



# Global Tactical Asset Allocation for the New Normal

## Introduction:

Global Tactical Asset Allocation has become the topic of many a discussion among investors; institutional and retail alike. It is topical for a variety of reasons including:

- Recent market volatility and the heightened need for risk management.
- A potentially benign investment return environment on the horizon.
- The rapid development of the asset management industry, markets and instruments.
- A renewed reminder of the importance of asset allocation as a primary determinant for portfolio returns over the long term.

Peirce Park Group has been an advocate of global equity strategies for many years (the topic of a previous newsletter) with recognition that the financial markets and business world are connected more than ever on a global basis. The opportunity set for

an investor is expanding and accessible. This has led us to a renewed exploration to determine if there might be a fit for an active, global balanced/tactical strategy for our clients. In reality what we have found is that the Global Tactical Asset Allocation (GTAA) /Global Asset Allocation (GAA) universe of strategies offer many flavors and diverse forms of implementation.

## Evolution of GTAA/GAA:

Over the past 25 years the GTAA landscape has changed measurably though the basic objectives haven't: opportunistically select asset classes and currencies to enhance returns and reduce risk. The early incarnations of GTAA were largely quantitative and focused on major asset classes (equities, bonds, cash, currency) and sub-asset classes (international, U.S., etc.). The exposures could be implemented in the form of an overlay or an outright

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*“The high correlation of all asset classes to equities on the down-side caught the attention of everyone...”*

## Global Asset Allocation Strategies

Allocation Strategy	Global Balanced	GAA/GTAA (Total Return)	GTAA (Absolute Return)																
Structure:	<table border="1"> <tr> <td>Global Equity Team</td> <td>Global Fixed Income Team</td> </tr> <tr> <td colspan="2">Bottom up/Thematic</td> </tr> </table>	Global Equity Team	Global Fixed Income Team	Bottom up/Thematic		<table border="1"> <tr> <td colspan="6">AA Team/Overlay</td> </tr> <tr> <td>Equity</td> <td>Fixed Income</td> <td>Currency</td> <td>Commodities</td> <td>Alternatives</td> <td>Derivatives</td> </tr> </table>	AA Team/Overlay						Equity	Fixed Income	Currency	Commodities	Alternatives	Derivatives	Global Macro Hedge Fund Global Fund of Hedge Funds Global Risk Parity
Global Equity Team	Global Fixed Income Team																		
Bottom up/Thematic																			
AA Team/Overlay																			
Equity	Fixed Income	Currency	Commodities	Alternatives	Derivatives														
Style:	Quantitative, Fundamental, or Combination	Quantitative, Fundamental, or Combination Tactical Overlays	Quantitative, Fundamental, or Combination																
Benchmark:	Static Blend (e.g. 60% Global Equity/ 40% Global Fixed Income)	Global Customized Blend	T-Bills + Inflation + Mgr Alpha																
Derivative Use:	Low	Generally Moderate	Moderate to High																





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cash portfolio. At the same time, in the 1990's larger asset managers with multiple teams and capabilities were sought by certain plan sponsors to create "best ideas/themes" portfolios. These portfolios were designed to meld the substantial resources of multi-product asset managers. The goal was to tap into the collective brain trusts of top firms who might be best positioned to take advantage of global macro trends. Of course, at the same time the hedge fund world was developing its own version of global macro, "go anywhere with few restrictions" portfolios in the pursuit of absolute returns or better risk-adjusted returns.

GTAA strategies had mixed success especially in the face of the 1999 bubble. What transpired, of course, was a very challenging decade for the financial markets. During this time, investors sought refuge in alternative investments and asset classes that were perceived to be more attractive on a risk reward basis. The "Endowment Model" advocated the use of many non-correlating asset classes including private investments to produce attractive risk-adjusted returns. Of course, the collapse of Lehman and ensuing banking system crisis in 2008 wreaked havoc on the markets and especially lesser liquid asset classes. The leverage built up in the markets had to be unwound and the oft-mentioned

phrase, the "New Normal", wakened investors to the prospect of a persistent, moderate return environment. The high correlation of all asset classes to equities on the down-side caught the attention of everyone. The asset management industry has rebounded since early 2009 but investors continue to look closer at their asset allocation options.

