

WORKING WITH...
CENTRE ASSET
MANAGEMENT



CENTRE ASSET MANAGEMENT AND BARRA SOFTWARE & MODELS: A WINNING COMBINATION

Centre Asset Management is a fundamentally-driven New York based investment adviser. Centre manages American and Global equities in relative and absolute return products focusing on concentrated portfolios of primarily large capitalization securities. Centre is a sub-adviser to funds distributed in the US, Europe, South Africa and elsewhere.

Institutional Credibility: A Proven, Established, Unique Approach to Investing

James Abate, founder, Managing Director and Fund Manager, explains that the firm was created on the principle that a merging of fundamental stock selection and quantitative portfolio construction provides the best opportunity for success that is scalable and consistent. It's an important distinction that James is quick to point out, "Stock selection itself does not ensure risk-adjusted performance success and, hence, we integrate fundamental security selection with appropriate position sizing and risk management with the key being to emphasize intended risk, namely stock selection, in portfolios."

The investment process developed and utilized by James is unique and well-respected in the investment management arena. James is recognized as a leader in applying an EVA (economic value added) based perspective to fundamental securities analysis. Many of the analytical foundations have been articulated in books and papers written or contributed to by James. His EVA approach to security analysis was adopted by the CFA Institute for candidate study programs. This innovative and unique investment approach is a cornerstone and contribution to the success of the firm

and has been practiced by James since 1995 during his tenure as a senior fund manager at Credit Suisse Asset Management and GAM prior to founding Centre.

A Successful Equity Strategy and Barra Products

Centre was founded in 2006, and as of April 30, 2012, had \$635 million of assets under management across the American and Global strategies. Centre's American Equity strategy is large cap focused and uses a bottom-up fundamental stock selection process which typically hold 45 to 70 stocks. Recently, the Drexel Hamilton Centre American Equity Fund, which Centre sub-advises, was identified as a top performing Large Cap fund ranked by year-to-date total returns as reported in the Wall Street Journal's Category Kings. Attesting to the consistency and repeatability of the investment process, James is no stranger to the Category Kings list having made appearances while managing American equity funds at Credit Suisse as well as GAM.

The three components upon which comprise Centre's investment strategy include stock selection, portfolio construction and implementation using algorithmic trading platforms. James explains, "We focus our energies on good fundamental stock selection from the fund managers and analysts and

use a trading platform that minimizes transaction costs. When it comes to portfolio construction, we use a system that gives us a robust platform whereby we have the confidence to make sure that our stock selection risk is identified clearly and where we can concentrate our portfolio on." The risk system that Centre uses is Barra Aegis.

Barra Aegis, an integrated suite of equity investment analytics modules, can be used by clients to manage their equity risk against their expected returns and to construct optimized portfolios.

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James Abate

**Founder, Managing Director
and Fund Manager
Centre Asset Management**



“With Barra Aegis, we can identify clearly and remove the unintended risk by using the risk model over a naïve portfolio construction process. We’ve now done that in the long only and absolute return strategies.”

“We’ve looked at other systems and reviewed other portfolio construction and optimization tools. We choose Barra because Barra is the gold standard for meeting our needs, and especially now that we have expanded from American to managing Global equities.”

Eighteen months ago, Centre started a global equity product with the hiring of Jing Sun, a highly experienced international fund manager who previously worked at ING Asset Management, TIAA-CREF and AllianceBernstein. Jing, himself a practitioner of an EVA based stock selection approach during his career, was a perfect fit to implement consistency in approach and portfolio characteristics, of which were to concentrate the portfolio construction efficiency and discipline that Centre had in their American strategy. Centre already sub-advises on four Global equity funds.

Using the right tools and getting excellent results

At Centre, according to James, “For fundamental stock selection, we look at the company drivers that create shareholder wealth: capital spending or alternative capital allocations such as acquisitions or dividends, company specific risk levels of a business to determine appropriate hurdle rates, how good the company is in generating operating return on its underlying assets vis-a-vis the hurdle rates. Wealth creation from growth or from wise-contraction – that’s how companies create shareholder value. Consistent with Centre’s principle that a merging of fundamental stock selection and quantitative portfolio construction is optimal, the firm concentrates on how it can add

the most value by focusing on the portfolio construction process. We use Barra products for overall tolerance for active weights, sector minimum and maximum weights relative to our benchmark as well as other risks that are embedded in the portfolio. We also use Barra Aegis system to help us size the positions in the portfolio and control the primary risks of the portfolio. MSCI’s Barra products help us implement our ideas in an efficient manner.”

