



DANA | Investment  
Advisors

# DANA UNCONSTRAINED EQUITY STRATEGY

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[www.DanaInvestment.com](http://www.DanaInvestment.com)

## Dana Unconstrained Equity - Origin

Dana launched the Unconstrained Equity Strategy following indications of client demand for a nimble, high conviction strategy.

Unconstrained is highly complementary to Dana's diversified legacy strategies.

### Client Interest

We often receive requests to develop new investment strategies. Unconstrained's nimble, concentrated investment approach is highly complementary to Dana's diversified legacy strategies. It can also serve as a core allocation for investors willing to accept elevated volatility for higher return potential.

### Stock-Picking Expertise

Dana's successful legacy equity strategies employ risk controls (e.g. sector neutrality) designed to limit portfolio volatility. These risk controls mean that stock-picking drives alpha. We believe that this stock picking expertise is enhanced in a less constrained portfolio.

### Recognition of Disruptive Change

Our fundamental work has increasingly focused on the impact of disruptive change across industries. In an economy experiencing rapid innovation, the team is excited to offer a strategy that can more fully harness these changes.

### Innovation at the Firm Level

As we analyze companies through the lens of disruption, it is important to turn that gaze inward. Since 1980, Dana has evolved its suite of strategies and services to best fit the needs of our clients.

## Dana Unconstrained Equity: Differentiated Ideas In An Active, Concentrated, Disruptive Strategy

“It is not the strongest of the species that survives, nor the most intelligent that survives.  
It is the one that is most adaptable to change.” ‡

### Sources of Advantage: We Invest Behind Change

1. **Identifying Catalysts That Can Change The Market's Mind**
  - We cultivate a nimble, adaptable mindset that looks for catalysts that can align the market's view with our own.
2. **Quickly Changing Course Through Different Market Environments**
  - We have flexibility among sectors, experience with both "value" and "growth" opportunities, and an ability to change course in shifting market environments.
3. **Staying on the Right Side of Disruptive Change**
  - We have a bias toward owning disruptive winners and avoiding disrupted losers.

### Strategy Expectations

- **Holdings:** 15 to 30 domestic equities.
- **Target Return:** Through-cycle returns +300bps to +500bps in excess of the S&P 500 Index.
- **Market Environments:** An ability to perform through "value" or "growth" regimes.
- **Tracking Error:** Higher than average tracking error due to concentration and no style or market cap mandates.
- **Turnover:** Higher than average turnover due to an active, catalyst-driven investment approach.

### INVESTMENT PHILOSOPHY

Change is the only constant in today's market. To stand out in an ultra-competitive U.S. Equity space, discipline and resources are not enough. Winning strategies must be flexible in mindset, idea generation and research efforts.

STRATEGY  
PARAMETERS

3-STEP IDEA  
GENERATION

5-STEP COMPANY  
EVALUATION

VALUATION AND  
TRADING DISCIPLINE

## Strategy Parameters

### DESCRIPTION

#### Strategy

- ✓ Domestic Equities (long-only)<sup>†</sup>

#### Market Capitalization

- ✓ Size distribution roughly approximates the broader U.S. equity market <sup>1</sup>

#### Style

- ✓ Agnostic

#### Number of Holdings

- ✓ 15 to 30

#### Recommended Benchmark

- ✓ S&P 500 Index

### RISK-REWARD FRAMEWORK

#### Price Targets

- ✓ Reaching a price target creates a "presumption of sale"

