



Investment Manager Selection

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Agenda

- Investment Philosophy
- Process Overview
- Quantitative Analysis
- Qualitative Due Diligence

Scott Cameron, CFA

Scott is the Chief Investment Officer for the Multnomah Group and a Founding Principal of the firm. In that role, Scott leads Multnomah Group's Investment Committee, is responsible for the development of the firm's investment research methodology, and conducts investment manager due diligence. Scott also consults with plan sponsors on investment menu design, investment manager selection, fiduciary governance, and vendor fees/services.

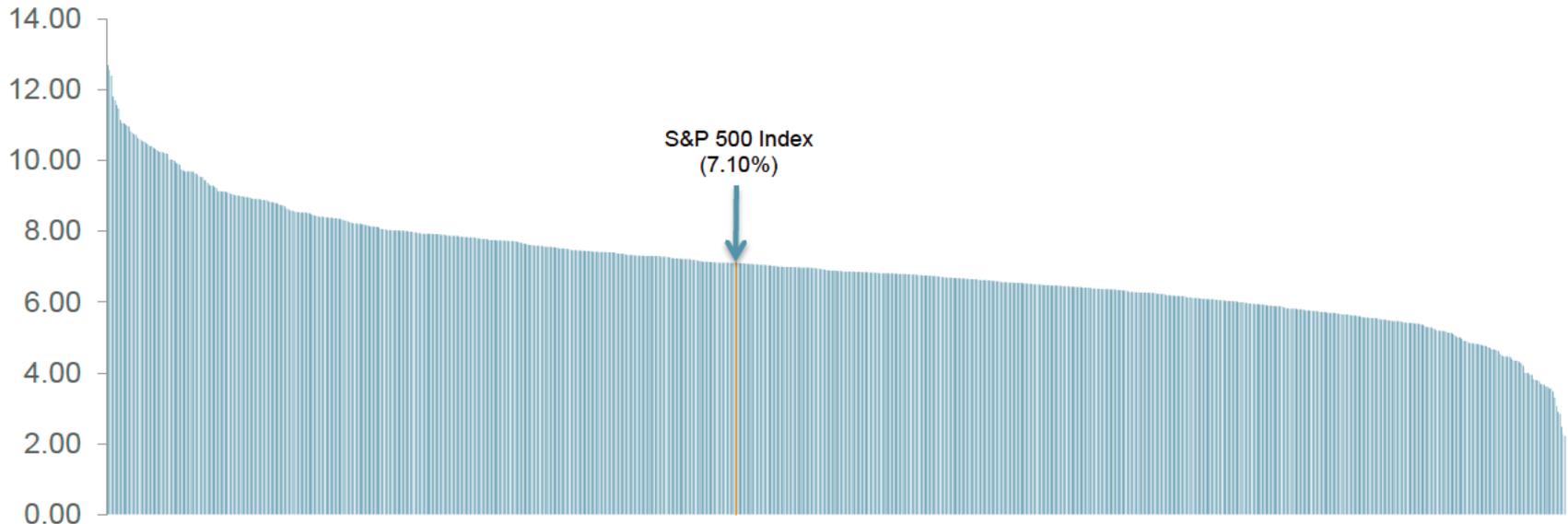
Prior to founding the Multnomah Group, Scott was an investment consultant with a national retirement services firm.

Scott is a member of the CFA Institute, the CFA Society of Portland, the Investment Management Consultants Association, and the Portland Chapter of the Western Pension & Benefits Council. Scott holds a B.S in Management from Purdue University.

