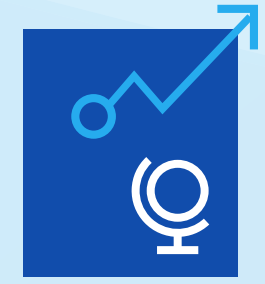


Strategies > Active Global Equities



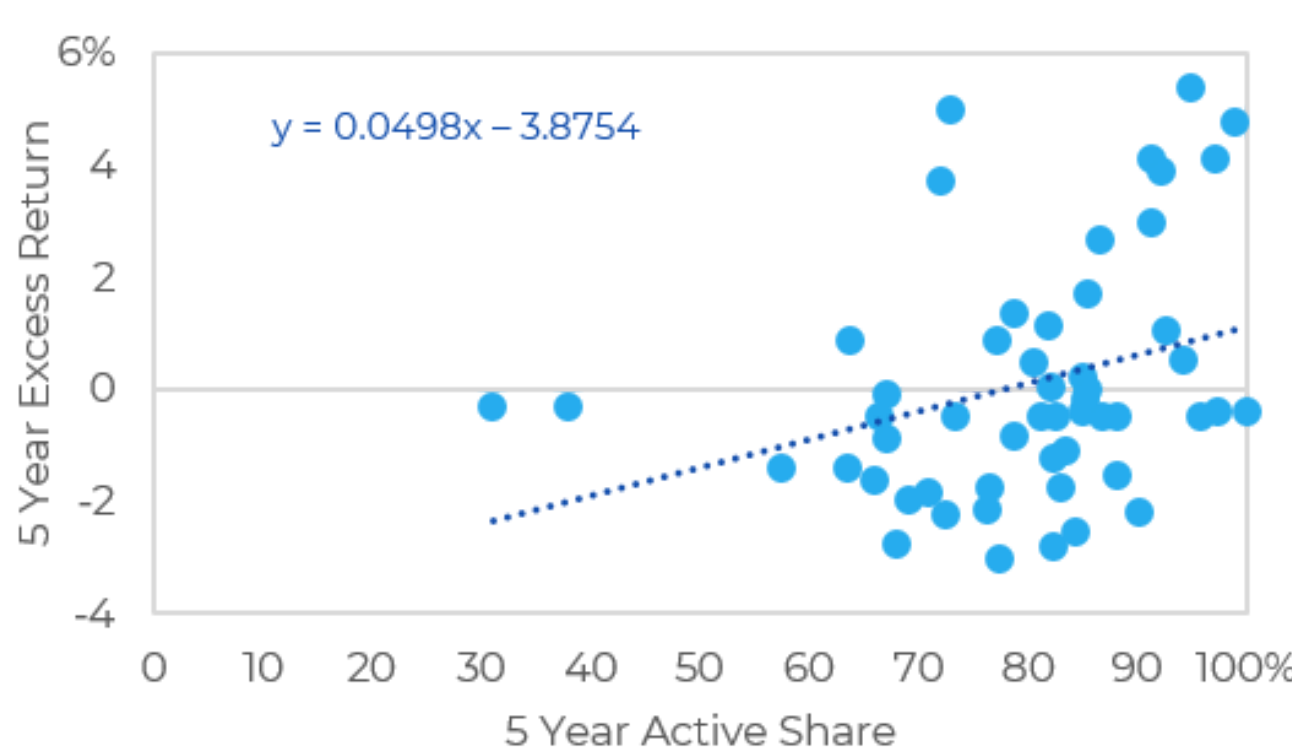
## Active Global Equities

We believe that small, entrepreneurial managers have a performance edge in capacity constrained strategies that can be a vital source of portfolio management innovation. Our philosophy is to:

