

MERCER

Consulting. Outsourcing. Investments.



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN



Getting the Most of Your Manager CFC Conference

November 8, 2008
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Frank Belvedere, CFA, F.C.I.A.
National Partner

Topics

- Significance of Investment Policy
- The Manager's Role and Objectives
- Evaluating Managers – The Basics
- Monitoring Managers

Investment Policy

- Should reflect investor's objectives and constraints
- Objectives may include:
 - Protection purchasing power of endowed capital
 - Meeting spending objectives
 - Stability of spendable income
- Constraints may include:
 - Permissible asset classes
 - Limitations placed by donors
 - CCRA requirements, re: minimum spending and endowed capital

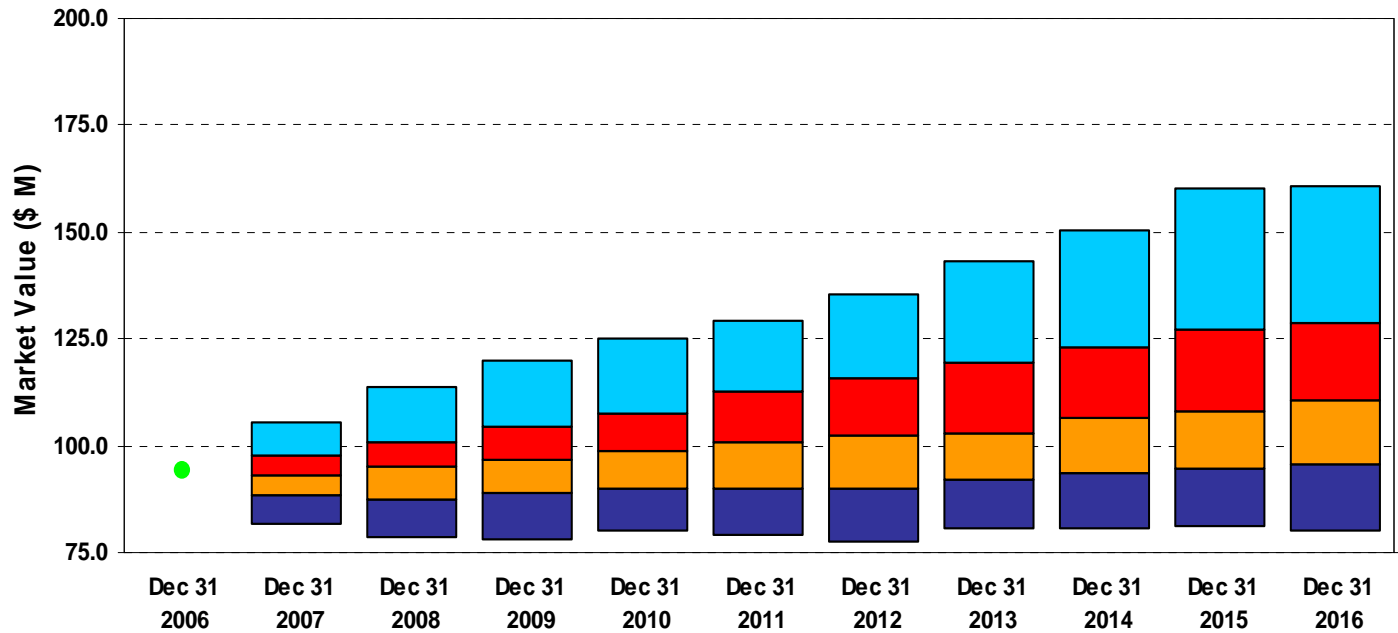
Investment Policy *continued*

- Many foundations/endowments have a 60% equity / 40% bond target asset allocation, which implies:
 - Expected “real return” over inflation of approximately 4.5%-5%, after fees
 - Expected volatility around target return of 10%-12%

Sample Fund Simulation

Asset Mix (50% Equity/ 50% Bonds)

Spending 5%



	Dec 31 2006	Dec 31 2007	Dec 31 2008	Dec 31 2009	Dec 31 2010	Dec 31 2011	Dec 31 2012	Dec 31 2013	Dec 31 2014	Dec 31 2015	Dec 31 2016
5th percentile	94.0	105.5	113.9	120.1	125.0	129.2	135.4	143.1	150.3	160.2	160.9
25th percentile	94.0	97.7	100.9	104.5	107.6	112.9	115.9	119.4	123.1	127.1	128.9
Median	94.0	92.9	95.0	96.6	98.7	100.6	102.6	103.1	106.4	108.0	110.6
75th percentile	94.0	88.3	87.6	89.2	90.1	90.1	89.8	92.0	93.3	94.4	95.8
95th percentile	94.0	81.9	78.7	78.1	80.2	79.0	77.8	80.6	80.8	81.0	80.1

The Manager's Role and Objectives

- Policy based on expectations of real returns from various asset classes *at the market or index level*
- Manager's role (for traditional assets) is to add value (alpha) relative to a benchmark, while minimizing risk
- Manager's role for alternative investments is to earn expected absolute returns
Manager risk is measured in "absolute" and "relative" terms by standard deviation and tracking-error

