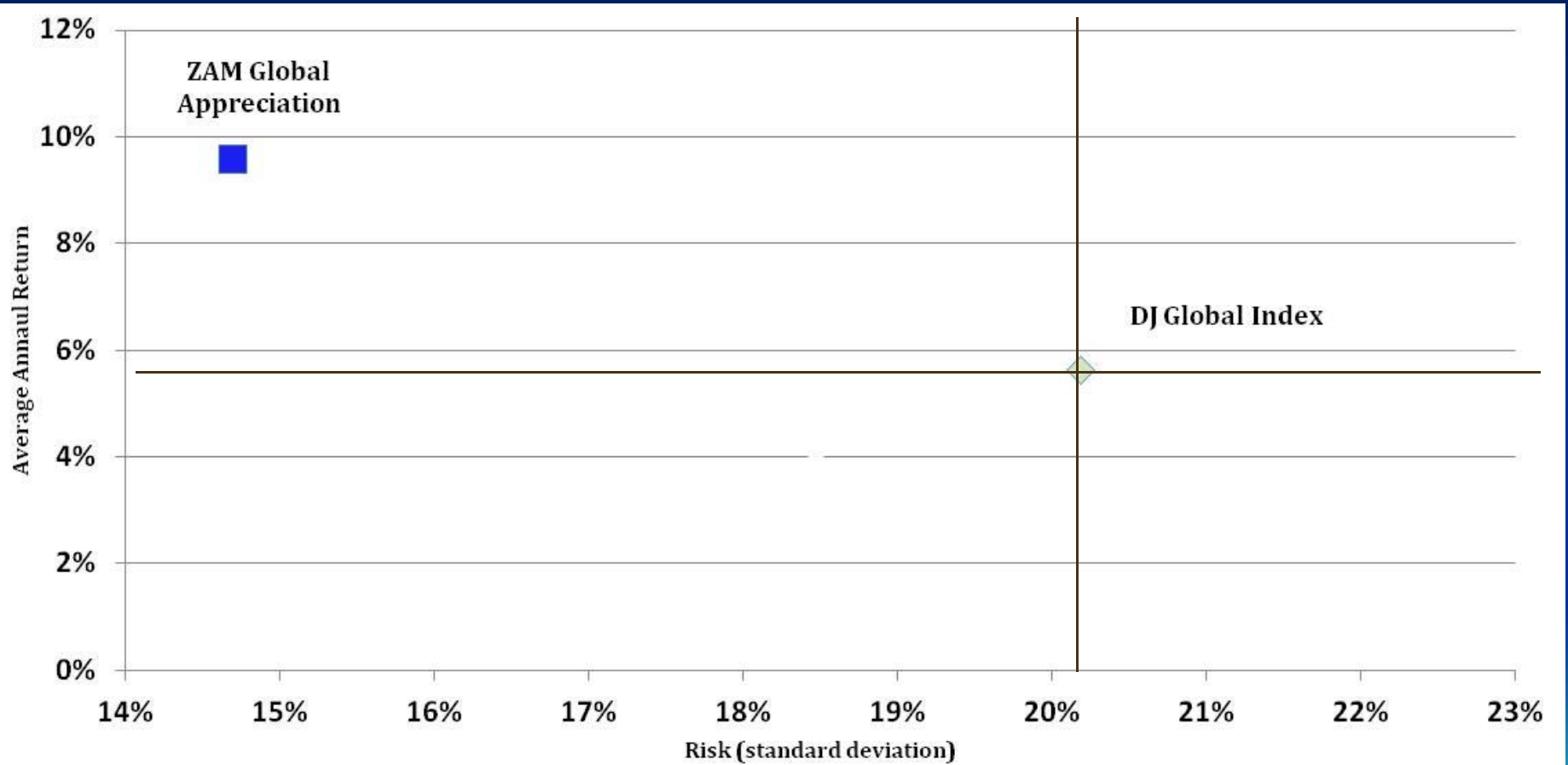
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Risk and Return

Global Appreciation Non-Taxable composite, after of fees, since inception (12/31/97-6/30/11)*