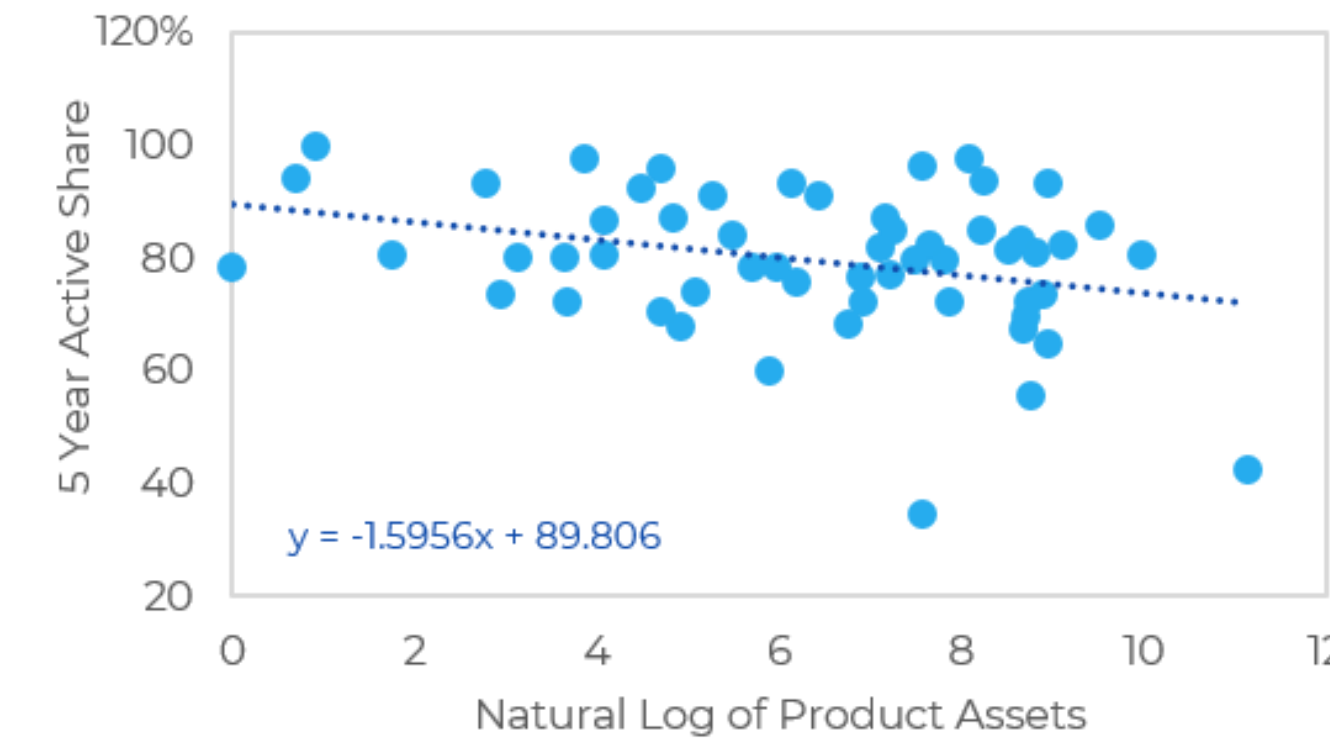
- **Engage innovation** via small, entrepreneurial firms
- **Vet investment edge** through thorough due diligence
- **Prioritize high conviction managers** (active/opportunity share)
- **Invest early** to lock up capacity for our clients