Evaluating Managers – The Basics

- Determine resources, experience and investment philosophy and approach
- Understand manager's investment style
- Understand objectives for return and risk
- Evaluate historical results
- Build on overall evaluation based on preceding

Mercer's Manager Evaluation Criteria

1. Idea generation

- The key attribute that a manager needs to possess to have potential to outperform over the long term is the ability to generate value-adding investment ideas



2. Portfolio construction

- The quality of a manager's portfolio construction process will determine how effectively its value-adding investment ideas are converted into consistent outperformance



3. Implementation

- For a manager to outperform, the value added through its investment ideas and portfolio construction process must outweigh the drag on its performance due to transaction costs



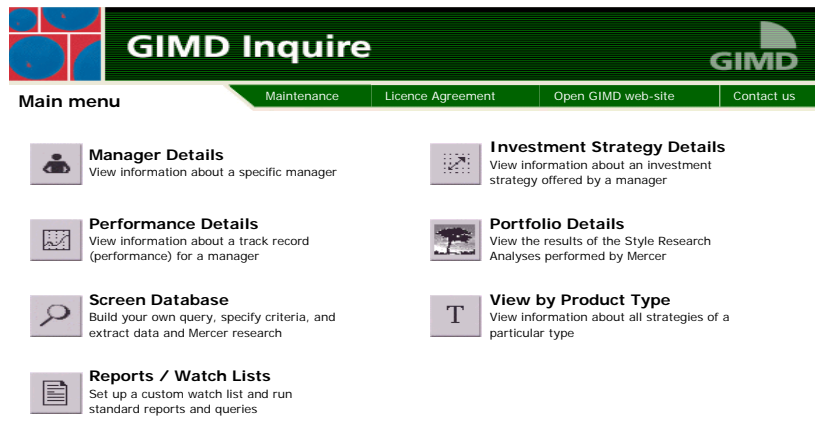
4. Business management

- Well managed investment firms are more likely to maintain and enhance the competitiveness of their investment strategies over time than poorly managed firms

Mercer's Global Investment Manager Database

Global Investment Manager Database™

GIMD™ Inquire – Fundamental research on investment managers



GIMD Inquire

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Main menu

- Manager Details**
View information about a specific manager
- Investment Strategy Details**
View information about an investment strategy offered by a manager
- Performance Details**
View information about a track record (performance) for a manager
- Portfolio Details**
View the results of the Style Research Analyses performed by Mercer
- Screen Database**
Build your own query, specify criteria, and extract data and Mercer research
- View by Product Type**
View information about all strategies of a particular type
- Reports / Watch Lists**
Set up a custom watch list and run standard reports and queries

Mercer IC Research Resources

- 44 full-time and 100 part-time professionals in 17 countries dedicated to manager research worldwide
- Critical reviews of more than 3,000 manager research meetings which produce 5,000 documents on investment managers annually
- 25 years of data for over 300 universes
- Mercer IC Performance Universes in each country/currency:
 - Canada
 - Australia
 - Japan
 - Hong Kong
 - Europe
 - UK
 - Singapore
 - USA

Plan Sponsors can now access Mercer Investment Consulting's (Mercer IC) proprietary Global Investment Manager Database™ ("GIMD™") covering thousands of institutional investment management products. Our research is both comprehensive and forward-looking. Mercer IC's proprietary software tool enables Plan Sponsors to not only actively review investment managers but to construct watchlists, create reports, and tabulate data back to 1981.

Mercer IC Coverage

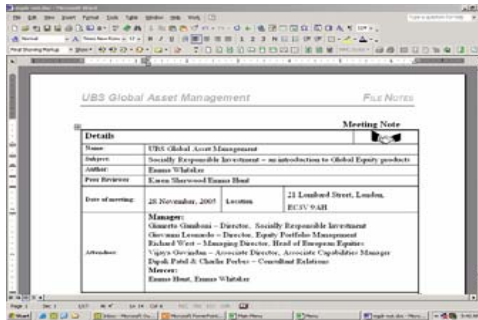
- Detailed qualitative and quantitative assessments on 2,650 investment managers and over 14,000 investment strategies globally
- Process narratives and performance
- Forward-looking ratings and comprehensive investment manager meeting research notes
- Detailed due diligence information
- Extensive investment firm information
- Quantitative analysis of return/risk characteristics
- Style analysis
- Real time alerts on manager changes
- All "A" rated strategies reassessed quarterly
- All universes reviewed every 6 months

Mercer's Global Investment Manager Database

Global Investment Manager Database™ GIMD™ Inquire – Fundamental research on investment managers

