



Portfolio Construction Methodology

Our proprietary research method enables us to harness our extensive research on global topics; temper our hypotheses via the methodical consideration demanded by scenario analysis; and develop powerful thematic investment strategies.

- Deep-rooted knowledge of critical global dynamics and drivers for:
Water, Energy, Food and Population
- Understanding key market driver interrelatedness.
 - Global macroeconomic conditions, market fundamentals, market sentiment indicators, and current global situational impacts
- Proven proprietary frameworks, methodologies and processes.
 - Identifying and analyzing significant trends, drivers, and implications
 - Utilizing scenario analysis to identify probable long term market opportunities
 - Identifying viable investable themes
- Strong investment philosophy and effective rules-based, portfolio construction processes to meet clients' specific needs.
 - Developing investment theses for investable themes
 - Establishing investment parameters
 - Examining and screening investment candidates
 - Constructing relevant, targeted and performance-driven portfolios

Our method relies on several key activities:

- **Creating a Body of Knowledge**

Our research and metrics team gathers information from a wide array of sources and studies available data to ascertain whether an event or series of events provide evidence of a strong secular trend. If we can determine that such evidence exists, we formulate questions and seek to frame the analysis of the trend from a commercial perspective.

- **Scenario Analyses: Dynamics of Potential Futures**



We then assess forces affecting and driving the trend via eight scenario analyses that each generates four possible futures. Seven topical scenario analyses (political, economic, demographic, society/behavior, technology, private sector activity, sensitivity to macroeconomic conditions) explore a trend's durability and its potential for disruption. The information from these topical analyses informs an eighth scenario analysis that examines the market size and economic opportunity of the trend. By this point, our analysis has produced 32 perspectives on possible futures that present investment themes. We select the themes with the highest potential impact to create new economies for further investment research.

- **From Themes to Theses**

Using the framework of a possible new economy, we look into the affected corporate sectors to describe companies that have the potential to be either “the challengers” or “the challenged” according to the theme. An analysis of the companies' products and strategies informs an investment thesis that provides both a “long” and “short” thematic strategy.

- **Investment Thesis to Investment Products and Services**

Candidate companies in both “challenger” and “challenged” groups undergo fundamental analysis with special attention on financial health, corporate investments, and current and future strategy. Viable companies are ordered into baskets that best represent the value chains surrounding the investment thesis. We use our resulting research to serve several needs. We assist our clients by offering them better investment programs through portfolio and market risk analysis and thematic modernization. We also draw on our experience in enhanced indices to forge the baskets into effective passive strategies that may create either exchange-traded products or bespoke strategies for private clients.



Candidate Qualification

- Theme: identified
- Scan globally for constituents (using GICS, NAICS and other industry classifications, applying minimum market cap and liquidity requirements)
- Assess sufficiency to support a robust portfolio
- If sufficient, collect initial universe
- Qualitative assessment of constituents (examine products and services, activities)
- Financial statements: determine revenue contribution from area of interest (~50%)
- If meets threshold, candidate is qualified

Weighting Determination

- Null: modified equal weighting. Each sector or “activity area” is given an equal weight. We want the so-called “sector risk.” Also, equal weighted indices produce better results over the long-term with comparable volatility when compared with cap-weighted indices
- Portfolio A: easy to divide into sectors (“asset class”-type composite)
 - Equal weight the sectors; equal weight the number of constituents in each sector per sector weight (ex.: if a sector is 20% (5 sectors in total), and it has 10 constituents, each constituent is 2%)
 - For a large portfolio, endeavor to keep number of constituents per sector equal; prefer more profitable companies over less profitable companies (net margin)
- Portfolio B: not easy to divide into sectors because theme is in one or two GICS-type sectors



- Can it be divided into similar product/service areas to form “activity areas”?
- No
 - If no, and firms are generally all “pure play” companies, equal weight the portfolio
 - If no, and firms have differing levels of revenue exposure to the opportunity, rank/rate according to relative revenue exposure, and bias according to ranking. In this instance, the “buckets” will not be equally weighted as in the sector case
- Yes
 - If yes, define activity areas (ex. proteins, fats, vegetables, fruits, chemicals, transport, outlets for a nutrition index)
 - Equal weight the activity areas and let the constituent weights be determined as above
- Again, endeavor to keep number of constituents per sector equal; prefer more profitable companies over less profitable companies (net margin)

Objectives

- Our first objective is generally to try to build a pure play portfolio and to capture around half of the revenues of that industry / sector / theme / investment thesis.
- Our other objective could be to capture an important percentage of the revenues of that theme. So whenever pure plays are not sufficiently representative of the sector we try to add the multi-business companies with an aim to capture around 3/4 of the revenues.

We also try to apply a larger product strategy by further dissecting that universe into a global portfolio with the aim of bringing to market provided there is demand for additional products which would be offering additional exposure either on a regional level or on industry specific level.