Investment Philosophy

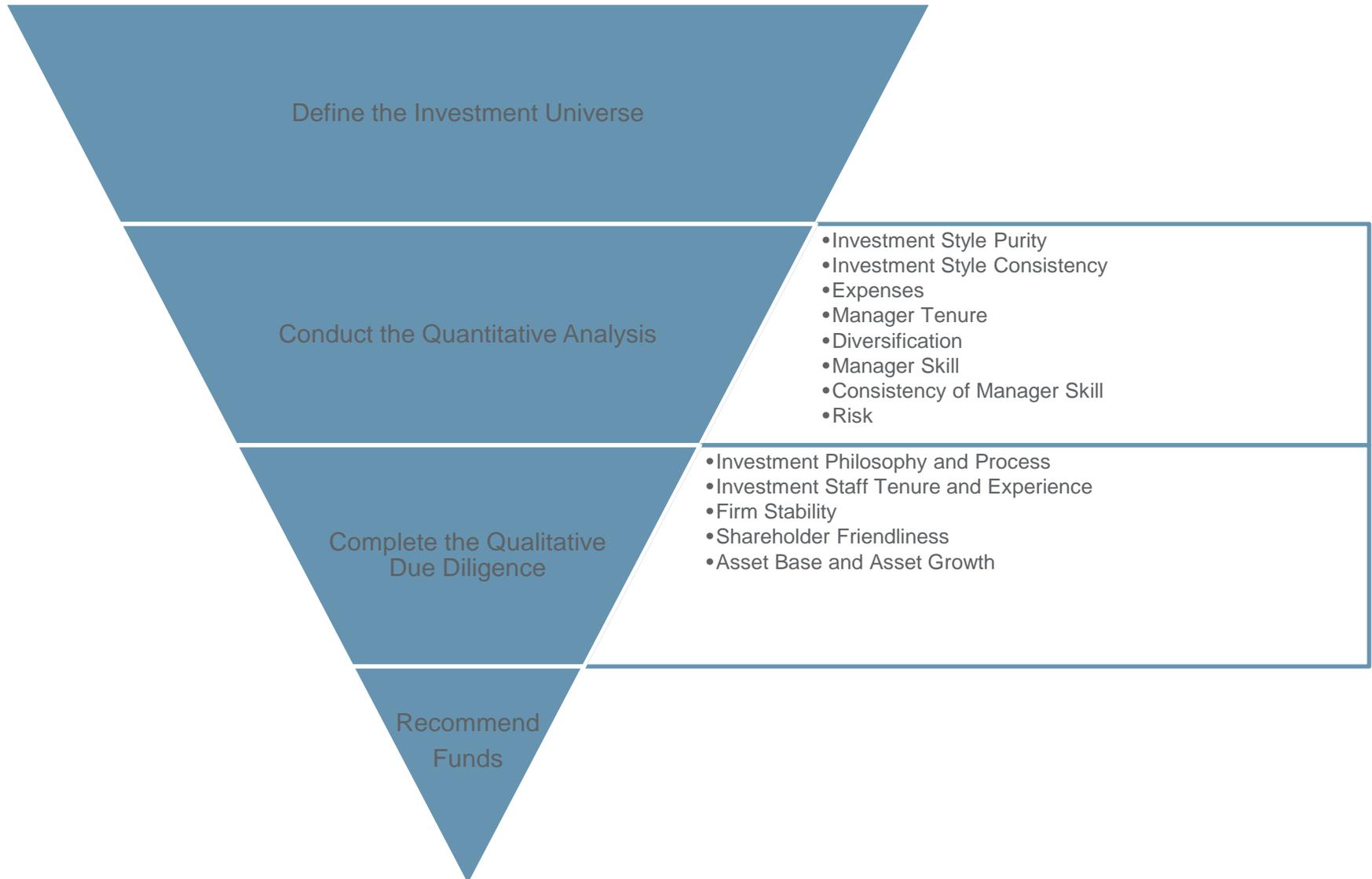
- Grounded in Modern Portfolio Theory (MPT)
- Risk and return are highly correlated
- Index funds are prevalent across asset classes
 - Provide asset class exposure
 - Low cost
 - Minimize “active” risk (tracking error)

Annualized Return (Last 10 Years)