#### Relative Valuation

- ✓ Price targets are set using a relative valuation methodology

#### Position Size Limit

- ✓ 15% Maximum Weight

#### Cash Limit

- ✓ 30% Maximum Weight

#### Automatic Thesis Review <sup>2</sup>

- ✓ -25% Price Underperformance

#### Targeted Return

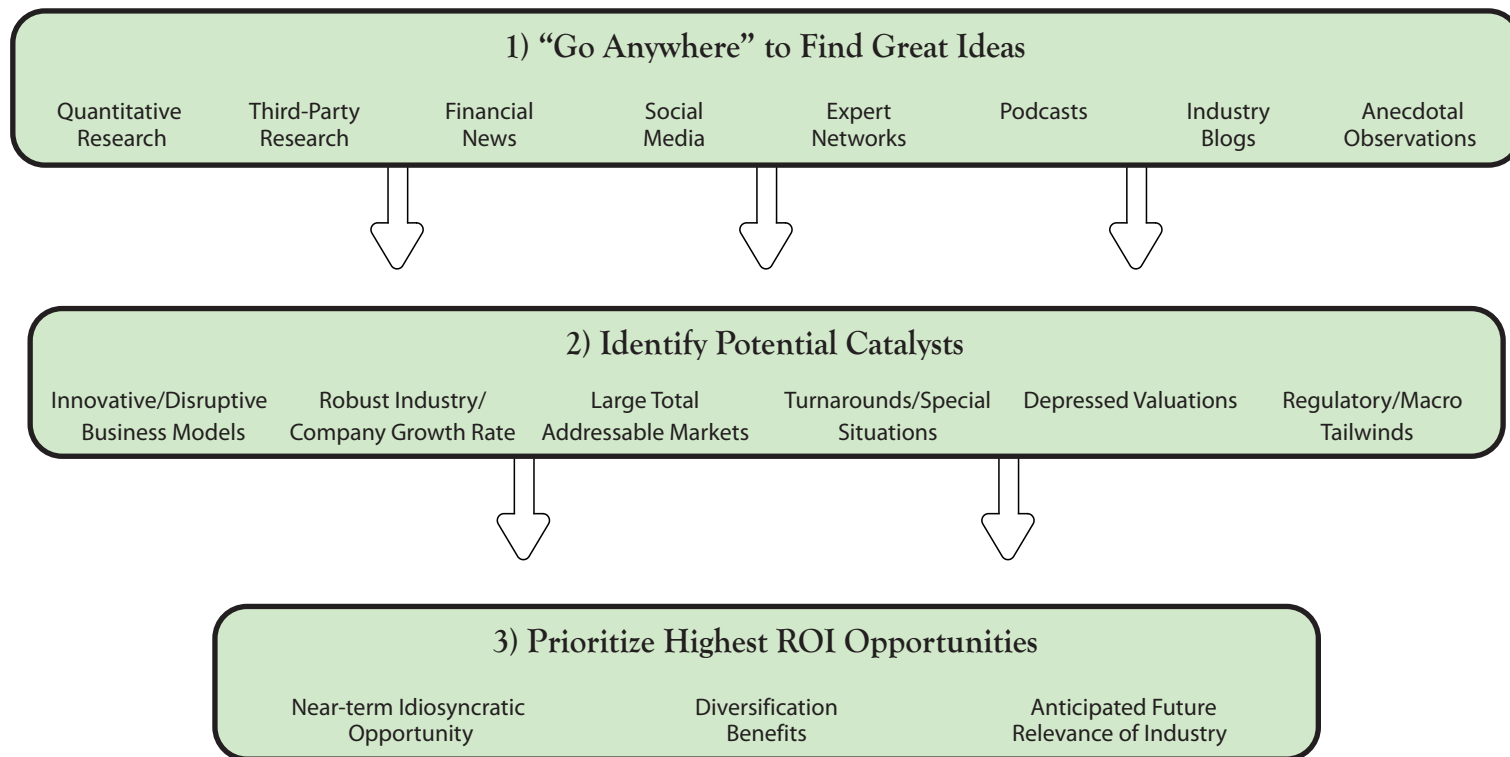
- ✓ Capital appreciation that significantly exceeds the benchmark return

## 3-Step Idea Generation

“Go Anywhere” to Find Great Ideas

Identify Potential Catalysts

Prioritize Highest ROI Opportunities



## 5-Step Company Evaluation

### Is The Company On The Right Side Of Disruptive Change?

Do We Trust Management?

Do We Understand The Product Or Service?

What Is The Catalyst?

How "Simple" Is The Investment Thesis?

### Is The Company On The Right Side Of Disruptive Change?

#### Online Media

Major areas of **disruption** include internet television and music, social media, video games, and other aggregated content and communication platforms.

#### Next Generation Software

Major areas of **disruption** include artificial intelligence, cloud-based infrastructure, cloud-based applications, infrastructure and application maintenance, accessible development platforms, and enhanced analytics.

#### Biotechnology

Major areas of **disruption** include immuno-oncology, gene therapy and gene editing, precision small molecules, RNA therapies, CNS therapies, and immunology.

