

Strategic Moves and Tactical Overlays

Using short-term allocation adjustments to capture opportunities and mitigate portfolio risk

**“How often will you rebalance our portfolio?
What sort of events would prompt a shift in our asset allocation?”**

These are questions we are frequently asked by our clients’ investment committees. The simple answer is that it should be dictated by the guidelines of your institution’s Investment Policy Statement (IPS). The more flexibility that’s built into your IPS, the greater the opportunity our investment professionals have to tactically rebalance assets to either take advantage of short-term market movements to either enhance return or mitigate portfolio risk.

An important element in every institution’s IPS is the establishment of clearly-defined strategic targets for how your portfolio will be invested. Essentially, these are long-term asset allocation goals for how you want to allocate your portfolio towards equity, fixed income, alternatives and cash (as well as underlying subclasses) based on a number of factors including fundamental capital market assumptions, forward-looking expectations for risk and return, relative correlations of particular asset classes, and how these factors will help to achieve your investment objectives. In establishing these guidelines, you’ll want to be exceedingly measured and thoughtful in setting specific targets that best align with the long-range goals and risk profile of your institution.

Within those strategic targets, however, you also want to ensure a certain degree of tactical flexibility to take advantage of opportunities to overweight and underweight particular asset classes as market and economic events dictate. This is achieved by formulating acceptable allocation ranges around each asset class and sub-asset class. For example, in the hypothetical investment guidelines depicted below, while a 70% portfolio allocation to equities is the strategic target, an acceptable range of 50-80% is permitted by the organization’s IPS. The wider boundaries of the range empower your portfolio manager to thus “tilt” the portfolio to take advantage of certain tactical opportunities.

While strategic targets are set to meet an institution’s investment objectives over time, (e.g., a full market cycle or a time period linked to spending policies), over shorter time periods these ranges are designed to provide nimbleness – allowing your portfolio to be repositioned in response to current economic realities and near-term market expectations. During periods of projected high volatility, this would allow SunTrust to underweight equity and overweight alternatives in order to hedge against portfolio risk. For example, leading up to the referendum in the United Kingdom with regard to Britain staying or leaving the European Union, we underweighted non US equities in

Hypothetical IPS Portfolio Guidelines		
Asset Class	Target	Range
TOTAL EQUITY	70%	50-80%
DOMESTIC	50%	20-80%
Large Cap	42%	20-80%
Mid Cap	0%	0-25%
Small Cap	8%	0-25%
US REITs	0%	0-10%
INTERNATIONAL	20%	0-50%
Developed	16%	0-40%
Emerging	4%	0-20%
FIXED INCOME	25%	5-40%
Core Investment Grade	25%	0-40%
High Yield	0%	0-10%
International Developed	0%	0-10%
International Emerging	0%	0-10%
ALTERNATIVES	0%	0-20%
Diversified Hedge Funds	0%	0-20%
Hedged Equity	0%	0-20%
Commodities	0%	0-15%
CASH	5%	0-25%

The above asset allocation is illustrative. It is not a recommendation. Asset allocations (strategic and ranges) are customized to client needs.

anticipation of market volatility but stayed within the established ranges. Perhaps in assessing relative valuations and earnings trends we see a potential for enhanced returns for small cap equities, and would move from an underweight to an overweight position. Having tactical ranges allows us to tilt your portfolio to take advantage of that opportunity by overweighting small caps and being neutral or underweight to large cap stocks.

In conjunction with periodic rebalancing to help minimize unintended risk and keep your portfolio aligned with its goals, tactical repositioning is an essential tool that allows our investment professionals to enhance capital market outcomes. Make sure your institution's IPS defines both strategic investment targets and tactical investment ranges for various asset classes to provide both long-term direction and short-term flexibility.

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¹ As of September 30, 2016

For more information or to discuss your current and future allocation, contact your SunTrust relationship manager or investment advisor, or call us at 866.223.1499.



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