

## Arrow Partners Investment Manager Selection Criteria Scorecard

### What we look for in new managers:

#### PEOPLE & ORGANIZATION

**Ownership** – independent firm with widely distributed equity ownership, is team going to stay?

- 3 = 100% owned by key decision makers
- 2 = substantial ownership by professionals (> 50%)
- 1 = insignificant ownership by professionals or 75% by one person

**Number of investment professionals** – more is better, consider plans/ability to hire down the road

- 3 = 3 or more investment professionals
- 2 = 2 professionals or 1 with plans to hire more
- 1 = one man show

**Culture of firm** – strong values, able to retain talent, solid brand, defined succession plan

- 3 = leaders set positive examples, promote from within, high trust factor
- 2 = open-ended mission statements, speak in clichés, overconfident
- 1 = high employee turnover, business of “silos”, finger pointing, fear-based, blame game, reactive

**Portfolio manager presentation skills** – looking for polished, sincere, articulate, and persuasive

- 3 = comfortable, persuasive, passionate, professional
- 2 = lesser presence, knows what they are talking about, with confidence
- 1 = boring, drone, mumbles, inarticulate, rambling style, needs help

**Reputation and integrity** - are there any “skeletons in the closet”?

- 3 = no legal actions, clean ADV, good gut feeling
- 2 = “story” appears to check out fine regarding past employers or SEC audits
- 1 = checkered past, much explaining to do, legal actions, fined or censured

**Financial strength** – are they in a position to invest in the marketing effort?

- 3 = lots of cash on balance sheet, pays bills on time, profitable firm
- 2 = “breaking even”, performance significantly impacts P&L,
- 1 = living paycheck to paycheck, late on paying bills, high burn rate

**Manager location** – geographically desirable is preferred

- 3 = major city, lots of daily flights, possible airline hub
- 2 = limited flight availability, 1-2 hour drive from major city
- 1 = no direct flights, remote location

**Portfolio manager “pedigree”**– prefer high caliber people with great references from first class organizations

- 3 = Blue chip background, well recognized, long history of repeated success
- 2 = solid background and credentials, but unknown
- 1 = “I can confirm that they worked here...that’s all”, not distinguishable

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#### PRODUCT & STRATEGY

**Asset class activity** – capacity constrained is preferable. With hot asset classes, consultants and sponsors are more likely to overlook “issues” that may be deal-killers in other styles

- 3 = high demand with limited supply of quality managers
- 2 = consistent current demand or increasing demand
- 1 = occasional interest or tactical demand

**Performance** - Above median for 3 and 5 years. Consistency on a year to year basis is important

- 3 = top quartile with consistency, 5 years (or close), low dispersion, with critical assets
- 2 = top quartile w/ volatility or 2nd quartile with consistency, <3 years, dispersion of returns
- 1 = below second quartile over long term or too short a track record

**Assets under management** – critical mass makes life easier but it’s hard to find

- 3 = \$100 small cap, \$750 large cap, \$400 hedge fund, \$2000 fund of fund
- 2 = less than the above, but something to work with
- 1 = nothing to work with

**Available capacity** – must be enough to make it worthwhile

- 3 = potential annual recurring revenue of \$1+ million
- 2 = projected annual recurring revenue of several hundred thousand dollars max
- 1 = limited capacity, targeted campaign, short life

**Institutional clientele** – makes things easier, the more the better

- 3 = several institutional clients, enough for a composite
- 2 = one or two unknown institutional clients
- 1 = no institutional clients

**Portability of performance** – only relevant if team lift-out

- 3 = fully portable, GIPS verified, able to link
- 2 = reference to prospectus, gaps in time
- 1 = none to cite, starting over, “I was part of a team”

**Investment vehicles** – can they take clients of all size, type and location?

- 3 = separate accounts, commingled vehicles, mutual funds, SMA/wrap, LPs
- 2 = primarily separate accounts, experience with commingled funds, willing to invest
- 1 = lots of small separate accounts only

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### What we look for in new managers:

#### INVESTMENT PROCESS

**Disciplined process** – consultants love process that appears to be disciplined, especially with buy and sell rules, because it's repeatable and it gives them confidence in managers future actions.

