Getting more value from your portfolio through active management

You may have heard a lot of mixed messages when it comes to the value of your investments. Fees and cost often come into question and whether your investments are truly getting active management for the fees you are paying. The following is a guide to identifying and ensuring that your portfolio is well-constructed and actively managed.

The three components of a well-constructed, actively managed portfolio

Three things you should do to help maximize the value of your portfolio are 1 seek out managers who practice Legitimately Active Management®, 2 select concentrated portfolios of high-conviction ideas and 3 combine managers with distinct investment styles to obtain advantageous synergy.

1 Seek out portfolio managers who practice Legitimately Active Management®

Legitimately Active Management® is an active investment approach that uncovers opportunity beyond the index. You can be confident that your equity manager is "legitimately active" if you can check off most of the items on this list:

I. **High active share:** Active share measures the proportion of a portfolio's holdings that is different from its index. Low active share means the manager is not actively exploiting opportunities outside the index. Active share matters because to beat the benchmark, you can't look like the benchmark.

II. **Portfolio allows for flexibility:** Flexibility is important when identifying active versus passive portfolio managers. Having the freedom to swing exposure means that they can take advantage of market opportunities, be selective in their exposure, and avoid areas with limited upside potential.

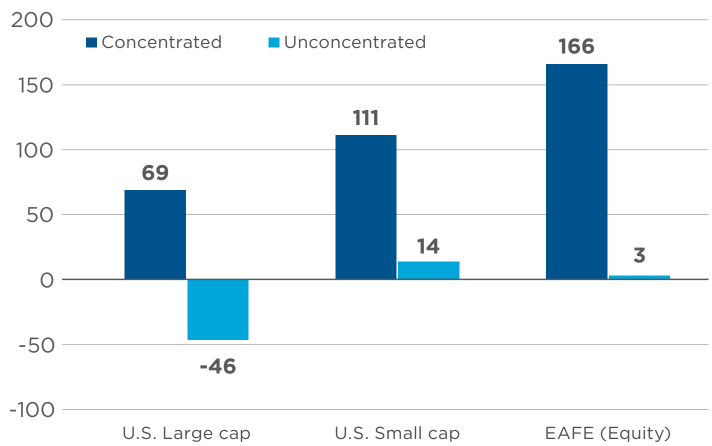
III. **Employment of capital market tools:** Active use of derivative tools helps managers to improve their ability to control risk, particularly on the downside.

2 Select concentrated portfolios of high-conviction ideas

To ensure your portfolio is well-diversified and doesn't mirror the benchmark, you will want to confirm you don't have too many holdings. Active managers seek to include a select concentration of no more than 30-40 stocks.

Does concentration matter over the long term?
Survey shows that a portfolio can benefit by concentrating positions

Implied net annual value added (bps)



Source: Cambridge Associates LLC, eVestment Alliance, Frank Russell Company, MSCI

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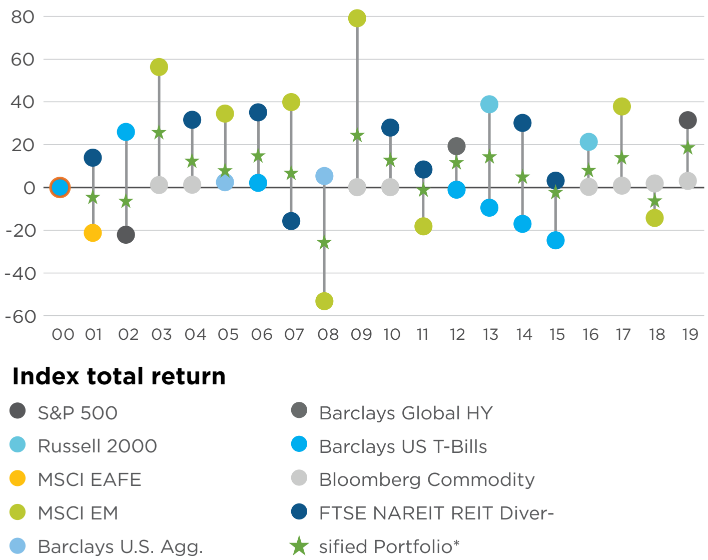
3 Combine managers with distinct investment styles to obtain advantageous synergy

Volatility is minimized by bringing together portfolios that have low correlation to each other. Portfolios display low correlation to each other when they contain few or no similar holdings or when they are diversified by different sectors and geographies. This way, if a holding or sector gets negatively affected by the market, the other assets in the portfolio can act as a buffer to stabilize the portfolio.

Putting diversification to work is essential

The graph below shows a variety of assets and ranks them on how they performed over a one-year period.

A multi-asset portfolio has offered a relatively consistent return stream through time



Source: 1832 Asset Management, Bloomberg.

*Diversified Portfolio Allocation. S&P 500 25%, Barclays U.S. Agg. 25%, Bloomberg Commodity 5%, Russell 2000 10%, Barclays Global HY 5%, FTSE NAREIT REIT 5%, MSCI EAFE 15%, Barclays US T-Bills 5%, MSCI EM 5%.

Summary: Legitimately Active Management® checklist

Below are some questions to discuss with your financial advisor to help ensure you get the most value out of the fees that you pay.

Active
- ✓ Is there high active share?
- ✓ Does the manager use sophisticated capital market tools (e.g. futures, options, etc.)?

Concentration
- ✓ Does the manager have a concentrated portfolio?
- ✓ Does the manager have a history of changing his concentration in different sectors?

Experience
- ✓ Does the manager have a long track record?

Contact your Financial Advisor for more information.

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