



Powering the outcome-based investing conversation

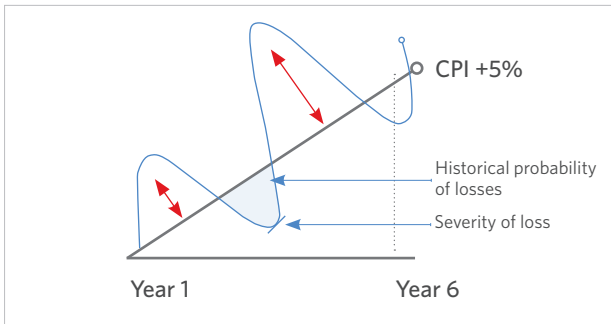
In 2014, the Centre for Applied Research in Boston released *The Folklore of Finance*. At a time when, globally, investment management profit margins and revenue were buoyant, they controversially asserted that the industry was facing a crisis. Could it be that a profitable industry was not successful? Surely, “success” should be defined by the extent to which investors were satisfied? Supported by some rather sobering statistics, the authors contended that the industry participants may have been measuring the wrong thing. Sixty per cent (60%) of the industry’s capital was spent on the elusive “alpha”, yet a mere twelve per cent (12%) of investors believed they were on track to achieving their goals. The shift towards goal-based investing and away from tracking arbitrary market benchmarks to personal benchmarks (linked to a client goal) was well underway. Against this background, Momentum’s Outcome-based Investment (OBI) philosophy is at the forefront.

However, migration to an OBI value proposition should include informing clients. There are many metrics to evaluate an investment’s performance (such as returns, risk-adjusted returns and volatility-based measures), yet as an industry we have historically tended to focus on only one such measure, namely investment performance. When an investment manager’s interests are not aligned with that of the client, subsequent actions do not necessarily benefit that client. Simply put, if someone is incentivised to drive a distance of 100 km where time is the only measure of success, a high-speed journey (bumpy ride) may be expected with an accident or two along the way. The industry needs a new way to measure the likelihood of an investor reaching an objective while simultaneously considering the investment journey or experience.

In this regard, Momentum is pioneering a new-to-industry concept, namely an outcome-based investing (OBI) Score. The OBI Score provides our relative assessment of the fund or portfolio’s track record in delivering a palatable investment journey geared to deliver a particular investment outcome. Our “secret sauce” is an algorithm that provides this relative assessment of reaching the desired investment outcome based on the criteria we think have been important in doing so. These factors primarily relate to two aspects:

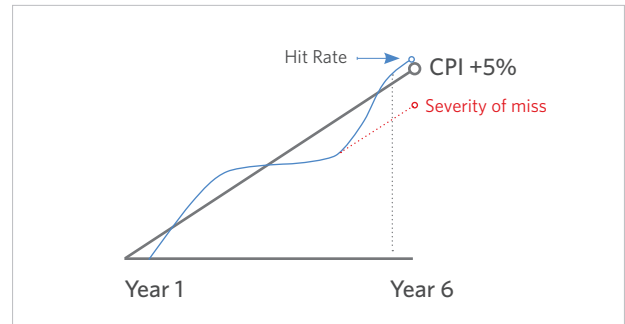
The investment journey

A metric often underestimated, the investment journey or experience does not only consider the final outcome; we understand that losing capital and the extent of those losses along the way may cause an investor to exit the strategy before reaching their investment goal. We reward portfolios that provide fewer negative surprises for the client and penalise those with more inherent risk.



The investment's success rate

We examine the success rate of the fund or portfolio by assessing how often it hits and how often it misses the return target (if it does). As we want to create more certainty around the investment outcome for clients, we will reward a fund or portfolio that regularly hits the mark or misses by a small margin, should this occur.

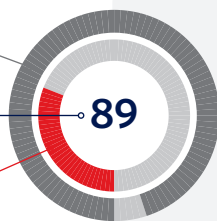


These metrics are captured in the dial (illustrated below) on the OBI Comparison Tool. In theory, a fund or portfolio that consistently achieves its return target over time with zero risk will receive an OBI Score of 100. With investment mandates that include risky assets (like equities), a score of 100 is unlikely.

95%
Hit rate

OBI Score

31.12%
Risk



The inner dial relates to the investment journey quantified by a risk number, calculated in accordance with the objective we are solving for. In this context we examine if the investment has historically yielded capital losses over the short-term and the magnitude of these drawdowns as well as the severity of missing the long-term outcome (if applicable). The risk number itself is only useful when compared to other funds or portfolios.

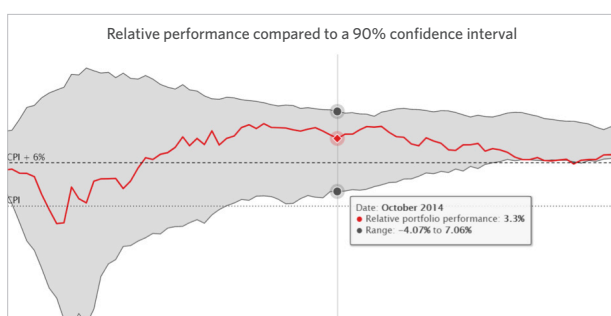
The outer dial refers to the investment's success (hit) rate. For example, how often the portfolio achieves the desired return over the requisite number of rolling-return periods.

How does Momentum measure up?

The OBI Score is a relative measure and every fund on the Momentum Wealth platform with sufficient data will have an OBI Score. While Momentum does not always win the race, our portfolios have proven to demonstrate consistently favourable scores. This is largely attributable to these portfolios having been specifically designed to deliver on clients' investment outcomes through an outcome-based investment approach.

What about existing OBI clients?

The new OBI Analysis Tool allows you to evaluate any of the Momentum Outcome-based portfolios over a period of time. It empowers you to shift the conversation with your clients to one about review periods aligned to their return goal over the required timeframe. A feature is the custom glide path for an OBI fund or portfolio of funds, which demonstrates the expected journey over the mandated investment term as illustrated below.



Dynamic analysis of the Momentum Enhanced Growth Plus Fund of Funds (B2) from Jan 2008 to Dec 2017

This is a powerful means to show how successful we are at delivering investment outcomes while taking the least amount of risk possible.

We look forward to partner with you on a modern approach to managing clients' wealth: away from a search for performance at all costs, opting rather to understanding and satisfying your clients' needs. By showing the true value of outcome-based investing, we want to give the new investment conversation momentum.