

Breadth and Skill in Portfolio Management

TEXPERS 20th Annual Conference

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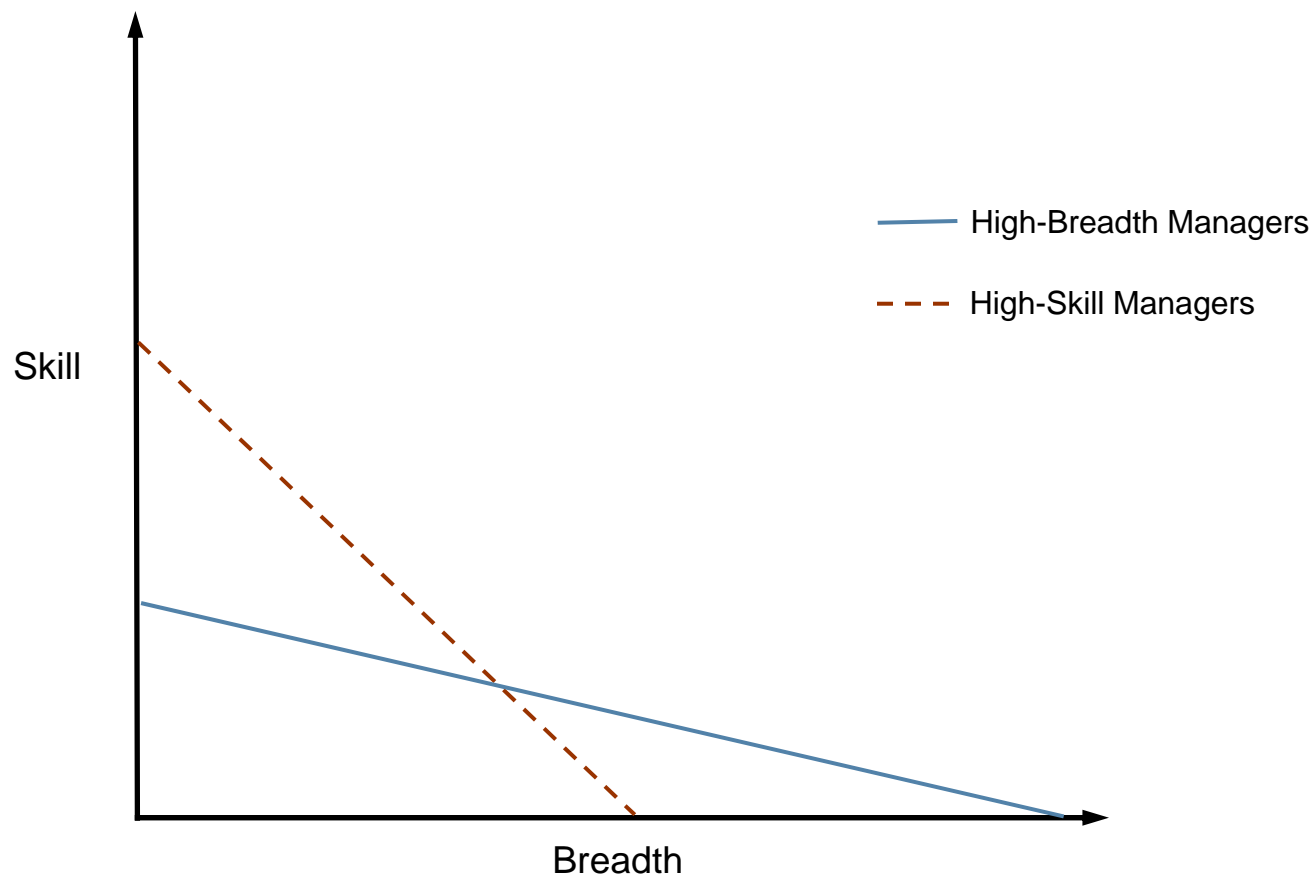
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KEY COMPONENTS OF ACTIVE MANAGERS' SUCCESS

