Cognios Market Neutral Equity
Strategy Overview:

Cognios selects securities for purchase or short sale using its proprietary ROTA/ROME® stock selection and portfolio construction methodology. ROTA/ROME® focuses on a company’s Return on Tangible Assets (“ROTA”) and Return on Market Value of Equity. ROTA/ROME® seeks to determine a company’s intrinsic value and compare that value to the current market price of its stock. In general, ROTA/ROME® can be considered a value-based investment strategy, but it also incorporates the premise that growth is an important component of assessing a stock’s intrinsic value.
Cognios’ **Beta-adjusted market neutral strategy** seeks to derive total returns strictly from stock picking *Alpha*, with none of the return over time coming from the general up and down movement of the broader equity market.

“Beta-adjusted market neutral” means that Cognios will attempt to offset 100% of the strategy’s long exposure to the *Beta* of the broad stock market (i.e., the up and down movements of the S&P 500 Index) by sizing the short positions based on the relative *Betas* of the longs versus the shorts. For example, when the *Betas* of the shorts are higher than the *Betas* of the longs, fewer dollars of short positions are needed to offset the *Betas* of the long book. By employing this long/short *Beta*-adjusted market neutral investment strategy, the portfolio managers seek to limit volatility relative to movements in the overall stock market and limit downside risk during market declines.
Portfolio Construction:

Select Universe
- Large Cap
- S&P 500 Index

Determine Long Book
- Highest quality stocks
- High ROTA/High ROME
- Lowest prices
- Stocks tend to have low leverage/ high credit coverage

Determine Short Book
- Hedge out broad market exposure
- Lowest return stocks
- Market neutral after Beta adjustment
- Stocks tend to have high leverage & poor credit coverage

Portfolio Management
- Rebalance/ Reconstitution
- Positions bought and sold based on reported financial performance or significant price movement relative to the market
Risk Management:

We target long exposure at 120%. Short exposure is a function of the relative Betas of the long and short portfolios and therefore gross and net exposure is based on relative Beta. Typically, we have been running ~120% Long and ~90% short, so gross exposure runs ~210% and net exposure of ~30%, but that can change as conditions change.

We have no sector constraints, save for the financials in the short portfolio, which are limited to the sector weight in the S&P 500. Based on the 120% long exposure, the max long position is ~6%. Theoretically, there is not a position cap for the short portfolio, but based on the short portfolio construction it would be surprising to see a short position greater than 5%.
Winning Trade Example:

ROTA/ROME® is a quantitative stock selection and portfolio construction methodology. The portfolio managers build the investment model which then builds the portfolio. As such, Cognios does not focus on singular trades, instead focusing on the long and short portfolios as a whole.
Losing Trade Example:

*ROTA/ROME*® is a quantitative stock selection and portfolio construction methodology. The portfolio managers build the investment model which then builds the portfolio. As such, Cognios does not focus on singular trades, instead focusing on the long and short portfolios as a whole.
Cognios Capital is an independent quantitative investment management firm that serves as an adviser to a mutual fund, private fund, institutional and individual clients. Our disciplined approach to stock valuation and evaluation allows our portfolio managers to select stocks and design portfolios based on quantitative facts. We have built a sophisticated proprietary quantitative system that allows us to model, test, and monitor our strategies very effectively. We also combine these proprietary tools with commercial tools which gives us the ability to turn publically available information into insights that may lead to superior risk-adjusted investment returns.
Management Bios:

Jonathan C. Angrist
President
Chief Investment Officer
Mr. Angrist is the Co-Founder, President and Chief Investment Officer of Cognios Capital. Prior to co-founding Cognios, Mr. Angrist was a Co-Owner and Portfolio Manager of Helzberg Angrist Capital (“HAC”), the predecessor firm to Cognios. HAC was an alternative asset investment firm specializing in deep value, long/short equity hedge fund management. Prior to HAC, Mr. Angrist was a Portfolio Manager at Kornitzer Capital Management, the investment adviser of the Buffalo Funds family of mutual funds. Previously, Mr. Angrist was a Principal with Harvest Partners, a private equity firm in New York City. Mr. Angrist’s educational background includes an MBA and a B.S. (Summa Cum Laude and Phi Beta Kappa) from Tulane University.

Brian J. Machtley
Executive Vice President
Chief Operating Officer
Mr. Machtley is Co-Founder and Executive Vice President of Cognios Capital. Mr. Machtley is also Managing Director of Brandmeyer Enterprises. Prior to co-founding Cognios, Mr. Machtley was a Senior Analyst at Helzberg Angrist Capital, the predecessor firm to Cognios. Previously, Mr. Machtley was an associate portfolio manager at the Discovery Group, a Chicago-based hedge fund manager focused on micro-capitalization equities. Before his tenure at Discovery Group, Mr. Machtley was an analyst in the Chicago office of Houlihan Lokey where he worked on a wide variety of engagements including sell-side M&A transactions, buy-side M&A transactions, business recapitalizations, fairness opinions, valuation appraisals and other financial advisory assignments. Mr. Machtley received his B.S. in Business Administration with majors in Finance and Economics from Drake University.

Francisco Bido
Head of Quantitative Research
As the head of quantitative research at Cognios Capital, Mr. Bido is responsible for strengthening Cognios Capital's proprietary ROTA/ROME® valuation approach and investment strategies. Prior to Cognios Capital, Mr. Bido was with American Century Investments for nine years most recently serving as a senior quantitative researcher. For the full length of his tenure Mr. Bido was involved in advanced quantitative research and as such his responsibilities included stock selection modeling, portfolio construction and risk management. Prior to joining American Century, Mr. Bido spent over five years as a business process consultant at Andersen Consulting where he worked with high-profile clients, such as American Express and Sprint. Mr. Bido holds a B.S. in electromechanical engineering from Pontificia Universidad Catolica Madre y Maestra, an M.S. in mathematics from New York University’s Courant Institute, and M.S. and M.A. degrees in applied mathematics and economics, respectively, from the University of Arizona.