Source: MPI Stylus, Morningstar US Mutual Fund Database, The peer range shows distinct Large Value, Large Blend, and Large Growth funds with a 10 year track record

Process Overview



Define the Investment Universe

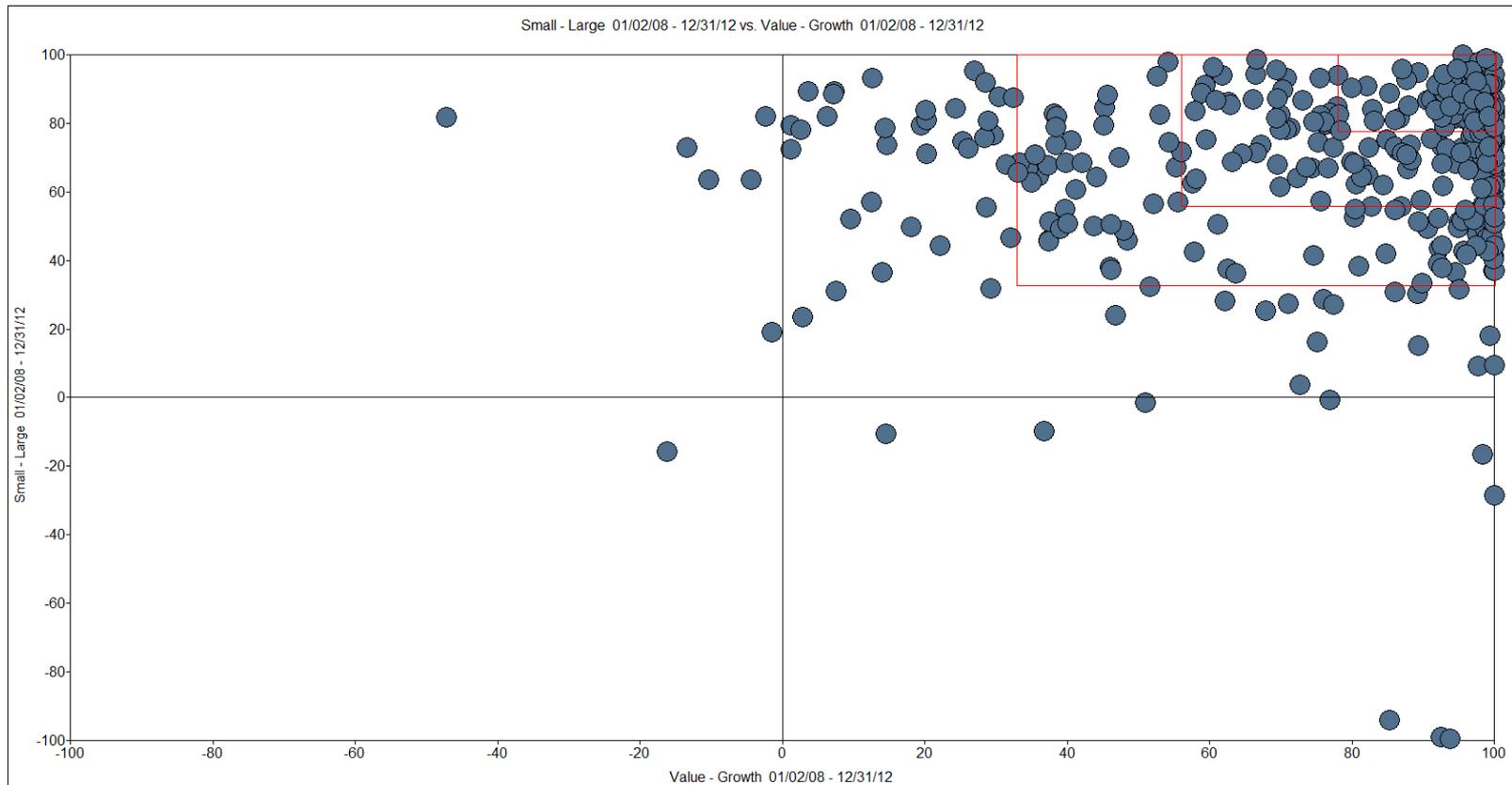
- 10,000+ distinct mutual funds in U.S.
- 2,000+ collective investment trusts (CITs)
- Insurance company separate accounts and ETFs
- Filter out non-institutional investment products (B and C share funds, etc.)
- Sort into peer groups
 - Morningstar Category™ is common industry methodology
 - Currently maintain 53 peer groups in our internal database

