

# Traditional Asset Classes MANAGER SELECTION



PSERS seeks to build long-term partnerships with managers that are expected to deliver superior, net-of-fee, risk-adjusted returns while enhancing PSERS' overall portfolio efficiency.

## Manager Selection Process

PSERS manager selection process begins with recognition that a manager's historical investment performance is meaningless without knowing the context of the environment, the risks taken, and the exposure profile. Some of the steps in this process include:

- Document Review
- Manager Interviews
- Public Information Review and Reference Calls

PSERS views manager selection and diligence as a collaborative effort. PSERS' external consultants conduct parallel diligence, conferring with PSERS upon completion to arrive at a joint recommendation. This collaborative process improves the likelihood that material flaws will be discovered, addressed, and factored into decision making.

## Important Manager Attributes

PSERS regularly seeks the assistance of skilled external specialists in Traditional Asset Classes (i.e., liquid, publicly-traded asset classes) to provide perspective and execute unique strategies in areas where PSERS Investment Professionals lack the resources, specific skills, or technical expertise to do so internally themselves.

Successful manager selection is challenging because it requires developing a forward-looking view on the investment decision making skills of individuals and organizations. PSERS Investment Professionals and external consultants apply a rigorous process to evaluate each targeted manager's reflection of attributes including:

- ✓ **Demonstrated, repeatable patterns of success:** PSERS Investment Professionals, in conjunction with external consultants, spend time to understand why the particular firm or individual would be expected to persistently outperform both peers and the broad markets and focus on:
  - o Ability to profit from economies of scale (or dis-economies of scale).
  - o Ability to assemble proprietary data sources and superior analytics.
- ✓ **Alignment of interests:** PSERS Investment Professionals seek out managers whose individual success is highly dependent upon achieving success for the PSERS portfolio. PSERS looks for:
  - o Organizational structures where the key decision makers have substantial ownership of the firm and meaningful personal investments in the products they manage.
  - o Remuneration structures that reward for investment performance rather than asset gathering.
  - o Compensation that ensures investment professionals are motivated by portfolio-level returns, not the contribution of individual silos.
- ✓ **Good business partners:** PSERS Investment Professionals seek to leverage the expertise and insights of selected managers across the entire portfolio. Good business partners have open dialogue and must have a self-awareness that reduces the likelihood of style drift or excessive risk taking.

