

Holistic Fund Selection

Stephen Campisi, CFA

The Pensar Group

“Insights and Innovation”

We Begin with a Benchmark

Benchmark	Target Allocation	Return	Risk	Sharpe Ratio	Skewness
S&P 500 Large Cap	25%	6.94%	15.21%	0.40	-0.71
Russell 200 Small cap	15%	7.06%	20.05%	0.31	-0.51
MSCI EAFE	15%	0.74%	18.54%	0.00	-0.59
MSCI Emerging Markets	10%	1.83%	23.35%	0.04	-0.42
Barclays US Aggregate Bond	30%	4.34%	3.30%	1.07	0.07
BBG High Yield Bond	5%	7.34%	11.37%	0.58	-1.49
Total		5.25%	11.76%	0.38	-0.80

Global Equity

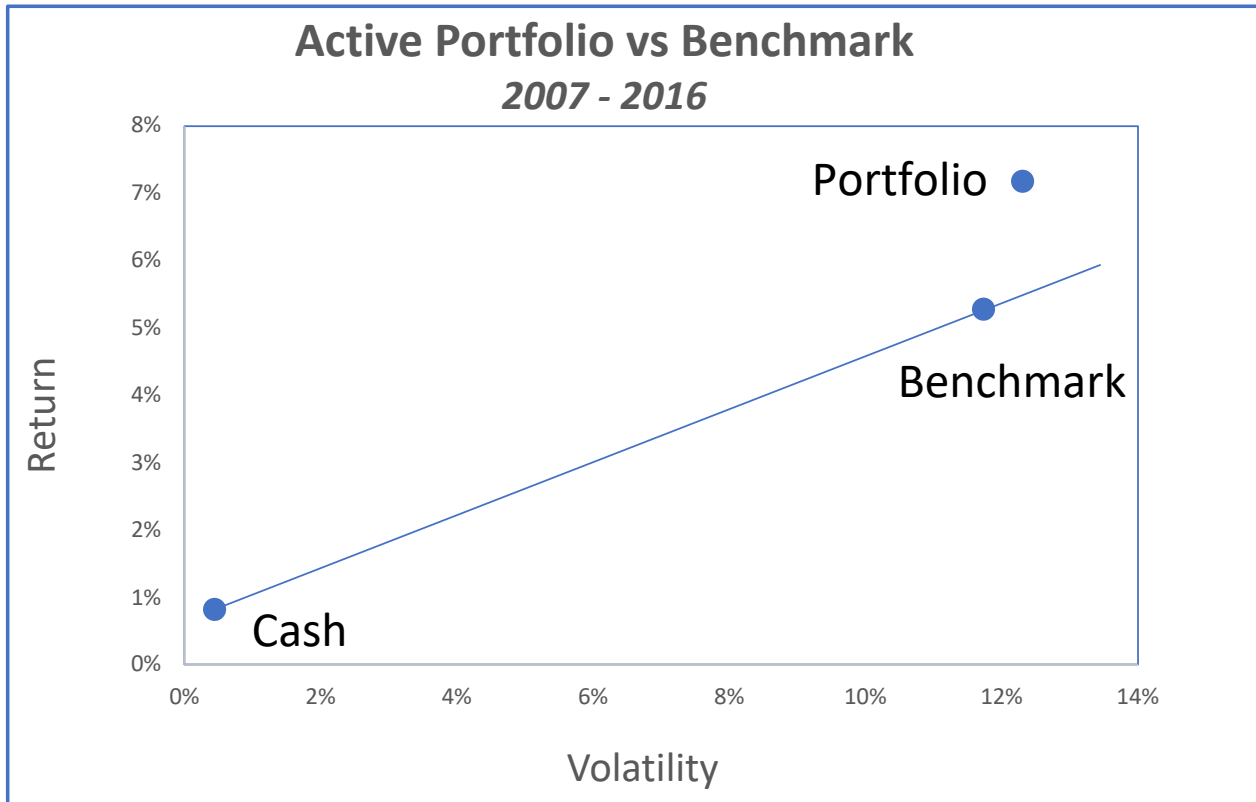
US Bonds

(Performance for 2007 – 2016)