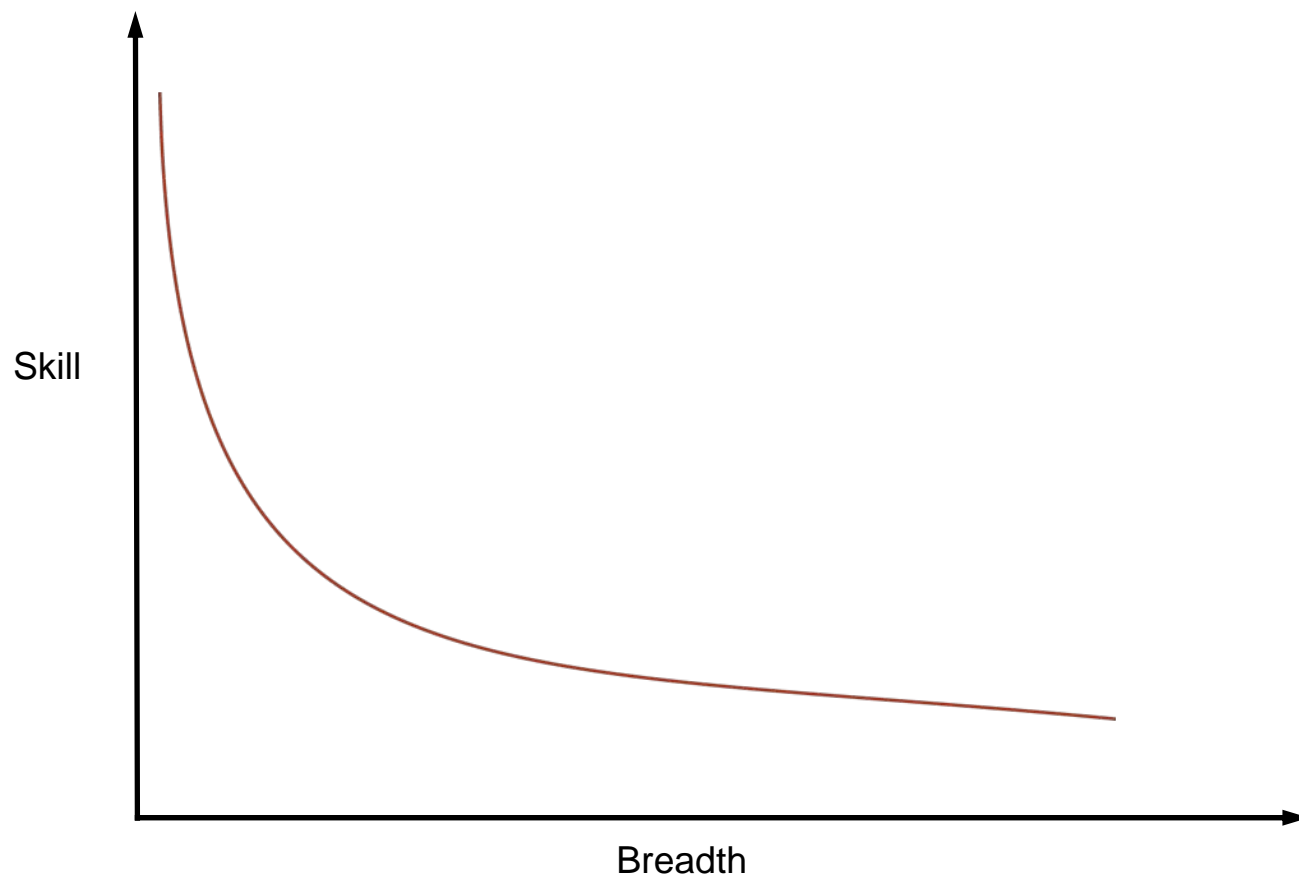
- Skill
 - One's degree of insight about particular securities
 - Sometimes associated with fundamental approaches
 - High skill/moderate breadth = big payoff/big downside
- Breadth
 - The ability to make many independent investment decisions
 - Typically associated with quantitative approaches
 - Moderate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