### Research Supporting Our Investment Thesis<sup>1,2,3,4</sup>

**Active share is positively correlated with performance for Non-U.S. Equity...**



**...but active share and AUM capacity diminishes through product asset growth**



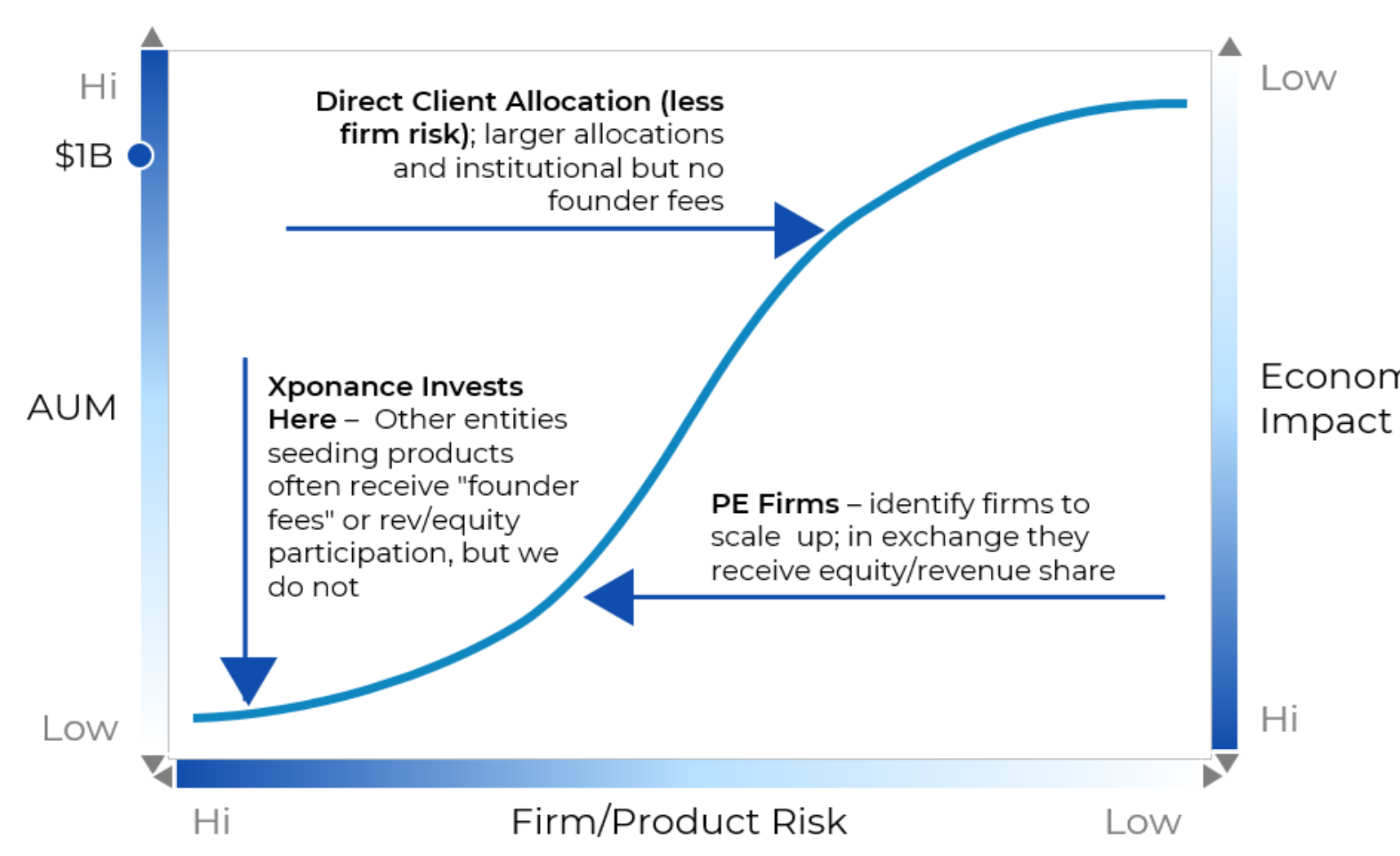
Source: FactSet Research Systems Mutual and Institutional Fund Database  
 Byles Williams, T. (2013). Is Active Management Alpha on Temporary or Permanent Disability?

## Manager Selection – Identifying High Performing Entrepreneurial Managers

Constructing portfolios for our clients begins with identifying best in class entrepreneurial managers. We consider four key factors when identifying these managers:

- 1 People**
  - Talented and experienced professionals with high integrity
  - Culture and decision-making context encourage rigorous analysis and diverse perspectives
  - Compensation and/or ownership aligned with desired performance outcomes and team stability
- 2 Process**
  - Well-articulated and repeatable investment “edge” supported by credible research
  - High-conviction and insight in both their stock selection and portfolio construction
  - Disciplined execution of investment process
  - Clear process for identifying “blind side(s)” or the impact of a changing market environment
- 3 Infrastructure**
  - Institutional quality back office
  - Allocation of organizational resources consistent with manager’s investment edge
  - Financial resources sufficient to sustain business
  - Passing Grade for Operational Due Diligence Visit
- 4 Performance**
  - **Active Opportunity Score**
  - “True” excess return (raw return minus return of style “clone” or passive factor replication portfolio)
  - Stock selection and/or factor rotation edge and/or consistency
  - Key Risk Characteristics

## Xponance Is a Leader in Sourcing, Seeding and Providing Early Institutional AUM to Entrepreneurial Firms



Since 2013:

