

Investment Manager Due Diligence Outlines

Manager selection is a critical step for any investment committee. Our philosophy and process focus on the qualitative components of a manager rather than through simple historical metrics. Understanding the people, their investment philosophy, and their decision-making process is more important than understanding their peer group rank. When it comes to conducting manager selection, it is the things unseen that are the key to having confidence in the manager's ability to outperform in the future.

Multnomah Group utilizes a rigorous, multi-step process to select investment managers for our clients. This process is grounded in the financial markets research of the past 50-plus years and utilizes proprietary research and reporting analytics to identify recommended managers in each asset class. Our process starts with an initial quantitative screening of over 20,000 investment products to identify strategies that have the types of traits we believe are important.

This quantitative screening evaluates managers on the same seven categories we use in our ongoing due diligence review of existing investment managers:

- investment style
- expenses
- experience
- diversification
- manager skill
- efficiency
- risk

Based on the results of our quantitative analysis, we are able to identify multiple managers that look attractive from a purely quantitative standpoint. The next step of the process is to conduct the qualitative due diligence that we believe is crucial to the selection of an investment manager. Each asset class is assigned to one of our investment analysts. They are responsible for conducting the qualitative due diligence on investment products within the asset class. The qualitative analysis begins by contacting the investment manager and requesting the firm's standard request-for-proposal response or pitchbook for the strategy. The analyst reviews the material provided and schedules a meeting or call with the investment manager. The purpose of the interview is to understand the investment management firm, the people managing the portfolio, their investment philosophy, the investment decision-making process, portfolio construction, and risk management.

Following the investment manager interview, the analyst will review other publicly available information and determine whether they believe the investment strategy may be a good fit for our clients. If they believe it is, they will prepare an internal presentation and deliver it to the Multnomah Group Investment Committee. The Investment Committee reviews the recommendation of the investment analyst and can either approve the fund to be recommended to the firm's clients, reject the fund, or request additional information and consider the fund at a future meeting.

Once approved by the Investment Committee, the analyst will prepare a written Investment Brief and a recommendation presentation to make for the client. The presentation will summarize the investment due diligence process and the recommended fund for the Committee to review and approve.

Sample: Equity Fund Due Diligence Questionnaire

We generally find it helpful to move through the investment process from investable universe through portfolio construction and ultimately, sell decisions. As we discuss this process, we'll want to touch on many of the points outlined below.

Firm

- Ownership
- Organization
- AUM

People

- PM(s)
 - Role
 - Tenure with firm and strategy
 - Other responsibilities
- Analysts
 - Research sources
 - How are they organized
- Decision-making authority

Philosophy

- Key differentiators
- Performance expectations through full market cycle

Process

- Investable universe
- Idea generation
- Evaluation of company/security
- How ideas are brought to the attention of the fund PM(s)
- Historic sector or industry biases that may be an outcome of philosophy or process
- Buy decisions, including position sizing, timing
- Sell discipline

Portfolio Construction

- Primary benchmark
- Holdings range
- Expected turnover and breakdown by name turnover versus add/trim activity
- Cash management
- Strategy capacity
- For domestic equity funds:
 - Any investment constraints or guidelines: position size, sector/industry weights, international investment, use of private equity
- For international equity funds:
 - ADRs versus local market investment
 - Domicile exposure versus revenue exposure
 - Any constraints or guidelines: position size, sector/industry weights, country weights and any excluded markets
 - Management of currency exposures

Risk Controls

- Consideration/evaluation of portfolio risks
- Resources/Tools
- Oversight

Operations

- Strategy AUM including mutual fund, sub-advisory, and CITs
- Available investment vehicles – mutual fund, separate accounts, CITs, etc.
- Expenses and revenue sharing

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