



# Destinations ETFh

## Built on 20 Years of Success

Destinations ETFh is a series of risk-based portfolios featuring a hybrid blend of ETFs and mutual funds.

**In this paper, we will discuss:**

- The evolution of a new hybrid solution
- Why this hybrid blend makes sense
- The advantages of a core-satellite approach and active portfolio oversight

# Bringing ETFs to Destinations

## Proper portfolio construction requires broad diversification and strong due diligence to identify the best opportunities.

Representing these portfolio construction ideals are the Destinations mutual fund models, of which Brinker Capital is proud to be celebrating 20 years in 2015. In light of this success, we acknowledge that some investors are focusing on the benefits of passively-managed vehicles and exchange-traded funds (ETFs) over active mutual funds. Brinker Capital, among many others, has contributed our research to this complicated topic of active and passive investing and concludes that there is a place for both active and passive management in portfolios.

### A hybrid mix of ETFs and mutual funds

Brinker Capital recently launched a new investment solution: Destinations ETFh. These 7 risk-based strategies, available in both qualified and taxable versions, represent a hybrid mix of ETFs—which are predominantly passively managed—and mutual funds—which are predominantly actively managed. These hybrid ETF and mutual fund strategies may be an attractive solution for investors who favor the philosophy and process of the Destinations program. Key highlights of this philosophy include:

- Broad multi-asset class diversification
- Long-term strategic asset allocation complemented by short-term tactical shifts
- Manager/strategy selection and due diligence
- Core-satellite portfolio construction approach

Brinker Capital maintains our belief that there is a place for both active and passive management in portfolios. Accordingly, the “h” in Destinations ETFh indicates a “hybrid” blend of ETFs and mutual funds. We maintain active portfolio oversight and may use select active strategies where it’s appropriate to achieve the strategy objectives. As of June 2015, the exposure to active mutual funds within the ETFh portfolios ranges from 6% in the Aggressive Equity portfolio to 30% in the Defensive portfolio.<sup>1</sup>

### Portfolio construction process

Brinker Capital implements a multi-asset investment approach across our solutions, as shown in figure 1, adapted from an endowment model.

**Figure 1: A diversified investment approach**



Source: Brinker Capital

The Destinations portfolio management team seeks to implement the same investment themes across both the traditional and ETFh portfolios. However, there are differences within the portfolio construction process, specifically around the decisions to allocate between ETFs and actively managed funds.

Once the target allocations are determined for the major and sub-asset classes, portfolio managers utilize the guidelines in figure 2 to achieve the strategy objectives.

<sup>1</sup>Source: Brinker Capital

**Figure 2: Destinations ETFh portfolio construction rationale**

Rationale	Example
<b>When we use ETFs</b>	
More efficient asset classes	Core equity or fixed income exposure
More direct or concentrated exposures	Regional or country specific, equity or fixed income sectors
Niche strategies that don't translate well into a mutual fund	Master limited partnerships, commodities
<b>When we use actively managed funds</b>	
Strategies not available in an exchanged format	Absolute return
Less efficient asset classes where active management has significant advantage	Frontier markets, listed private equity
Take advantage of a consistently successful active manager	Active MBS

