

Active Equity Strategy Overview

Objective: Maximize absolute return over a 3-5 year time horizon using a subjective stock selection style that adheres to a well- defined discretionary decision-making process whose primary resources are: human skill, experience, and judgement. The information used in stock selection is primarily research on companies/industries/economy for the purpose of stock analysis. The focus of the analysis is on forming conviction in a stock, a sector, or a region in order to establish a view on a stock. The portfolio is constructed using judgement and conviction *within permissible risk parameters*. Alpha is earned from tactically adjusting the exposure to specific equities using skill to identify mispriced securities, sectors, or factors.

Investment Process:

- Investment Philosophy: an opportunity exists to capture higher capital appreciation than the broad stock market index by maintaining exposure to: 1) only the best growth themes at reasonable valuations and 2) undervalued stocks which are out of favor but whose long-term competitive position is intact.
- Investment Universe: mainly large-cap stocks with above average growth potential and less frequently mid-cap stocks with the highest potential to move up to the large-cap universe.
- Investment Selection: the following steps are undertaken and repeated to build the Active Equity portfolio:
 1. Investment Screen: top-down screen to obtain a manageable set of securities for further, more detailed analysis.
 2. Investment Analysis: understand the industry and business for this screened set by performing industry analysis and company financial report analysis in order to assign a value to and identify profitable investments.
 3. Portfolio Construction: include best investments with the desired risk with sizing engine determination.
 4. Portfolio Rebalance: according to “factor risk” to improve exposure to factors, reduce risk of outsized winners, or reduce exposure to incorrect selections as soon as new information invalidates our view.



Investment Process Detail: Investment Philosophy

Why do we actively invest in stocks?

- The underlying investment philosophy is that stock prices tend to follow earnings growth.
- A thorough analysis of the market environment reveals trends and themes.
- Rigorous analysis of companies and their stocks within identified themes reveals stocks that can grow earnings to a greater extent or faster than the average market participant expects.
- Viable investment candidates are stocks whose potential for sales/cash flow/earnings growth or improving competitive position is not yet fully reflected in their price and thus have an intrinsic value above their market value.

How is alpha achieved in our Active Equity Strategy?

- By adding value at each stage in the investment process using our collective experience, judgement, and knowledge.
- By actively managing the factor risk of the portfolio to improve exposure to both known rewarded factors and unrewarded factors.
- By timing the exposure to known rewarded factors tactically if the market consensus is over/under estimating the risks of a particular factor in our view.
- By increasing exposure to unrewarded factors like thematic stocks, sectors, or geographic regions.
- By actively monitoring developments of all companies in the portfolio.
- By actively trading securities to reduce risk as new information is processed.
- By sizing positions appropriately to reflect a balance between the confidence in our analysis while mitigating idiosyncratic risk.
- By timing exposure to cash.



