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# COUNTY OF EL DORADO

OPEB Prefunding and Pension Rate Stabilization Program (PRSP)  
January 23, 2018

# CONTACTS

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# PARS TRUST TEAM



Trust Administrator & Consultant	Trustee	Investment Manager
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- Recordkeeping/sub-trust accounting
- Actuarial coordination
- Monitor contributions/process disbursements
- Monitor plan compliance
- Ongoing client liaison

- Safeguard plan assets
- Oversight protection
- Plan fiduciary
- Custodian of assets

- Investment sub-advisor to U.S. Bank
- Open architecture
- Investment strategy and asset allocation development
- Investment policy assistance

### Corporate Experience

**34 years** (1984 – 2018)

**155 years** (1863 – 2018)

**99 years** (1919 – 2018)

### Plans Under Administration

1,600+ plans, 850+ public agencies, 400,000+ participants

### Dollars under Administration

Over \$2.6 billion

Over \$4 trillion

Over \$16.6 billion under management



# OPEB/PENSION CLIENT LIST (PARTIAL)

UPDATED: JANUARY 2018

## COUNTIES

Amador  
Contra Costa  
**Humboldt**  
Imperial  
Inyo  
Kern  
**Kings**  
Merced  
Mono  
**Nevada**  
**Placer**  
Plumas  
**Riverside**  
**San Benito**  
Shasta  
**Siskiyou**  
**Solano**  
Sonoma  
**Sutter**  
Trinity  
Yolo

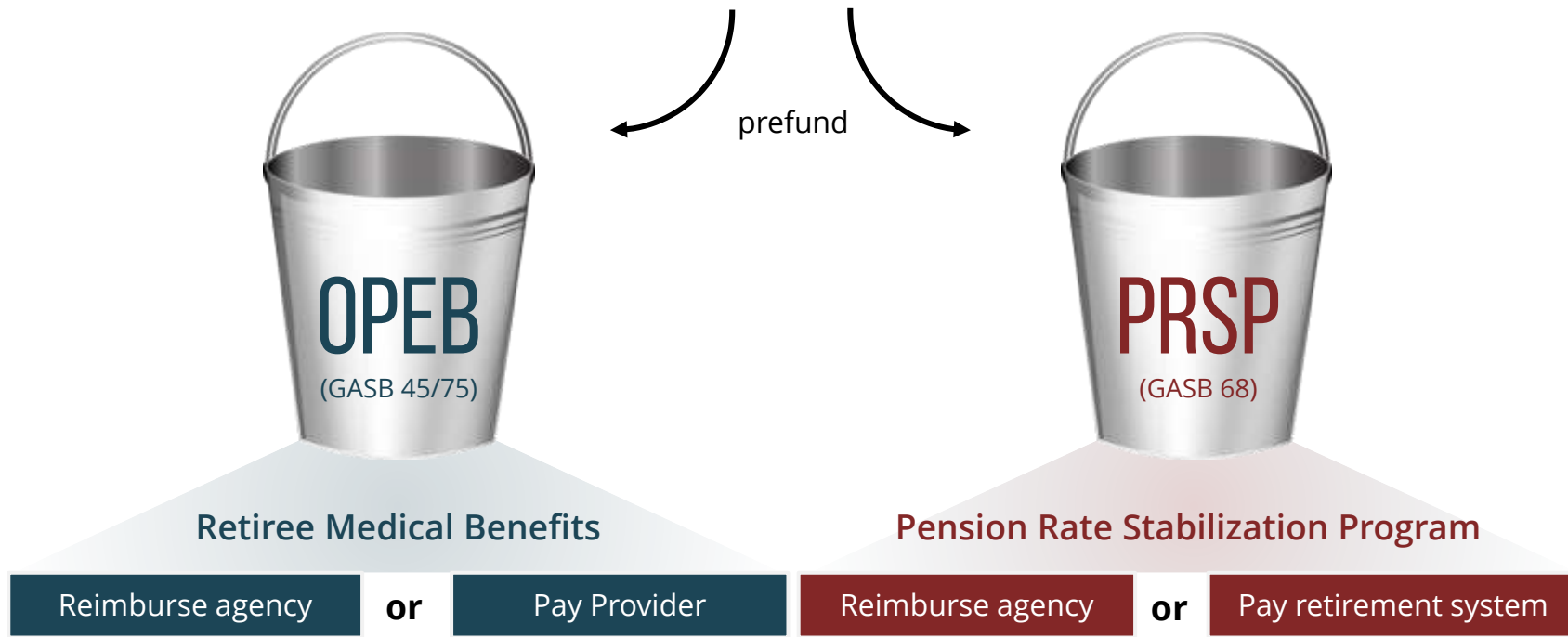
## EL DORADO AREA CLIENTS

**El Dorado Hills County Water District**  
**Nevada County Consolidated Fire District\***  
Placer County Resource Conservation District  
Rancho Murrieta Community Services District  
South Placer Fire Protection District  
El Dorado Union High School District  
**Placer Union High School District**  
Twin Rivers Unified School District

**Bolded agencies** have adopted PRSP

\* PRSP only

# THE PARS IRS-APPROVED COMBINATION 115 TRUST



- Assets are sub-accounted for separately
- Prefund one now and the other later
- Addresses unfunded liabilities
- Can choose different investment risk tolerance levels for each

- Can access funds at anytime; OPEB for OPEB and pension for pension
- Assets (OPEB and Pension) aggregate and reach lower fees on tiered schedule sooner – saving money!
- No cost to set up; no fees until assets are added

# OPEB ACTUARIAL RESULTS

Bartel Associates, LLC Valuation Date: June 30, 2016	Pay-as-you-Go Discount Rate: 4.00%	Percent Change	Prefunding Discount Rate: 7.25%
<b>Actuarial Accrued Liability (AAL)</b>	\$86,809,000	35.32% ▼	\$56,145,000
<b>Actuarial Value of Assets</b>	\$0	--	\$0
<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	\$86,809,000	35.32% ▼	\$56,145,000
<b>Annual Required Contribution (ARC) for FY 2015-16</b>	\$11,868,000	32.08% ▼	\$8,061,000
<b>Annual Benefit Payments (Pay-as-you-Go) for FY 2015-16</b>	\$2,648,296	--	\$2,648,296

**Rule of thumb:** For every one percent increase in the discount rate, the unfunded liability is lowered by 10-12%.



# OPEB PREFUNDING SCENARIOS

**A**

Put in full ARC

\$8,061,000

**B**

Put in Full ARC, then reimburse PAYGO at the End of Year

\$8,061,000 - \$2,648,296

**C**

Put in difference between ARC and PAYGO

\$5,415,704

**D**

Put in anything –  
Something is better than nothing!

