



NJMPF

What is Rebalancing of Assets

Your Fund, Your Savings, Your Future

Investopedia defines and explains rebalancing as the progression of realigning the weightings of a portfolio of assets. Rebalancing involves periodically buying or selling assets in a portfolio to maintain an original desired level of asset allocation. For example, say an original target asset allocation was 70% equities and 30% bonds. If the equities performed well during the period, it would have increased the equity weighting of the portfolio beyond 70%. The investor may then decide to sell some equities and buy bonds to get the portfolio back to the original target allocation of 70/30.

Rebalancing may be viewed as a method to minimise risk and whilst not intentionally, could increase returns. The approach at the NJMPF is three-tiered and carried out at both a local and off-shore level. The NJMPF's Balanced Fund Mandated Asset Managers follow this strategy at an asset allocation level – to restore asset classes to the targeted allocation levels: assets which have appreciated need to be sold, whilst those which have declined need to be added to.

Asset Managers also need to stay within the minimum and maximum ranges set by the Fund, forcing them to rebalance in bear markets when their exposure falls below the minimum range and forcing them to sell in bull markets due to the maximum range. The Principal Officer, through the authority of the Board, controls the cash flows to maintain the same exposure to the various selected asset managers. Rebalancing the cash flows to maintain the desired exposure to the asset managers is done on a quarterly basis.

Not everyone believes in having a Rebalancing Strategy and select historical data to prove it. Believers in the strategy know the risk minimizing results rebalancing produces and take advantage of the fundamental 'sell high, buy low' approach. The impressive investment performance of the NJMPF Funds proves that rebalancing as part of the overall investment strategy is working well.



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