

# MERCER

Consulting. Outsourcing. Investments.



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN



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## State of Nevada Deferred Compensation Plan

### Manager Due Diligence Education Session

## Fiduciary Responsibility

- Investment prudence relies on process, not investment results
- Three investment principles for trustees:
  - Hire investment managers with the intention of maintaining long-standing relationships.
  - Select the right managers for the defined roles - managers must have strengths in their designated areas.
  - Remember that you are charged with making decisions that are for the benefit of the participants or beneficiaries, even at the risk of making an unpopular decision.

# Global Manager Research Network

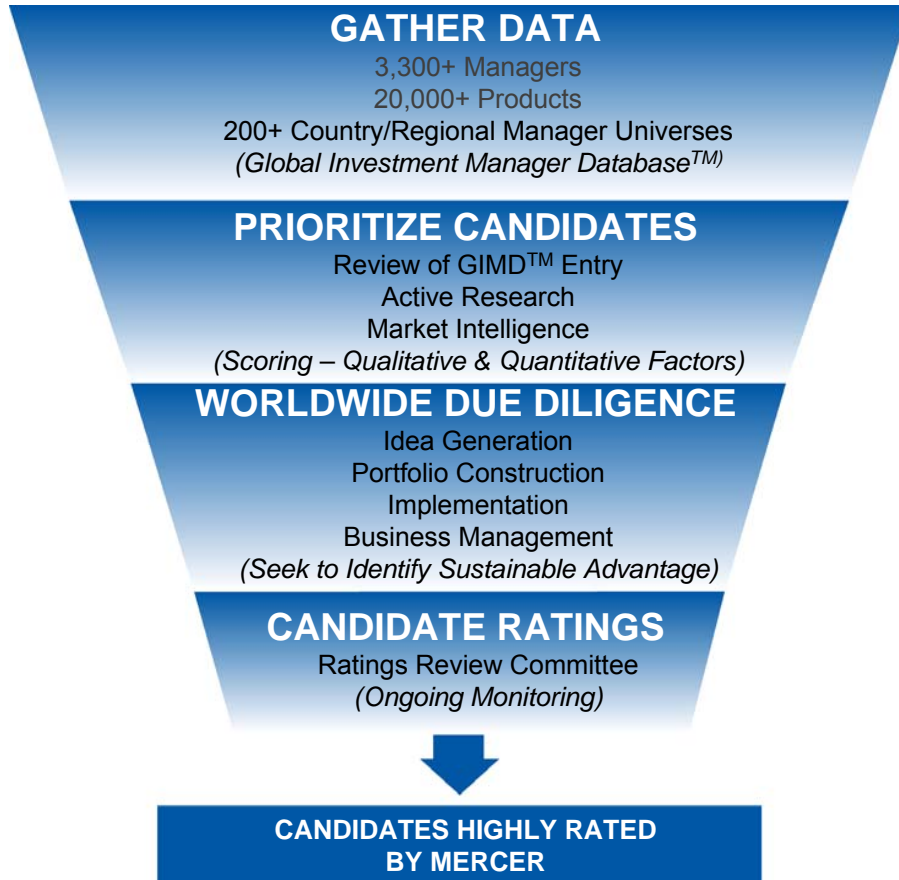
80+ Full-Time Research Professionals



# Manager Search

## PRIMARY RESEARCH

As of December 31, 2009



### Dedicated Resources

80+ Research Professionals, Globally

### Proven Track Record

Measured Quarterly

### Robust Research Platform

Four Factor Framework  
Structured Rating Process

### Global Consistency

GIMD™ Database

### Analytical Rigor

Manager Performance Analytics  
Style Research  
Portfolio Structure Toolkit

# Global Investment Manager Database (GIMD™)

- 4,000+ managers/20,000+ products
- Coverage of all vehicle types (mutual, commingled & SMA)
- 200+ country/regional universes
- Nearly 70,000 research documents
- Electronic RFP Responses
- Detailed screening capabilities
- Over 3,200 formal manager research meetings held in 2009
- In 2009, over 1,700 Research Notes were produced globally, most of which covered multiple strategies

The screenshots illustrate the GIMD Inquire web application interface. The top screenshot shows the 'Main menu' with options for Manager Details, Performance Details, Screen Database, Reports / Watch Lists, Investment Strategy Details, Portfolio Details, and View by Product Type. The middle screenshot shows the 'Screen Database' query form with various filters and options. The bottom screenshot shows the 'Screen Database - Investment Strategies' results table.