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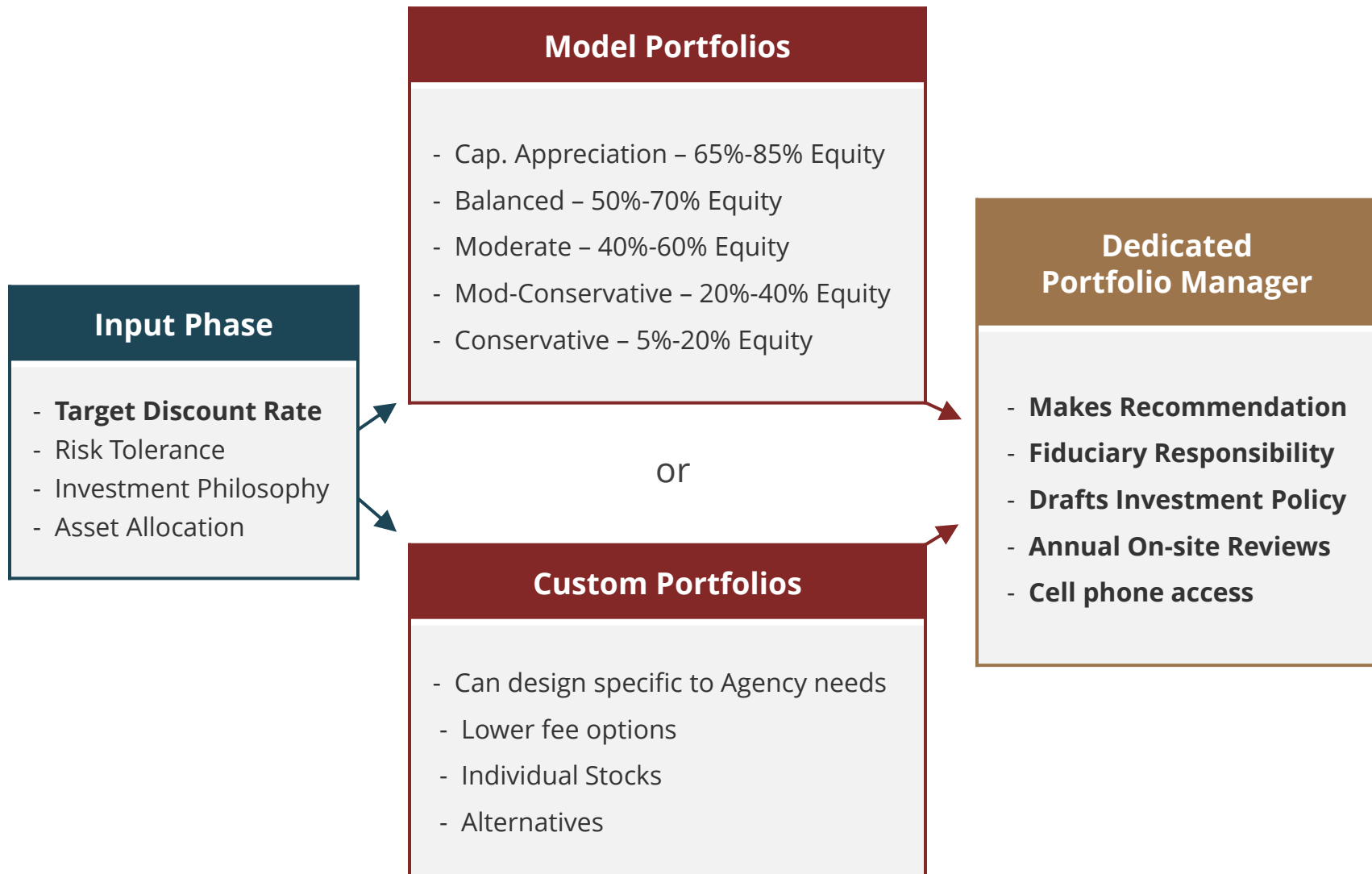
# WHY PREFUND OPEB?

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- Greater rate of return which lowers your liabilities
- Contributions into trust are “assets” that offset liabilities on financial statements
- GASB 68 – Pension liabilities listed as line item on Balance Sheet in 2015  
GASB 75 – OPEB liabilities will be listed on Balance sheet after FY2017
- GFOA recommends prefunding OPEB and considers it “best practice” (January 2012)
- Credit rating companies look more favorably on agencies who adopt an Irrevocable Trust and prefund
  - At least 4 agencies have improved credit rating
  - Higher credit rating means lower borrowing costs
- OPEB assets are accessible for OPEB expenses at any time
- Prefunding has no downside other than market fluctuation (similar to pension)



# SIMPLE BUT FLEXIBLE INVESTMENT APPROACH



# HIGHMARK CAPITAL MANAGEMENT RETURNS

RETURNS AS OF SEPTEMBER 30, 2017

	Equity (%)	1 Year	3 Years	5 Years
<b>Capital Appreciation</b>	65-85%	14.07%	7.54%	9.56%
<b>Balanced</b>	50-70%	12.25%	6.63%	8.12%
<b>Moderate</b>	40-60%	10.14%	6.00%	7.03%
<b>Moderately Conservative</b>	20-40%	6.51%	4.67%	5.14%
<b>Conservative</b>	5-20%	3.88%	3.69%	3.71%