Investment Process Detail: Investment Universe

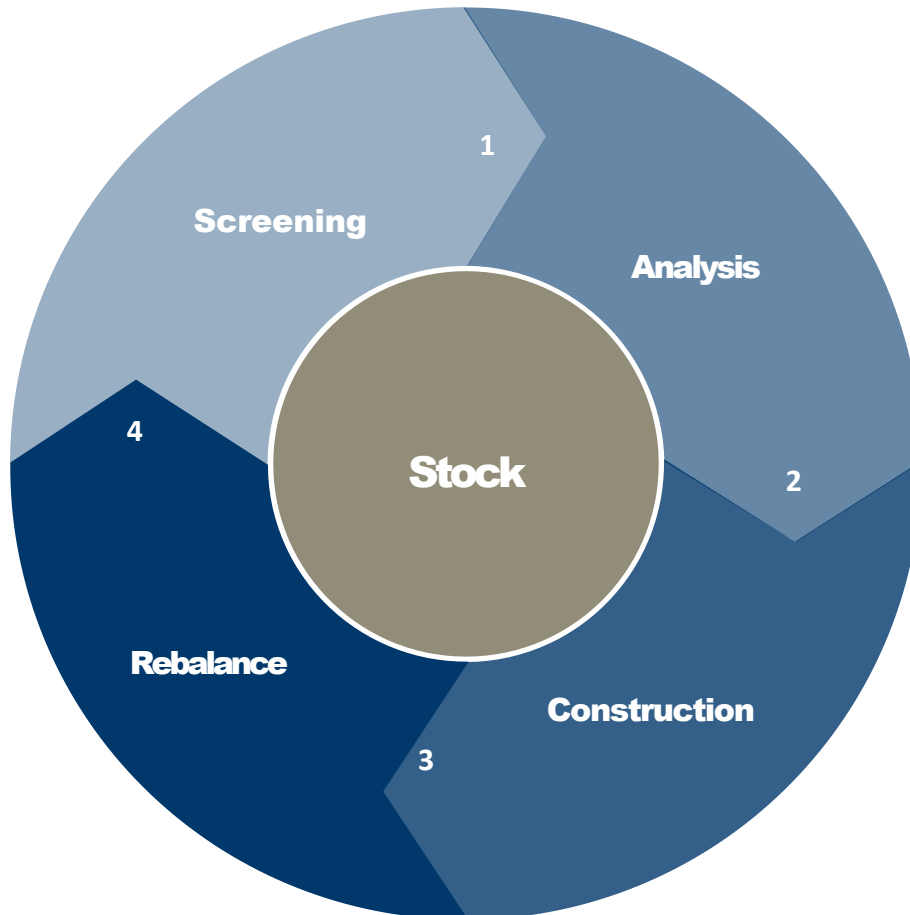
What type of stocks are in the portfolio?

- The mandate of the Active Equity Strategy defines one market segment from which stocks will be selected: US equities.
- The portfolio's performance benchmark is the S&P 500 which consists of large-capitalization stocks.
- Mainly large-capitalization stocks are included in the portfolio due to their:
 - Improved liquidity.
 - Increased standards for reporting.
 - Higher caliber of management.
 - More consistent earnings performance.
 - Sustainable business models proven over time.
- Infrequently, mid-capitalization stocks are chosen due to their:
 - Higher potential for growth in new markets.
 - Agility in responding to evolving end markets.
 - Higher probability of undervaluation because they are not widely followed.
 - Higher degree of undervaluation because they are not widely followed.
 - Ability to become the next large-capitalization stocks by outperforming.

Investment Process Detail: Investment Selection

How are specific stocks selected?

- A four-step process that is continuously performed produces the stocks that ultimately become inclusions in the portfolio:



Investment Process Detail: Investment Selection- Screening



Begin with a top-down approach:

- Economic Outlook
 - We begin with a top-down assessment of the global economic outlook over the next two years. Initially, we determine parts of the globe that will experience strength or weakness. Then we develop a view of the level and direction of interest rates. Finally, we attempt to evaluate how these economic conditions will be expressed in different sectors of the economy and rank relevant sectors.
- Sector Allocation
 - After setting our macro framework and sector rankings, we allocate the appropriate amount of capital to each sector. We do not attempt to track or replicate any benchmark (i.e. S&P 500) sector weights. We attempt to position the portfolio for maximum risk adjusted returns by overweighting the sectors that are identified as the most promising relative to benchmark sector weights as opposed to a bottom up strategy which keeps sector weights in line with a benchmark but relies on overweighting individual stocks identified as the most promising within each sector.
- Stock Selection
 - Within each sector our team will create a list of equities we believe are undervalued in the marketplace in relation to factors such as sales, earnings, growth potential, or cash flow, or competitive position in relation to other companies in the industry. This list of stocks undergoes another level of screening and deeper analysis in the next phase of the investment selection process: analysis.

Investment Process Detail: Investment Selection- Analysis



Refine the list of valid investments and analyze:

- Identify stocks to analyze in greater detail
 - After a list of stocks that meet criteria identified in the previous phase is created, the list is winnowed down to eliminate stocks that have relative weaknesses to other stocks in the sector. A thorough quantitative and qualitative analysis is performed to identify weaknesses. Specific issues that would eliminate a stock depend on the situation. For example, stocks that are in a highly favorable sector may have too much total debt relative to other stocks or may have too much debt coming due in the short term. Other factors that are a cause for eliminating stocks are consistently underperforming operational metrics and management effectiveness metrics of the underlying companies. A qualitative analysis may reveal untrustworthy or incompetent management whose deteriorating business is masked by a robust market environment. Emphasis is placed on identifying stocks whose expected merits appear to be overshadowed by potential drawbacks that may not materialize and are thus underpriced; any stock whose obvious merits are fully priced into the stock is also eliminated.
- Select the best 20-30 stocks revealed to be the best candidates
 - The analysis will reveal the stocks that ought to be included by ranking the relative attractiveness of each stock. The breadth and depth of available information that is able to be processed results in a level of conviction for each stock. That level of conviction will dictate the weight of each stock in the next phase of investment selection: portfolio construction.