Manager Name	Strategy Name	Product Group	Product Category
Abnovo Fund Management	Global Equity	International	Global Equity - Core
ABN AMCO Asset Management	Quantitative Global Equity	International	Global Equity - Core
Access Investment Management	Access PCT Global Opportunities	International	Global Equity - Core
Araviv Investment Management	Global Equity	International	Global Equity - Core
Adriatic Asset Management	Adriatic International Share Core Fund	International	Global Equity - Core
Adriatic Asset Management	International Share Multi-Biased	International	Global Equity - Core
Adriatic Investment Manager	Global Equity Active	International	Global Equity - Core
AIB Investment Manager	World Equity Income	International	Global Equity - Core
AIM Investments (U.S. Domestic Investment)	AIM Global Equity	International	Global Equity - Core
AIM Trower Investments (Canadian Mutual)	Trower Fund	International	Global Equity - Core
AIM Trower Investments (Canadian Mutual)	Trower Global Equity Pool	International	Global Equity - Core
Allied Eng AEM Asset	AEM Global Equity	International	Global Equity - Core
Alison-Berstein	Alison Overseas Share (AXA NZ)	International	Global Equity - Core
Alison-Berstein	Alison-Berstein Global Structured Equity	International	Global Equity - Core
Alison-Berstein	Alison-Berstein Global Style Biased Equity	International	Global Equity - Core
American Express Retirement Services	Global Equity	International	Global Equity - Core
American Express Retirement Services	Managed Allocation	International	Global Equity - Core
Amund-Oestrich	Overseas Global Fund	International	Global Equity - Core
Amund-Oestrich	Stock Picking	International	Global Equity - Core
AMP Capital Investors	AMP Capital Investors PCT Int'l Share	International	Global Equity - Core
AMP Capital Investors	Global Balanced Index	International	Global Equity - Core
AMP Capital Investors	Global Equity	International	Global Equity - Core
AMP Pictus Directors	Pictus Director - Core International Share	International	Global Equity - Core



## Screening the research universe

Which candidates appear to have the strongest credentials?

### Review of GIMD Entry

- Firmwide demographics
- Investment process description
- Staffing information
- Track record
- Manager responses to consideration of environmental, social and corporate governance (ESG) factors

### Previous Mercer Research & Analytics

- On this strategy
- On this firm
- On the key people at their previous firm
- Performance Analysis
- Holdings based style analysis

### Market Intelligence

- From Mercer consultants
- From Mercer clients
- From other managers
- From industry and academic publications



**Determine Research Priorities**

## Quantitative and Qualitative Analysis

Qualitative Analysis	Quantitative Analysis
<ul style="list-style-type: none"><li>▪ <b>Process/Philosophy</b> Has the manager's investment process/role stayed consistent?</li></ul>	<ul style="list-style-type: none"><li>▪ <b>Historical Performance</b> Relative to customized peer groups and indices</li></ul>
<ul style="list-style-type: none"><li>▪ <b>Performance</b> Not only how the investment performed, but why.</li></ul>	<ul style="list-style-type: none"><li>▪ <b>Risk Adjusted Performance</b> Is the volatility of each manager/total fund in line with expectations?</li></ul>
<ul style="list-style-type: none"><li>▪ <b>Portfolio Characteristics</b> Are all investment options complying with the investment policy?</li></ul>	<ul style="list-style-type: none"><li>▪ <b>Style Analysis</b> Has each manager's style been consistent over time?</li></ul>
<ul style="list-style-type: none"><li>▪ <b>Organization</b> Have any managers experienced significant changes in structure, personnel or assets under management?</li></ul>	<ul style="list-style-type: none"><li>▪ <b>Performance Attribution</b> Can the sources of performance be identified?</li></ul>