3 = process is clear and easy to put down on paper

2 = process exists but with a lot of subjectivity, needs to be developed

1 = not well articulated, convoluted story

**Competitive advantage** – looking for repeatable sustainable advantages

3 = clearly identifiable anomaly to exploit

2 = some elements of uniqueness, must be “drawn out” from manager

1 = been there, done that, cliché, commodity sounding

**Identifiable style** – manager must have a style that can be defined or categorized to fit in a consultant box

3 = fits easily into an existing style/cap box

2 = good fit with some exceptions

1 = grey area, difficult to identify logical buyers

**Attribution analysis** – holdings & returns based, peer group rankings

3 = consistent value added across all categories, numbers confirm story well

2 = conclusions fairly positive, time-sensitive, invites data mining

1 = “Houston, we have a problem” or too short a record

**Distinctive “story”** – a unique “story” and/or process makes for an easier sale

3 = easy to distinguish from competitors

2 = unique parts of the process that we have emphasize

1 = story is hard to distinguish from the crowd

**Backoffice systems and service providers** – Institutional quality and support & administration

3 = well recognized, national firms, superior infrastructure and “large company” systems

2 = would probably barely pass most due diligence inspections

1 = amateurish, local, not a priority

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### What we look for in new managers:

#### TERMS & CONDITIONS

**View of 3PM business** – ideal situation is referral from manager with successful 3PM relationship

- 3 = firmly committed to 3PM model, no internal salesforce, “drank the kool-aid”
- 2 = salesperson left, seems to possess open mind, may internalize in future
- 1 = skeptical, micromanaging, compete with internal people, list-centric

**Contractual terms and conditions** – look for proper combination of exclusive relationship, retainer, expenses, commissions, trailers

- 3 = all of the above
- 2 = combination of retainer with reasonable protection, fair commissions
- 1 = limited target, short term, no/little retainer, short trailer

**Commitment and accessibility of the professionals to market** – perhaps the most important issue over the long term. Refers primarily to the willingness to travel and supply us with data we know to be necessary to do our job professionally.

- 3 = will gladly do everything we tell them to do, willing to speak at conferences
- 2 = willing to travel, but reluctant with some information
- 1 = their most favorite thing to do is say “NO” to us

**Marketing history** – prefer undiscovered manager, not in databases, no protected list

- 3 = “Why don’t they have more money?” limited institutional presence, truly unrecognized
- 2 = mild recognition in marketplace, neutral/positive reception
- 1 = overmarketed firm with history of ineffective sales effort, broken story

**Marketing materials and information requests** – must be able to answer questions and turnaround replies to inquiries promptly

- 3 = manager “pushes a button” and correct answers arrive within 1-2 days
- 2 = takes a week for turnaround, often needs editing, but getting better
- 1 = disaster, must pull files from archives, piece-meal solutions, no process

**Chemistry** – do we enjoy their company? How do we feel when they call?

- 3 = can finish each others sentence, definitely on the same page
- 2 = over time, relationship improves, normal amount of initial two-way skepticism
- 1 = oil & water, don’t respect marketing function, room service instead of restaurants

**Website** – are they technologically current?

- 3 = nice site, lots of material, professional brand
- 2 = outdated site, limited web presence
- 1 = no web site, no plans to launch, no interest

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What we look for in new managers:

### **Composite Scoring**

People & Organization \_\_\_\_\_ of total 24

Product & Strategy \_\_\_\_\_ of total 21

Investment Process \_\_\_\_\_ of total 18

Terms & Conditions \_\_\_\_\_ of total 21

**Total scoring** \_\_\_\_\_ of total 84

**Scoring breakdown** \_\_\_\_\_ 3

\_\_\_\_\_ 2

\_\_\_\_\_ 1

**Number of questions** \_\_\_\_\_ **27**

64 - 84 = most desirable manager

46 – 63 = moderate interest...watch until scoring improves

27 – 45 = no level of interest