Conduct the Quantitative Analysis

- Investment Style Purity
- Investment Style Consistency
- Expenses
- Manager Tenure
- Diversification
- Manager Skill
- Consistency of Manager Skill
- Risk

Investment Style Purity

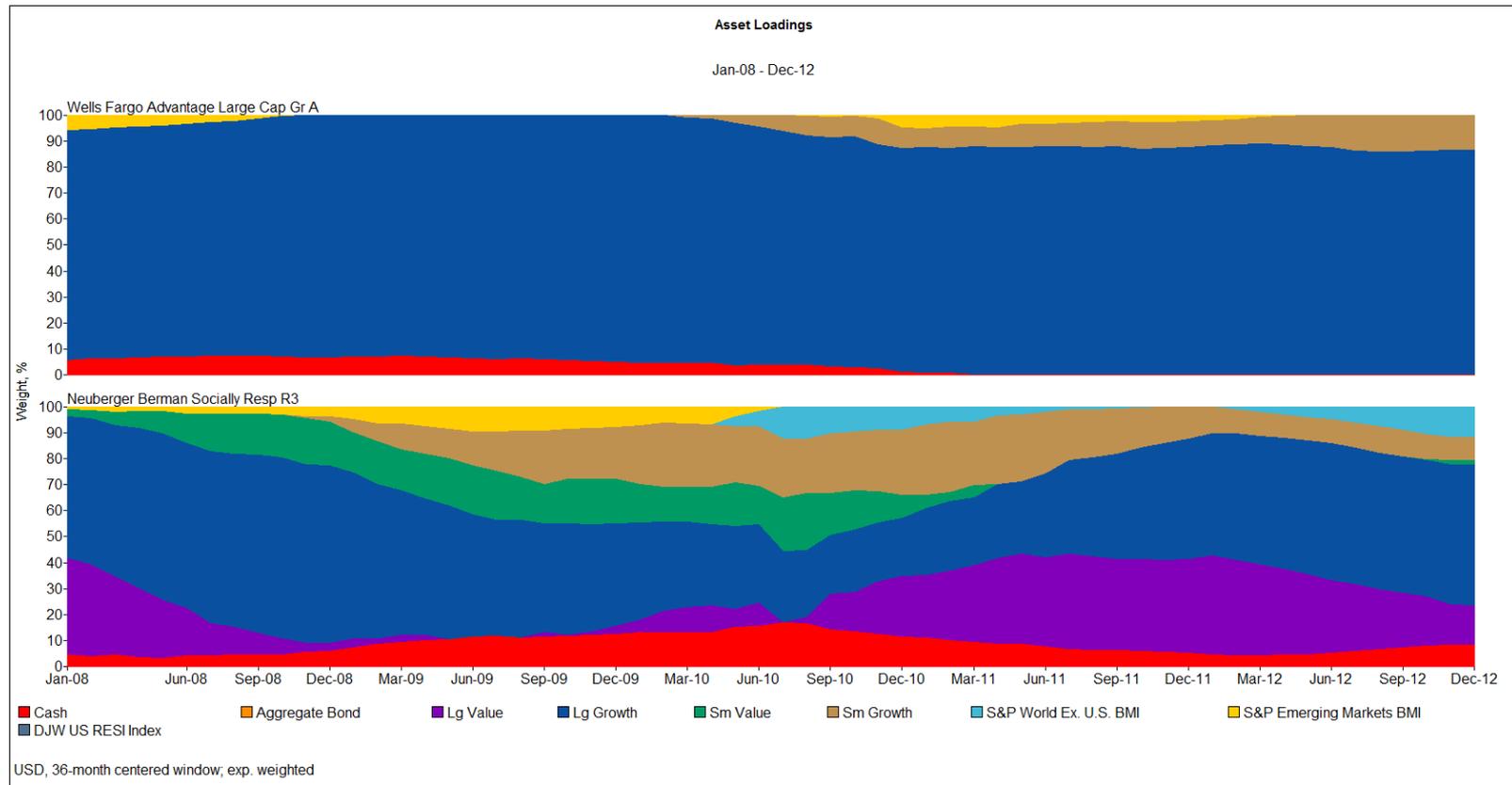
- Participant Focus on Asset Allocation
- Investment Products are Tools for Building Asset Allocation
- Lack of Style Purity Indicates Potential Future Risk