#### Online Commerce

Major areas of **disruption** include online retail, e-commerce technology providers, e-marketing technology providers, digital payments, and online banking.

#### Advanced Semiconductors

Major areas of **disruption** include machine learning GPUs, purpose built chips (e.g. ASICs, FPGAs), foundry-based manufacturing, and connectivity (e.g. 5G, optical networking).

#### Energy Efficiency

Major areas of **disruption** include electric vehicles (EV), renewable energy, and energy storage technology.

While an excessive valuation may prevent us from owning certain disruptive winners, it can also help us to potentially avoid disrupted losers.

## 5-Step Company Evaluation

Is The Company On The Right Side Of Disruptive Change?

**Do We Trust Management?**

**Do We Understand The Product Or Service?**

What Is The Catalyst?

How "Simple" Is The Investment Thesis?

### Do We Trust Management?

#### Management Credibility and Competence

Communication: Are public disclosures and communications consistent, clear, transparent, and comprehensive?

Execution: Does management consistently exceed short-term targets and longer-term strategic goals?

Culture: Is there evidence of a healthy corporate culture?

#### Governance

Red Flags: Is there anything about the history, structure, or current oversight that raises a red flag?

Capital Allocation: Does the capital allocation policy make sense in light of everything else we know about the company?

Balance Sheet: Is the company well funded? How do they access capital?

### Do We Understand The Product Or Service?

#### Competitive Positioning of Product or Service

Competitors: Who does the company compete against?

Differentiating Factors: What are the key differentiators for the product or service?

Trends: How strong is the current competitive position and is it strengthening? Why has the company won in the past and why will it win in the future?

#### Secular Growth Opportunity

Secular Change: How are the company and broader industry positioned for secular change? Why is there a right to persist, to grow, to thrive?

Growth Rates (TAM): What are the end markets, how big are they, and how fast are they growing?

Digitization: How does digitization affect the company and industry?

#### Other Considerations

Externalities: Are there regulatory, geopolitical, or other unique factors in play?



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**What Is The Catalyst?**

**How "Simple" Is The Investment Thesis?**

### What Is The Catalyst?

- Catalysts help to propel a change in share price, which in turn sharpens our investment thesis and helps us avoid "value traps"
- Examples of Catalysts
  - Growth Above Expectations
  - Profit Margins Above Expectations
  - Compounding Growth
  - New Products or Services
  - Regulatory Tailwinds
  - "Macro" Factors (e.g. Interest Rates, Commodity Prices)
  - Management Change
  - Company Restructuring or M&A
  - Exogenous Factors (e.g. COVID-19)

### How Simple Is The Investment Thesis?

#### Simple is Powerful

- If we can't succinctly communicate an investment thesis, we may not fully understand why we should purchase the company

#### One or Two Critical Issues

- Most companies have one or two key issues that will make or break an investment thesis

#### Get the Big Issues Right

- Honing in on the key issues that really matter focuses us on getting the details underlying those issues right

## Valuation and Trading Discipline

### Valuation is Relative

### Setting Price Targets

### Position Sizing

### Trading

#### Valuation is Relative

- **Everything is Relative:** Valuation is relative to the current landscape of equity opportunities.
- **Growth and Fundamental Volatility:** Relative growth potential and relative fundamental volatility are often the most important valuation levers.

#### Setting Price Targets

- **Fair Value:** Price targets represent the Strategy's determination of fair value.
- **Sell Trigger:** Reaching a price target creates a "presumption of sale" pending a valuation review.
- **Frequency of Change:** Price targets are reviewed on a quarterly basis or when thesis-altering information is presented intra-quarter.

#### Position Sizing

- **Overweight Largest Discounts to Price Targets:** Position sizing is biased to overweight equities with the largest discounts to price targets.
- **Overweight Highest Near-term Conviction:** Position sizing is biased to overweight equities with high conviction in positive near-term fundamentals.

#### Trading

- **Buy Criteria:** We seek to buy substantial discounts to fair value.
- **Sell Criteria:** We seek to sell when something better comes along or a holding reaches its price target (because of price appreciation and/or a lowered price target).
- **Turnover:** Trading frequency generally correlates positively with the price and fundamental volatility of current and prospective holdings.
- **Holding Period:** We look for stocks to outperform within 6 to 12 months (or sooner) but holding periods often extend longer when good things are happening.



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