Investment Process Detail: Portfolio Construction



Building a well-constructed portfolio

- The portfolio of the Active Equity Strategy should deliver results consistent with investors' risk and return expectations. CCM cannot guarantee excess return relative to the benchmark, especially over a shorter horizon, but the portfolio will be designed to deliver the risk characteristics we desire and we are promising to investors. We will consider our portfolio well-constructed if it possesses: a clear investment philosophy and a consistent investment process; risk and structural characteristics as promised to investors; a risk-efficient delivery methodology; and reasonably low operating costs given the strategy.
- We use a top-down discretionary approach to portfolio construction. As such, we emphasize 1) macro factors, 2) rewarded-factor timing, and 3) concentration in a portfolio of 20-30 stocks. These are the three building blocks of our portfolio construction. For macro factors, we overweight unconventional-factor exposures that are revealed from our macro analysis: geographic-factor exposure, themed-factor exposure like “reshoring”, infrastructure, growth, or energy inputs. For factor timing, we time exposure to rewarded factors like momentum, value, or size, and for position sizing, we accept a larger degree of idiosyncratic (company- specific) risk.
- Value is added to the Active Equity Strategy by the breadth of expertise applied across all three building blocks of portfolio construction. In other words, it is our broad range of skills applied to portfolio construction rather than a narrow and deep skill set in any one building block that creates value in the portfolio.
- We use both formal and informal risk constraints that weigh heavily on our decisions made in the last phase of our investment process: rebalancing.

Investment Process Detail: Portfolio Rebalancing



Managing risk dictates when and by how much we rebalance

- Risk constraint heuristics and fully invested constraint
 - We actively monitor developments of all companies in the portfolio. When, in our view, business conditions change and put the company's competitive position at risk, we will exit the position. If we feel that the company has become extremely overvalued, we will also exit the position. The goal of the portfolio is to remain fully invested. Positions that are exited will, therefore, be replaced with another position in the same sector when appropriate.
- Factor risk constraints
 - We actively manage the "factor risk" of the portfolio and will reduce or increase the weight of positions to attempt to improve exposure to factors. An example of a factor is "growth factor". If a portfolio was too concentrated in growth in early 2022, it did not perform well. A portfolio that attempted to reduce exposure to growth in early 2022 performed relatively well.
- Actively traded
 - We do not employ a "buy and hold" strategy. We recognize we can be wrong in our selection of a particular equity or that the fortunes of a business can change. We will exit a company when we feel there is a long-term change in its outlook. In addition, there are times when certain equities in the portfolio will perform extremely well. In these cases, we may reduce the size of the position, so it does not present outsized risk. We attempt to be as tax efficient as possible when doing this.
- Correlations
 - We avoid high correlation among stocks to improve the portfolio risk.



Active Equity Strategy summary

Process driven investing

- The investment process we strive to consistently implement in the Active Equity Strategy is based on our core philosophy: company earnings drive stock prices.
- Company earnings expectations may be out of line with potential. This results in earnings that deviate from expectations in either direction and stock prices that deviate from intrinsic value. Opportunity exists to capture this divergence in value to skilled portfolio managers.
- Selecting stocks that outperform is a repetitive process where skilled managers use a defined approach that emphasizes their skill.
- Portfolio construction strives to make sure that superior insights about stock returns get efficiently reflected in realized portfolio performance.
- Risk is continuously measured and assessed. The portfolio is maintained within risk constraints to provide the characteristics the client desires.
- This process is repeated and improved to maintain an equity portfolio that utilizes the skill of CCM to provide outperformance with the Active Equity Strategy.