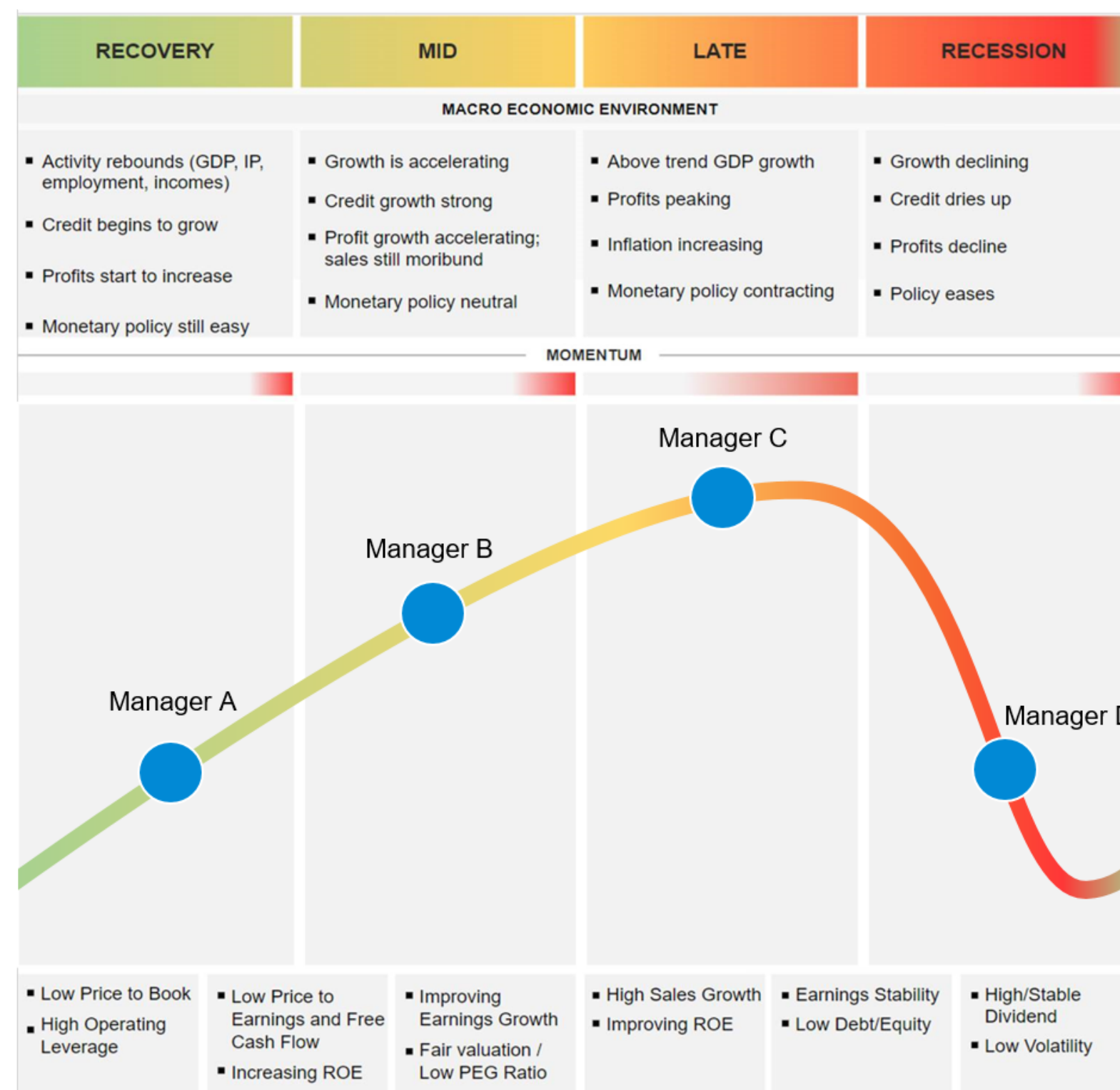
- We beta-tested and/or seeded 18 strategies (11 of those strategies were offered by MWBE firms)
- We funded 41 non-US strategies
- We were first-funders for 78% of those strategies; 68% were offered by MWBE firms

## Constructing Value Added Portfolios

- 1 Account Parameters**
  - Incorporate client guidelines
- 2 Portfolio Optimization**
  - Buy listed managers based on conviction score.
  - Conviction score comprised of:
    - People/culture
    - Process
    - Infrastructure
    - Aapryl alpha forecast
- 3 Risk Mitigation**
  - Control uncompensated portfolio allocation relative to:
    - Sectors
    - Countries/regions
    - Fundamental factors (broadly classified as style and capitalization)

## High Active Share Portfolios with Full Factor/Style Diversification

Using advanced regression techniques, we create dynamic factor replication portfolios to systematically map each manager’s portfolio exposures to achieve full market cycle participation and diversification



Source: Aapryl

## Active Global Equity Strategies

- [Non-U.S. Equity](#)
[Non-U.S. Small Cap Equity](#)
[Emerging Markets Equity](#)
- [EM Regional Fund](#)
[Global Equity](#)

1. Kacperczyk, Sialm & Zheng (2004). [More concentrated funds outperform.]  
 2. Petajisto, A. & Cremers, M. (2006); Petajisto A. (2012). [The most active stock pickers outperform; closet indexers underperform.]  
 3. Jian, Verbeek & Wang (2011). [Managers' highest-conviction stock holdings outperform.]  
 4. Byles Williams, T. (2013). Is Active Management Alpha on Temporary or Permanent Disability? [Affirms positive long-term positive relationship between Active Share and excess return, negative relationship between Active Share and AUM growth and examines the cyclical weakening of the benefits of high active share holdings for US Large Cap managers during the 5 years following the 2008 crash.]

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