



## **Discretionary vs. Non-Discretionary Services Which Approach is the Best Fit For Your Organization?**

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# THE OVERSIGHT STRUCTURE



	IN HOUSE	COMMITTEE DRIVEN	OUTSOURCED
GOVERNING FIDUCIARIES	Investment Committee	Investment Committee	Investment Committee
MANAGING FIDUCIARIES	CIO and Staff	Investment Committee, Staff & Consultant – Supporting Fiduciary	Outsourced CIO
OPERATING FIDUCIARIES	Investment Managers Custodians Actuaries Other Vendors	Investment Managers Custodians Actuaries Other Vendors	Investment Managers Custodians Actuaries Other Vendors

Source: "Pension Fund Excellence." Authors Keith Ambachtsheer & Don Ezra

# ENHANCING FIDUCIARY OVERSIGHT



## GOVERNING FIDUCIARIES

**Investment Committee**

## MANAGING FIDUCIARY

**Chief Investment Officer  
and Staff**

## OPERATING FIDUCIARIES

**Investment Managers  
Custodian  
Actuaries  
Other Vendors**



Data source: "Pension Fund Excellence," Authors Keith Ambachtsheer & Don Ezra

# ASPECTS OF EACH APPROACH



	NON DISCRETIONARY	DISCRETIONARY
Implementation of Recommendations	<i>Typically slower or more time intensive</i>	<i>Seamless</i>
Client Control	<i>More</i>	<i>Less</i>
Accountability of Performance	<i>Mixed</i>	<i>Clearer</i>
Formal Oversight of Assets	<i>Quarterly/frequency of meetings</i>	<i>Daily</i>
Committee time required	<i>More</i>	<i>Less</i>
Client Back Office Responsibilities	<i>More</i>	<i>Less</i>



- Do you want control of all decisions or control of oversight?
- Do you have the right amount of resources and expertise?
- How does your committee work together in collaboration?
- Can you be opportunistic when you need to be?
- Do you have a consistent decision making process?
- Can you integrate alternative investment managers / strategies?
- Are you categorizing and monitoring your risk exposures?
- Is your committee or staff fatigued?

## KEY TAKEAWAYS

- Success can be achieved with either approach
- There are advantages and disadvantages to both approaches
- Discretionary approach is growing
- Several nuances within the discretionary approach – important to understand them
- Main considerations determining suitability:
  - *Time*
  - *Resources*
  - *Committee structure/composition/dynamics*
  - *Portfolio size and complexity*

# FEG MANAGED PORTFOLIOS PERFORMANCE

As of June 30, 2013

FEG Institutional Portfolio – (70/30)

## Latest Period Returns

	QTR	YTD	1 Yr.	3 Yr.	5 Yr.	7 Yr.	10 Yr.	Inc.
<b>FEG Institutional Portfolio</b>	<b>-1.2%</b>	<b>4.0%</b>	<b>13.4%</b>	<b>11.1%</b>	<b>5.2%</b>	<b>5.0%</b>	<b>7.6%</b>	<b>8.3%</b>
<i>70% MSCI ACWI / 30% Barclays Aggregate Bond Index</i>	<i>-1.0%</i>	<i>3.5%</i>	<i>11.2%</i>	<i>9.9%</i>	<i>3.6%</i>	<i>4.5%</i>	<i>7.0%</i>	<i>7.5%</i>
<i>55% Russell 3000 Index / 15% MSCI ACWI ex-US / 30% Barclays Aggregate Bond Index</i>	<i>0.3%</i>	<i>6.8%</i>	<i>13.3%</i>	<i>12.6%</i>	<i>5.9%</i>	<i>5.6%</i>	<i>7.3%</i>	<i>7.9%</i>
<i>Target Weighted Benchmark</i>	<i>-0.8%</i>	<i>4.0%</i>	<i>10.7%</i>	<i>10.1%</i>	<i>3.8%</i>	<i>4.4%</i>	<i>6.8%</i>	<i>7.3%</i>

Performance greater than one year is annualized. Inception date is January 1, 2003

