

H&A Investment Strategies: Portfolio Construction

Portfolio Construction is the analytical and disciplined process of building and maintaining individualized portfolios whose risk and return characteristics are aligned with each client's unique needs, goals and risk tolerances.

- The initial step is the client interviews; where items such as cash flow requirements, time horizon and risk tolerance are determined. This step will often be included in the creation of a financial or wealth plan.
- A risk budget will be established and an investment blueprint will be created. This blueprint includes a strategic asset allocation in alignment with the H&A Investment Strategies.
- Using the strategic asset allocation as a guide, the portfolio is constructed with a focus on global diversification, low fees and tax efficiency. A combination of active and passive components are used. Tactical overlays are positioned to augment the strategic asset allocation.
- Portfolio performance is measured over time on both an absolute basis, as well as, relative to benchmarks. Individual managers are evaluated on risk-adjusted performance vs. benchmark and peer group.
- An ongoing review of client objectives and circumstances reflects the strategic blueprint and the portfolio. Behavioral coaching is important at this step to keep on track. Portfolio rebalances are performed as needed.

Investment Strategy Asset Class Targets and Ranges						
Investment Strategy	Stock		Bond		Cash	
	Target (%)	Range (%)	Target (%)	Range (%)	Target (%)	Range (%)
Very Conservative	35	20-35	60	50-80	5	0-20
Balanced	50	35-55	45	35-60	5	0-20
Moderate	60	40-65	35	25-45	5	0-20
Equity Plus	85	75-90	10	5-20	5	0-20
All Equity	98	80-100	0	0-20	2	0-20

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FAQs

- **What is the importance of the strategic asset allocation?** Asset allocation is the overwhelming determinant of both risk and return. It is important that the strategic (long-term) allocation blueprint truly reflects your circumstances and risk tolerances.
- **What is meant by tactical overlay?** Tactical overlay is a portfolio adjustment to the strategic allocation intended to address or take advantage of current capital markets conditions (i.e., historically low interest rates).
- **What is meant by behavioral coaching?** It is occasionally difficult to remain committed to your investment blueprint, particularly during periods of extreme market moves. Behavioral coaching describe the discussions and techniques used to keep you committed to remaining invested according to the plan and rebalancing on a regular basis. This is one of the biggest ways we add value and enhance long term returns.
- **What happens if my circumstances change; am I locked into my portfolio as it is currently constructed?** Portfolios are generally created for the long term, however, they are also created to be responsive to changing client circumstances or market conditions. Portfolio liquidity is a high priority, which gives us the flexibility to quickly adjust asset allocations and individual managers within portfolios.
- **Why does my portfolio need to be rebalanced?** Differing rates of return earned across asset classes or sectors causes portfolios to become misaligned with the strategic asset allocation. Rebalancing brings portfolios back into alignment with their targeted long term risk and return characteristics.
- **What is meant by “passive” and “active” investing?** Passive investing aims to closely track performance of a benchmark with no attempt to outperform that benchmark. Active investing seeks higher returns by overweighting securities or sectors expected to outperform the benchmark.
- **What is risk-adjusted performance?** An investment manager may generate a high rate of return, but if outsized risk is incurred to do so, the risk-adjusted performance measure may not be acceptable. We measure investment managers not only by their returns, but also by the risks they shoulder in generating those returns.

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