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Investment Style Consistency

- Lack of Style Consistency at Odds with Asset Allocation Decisions
- Market Timing is a Difficult Method for Active Managers to Add Value



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Expenses

- Net of Fee Performance is What Investors Care About
- High Expenses Create Hurdle for Active Management
 - Need to Earn Higher Gross Returns to Deliver Equivalent Net Returns
 - Rewards Should Accrue to Investors, Not Investment Manager
- Expense Ratio May Include Revenue Sharing
 - Focus on Institutional Share Class for Apples-to-Apples Analysis
 - Revenue Sharing is a Separate Decision From Investment Manager Selection
- Turnover Ratio
 - Proxy for Trading Costs and Market Impacts
 - Impact is Dependent on Liquidity of the Market and Size of the Portfolio

Manager Tenure

- Is the Performance Track Record Relevant?
- Longer Tenure:
 - Historical Performance is Less Attributable to Market Dynamics
 - Stability is Indicative of Future Stability
- Tenure is a Flag for Qualitative Analysis of Investment Team.

Diversification

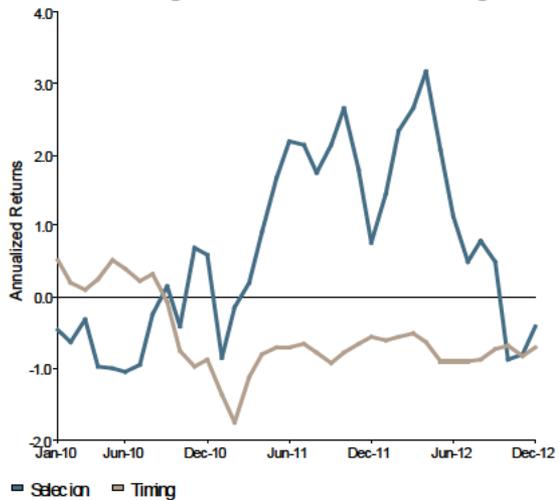
- Measure of Risk Management
 - Concentrated Portfolios Are Generally Not Appropriate in DC Investment Menu
- Total Number of Holdings
- % of Assets in Top 10 Holdings
- Level of Diversification May Vary by Asset Class
 - Government Bond Funds
 - REITS
 - Sector Funds
 - TIPS

