



## Selecting a Portfolio Manager

### ***Who is a portfolio manager?***

A portfolio manager (PM) is a person who has the requisite skill and expertise to look after your investments and manage them for you. PM's make decisions about investment mix and policy, matching investments to objectives, asset allocation for individuals and institutions, and balancing risk against performance. There are two types of portfolio managers – discretionary PMs and non-discretionary PMs.

Your investment solution should be based on your investment goals and circumstances and you should consider the level and structure of investment service you require.

A discretionary PM individually and independently manages the funds of each client in accordance with the needs of the client. Choose a discretionary investment manager who is most capable of helping you meet those goals. Whether you are an individual, philanthropist, pension fund, foundation or family office type investor you should choose your portfolio manager based on your particular financial situation, age/time horizon, income, tax situation and risk tolerance. The fund companies, chartered banks, independent boutique firms all offer discretionary management through either segregated accounts or in a pooled fund structure. The level of service depends not only on the level of portfolio tailoring, investment disclosure, investment style, investment success, investment experience and reporting detail that the firm offers, but also the level of contact with the portfolio manager and the investment decision makers who directly affect your investment performance.

A non-discretionary PM must operate within the agreed upon limits to achieve the client's stated investment objectives and takes direction from the client directly.

### ***The benefits of working with a portfolio manager***

Working with a portfolio manager can allow you to build a portfolio that fits your investment goals and comfort level with risk. A portfolio manager can help you set your investment goals, create an investment policy statement, design a portfolio that contains suitable investments and help you track your progress, and adjust as necessary. Choosing the right portfolio manager for you will depend on what products and services you need, and the type of advice received. A portfolio manager will work with you to understand your investment goals and your tolerance for risk. Portfolio managers have a duty to recommend investments that are suitable for you. The best portfolio managers fully understand your objectives and match investment recommendations to your goals.

### ***How to find a portfolio manager***

**Consult Industry Associations.** PMAC's is Canada's leading industry association representing registered portfolio managers across Canada. Our mission is to advocate the highest standards of unbiased portfolio management in the interest of the investors served by members. PMAC is a not-for profit organization that exclusively represents firms that provide discretionary investment management for private clients, pension plans, foundations and other institutional investors. Member firms are in the business of managing investments for clients in keeping with each client's needs, objectives and risk tolerances. All PMAC Members are registered with provincial securities commissions under the category of "Portfolio Manager".

PMAC was established in 1952 and currently represents over 180 investment management firms that manage total assets in excess of \$800 billion (excluding mutual fund assets). For more information about PMAC and our mandate, please visit our website at [www.portfoliomanagement.org](http://www.portfoliomanagement.org).

**Consult the PMAC Member Directory.** The Directory is available on the website at [www.portfoliomanagement.org](http://www.portfoliomanagement.org). Each PMAC Member firm is listed and, in many cases, a link to the firm's web site is included along with information about each firm and the types of clients they service.

**Contact your local regulator.** Securities regulators oversee Canada's capital markets and the advisers who sell and manage securities traded in those markets. You can contact your local securities regulator to check the registration of an individual or firm, and to find out if they have a record of any disciplinary actions. For information on how to contact your local securities regulator, visit the Canadian Securities Administrators website at [www.securities-administrators.ca](http://www.securities-administrators.ca). You can also contact the Investment Industry Regulatory Organization of Canada (IIROC).

**Referrals from trusted sources.** Asking others for referrals, such as friends, family, work colleagues and professionals you trust, like your accountant or lawyer may be a good start to creating a short list of potential portfolio managers that may fit your investment needs. Keep in mind that what's good for one person may not be good for another and you should always conduct your own due diligence despite the referral source.

### ***What to look for in a portfolio manager***

The following are key things to look for when selecting a portfolio manager:

- ✓ Check the portfolio managers qualifications and registration status
- ✓ What services are offered and what is the minimum account size the firm requires?
- ✓ What types of products does the firm invest in?
- ✓ Does the firm provide references?
- ✓ How will the firm help you reach your investment goals?
- ✓ How are fees charged?