## Typical due diligence process

- Pre-meeting review to identify key issues
- On-site due diligence meeting with key decision-makers and selected team members:
  - Focus on clarifying any issues that were unclear from pre-meeting review and talking through worked examples of recent investment decisions
- Follow-up with further meetings or telephone calls as required to clarify any outstanding issues
- Researcher prepares Research Note to report on findings.
- Over 3,200 formal manager research meetings held in the last year.<sup>1</sup>
- In the last year, over 1,700 Research Notes were produced globally, most of which covered multiple strategies.<sup>1</sup>

1. One year ending 31 December 2009.



## In-depth research: four specific factors we seek to evaluate

**1**

### **Idea generation**

We appraise the manager's ability to generate or source value-adding investment ideas

**2**

### **Portfolio construction**

The quality of a manager's portfolio construction process will determine how effectively its value-adding investment ideas are converted into consistent outperformance

**3**

### **Implementation**

Value added at the idea generation and portfolio construction stages must outweigh the drag on performance due to transaction costs and overcome limitations relating to capacity constraints

**4**

### **Business management**

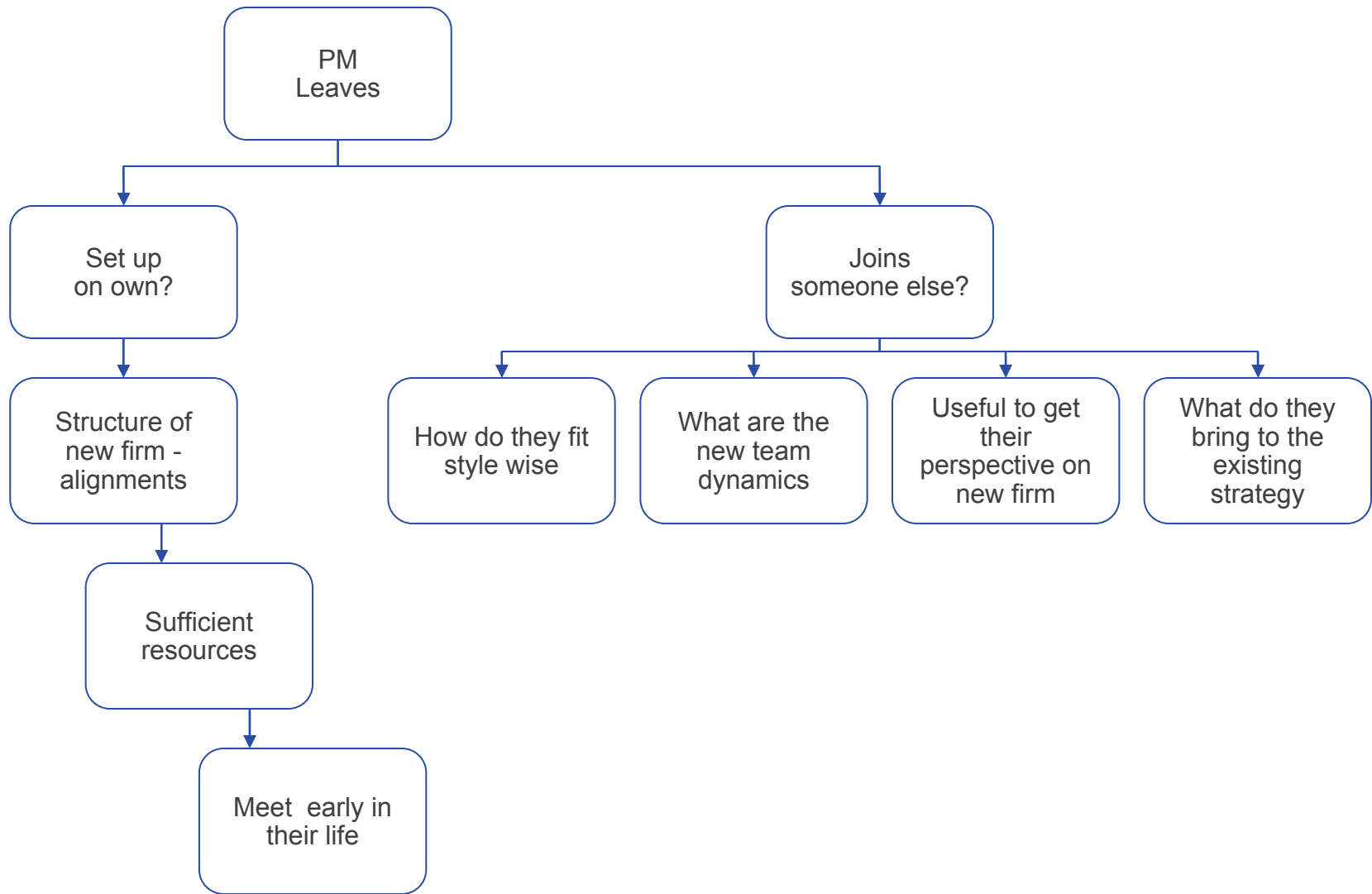
Well-managed investment firms are more likely to maintain and enhance the competitiveness of their investment strategies over time than poorly managed firms