Manager Skill

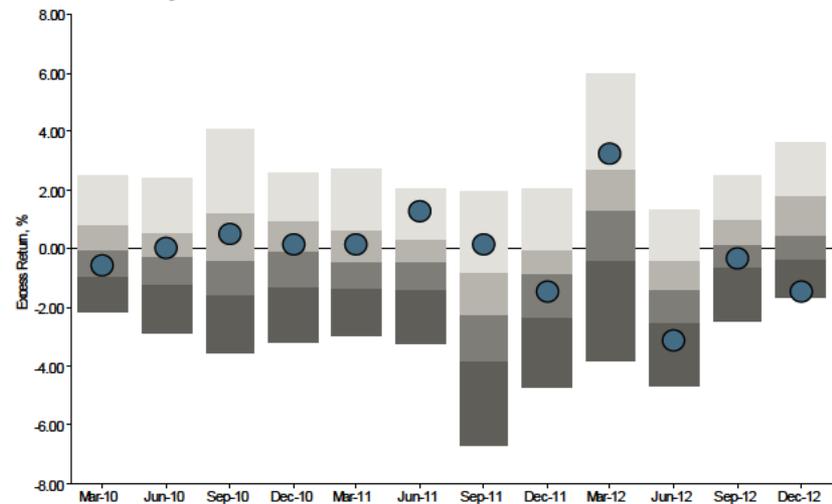
- Seeking to Identify Managers that Can Outperform the Market on a Risk-Adjusted Basis
- Fund's Returns are attributable to:
 - Market Performance – performance attributable to market exposure (available through index fund)
 - Market Timing – performance attributable to deviations from long-term style
 - Security Selection – performance attributable to picking securities within benchmark
- Different Measures of Manager Skill
 - Excess Return – simplest measure comparing fund's performance against benchmark performance
 - Security Selection – used style-adjusted customized benchmark to evaluate value added (subtracted) through security selection decisions
 - Alpha – style-adjusted customized benchmark that identifies whether a fund has outperformed expectations given its style exposure

Manager Skill (cont...)

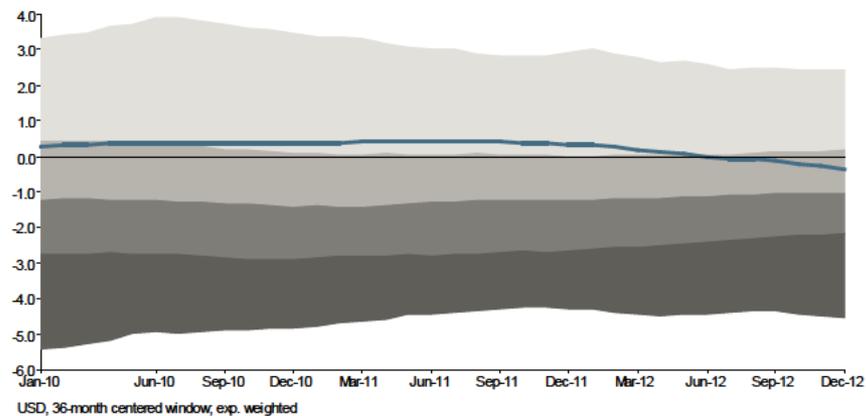
24M Rolling Selection and Timing Returns



Quarterly Excess Returns



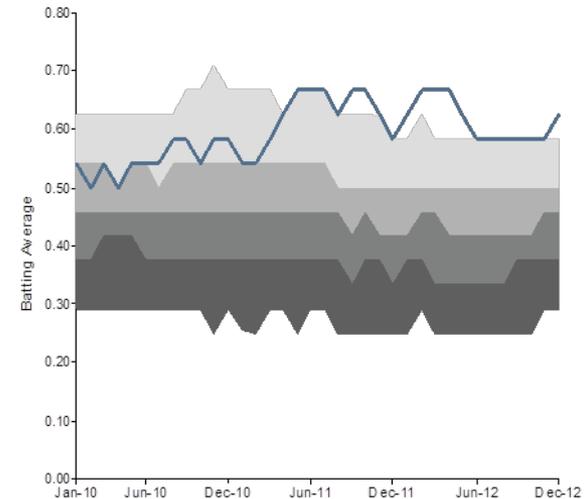
24M Rolling Alpha



Consistency of Manager Skill

- Past Performance Can Be Misleading
 - One Strong Period Can Skew Results for Many Years
- Seeking to Identify Managers that Can Consistently Add Value
- Batting Average
 - # of months a fund outperforms the benchmark divided by the total # of months in the measurement window
 - Does not address magnitude of outperformance