### ***Before selecting a portfolio manager follow these simple steps:***

- ✓ Check registration (CSA National Registration Search and local regulator)
- ✓ Check disciplinary history (CSA Disciplined Persons list, CSA Cease Trade Orders database and local regulator)
- ✓ Check the news and search the Internet
- ✓ Contact PMAC for information

Appendix A: Glossary of Terms

Appendix B: Due Diligence Checklist

## Appendix A: Glossary of Terms

Reference	Definition
<b>Adviser</b>	A person or company engaging in or holding himself, herself or itself out as engaging in the business of advising others as to the investing in or the buying or selling of securities.
<b>AUM</b>	Assets under management
<b>CFA</b>	Chartered Financial Analyst
<b>GIPS</b>	The Global Investment Performance Standards. <a href="#">Click here</a> for more information.
<b>Investment Fund Manager</b>	A person or company that directs the business, operations or affairs of an investment fund.
<b>Pooled fund</b>	A pooled fund is a separate legal entity where clients' assets are pooled together to acquire an interest in a basket of securities. Each client owns units in the fund, and the fund itself owns the securities.
<b>Separately Managed Account (SMA)</b>	Is an approach used by many pension funds, other institutions, and high net worth individuals to achieve desired results. In an SMA, each client's assets are held completely separate from the assets of other clients.
<b>Segregated fund</b>	Is a type of investment fund administered by Canadian insurance companies in the form of individual, variable life insurance contracts offering certain guarantees to the policyholder such as reimbursement of capital upon death. As required by law, these funds are fully segregated from the company's general investment funds.
<b>Private client</b>	Individuals who are not "permitted clients" under securities laws and that are generally individuals and families who have a significant financial portfolio and require expertise and access to investments beyond those available to the mass market. <a href="#">Click here for more information.</a>
<b>Permitted client</b>	See section 1.1 of <a href="#">National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations.</a>

## Appendix B: Due Diligence Checklist

The following due diligence checklist should be reviewed before meeting with a prospective portfolio manager. You may be able to answer some of the questions included in the checklist from the data provided in the PMAC Member Directory. The remaining questions can be answered in interviews with firms that you identify as most suitable.

Topic	Sample Questions
<p><b>Firm Overview</b></p> <p><i>Each firm has its own unique profile of history and ownership. These sample questions will help you understand the experience level, motivation and culture of an organization.</i></p>	<ul style="list-style-type: none"> <li>• How long has the firm been in business?</li> <li>• What are the total assets under management? AUM of sub-fund mandates, managed or under administration?</li> <li>• Are there separate operating divisions?</li> <li>• Public or private? Annual Report?</li> <li>• Majority shareholders / distribution of ownership?</li> <li>• How many clients do the firm / advisor have?</li> <li>• Average client size?</li> <li>• How many employees are there and what has been the retention rate of key personnel?</li> <li>• Regulatory registrations (i.e. portfolio manager, exempt market dealer, investment fund manager?)</li> <li>• Custodian, Accountant, Legal Counsel?</li> </ul>
<p><b>Strategic Review</b></p> <p><i>There are many different approaches to investment philosophy and style that provide a clear distinction among firms. Some are specialists, some adopt a certain style such as value, growth, contrarian, and others offer a combination of styles, such as GARP.</i></p>	<ul style="list-style-type: none"> <li>• How does the firm define/describe its style and how does it implement this strategy?</li> <li>• Who is the firm's "typical" client?</li> <li>• Does the firm provide references?</li> <li>• Break down the investment process - instruments/research/quantitative elements/people used? Asset mix committee?</li> <li>• Are benchmarks used for performance?</li> <li>• What is the firm's competitive advantage? How does this compare to others?</li> <li>• What is the current long/short/cash/equity/bond/other asset mix?</li> <li>• What is the numbers of securities / diversification and turnover in the portfolio?</li> <li>• Does the firm's current portfolio and history match the stated style?</li> <li>• Are there sector, credit, geographical or position weight max/mins?</li> <li>• What market environment suits your investment approach?</li> <li>• Does the firm's style suit your investment objectives?</li> <li>• Does the firm belong to professional associations?</li> <li>• Has the firm or any of its employees ever been disciplined by any government regulator for unethical or improper conduct or been sued by a client who was not happy with the work you did?</li> </ul>