# Sample Manager Evaluation

## Cramer Rosenthal McGlynn Mid Cap Value

Factor	Rating (-, =, + or ++)	Comments
Idea Generation	++	The depth and breadth of the team's fundamental research are key strengths of the strategy. Research is insightful and forward-looking and serves as the basis from which stocks characterized by change, neglect, and valuation are identified. The large number of experienced analysts working collaboratively within and amongst sector teams allows for comprehensive coverage of industries and leads to strong communication flow, which contributes to a thorough vetting of each idea. Furthermore, the strategy benefits under the strong leadership and investment acumen of co-portfolio managers Jay Abramson and Chip Rewey.
Portfolio Construction	+	The portfolio's relative concentration and loose sector guidelines enables the team to express its conviction in names. Though the co-portfolio managers are primarily in charge of risk oversight, the team also contributes to the determination of portfolio weights. We believe the team's incorporation of risk buckets and keen awareness of risk/reward results in an extensive risk management process.
Implementation	+	The Mid Cap Value strategy is closed. At current asset levels, we believe the team is capable of implementing its best ideas.
Business Management	+	CRM continues to be majority-owned by Wilmington Trust Investments (WTI), though we expect the firm to buy back additional equity for the benefit of key employees. Aside from receiving distribution benefits from WTI, CRM retains complete autonomy in managing its business and investment process. Additionally, despite its minority ownership structure, the firm's profit sharing plan augments its ability to retain the majority of the economics. The firm remains operationally healthy and remains committed to ensuring sufficient resources are in place.
<b>Overall Rating</b>		CRM employs an experienced investment team that serves as the backbone to deep, insightful fundamental research. We view the team's forward-looking research as a key strength and believe the analysts' collaboration within and amongst sector teams allows for comprehensive coverage of industries, which leads to a forum where ideas and assumptions are thoroughly vetted. In addition, the team continues to benefit from the investment caliber and leadership of co-portfolio managers Abramson and Rewey. The team's incorporation of risk buckets, in an effort to actively monitor the portfolio's risk exposures from multiple perspectives, delivers another element to the robustness of the research process.
Additional Observations		We expect the strategies to hold up well in down markets given the team's emphasis on downside risk and valuation but struggle in market environments driven by lower-quality and momentum-led rallies. Given the team's relative value approach, portfolio exposures and characteristics will typically fall between value and core. The team is benchmark aware but does not let benchmark properties dictate portfolio construction. We believe this, coupled with the portfolio's relative concentration and the potential for notable sector deviations, warrants a tracking error designation.

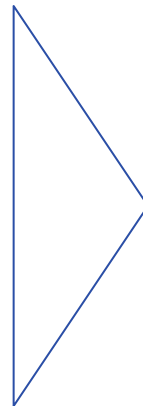
# Example



## Using Mercer Manager Research

### When would we use our research for you?

- Replacement of an incumbent manager
- Addition of a manager for diversification benefits
- Addition of a new asset class to the structure
- Ongoing due diligence for existing managers



### Considerations:

- Mercer rating
- Style fit
- Tracking error
- Available investment vehicles
- Fees
- Any client-specific preferences or aversions



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