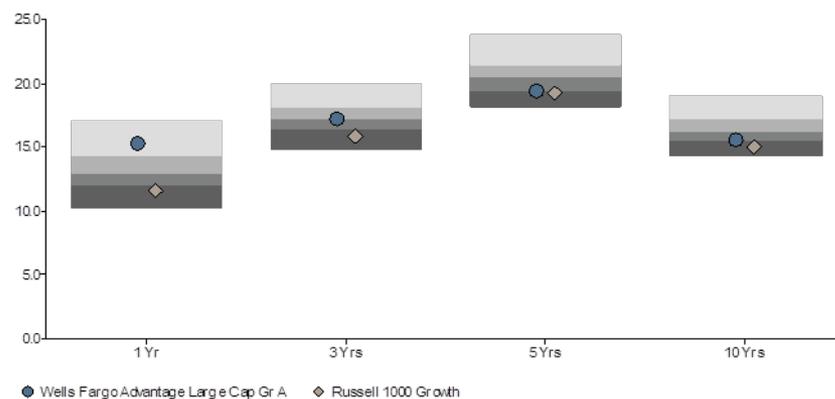
24M Rolling Batting Average



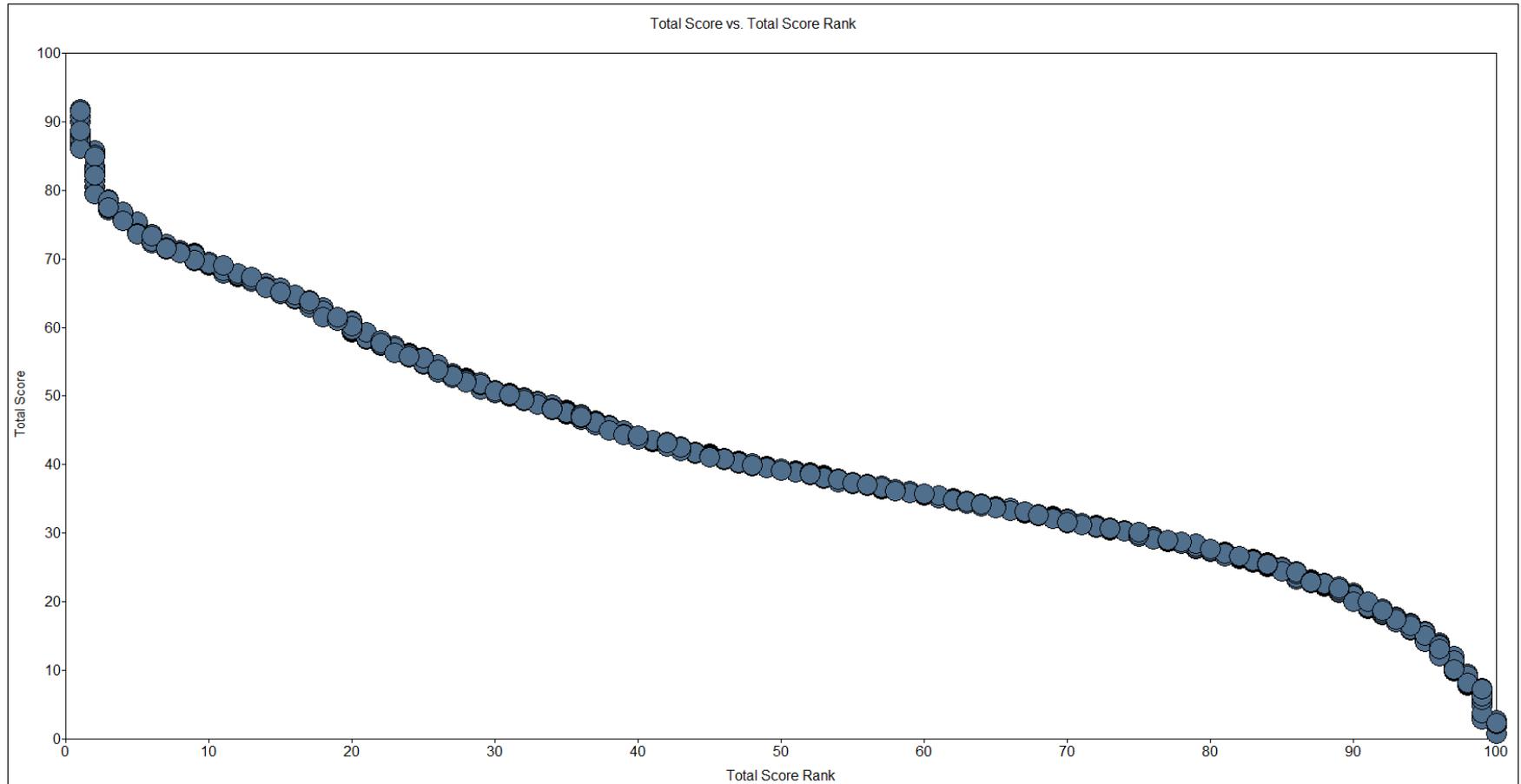
Risk

- Risk is Defined Many Ways
 - Volatility
 - Loss of Principal
 - By Type of Risk
 - Inflation
 - Credit
 - Interest Rate
 - Opportunity Costs
- Standard Deviation is Common Measure of “Risk”
 - Measures volatility of returns
- Other Risk Types are Captured Through our Quantitative Analysis

Standard Deviation (Annualized)



Quantitative Analysis Results



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Qualitative Due Diligence

- Quantitative Analysis is the Guide
- Qualitative Review is Ultimately Most Important Step
- Trying to Understand “Why” a Fund Behaves the Way it Does
- Areas of Focus
 - The Firm
 - Investment Personnel
 - Investment Strategy
 - Shareholder Friendliness

The Firm

- What Type of Firm is It?
 - Small, boutique investment manager
 - Insurance company
 - Publicly traded asset manager
 - Bank subsidiary
- One Size Does Not Fit All
- What is the Ownership Structure of the Firm?
 - How does ownership impact the culture?
 - Is a transition/succession plan in place?
 - Is the business core to the parent organization?
- How Stable has the Firm Been Historically?
 - Have there been changes in ownership structure?
 - Have there been changes in leadership?
- What is the Firm's Culture?
 - How does the firm's structure support or demonstrate its culture?

Investment Personnel

- Funds Don't Have Track Records, People Do.
- What is the Structure of the Investment Team?
