

# The ActivePassive Portfolios®



**The Next Generation  
in Portfolio Construction**

An Innovative Investment  
Program Designed to  
Meet a Wide Range of  
Investor Needs

Featuring **Active  
Passive**  
FUNDS

**FundQuest**®

A BNP PARIBAS company 

## **Active Versus Passive Investment Management: Which is Better?**

For years, there has been a debate over the merits of active and passive management. Both methodologies have their strengths and weaknesses and many have tried to determine if either provides a better method.

After extensive research, FundQuest believes that neither strategy is better as an absolute approach or even within a particular investment category. However, a blend of active and passive strategies within an investment category can provide potential benefits to an investor's portfolio.

Leveraging this comprehensive research and the experience of FundQuest's investment management team, which has been conducting ongoing in-depth analysis seeking to select best-of-breed investments since 1993, FundQuest created ActivePassive Portfolios®. These portfolios provide a combination of active and passive investments - and an opportunity to gain the benefits of both approaches.

### **ActivePassive Portfolios®**

The ActivePassive Funds are the building blocks used to create the ActivePassive Portfolios. FundQuest aims to enhance value to investor portfolios through careful combinations of these Funds, which feature both actively managed and passive (index-based) investments.

The ActivePassive Portfolios are professionally managed and designed for various investor risk profiles from Aggressive to Conservative.

Investment Professionals and their investor clients can benefit from:

- Ongoing professional portfolio management by FundQuest's experienced investment analysts
- Tax-sensitive portfolio options
- Consolidated performance reporting
- Online, on-demand performance reports
- Rebalancing of portfolios by FundQuest



## Innovative Strategy

### A blend of two opposing yet complementary investment approaches

Each fund has established Active to Passive ratio guidelines, which are the minimum and maximum boundaries for the fund's allocation to the actively and passively managed components. These guidelines are based on FundQuest's proprietary research which focuses on two important elements:

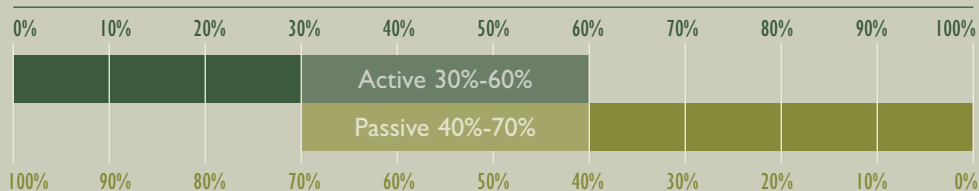
**Manager Skill.** The additional return of investment strategies versus their benchmarks that FundQuest believes stems from the unique ability and skill set of the investment manager.

**Manager Success Rate.** The percentage of investment strategies in each investment category that have consistently outperformed their benchmarks over various time periods.

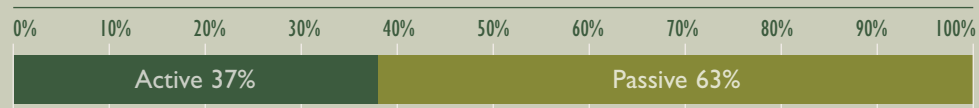
Within each fund's Active/Passive Ratio Guidelines, FundQuest establishes the fund's Current Optimal Ratio (COR). The COR is the current ratio of active to passive components of each fund, and may change over time based on FundQuest's proprietary and ongoing analysis of the Manager Success Rate for each investment category.

For example, the ActivePassive Large Cap Growth Fund has established Active/Passive Ratio Guidelines which allow the fund's allocation to its active component to range from 30% to 60% and which allow the fund's allocation to its passive component to range from 40% to 70%. The ActivePassive Large Cap Growth Fund's COR is 37% actively managed, and 63% passively managed.\*

#### ACTIVEPASSIVE LARGE CAP GROWTH FUND RATIO GUIDELINES



#### ACTIVEPASSIVE LARGE CAP GROWTH FUND CURRENT OPTIMAL RATIO



\*COR is subject to change. This is an example as of September 30, 2008.

## Designed To Optimize The Benefits While Limiting The Challenges

ActivePassive Portfolios are designed to leverage the benefits of active and passive management while limiting the challenges that each approach faces.

### ACTIVE MANAGEMENT BENEFITS

- Expert analysis by experienced investment professionals
- Upside potential: the possibility of achieving returns higher than those of the index
- Downside protection: managers may act defensively during market downturns and periods of market uncertainty

### PASSIVE MANAGEMENT BENEFITS

- Generally lower management fees
- No decision making required by the manager
- Better potential for capturing full performance of the index: up and down

### ACTIVE MANAGEMENT CHALLENGES

- Higher fees and operating expenses
- Poor security selection or sector allocation decisions may impact returns

### PASSIVE MANAGEMENT CHALLENGES

- Investors cannot expect to exceed index returns
- No ability to provide downside protection

## The ActivePassive Funds®

ActivePassive Portfolios are assembled from the nine funds in the ActivePassive Fund family. The funds cover the broad asset classes of stocks and bonds, both domestic and international, and provide investors with exposure to investment categories that our proprietary research has found to have historically generated extra returns through risk premiums not correlated to the broad markets. Each fund was built to be part of a sound asset allocation strategy—the driving force behind overall investment performance.

