

# Breadth and Skill in Portfolio Management

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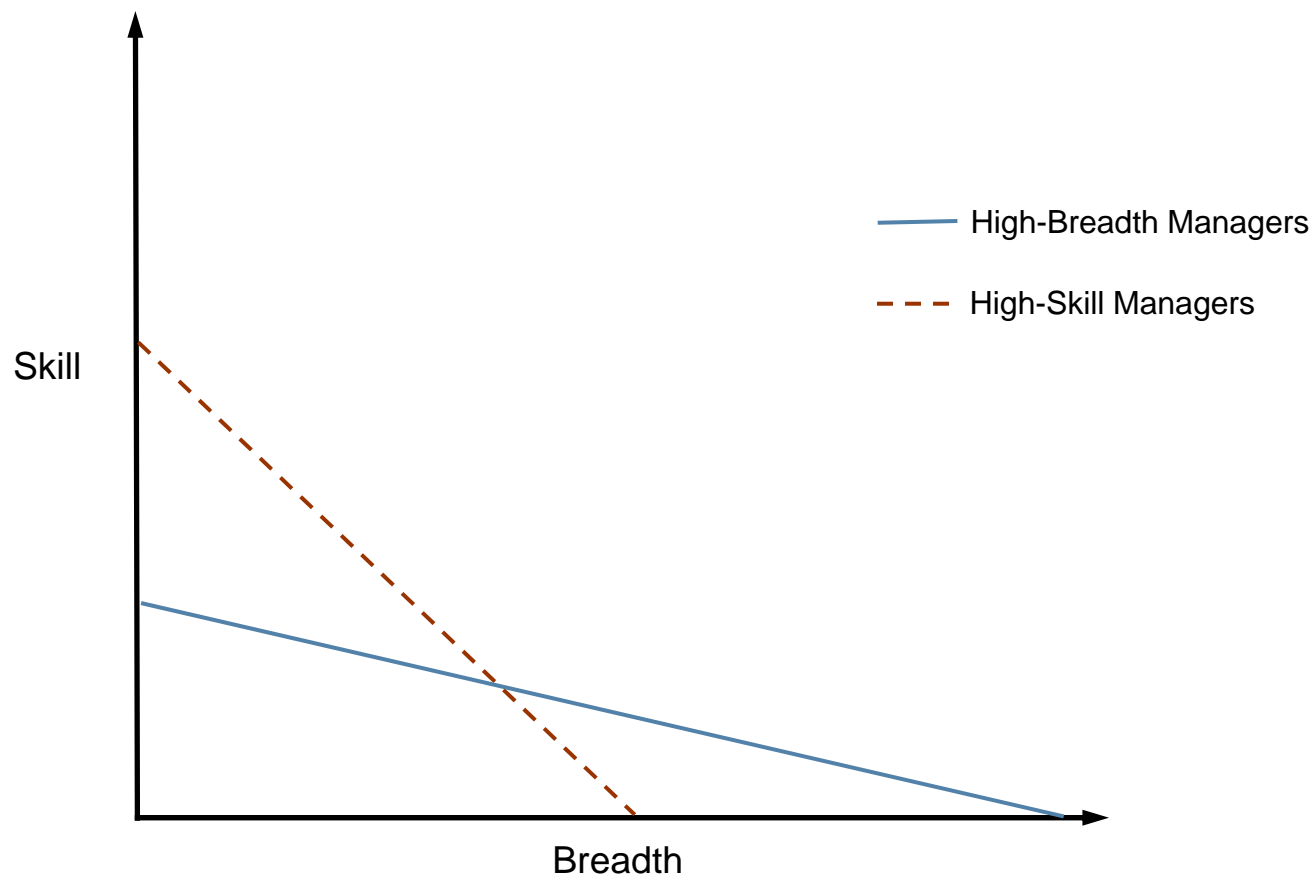
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# KEY COMPONENTS OF ACTIVE MANAGERS' SUCCESS