*\* Past performance does not guarantee future results*

# NET PERFORMANCE FEE ANALYSIS

RETURNS AS OF SEPTEMBER 30, 2017

Over 1 Year			
PARS/HighMark Capital Appreciation (24% Fixed Income)	14.07%	CalPERS CERBT Strategy 1 (27% Fixed Income)	10.80%
Minus Weighted PARS Admin Fee	(-) 0.25%	Minus Fees	(-) 0.10%
Minus Weighted HM Investment Management Fee*	(-) 0.34%		
<b>1-Year Net Return</b>	<b>13.48%</b>	<b>1-Year Net Return</b>	<b>10.70%</b>
Over 3 Years			
PARS/HighMark Capital Appreciation (24% Fixed Income)	7.54%	CalPERS CERBT Strategy 1 (27% Fixed Income)	5.93%
Minus Weighted PARS Admin Fee	(-) 0.25%	Minus Fees	(-) 0.10%
Minus Weighted HM Investment Management Fee*	(-) 0.34%		
<b>3-Year Net Return</b>	<b>6.95%</b>	<b>3-Year Net Return</b>	<b>5.83%</b>
Over 5 Years			
PARS/HighMark Capital Appreciation (24% Fixed Income)	9.56%	CalPERS CERBT Strategy 1 (27% Fixed Income)	7.69%
Minus Weighted PARS Admin Fee	(-) 0.25%	Minus Fees	(-) 0.10%
Minus Weighted HM Investment Management Fee*	(-) 0.34%		
<b>5-Year Net Return</b>	<b>8.97%</b>	<b>5-Year Net Return</b>	<b>7.59%</b>

\* Utilizing 11/30/17 Fee Schedule

\*\* Subject to change due to rebalancing.

\*\*\* Past performance does not guarantee future results.

# PROGRAM FEES

## Trust Administration/Consulting Fees\*



### Plan Set-Up Fee:

None

### Ongoing Fees:

0.25%	for assets \$0-10 million
0.20%	for assets \$10-15 million
0.15%	for assets \$15-50 million
0.10%	for assets over \$50 million

## Discretionary Trustee/Investment Management Fees\*



### Plan Set-Up Fee:

None

### Ongoing Fees:

0.35%*	for assets under \$5 million
0.25%	for assets \$5-10 million
0.20%	for assets \$10-15 million
0.15%	for assets \$15-50 million
0.10%	for assets over \$50 million

\* PARS does not receive any compensation from the investments or any commissions, back-end loads, or any other forms of compensation.

\*\* Fees as of September 30, 2017. Subject to change due to rebalancing.

*The*

# PARS PENSION RATE STABILIZATION PROGRAM

*for prefunding pension obligations*

# BACKGROUND

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- New GASB 68 requirements to disclose Net Pension Liability on financial statements – 2015
- Previously, only way to reduce retirement system unfunded liability was to send additional contributions in excess of annual required contribution but the amortization rules may have changed
- Trust assets can be transferred to retirement system at County's direction, which can help offset future rate increases (i.e., pension rate stabilization) due to the lowering of CalPERS discount rate from 7.5% to 7.0% with a 3-year phase-in announced on 12/21/16.



# PENSION FUNDING STATUS

As of June 30, 2016, El Dorado County's CalPERS pension plan is funded as follows\*:

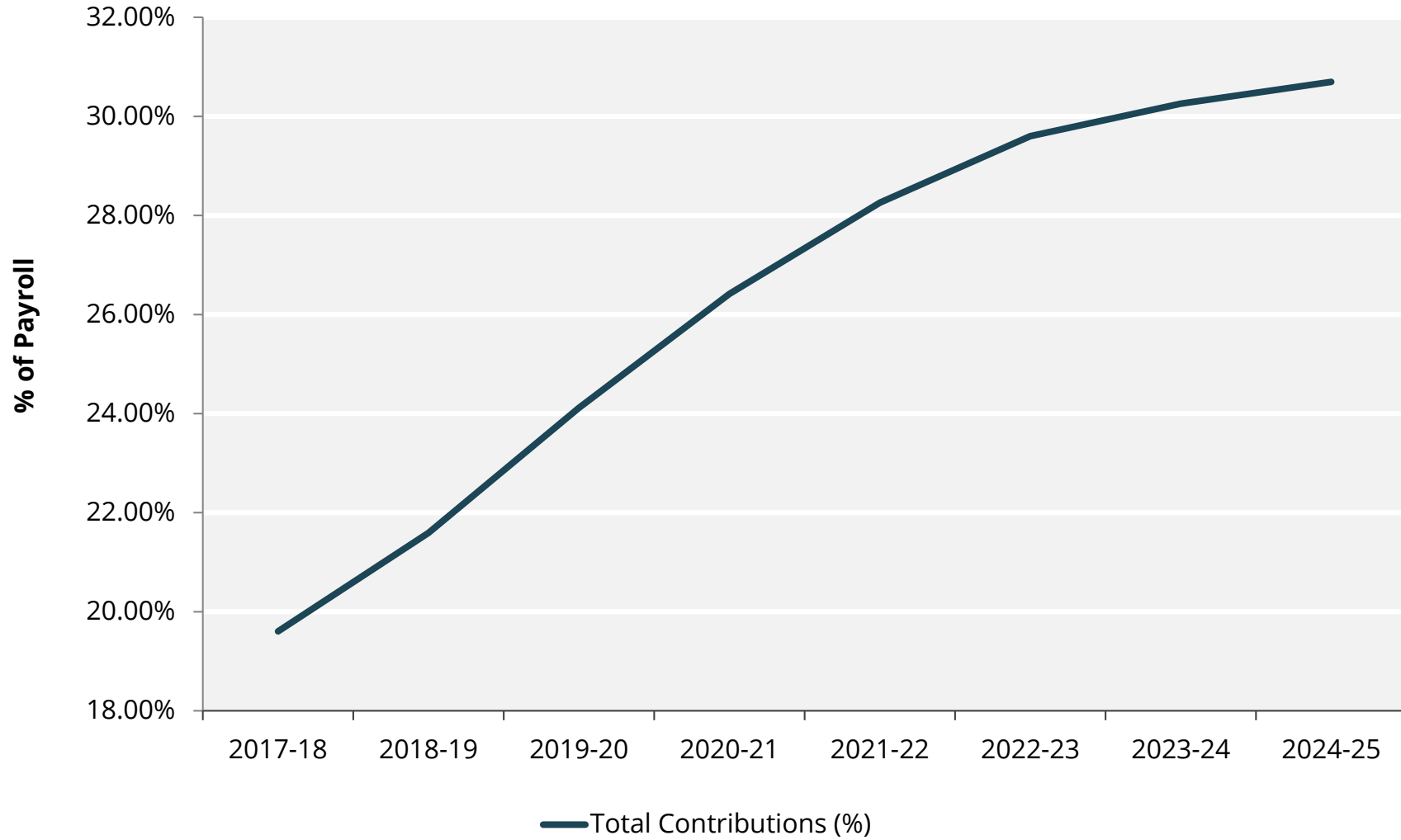
<b>Actuarial Liability</b>	<b>\$996.3M</b>
Assets	\$650.1 M
Unfunded Liability	\$346.3 M
Funded Ratio	65.2%
Employer Contribution Amount (FY 17-18)	\$30.5 M
Projected Employer Contribution Amount (FY 24-25)	\$57.8 M (89.2% ↑)