A unique perspective – a critical innovation

- Fund selection and weighting is partly driven by asset allocation
- There is no “*one size fits all*” manager line up

Peek at Portfolio Performance



Portfolio Statistics vs Benchmark

Same style

Portfolio	Target Allocation	Return	Risk	Sharpe Ratio	Skewness
Large Cap	25%	9.42%	13.20%	0.65	-0.83
Small Cap	15%	9.43%	18.09%	0.48	-0.20
Foreign	15%	3.32%	18.53%	0.14	-0.26
Emerging	10%	2.79%	22.19%	0.09	-0.49
HQ Bonds	30%	6.35%	6.60%	0.84	-1.39
High Yield	5%	8.07%	10.21%	0.71	-1.80
Total		7.15%	12.33%	0.52	-0.72

Better
Downside
Risk



Higher risk adjusted Return

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The Pensar Approach: *Alpha Diversification*

- Funds are evaluated within **context** of multi-asset portfolio
- **Interaction** between **excess returns** is key to managing risk
- Funds are evaluated by their **contribution** to portfolio:
 - **Active Risk**
 - **Active Return**

Traditional Evaluation Approach

- In isolation
- Relative to style benchmark



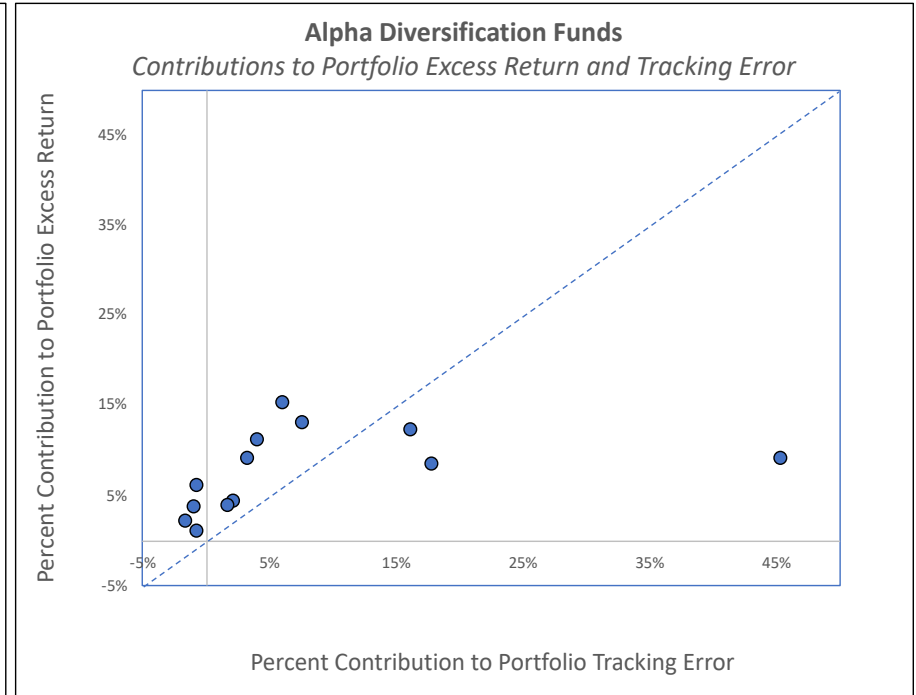
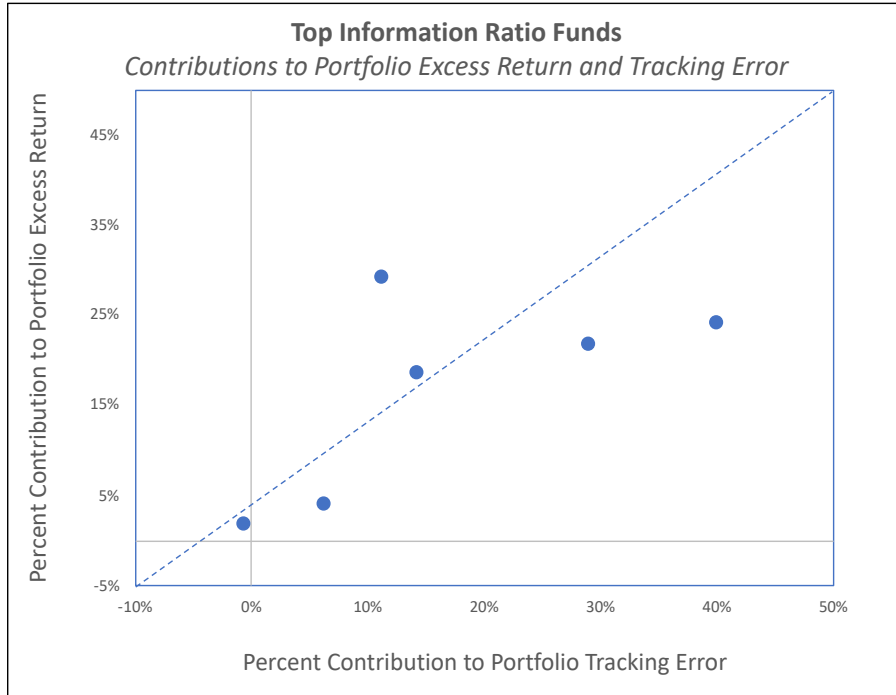
Alpha Interaction is Key Driver

