Rigorous Due Diligence Approach

Executive Overview
A factor that is considered a positive development for most investors is access to a wide variety of options across the global investment universe through different investment vehicles ranging from mutual funds to separately managed accounts and hedge funds. However, with added choice can also come the possibility of making mistakes by selecting inappropriate strategies or less qualified money managers. It is more important than ever for investors to have confidence that the investment choices they have access to through a specific provider are competitive and appropriate for their needs.

Clients of The Private Client Reserve at U.S. Bank have access to a diverse list of proprietary and third-party investment managers, funds and services. For this reason, the value of a professionally implemented due diligence process becomes an important consideration when deciding which choices may be appropriate for investment. The Private Client Reserve has in place a well-tested approach to help identify the most qualified asset managers for specific investment objectives. Members of our investment leadership team utilize a robust selection process that carefully assesses the capabilities of each investment manager under consideration. The objective is to provide investors with qualified investment options across the broad investment spectrum.

After the selection process is complete, investment managers and options are constantly monitored to assure their performance, investment capabilities and style continue to meet our standards.

The ultimate goal of our due diligence process is to enhance the potential for clients to achieve their investment objectives through superior management.

We utilize a four-step review process to carefully identify, screen and assess potential candidates.
A Tested Screening Process

The due diligence team in The Private Client Reserve utilizes a carefully developed, well-defined and deliberate process. Our initial four-step review is critical in helping to narrow down a broad range of potential options to a manageable number of quality choices that offer optimum potential for individuals and organizations with various investment objectives. There are checkpoints in place through every step that solidify the investment process. Once managers are identified and selected for our platform, their ongoing performance and other management attributes are constantly monitored.

The initial due diligence process begins with these four distinct phases that result in the development of a roster of quality investment managers contributing to the potential success of our clients.

Step 1 – Defining an investment directive

A critical starting point is to identify the specific investment directive that is to be fulfilled through the search process (i.e., large-cap value managers, long-short equity managers). Understanding the specific objectives and other parameters can help lay the groundwork for a focused search process.

Among the factors that help define additional steps of the due diligence process are:

- Investment objectives – for example, capital appreciation, current income, etc.
- Asset class – i.e., mid-cap value, low-grade bonds, emerging market stocks, etc.
- Potential investment vehicles – mutual funds, separately managed accounts, exchange traded funds (ETFs), etc.
- Style characteristics desired in selected managers.
- Risk/return attributes that should be evident.
- Desired management approach related to factors such as how the investment is structured in comparison to its benchmark and the manager’s security selection process.

Specifying this level of information related to the desired investment directives can significantly streamline the selection process and help match potential managers to the defined investment needs of our clients.

Step 2 – Identify candidate firms to be studied

Using the specific direction identified in Step #1 as a guideline, a rigorous search process begins. Potential candidates for consideration into our investment platform are identified using various industry databases as well as other industry sources and contacts that we have established over the years. We can also compare broad information about the manager to our own selection criteria to help fine tune our screening process. In a typical search, ten or more potential investment managers may be identified for more thorough examination in the next phase of the due diligence process.
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**Step 3 – Assess quantitative and qualitative factors**

The screening process continues by assessing the track records of manager candidates, as well as other factors that require more careful scrutiny by our due diligence professionals.

**Quantitative Factors:** A review of the record of the investment manager is often the first screen included in the process. This is particularly true when we study investment categories that have a large number of managers to choose from. The factors reviewed include:

- Performance history – reviewing the manager’s track record in terms of absolute returns, relative returns, risk-adjusted returns and alpha (performance volatility versus its benchmark).
- Assets under management – determining if the firm (and the specific portfolio being considered) has sufficient assets under management to properly diversify investment risk.
- Strength of firm – typically, managers must have at least a five-year track record to be considered, though some exceptions are made.

**Qualitative Factors:** An effective due diligence process goes well beyond the numbers to look at other characteristics that meet our established criteria and match the specific investment directives identified in Step #1. Among the key aspects we consider are:

- Purpose – the manager’s investment objective and how it is achieved. Generally speaking, we prefer managers who own a limited number of positions within a portfolio and that manage turnover carefully (to limit tax implications for non-qualified investments).
- Philosophy – how market prices, investor behavior, security valuation and other factors influence the manager’s investment strategy. Taking the time to understand the thinking behind an investment approach is critical to determining how appropriate a manager is for our platform.
- Process – the degree of conviction the manager has around the investment approach being used today. The goal is to assure that a level of consistency can be expected. We also review the factors that might justify a decision by the manager to alter their process.
- People – assuring that those making day-to-day investment decisions have the experience necessary to execute and adhere to the process. Typically, we seek managers (or management teams) that have been in place for five years. They should be backed up by stable, experienced investment staff.

Our internal team and third-party partners conduct candid and consistent interviews with each candidate firm to assure that objective standards are met. The thoroughness of this step in the process is at the heart of what makes our due diligence efforts matter. The goal is to identify managers that meet the defined investment directive and have convinced us that their capabilities match our investment standards.

**Step 4 – Identify and approve final candidates**

After collecting all pertinent information on each potential management candidate, the due diligence team makes final recommendations to U.S. Bank’s Asset Management Committee. This group carefully reviews all data and insights presented to it, questions the due diligence group and makes a final judgment on whether a specific manager meets our quality standards. Only after careful review and discussion by the Committee will managers be added to the platform.