**Core-satellite approach**

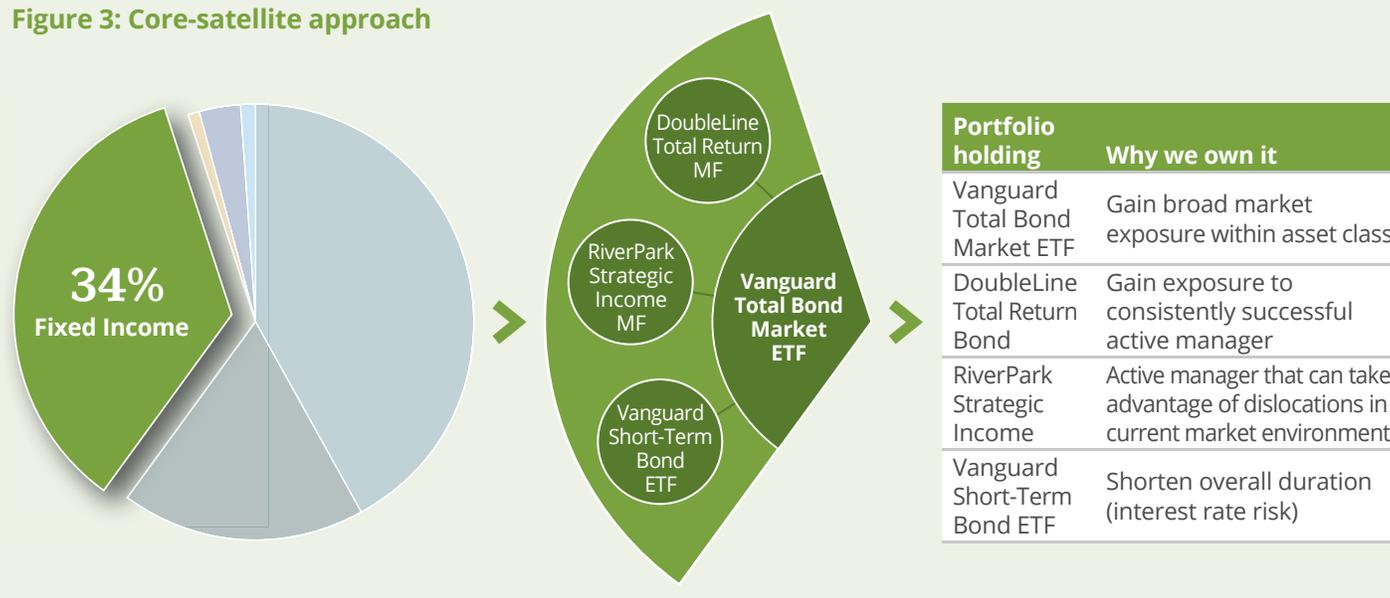
The investment focus of the Destinations ETFh portfolios results in a greater emphasis on the core portion of the core-satellite portfolio construction approach. The advantage of the hybrid nature of these portfolios is our ability to implement our investment philosophy through the use of satellites in both ETF and mutual fund vehicles.

A closer look at the fixed income portion of the Destinations ETFh Moderate portfolio in figure 3 below reveals the reasoning behind the holdings.

**Active portfolio oversight**

Destinations ETFh portfolio managers actively shift exposures based on market conditions and macro views as needed to implement the Destinations investment philosophy of generating consistent risk adjusted returns over time. This active oversight is an added value, especially in changing market environments.

**Figure 3: Core-satellite approach**



Source: FactSet. Holdings represent complete listing of securities in the domestic equity portion of the Destinations EFTh Moderate (Qualified) portfolio as of 6/30/15. Holdings are subject to change.

## The bottom line

Brinker Capital believes that there is a time and place for both active and passive management in portfolios. To that end, Destinations ETFs feature 7 risk-based portfolios—available as qualified or taxable—each offering a hybrid blend of ETFs and actively managed mutual funds. Portfolio managers implement their time-tested investment philosophy through these strategies, seeking to achieve consistent returns over time.

## Who we are

At Brinker Capital we implement great ideas with a disciplined investment approach and provide forward-thinking solutions intended to achieve better outcomes.

### Learn more about Brinker Capital's investment approach

- Visit [www.BrinkerCapital.com](http://www.BrinkerCapital.com)
- Call 800-333-4573 and ask to speak with an Investment Consultant
- Connect with us at [blog.brinkercapital.com](http://blog.brinkercapital.com)



### BrinkerCapital.com

1055 Westlakes Drive, Suite 250  
Berwyn, PA 19312  
800.333.4573

#### Important Information

Views expressed are those of Brinker Capital, Inc. and are for informational/educational purposes. Please consult your advisor before investing in any product. Opinions and research referring to future actions or events, such as the future financial performance of certain asset classes, indexes or market segments, are based on the current expectations and projections about future events provided by various sources, including Brinker Capital's Investment Management Group. Information contained within may be subject to change. Investing in any investment vehicle carries risk, including the possible loss of principal, and there can be no assurance that any investment strategy will provide positive performance over a period of time. The asset classes and/or investment strategies described in this publication may not be suitable for all investors. All holdings shown are as of June 30, 2015 and are subject to change.

Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon, tax liability, and risk tolerance. When investing in managed accounts and wrap accounts, there may be additional fees and expenses added onto the fees of the underlying investment products. For more information about Brinker Capital and our investment philosophy, including information on fees, you may request a copy of our Form ADV Part II from a Brinker Capital Client.

Services representative at 800.333.4573 or at [clientservice@brinkercapital.com](mailto:clientservice@brinkercapital.com). Brinker Capital does not render tax, accounting, or legal advice. Brinker Capital, a Registered Investment Advisor.

**great ideas + strong discipline = better outcomes**