ENVESTNET PMC

ActivePassive Portfolios

Blending the best of both styles into one solution

By blending two seemingly opposing investment styles, the ActivePassive Portfolios offer the benefits of both approaches while limiting their challenges. Our innovative approach involves identifying high-conviction mutual fund managers through a rigorous research and due diligence process, and incorporating factor exposures to improve long-term, risk-adjusted returns.

Why Combine Active and Passive?

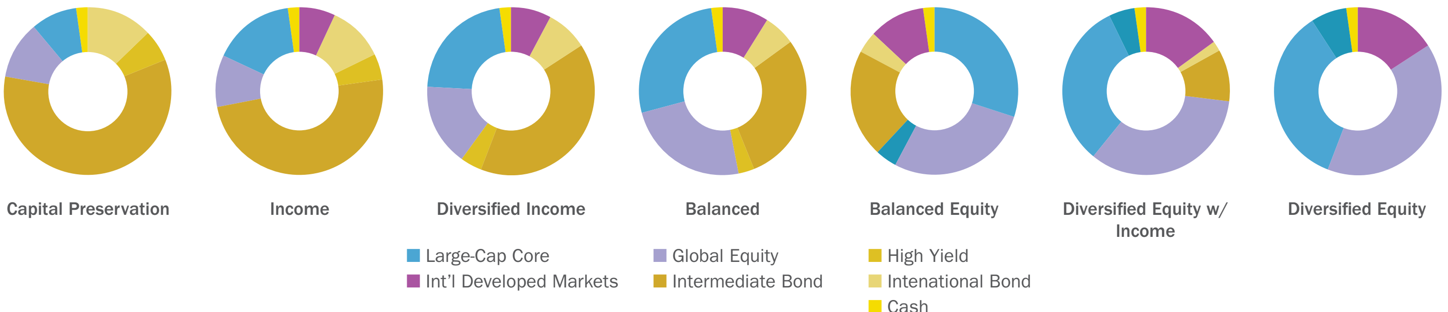
Envestnet | PMC research suggests that a blended approach can help to deliver an optimal investment solution.

Our quantitative study[1] evaluated nearly 10,000 mutual funds across 75 asset classes over a 33-year period. We determined the market conditions in which skilled active and passive managers tended to outperform or achieve alpha.

Market Environment	Active	Passive
Low Volatility		●
High Volatility	●	
High Correlations		●
Low Correlations	●	
Up Trending Markets		●
Down Trending Markets	●	
Efficient Asset Classes		●
Inefficient Asset Classes	●	

PMC Legacy in Active Passive Investing

PMC specialists have refined our active/passive approach for over 10 years. Today, the ActivePassive Portfolios are designed for varying investor risk profiles, from conservative to aggressive. Investors benefit from regularly monitored and rebalanced portfolios. Tax-sensitive versions are also available.



The PMC Active/Passive Approach: Sound Fundamental Theory + Disciplined Execution

Active component: combines factor-based strategies with traditional active management

- Based on PMC methodology for its suite of Quantitative Portfolios: exposures to value, momentum, quality, and low volatility factors
- High-conviction active management for fixed income allocations
- Application of modest annual tactical tilts to take advantage of relative opportunities across asset classes

Passive component: thorough assessment

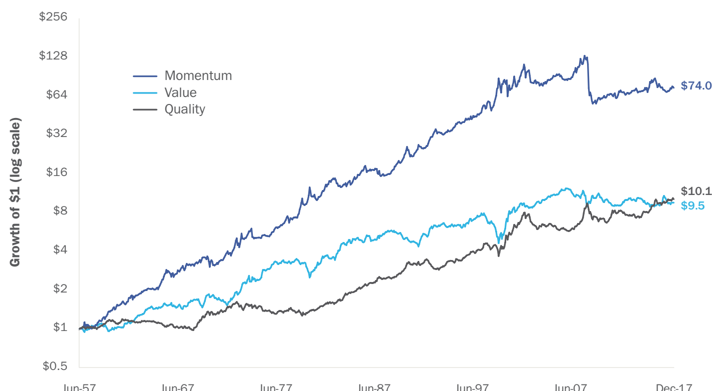
- Expenses
- Liquidity and fund size
- Tax efficiency
- Tracking error (how closely the index matches the performance of the underlying benchmark
- Compatibility with active component

Why use factors in portfolio construction?

Research has found certain asset pricing factors to exhibit persistence and statistical significance over time.[2]

Among those factors are **value**, **momentum**, and **quality**, which comprise the active component of the ActivePassive Portfolios.

Performance of Value, Momentum and Quality Factors[3]
Growth of $1: 6/30/1957 – 12/31/2017



Source: Envestnet QRG. Past performance does not guarantee future results. Hypothetical value of $1 invested beginning on 6/30/1957, assuming reinvestment of income and no transaction costs or taxes. Factor Performance is presented for illustrative purposes only and does not represent the performance of any specific investment product or portfolio. Momentum is defined as the tendency for assets that have performed well over the past year to continue to perform well over the near-term. Value is defined as the tendency for cheap assets to outperform expensive assets. Quality is defined as the tendency for higher quality companies (more profitable and safer) to outperform lower quality companies. Please see the 3rd footnote below for additional factor information.

For more information

Email PMCConsulting@envestnet.com or visit our website at investpmc.com.

[1] See PMC Quantitative Research Group study, "Active vs. Passive Asset Management: Investigation of the Asset Class and Manager Selection Decisions" for complete methodology and findings.

[2] Source: Harvey, Campbell and Yan Liu and Heqing Zhu (2014). "…and the Cross-Section of Expected Returns."

[3] Source: Value and Momentum: Kenneth French Data Library; Quality: AQR Data Library.

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Investments in smaller companies carry greater risk than is customarily associated with larger companies for various reasons such as volatility of earnings and prospects, higher failure rates, and limited markets, product lines or financial resources. Investing overseas involves special risks, including the volatility of currency exchange rates and, in some cases, limited geographic focus, political and economic instability, and relatively illiquid markets. Income (bond) funds are subject to interest rate risk which is the risk that debt securities in a fund's portfolio will decline in value because of increases in market interest rates.

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Diversification does not guarantee a profit or guarantee protection against losses

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