 - Single portfolio manager or team?
 - Centralized research analysts or team-specific?
 - Analysts assigned a sector or generalists?
- What is the Experience of the Investment Team Together?
 - Portfolio Manager(s) [Manager tenure is a limited measure of experience]
 - Research analysts
- How Does the Team Interact?
 - Is there a king?
 - Does the team strive for consensus?
 - Does everyone understand their roles and responsibilities

Investment Strategy

- How Do They View the Market?
- What is Their Unique Edge in Adding Value?
- Is it Consistent with Their Investment Philosophy?
- Is it Reasonably Grounded in Fundamental Research?
- What is the “Buy” Discipline?
 - How do securities end up in the portfolio?
- What is the “Sell” Discipline?
 - How do securities leave the portfolio?
- Is the Historical Track Record Consistent with the Articulated Investment Strategy?

Shareholder Friendliness

- What is the Capacity of the Fund?
- How Do They Manage Capacity?
 - Have they implemented fund closures?
 - Do they compensate managers for performance or asset growth?
- Do They Charge Reasonable Fees?
 - Have they lowered fees as funds grow in size?
- Do They Communicate Changes in a Timely Manner?

Recommend Fund

- There is No “Best” Fund.
- Is it Consistent With the Client’s Investment Objectives?
- How Does it Compare to the Rest of the Investment Menu?
- Are There Any Operational Issues with the Fund?

Disclosures

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