

A FRAMEWORK FOR PORTFOLIO CONSTRUCTION

Building the *Roster*

Championships are won by rosters, not lineups.

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EXECUTIVE SUMMARY

Building the *Roster*

Every investor operates under the same constraint as an NBA general manager: *a finite cap*. Every dollar allocated to one manager, one asset class, one theme is a dollar not available for another. The question is not simply "who are the best managers?" but "how do we spend our cap to build a roster that can compete in any environment?"

Professional allocators think in positions, roles, and complementarity — across the whole portfolio, and again within the alternatives sleeve. The reframe is simple: championships are won by rosters, not lineups.

SECTION 01 — THE INTUITIVE FRAME

"Who are the *best* managers?" is the wrong question

The most natural question clients and RMs ask is, "who are the best managers?" It's a fair starting point, and manager quality matters enormously. But it sits one layer above the more consequential question: *what role does each manager play, and does this roster have an answer for whatever the market throws at it?*

That question is harder to market. It is easier to tell a client "we added a top-decile performer" than "we added a fund we expect to underperform in a benign year, because it's the one thing in the book that works when credit spreads widen." But the second conversation is often where the real portfolio-construction work happens.

SECTION 02 — THE CAP IS FINITE

Sizing is as important as *selection*

This is the quietest, most important constraint in the exercise. An NBA team has roughly **\$155m of cap space in 2025–26**. A champion signs a max player, and now a third of the cap is gone. Every dollar after that is a trade-off. You build a roster by deciding, with discipline, what each dollar needs to do.

An investor's portfolio works the same way. The capital base is finite. Every allocation competes with every other allocation, not just for return but for a position on the roster. If a private credit

manager is sized at 8% of the book, that is 8% not in a market-neutral strategy, not in a trend-follower, not in cash. The question is never "is this a good fund?" in isolation — it is "is this the best use of this slot, given everything else on the roster?"

This is why sizing is as important as selection. A great manager sized as a max contract when the role only justifies the mid-level exception is a portfolio construction error, even if the manager outperforms.



The cap is the quiet constraint — every dollar committed is a dollar unavailable for the next.

THE PLAYBOOK

How roster construction *works*

SECTION 03 — TWO LEVELS

Two levels of *roster thinking*

Roster thinking operates at two levels, and it's worth separating them.

LEVEL ONE

The overall portfolio.

How is the cap allocated across public equity, fixed income, alternatives, and cash? What role does each sleeve play, and how do they behave together?

LEVEL TWO

The alternatives sleeve.

Within the alternatives allocation, what mix of return drivers, liquidity profiles, and risk factors makes up the bench?

The overall portfolio is where the **starting five** is decided — the core exposures that carry most of the minutes. The alternatives sleeve is where **specialists and role players** fill specific gaps the starters cannot cover alone.

SECTION 04 — THE ALLOCATOR'S LENS

Complementarity over *talent*

Great NBA rosters are built on stars surrounded by role players who each do one complementary thing exceptionally well — the 3-and-D wing, the rim-running big, the veteran guard who doesn't turn the ball over in the fourth quarter.

Portfolios work the same way. The core allocations do the heavy lifting. Around them sit the satellite positions: a trend-follower that earns its minutes in dislocations, an arbitrage position doing one specific thing in the capital structure, a macro allocation that exists for convexity. Each is sized for its role.

None of this works without rigorous due diligence on the players themselves. You cannot assign a role to a fund you don't fully

understand. The depth of work on team, process, track record, and behaviour in stress is what converts a fund from "an allocation" into "a role player we can rely on to do a specific job." Roster thinking sits on top of good selection; it doesn't replace it.

This is also where complementarity matters. Two excellent scorers who both need the ball are a worse pairing than one excellent scorer and one off-ball shooter, even if the off-ball shooter is the less talented player. The same is true of managers: two funds with the same return driver are a worse pairing than two funds with different drivers. **The roster is the unit of analysis, not the player.**



Complementarity over talent — the roster, not the player, is the unit of analysis.

THE LIGHTHOUSE CANTON VIEW

Building for the *matchup* you didn't expect



Great rosters share the ball, the work, and the game plan. Roles only mean something inside a huddle.

The reason this framing matters, ultimately, is that no one knows who they're playing tomorrow. You don't definitively know which regime the next twelve months will reward, which correlations will break, which factor will lead.

When we build portfolios, we are spending a finite cap. Every slot must earn its minutes, and every signing starts with deep work on the player before we can think clearly about the role. The test isn't whether any single manager is excellent in isolation. It's whether the roster, taken as a whole, is built to compete on the nights when the matchup isn't the one we expected.

Championships are won by *rosters*, not lineups.

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