Topic	Sample Questions
<p><b>Performance</b></p> <p><i>Performance is often the result of the disciplined application of a portfolio manager's investment philosophy or style. Investors should recognize that no single style and no single investment counsel or remains in first place continuously.</i></p>	<ul style="list-style-type: none"> <li>• Are the performance results compliant with the standards set out by the CFA Institute &amp; GIPS?</li> <li>• Have they been audited and to what level of compliance?</li> <li>• Are the results from individual pooled funds, combinations of pooled/segregated funds or discretionary composites of client portfolios by style (i.e. Conservative)?</li> <li>• What benchmarks are used when measuring the firm's performance results? For example, does the firm compare its results to an index or on a relative basis to others with a similar style?</li> <li>• Is the performance "composite" presented (the group of accounts with similar objectives) an appropriate reference given your investment objectives?</li> <li>• Are results available on both a simple annual and a compound annual basis?</li> </ul>
<p><b>Risk</b></p> <p><i>Risk management in terms of investment process, people and strategy can help limit the loss to the client in adverse economic times.</i></p>	<ul style="list-style-type: none"> <li>• What is the firm's philosophy with respect to risk?</li> <li>• What risks are being measured?</li> <li>• What is the portfolio composition compared to the index or the mandate?</li> <li>• How is risk measured? Volatility? Beta? Correlation?</li> <li>• How is risk managed? Diversification? Tactical? Monitored?</li> <li>• Are there position limits?</li> <li>• Gross long/short/net exposure? Leverage?</li> <li>• Credit risk? Counterparty risk?</li> <li>• Does the firm itself have a risk management strategy?</li> </ul>
<p><b>People</b></p> <p><i>It is important to properly assess the experience level and depth of the firm that you may hire.</i></p>	<ul style="list-style-type: none"> <li>• What is the background and experience level of people on the investment and analytical teams?</li> <li>• How many portfolio managers, research analysts and support people are there?</li> <li>• How long have they key professionals been with the firm?</li> <li>• Do the investment professionals carry the CFA designation, or have other relevant designations and experience?</li> <li>• What is the role of the primary contact person? Does s/he manage portfolios as well as provide client service? How long have they managed portfolios? Where / how?</li> <li>• What is the portfolio manager/ client ratio?</li> <li>• Where does the direct contact / individual fit within the firms' structure?</li> </ul>
<p><b>Products and Services</b></p> <p><i>Most firms will manage assets to meet your investment objectives either in individually managed portfolios (separately managed accounts) or pooled funds. Not all advisers offer the same products and services or have the same expertise.</i></p>	<ul style="list-style-type: none"> <li>• What are the tax implications for an investor in the pooled funds? (Both realized and unrealized capital gains) compared to segregated assets?</li> <li>• Will the firm develop with you an Investment Policy Statement that reflects your objectives including return expectations, risk tolerance and constraints including tax implications, time horizon and special circumstances? Will this be a document that can be signed off by both client and the firm?</li> <li>• Does the firm provide additional legal, accounting, tax, financial planning advice?</li> </ul>

Topic	Sample Questions
<p><b>Reporting and Communication</b></p> <p><i>The level of communication, written, telephone and face to face meetings, is important to understand.</i></p>	<ul style="list-style-type: none"> <li>• What do the portfolio statements look like?</li> <li>• Is there a detailed, written report provided to the client? Is a sample statement available? Is there flexibility in the type of reporting available? What is the frequency of the above?</li> <li>• Is password protected electronic reporting available?</li> <li>• How often are representatives of the firm available to meet and how does the firm define its service standards?</li> <li>• What is the average response time for questions, emails, inquiries, etc.? Will they be returned by the adviser or by support staff?</li> <li>• Are client meetings held in person?</li> </ul>
<p><b>Fees</b></p> <p><i>Portfolio management firms charge management fees in a number of ways. Generally, the fee is based upon the amount of assets being managed. You should have a clear understanding of how the firm charges management fees.</i></p>	<ul style="list-style-type: none"> <li>• On what basis are the investment management fees calculated? How frequently are they charged and what choices does the client have in paying them?</li> <li>• Are advisers paid a commission for products they sell?</li> <li>• Is there a minimum fee?</li> <li>• Is the same investment management fee charged to pooled funds and segregated accounts? What is the fee? What is the MER? Is there a performance fee?</li> <li>• Does the firm charge differently for bonds than they do for stocks?</li> <li>• What is the average brokerage commission charged on trades and what types of brokerage firms does the firm use for executing trades (i.e. full service firms or discount brokerage firms)? Does the portfolio management firm have any relationship with the brokers it trades with other than as a client?</li> <li>• How does the firm handle multiple accounts and related family accounts for fee purposes? Are they under the same fee agreement?</li> <li>• What financial institution does the firm recommend as a custodian and what is its fee for safe custody?</li> <li>• Are the fees tax deductible?</li> <li>• How does the firm ensure fees are understood by its clients?</li> </ul>