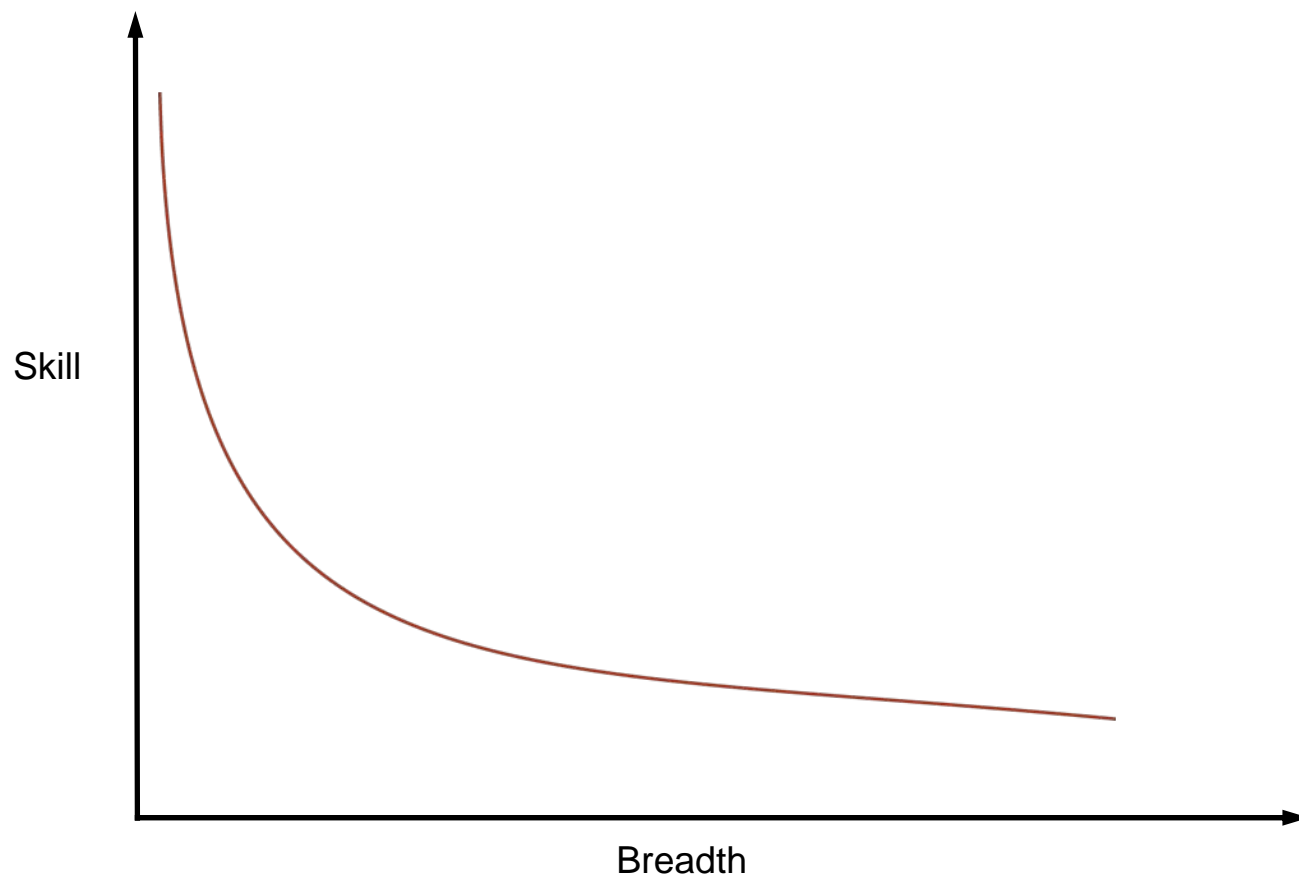
- Skill
  - One's degree of insight about particular securities
    - Sometimes associated with fundamental approaches
    - High skill/moderate breadth = big payoff/big downside
- Breadth
  - The ability to make many independent investment decisions
    - Typically associated with quantitative approaches
    - Moderate skill/high breadth = consistent performance, with moderate upside/limited downside

