

Our Public Equity team addresses the questions we most frequently receive from our clients and prospective clients about our equity portfolio's recent performance, underlying philosophy, and risks.

1 SOURCES OF RETURN AND PORTFOLIO CONSTRUCTION

Strategic seems to still have conviction in active management at a time when many question the ability to generate alpha. How have you been able to generate such alpha recently? Was it the result of concentrated positions on particular equity sectors or momentum-driven stocks?

The alpha we have been able to generate resulted primarily from active security selection by the managers in the portfolio. This is by design. In the pursuit of alpha, we focus first and foremost on security selection to diversify the sources of potential value added and limit concentrated exposures to particular risk factors.

Our manager sourcing process starts with an open mind, exploring many diverse sources of potential alpha within the global equities universe. With a large, experienced team, we can focus on finding what we believe to be the best risk-takers across a crowded universe. We take a partnership-driven approach which allows us to add capital when opportunities present themselves. The alpha we have been able to source in recent years is above expectations due to multiple separate things working well - the performance was dispersed across different geographies, styles, and sectors. There was no single theme or exposure that dominated returns.

In our process, we focus on identifying risk-takers that generate alpha through strong stock selection, a more repeatable and durable skill than taking big thematic bets. We diversify our portfolio across multiple sources of potential alpha, striving to ensure that we maintain a beta in-line with the equity market, managers are sized appropriately considering their risk and return expectations, and that we keep active exposures to generic factors, including momentum, as low as possible.

As a result, we don't think we have a portfolio that just does well in one or two environments but does well across many market environments. And our experience supports that as well.

2 FORWARD EXPECTATIONS AND PORTFOLIO POSITIONING

What are your expectations for your ability to source alpha going forward?

We see no reason to expect a reversal going forward. We monitor our managers' underlying portfolios for valuation and idea turnover, ensuring that they've monetized appropriate gains and are rotating into attractive new opportunities.

If the portfolio performance had been driven by one or two themes, you might expect a reversal. But because it was driven by lots of different separate factors and positions, and we expect those elements to be uncorrelated, we don't think our ability to source alpha in 2025 tells us much about how 2026 is likely to turn out. Our expectations for this year are in line with our long-term track record.

3 MANAGING CORRELATION AND DOWNSIDE RISK

How do you know your managers won't be highly correlated in a crisis? How will you manage the downside?

While we can't predict the future, we spend a lot of time on portfolio construction, including style fit and sizing, correlation of managers' historical and expected absolute and relative returns, and individual stock position overlap. We regularly rebalance managers that have had strong outperformance. We also carefully monitor the exposures and risks within each of our managers' portfolios using our proprietary analytical tools and can estimate the correlations those risks are likely to have.

AT A GLANCE - PUBLIC EQUITY PLATFORM

- Global equity universe with diverse sources of risk and return
- Multi-manager structure across styles, sectors, and geographies
- Portfolio constructed to balance exposures and limit concentration
- Active oversight of underlying holdings and positioning
- Liquidity maintained to support flexibility in changing markets

PORTFOLIO CHARACTERISTICS

- Returns driven by multiple independent sources of potential value added
- Performance contributions diversified by geographies, styles and sectors
- Portfolio constructed to limit concentrated exposures
- Emphasis on repeatable, process-driven investment approaches
- Ongoing monitoring of underlying holdings and risk exposures

INVESTMENT APPROACH

Investment decisions are grounded in identifying managers with differentiated sources of return and constructing portfolios within a disciplined risk framework. Emphasis is placed on security selection and ongoing monitoring of portfolio positioning, valuation, and risk exposures.

SERIES OVERVIEW

A recurring series featuring perspectives from asset class leaders and other members of Strategic's Office of the CIO.

Upcoming editions:

- Trading & Portfolio Management
- Private Equity
- Hedge Funds
- Fixed Income
- and more

Public Equity: In Focus (continued)

We update this analysis every month based on the individual holdings of all our managers. This allows us to identify and offset any common exposures that could cause increased correlation between our managers in different scenarios.

Part of managing through a crisis is having the liquidity to be offensive when everyone else is defensive. We have a lot of tools that enable us to move quickly when opportunities present themselves. Especially in a crisis, it's critical to know where markets are, how your managers are positioned, and most importantly, that you have the liquidity to lean in while others are getting out. Liquidity is an extremely important risk-management tool, especially in downside scenarios.

4 THE ROLE OF AI IN ACTIVE EQUITY INVESTING

Won't AI eliminate the ability to deliver alpha as information will immediately be reflected in stock prices?

Systematic trading and natural-language processing tools have been out there for a long time. Even before AI, we saw relevant new information (like corporate earnings, a merger, etc.) reflected in stock prices pretty quickly. We've never liked strategies that attempt to simply trade faster on new public information. Instead, we like strategies with a combination of:

- Ability to gain unique insights from the available information
- Differentiated access to information (like industry experience and relationships)
- Organizational characteristics that allow strategies to take advantage of opportunities that others see but can't exploit (like scale, challenging geographies, etc.)

We believe AI will bring more opportunities for skilled risk-takers to better identify attractive investments and gain an edge over other managers who are slower to adopt AI. Many of our managers are already using AI in innovative ways to improve efficiency and find investments. In addition, the growth in retail presence in the market should continue to create opportunities for skilled, well-resourced and disciplined risk-takers, especially those who use AI effectively.

5 CURRENT MARKET RISKS AND CONSIDERATIONS

What are you most worried about today?

The equity market has increasingly been driven by extreme sentiment, potentially pushing stock prices farther away from a company's underlying fundamentals. This can be challenging to navigate as the sentiment shift can be quick. Leverage in the system amplifies this volatility and creates larger pressure across the system when a deleveraging event occurs, which further amplifies the volatility. We are cautious about having excessive exposure to strategies that may be subject to simultaneous drawdowns in a crisis even in cases where a standard risk model does not forecast high correlation.

6 FINAL THOUGHTS

Our approach to public equity investing is grounded in security selection, diversified sources of potential return, and disciplined portfolio construction. We focus on building portfolios that are resilient across a range of market environments, rather than dependent on a narrow set of outcomes.

Maintaining diversification, monitoring exposures, and preserving liquidity remain central to how we manage risk and respond to changing market conditions. These elements are particularly important in environments where market dynamics may be influenced by shifting sentiment and evolving structural factors.

We welcome further questions and ongoing dialogue as part of our engagement with clients and prospective clients.

INVESTMENT TEAM & PLATFORM

- Dedicated Public Equity team supported by a broader Office of the CIO structure
- Investment professionals with decades of experience across market cycles and global equity markets
- Integrated support across research, risk management, and operational due diligence
- Team-based investment process combining sector expertise and portfolio construction
- Ongoing monitoring supported by proprietary analytical tools

ABOUT STRATEGIC

Strategic Investment Group® is an Outsourced CIO (OCIO) firm that provides institutions with the capabilities of a full investment office.

Acting as an extension of our clients' investment teams, we deliver portfolio construction, manager selection, and ongoing risk management within a structured fiduciary framework.

Strategic was founded to provide mission-driven institutions access to the investment office they would build if they had the time, the people, and the scale to do so internally.

LEARN MORE AND CONTACT US



Learn more about our investment approach and how we work with mission-driven institutions.

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