



ORS CASE STUDY
LONG-ONLY EQUITY
MULTI-MANAGER

powered by **SHERPA FUNDS**
TECHNOLOGY



ENHANCED ALPHA EXPRESSION FOR A BENCHMARKED LONG-ONLY MANAGER

This 2019 case study illustrates how a **long-only equity** client with multiple benchmarked portfolio managers has successfully applied the Sherpa Funds Technology ORS process.

The client uses Sherpa's systematic portfolio construction approach to help their managers better express their stock-picking alpha versus their benchmark to achieve better portfolio outcomes.

To help this client improve their portfolio construction decision making, Sherpa Funds Technology works with them to:

- Understand the risks they want to take versus the risks they don't want
- Define a consistent process for scoring their investment ideas
- Construct optimal portfolios to implement their ideas in a risk-controlled manner
- Develop a workflow around rebalancing and analytics to realize process improvement

SHERPA GUIDED THE CLIENT TO UNDERSTAND THEIR PORTFOLIO CONSTRUCTION PROCESS

Through working with Sherpa, the core portfolio construction goals were defined as

More of the Risk You Want

- Higher active share
- Higher weights and risk contribution in high conviction assets

Less of the Risk You Don't

- No increase in benchmark risk

To achieve this on an ongoing basis the individual PMs simply select their assets and assign a conviction (low = 2, medium = 3 or high = 4) to each asset.

ORS CREATED RISK-CONTROLLED LONG-ONLY PORTFOLIOS BASED ON CLIENT GOALS

The Sherpa process helped create optimal ex-ante portfolios below maximizing the desired risk.

- fewer overall positions
- greater Active Share
- higher concentration in high conviction ideas (% wt in 4s increased)
- lower concentration in low conviction ideas (% wt in 2s reduced)

Ex-Ante View 9 Portfolios as at 9th January 2019									
Index	Portfolio	# Shares		Active Share		% in 4's		% in 2's	
		Original	Sherpa	Original	Sherpa	Original	Sherpa	Original	Sherpa
1	Port1	57	48	32%	44%	68%	88%	4%	0%
2	Port2	61	46	24%	42%	52%	69%	14%	4%
3	Port3	60	51	16%	23%	35%	43%	32%	27%
4	Port4	42	42	22%	24%	58%	56%	2%	3%
5	Port5	54	37	36%	48%	59%	79%	14%	2%
6	Port6	30	24	24%	37%	41%	65%	10%	2%
7	Port7	44	35	9%	15%	38%	45%	4%	0%
8	Port8	44	44	22%	29%	23%	30%	24%	22%
9	Port9	32	33	13%	14%	81%	81%	8%	4%

THE OPTIMAL LONG-ONLY PORTFOLIOS PRODUCED IMPROVED RESULTS

The Sherpa portfolios added an annualised 236 bps of extra return in the period displayed.

Optimal weights on their high conviction ideas (conviction score of 4) were a core performance driver while benchmark risk remained constant, delivering better returns with more of the risk they wanted and less of the risk they didn't.

Ex Post View 9 Portfolios up to 17th June 2019										
Return by Conviction since Feb 19th					Portfolio Returns					
0	1	2	3	4	BMK	Orig	Sherpa	Sherpa Diff	Portfolio	
-9.5%	5.1%	-0.9%	2.3%	-2.1%	-1.9%	-1.1%	-0.2%	0.9%	Port1	
-0.5%	-19.9%	-7.6%	1.4%	-7.3%	-3.9%	-3.6%	-5.4%	-1.7%	Port2	
0.0%	0.0%	0.6%	9.2%	7.7%	8.1%	8.2%	9.8%	1.6%	Port3	
-2.9%	0.0%	-6.9%	-8.8%	0.7%	-2.8%	-0.8%	-0.5%	0.4%	Port4	
-9.1%	24.4%	-3.0%	0.6%	-0.1%	-5.1%	-5.0%	-4.0%	1.0%	Port5	
0.0%	-5.5%	6.5%	3.0%	9.3%	3.4%	4.1%	6.7%	2.7%	Port6	
0.0%	-11.2%	-4.2%	-3.4%	-2.1%	-4.8%	-4.5%	-5.0%	-0.5%	Port7	
-5.5%	-1.2%	-13.0%	-3.4%	5.0%	-8.0%	-5.3%	-4.7%	0.6%	Port8	
15.7%	17.5%	-8.1%	-5.8%	-2.0%	-3.8%	-3.4%	-1.4%	1.9%	Port9	
								annualised return extra	2.36%	

SHERPA ASSISTED IN UNDERSTANDING AND OPERATIONALIZING THE RESULTS

After setting up the process and running the portfolio construction, Sherpa worked with the client to explain and integrate the results for maximal impact.

- Explain conviction-risk-weight relationship with Sherpa's Risk Quality Score graphs
- Analyse residual portfolio factor risks and sensitivities
- Determine a quarterly rebalancing frequency was suitable for this very long-term investor (other Sherpa clients range from daily, weekly, monthly per strategy)

LET US SHOW YOU HOW SHERPA CAN HELP YOUR PORTFOLIO

Contact the Sherpa team below and let us...

- Share how funds like yours are already benefiting from implementing ORS
- Go into more detail on the ORS philosophy and methodology
- Demonstrate how the ORS process can help you on a Portfolio of your own data

richard.waddington@sherpafundstech.com

+ 65 6410 9224

craig.mcgee@sherpafundstech.com

+ 65 6222 9456

steven.quimby@sherpafundstech.com

+ 65 8503 6126

info@sherpafundstech.com

www.SherpaFundsTech.com