



INVESTMENT MANAGER SELECTION

Investment manager selection is an essential aspect of the Wealth Management process. We regard the quality of the individual looking after our client's money as critical to the ultimate success of our client's financial plans. For this reason Black Swan Financial Management aspires to appoint only the very best investment managers. In this text we explain what we look for in an investment manager.

Our preference is for fund managers that seek to deliver the rewards of long term investing whilst attempting to avoid the more scary parts. To hold out a good chance of achieving this objective, many of the investments we recommend will not look like the index in which they invest. This is important because over shorter time periods relative performance may lag.

We believe many investment managers are appointed on the basis of past performance and whilst a track record may be commendable, we concern ourselves more with prospective future returns rather than the past. Having said this we do not ignore a good track record, rather we endeavour to identify how it has been achieved and ascertain if it is repeatable.

Investors will commonly adopt a value, growth or contrarian investment style, at Black Swan Financial Management we do not favour one approach over another, different styles will suit different circumstances, but we do expect the approach to be applied consistently. Irrespective of the investment style we believe the key to good investing is finding asset prices that understate potential and to understand the means by which the broader investment community will come to share this perception, when taken together these two factors will produce an investment opportunity and a potential return.

When researching possible investments we find many investment funds gravitate to their benchmark, we suspect the reason for this to be because a lot of investment managers are assessed by their relative 'excess' performance compared to their benchmark or peer group. Due to the makeup of most benchmarks this type of relative performance transfers investment risk from the investment manager and onto the investor. We want investment decisions to be based upon the enthusiasm for an opportunity rather than the fear of being left behind. We contend a good investment manager is someone capable of making money when asset prices are rising and holding onto it when asset prices are falling.

Investment managers can be brought to our attention from a variety of sources including client recommendation, word of mouth and industry publications. Our research begins with understanding the investment objective and aims of the investment, then conducting a simple examination of the past. The aim of this preliminary research is to identify managers that are free to utilise their talents rather than being constrained to a benchmark.

Once we are satisfied with the basic premise of the investment we analyse statistical information and gain a thorough understanding of the investment process by reading supporting documentation such as investment reports, accounts, prospectuses and investment commentaries. The final stage of our selection process is to discern the culture of firm providing the investment which can only be done by meeting with the company and the investment manager. If through unscripted discussion we believe the culture is right and our research findings are validated, we will adopt the investment as a preferred holding and consider it for inclusion in client portfolios. Throughout the investment manager appointment process we are looking for an investment that is consistent, has produced good investment returns and in our opinion is capable of continuing to produce good returns on an ongoing basis.

We keep all preferred investments under review by monitoring performance in line with expectations, reading investment commentaries and attending further fund manager meetings. If we have cause for concern (for example our performance expectations are not met or a key employee leaves the fund management group) we would consult the investment manager and monitor the situation, if our concerns are allayed we would maintain our support, however if our concerns are not satisfied we would cease future recommendation and consult those clients holding the investment.

Black Swan Financial Management is Authorised and Regulated by the Financial Services Authority.