

## Northern Trust Global Advisors Inc.

### NORTHERN TRUST GLOBAL ADVISORS INC.

Northern Trust Global Advisors Inc. (NTGA) and its affiliate is an investment consultant and leading “Manager of Manager’s: for over 160 clients around the world. NTGA manages over \$7 billion in assets, employing over 85 investment managers. NTGA has over 17 years of experience in manager research and selection. The firm, worldwide, conducts over 500 on-site research visits each year. Research teams cover over 100 managers in Canada; over 1,000 in the U.S. and over 200 international managers.

#### A KEY VALUE POINT

Selecting a manager is, or should be, like picking stocks. It requires extensive research and a disciplined analytical process combined with the knowledge and experience to interpret the results so as to identify the best possible investment managers. The job doesn’t stop there. It is equally important to monitor the manager continuously so that you know how to respond to events that inevitably occur: under-performance - is it unexpected or simply because the manager’s style is out of favour? How will a change in personnel affect the manager’s philosophy and possibly his performance?

In our experience, most investors do not have the time, knowledge, skill or resources to conduct the necessary manager research to become successful in manager selection and monitoring. This is why we have retained NTGA to help us make sure you have access to the best investment management talent available and to monitor and evaluate the contribution that the managers are making to achieving your goals.

## MANAGER RESEARCH AND SELECTION PROCESS

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### *Step 1: Organizational Review*

#### History of firm and ownership

##### People:

- qualifications and experience
- roles and responsibilities
- skills

#### Organizational structure

##### Business profile:

- assets, products, clients
- Business plan

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### *Step 2: Philosophy and Process Examination*

#### Investment philosophy and style:

- Clarity, flexibility, uniqueness

#### Decision-making process:

- encumbrances - “slippage:
- strength of buy / sell discipline
- Adequacy of resources

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### *Step 3: Quantitative Analysis*

#### Consistency checks:

- style analysis and portfolio characteristics

#### Sources of Return:

- return attribution analysis
- performance vs. benchmarks and peers

#### Up and down markets:

- Risk analysis

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### *Step 4: Manager Appraisal*

- Risk Category
- Style Category
- Value added potential
- Quality rating

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*Step 5: Portfolio Engineering*

Establish goals

- return: risk exposures

Test manager combinations:

- up / down markets
- risk exposures

Test manager allocations

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*Step 6: Manager Selections*

Manager Mandate with Written Specifications:

- performance standards
- tolerance ranges
- portfolio characteristics
- quality standards