## Calendar Year Returns

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>FEG Institutional Portfolio</b>	<b>15.6%</b>	<b>-2.6%</b>	<b>12.5%</b>	<b>28.2%</b>	<b>-29.6%</b>	<b>7.0%</b>	<b>15.5%</b>	<b>7.9%</b>	<b>14.8%</b>	<b>26.8%</b>
<i>70% MSCI ACWI / 30% Barclays Aggregate Bond Index</i>	<i>12.7%</i>	<i>-2.7%</i>	<i>11.3%</i>	<i>25.9%</i>	<i>-30.2%</i>	<i>10.4%</i>	<i>15.8%</i>	<i>8.3%</i>	<i>11.9%</i>	<i>24.5%</i>
<i>55% Russell 3000 Index / 15% MSCI ACWI ex-US / 30% Barclays Aggregate Bond Index</i>	<i>12.9%</i>	<i>1.0%</i>	<i>13.4%</i>	<i>23.6%</i>	<i>-27.6%</i>	<i>7.5%</i>	<i>13.8%</i>	<i>6.6%</i>	<i>11.0%</i>	<i>23.9%</i>
<i>Target Weighted Benchmark</i>	<i>11.8%</i>	<i>-1.6%</i>	<i>13.1%</i>	<i>23.5%</i>	<i>-28.2%</i>	<i>7.4%</i>	<i>14.1%</i>	<i>8.3%</i>	<i>11.6%</i>	<i>23.5%</i>

Investment performance is rounded to the nearest tenth of one percent and may, consequently, effect benchmark comparisons.

## Statistics

	Annual ROR	Std. Dev.	Sharpe Ratio	Alpha	Beta	R	R2	Act. Premium	Tracking Error	Info. Ratio
<b>FEG Institutional Portfolio</b>	<b>8.3%</b>	<b>11.8%</b>	<b>0.60</b>							
<i>70% MSCI ACWI / 30% Barclays Aggregate Bond Index</i>	<i>7.5%</i>	<i>11.7%</i>	<i>0.54</i>	<i>0.8%</i>	<i>1.00</i>	<i>0.98</i>	<i>0.96</i>	<i>0.8%</i>	<i>2.0%</i>	<i>0.37</i>
<i>55% Russell 3000 Index / 15% MSCI ACWI ex-US / 30% Barclays Aggregate Bond Index</i>	<i>7.9%</i>	<i>11.0%</i>	<i>0.61</i>	<i>0.0%</i>	<i>1.06</i>	<i>0.98</i>	<i>0.97</i>	<i>0.4%</i>	<i>1.7%</i>	<i>0.25</i>
<i>Target Weighted Benchmark</i>	<i>7.3%</i>	<i>10.6%</i>	<i>0.58</i>	<i>0.3%</i>	<i>1.10</i>	<i>0.98</i>	<i>0.96</i>	<i>1.0%</i>	<i>2.0%</i>	<i>0.48</i>

Statistics are measured since inception.

Source: FEG Data. Returns are presented in U.S. dollars net of management fees and include the reinvestment of all income. The Target Weighted Benchmark is comprised of 50% MSCI All Country World Index, 10% HFRI Equity Hedge Index, 20% Barclays Aggregate Bond Index, 3.4% DJ UBS Commodities Index, 3.3% FTSE NAREIT Equity Index, 3.3% Alerian MLP Index, 10% HFRI FOF: Conservative Index. The Target Weighted Benchmark provides a means of illustrating the return of a theoretical passive allocation to all the sub-categories we hold in strategic amounts, and is supplemental to the composite disclosure presentation. Please refer to the FEG Institutional Portfolio Fact Sheet for full disclosures.

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Sharpe – A return/risk measure where the numerator is the incremental return of the investment over the risk free rate and the denominator is the standard deviation of the investment, higher is preferred. Alpha – A measure of a portfolio's volatility comparing its risk-adjusted performance to a benchmark index. Beta – A measure of a portfolio's relative volatility with respect to its market. Technically, beta is the covariance of a portfolio's return with the benchmark portfolio's return divided by the variance of the benchmark portfolio's return. Standard Deviation – A measure of variability in returns. The annual standard deviation measures the dispersion of annual returns around the average annualized return. R Squared - A statistical measure that represents the percentage of a fund or security's movements that can be explained by movements in a benchmark index. Tracking Error - A divergence between the price behavior of a position or a portfolio and the price behavior of a benchmark.

Effective August 1, 2012, a change in the Institutional Portfolio Target Weighted Benchmark was applied, as Fund Evaluation Group, LLC believes that the MSCI ACWI is more representative of the equity component than that of the Russell 3000 Index and the MSCI ACWI Ex-US Index.



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