\* Data from Agency's 2016-17 CalPERS actuarial valuation



# PROJECTED EMPLOYER CONTRIBUTIONS (MISC.)

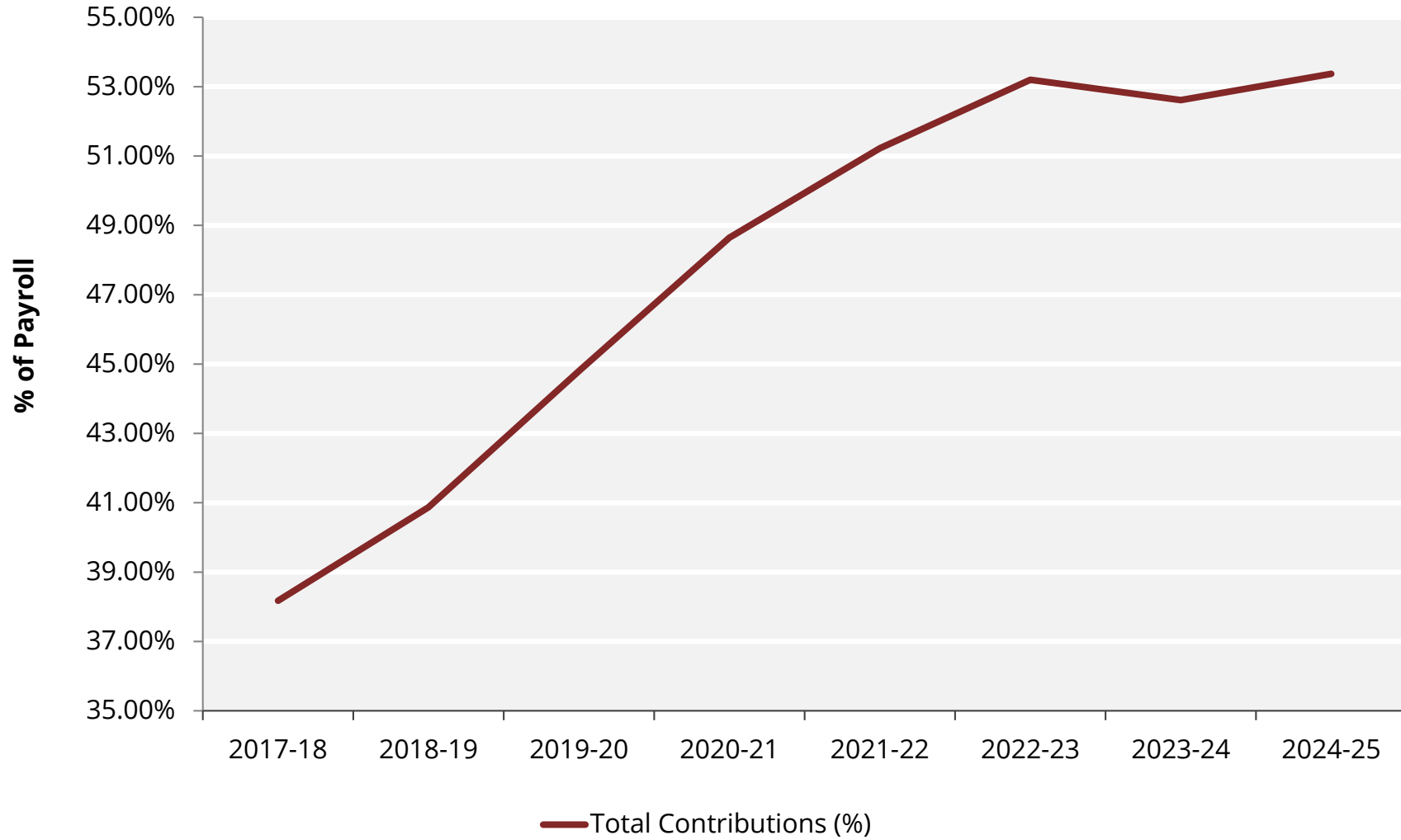
Projected misc. contributions increase from \$18.9M to \$37.2M\* (96.9% ↑)



\* Data from Agency's 2016-17 CalPERS actuarial valuation

# PROJECTED EMPLOYER CONTRIBUTIONS (SAFETY)

Projected safety contributions increase from \$11.6M to \$20.6M\* (76.7% ↑)



\* Data from Agency's 2016-17 CalPERS actuarial valuation

# WHY PREFUND PENSION OBLIGATIONS?

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1

## Complete Local Control over Assets

County has complete control over contributions and disbursements; timing, amount, and risk tolerance level

2

## Pension Rate Stabilization

Assets can be transferred to retirement system plan at the County's direction, which can reduce or eliminate large fluctuations in Employer contributions to retirement system

3

## Rainy Day Fund

Emergency source of funds when Employer revenues are impaired based on economic or other conditions

4

## Lower Costs

115 Trust might have lower overall administrative and investment management costs compared to the retirement system

# WHY PREFUND PENSION OBLIGATIONS?

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5

## Addresses Pension Liabilities for GASB 68

Contributions placed in an exclusive benefit trust addresses County's unfunded pension liability

6

## Improved Credit Ratings

Rating agencies may look favorably upon actions to reduce liabilities

7

## Actuarially Sound Retirement System

Provide integrity and security for the source of funding for retirement benefits

8

## Diversified Investing/Potential for Greater Return than General Fund

Can choose risk tolerance level for County's unique needs

# COUNTY SAMPLE FUNDING POLICIES

1

Contribute \$2 million towards the establishment of the trust, with additional funds depending on the fiscal year ending balance of the County's Liability Management fund

RIVERSIDE COUNTY

2

Contribute funds towards the trust as existing pension and other outstanding debts are retired, in order to achieve and maintain a funding ratio at or above 90% in the County's Safety/Miscellaneous plans

SOLANO COUNTY

3

Established an annual departmental contribution towards the trust ranging from .25% up to 2% of salaries, depending on funding availability during each fiscal year budget cycle.

