

## Global Core Equity Strategy

SOLUTIONS & MULTI-ASSET | APPLIED EQUITY ADVISORS TEAM | STRATEGY PROFILE | 2017

The Applied Global Core Equity Strategy seeks to protect investors from prolonged periods of style-driven underperformance. Their flexible approach combines quantitative models with stock-specific research to identify 30 - 60 global companies with exposure to factors expected to drive returns in the current market environment.

### Philosophy: Active global investing, unconstrained by style

#### WE BELIEVE

- 1 **Common market-oriented factors drive the majority of stock returns**
- 2 **Stock selection is additive to alpha generation**
- 3 **Risk management should be integral to the investment process**

#### OUR APPROACH

*Through factor modeling, we can tilt the portfolio towards those styles, regions or sectors we deem as being most likely to produce excess returns.*

*We conduct company-specific analysis to determine the stocks most likely to add to the strategy's overall return.*

*We intentionally seek some risks and avoid others*

#### STRATEGY AT A GLANCE

Inception Date	July 2006
Investment Style	Core Equity
Securities	Global equity securities
Typical No. of Holdings	30-60
Target Active Share	90% or more
Target Tracking Error	4.5-5.0%
Benchmark	MSCI World Total Return

### Process: Blends factor analysis with stock-specific research

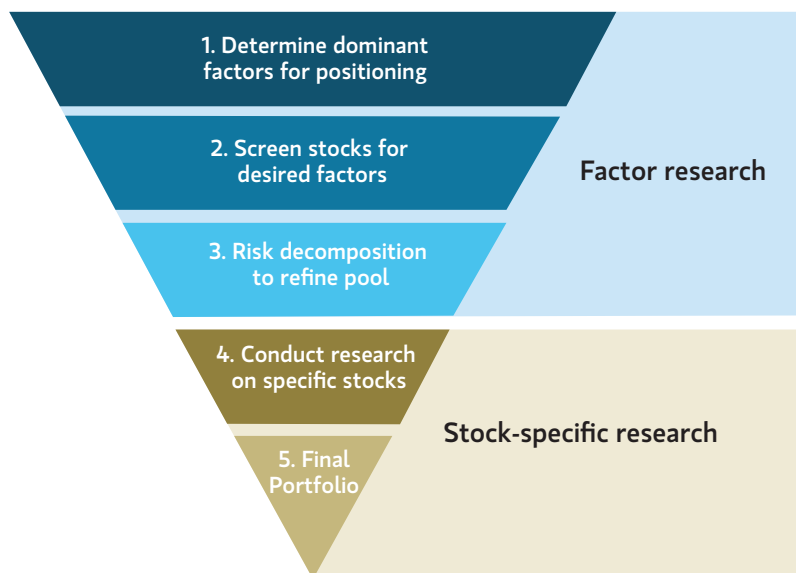
Using proprietary quantitative models, the team seeks to identify those factors it believes will dominate markets over the next 6-12 months. Over 40 factors across five categories are ranked based on their momentum strength and cheapness (valuation) to identify potential opportunities.

Stocks are then ranked by their relative exposure to desired factors, which narrows the universe to the top quintile (20%) of stocks. To further refine the pool, each high-scoring stock undergoes risk decomposition analysis to assess its effect on desired and undesired exposures.

Because various global regions are at different points in their market cycles, they reward different factors at different times. For this reason, we apply factor modelling on a regional basis: U.S., Europe, Japan, Asia ex-Japan.

Final stock weightings are determined by a stock's exposure to desired factors, the confidence level of its idiosyncratic opportunity and its contribution to reducing intra-stock correlations within the portfolio.

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**DISPLAY 1****Investment process: From broad market factors to specific stocks**

*This represents how the portfolio management team generally implements its process under normal market conditions.*

**Investment Team: Strong leadership, highly experienced<sup>1</sup>**

Andrew Slimmon is a Managing Director at Morgan Stanley Investment Management where he is the lead Senior Portfolio Manager on all long equity strategies for Applied Equity Advisors. Andrew is also a member of the Morgan Stanley Wealth Management Global Investment Committee. He has more than 30 years of investment management experience. He began his career at Morgan Stanley in 1991 as an Advisor in Private Wealth Management, and later served as the Chief Investment Officer of the Morgan Stanley Trust Company.

Phillip Kim is a Portfolio Manager for Applied Equity Advisors strategies, overseeing the team's quantitative equity research. Previously, he was a Quantitative Research Analyst for Morgan Stanley Smith Barney's alternative investment research. Mr. Kim also worked as a software engineer at Raytheon, where he was responsible for the design of the world's first high-altitude, long-endurance Unmanned Aerial Vehicle (UAV). Mr. Kim also worked at Pricewaterhouse Coopers as a financial model developer.

**Competitive Advantages****UNCONSTRAINED BY STYLE**

Portfolio is positioned to gain exposure to broad market factors the team believes will drive returns in the current market environment.

**STOCK-SPECIFIC IDEAS**

In addition to strategically positioning the portfolio to capitalize on prevailing market factors, the team conducts research on individual stocks to extract alpha from idiosyncratic factors at the company level.

**RISK MANAGEMENT EMBEDDED IN PROCESS**

Every part of the investment process is oriented toward taking intentional, calculated risks and managing those risks over time.

**Risk Considerations**

There is no assurance that a Portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the Portfolio will decline and may therefore be less than what you paid for them. Accordingly, you can lose money investing in this Portfolio. Please be aware that this Portfolio may be subject to certain additional risks. In general, **equities securities'** values also fluctuate in response to activities specific to a company. Stocks of **small- and medium-capitalization companies** entail special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. Investments in foreign markets entail special risks such as currency, political, economic, market and liquidity risks. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). **Non-diversified portfolios** often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility.

<sup>1</sup> Team members may change without notice from time to time.

## DEFINITIONS

**Weighted average market capitalization** is a stock market index weighted by the market capitalization of each stock in the index. **Price-earnings ratio (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. Calculated as Market Value per Share/Earnings per Share. **Portfolio turnover** is a measure of how frequently assets within a portfolio are bought and sold by the managers. Portfolio turnover is calculated by taking either the total amount of new securities purchased or the amount of securities sold—whichever is less—over a particular period, divided by the total net asset value of the fund. **Dividend yield** is the ratio between how much a company pays out in dividends each year relative to its share price. **Active share** is the fraction of the portfolio that is invested differently than its benchmark as of the last day of the reporting period. A portfolio with a high degree of active share does not assure a portfolio's relative outperformance. The typical active share and the number of holdings represent typical ranges and are not a maximum number. The **targets** presented are typical ranges. There is no assurance that these targets will be attained. The portfolio may exceed these from time to time due to market conditions and outstanding trades. **Alpha** is the excess return or value added (positive or negative) of the portfolio's return relative to the return of the benchmark. **Beta** is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. **Standard deviation** measures how widely individual performance returns, within a performance series, are dispersed from the average or mean value. **Upside capture** is a statistical measure of an investment manager's overall performance in up-markets. **Downside capture** is a statistical measure of an investment manager's overall performance in down-markets. **Tracking error** is the amount by which the performance of the portfolio differs from that of the benchmark. The **MSCI World Index** is a free float adjusted market-capitalization-weighted index that is designed to measure the global equity market performance of developed markets. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the indices is listed in U.S. dollars and assumes reinvestment of net dividends. The indices do not include any expenses, fees or sales charges, which would lower performance. The indices are unmanaged and should not be considered an investment. It is not possible to invest directly in an index.

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