### What is Today's Version of GTAA?

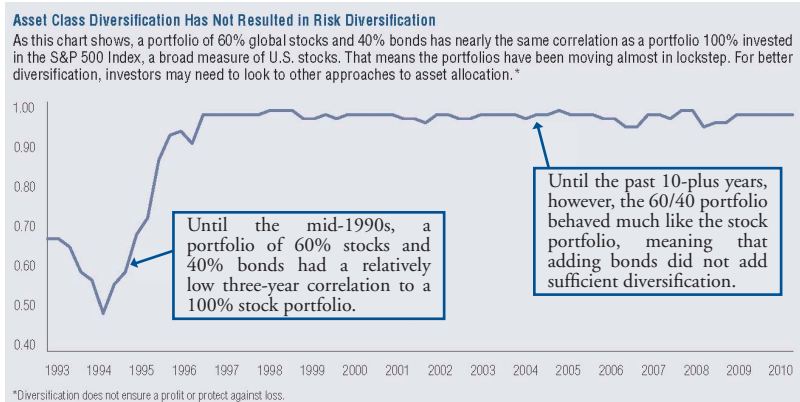
At its core, Global Tactical Asset Allocation enables global asset managers to invest in a wide range of asset classes on an opportunistic basis. These asset classes may include:

- U.S. Equities (Large, Mid and Small Cap)
- International Equities (Developed and Emerging Markets)
- U.S. Fixed Income (Investment Grade and High Yield)

- Global Fixed Income (Developed and Emerging Markets)
- Currencies
- Commodities and Real Assets
- Private Investments (Equity and Debt)
- Derivatives

Not all managers will invest in all of these areas. Some will use quantitative tools and others will rely on fundamental processes to manage the allocations to the different asset classes. Some managers use a combination of quantitative and fundamental decisions to build GTAA portfolios. Often the firms that manage GTAA portfolios have large organizations with multiple investment teams located throughout the world. The one common factor is that their process is flexible and it affords the manager the ability to make full use of their skills and resources in a global structure.

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# new to the PPG team

**Sarah Wilson, Senior Consultant**

Prior to joining PPG, Sarah was an Executive Vice President & Chief Compliance Officer (CCO) for US Asset Management where she dealt with all aspects of the firm including trading, investment selection, compliance, and personnel. The majority of her clients were County and Municipal Government accounts. Sarah also implemented and managed the Compliance program for that Firm.

Sarah has over 18 years experience in the financial industry. Most of her career was spent in the Institutional Money Management Services. Sarah spent 11 years working for CIM Investment

Management as First Vice President. She started her Financial Service career with Merrill Lynch in Pittsburgh where she was a Sales Associate on the largest producing team working with high net worth individuals and multiple money managers. Prior to Merrill, she worked at the Carnegie Museum in the Development Department. While a native of Pittsburgh, Sarah's education is quite diversified having attended the Headington School in Oxford England and the London School of Business.

Sarah heads up our new Pittsburgh office. She can be reached at 412-241-1682.

Today the range of options in GTAA/GAA space is wide. The Exchange Traded Fund (ETF) market alone has impacted this segment of the industry. Investors of all sizes and types can gain efficient access to most asset classes and sub-asset classes through this fast growing market.

A GAA manager could be a combination of top-down and bottom-up strategies with asset class movements on a more gradual basis. The quant GTAA managers are likely to be more active and they use derivatives to alter exposures with much less focus on security selection.

Some are concerned with risk management (e.g. managing “tail” risk associated with Black Swan events) or risk parity (building portfolios by asset class risk budgets). Some are absolute return and operate similar to hedge funds but still operate in a mutual fund structure. Of course there are global macro hedge funds and fund-of-funds, quantitative and fundamental versions aplenty.

### Uses of GTAA/GAA

We have found that investors are implementing GTAA/GAA in different ways:

- A slice (e.g. 15%) of the overall portfolio.
- An alternative to “Alternatives”.
- Overlay on a portfolio to alter market and currency exposure.
- Replace an entire portfolio.

The purported benefits can be many:

- Gain access to areas of the market such as commodities or emerging markets on an opportunistic basis without making a strategic commitment.
- Return enhancer.
- Lower overall portfolio risk.
- Entrust asset allocation experts with decision making authority to add

value on a tactical basis.

The decision to employ GTAA/GAA in an institutional portfolio is going to depend heavily on the investor’s comfort level with introducing an element of tactical decisions into a strategic framework. The markets are suggesting that this type of environment may persist and investors will need to be nimble to eke out the extra basis points that will help alleviate larger contributions. It is important to note that many of these strategies make use of derivative securities. Derivatives have often been labeled in a negative way but they can be used in many positive ways to control and limit risk in portfolios. The institutional plan sponsor simply needs to be comfortable with their purpose and use in accomplishing their objectives.

