

EMERGING MANAGER (EM) DUE DILIGENCE & ANALYSIS



MAS's Comprehensive Process for Evaluating Emerging Managers

Manager Analysis Services' (MAS) Emerging Manager selection process has been distilled from hundreds of searches conducted globally across asset classes and investment strategies. MAS's EM searches have the following parameters: Manager AUM of no more than \$ 2 billion at time of hire and include minority, women, veterans and disability certified managers. Our process focuses on 4 key areas of analysis:

1) "WHO" IS THE MANAGER?

MAS carries out a comprehensive line of inquiry which includes:

- ✓ Background research of managers' key personnel; both to validate their talents and to detect any warning signs from previously in their careers,
- ✓ Analyzing a manager's prior track record, both quantitatively and qualitatively,
- ✓ Evaluating business risk; e.g. does the manager have a sustainable business model, what is the ownership structure of the manager and are their incentives aligned with that of the client?
- ✓ Does the manager have appropriate talent and expertise to be successful?
- ✓ Have there been any legal or ethical violations on part of the organization or its personnel?

2) "WHAT" IS THE INVESTMENT STRATEGY?

MAS believes picking the right strategy is as important as picking the right manager, diligence involves:

- ✓ Assessing which strategies are most attractive and compelling in the current macro environment and what fits well with client's investment objectives,
- ✓ Evaluating the manager's execution of the investment strategy to understand if a manager's strategy has a "material edge",
- ✓ Modelling a manager's performance versus benchmarks to understand the manager's risk profile and alpha/beta characteristics over different market cycles.

3) "HOW" IS RISK MANAGED?

MAS prefers managers who exhibit strong portfolio construction skills with respect to risk management.

Diligence focuses on:

- ✓ Establishing risk and return expectations specific to the manager's investment strategy and asset class,
- ✓ Conducting stress tests, analysis of leverage, liquidity, betas, alphas, volatilities, correlations, sector and regional exposures,
- ✓ Review of ISDA agreements, usage of any financial instruments and margin to assess counterparty risks,
- ✓ Identifying the risks embedded in a manager's investment process helps MAS guide clients on how best a manager fits in their portfolios.

4) OPERATIONS/ADMINISTRATION:

MAS's objective is to understand a manager's unique business risks which include operational, financial and personnel not only at time of initial investment but on an ongoing basis. MAS reviews:

- ✓ Arrangements with administrators, prime brokers, auditors and other service providers to help ensure that appropriate safeguards are in place,
- ✓ Valuation policies and practices to help clients assess the quality of their portfolio's market values,
- ✓ Fees and any redemption terms to assess liquidity considerations/needs of clients,
- ✓ Manager's business, investment and operational processes on an ongoing basis to ensure any changes have not eroded a manager's "material edge" or affected their business sustainability.

Manager diligence lies at the heart of MAS's consulting business, and MAS's principals have reviewed over 2,000 managers since 2003. Our experience includes manager diligence in both traditional and alternative asset classes. We have evaluated core and specialist managers who invest with a specific focus on sector, industry, market cap or geographic factors. We help investors source, analyze, assess, invest in, monitor, and terminate investments in managers.

Want to learn more? Please contact Chris Cutler, Tom Donahoe or Safia Mehta at 917 287 9551.