

International Equity Fund: Opposites Attract

Kostya Etus, CFA, and Joe Smith, CFA, are a study in contrasts. Etus is a Russian-born traditionalist and natural pessimist who is a stickler for saving a buck (his wife's word is "cheap"). Smith is a modern, self-described "geek" who is naturally positive and won't decide on anything unless he can see the data and evidence in front of him.

Together, Smith and Etus manage the CLS International Equity Fund (CLHAX). Their similarities (they have both traveled extensively) and differences make them a good team. "Kostya balances a lot of my more math-professor-geeky orientation," Smith said. "He brings a really fresh, pragmatic consideration towards the things necessary for us to sustain success."

"I do sometimes joke that Joe's a robot," Etus added with a laugh. "He has a lot of background working with factors. Not to mention he is a genius when it comes to math and computer analytics."

In fact, Smith wrote the complex computer coding that underlies CLHAX. A little different from most CLS funds, CLHAX operates using a series of quantitative models that analyzes the inputs provided by the team and makes its data-driven recommendations. "It's the best and most dedicated analyst on the fund," Etus said. Smith, who coded the program in 2014, said it helps ensure consistency in the fund and removes some of the emotional considerations of depending entirely on a human fund manager. "I don't care how good a portfolio manager is," Etus said. "Whether it's Warren Buffett or Bill Gross, everybody has some form of behavioral bias. This gives us control and throws the rest of that junk out the window."

The CLS International Equity Fund corresponds with CLS's emphasis on globally diversified investing and buffers against the home bias of domestic-only portfolios. Its goal is to scour the global landscape for consistent returns. "It's not about one or two high fliers," Smith said. "It's a team of constituents that work together to create consistency."

Smith and Etus monitor the fund throughout the day. They are constantly aware of the performance drivers at any given time; and as the data dips and rises, they meet to discuss what moves to make. "It really is a prizefighter-level debate," Smith said. "But I think that's a positive thing. We don't want two portfolio managers that agree on everything about how the world looks." The two run data analyses to support their arguments, and while they often vehemently disagree, their conclusions and ultimate decisions are better for the vetting process. "We don't always see eye to eye," Etus said. "But the way we work through things, it can end up being a great outcome for the fund."

CLHAX is an ideal fit for those looking to diversify internationally in a balanced and consistent way. It's also a fit for investors who prefer a fund that balances data-driven analytics with experience-driven, human expertise. As a guide for investors, Etus and Smith have created a sort of instruction manual that runs through the complex processes undertaken to manage the fund. It explains everything the team does, simply and clearly, to get results. "That goes a long way with



Kostya Etus, CFA



Joe Smith, CFA

investors," Etus said, "because they can see the process is not all smoke and mirrors; it's transparent."

Smith says transparency and clearly articulating the process are two essential elements in the long-term

success of a fund manager. "That, and being consistent in your process and sticking to it," he said. "That's the beauty of this fund."

"Exactly," Etus added. "We've never agreed this much."

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