Peirce Park Group is actively discussing the GTAA/GAA topic with its clients. Education is a critical part of the service that we deliver to our clients. Suffice it to say this is a very broad theme that could be detailed in volumes beyond the space of this newsletter. To the extent that any questions arise from this article, we encourage you to contact us for more information. ■

## OPEB

One of the many retirement issues facing state and local governments is that of Other Post Employment Benefits (OPEB). The obligations associated with OPEB are primarily attributable to retiree health care costs, but may include other retiree benefits. OPEB management could be the largest financial issue facing public employers in the foreseeable future as GASB 45 requires public employers to accurately account for their long-term benefit promises to employees. This includes calculating an annual contribution (similar to your pension) and booking the liability if it is not fully paid each year. Municipalities statewide are now considering putting money aside for this obligation. Although you do not have to “pre-fund” this liability, if your obligation is not paid, that amount will be booked as a liability, and will increase each year by the amount of the discount rate used for calculating the liability. This could affect the municipality’s credit rating. Peirce Park Group has established a program to assist fiduciaries of OPEB trusts in developing a strategy to meet their unique needs. Our services include:

- OPEB Trust development
- Investment Policy
- Strategic Asset Allocation
- Manager Search
- Performance Monitoring

## Consulting Plus Services

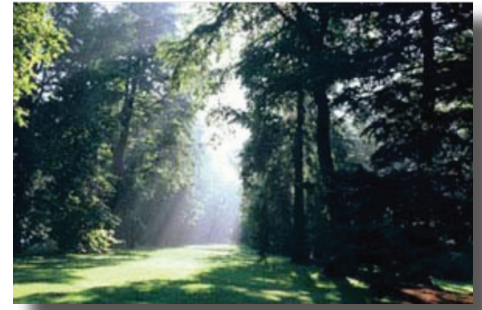
Last year, Peirce Park Group began to offer our new “Consulting Plus” service—a “transparent” discretionary consulting solution allowing us to assist clients more actively in the management of their funds. With Consulting Plus, we are responsible for manager selection and termination, re-balancing to strategic targets and re-allocation of assets among the managers, in addition to the responsibilities we offer with traditional consulting. This approach enables our clients to manage their funds more efficiently.

The service has been well received since it was introduced last year and eight of our clients have opted to hire us in a Consulting Plus capacity. If you would like further information on this service, please don’t hesitate to contact Michael Shone, Lee Martin, Sarah Wilson or Chris Thorsheim.

# pennsylvania fun facts



- Pennsylvania was home to the first paper mill.
- Lancaster County has a larger population than the entire state of Wyoming.
- The Rockville Bridge in Harrisburg is the longest stone arch bridge in the world.
- The PA state insect is the firefly.



*Peirce's Park  
Longwood Gardens  
Kennett Square, PA*

Since 1988, Peirce Park Group has endeavored to help clients reduce financial risk and maximize portfolio performance. Unencumbered by allegiances to specific funds or investment organizations, Peirce Park Group's investment management consultants provide wise and objective counsel. We provide strategic investment advice, we recommend investment managers well suited to clients' long-term goals, and we monitor investment manager performance and compliance with investment guidelines.

*If you would like to be included on our electronic mailing list, please contact Lisa Gentry at [lgentry@peircepark.com](mailto:lgentry@peircepark.com)*

## *Orange Pistachio & Goat Cheese Crusted Pork Chops*

	Zest & Juice of 2 Oranges
½ Cup	Finely Chopped Pistachios
4 Oz	Log Soft Goat Cheese
¼ Tsp.	Allspice
1 Tsp.	Salt
½ Tsp.	Ground Black Pepper
Four 6-Oz	Pork Chops
½ Cup	White Wine
1 Cup	Chicken Broth
½ Cup	Orange Juice
1 Tablespoon	Cornstarch
	Salt & Ground Black Pepper to Taste



### **Directions**

Preheat oven to 375 degrees. In a small bowl, combine the orange zest and juice, the pistachios, goat cheese, allspice, salt and pepper. Arrange the pork chops in a small metal roasting pan. Spread a quarter of the pistachio mixture over the top of each chop. Roast for 20 to 25 minutes, or until the chops reach 155 F at the thickest part. Transfer the pork chops to a plate and cover with foil while preparing the sauce. Place the pan over medium heat. Add the wine and scrape the bottom of the pan to loosen any browned bits. Add the chicken broth and bring to a simmer. In a small glass, mix the orange juice and the cornstarch, then add to the pan, stirring until thickened. Strain the sauce. Adjust seasoning with salt and pepper. Serve sauce with the chops. Makes 4 servings.



**PEIRCE PARK GROUP**  
INVESTMENT MANAGEMENT CONSULTANTS

**We would like to offer a sincere welcome to our newest clients:**

*Washington Suburban Sanitary Commission, MD (pension)*  
*Scott Township, PA (pension)*  
*Northampton County (OPEB)*  
*Washington County (OPEB)*

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