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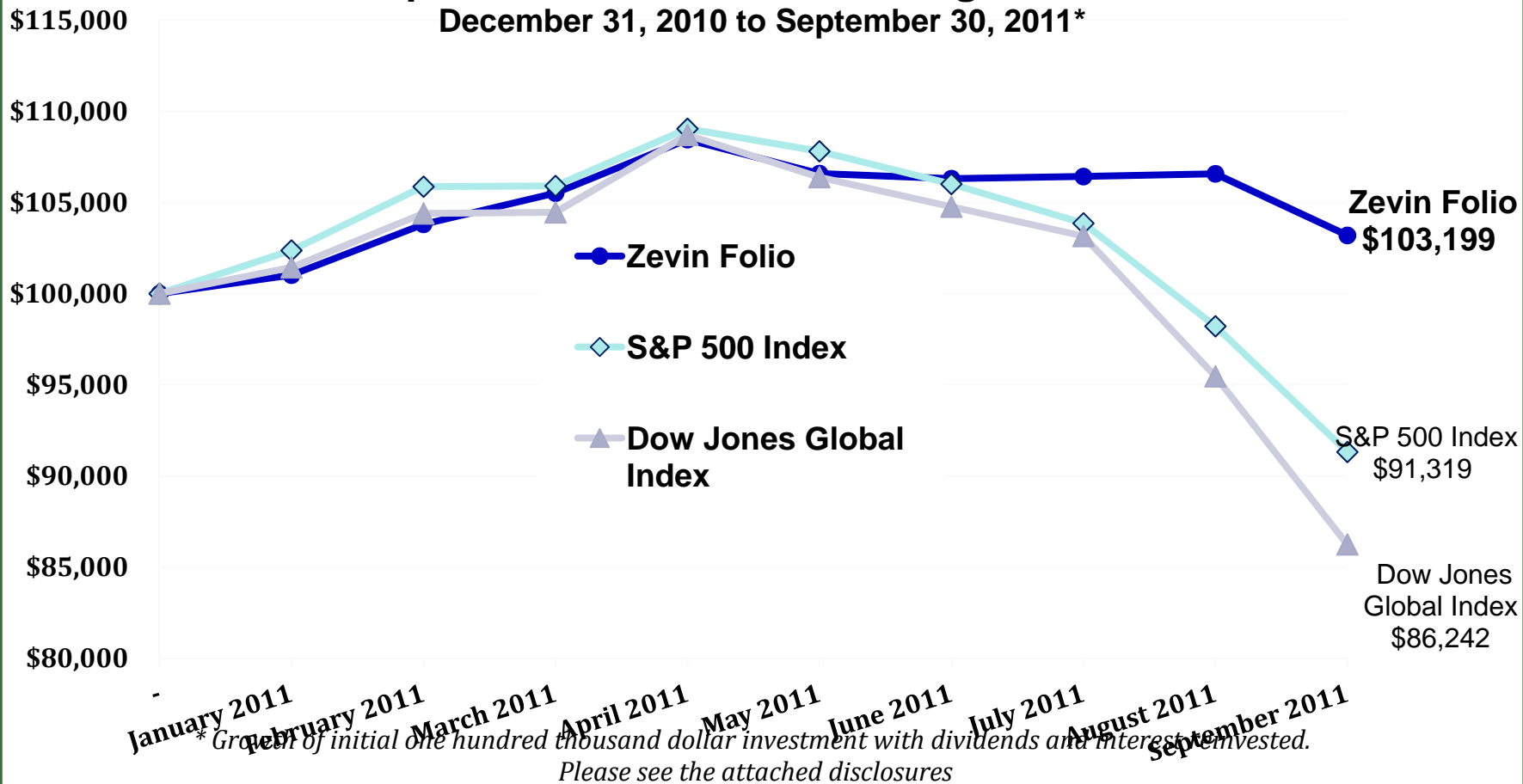
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Compound Returns: Zevin Folio gross of fees

December 31, 2010 to September 30, 2011*



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Disclosures

1. **Past performance is not a guarantee of future results. Investments in common stocks and in fixed income securities are always subject to the possibility of meaningful losses.**
2. **Performance results for the most recent quarter are preliminary until six weeks after the quarter has ended.**
3. Performance shown for all composites and all comparison indices includes dividend and interest payments reinvested.
4. All composite performance calculations are shown net of our fees, transaction costs and all of any wrap or bundled fees that include transaction costs. Since inception the fees paid on all accounts in these composites have ranged between ½% and 1% per annum of the value of assets under management, with the exception of a small number of small accounts that have sometimes been charged no fee for a limited period of time or pending increases to a specified minimum value. Comparison index performance is always calculated as if there were no fees and no transaction costs.
5. All composite results are weighted by the market values of the included portfolios. Results computed as equal weighted averages of all the included portfolios are available on request as well as the range of outcomes compared to these two averages.
6. Composite performance for periods longer than one calendar quarter is the compound average of the quarterly results included in the period. Summary results for periods longer than one year are the annual average equivalent return of the compounded total return.
7. Each **composite** contains all discretionary portfolios that were over \$100,000 at the beginning of a calendar quarter, that were managed by us for the entire quarter and that satisfied the following inclusion criteria for the entire quarter:
 - **Global Appreciation:** Non-taxable portfolios that have been compared to an all common stock benchmark, usually one of those shown for comparison in the tables and charts.
 - **Global Appreciation with Income:** Non-taxable portfolios that have been compared to a balanced benchmark consisting of a combination of at least one equity index and one bond index, usually among those shown in the charts.
8. **Benchmark Indices:** Most of our Global Appreciation portfolios have been compared to either the S&P 500, the Russell 1000 Growth Index and the Russell 3000 Growth Index. We believe the Dow Jones Global Index is a more accurate portrayal of the universe from which we select our stocks. Most Global Appreciation with Income portfolios have been compared to the above indices as well as the Barclays Intermediate Government/Credit Index. When conditions warrant we may purchase stocks that are not included in or representative of our benchmarks. In addition we sometimes deliberately hold cash or bonds in Global Appreciation portfolios. For these reasons, returns in our Global Appreciation accounts are less highly correlated with their equity benchmarks than is the case for many other professional investors. We advise our clients that we think the benchmark is most useful for understanding short-term fluctuations in results but not necessarily for judging results over many years. Our expectation is to do better than our benchmark when it is falling and to do somewhat worse when it is rising.
9. **Computation:** From our inception in 1998 until September 30, 2006, performance numbers for a significant number of our portfolios with a bank custodian were calculated on the banks SEI Incorporated performance measurement system. The SEI system compounded performance from one closing weekly valuation to the next, plus the end of each month or any date when deposits or withdrawals were ten percent or more of portfolio value. Starting September 30, 2006, we have used the Advent portfolio management and performance systems to calculate performance in all of our portfolios.