

NextFolio FAQs

What is NextFolio's Mission?

NextFolio aims to redefine active management by offering data-driven strategies that overcome the limitations of traditional single-manager approaches.

How did NextFolio get started?

Our founders, with over 60 years of combined wealth management experience, spent nearly five years evaluating the Ensemble Active approach and recognized its breakthrough potential. In 2024, they launched NextFolio to deliver institutional-grade Ensemble Active Portfolios to banks, RIAs, broker-dealers, institutions and family offices.

What is Ensemble Active?

Ensemble Active is the process by which NextFolio tracks the daily holdings of mutual fund/ETF managers across the U.S., using this data to construct portfolios that reflect real-time, high conviction stock selection from a curated set of 10-15 competitively-advantaged institutional-quality managers.

What are the key benefits of Ensemble Methods?

Ensemble methods combine the strengths of individual models by leveraging their diverse perspectives. Each model may excel in different aspects, such as capturing different patterns or handling specific types of noise. By combining their predictions through voting, ensemble methods can improve overall accuracy by capturing a more comprehensive understanding of the data. This helps to mitigate the weaknesses and biases that may be present in any single model; thus, ensemble methods provide a way to incorporate diverse perspectives and expertise from multiple models, leading to more robust and reliable predictions.

What are the key benefits of Ensemble Active strategies?

The key benefits of Ensemble Active strategies, compared to single or multi-manager funds, include improved stock prediction accuracy, a focus on only high-conviction ideas, exclusive reliance on active manager skill, and better diversification achieved through the use of multiple funds.

What sets NextFolio apart from other active management firms?

The key difference between NextFolio and other active management firms is the focus on utilizing multiple funds and only high-conviction stocks across those funds to form portfolios. NextFolio's Ensemble Active process is distinct in this regard as we utilize mutual funds as models as a means to identify investment insights, and stock holdings as forecasts, focusing on high-conviction ideas as predictive signals. In this way, NextFolio diversifies risk on multiple levels, from investment philosophy, organizational culture, stock selection and process execution to portfolio construction and key decision makers. Most firms offer single "manager" products with portfolios that overdiversify holdings and they rely on one investment philosophy and process to select stocks.

Another difference is the breadth of NextFolio's offerings, which span all nine Morningstar style boxes. Few firms apply the same investment approach across all nine categories, let alone being able to offer products in all categories.

How does NextFolio work with institutional investors?

NextFolio offers ready-to-implement strategies designed for banks, RIAs, broker-dealers, institutions and family offices, helping them drive asset growth through differentiation and scale that no other firms can provide.

How does NextFolio address the challenges of traditional active management?

NextFolio addresses the challenge of traditional active management in four ways:

- Leveraging real-time daily fund holdings and machine learning to enhance the predictive accuracy of human insights from skilled portfolio managers.
- Focusing on stock-selection alpha by identifying fund managers' high-conviction ideas, eliminating "diversification ballast" and delivering high active share portfolios.
- Scaling expert insights from multiple institutional fund managers to diversify selection, style, execution and organizational risk.
- By using publicly available information, we bypass multiple fund fees.

What role does data science and machine learning play in NextFolio's strategy development?

Data science is at the core of how NextFolio develops its strategies, accessing machine learning to analyze real-time holdings and build strategies based on high-conviction stock picks of multiple mutual fund managers. Machine learning powers Ensemble Active's ability to access and analyze the real-time holdings and weights of mutual funds (information typically not publicly available), offering unmatched visibility into high-conviction stock picks.

What is Ensemble Methods?

Ensemble methods (or learning) involve multiple models, often referred to as base models or weak learners, and combining their predictions in order to harness the power of collective knowledge and multiple viewpoints. By leveraging the strengths of diverse algorithms, ensemble methods aim to reduce both bias and variance, resulting in more reliable predictions. It also increases the model's robustness to errors and uncertainties, especially in critical applications like investing where the signal to noise ratio is low. This approach is widely used today in spam detection, fraud prevention, recommendation systems, and even stock market predictions.

Why hasn't Ensemble Methods been used in the investment industry before?

It has, in areas like asset allocation and risk management, but not effectively or at all in stock selection. Ensemble Methods relies on real-time access to independent data sources, which hasn't been available until recently. Historically, mutual fund holdings have been disclosed only with significant delays, making it difficult to apply this approach.

With proprietary new technology that provides real-time access to holdings and weights, Ensemble Methods can now be used effectively in portfolio construction, resulting in Ensemble Active Portfolios.

What is Ensemble Alpha™?

Ensemble Alpha™ represents the excess returns achieved through using ensemble methods to identify and invest in only high conviction stocks. This is measured by comparing the return generated by a NextFolio ensemble active portfolio with the underlying basket of funds from which high conviction stocks are drawn.

In this manner, Ensemble Alpha™ seeks to capture collective skill while avoiding dilutive overdiversification.

Do Ensemble Active Portfolios contain derivatives, use leverage, or have anything in them other than long-only domestic equity securities?

No. Ensemble Active Portfolios are composed solely of long-only, US domestic equity securities, drawn directly from corresponding benchmarks. This ensures that all portfolios are style-pure, meaning a Large Core portfolio, for example, contains only stocks from the Russell 1000 benchmark.

How does Ensemble Active differ from Fund of funds?