Manager allocation strategy

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DUE DILIGENCE PROCESS

*Manager Mandate*

- Written specifications

*Quantitative Analysis*

- Consistency checks
- Risk analysis

Manager Review

- Review variances
- Strategy
- People
- Business Developments

*Manager Evaluation*

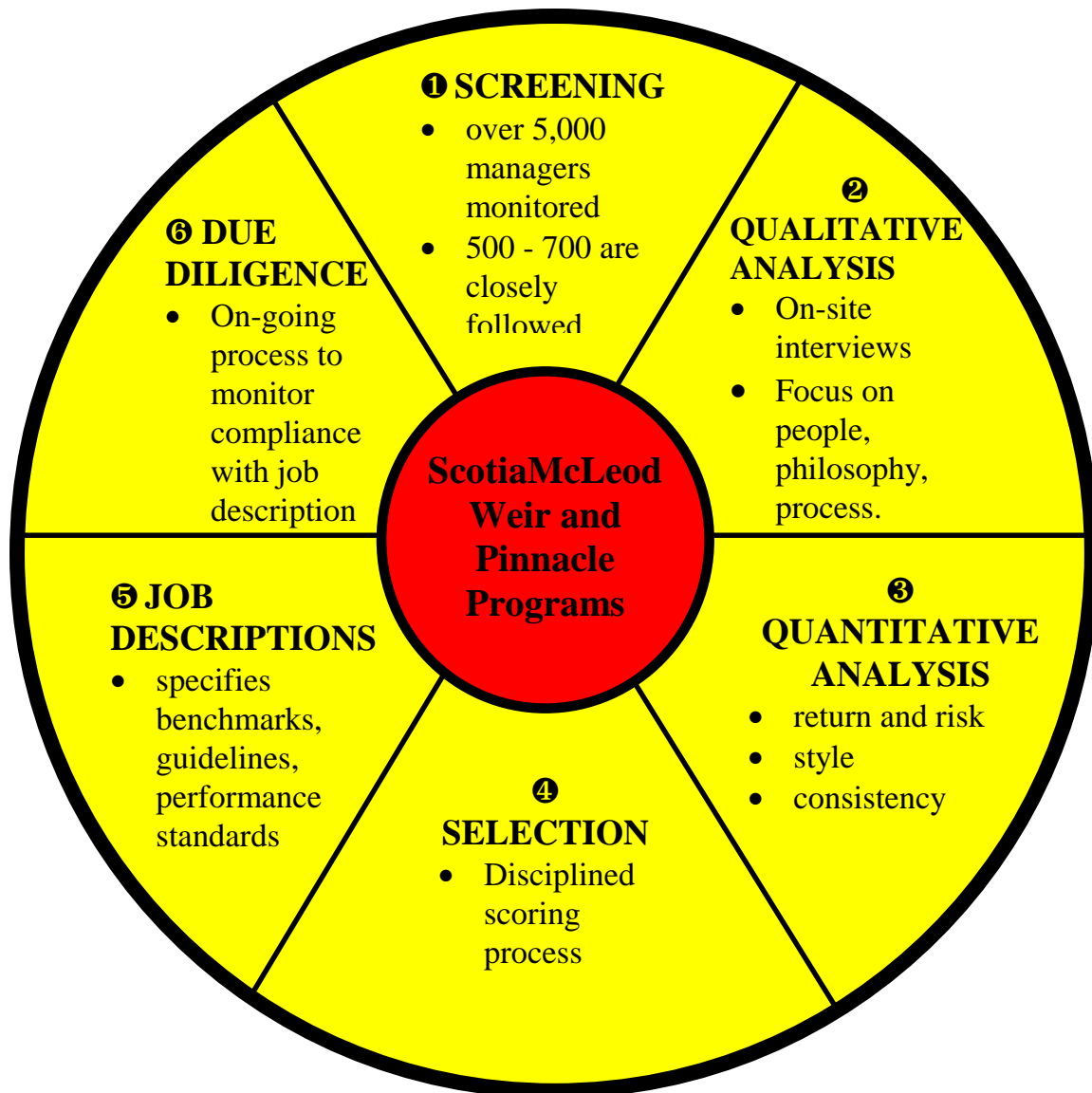
- Retain
- Watch List
- Terminate

*Reason for Termination*

- Change in key people
- Inconsistencies
- Change in style
- Change in process - “slippage”
- Performance

# NORTHERN TRUST GLOBAL ADVISORS

## Manager Research and Evaluation Process



**B**ecause there are thousands of investment managers and many investment styles to consider, the research required to analyze and evaluate managers is too complex and time consuming for most investors.

## **ScotiaMcLeod's Weir and Pinnacle Program Investment Managers**

The managers of the Weir and Pinnacle Program are chosen by an independent investment consulting firm Northern Trust Global Advisors, a subsidiary of The Northern Trust Company, which was founded in Stamford, Connecticut in 1976 and manages more than \$8 billion in assets for almost 200 clients around the world. NT Global Advisors is recognized for its focus on manager research and selection, and its due diligence process that is based on sophisticated qualitative and quantitative analysis of investment managers.

### **How The Managers Are Chosen**

Selecting investment managers is no easy task, especially when you consider that there are over 15,000 registered investment managers in North America alone. As well, managers differ widely in their approach or investment style. There are value and growth managers, rotators and contrarians and market timers, just to name a few.

NT Global Advisors' manager research process is designed to identify, from a universe of over 5,000 managers, the few managers who pass the rigorous standards to become Pinnacle managers. This manager research process follows 6 key steps and is based on the four P's: people, philosophy, process and performance (Exhibit I).

