The Manager Selection Process: Putting Client Needs First

Executive summary
The growth and evolution of investment markets in recent decades has created both opportunities and challenges for investors. Individuals are faced with complex choices across investment managers, investment strategies and investment vehicles as they attempt to diversify their portfolios across asset classes, geographic regions and investment vehicles. Investors may feel challenged by having to sift through the vast universe of investment strategies in order to successfully distinguish the quality or appropriateness of one investment manager from the next. There can be a fine line between differentiating unique and suitable opportunities from those that may be inappropriate for a specific investor.

The complexity in today’s investment world requires a deep knowledge of the marketplace and an understanding of the factors that separate different strategies and investment managers. It is also critical to identify the potential benefits and drawbacks of specific investment strategies in the current economic and investment environment. The support of an organization with an experienced due diligence team and a repeatable, rigorous process is considered by many investors to be an indispensable resource in effectively narrowing investment manager selections.

Investors might assume that the due diligence procedures followed by various companies in the financial industry are always independent and objective, with professionals providing a completely unbiased perspective on the investment firms and managers they analyze. But this may not be the case. Professional relationships between some financial firms or internal biases that exist in a financial advisory firm may skew the perspective of a due diligence team.

The Private Client Reserve does not offer proprietary funds as a core business. Our due diligence team works independently, appraising individual managers for quality and appropriateness of the specific investment strategy.

A repeatable, focused process
Our due diligence process is a comprehensive, top-down approach that focuses on providing an objective review of specific investment options within a broad universe. Through this process we aspire to deliver to our clients three key features:

Sifting through the vast universe of investment managers and choices is an increasingly difficult challenge.
1. **Independent and objective advice**: No potential attractive opportunities are advantaged or discounted due to business conflicts within our organization. We believe this gives our clients access to independent objective advice regarding potentially suitable managers and strategies.

2. **Access**: Our reputation and size help make us potentially attractive partners for leading money managers and may provide our clients with exposure to otherwise unavailable managers and strategies.

3. **Personalized solutions**: The work we do throughout the due diligence process is applied on an individual level as we search to identify what we believe are suitable options for each client’s portfolio mix.

The due diligence team works closely with our investment professionals to assess the markets and economy and expectations going forward. Analysis of the environment for investors is an important consideration in our due diligence process, helping us identify managers whom we believe are positioned to capitalize on potential opportunities.

**Experience that works**

Our years of experience conducting due diligence across the broad investment universe has helped us refine a process to identify potential investments. We fully integrate risk assessment alongside opportunity identification, which helps us integrate the process with individual client goals. We believe both are equally important and run in parallel throughout our entire evaluation process. While any due diligence process involves quantitative measures of investment performance, there are a number of qualitative issues that our experienced team considers vital in estimating likely future manager performance. Key factors we assess include:

- **Manager experience**: One of the important measures we consider is the level of experience an investment provider offers in terms of its own management team. Is turnover of professional managers and analysts an issue? What types of responsibilities did a money manager have prior to his or her current position?

- **Quality and depth**: What is the background and track record of key people in the firm? What motivates the firm to excel in a competitive marketplace?

- **Reputation/integrity**: Has the manager had problems in the past? How were previous issues resolved? Are there recurring issues?

- **Alignment of interests**: Is the manager’s compensation package tied to the level of performance delivered to investors? Is their focus on managing toward long-term results? Will the structure of the fund allow a patient approach if that’s what’s most appropriate for the strategy?

- **Unique characteristics**: Does the management firm have a unique skill set or edge that helps set it apart from its competitors? Does the firm structure their trades in a way to manage downside risk while still participating in upside potential? Does the manager create sufficient value relative to their fee structure?

- **Risk and compliance management**: Does the firm maintain sufficient scale and expertise in its compliance teams? Do the portfolio management policies and procedures control for risk relative to the value creation policies?

Our due diligence professionals use this type of information to sort through the wide-ranging investment universe in order to help identify specific opportunities.

**Verifying other critical aspects of investment managers**

Our process is focused on not just identifying but verifying information we gather about each manager, comparing and contrasting manager results with their process and people.
Performance measures include not just a firm’s historical track record but how that record stands up against key benchmarks. We work to understand how a manager’s investment process supports their investing decisions and how it ties together with the resulting performance. Are the decisions reflective of the process? Can the process reasonably account for the manager’s recent performance and can it be expected to deliver in the future? We also work to identify the people behind the past performance and determine if the track record can be attributed to specific individuals in the organization, and if so, we develop plans for actively monitoring any changes that may occur related to these key people.

The quality of outside organizations that provide services to a money management firm we are considering is also important. We want to deal with “known quantities” when we entrust our client’s money to a specific manager. We scrutinize a firm’s service providers to satisfy our standards that they will fulfill their obligations appropriately.

Another important decision point is the transparency of reporting that a management firm provides. Is it clear how money is invested and how returns are generated? Are they communicative about trading strategies and the risk profile of their investment mix?

We also consider the manager’s sensitivity to tax concerns. Managing portfolios in a tax-efficient manner can make a significant difference in the net return generated for investors. We explore that issue with managers to determine the role that tax ramifications may play in their investment decision-making process.

Building on a reputation of trust

A thorough due diligence process can help identify the most appropriate investments for an investor’s portfolio. The process we follow in The Private Client Reserve is based on a simple premise—our primary interest is to help serve the needs of our clients. We believe that by combining our institutional access advantage, our alignment with each client’s personal goals and a conflict-free business structure, we are able to put our best ideas to work for the potential benefit of each unique client.

That is how U.S. Bank built its reputation of trust over more than 150 years. It’s a reputation we uphold with our thorough and objective due diligence approach. We use what we believe to be a rigorous, impartial screening process to select managers for our investment platform. Delivering investment solutions that are among the most competitive in the industry is a challenge that we take seriously and one that our professionals work to achieve on a daily basis.

Our commitment to a comprehensive and effective due diligence process is another way we can demonstrate our dedication to earning the trust of our clients and helping them work towards achieving their primary financial objectives.
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.

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