

Objective:	Long-Term Growth	Process:	Fundamental/Intrinsic Value
Asset Class:	Domestic Equity	Implementation:	Individual Stocks
Holdings:	30-35	Style Box:	Large Growth
Inception:	June 1978	Structure:	SMA / Mutual Fund

Description

Rigorous fundamental analysis and quantitative disciplines are combined to manage risk within a strategy that emphasizes *long-term* commitments to great companies. The portfolio typically holds 30-35 positions, many of which are expected to be retained for many years, if not decades. The strategy strives for lower volatility and drawdown risk relative to peer group benchmarks by complementing its long-term commitments with tactical positions in stocks with a shorter time horizon driven by a more event-driven investment thesis.

Process

We segment the stocks in the strategy into three risk management categories as follows:

Core Holdings pursue large market opportunities with the benefit of a material competitive advantage that is expected to persist for many years into the future. We anticipate holding these stocks for several years, if not decades, because the sell discipline for these stocks is driven by the durability of their competitive advantage more than any other factor. While we might reduce the position in a Core Holding from time to time, the decision to sell a Core Holding outright would likely require a material deterioration in its competitive advantage.

Tactical Opportunities seek to exploit shorter-term mismatches between a company's stock price and our estimate of its intrinsic value. The framework for these stocks is more event-driven, where we believe the stock price may have over-reacted to a recent negative event, or under-appreciate a potential favorable development. These stocks require deep due diligence and an intermediate time horizon to exploit mismatches between price and value ahead of consensus opinion. In contrast to Core Holdings, the sell discipline for these stocks is driven primarily by the stock price. When a Tactical Opportunity achieves its price objective, we expect to sell it.

Emerging Franchises pursue ground-breaking opportunities. These are frequently smaller companies in an earlier stage of development. Uncertainty can be very high because important drivers of the company's future value may be unknowable at the time of investment. We seek extraordinary returns over time from these stocks to compensate for the uncertainty we accept by investing at an early stage. These are likely to be the most volatile positions in the portfolio, requiring a patient sell discipline that tolerates wide swings in the stock price.

We manage risk in this strategy by tilting the relative weightings among stocks based upon the market climate. Cash may be used as a complementary risk management tool over shorter time periods.

Role in Portfolio

The Managed Equity Growth strategy serves as a core allocation to the domestic equity asset class to achieve long-term capital appreciation and prudent diversification.

DISCLOSURES

Introduction

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