HUMBOLDT COUNTY

4

Transfer \$2.9 million from Reserve for Post-Retirement Contributions towards the 115 Trust, with annual contributions totaling to the PERS employer contribution collected biweekly through Payroll

PLACER COUNTY

5

Contribute \$3.2 million towards the establishment from the trust from the General Fund, coinciding with the payoff of Safety Plan pension liability, with additional payments totaling \$850,000 over 4 years

NEVADA COUNTY

# OTHER SAMPLE FUNDING POLICIES

- 1 Contribute 50% of a given year's realized year end surplus to address pension liability
- 2 Contribute amount equal to annual PERS employer contribution (\$6 million) in order to allow full access to trust assets at all times
- 3 Contribute \$4 million to stabilize PERS employer misc. Rates to 28% and safety rates to 44% through FY 23-24
- 4 "One equals five plan" - Contribute \$1 million per year for 5 years based on premise that every contribution will save taxpayers \$5 million over 25 years
- 5 Contribute Employer contribution equal to the 2.8% discount rate (as opposed to the standard 7.5% rate), with difference going into the Section 115 Trust
- 6 Maintains a 15% general fund reserve and is targeting to make contributions over and above that threshold into the Trust
- 7 Earmarked a portion of a recently approved local sales tax measure to be set aside for unfunded pension liabilities
- 8 Using one-time revenue source plus on-going savings from CalPERS unfunded liability pre-payment
- 9 Using one-time revenue source and lowering the minimum General Fund Reserve level from 30% to 20%

# PARS Investment Program





# About HighMark Capital Management, Inc.

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## LONGEVITY

Managing assets for clients since **1919\***

## TALENT

**52** investment professionals  
**31** professionals hold the Chartered Financial Analyst® (CFA) designation  
**23** years average industry experience

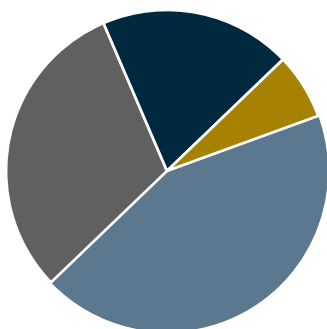
## STABILITY

Investment boutique structure headquartered in San Francisco backed by **global strength** within MUFG Union Bank, N.A. and Mitsubishi UFJ Financial Group

## ASSETS UNDER MANAGEMENT

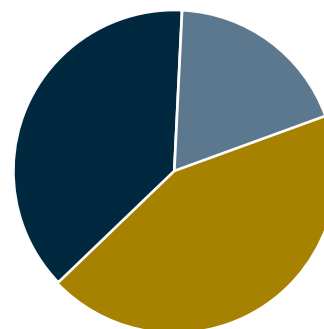
\$16.6 billion as of 9/30/2017

Asset Class



- Equity \$7.2 billion
- Fixed Income \$5.1 billion
- Liquidity \$3.2 billion
- Cash \$1.1 billion

Client Base



- Institutional \$7.2 billion
- Wealth Mgmt \$6.3 billion
- Sub-Advised \$3.1 billion

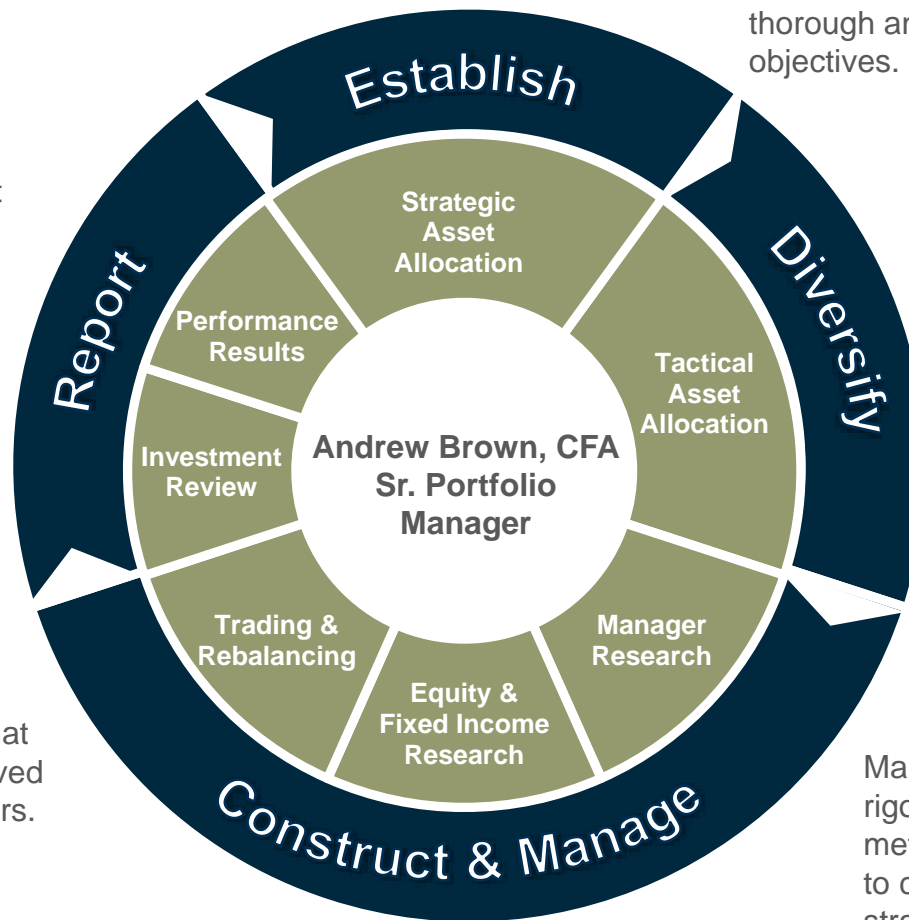
\* Includes predecessor organizations. HighMark Capital Management, Inc. registered with the SEC as an investment adviser on August 7, 1998.

