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Asset Manager Due Diligence and Selection Criteria

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We can only continue to deliver strong investment performance to our clients by continuing to forge long-term value-added partnerships with great investors. Great investors comprise those exceptional and rare individuals who can sustainably deliver excess returns through exceptional skill. We estimate that fewer than 15% of active asset managers across all asset classes achieve this. We know who many are, but not all. We expect new managers are joining this rare group all the time. We want to hear from them. For the benefit of those who think they are, or will be, one of these exceptional managers, we describe below how we would get to know you.

It starts with an initial discussion to decide whether we might be a good fit and goes on to see whether there is enough of an investment case to engage in initial due diligence. The amount and nature of due diligence we undertake with any given manager reflects the fact that we aim to establish investment partnerships with asset managers that last decades. Accordingly, we undertake a significant amount of work before entering into a new partnership with a manager which generally includes a number of in-person meetings, research on the sector or strategy space and extensive reference calls. Our goal is to achieve a deep understanding of the manager's team and its culture, investment philosophy and processes and firm vision, in order to identify and underwrite the competitive advantages that create sustained outperformance.

Before the end of our due diligence process, we produce an internal investment analysis that not only supports our investment decision, but also identifies potential areas where we believe the manager may have opportunities for improvement based on our broader experience in the asset class. In some cases, these are so significant as to have us deciding not to invest at that time, but we will always communicate this rationale to the manager to give them the benefit of our thinking and, more importantly, to be sure that our analysis is correct. This is often the most valuable part of our due diligence as we are likely to learn something valuable from the manager's response to our findings.

In any interaction with the manager, we are acutely aware that their time is generally better spent on direct investment activities rather than with us. Accordingly, we use the manager's time as efficiently as possible by performing desk analysis focused on a manager's portfolio holdings and external market analysis focused on market segment structure, competitor analysis and referencing before engaging in formal due diligence with the manager's team. The more transparency we have on the firm's current and historical positions and investment decisions, the better we can prepare and the more easily we can focus on the critical questions during our interactions with the manager. We are intensely diligent in our efforts to protect the confidentiality of all proprietary manager information.

Research is conducted by a small group of two to three Partners Capital investment team members who are specialists in the relevant asset class. The ultimate investment decision is made by our Asset Class Head in consultation with the respective Asset Class Investment Committee members.

Once we invest, we work closely with our managers to add value where possible based on our depth of experience and accumulated learning working with asset managers. We are often proactive about potential new portfolio strategies and are happy to engage with our asset managers on what we have seen as best practices in the relevant investment strategy, investment process, investment decision-making, team management (size, roles, incentives, succession), data base usage, digital transformation, ESG integration, diversity policies, etc.

While we continue to monitor and interact with the manager after investing, we are happy to tailor the nature of the relationship and frequency of contact to what works best for the individual manager. Our aim is to build a relationship of trust with open two-way communications and to find ways to be great long-term partners to our investment managers. Below we provide examples of the criterial that we look for in a new asset manager.

Manager Selection Criteria

If you satisfy many of the below criteria's we look for in managers and believe we could be long-term partners, we would be happy to receive your firm's marketing or fund investment information materials. We have a long history of investing with both long-established asset managers and newer emerging managers; the latter generally having been trained in highly regarded long-established investment firms.

1. People

- The core team has worked together on the current strategy through at least a full economic cycle (in the current firm or predecessor firm).
- The manager thinks like the owner of a private business (and usually is one).
- The team is intensely passionate and competitive about their investing. This would be evidenced by a naturally curious investment team who have a strong desire to unearth unique sources of information and develop deeper insights than competitors.
- The organisation's culture inspires honesty with high integrity.
- The organisation's culture is one that embraces continuous learning in everything they do. The organisational has processes that ensure learning from investment mistakes and from the best practices of similar or competing institutions.
- The leadership ensures there is clear decision making based on individual accountability. Responsibility assignment and investment processes are rigorously adhered to in all parts of the organisation.
- The institution is built to last multiple generations with a corresponding migration of economic interest in the firm over time to the next generation of key investment talent.
- There is a drive and hunger that will persist despite personal wealth accumulation.

2. Performance

- The manager need not have a long-term proven track record of managing third party investor capital, but ideally will have invested through a full business cycle demonstrating extraordinary results against the appropriate risk-matched benchmark.

- Short of having a verifiable performance track record as described above, we look for demonstrated performance from individual investment examples and relevant experience and training from extraordinary, recognised veteran investors.

3. Investment Philsophy

- We prefer managers with long time horizon strategies, who are not distracted by short term market noise and are not short-term investors looking for near term results. There may be exceptions to this in certain quantitative strategies.

- The manager should have a contrarian investment philosophy and not participate in crowded trades. This contrarian philosophy or variant perception must be led by superior insights rather than being contrarian for the sake of it.

- The manager seeks out asymmetric return distributions that provide a margin of safety. The degree and nature of this asymmetry drives the portfolio manager's conviction and often would result in a concentrated portfolio.

- The manager is able to articulate a clear, identifiable competitive edge. There must be an understandable logical reason for the manager's outperformance that is likely to last.

4. Investment Process

- There is a clearly documented investment process from sourcing to exiting and adherence to this process is policed over time.

- Investment decision-making is efficient and effective, making the right trade-off between independent input and cross-checks, and being close to the data and analysis.

- We have a strong bias toward deep fundamental bottom-up research processed by brilliant minds and enhanced by sheer hard work. The bottom-up analysis must start with deep insights into industries and sectors (in the case of public and private equities and credit) and look for unique sources of the most relevant information (e.g., customers, competitors, ex-employees, etc.).

- The investment team is paranoid about "what could go wrong" and constantly stress test their portfolios against hypothetical events.

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5. LP Relations

- The manager is open to a true partnership with their investors, differentiating and favoring relationships with LPs on the basis of the value they can bring, as discussed above.

- The time horizon on investor capital must match or exceed the time horizon for the underlying investments. Long-term capital can exist through fund terms or by the type of investor base accumulated.

- The manager must be disciplined in containing asset growth. At the outset, the manager must have clear intent to contain asset growth and prioritise preservation of excess returns over asset accumulation.

- The manager provides excellent transparency into what is owned in exchange for complete confidentiality.

6. Fees and Costs ('Price')

- Fees and other terms serve to align the interests of the manager and the investors. As such, we very rarely pay performance fees on market or beta returns.

- There is a high return to investors in the form of gross of fees outperformance (alpha) on our investment in the manager's fees and costs (what we call EROC or excess return on costs).

7. Sustainable Investing

- The manager has a well-established, well-communicated and monitored environmental, social and governance (ESG) or sustainable investing policy, which covers, where applicable, proxy voting and engagement with corporate management.

- The firm has an inclusive culture where diverse perspectives, backgrounds and experiences are valued, allowing employees to thrive and deliver results for the firm and its investors.

- There is a clear, well-communicated policy for instilling diversity, equity and inclusion into the composition of its owners, leadership and overall team and has processes in place to ensure the efficient implementation.

- The investment process systematically integrates financially material environmental, social and governance factors into the research and assessment of specific investments (companies, loans, commodities, or property). The asset manager can evidence the integration approach with case studies and additional supporting documents.

- The firm attempts to measure and report on its impact on society and the environment.

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