It is important to note that managers are never selected by default. If no manager fits the investment directive or meets other criteria, then no manager will be recommended for the platform.

**Maintaining Investment Quality**

The thorough nature of our due diligence process is designed to identify managers that are well positioned to potentially meet the needs of our clients for years to come. Yet we understand the importance of continued oversight of each manager to evaluate whether the needs of our clients are consistently being served.

Important disclosures provided on page 5.
Part of our role is to monitor the effectiveness of each manager in our platform. This process centers on a variety of factors that will help us determine if expectations are being met:

**Performance**
Returns are monitored on a monthly basis to assure that minimum standards are achieved. On a quarterly basis, performance reports are reviewed for each manager to provide a more in-depth assessment of their investment record in comparison to relevant benchmarks.

**On-site reviews**
We meet with each manager on an annual basis to review investment strategies, assure style consistency and discuss personnel changes that may have altered the structure of the management group, along with any other relevant factors that need to be considered.

**Ongoing communication**
We emphasize the importance of maintaining constant lines of communication between each manager represented in our platform and our team working for The Private Client Reserve. This gives us the opportunity to respond to any events on an as-needed basis.

While it is unusual for a selected manager to be removed from our platform, it can happen at times. On rare occasions, this is dictated by the fact that the defined investment objectives may have changed, requiring us to look to a different type of manager to meet our needs.

In some cases, the manager may prove incapable of living up to the measures that drove our initial recommendation to include the manager. Most important among these is a failure to meet performance expectations on a consistent basis. However, other factors may come into play as well, including significant personnel changes that greatly alter the management team or a failure to maintain style consistency that was expected from the manager.

Our monitoring process is a key contributor to the potential long-term success of our clients. While no substitute for the personalized management of an individual portfolio, it may help provide a level of assurance that quality standards are being maintained among the managers from which a portfolio may be constructed.

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**Conclusion**
Investing has become an increasingly complex business. The wide array of options now made available to help individuals and others construct their own portfolio mix can often be overwhelming. Yet investors don't want to miss out on the global universe of opportunities available to them.

Our experienced investment professionals and our proven due diligence process are designed to enhance the opportunity for investment success among our clients. This includes a commitment to carefully screen each manager prior to their inclusion in our platform, as well as to monitor their performance and capabilities on an ongoing basis.

A commitment to providing a superior level of due diligence is an important factor in The Private Client Reserve's ongoing dedication to our goal of meeting the investment needs of each client over the long term.
IMPORTANT DISCLOSURES

This information was prepared in June, 2010 and represents the opinion of U.S. Bank. It does not constitute investment advice and is issued without regard to specific investment objectives or the financial situation of any particular individual. The information presented is for discussion purposes only and is not intended to serve as a recommendation or solicitation for the purchase or sale of any type of security. The factual information provided has been obtained from sources believed to be reliable, but is not guaranteed as to accuracy or completeness. U.S. Bank is not responsible for and does not guarantee the products, services or performance of third party providers.

Based on our strategic approach to creating diversified portfolios, guidelines are in place concerning how investments should be allocated to specific asset classes based on client goals, objectives and tolerance for risk. Not all recommended asset classes may be suitable for every portfolio. Hedged equity and hedged fixed income investment strategies are typically available via hedge funds which may not be appropriate for all clients due to the speculative nature and high degree of risk involved in these investments.

Mutual fund investing involves risk; principal loss is possible. Investments in certain funds involves special risks, such as those related to investments in small- and mid-capitalization stocks, foreign, debt, and high-yield securities, and funds that focus their investments in a particular industry. Investors should refer to the fund prospectus for additional details pertaining to these risks. U.S. Bank may enter into agreements with non-proprietary mutual funds or their service providers whereby U.S. Bank provides shareholder services and/or sub-transfer agency, custodial and other administrative support services and receives compensation for these services. Compensation received by U.S. Bank directly or indirectly from mutual funds does not increase fund fees and expenses beyond what is disclosed in the fund prospectus. For more information, investors should review the fund prospectus.

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. Stocks of small- and mid-cap companies pose special risks, including possible illiquidity and greater price volatility than stocks of larger, more established companies. International investing involves special risks, including foreign taxation, currency risks, risks associated with possible differences in financial standards and other risks associated with future political and economic developments. Investing in emerging markets may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. Investment in fixed income debt securities are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications, and other factors. Investment in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer term debt securities. Alternative investments very often use speculative investment and trading strategies. There is no guarantee the investment program will be successful. Alternative investments may not be suitable for every investor, even if the investor does meet the financial requirements. It is important for investors to consult with their investment professional prior to investment in these investments. Hedge funds are speculative and involve a substantially more complicated set of risk factors than traditional investments in stocks or bonds, including the risks of using derivatives, leverage and short sales, which can magnify potential losses or gains. Restrictions exist on the ability to redeem units in a hedge fund. Exchange-traded funds (ETFs) are baskets of securities that are traded on an exchange like individual stocks at negotiated prices and are not individually redeemable. ETFs are designed to generally track a market index (broad stock or bond market, stock industry sector, international stock), and shares may trade at a premium or a discount to the net asset value of the underlying securities.