# Disciplined Investment Process

Your Plan's Portfolio Manager is supported by deep investment resources and unique processes.

Your portfolio's strategic asset allocation policy is established in your Investment Guidelines Document (IGD) after a thorough analysis of your needs and objectives.

Regular investment & performance reports, as well as contact with your account portfolio manager, helps to keep you informed.



Asset Allocation Committee (AAC) employs a multi-factor approach to establish long-term strategic asset allocation ranges as well as provide tactical diversification guidelines in an effort to capitalize on short-term market opportunities.

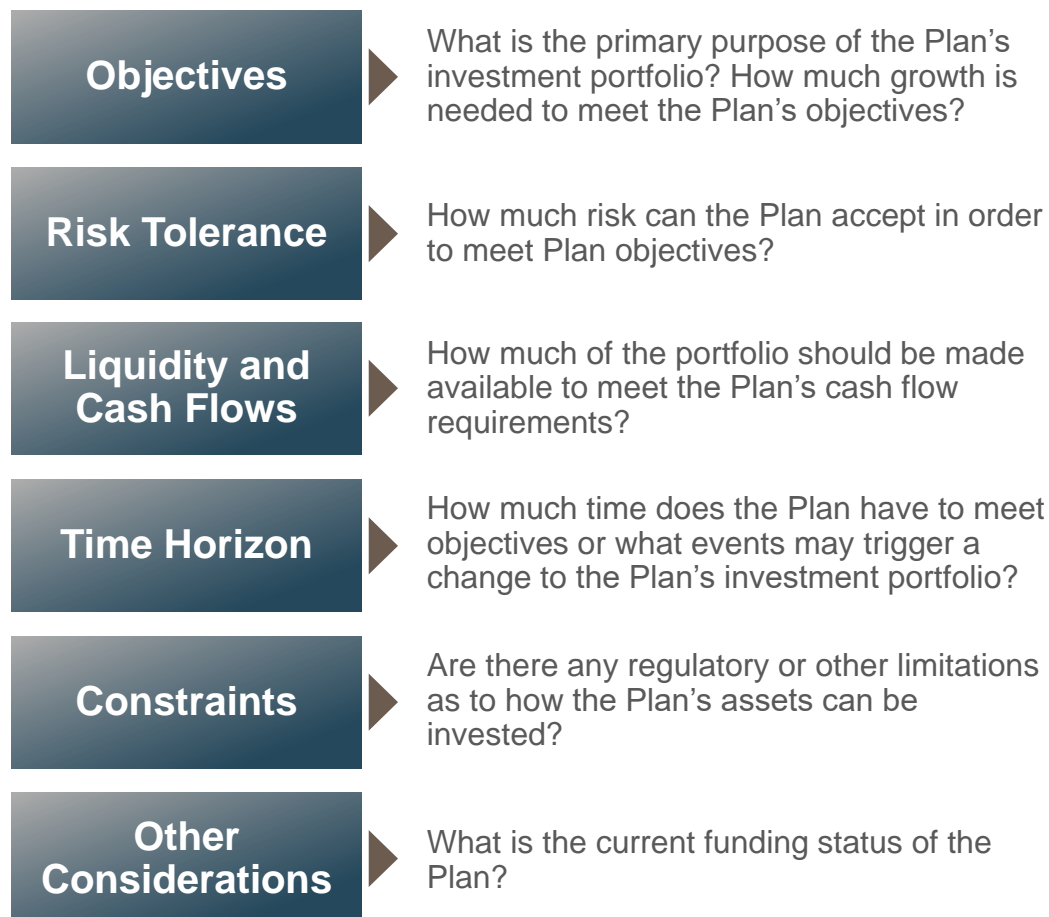
We typically invest in share classes that offer the lowest expense ratio available for that fund, which is typically reserved for larger institutional investors.

Manager Research Group utilizes rigorous due diligence methodologies to provide access to competitive externally managed strategies and index-based funds.

## Establish: Analyze Your Plan's Needs and Objectives

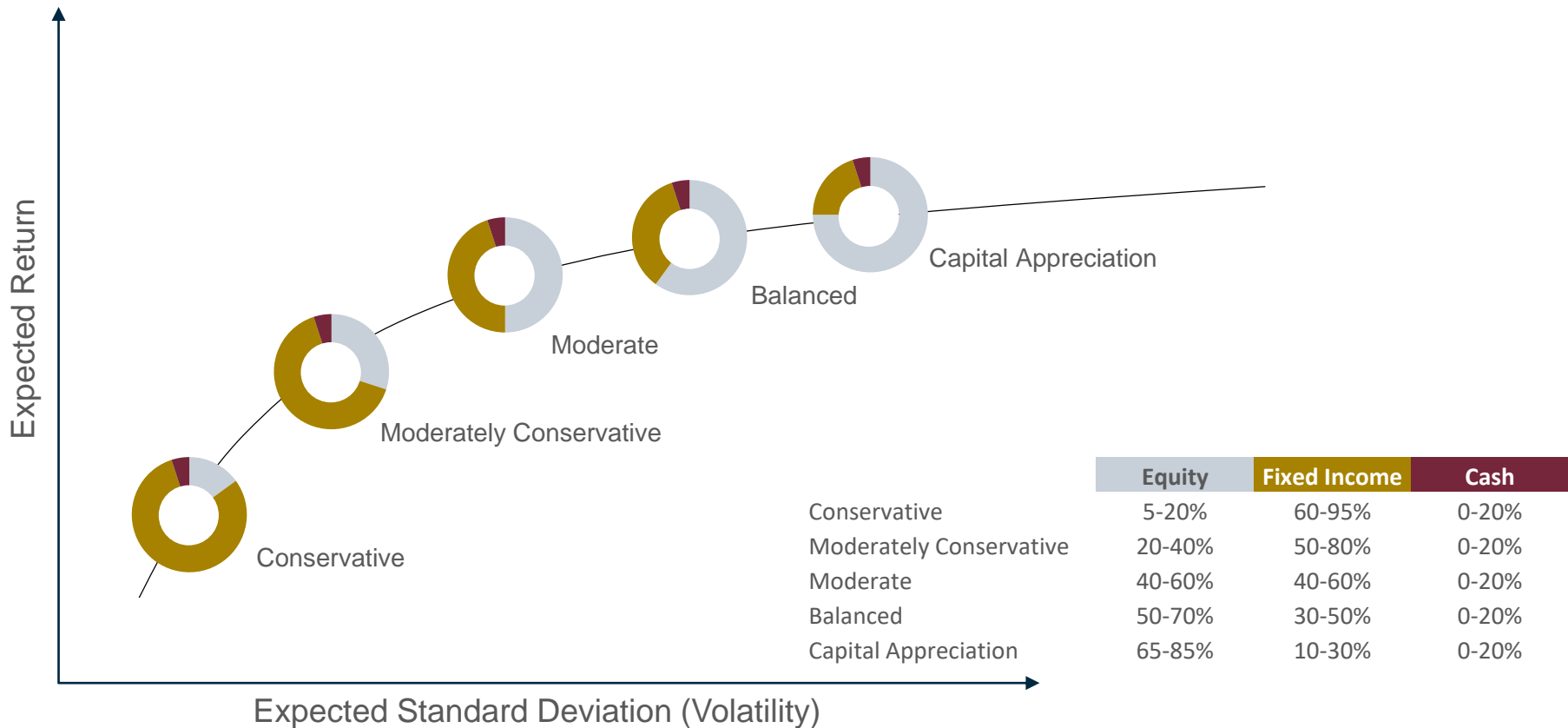
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Your Plan's needs and objectives drive the selection of an investment strategy, which is governed by your Investment Guidelines Document.



