



CIBC
Asset Management

GUIDE TO PORTFOLIO CONSTRUCTION

The role of tactical asset allocation

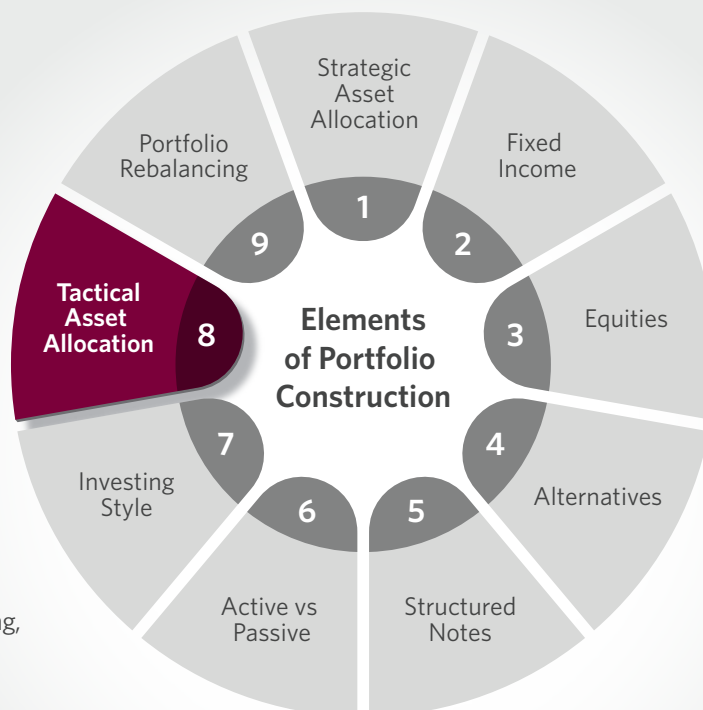


Guide to portfolio construction

Market and economic uncertainty, combined with relatively low expected returns for many asset classes, are making it harder for individuals and institutions to reach their financial goals. A thoughtfully designed portfolio that helps you embrace market opportunities while preparing for the unexpected has never been more important.

There are several components of a well-constructed portfolio, including a robust strategic asset allocation that's consistent with your long-term goals and objectives. A mix of asset classes such as equities, fixed income and alternatives. Strategies such as tactical asset allocation and active versus passive investing, as well as portfolio rebalancing all have a role to play.

This guide highlights how tactical asset allocation can help improve portfolio performance and smooth the path to achieving your ambitions.



Tactical asset allocation—Take advantage of short-term opportunities while managing volatility

An important element of a well-constructed portfolio is the ability to respond and adjust to market conditions. But staying up-to-date with financial markets can be time consuming and complex.

This is where tactical asset allocation comes in. A dedicated team of experienced investment professionals continuously monitors evolving developments in capital markets, ensuring that portfolios benefit from up-to-date insight. This removes the responsibility of day-to-day investment decisions from you, while helping ensure that your portfolio is responsive and optimized to current market conditions.

This guide explores the features and benefits of tactical asset allocation:

1. What is tactical asset allocation?
2. What are the key benefits?
3. How does it work?

What is tactical asset allocation?

Tactical asset allocation (TAA) helps provide an additional source of returns to a portfolio's **strategic asset allocation (SAA)**. TAA can add value to a portfolio's SAA by tactically tilting the asset weights (e.g. stocks, bonds, etc.) within a minimum and maximum range agreed upon with an investor.

The sample portfolio in the table below shows the interplay between SAA and TAA. In this illustrative example, an opportunity was identified to add value to the portfolio by temporarily reducing the weight of bonds to 32% (below its strategic benchmark allocation of 35%, but still within the agreed-upon range of 25-45%), in favour of more stocks (58%).

SAA vs. TAA

Strategic asset allocation (SAA)

is specific to each individual investor and reflects their long-term performance goals and risk tolerance. It's the primary determinant of an investor's portfolio performance.

Tactical asset allocation (TAA)

complements an investor's SAA by taking advantage of shorter-term market trends and opportunities.

Asset Class	SAA portfolio weights (benchmark) (%)	Minimum (%)	Maximum (%)	Current tactical mix (%)
Cash	10	5	15	10
Bonds	35	25	45	32
Stocks	55	45	65	58

*Hypothetical example for illustrative purposes only.

What are the key benefits?

With TAA, investment managers employ tactical asset tilts within predetermined ranges to fine-tune the asset allocation within each portfolio. These tactical shifts help enhance long-term performance by taking advantage of market trends expected to play out over the next 12 to 18 months.

Key benefits



Capitalize on shorter-term market opportunities to help enhance long-term investment performance.



Potential to lower portfolio volatility.

How does it work?

Tactical asset allocation investment teams typically adjust strategic portfolio asset allocations in two ways. This gives the team greater flexibility to capture investment opportunities within a much larger set of opportunities, beyond just existing portfolio holdings.

1

Adjust exposure

to specific asset classes, regions or currencies **held** within the strategic portfolio

2

Gain exposure

to specific asset classes, regions or currencies **not held** within the strategic portfolio

The strategy aims to manage exposure directly and indirectly in three key areas:



Asset class



Geographic region



Currency



Tactical asset allocation in action

The examples below show how a TAA investment team can execute strategic tilts based on market views.

Adjust exposure

Sample scenario: The TAA team develops a bullish tactical outlook on equities relative to bonds based on rigorous investment analysis. The team will adjust the portfolio's strategic equity and bond exposures accordingly.

Current Exposure	View	Execution	Net Result
60% Equities	↑ Equities (bullish)	+5% Canadian Equity exposure	65% Equities
40% Bonds	↓ Bonds (bearish)	-5% Canadian Bond exposure	35% Bonds

Gain exposure

Sample scenario: The TAA team develops a bullish outlook on emerging market bonds relative to Canadian bonds, again based on rigorous investment analysis. The team can make adjustments to strategic allocations to gain exposure in emerging market bonds not currently held within the portfolio.

Current Exposure	View	Execution	Net Result
0% Emerging Markets Bonds	↑ Emerging Markets Bonds (bullish)	+5% Emerging Markets Bond exposure	5% Emerging Markets Bonds
35% Canadian Bonds	↓ Canadian Bonds (bearish)	-5% Canadian Bond exposure	30% Canadian Bonds

Key tactical asset allocation considerations:

With tactical asset allocation, your portfolio is positioned to capitalize on market opportunities that help enhance long-term investment performance and lower volatility.

We can help ensure that your portfolio is responsive to market trends and conditions - so you don't have to be.

Let's partner on your portfolio construction

Changing market conditions don't change your goals, whether it's saving for a home, a child's education or investing for retirement. Careful portfolio construction that helps you embrace market opportunities while preparing for the unexpected has never been more important.

Your CIBC advisor can help you develop a targeted investment approach using the multi-asset solutions that work best for you.

Contact us today to tailor your portfolio and help you get where you want to be.

To learn more, contact your CIBC advisor.

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