Portfolio Funds	Info Ratio Rank	Weight
Large Blend #1	1	20%
Large Blend #2	4	5%
Small Blend #1	1	7%
Small Blend #2	2	5%
Small Blend #3	6	3%
Foreign Large Blend #1	1	5%
Foreign Large Blend #2	2	10%
Emerging Mkts #1	1	4%
Emerging Mkts #2	2	6%
Multisector Bond #1	1	9%
Multisector Bond #2	2	21%
High Yield Bond #1	1	4%
High Yield Bond #2	6	1%

- Excess Return: 190 bps
- Tracking Error: 157 bps
- Info Ratio: 1.21
- 99% Conf Alpha: 62 bps
- Avg Manager TE: 522 bps
- **Active Risk Removed: 70%**
- Avg Manager IR: 0.40
- **Info Ratio Boost: 3x**

- **Less than ½ funds rank #1**
- **More than ½ of weight <#1**

Top Info Ratio Funds vs Alpha Diversification



	Alpha Diversifying Funds	#1 Info Ratio Funds
Return	7.15%	7.49%
Risk	12.33%	12.53%
Excess Return	2.06%	2.34%
Tracking Error	1.57%	2.26%
Info Ratio	1.31	1.04
99% Conf Alpha	0.78%	0.50%

Alpha Diversification Home Runs

Adding Alpha while Subtracting Tracking Error

Portfolio Funds	Info Ratio Rank	<i>by traditional approach "screened out" Nearly 1-in-4 best funds</i>	Percent Contrib to Tracking Error	Percent Contrib to Excess Return
Large Blend #1	1		16.2%	12.3%
Large Blend #2	4		-0.7%	6.1%
Small Blend #1	1		7.5%	13.0%
Small Blend #2	2		4.0%	11.2%
Small Blend #3	6		-1.6%	2.2%
Foreign Large Blend #1	1		6.0%	15.3%
Foreign Large Blend #2	2		3.3%	9.1%
Emerging Mkts #1	1		2.2%	4.4%
Emerging Mkts #2	2		1.7%	3.9%
Multisector Bond #1	1		17.8%	8.5%
Multisector Bond #2	2		45.3%	9.2%
High Yield Bond #1	1		-1.0%	3.7%
High Yield Bond #2	6	-0.7%	1.1%	

***Traditional approach would have excluded "Home Runs:"
(Funds that add Alpha while subtracting Tracking Error)***

Want a Better Fund Selection Process?

It's easier than you think!

Please contact us for a consultation.

info@thepensargrp.com

scampisi@thepensargrp.com

860.214.7504