# Establish: Determine your Strategic Asset Allocation Strategy

Efficient frontier of portfolios with varying ranges of equities and fixed income



Each Investment Objective reflects the associated PARS Diversified Portfolio as of 9/30/2017. A client's portfolio construction may vary depending on the client's investment needs, objectives, and restrictions as well as the prevailing market conditions at the time of investment.

## Construct Your Plan's Portfolio: PARS Diversified Portfolios – Tactical Allocation



	Conservative	Moderately Conservative	Moderate	Balanced	Capital Appreciation
<b>Equity</b>	<b>5-20%</b>	<b>20-40%</b>	<b>40-60%</b>	<b>50-70%</b>	<b>65-85%</b>
<i>Current Tactical</i>	<b>15.00%</b>	<b>30.00%</b>	<b>50.00%</b>	<b>60.00%</b>	<b>75.00%</b>
Large Cap Blend	4.19%	8.73%	14.69%	17.40%	22.17%
Large Cap Value	1.78%	3.50%	5.97%	7.00%	8.77%
Large Cap Growth	1.23%	2.47%	4.26%	5.00%	6.16%
Mid Cap Blend	1.10%	2.20%	3.60%	4.50%	5.50%
Mid Cap Value	0.00%	0.00%	0.00%	0.00%	0.00%
Real Estate	0.75%	1.38%	1.50%	1.63%	1.75%
Small Cap Value	1.25%	2.25%	3.75%	4.50%	5.25%
Small Cap Growth	1.25%	2.25%	3.75%	4.50%	5.25%
International	2.68%	5.30%	9.23%	11.48%	14.90%
Tactical - Europe	0.00%	0.00%	0.00%	0.00%	0.00%
Emerging Markets	0.78%	1.93%	3.25%	4.00%	5.25%
<b>Fixed Income</b>	<b>60-95%</b>	<b>50-80%</b>	<b>40-60%</b>	<b>30-50%</b>	<b>10-30%</b>
<i>Current Tactical</i>	<b>79.06%</b>	<b>66.50%</b>	<b>46.92%</b>	<b>37.31%</b>	<b>22.81%</b>
Short Term Bond	12.40%	10.19%	6.31%	4.50%	4.00%
Intermediate Term Bond	64.66%	54.56%	39.11%	31.56%	17.81%
Floating Rate Note	2.00%	1.75%	1.50%	1.25%	1.00%
<b>Cash</b>	<b>0-20%</b>	<b>0-20%</b>	<b>0-20%</b>	<b>0-20%</b>	<b>0-20%</b>
<i>Current Tactical</i>	<b>5.94%</b>	<b>3.50%</b>	<b>3.08%</b>	<b>2.69%</b>	<b>2.19%</b>
<b>TOTAL</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Each Investment Objective reflects the associated PARS Diversified Portfolio as of 9/30/2017. A client's portfolio construction may vary depending on the client's investment needs, objectives, and restrictions as well as the prevailing market conditions at the time of investment.

## Construct Your Plan's Portfolio: PARS Diversified Portfolios – Active v. Passive

	HighMark Plus (Active)		Index Plus (Passive)	
Equity	Ticker	Fund Name	Ticker	Fund Name
Large Cap Blend	SMGIX	Columbia Contrarian Core Z	IVV	iShares Core S&P 500
Large Cap Blend	VGIAX	Vanguard Growth & Income Adm		
Large Cap Value	DODGX	Dodge & Cox Stock	IVE	iShares S&P 500 Value
Large Cap Growth	HNACX	Harbor Capital Appreciation Ret	IVW	iShares S&P 500 Growth
Large Cap Growth	PRUFX	T. Rowe Price Growth Stock I		
Mid Cap Blend	IWR	iShares Russell Mid-Cap	IWR	iShares Russell Mid-Cap
Real Estate	VNQ	Nuveen Real Estate Securities I	VNQ	Vanguard REIT ETF
Small Cap Value	UBVLX	Undiscovered Managers Behavioral Val L	IWN	iShares Russell 2000 Value
Small Cap Growth	PRJIX	T. Rowe Price New Horizons I	IWO	iShares Russell 2000 Growth
International	NWHMX	Nationwide Bailard Intl Eqs Instl		
International	DODFX	Dodge & Cox International Stock		
International	MQGIX	MFS International Growth I	EFA	iShares MSCI EAFE
Emerging Markets	HHHYX	Hartford Schroders Emerging Mkts Eq I	VWO	Vanguard FTSE Emerging Markets ETF
Fixed Income	Ticker	Fund Name	Ticker	Fund Name
Short Term Bond	VFSUX	Vanguard Short-Term Investment-Grade Adm	VFSUX	Vanguard Short-Term Investment-Grade Adm
Intermediate Term Bond	PTRX	PIMCO Total Return Instl	AGG	iShares Core US Aggregate Bond
Intermediate Term Bond	PTRQX	Prudential Total Return Bond Q		
Intermediate Term Bond	NWJXX	Nationwide HighMark Bond InSvc		
Floating Rate Note	EIFHX	Eaton Vance Floating-Rate & Hi Inc Inst	BKLN	PowerShares Senior Loan ETF
Cash				
Characteristics				
Fund Manager Dependency		Higher dependency on portfolio manager skill		Tracks index, thus little-to-no dependency on portfolio manager skill
Opportunity to Outperform Index		Opportunity to outperform index		Typically performs below index after fees
Costs		Higher expense ratios due to portfolio manager skill		Lower expense ratio due to little dependency on portfolio manager skill or opportunity for outperformance

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## Report: Responsive and Proactive Client Communication

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HighMark's dedicated investment team continuously seeks to add value to our relationship with your organization.

