"An ETF guarantees you underperformance, we give you a chance to perform."
- George F. Shipp, CFA®

Over the past several months, our group has been making presentations to a number of professionals that are new to the Equity Opportunities Group. In essence their question is what do you do and why is it different? What we endeavor to do on a daily basis is provide clients with above average returns after fees with below average risk. Because of the nature of our business, we are "benchmarked" against a specific stock index whose investment style is similar to the portfolio. Whether it is an exchange traded fund or active fund, each has fees that detract from returns relative to the benchmark. We are active managers who seek to earn those fees and give clients "a chance to outperform."

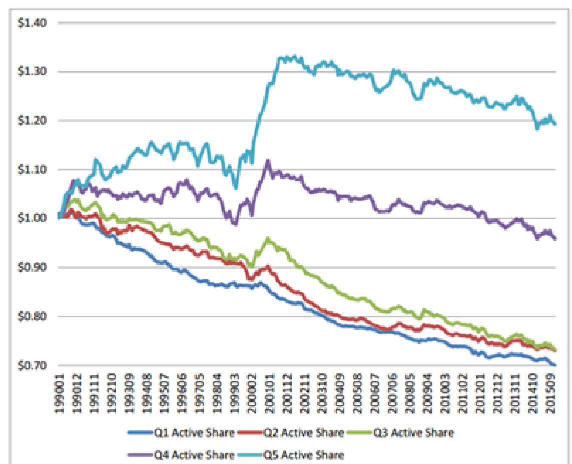
The quest to outperform by its nature results in periods of outperformance and underperformance relative to the benchmark as we seek to outperform over time. This dynamic is why it is important for us to work with trusted advisors and intermediaries who can communicate the differences when we are either ahead of or behind the market. A case in point was 2016 when our products held fewer energy positions than their benchmarks resulting in temporary underperformance in energy. Owning few, if any, energy stocks in recent years has been a winning strategy, however, with the sector underperforming in six of the last seven years and down on an absolute basis since 2012. Working with partners who communicate such nuances enables clients to stay invested.

We have also found that institutions appreciate that when our products are temporarily out of favor, the underperforming stocks tend to be high-quality names. For example, McDonald's was a stock within our Equity Income portfolio that underperformed in 2014 and was a topic of conversation. But because it aligned well with a number of our investment pillars of above average return on capital, a strong balance sheet, and attractive valuation, the odds of success appeared "stacked" in its favor. The entrance of a new management team and "all day breakfast" spurred earnings growth and returned the stock to outperformance.

Why experience periods of underperformance to seek to generate longer periods of outperformance? The group has long held that the combination of high Active Share (a measurement of if a manager's holdings are different from the benchmark) and low portfolio turnover can be an advantage in generating excess returns.

Figure 2. Cumulative Abnormal Net Returns of Active Share Quintile Portfolios

This figure presents the cumulative abnormal net performance of the five Active Share quintile portfolios, applying their abnormal returns to a fictitious $1 investment at the start of 1990 until the end of 2015. We use the 7-factor benchmark model to estimate abnormal returns. These cumulative abnormal returns are estimated ex-post over the full period. The sample includes U.S. retail mutual funds with at least $10 million under management. 'Q1' refers to the performance of the first (low) Active Share quintile portfolio, and 'Q5' refers to the performance of the fifth (high) Active Share quintile portfolio.



Source: "Active Share and the Three Pillars of Active Management: Skill, Conviction, and Opportunity," Cremers

Recent academic work has bolstered this view. In fact, in its latest investment publication, the Financial Analysts Journal highlighted a recent study that demonstrated how high Active Share portfolios have outperformed over time (light blue line in chart above). In fact, the author makes a bold statement that he "found no evidence that high Active Share funds have underperformed, on average, in the long term, suggesting that investors interested in individual stock pickers could use high Active Share as a starting point for fund selection..." The paper goes on to note that low turnover portfolios (long holding duration) have also demonstrated performance advantages.

What do we do and why is it different? We are active investment managers that “give you the chance to outperform” through high Active Share and lower turnover portfolios that seek to adhere to our investment pillars of above average return on capital, strong balance sheets, above average earnings growth and below average valuation.

As always thank you for your interest and trust managing your investments.

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