



Beyond Indexing... Nine Equity Strategies That Can Add Value

Security Exclusions: Reduce or eliminate equities associated with lower rates of return

- Small growth, low profitability stocks
- Small, high asset growth stocks
- Highly regulated utilities
- REITS

Broad Diversification

Studies show that broad diversification can enhance overall returns, reduce risks, and improve success of retirement outcomes. Summit's target equity allocation typically diversifies among over 10,000 – 12,000 companies in 46 countries. Diversification is accomplished through low-cost ETFs, Separately Managed Accounts (SMAs), or a combination of the two.

Overweight securities with higher expected returns

Security Weighting

- Overweight smaller market cap
- Overweight lower relative price
- Overweight higher profitability
- Overweight lesser goodwill
- Overweight lesser accruals
- Balance value and profitability factors, conjointly

Incorporate additional information about expected returns into buy and sell decisions

Cash Acquisition

- Sell equities that have become the target of an acquisition. After the target company offer, the stock price will trade as cash-like until the acquisition is completed.

Momentum

- Consider momentum expected returns implications for both buy and sell orders

Control Trading Costs

- Economies of scale and efficient market access help control explicit costs
- Flexible trading helps control implicit costs



Maintain consistent focus on premiums

- Daily Rebalancing** Evaluate current holdings and cash balances daily to maintain desired allocation
- Meaningful Turnover** Ensure rebalancing candidates meaningfully improve expected returns after anticipated costs

Increase the value of holdings in the fund

- Corporate Actions** Maximize the value of corporate action elections
- Investment Stewardship** Advocate for investors to enhance shareholder value
- Securities Lending** Lend securities to generate securities lending revenue. Pass through lending revenue to fund shareholders

Risk tolerance maintenance

- Maintain client risk tolerance** Employ strategic 5%/25% asset class rebalancing bands

Minimize Taxes - Implementation issues

- Utilize ETFs as the primary vehicle for implementation. ETFs are generally more tax-efficient than open-end mutual funds or separately managed accounts (SMAs) over the long term.
- Tax-loss or tax-gain harvest when applicable
- Control taxable distributions
- Apply High-Cost accounting methodology
- For taxable accounts, avoid dividends near record dates when applicable.

Minimize Taxes - Apply smart asset placement

- Fixed income/bonds should be owned in tax-deferred accounts such as IRAs or qualified plans.
- Equities should be owned/overweighted in taxable accounts.
- High expected return assets (small value) should be owned/overweighted in Roth IRA and HSA accounts.
- Foreign equities should be owned/overweighted in taxable accounts to take advantage of the available foreign tax credit.
- Coordinate account titles and allocations to optimize taxation during retirement and legacy transfers.



¹Profitability is a measure of current profitability based on information from individual companies' income statements.

²Securities lending involves risk—including counterparty risk—and possible loss. Revenue is not guaranteed and may fluctuate. Lending activities are conducted by the custodians for the funds.

³Fama, Eugene F. and French, Kenneth R., A Five-Factor Asset Pricing Model (September 2014). Fama-Miller Working Paper, Available at SSRN: <https://ssrn.com/abstract=22872202> or <http://dx.doi.org/10.2139/ssrn.2287202>

⁴Li, Kevin K. and Sloan, Richard G., 2017. "Has Goodwill Accounting Gone Bad?". *Review of Accounting Studies*, Forthcoming. <https://ssrn.com/abstract=1466271> or <http://dx.doi.org/10.2139/ssrn.1466271>

⁵Ball, Ray, Joseph Gerakos, Juhani T. Linnainmaa, and Valeri Nikolaev. 2016. "Accruals, cash flows, and operating profitability in the cross section of stock returns." *Journal of Financial Economics* 121, no. 1 (July): 28-45
<https://doi.org/10.1016/j.jfineco.2016.03.002>

⁶Wahal, Sunil and Repetto, Eduardo, 2020. "On the Conjoint Nature of Value and Profitability." <https://ssrn.com/abstract=3635714> or <http://dx.doi.org/10.2139/ssrn.3635714>