- Integrated client service program established with PARS over the last 18 years
- We have a tradition of interactive client service to maintain a strong relationship delivered by local portfolio managers
- You benefit from face-to-face meetings and scheduled conference calls with your client service team and portfolio management team
- You receive regular communications in a variety of formats
  - Account holdings and transactions
  - Quarterly performance evaluation reports
  - Investment outlook and economic updates



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Sr. Portfolio Manager  
Northern California



**Keith Stribling, CFA**  
Vice President  
Sr. Portfolio Manager  
Orange County



**Hoddy Fritz**  
Director  
Business  
Development  
Southern California



**Christiane Tsuda**  
Vice President  
Sr. Portfolio Manager  
San Diego



**Fred Hurst**  
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Business  
Development  
Northern California



**Anne Wimmer, CFA**  
Director  
Sr. Portfolio Manager  
Los Angeles



**Tory Milazzo, CFA**  
Vice President  
Sr. Portfolio Manager  
Central Coast



**Randy Yurchak, CFA**  
Vice President  
Sr. Portfolio Manager  
Northern California



# Summary

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## Strength and Longevity

- After 98 years\* of experience, we remain dedicated to helping our clients meet their investment goals and objectives;
- With more than 18 years of partnership with PARS, we remain firmly committed to investing in the business.
- Our unique market position and ownership structure provides the resources, talent, and product breadth of a large parent organization combined with the agility, flexibility, and responsiveness of a boutique investment advisor.

## Disciplined Investment Process

- Proprietary strategic asset allocation process forms the foundation of portfolio;
- Tactical asset allocation exploits potential market opportunities;
- Rigorous manager due diligence provides access to competitive externally managed strategies;
- Rebalancing strategies helps to ensure the portfolio is aligned with goals and objectives.

## Flexible Investment Options

### 5 Investment Objectives

- Conservative
- Moderately Conservative
- Moderate
- Balanced
- Capital Appreciation

### 2 Implementation Strategies

- HighMark Plus (Active)
- Index Plus (Passive)

\* Includes predecessor organizations. HighMark Capital Management, Inc. registered with the SEC as an investment adviser on August 7, 1998.

## Disclosures

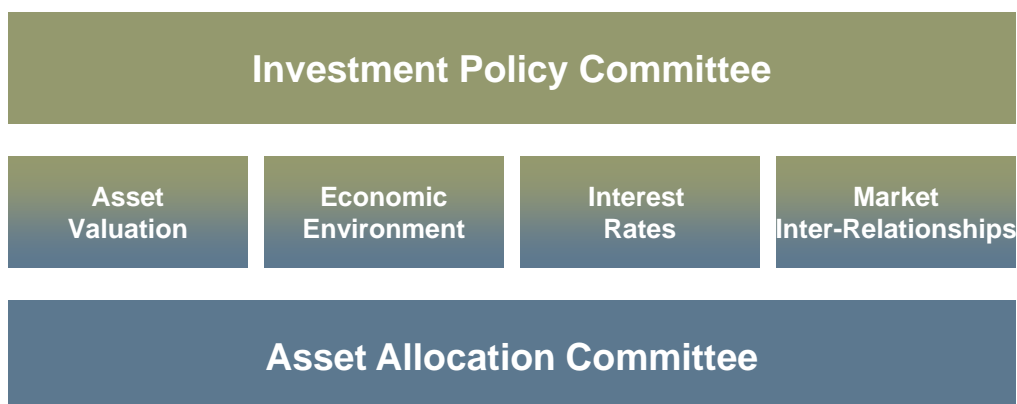
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## Asset Allocation Committee

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Seek to identify investment opportunities using fundamental indicators to enhance returns over time through active asset allocation and investment selection without significantly increasing risk



### Investment Professionals

16

### Investment Experience

26 years average

### Tenure with Firm

13 years average

### Multi-disciplinary Group

Equity, Bond, Quantitative

## Manager Research

Our manager due diligence process optimizes our diversification strategy while harnessing both internal and external investment expertise.

Research-Based	Manager / Vehicle Selection	Monitoring	Portfolio-Centric
<ul style="list-style-type: none"> <li>• Manager Research Group (MRG) represents a team of experienced and highly qualified manager research professionals                             <ul style="list-style-type: none"> <li>• 7 members</li> <li>• 20 years average experience</li> <li>• 7 years average tenure</li> </ul> </li> <li>• MRG conducts proprietary due diligence and monitoring of managers, platforms, and independent research experts</li> </ul>	<ul style="list-style-type: none"> <li>• We go beyond performance and category ranking to assess sustainability of competitive advantages</li> <li>• In-depth quantitative and fundamental research focuses on people, philosophy, and process</li> <li>• Access to a broad universe of mutual funds and ETFs helps to select the most appropriate vehicle while assessing associated expenses and costs</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing monitoring of over 150 funds</li> <li>• Focus on spotting red flags that can threaten a successful manager's track record</li> <li>• Emphasize understanding the key drivers of returns and markets where they are most effective</li> <li>• Regular site visits and manager calls to monitor firm and process changes</li> </ul>	<ul style="list-style-type: none"> <li>• Select strategies best suited to portfolio's risk and return objectives</li> <li>• Careful review and regular affirmation of portfolio goals, objectives, risk tolerance, time horizon, and liquidity needs</li> <li>• Understand how the strategies within a portfolio can complement each other</li> <li>• Construct portfolios using strategies designed to help boost risk-adjusted returns</li> </ul>