A focused approach to selecting strategic partnerships

Centre has a strategic partnership with Sanlam International Investment Partners, part of the South African Sanlam Group, and serves as a sub-advisor to certain UK-distributed PSigma Asset Management funds, US-distributed Drexel Hamilton Investment Partners funds and South African and offshore distributed Sanlam Asset Management funds. Centre’s growth plans include similar sub-advisory relationships for Canada and the Middle East.

Centre’s business model is to work as a fund-sub advisor to different strategic regional

distribution partners. Centre’s exclusive partner in the US is Drexel Hamilton Funds where they serve as sub-advisor to their American and Global Equity Funds as well their US Long/Short Equity Fund. In the UK, Centre similarly manages PSigma’s American and Global Equity Funds. Centre’s business strategy is to serve as a sub-advisor and work closely supporting its investment manager partners. This allows Centre to concentrate on funds management. As James points out, “We aren’t trying to be everything to everybody. Centre’s fund managers and analysts can focus on portfolio management, offering American and Global equity expertise, working in concert with a few select strategic partners who focus on funds marketing and distribution.”

“We invest in resources that allow us to add the most value to clients. We’re a specialist firm that can stay focused on the investment management side of the business. Firstly, our key investments are in our people – fund managers and analysts – and provide them with the best investment research tools. Two of the resources we invest in, Barra Aegis and Optimizer, provide us with ease of use and have helped us be efficient in the various funds we’re managing. We’re able to customize the inputs and set parameters to exposure tolerances; factor, sector characteristics, and the like – all throughout the process for both American and Global equity strategies so we can focus on the inputs. We view this as a glass box. It provides us with complete transparency and allows us to have multiple iterations thru optimizing – getting back to fundamental stock selection and fund management first and foremost,” said James.

Barra Models with ‘The Knowledge’

Centre uses US Equity Model USE3 (Long Horizon) and Global Equity Model GEM2



(Long Horizon) both designed to help equity fund managers better construct and manage risk-adjusted portfolios. Stock price factors are influenced by various common factors. These factors allow a portfolio's risk forecast to be calculated and sliced into meaningful terms. Barra's equity models compute an asset's sensitivities to intuitive factors such as industry groups, market characteristics and fundamental data.

As James points out, "Using the Barra models, and understanding the correlations and the trends, it becomes part of your mindset. When you establish the constraints, you come up with an opinion as to the movement of the factors. The information gathering part of investing is like making a mosaic. You look at things from a bottom's up perspective and gain insights from an economic standpoint, etc. Although we concentrate on bottom-up fundamental stock selection, we're not oblivious as to what the market and economic conditions are, so when we look at factors, like correlation, volatility, momentum, we take a look at those things as well. The mosaic is a 'reconciliation' of these inputs in the portfolio construction process, and then we look at the optimization process, we may want to run looser within our limits. In other words, if there is a high-dispersion of returns in the market which should theoretically reward stock picking, we're more likely to have a higher tracking error at that time. We use Barra to help guide us through this process."

Centre's Culture: Strong Leadership and Valued Staff

Being a former US Army officer, James Abate found shared experiences with the members of Drexel Hamilton Investment Partners, Centre's sub-advisory funds partner in the US and a leading Service Disabled Veteran Owned Small Business investment manager. Andrew Bang, a West Point graduate and former Army officer, is President of the Funds and leads its business development efforts. Drexel Hamilton Investment Partners offers investment management services through the Drexel Hamilton Funds to primarily institutional clients. The funds provide access to experienced, established regional specialists and global portfolio managers across both investment styles and markets, including Centre's American and Global Equity strategies.

The principals of Drexel Hamilton Investment Partners are all military veterans who have transitioned into the investment management business. For instance, one of the Partners is Jack Jacobs, a Medal of Honor recipient, and demonstrates what is special about the firm and its missions to not only provide high-quality investment products to clients but to help recruit and train disabled military veterans who seek a career in investment management. The firm is majority owned by disabled military veterans including Jack and Wayne Robinson, himself a distinguished Army veteran who previously served with the Delta Force. Centre values and supports Drexel Hamilton Investment Partners' missions and culture.

Looking to the Future: Alpha Opportunities & Barra

Centre picks the best of both fundamental and quantitative investment practices to achieve its investment objective for clients. As James states, "Our consistent factor is that we've been able to tailor the portfolio construction process combining our unique fundamental investment philosophy and strategy, and using Barra products – and it's taking that consistency of alpha input which is fundamental, and putting it into a quantitative portfolio construction process to exploit the alpha opportunity on a consistent basis."

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