

Glenmede Small Cap Core Portfolio

September 2021

ANALYST SUMMARY

The Glenmede Small Cap Core portfolio is a great option for investors seeking well-diversified, style-pure small cap core equity exposure. Despite the departure of long-time portfolio manager Bob Mancuso in 2019, Envestnet | PMC retains confidence in the remaining team and the consistent process they continue to employ. After being soft-closed due to capacity concerns for over four years, the strategy has re-opened to new investors. We are comfortable with the current asset levels in the portfolio (roughly \$1.6 billion) and are pleased clients now have access to another above-average small cap core product.

Glenmede believes behavioral biases lead to inefficiently priced stocks (particularly down market cap) in the short term. They seek to exploit these inefficiencies by purchasing high-quality stocks at attractive valuations. The experience and talent of the portfolio managers, previously a distinct competitive advantage for the strategy, has been reduced in the wake of Mr. Mancuso's departure, but we retain much of our conviction in the team and strategy. Co-portfolio manager Chris Colarik had been working alongside Mr. Mancuso since 2001, and Glenmede thoughtfully addressed succession planning in advance of Mr. Mancuso's retirement by bringing on Jordan Irving to co-manage the portfolio in 2017.

Mr. Colarik and Mr. Irving continue to employ the same hybrid quantitative and fundamental process used since the strategy's inception. The resulting portfolio is well-diversified (85-100 holdings) with similar risk metrics to the Russell 2000 Index with beta of roughly 1.0 and volatility in-line with the benchmark. Long-term historical performance has been impressive.

PROCESS

- A quantitative screen favoring valuation (45%), growth/profitability (25%), earnings catalysts (20%), and market confirmation (10%) factors is applied to the team's investible universe. Only the top quintile of stocks in each sector are eligible for purchase.
- The team then leverages company filings, sell-side research, and various data sets to further evaluate names and craft an investment thesis before presenting attractive ideas to the team.
- Risk management is a strength. The team has invested in a number of third-party risk management tools and has several layers of portfolio oversight to ensure that risk exposures are in line with expectations.
- We are pleased that the process has remained unchanged amid the transition from Mr. Mancuso to Mr. Irving.

FIRM

- Glenmede Trust Company was founded in Philadelphia, PA in 1956 to manage the Pew Family (founders of Sun Oil Company) estate. In 2000, Glenmede Advisors (now Glenmede Investment Management) was formed to bring Glenmede investment strategies to a broader audience.
- Today, Glenmede offers an array of equity, fixed income, and alternative investment products. Firm assets are just over \$13 billion as of mid-year 2021, with roughly \$1.6 billion in the small cap strategy.
- Glenmede Trust Company is privately-owned with 12% held by current employees. While we'd prefer more substantial employee ownership, incentive structures align the interests of the portfolio managers with those of investors.
- Glenmede has demonstrated responsible capacity management in the past when they originally soft-closed the small cap strategy at reasonable AUM levels, which is a favorable characteristic in the capacity-constrained small cap arena.

TEAM

- Chris Colarik and Jordan Irving are co-portfolio managers of the strategy. They are supported by one research analyst in Matthew Shannon. The team also manages a mid cap portfolio, but spends the vast majority of their time on the small cap strategy.
- Glenmede's quantitative research group handles the up-front quantitative screening process, and the co-PMs view them as the fourth member of the team. This helps create a very manageable workload for the core investment team of three.
- While Mr. Mancuso's sudden retirement (due to health concerns) was a material event, we retain our positive opinion of the team. Mr. Colarik had worked alongside Mr. Mancuso for nearly two decades and Mr. Irving boasts a wealth of investment experience.
- Additional team turnover in the near term would cause us to re-evaluate our opinion of the strategy.

PERFORMANCE

- We expect the Glenmede strategy to add incremental alpha over time due to their bottom-up stock selection efforts and factor tilts. However, it is difficult to predict excess returns in various points throughout a full market cycle given their benchmark-like risk profile. Large deviations over short time periods are not expected.
- While this is a true small cap core strategy, investors can expect a consistent value bias. The portfolio will also maintain a high-quality profile, as they tend to avoid unprofitable businesses, including most biotech names.
- Dating back to the strategy's 1991 inception, they have outperformed the index in 69% of rolling three-year periods and generated positive alpha in 75% of rolling three-year periods.
- We will continue to monitor short- and medium-term performance in the wake of Mr. Mancuso's departure, but as of this time we do not expect any style drift and have confidence in the team's ability to continue generating positive alpha in the long term.

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