

White Label UMA Models reflect the most current thinking of Investnet | PMC's research and portfolio management teams.

Changes to Investnet | PMC's Asset Class Portfolios for 2022

Investnet | PMC's Asset Class Portfolio (ACP) methodology is based on the bootstrapped mean-variance optimization approach and employs market-cap based constraints, which effectively create admissible regions for optimal weights. The final weights are then decided by the relative changes in the Capital Market Assumptions (CMAs) year-over-year, employed in a bootstrap setting.

While understanding the year-over-year changes in the optimal allocations is not always a clear-cut exercise due to the complexity of the optimization problem, oftentimes it is possible to discern the effect of changes in CMAs on final allocations. For example, the largest change in PMC's ACPs this year was to the allocation of domestic Large Cap equity asset class. In particular, the 50/50 equity/fixed income split changed from about (the precise allocation changes will depend on specific parameter selections, such as equity/fixed income split, diversifying asset choices, and minimum allocation constraints) 19.6 percent to about 21 percent – a 140 bps increase.

The reason for this meaningful positive change is the increase in Sharpe Ratio (SR) of Large Cap relative to SR changes in other asset classes. In turn, the change in SR was the result of the increase in our forecast for the Large Cap equity asset class. To wit, the All-Cap asset class expected return, which serves as an anchor in our CMA estimation methodology (please see the CMA methodology document) increased from 5.37 percent to 5.83 percent, in nominal arithmetic terms.

Replacement of Schroders International Alpha ADR Strategy with the Blackrock International Equity ADR Strategy

The Schroders International Alpha ADR strategy's strong performance track record has led to steady asset growth over the past few years. Schroders has earmarked a certain amount of capacity for different strategy vehicles, and the ADR vehicle has exceeded their originally intended limit. Therefore, Schroders decided they would soft close the ADR vehicle on April 30, 2022, as their asset level has reached capacity. Schroders looks at capacity across their entire international equity suite of products, not just at the individual strategy level. Therefore, capacity estimates seem conservative for an international large cap core product. Although disappointing to see a strong product soft close, we believe alpha generation for existing clients will be preserved at this asset level.

For future clients seeking a replacement manager, we recommend the Blackrock International Equity ADR strategy. It is a concentrated, benchmark agnostic portfolio of 30 to 40 names with moderate (~20%) EM exposure and will typically be core with a growth bias. The Blackrock International Equity team draws on an impressive array of resources, such as regional and thematic equity teams, an ESG team, a quant team, and an impressive array of analytical tools. When these resources are harnessed by the veteran two-person co-PM team and dedicated six-person analyst team, they create a product that is in the upper echelon of peers and carries a research status of "Approved – Qualitative."

White Label UMA Model Update

Models affected by the replacement of Schroders International Alpha ADR Strategy with the Blackrock International Equity ADR Strategy			
Style	Tier	Qual/Non-Qual	Allocation
Active	1	Qualified	20/80
Active	1	Non-Qualified	20/80
Active	2	Qualified	40/60
Active	2	Qualified	60/40
Active	2	Qualified	80/20
Active	2	Qualified	100/0
Active	2	Non-Qualified	40/60
Active	2	Non-Qualified	60/40
Active	2	Non-Qualified	80/20
Active	2	Non-Qualified	100/0
Active	3	Qualified	100/0
Active	3	Non-Qualified	100/0

Victory Trivalent International Small Cap Fund Soft Closes and no Suitable Replacement can be Recommend

We were informed in late 2021 that the Victory Trivalent International Small Cap Fund, our current Select List option in the international small cap core space would soft close late in the first quarter of 2022.

The Victory Trivalent International Small Cap mutual fund's strong long-term performance track record has led to stable asset growth and the impending soft close as it ranks in the top percentile of foreign small/mid blend peers over the trailing 10-year period. The investment team reviews capacity regularly by looking at specific criteria they believe is important including average daily trading volume, investment universe size and liquidity, alpha generation, etc. Their main goal is to preserve alpha generation potential for existing clients, which we appreciate. Therefore, they've decided this is the appropriate time to soft close. We are comfortable with asset levels, as well as liquidity and reasonable estimated trading times for securities in the portfolio but are pleased to see the team is implementing a soft close to protect the interests of existing shareholders.

An exhaustive search was initiated to find a replacement, and after surveying the universe, we could not find a suitable replacement due to a lack of custodial availability and high minimum investment requirements.

As such, for our 2022 Asset Class Portfolio updates, we have decided to roll up our international small cap asset class exposure back into our international large cap weightings across all of the effected risk classes models.

White Label UMA Model Update

Models affected by the soft close of the Victory Trivalent International Small Cap Fund			
Style	Tier	Qual/Non-Qual	Allocation
Active	1	Qualified	60/40
Active	1	Qualified	80/20
Active	1	Qualified	100/0
Active	1	Non-Qualified	60/40
Active	1	Non-Qualified	80/20
Active	1	Non-Qualified	100/0
Active	2	Qualified	60/40
Active	2	Qualified	80/20
Active	2	Qualified	100/0
Active	2	Non-Qualified	60/40
Active	2	Non-Qualified	80/20
Active	2	Non-Qualified	100/0
Active	3	Qualified	60/40
Active	3	Qualified	80/20
Active	3	Qualified	100/0
Active	3	Non-Qualified	60/40
Active	3	Non-Qualified	80/20
Active	3	Non-Qualified	100/0
ActivePassive	1	Qualified	60/40
ActivePassive	1	Qualified	80/20
ActivePassive	1	Qualified	100/0
ActivePassive	1	Non-Qualified	60/40
ActivePassive	1	Non-Qualified	80/20
ActivePassive	1	Non-Qualified	100/0
ActivePassive	2	Qualified	60/40
ActivePassive	2	Qualified	80/20
ActivePassive	2	Qualified	100/0
ActivePassive	2	Non-Qualified	60/40
ActivePassive	2	Non-Qualified	80/20
ActivePassive	2	Non-Qualified	100/0
ActivePassive	3	Qualified	60/40

White Label UMA Model Update

Style	Tier	Qual/Non-Qual	Allocation
ActivePassive	3	Qualified	80/20
ActivePassive	3	Qualified	100/0
ActivePassive	3	Non-Qualified	60/40
ActivePassive	3	Non-Qualified	80/20
ActivePassive	3	Non-Qualified	100/0
ActivePassive with Alternatives	1	Qualified	80/20
ActivePassive with Alternatives	1	Qualified	100/0
ActivePassive with Alternatives	1	Non-Qualified	80/20
ActivePassive with Alternatives	1	Non-Qualified	100/0
ActivePassive with Alternatives	2	Qualified	80/20
ActivePassive with Alternatives	2	Qualified	100/0
ActivePassive with Alternatives	2	Non-Qualified	80/20
ActivePassive with Alternatives	2	Non-Qualified	100/0
ActivePassive with Alternatives	3	Qualified	80/20
ActivePassive with Alternatives	3	Qualified	100/0
ActivePassive with Alternatives	3	Non-Qualified	80/20
ActivePassive with Alternatives	3	Non-Qualified	100/0

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Disclosure

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