# BREADTH VERSUS SKILL



*This figure is for illustrative purposes only.*

# TRADE-OFF BETWEEN BREADTH AND SKILL

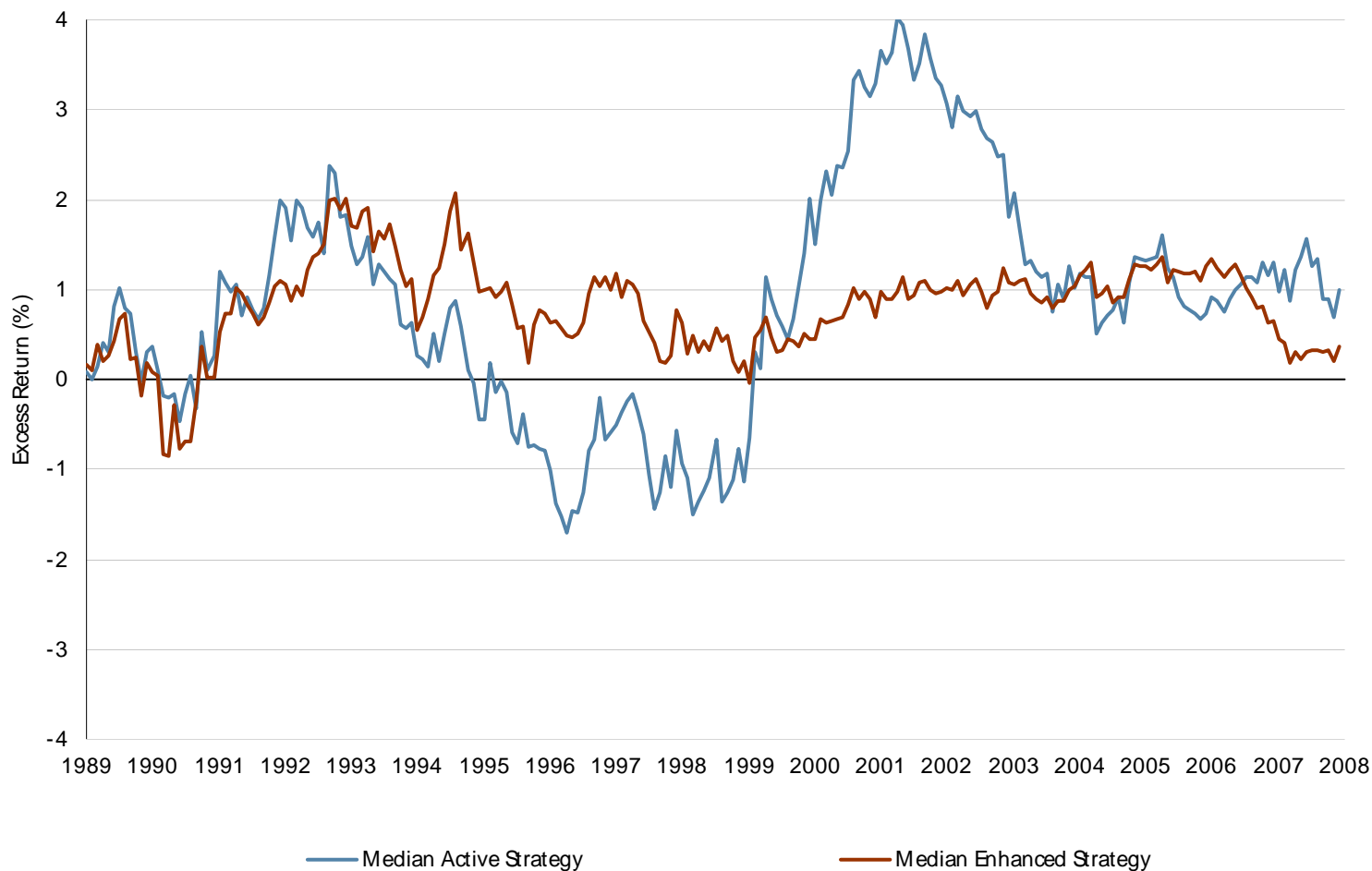


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# MAXIMIZING BREADTH

- Ways to increase breadth in a portfolio
  - ▶ Number of positions
    - Holding a large number of positions at their benchmark weight?
  - ▶ Number of active positions
    - Overweighting undervalued and underweighting overvalued securities?
  - ▶ Number of independent active positions
    - Maximizing the number of independent active positions at any given point in time
  - ▶ Frequency with which investment decisions are exercised
    - Making a large number of independent investment decisions over time
  - ▶ Beware of false “diversification”

# ACTIVE AND ENHANCED STRATEGIES: EXCESS RETURNS RELATIVE TO THE S&P 500



Source: eVestment Alliance, LLC (See note at the end of this presentation.)

# NOTE

The figure for “Excess Returns of Active and Enhanced Strategies Benchmarked to the S&P 500” was prepared using rolling three-year excess returns (based on monthly returns) for each of the “eA Large Cap Core Equity” and “eA Enhanced Index Large Cap Equity” product universes in eVestment Alliance, LLC’s database.

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