## Constructed From Sophisticated Research, Disciplined Manager Selection, And Innovative Strategy

### Sophisticated Research

FundQuest's experienced investment management team conducts ongoing research on the advantages of active and passive management. The latest study analyzed over 16,000 actively managed investments in over 60 investment categories for multiple time periods up to 15 years, representing over \$7 trillion of assets. This comprehensive study identified:

- Active managers that have historically provided value through their unique investment capabilities in excess of the category's index movement
- Investment categories that have historically generated excess returns through risk premiums not correlated to the broad markets

### ACTIVEPASSIVE DOMESTIC EQUITY FUNDS

- Large Cap Growth
- Large Cap Value
- Small/Mid Cap Growth
- Small/Mid Cap Value

### ACTIVEPASSIVE INTERNATIONAL AND GLOBAL FUNDS

- International Equity
- Emerging Markets Equity
- Global Bond

### ACTIVEPASSIVE DOMESTIC BOND FUNDS

- Intermediate Taxable Bond
- Intermediate Municipal Bond

- Investment categories in which the majority of managers studied have historically outperformed their respective category benchmarks

## Disciplined Manager Selection

To identify investments for the active components of the funds, we seek investment strategies that feature:

**Strong Performance.** Returns are evaluated on a time-weighted, trailing, calendar and quarterly basis. Consistency of returns is also evaluated.

**Outperformance stemming from security selection.** Managers that have consistently generated additional return above the return of the investment's best fit/investment category benchmark.

**Reasonable investment expenses** associated with trading/turnover and manager fees.

**Strong adherence to investment style.** Managers that can clearly articulate their investment philosophy, have an investment process that reflects that philosophy, and have maintained their discipline over time.

For the passive component of the funds, FundQuest selects either Exchange Traded Funds (ETFs) or traditional open-end index funds. When selecting passive investments, FundQuest assesses:

- Tracking error versus benchmark
- Expenses
- Liquidity
- Asset size
- Whether the investment's underlying index provides a true representation of the fund's investment category
- Tax efficiency
- Compatibility with the fund's active component

FundQuest continually evaluates the relative performance, risk parameters and other characteristics of the active component to ensure that each investment strategy continues to meet the criteria established for inclusion in the fund. The passive investment components of the fund are monitored to ensure they retain "best fit" status for the fund and to determine if more attractive opportunities are available.



# A Flexible, Innovative, Strategic Partner to Accelerate Your Business

**Experience and Innovation:** Founded in 1993, FundQuest helps advisory firms to grow their business via innovative open architecture investment programs and advisor productivity tools

**Great Services and Support:** FundQuest is a very flexible service provider with comprehensive support services for both management and advisors

**The Choice of Leaders:** More than 130 institutions including RIAs, insurance companies, independent broker dealers, banks, and trust and wealth management firms partner with FundQuest

## Investment Management

**Experience:** FundQuest's investment management team has more than 48 analysts in the combined U.S. and European operations performing in-depth quantitative and qualitative investment due-diligence

## For more information

please contact FundQuest at **888.253.9169**, visit **[www.fundquest.com/usa](http://www.fundquest.com/usa)**, or contact us at **[info@fundquest.com](mailto:info@fundquest.com)**

Learn more about the ActivePassive Funds at [www.activepassivefunds.com](http://www.activepassivefunds.com)

*The ActivePassive Funds investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 1.877.273.8635, or visiting [www.activepassivefunds.com](http://www.activepassivefunds.com). Read it carefully before investing.*

**Mutual fund investing involves risk. Principal loss is possible. Investment in the ActivePassive Funds may include risks associated with non-diversification, foreign securities, emerging markets, small and mid cap companies, ETF's, REITS's, debt securities, high yield securities, and mortgage backed securities. The fund will bear its share of the fees and expenses of the underlying funds. Shareholders will pay higher expenses than would be the case if making direct investments in the underlying ETFs. Please refer to the prospectus for the risks specific to each fund.**

The funds charge a maximum 5.75% sales load. The sales load is waived for investors purchasing shares through the Advisor's wrap program.

FundQuest is the advisor to the ActivePassive Funds and ActivePassive Portfolios and is an affiliate of BNP Paribas. The ActivePassive Funds are distributed by Quasar Distributors, LLC (1/09).

**Proven In the Field:** Institutional partners make FundQuest's web based platforms available to a national network of 49,000 financial advisors

**Operational Scale:** FundQuest has \$64 billion under management and administration in its combined U.S. and European operations

**Financial Strength:** FundQuest is part of BNP Paribas, one of the world's largest financial services firms

*Services are offered in the U.S. through FundQuest Incorporated, a Registered Investment Advisor.*



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