

BRV 500 Plus

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Enhanced Indexing

An Enhanced 1xx/xx Strategy without the short extension

This report is an update on our enhanced large cap (S&P 500) index strategy introduced last year—the *BRV 500 Plus*. This vehicle features a precise blend of each of the elements that comprise our active style efficiently woven into a combination “*part index-part alpha*” construction through our mean/variance optimizer. This construction provides an investment structure that allows for the consistent capture of excess returns at very low levels of benchmark tracking. It is unique when considered against many enhanced strategies today in that the resultant “1xx/xx” structure utilizes no short extension. Instead, it features an alpha portfolio and an index “wrap”.

The Alpha Portfolio

The requirement for such a strategy is that the alpha portfolio deliver consistent superior performance as an independent vehicle. To construct this portfolio we begin with a universe of domestic stocks and ADRs with market values greater than \$7 billion. This universe is a superset of the S&P 500 benchmark (roughly 600 stocks), thereby providing an adequate pool of choices. Stocks chosen for the portfolio that are also part of the benchmark may be effectively “over or under” bought depending on their *selected* weight vs. their benchmark weight. Those that are “under” bought (effectively sold, but not short) provide the capital to acquire both new stocks (those not in the benchmark) and larger positions of select benchmark names. The remainder of the benchmark stocks form the index “wrap”.

The structure is considered “1xx/xx” because upon rebalance, the alpha portfolio is the vehicle that dictates how aggressive a position (with respect to the benchmark) the strategy will take in the upcoming quarter.

