

TOBAM with Yves Choueifaty: Diversification, recent performance and potential for the future

TOBAM Asset Management

Maximum Diversification®

On August 20th, Mackenzie Investments hosted a special webinar featuring **Yves Choueifaty** (Founder & Chief Investment Officer, TOBAM Asset Management).

Webinar highlights

About TOBAM

- Yves founded the company in 2005 and employs about 50 people across the globe. The firm currently manages approximately \$10 billion in assets, and many of its clients are large institutions. Mackenzie holds an exclusive agreement with the firm to offer TOBAM funds and ETFs in Canada.
- TOBAM invests in 13 investment universes but has a singular approach and goal: to maximize diversification. The company believes it is impossible to accurately forecast the future performance of individual securities, sectors and geographies; as a result, it takes a quantitative approach rather than forecasting performance and “making bets.”
- TOBAM believes market-cap-weighted indexes are inefficient and poorly diversified. In TOBAM’s view, indexes are strongly biased and fail to capture all available equity risk premiums. An example of bias is the increasing concentration of market indexes and resultant disregard for adequate diversification. The dominance of “FAAMG (Facebook, Apple, Amazon, Microsoft, Google) stocks illustrates how only a few companies can have an overwhelming influence on an index, which destroys the benefits of diversification.
- As a mathematician, Yves studies relationships between sets of definitions. He observed the investment world lacks a standard definition of diversification and an accurate way to measure diversification. He has devised a methodology to measure diversification using a mathematical formula with no biases. At the crux of his formula is the tenet that combining two stocks will always achieve lower volatility and risk than the individual stocks alone. From there, he has gone on to develop an unbiased method for maximizing diversification via broad market exposure.
- “Think Outside the Box Asset Management”: That’s what TOBAM stands for and it conveys the firm’s approach to diversification. Since a market-weighted index is biased to what’s popular and forces its investors to take large positions in a small number of dominant holdings, TOBAM believes it is crucial to avoid this concentration risk through maximum diversification. In TOBAM’s view, if an index makes you buy more of certain popular stocks when you actually should be selling them because they’re significantly overvalued, you can consider this index to be “a cheap way to buy expensive securities.”
- Rather than focusing on weightings of individual securities in isolation, TOBAM considers correlations among portfolio holdings. For example, gold currently has a large weighting in the Canadian mandate, but gold serves as an effective diversifier because other portfolio holdings have low correlation to gold.

TOBAM and socially responsible investing (SRI)

- Given that its clients are predominantly institutions with a long-term orientation, it makes sense for TOBAM to invest in companies that favour long-term sustainability, rather than chasing short-term returns while having no regard for their impact on the planet. Companies that will likely damage the planet over the long term are excluded from TOBAM’s list of potential investments because they will ultimately lack sustainability. Companies under consideration for investment must demonstrate a commitment to systematically reduce their carbon footprint.
- TOBAM believes in active ownership and will always exercise its voting rights when possible. It also engages the management of companies and will raise concerns whenever it sees questionable SRI behaviour. If unhappy with management responses, TOBAM will engage likeminded large investors to “scale up” and apply more pressure on these companies. If required, it will engage Boards of Directors to initiate corrective action regarding SRI concerns.
- At the firm level, TOBAM integrates environmental, social and governance factors (ESG) into how it operates:
 - **Environmental.** For over 10 years, it has used an external auditor to measure its carbon footprint, and the results show that TOBAM has been decreasing its carbon footprint and increasing its carbon offsets

- **Social.** The company donates 7% of the fees earned on emerging markets mandates to non-governmental organizations (NGOs) worldwide dedicated to defending and improving human rights
- **Governance.** All of TOBAM's employees are shareholders of the firm, as are select business partners like its largest distributor. Employees are encouraged (and rewarded) to submit ideas that contribute to and enhance the company's ESG initiatives. Embracing ESG principles is both responsible stewardship and sound business practice

Check out the webinar

This webinar is available on-demand! Access the playback through our [website](#).

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