

## Managing the Investment Managers

### **A Rigorous Selection and Monitoring Process**

Today, the task of finding and hiring the appropriate investment managers has become increasingly complex and cumbersome due to the sheer growth in the investment manager universe. There are tens of thousands of investment managers registered with securities regulators in Canada, the United States, and around the world. While some information on the managers is publicly available, most of the truly relevant information is difficult to access and may only be available through private channels. Conducting a manager search and ongoing evaluation has therefore become a daunting, time consuming, and costly proposition, requiring expertise to properly analyze the information once it is obtained.

Fortunately, there is a process designed to uncover high quality investment managers. This process, called due diligence, involves two very important aspects:

- (1) performing quantitative analysis to determine that a manager performed well, and in a manner consistent with their stated style and process
- (2) performing qualitative analysis to determine the likelihood that a manager can repeat its past successes

As part of the due diligence process, information is reviewed from both primary and secondary sources, including extensive interviews with senior members of the investment management organization, on-site visits, marketing and administration practices, investment strategy, portfolios, measurement of performance, and risk management policies.

### **The Investment Management Research Team**

The Investment Management Research Team (IMR) is focused on measuring the quality and merit of the investment management firms that manage CIBC Asset Management's investment products – we currently have relationships with more than 50 investment managers. The team consists of a dynamic group of individuals, each with solid experience and credentials in investment analytics and research.

The Investment Management Research Team identifies and selects the most suitable investment managers worldwide and provides ongoing monitoring.

**More than**  
55 manager relationships

**More than**  
\$50 Billion assets under  
management

**More than:**

- 83 Funds
- 23 Pools
- 78 Strategies
- 9 Portfolios

## Investment Manager Search and Selection

### The Investment Management Research Team Process

The IMR Team selects and monitors investment managers who best meet our specific people, investment process, philosophy, and performance standards – the four key elements of due diligence. We employ a rigorous screening process to identify managers from around the world whose investment strategies and proven track records make them suitable for our programs. Only those managers who meet and adhere to the screening criteria are selected and retained successes. Here's how the analysis is performed:



#### 1. Gather Information

Using publications and recommendations from a variety of sources, the IMR Team identifies investment manager candidates with attractive risk-reward characteristics and organizational structures.

The first step in our due diligence process involves disciplined research and analysis of the proposed investment manager in order to evaluate the quality of the organization, to understand their investment process, and to review the portfolio manager's long-term performance.

The analysis and evaluation of each manager may take several months between the initial consideration and the time the decision is made to either add the manager or decline them. The due diligence process is designed to narrow the search from thousands of potential investment managers to a select few.

#### 2. Review investment manager information

When the IMR Team decides to give further consideration to a manager, specific details are reviewed closely, including:

- The products and strategies offered by the manager
- Firm details, such as assets under management
- Product details, such as performance and portfolio characteristics
- Marketing materials
- Regulatory filings

#### 3. Meet Investment Managers

If the initial review is positive, members of the IMR Team conduct on-site meetings at the investment manager's conoffices, and interview the firm's staff, including investment managers, research, marketing, and administration personnel, as well as the key principals of the company. The team considers:

- The size and quality of the facilities
- The professional and support staff
- The sophistication of the technology
- The quality of client service

#### 4. Assess Performance Analysis

A key part of the investment manager evaluation is the performance analysis – the analysis of a sampling of the manager's accounts. The purpose of the analysis is to review and assess the performance record typically used by the manager as its composite.

#### 5. Review Investment Manager Questionnaire

Each manager is also required to complete an extensive questionnaire regarding their investment strategy, holdings and analytical measures concerning performance, as well as an evaluation of the staff, organizational history, and structure, including perceived strengths and weaknesses and legal status.

#### 6. Provide final decision

A full evaluation report and recommendation on the investment manager is then considered by the IMR Team. Once all queries and research issues have been addressed, a final decision is made.

## Ongoing Monitoring of Investment Managers

### The Four Key Areas of Evaluation in the Due Diligence Process

The IMR Team focuses on four p's in their evaluation – the people, the investment process, philosophy, and performance.

#### 1. The People

- The experience and tenure of the senior staff
- The experience and record of the portfolio management and analytical teams
- Marketing, client service, and administration
- A meaningful performance record
- History of growth in assets under management
- Company registration with the appropriate securities commission(s)
- Employee turnover rate
- The employment records of the principals, including previous affiliations and their direct responsibility for, and involvement in, past performance
- Experience of the principals in the various market cycles
- Compensation structure

#### 2. Investment Process

The extent to which investment performance may be repeated depends on a well-defined investment process, which must be consistently applied over time. Key elements considered in the evaluation of the investment process include:

- Management style
- Implementation
- Buy list or portfolio construction
- Sell disciplines
- Risk management
- Investment research
- Team approach

#### 3. Philosophy

The managers are evaluated to ensure they adhere to their stated investment philosophy or management style, market focus, and portfolio objectives over time and through various market cycles.

#### 4. Performance

Performance is reviewed based on both qualitative and quantitative measures, and must be consistent with the manager's stated investment style. Performance is compared to relevant market indices, as well as a peer group of managers, and the risk level is evaluated to determine whether the manager has provided solid returns given the level of risk they have taken.

### The due diligence process contributes to investor confidence by:

- Reducing the risk of hiring poor managers
- Seeking to identify what will likely contribute to poor performance before it happens
- Selecting the managers that have a greater likelihood of repeating success

### The Ongoing Investment Management Research Team Commitment

The due diligence process does not end when an investment manager is selected. Investment managers must continue to retain the underlying qualities of excellence that initially enabled them to become part of our programs. The IMR Team continues to monitor the investment manager on both a qualitative and quantitative basis to ensure they continue to meet our high standards. Ongoing monitoring includes:

- Regular meetings with the investment managers
- Regular peer reviews against other managers with the same investment management style
- Periodic on-site visits
- Completion of quarterly questionnaires
- Monthly portfolio analysis

The ongoing due diligence process is designed to identify, as early as possible, any changes in the manager's organization, investment process, or philosophy, before they have a chance to develop into performance-related issues. These changes may include a shift away from the original investment style, the loss of key people, or a period of unexpected performance results. Any of these issues may result in the termination of the manager.

### A Dedicated Team Looking After Your Best Interests

Backed by the experience of the IMR Team, you have the comfort of knowing that some of the leading investment managers from around the world are working for you while being rigorously monitored to ensure that they continue to perform to our standards.

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