1. **Screening** - NT Global Advisors' research team screens statistical information on over 5,000 managers in its databases to develop a universe of 500-700 eligible managers.
2. **Qualitative Analysis** - NT Global Advisors' staff of dedicated manager research specialists conduct over 500 on-site visits with investment managers every year. The interview, which forms the basis of the qualitative analysis, is used to gather or update information on such key elements as the professional competence of the investment professionals, the size and capacity of the firm, ownership and compensation policies, affiliations and code of ethics. The interview also seeks to identify the firm's investment philosophy and style and its decision-making process.
3. **Quantitative Analysis** - Using data on actual portfolio holdings and monthly performance data, NT Global Advisors uses sophisticated evaluation techniques to verify whether managers apply their philosophy and style consistently over time - do they "practice what they preach"? This analysis is also used to confirm whether the firm is able to add value, consistent with its style, over a full market cycle.
4. **Manager Selection** - Each manager is evaluated and scored according to eight basic selection criteria specified by ScotiaMcLeod's Investment Committee (Exhibit II). Scoring is a disciplined process that assures managers are evaluated objectively and also provides a sound basis on which to make comparisons among different investment managers.
5. **Manager Job Descriptions and Profiles** - NT Global Advisors prepares a detailed "job description" for each manager specifying benchmarks, performance standards, style

characteristics and key personnel. Manager profiles that capture the key findings of the research process are prepared for distribution to clients.

**6. On-Going Due Diligence** - Each quarter NT Global Advisors prepares a detailed analysis on each of the Pinnacle managers for review by the ScotiaMcLeod Investment Committee. The focus of this analysis is to monitor compliance with the job description, style consistency, guidelines and progress in achieving objectives. All managers are visited at least annually for re-evaluation and undergo the same interview process on each visit. Where appropriate, NT Global Advisors will recommend that a manager be replaced.

## **Conclusion**

The rigorous manager research and due diligence process used by NT Global Advisors is an important source of value added in two ways:

1. The disciplined and rigorous manager research process takes much of the guess work out of the otherwise difficult and complex task of manager selection.
2. The on-going due diligence process assures that the managers who are managing your assets must continue to meet the high standards set by the job descriptions in terms of style consistency, risk levels and performance goals and quality of personnel.

# Exhibit 1

## ***NORTHERN TRUST GLOBAL ADVISORS***

### ***Manager Selection Process: The Four Ps***

#### ***PEOPLE***

- Skill and talent
- Focus on investment process
- Strong convictions and motivation
- Stability, integrity, capacity
- Size

#### ***PHILOSOPHY AND PROCESS***

<b><u>QUALITATIVE</u></b>	<b><u>QUANTITATIVE</u></b>
<ul style="list-style-type: none"><li>• Top-down, bottom-up</li><li>• Security universe</li><li>• Benchmarks</li><li>• Research and valuation</li><li>• Sources of ideas</li><li>• Portfolio construction</li><li>• Diversification</li><li>• Trading</li></ul>	<ul style="list-style-type: none"><li>• Portfolio characteristics</li><li>• Industry “bets”</li><li>• Risk exposures</li><li>• Style analysis<ul style="list-style-type: none"><li>–custom benchmark</li><li>–consistency</li></ul></li><li>• Transactions/turnover</li></ul>

#### ***PERFORMANCE***

- 1 Return
  - absolute, value added, risk adjusted
- 2 Consistency
  - batting average, up/down markets, attribution
- 3 Risk
  - volatility, tracking error, downside
  - distribution of returns

## Ehibit 2

### *Manager Search and Selection*

#### *Northern Trust Global Advisors Manager Rating Worksheet*

Date: \_\_\_\_\_

Manager: \_\_\_\_\_

Reviewers: \_\_\_\_\_

Mandate: \_\_\_\_\_

<i>Criteria</i>	<i>Weighting</i>	<i>Score (1-5)</i>	<i>Weight x Score</i>	<i>Notes</i>
<b>Organization</b>	5%			
<b>Business Plans</b>	5%			
<b>Philosophy</b>	20%			
<b>Process</b>	15%			
<b>Key Personnel</b>	20%			
<b>Performance</b>	25%			
- value added				
- up/down market				
- consistency				
- ranking				
- risk adjusted				
<b>Control &amp; Review</b>	5%			
<b>Client Communication &amp; Services</b>	5%			
<b>TOTAL</b>	<b>100%</b>			

Comments: \_\_\_\_\_  
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