

# Capital Allocation Framework

My principle in portfolio construction is to allocate capital where it is most needed, subject to diversification across (i) investment horizons (short-, medium-, and long-duration), (ii) industries and macroeconomic factors, and (iii) countries (primarily Korea and the United States). In technical terms, this reflects an efficient allocation perspective that emphasizes diversification across equity duration and macro exposure. Rather than attempting to forecast short-term price movements, the strategy prioritizes margin of safety, disciplined portfolio rebalancing, and robustness across economic regimes—for example, limiting drawdowns during downturns while accepting more muted performance during cyclical expansions.

In practice, this means avoiding highly crowded trades where capital is already abundant. Large, widely held firms with strong consensus positioning often offer limited incremental returns to additional capital at prevailing prices. Instead, tilting exposure toward companies facing capital constraints tends to be more profitable over time, despite short-term headwinds and higher idiosyncratic risk at the individual firm level. The objective is not contrarianism for its own sake, but selective exposure to mispriced risk, balanced with reasonable diversification and explicit hedging.

The portfolio is intentionally concentrated, typically holding fewer than ten long positions per market (e.g., the U.S.), while maintaining diversification across styles and macro sensitivities. Its strength lies in macro robustness rather than precise asset-level forecasting. For example, exposure to the U.S. dollar (as the global reserve currency) can serve as a short-horizon hedge during periods of market stress, as the U.S. dollar tends to appreciate sharply during crises. Conversely, growth-oriented equities offer convex exposure to changes in the term structure of interest rates, particularly during periods of yield-curve flattening. These allocations are designed to improve portfolio resilience rather than to express directional macro views.

## Portfolio Construction

Approximately 50% of total capital is allocated to Korean public equities, primarily value-oriented stocks (short to medium duration equities). The remaining 50% is invested in publicly traded U.S. equities, with limited exposure to non-U.S. listings (e.g., Wise on the LSE).

The U.S. portfolio is organized into three sleeves: **Core Portfolio** (60%), **Concentrated (High Conviction) Portfolio** (20%), and **Long-Duration Equity Portfolio** (20%).

### A. Core Portfolio

Duration diversification mitigates discount-rate risk across economic regimes. The **Core Portfolio** is designed to be diversified across equity-duration buckets (short, medium, and long), complemented by a dedicated hedge component.

- **Short-duration equities** are typically mature firms with limited growth opportunities and/or firms with elevated distress risk, often correlated with higher financial leverage.
- **Medium-duration equities** are generally established firms with reasonable long-run growth prospects that experience temporary valuation dislocations due to transitory setbacks in fundamentals (e.g., slower revenue growth or lower profitability).
- **Long-duration equities** are firms whose valuation is primarily driven by expected cash flows far in the future, typically reflecting early- or expansion-stage business models with high growth potential and limited near-term cash flow realization.
- **Hedge** positions consist of either precautionary liquidity (invested in short-term U.S. Treasury instruments) or macro-oriented exposures with asymmetric payoff profiles (e.g., crude oil, currency, or government bond yield exposures). These positions are implemented through long-dated put options (with one- to two-year maturities) or leveraged exchange-traded funds.

Within the **Core Portfolio**, equity exposure is intentionally skewed toward shorter-duration holdings, with a typical composition of approximately 5 short-duration positions, 2–3 medium-duration positions, and 1–3 long-duration positions, subject to overall risk and hedging constraints. Within each duration bucket, the portfolio construction seeks to avoid concentration within the same industry, with the total number of equity holdings capped at ten. Hedge allocations are typically targeted at approximately 5%–10% of total portfolio value.

## **B. Concentrated Portfolio**

The **Concentrated Portfolio** allocates approximately 60%–70% of capital to one to three high-conviction equity positions, typically spanning the short-, medium-, and long-duration categories. The remaining capital is maintained as a deliberate cash reserve. This reserve is deployed selectively into asymmetric payoff structures—such as long-dated call options, put options, or other high-convexity trades—only when valuation and risk–reward conditions reach extreme levels.

In addition to derivative-based exposures, the portfolio increases direct equity positions when valuation dislocations deepen, often when securities monitored within the **Core Portfolio** experience further drawdowns and transition from watchlist candidates to high-conviction positions. Equity exposure is intentionally concentrated and reflects selective, high-conviction assessments across duration categories, rather than broad diversification.

Target opportunities may also include high-volatility equities and macro-sensitive instruments, particularly in environments characterized by elevated uncertainty or pronounced regime shifts.

## **C. Long-Duration Equity Portfolio**

The **Long-Duration Equity Portfolio** is designed to amplify exposure to long-horizon growth and discount-rate sensitivity. Holdings consist primarily of long-duration equities that overlap with positions in the **Core Portfolio**, supplemented by selected international equities (excluding Korean markets) that are accessible through global trading venues and exhibit similar long-horizon growth characteristics.

The portfolio focuses on firms with multi-year growth runways and is intentionally constructed to exhibit higher return volatility than the Core Portfolio.

# **Strategy**

## **A. Implementation and Risk Controls**

The **Core Portfolio** follows a disciplined, research-driven net-long equity strategy, maintaining approximately 80–90% net long exposure primarily through equities, with 5–10% of capital allocated to downside protection implemented via put options or leveraged exchange-traded

funds. Short exposure is never expressed through naked short positions; instead, downside risk is managed exclusively through defined-risk instruments and is capped at 10% of total capital.

Positions are classified into short-, medium-, and long-duration categories to capture distinct sources of risk premia, and are complemented by selective Macro and Hedge allocations intended for risk management rather than directional speculation.

Security selection is grounded in observable fundamentals: low price-to-book ratios for short-duration value exposures, mean-reverting growth and profitability metrics for medium-duration equities, and revenue momentum for long-duration, venture-style investments.

Rebalancing occurs no more frequently than quarterly within categories. As a risk-control discipline, position sizing is limited to no more than two incremental additions following the initial entry, with at most one addition per quarter per position. This rule explicitly acknowledges the possibility of misjudgment: if a position experiences multiple drawdowns exceeding approximately 30% following successive additions, the original investment thesis is deemed invalid rather than repeatedly averaged down.

The overarching objective is to compound capital through patient, fundamentals-based investing while maintaining asymmetric protection against tail risk and preserving flexibility to adapt to changing market conditions.

The **Korean Portfolio** is managed to track the U.S. **Core Portfolio** as closely as permitted by local regulatory constraints. Where direct replication is infeasible, economically equivalent instruments are employed (e.g., leveraged exchange-traded funds in place of options-based strategies).

## **B. Scalability**

While there may exist a capital threshold beyond which liquidity constraints—particularly in the options market—become relevant, such constraints are unlikely to alter the core principles of the strategy. At present, the portfolio operates at a relatively small capital base (on the order of tens of thousands of dollars), and the approach is expected to scale efficiently to larger asset levels, subject to careful liquidity management. Capacity considerations will be revisited as assets grow and as execution and risk controls continue to be refined.

## **C. Edge and Comparative Advantage**

The primary source of comparative advantage lies in portfolio construction rather than isolated security selection—specifically, in understanding how individual holdings interact across asset classes, currencies, and macroeconomic regimes. The approach prioritizes structural diversification and capital efficiency over short-term alpha extraction. A cross-country valuation framework spanning both U.S. and Korean public equities helps mitigate home-bias risk that often constrains U.S.-centric portfolios, allowing capital to be allocated toward markets where risk-adjusted returns are more attractive. This global perspective, combined with disciplined risk management and limited reliance on leverage, supports the objective of constructing a robust portfolio capable of delivering stable long-term returns across various market cycles.