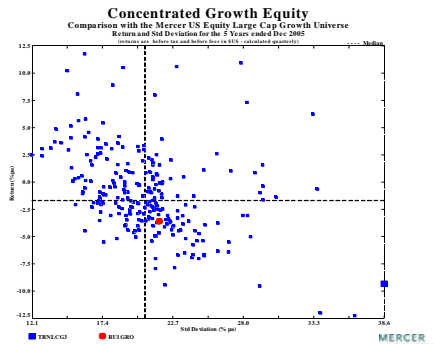
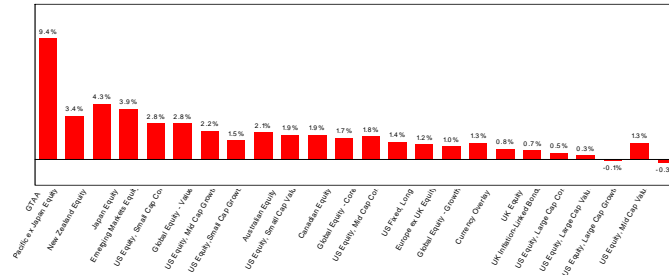


Fundamental Research on Investment Managers = Quantifiable Results



Mercer IC's Value-Added Research Results Quantified

Value added since inception (% p.a.) to 31 December 2005



Average outperformance from inception to 31 December 2005 across all 66 product categories covered by this analysis has been 1.7% pa**

For Information on GIMD and other Mercer IC Proprietary Products please contact
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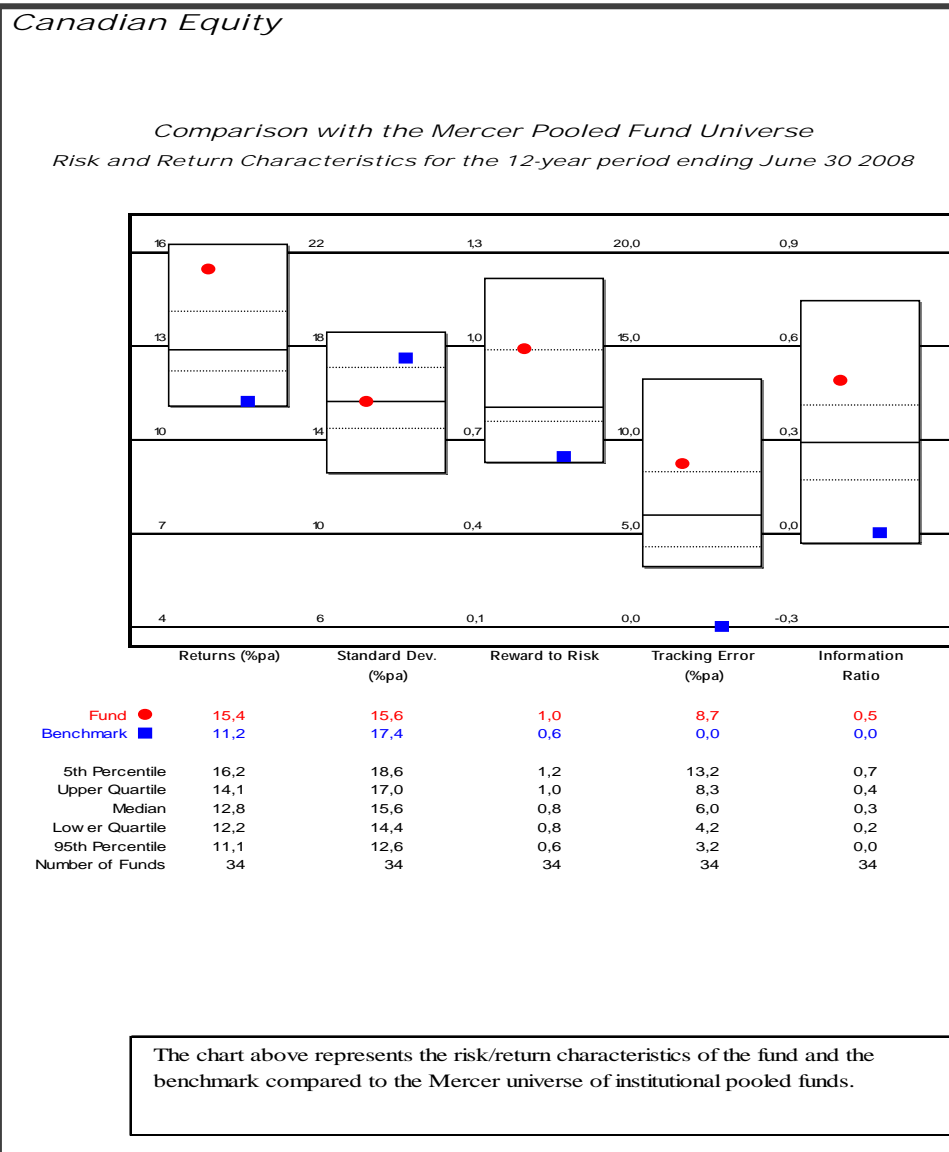
For information on other Mercer Investment Consulting products and services:
www.mercerIC.com

**See complete report of the *Measurement of Value Added through Mercer IC's Manager Research Recommendation* report

Monitoring Managers

- Elements in manager monitoring include:
 - Periodic meetings with the manager
 - Monthly transactions and valuation summaries
 - Performance and risk vs. objectives over market cycle
 - Investment style vs. stated approach
 - Quarterly performance and market overview report
 - Personnel deletions and additions
 - Assets and clients under management by product

Evaluating Performance



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