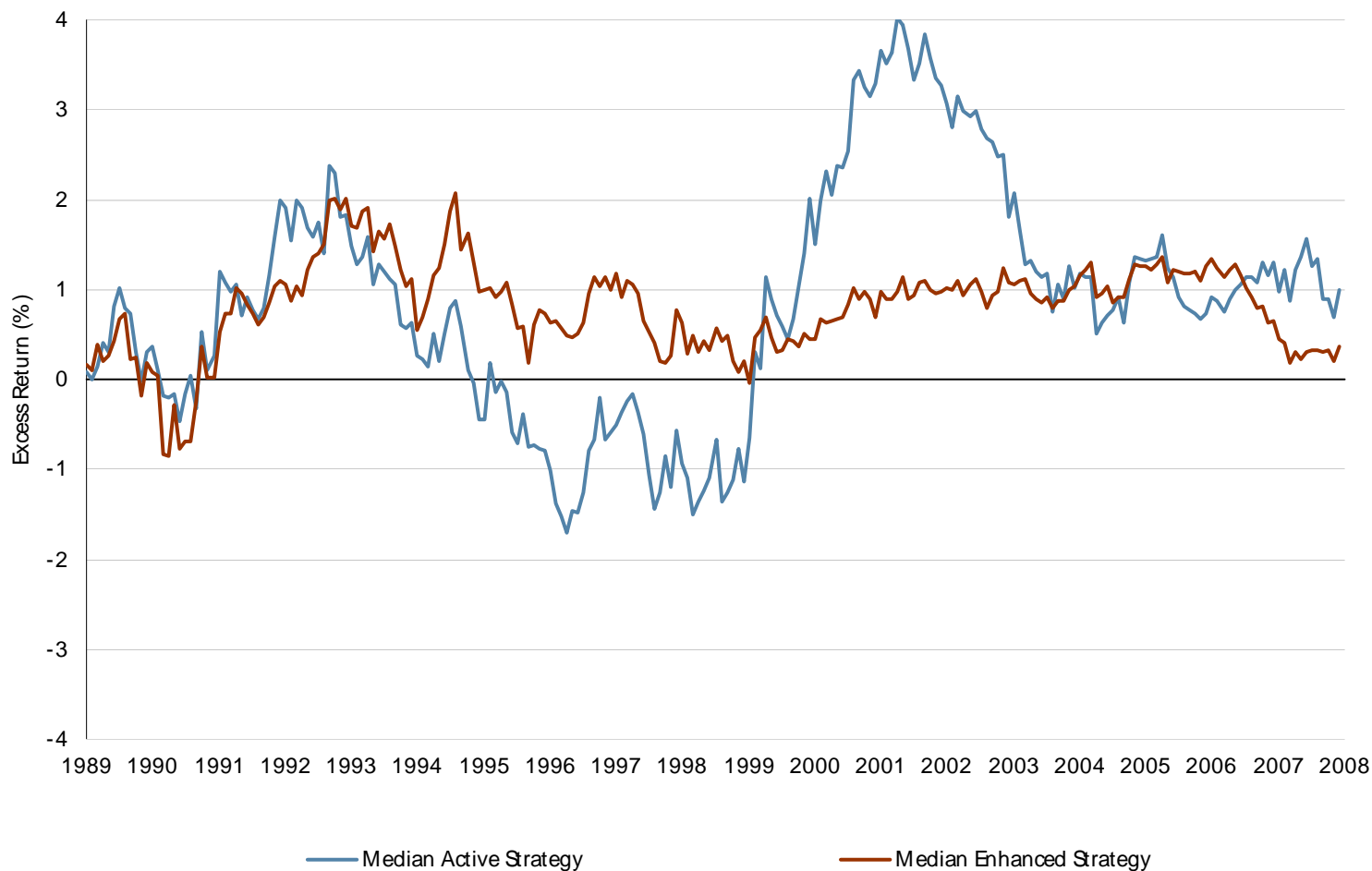


This figure is for illustrative purposes only.

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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