

# Investment Manager Research

## *Due Diligence and Selection Process*

### **INTRODUCTION**

Selecting the right professional money manager is an important investment decision. RBC Wealth Management provides meaningful insight and important information on a broad list of investment managers and products. Our Advisory Research team of analysts employs a comprehensive research and due diligence process that provides you with in-depth, ongoing, and objective guidance.

### **COMPREHENSIVE EVALUATION PROCESS**

Our proprietary, multi-step review process typically begins with the following minimum screening criteria:

- Three years of operating and performance histories.
- \$100 million of firm assets under management.
- \$25 million of product assets under management.
- Three years of portfolio management tenure.
- Reasonable management fees and expenses.

Investment managers meeting these criteria are then subjected to a more rigorous evaluation focused on four broad categories:

- Firm and Product
- Investment Approach
- Investment Professionals
- Performance

Our analysts employ well-defined research, evaluation, and reporting activities when assessing each category.

First-hand information from due diligence of the manager is critical to understanding the firms and products under consideration. Initial and ongoing due diligence is performed via on-site visits, conference calls, and in-house meetings. These interactions

produce important qualitative information that is an integral part of the evaluation process. Each category is analyzed to draw meaningful conclusions about the overall quality of the investment managers and portfolio strategies reviewed.

### **Firm and Product**

The history, ownership structure, culture, and infrastructure are all key elements of an investment manager's ability to provide effective portfolio management. These elements must be well understood to make useful judgments about business viability, corporate objectives, and firm potential. To this end, our analysts seek to uncover significant events and factors that have affected —directly or indirectly — the firm's investment activities.

Entrepreneurial firms with high employee ownership, strong and lasting business cultures, and client-focused goals and policies are preferred. Our analysts search for investment management organizations with well-managed infrastructures, diversified client bases, and manageable asset growth.

### **Investment Professionals**

A thorough analysis of investment professional talent is of primary importance in the evaluation of investment managers. Our analysts search for investment managers with seasoned professionals involved in the day-to-day research and portfolio management activities of the firm. In the case of team-managed portfolio strategies, we place a higher value on established groups with a meaningful number of years working together as a team.



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## *Investment Manager Research, continued*

### **Investment Approach**

Our analysts gain useful insights into the day-to-day management of products through one-on-one conversations with senior investment professionals. We ask specific questions related to investment philosophy and portfolio strategy, and investigate important details related to the manager's research and investment selection activities. In addition, we investigate portfolio construction guidelines, including risk controls and trade implementation procedures. This information is used to draw meaningful conclusions about the merits of the investment manager's approach to investing.

### **Performance**

Accurately assessing performance requires discipline, a long-term focus, and sophisticated analytical tools. Simple esoteric, incomplete, or inconsistent methodologies may offer random luck, but seldom yield long-term investment success. Our analysts are properly trained in both the "art" and "science" of analyzing investment performance.

Objectively understanding the quality and effectiveness of an investment manager or particular portfolio strategy requires in-depth examination of performance, including a detailed analysis of the sources of returns. Not all investment managers should be compared to one another, nor are all products directly comparable. Information learned in performance reviews is used to build expectations about each investment manager's capabilities and the potential return behavior of different portfolio strategies during various market environments. Analyzing performance within the context of these predetermined expectations is a major philosophical underpinning of our approach to investment manager research.

### **INVESTMENT SELECTION COMMITTEE**

The initial evaluation concludes when the most promising investment managers are considered for approval by the appropriate Investment Committee. To be approved, each candidate must pass a thorough Committee review that includes a detailed discussion of facts and informed opinions derived from the aforementioned research process.

### **CONTINUOUS EVALUATION PROCESS**

Every aspect of our due diligence requires ongoing investigation and evaluation to confirm the factors that contributed to the past successes of each product are still meaningfully intact. We maintain a Watch List, which provides a means to communicate developments of potential concern. We may recommend the termination of a manager if our original thesis is materially and permanently impaired. This is most commonly the result of fundamental developments that are determined to be detrimental to the potential longer-term success of the manager or underlying investment strategy.

### **SUMMARY**

RBC Wealth Management offers insight and information that helps you select and monitor professional money managers. The combination of detailed quantitative and thorough qualitative analyses gives us the means to identify attractive long-term investment options organized by investment style or asset class. Differentiating investment options in this manner makes your decision easier and facilitates improved portfolio diversification. In addition, ongoing monitoring of this select list of investment managers helps to keep you informed about material developments so that you can make appropriate decisions about your investments.

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