Fund of funds combine entire funds without considering overlap in stock selection. This compounds the overdiversification drawbacks already present in single funds that dilute alpha. Ensemble Active Portfolios only use high-conviction ideas sourced across multiple funds, determining which of those stocks to own directly.

Fund of funds rely on entering into sub-advisory agreements with fund managers and paying them fees for their service. Ensemble Active Portfolios use only publicly available information to inform its stock selection process and thus has greater flexibility in its hire/fire decisions.

How is NextFolio able to access real-time daily holdings of mutual funds?

The primary source of holdings data comes from form N-Port filings, which registered investments companies (RICs) are required to file quarterly with a 60-day lag (and just for the last reported month of the fund's fiscal quarter). Those quarterly holdings are "converted" to daily holdings through machine learning techniques applied by NextFolio's technology partner.

NextFolio's technology partner creates daily replication portfolios of mutual fund holdings using machine learning that has been able to produce over a 99% correlation with daily fund NAV changes. Through this replication technology NextFolio accesses a "best estimate" of how a fund's holdings evolve over time.

For ETFs, who report their holdings daily, no replication is required; data can be accessed directly.

Do fund selection and Ensemble Active portfolio construction require different skill sets?

Yes, while fund selection and portfolio construction overlap conceptually, they are distinct processes.

Selecting the “best of breed” funds based on a mandate can lead to various portfolio types—enhanced index, diversified, or concentrated—all of which can produce strong performance. However, not all strong fund selections align with Ensemble Active.

Ensemble Active Portfolios require a curated set of competitively advantaged managers. It's not just about picking strong funds; it's about how they fit together. The process emphasizes high-conviction ideas across funds, making factors like holdings count, active exposure, and top-ten concentration crucial. Thoughtful construction is key to both strong fund selection and capturing Ensemble Alpha™.

At NextFolio, we go beyond fund selection to consider how the mix of investment philosophies and processes will perform together. Without this ensemble approach, you risk missing the bigger picture—and the full potential that comes with it.

When did Ensemble Active Portfolios become available?

NextFolio offers strategies across all nine Morningstar style boxes. The inception dates for each are as follows:

- Large Cap Core – September 16, 2019
- Large Cap Growth – January 3, 2021
- Large Cap Value – May 11, 2020
- Mid Cap Core – March 15, 2021
- Mid Cap Growth– February 1, 2021
- Mid Cap Value – March 29, 2021
- Small Cap Core – May 24, 2021
- Small Cap Growth – October 24, 2022
- Small Cap Value – March 29, 2021

Please provide a strategy description for Ensemble Active Portfolios.

Ensemble Active Portfolios seek long-term growth of principal and income through investing in a portfolio of approximately 50 high-conviction stocks selected from a curated list of 10-15 institutional-quality mutual funds/ETFs. Employing data science and Ensemble Methods, the strategy is able to identify in real-time daily holdings across funds and ETFs and apply machine learning to enhance human insights and predictive accuracy.

This creates Ensemble Alpha™, a source of additive returns above those of the funds themselves, by avoiding overdiversification and focusing only on those stocks where research has shown managers have skill – their high conviction ideas. This allows for systematic capture of stock selection alpha.

How many funds typically comprise an asset class strategy?

For the ensemble process to effectively capture high conviction signals across funds, 10-15 strategies are the desired range. Too few funds lead to insufficient diversification on multiple levels while too many funds overdiversify the number of signals needed to achieve effective ensemble construction.

What's the difference between "wisdom of the crowd" and consensus selection versus NextFolio's high-conviction approach?

The difference between them is an important distinction and yields differently constructed portfolios.

Consensus or “wisdom of the crowd” strategies select stocks based on their prevalence across many funds, often overlooking exposure levels. This can lead to crowded trades vulnerable to liquidity drawdowns or sentiment shifts.

High-conviction strategies focus on stocks where managers place their biggest bets, whether from one or multiple curated funds. These portfolios may overweight infrequently held stocks where select managers have strong, asymmetric views, capturing unique opportunities not commonly found in broad consensus selections.

How do NextFolio's products differ from competitors'?

Encapsulating in an "elevator pitch" what NextFolio and Ensemble Active Portfolios bring to the table that makes it different than peers, the following are the key points:

- Real-time holdings with frequent updates
- Curated selection of skilled managers, avoiding overly broad or narrow sets
- Managers aligned in strategy, eliminating style beta to isolate stock selection alpha
- Emphasis on high-conviction ideas over consensus picks

How does NextFolio manage risks with Ensemble Active?

Prediction risk—whether at the stock or fund level—is the primary challenge for investors. Beyond the uncertainty of future performance, fund selection introduces additional risks:

- Philosophy risk – A manager's approach may fall out of favor.
- Portfolio manager risk – Key person dependence or behavioral biases.
- Process risk – Inconsistencies in execution.
- Organizational risk – Cultural stability and resource allocation.

To mitigate these risks, we select 10-15 independent, competitively advantaged managers, each targeting the same investment opportunity but with distinct processes. This diversification ensures no single manager overly influences the portfolio while strengthening predictive accuracy through collective active stock exposures. The varied manager mix also balances sector exposure in the final Ensemble Active Portfolio.

One risk we intentionally embrace is stock selection risk. Ensemble Active focuses on high-conviction ideas, leveraging ensemble models to transform individually weak predictors into stronger signals. By combining multiple skilled managers' insights and capital allocations to their best ideas, we aim to enhance returns while reducing reliance on any single fund's performance.