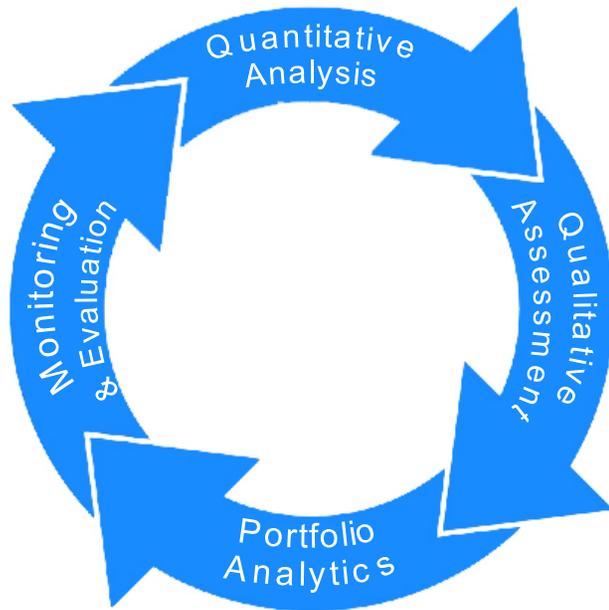


# Manager Selection Process



Market Street's manager selection process aims to identify those managers who have proven consistent outperformance of an appropriate benchmark. This represents an extremely high hurdle as research indicates that only 20% of funds outperform their respective benchmark over a five year period. Moreover, within this 20% there may be funds that are too small, that have lost key personnel or where the firm involved is not financially stable. From a greatly reduced pool of potential managers, our research process identifies those funds where we have the most conviction of persistent future outperformance.

## Quantitative Analysis

- Fund performance
- Risk metrics
- Risk-adjusted returns
- Fund size

## Qualitative Assessment

- Corporate details
- Management team
- Fund strategy
- Investment process

## Portfolio Analytics

- Effect on portfolio's existing risk profile
- Expected impact on portfolio's return
- Tax efficiency
- Balance of manager profiles

## Monitoring & Evaluation

- Performance
- Risk
- Investment process changes
- Team changes

## Quantitative Analysis

### An analysis of each fund's investment returns and risk.

- We ensure that we use an appropriate benchmark for performance and risk comparisons.
- Performance is analyzed over a "Full Market Cycle." This ensures that the relative performance of a fund does not benefit from a bias towards any particular style or market capitalization.
- Risk-adjusted return statistics are analyzed to ensure that performance has not been generated through excessive risk taking.
- Upside and downside analytics tell us how a fund has historically performed during both bull and bear markets.
- We disregard funds that are too small. It can be much easier to perform strongly with a \$50 million fund than with a \$500 million fund. Moreover, we do not want our position in the fund to be too large.
- Equally, we avoid massive funds where the managers may have difficulty buying and selling stocks.

## Qualitative Assessment

### A subjective and in-depth understanding of how the fund is managed.

#### Corporate Details

- What is the firm's financial backing and stability?

- Do key members of the firm have ownership stakes? Would a potential sale result in staff defection?
- Does the firm have the ability to retain and incentivize staff?

#### Fund Management

- Is there a "star" fund manager or cohesive team approach? What is the risk of senior team members leaving?
- How experienced is each team member and how long have they worked together?
- What is the level of personal investment in the strategies managed by the team?

#### Fund Strategy

- What does the fund aim to achieve and has it met these objectives?
- What investment constraints are there in terms of stock, sector and/or country exposure?
- How many stocks are held: is it a well diversified fund or a more focused fund with 30-50 holdings?

#### Research Process/Philosophy

- Is the investment process consistent and well thought out? Does it make common sense?
- How does the team select stocks and construct its portfolios? As important, how does the team decide to sell a stock?
- What are the risks to the firm's process of selecting stocks?

## Portfolio Analytics

### An understanding of how the new fund will impact existing exposures.

- What is the impact on the portfolio's overall risk and return profile?
- How does the new manager impact the tax efficiency of the portfolio?
- We also consider the profile fit, looking at the level of a fund's turnover, its holdings concentration and risk controls. We aim to achieve a balance of managers with various profiles.
- What level of investment risk is targeted and how is this best measured?

## Monitoring & Evaluation

### A continuous review of potential new funds and of existing investments.

- Is the fund performing as expected in current market conditions?
- Has the performance been achieved with suitable risk or is the team taking too much risk without gaining a commensurate increase in returns?
- Has there been any change to the fund's team, strategy or investment process that may negatively impact future performance?
- Does the fund still fit with Market Street's investment strategy?

**We need to be able to maintain high conviction in both the investment process and the team's ability to outperform.**