



THE
PRESIDIO
GROUP

***HOW TO EVALUATE
YOUR INVESTMENT ADVISOR***



In most aspects of our lives, we have little trouble setting expectations and judging whether they have been met. Our local pro sports team must win games while our mechanic is expected to correctly diagnose and fix our car trouble. Unfortunately, investment advisory relationships seem to be an exception. Clients often come out of a meeting with their investment advisor having spoken exhaustively about performance but with no real sense of whether the advisor is doing a good job.

Part of the problem is that the discussion is difficult. Investment advisors are reluctant to commit to accountability standards. Clients often have difficulty articulating their expectations or are never asked to do so. Yet as challenging as these discussions are, establishing a framework for monitoring, evaluating and holding an investment advisor accountable for performance over time is a critical exercise that should take place early in an advisory relationship.

*Our objectives in this paper are to review the key issues involved in evaluating an investment advisor and to provide readers with some practical recommendations on expectation-setting and accountability. We begin by considering the benefits and drawbacks of **benchmarking**, or selecting an objective metric to evaluate investment performance. We next address **timing**, providing some perspective on the question of how long is long enough to judge an investment track record. We conclude with a discussion of why one must distinguish between **process and outcomes** when evaluating an advisor. This is perhaps the least widely practiced component of performance evaluation, but one that can be extremely rewarding for clients willing to put in the extra effort.*

“Everything should be made as simple as possible, but not simpler.”
- Albert Einstein

BENCHMARKING

For a client trying to assess how well his investment program is performing, the obvious first question is “compared to what?” We approach major financial decisions in this way all the time, reviewing local listings when we buy a home or perusing Kelley Blue Book when we’re in the market for a used car. Similarly, it makes sense to track how your investment advisor’s performance stacks up against an objective, quantifiable metric. The challenge is selecting the right benchmark.

At first glance, this may seem a straightforward task. At the outset of the relationship the advisor and client should agree on a long-term return objective that is consistent with (a) the client’s goals and constraints and (b) the advisor’s expectations for market returns. This return objective should be clearly stated in an

Investment Policy Statement (IPS), along with the range of outcomes around the central target that the client should expect. Using such an approach, the true measure of success is whether the performance of the investment program meets or exceeds the client’s objective as stated in the IPS.

The problem with judging a portfolio strictly on absolute returns is that broad market fluctuations have a large impact on performance, particularly over shorter periods. These fluctuations can be volatile and nearly impossible to predict, and an advisor shouldn’t get too much credit or blame for market movements over which he has no control. It is therefore useful to measure an investment program’s performance against a custom benchmark index that roughly matches the mix of investments the client holds.

Following Einstein’s dictum on simplicity and the CFA Institute’s standards for benchmarking, a custom index should be both actionable and measurable for the do-it-yourself investor. If an investment advisor chooses to deviate from this approach, it is because he believes he can achieve better risk-adjusted returns by doing so. A simple but well-diversified DIY portfolio is therefore a



suitable benchmark to use when attempting to assess whether the advisor is adding sufficient value to justify his fees.

Take for example a reasonably young client with few demands on the portfolio and a willingness to withstand moderate fluctuations in the value of his assets. A portfolio that comprises 55% equities, 25% fixed income, and 20% hedge funds may be a reasonable solution. An appropriate custom index could look something like the following:

“A good decision is based on knowledge and not on numbers.”
- Plato

Weight	Asset Class	Index
25%	US Municipal Bonds	Lipper General Municipal Debt Fund Index
55%	Global Equities	MSCI All Country World Index
20%	Hedge Funds	HFRX Absolute Return Index

An even simpler approach might be to select one of the many low-fee balanced mutual fund options available, such as the Vanguard LifeStrategy Moderate Growth fund, which holds a static allocation of 60% stocks and 40% bonds.

Having selected a benchmark, we might be inclined to let the race run its natural course. That would be a mistake. Too often, a benchmark becomes an end in itself rather than a means to objectively analyze the performance of an investment strategy. When a money manager or investment advisor spends every quarter ticking off a list of reasons why performance diverged from the index, there is a natural tendency to resemble the index as much as possible.

The obvious problem with benchmark-hugging is that the more a portfolio looks like the index the more difficult it becomes to outperform. A more subtle consequence of fixating on benchmarks is that doing so distorts perceptions of risk. Many US

equity managers fell prey to this during the 1990s tech bubble and during the boom in financial stocks in the mid-2000s. In late 1999 avoiding tech stocks felt like a risky decision to some managers—these stocks represented a third of the S&P 500, and not owning them was a recipe for massive underperformance if the tech rally continued. Of course, the truly risky action at the time was paying lofty valuations for companies with no earnings, but a PM who was being grilled every quarter for lagging the S&P 500 had a hard time seeing it that way.

The problems with benchmarks are not limited to the distorted incentives described above; indices also have practical limitations which investors need to recognize. For example, broad indices like the MSCI All Country World index may have little or no exposure to niches of the market that can be valuable additions to an investment portfolio, such as Master Limited Partnerships. This might be partially remedied by adding more line items to our custom benchmark, but only at the cost of increased complexity. For very small or illiquid asset classes, such as municipal inflation protected bonds or private equity, there may simply be no valid index. Most indices do not incorporate fees or transaction costs, and in categories such as hedge funds most of the commonly used benchmarks are subject to survivorship bias, a phenomenon that occurs when poor performers drop out of the sample group.

At Presidio we take objective benchmarks seriously while recognizing and adjusting for their limitations. On at least a semi-annual basis, our investment team plots the performance of client portfolios against a few blended indices that comprise the MSCI All Country World index (global equities), Lipper Municipal Debt Fund Index (municipal bonds) or Barclays Aggregate Index (taxable bonds), as well as the HFRX Absolute Return index (hedge funds). A portfolio whose performance deviates significantly from other portfolios or from its appropriate custom index is



examined more closely in order to understand the anomaly. Usually there is good reason for the divergence, often explained by unique client circumstances such as a concentrated equity position. However, when the performance anomaly, for good or bad, is the result of Presidio's actions we will analyze it closely and hold ourselves accountable.

TIMING

Most of us understand that an investment strategy must be allowed some time to play out before drawing any conclusions about its efficacy. However, this begs the question of how much time must pass before a track record is meaningful and relevant. Oaktree Capital founder Howard Marks addresses this topic in his February 2012 memo *Assessing Performance Records: A Case Study*, which recounts his experience as the chair of the University of Pennsylvania Investment Board between 2000 and 2010. He proposes the following prerequisites:

- A record spanning “a significant number of years.”
- A period that includes both good years and bad, enabling us to assess performance under a variety of circumstances.

Marks' decade as chair of the Penn Investment Board certainly meets these criteria, in light of the boom-bust-boom-bust stock market cycle during those ten years. When Marks took over at the tail end of the tech boom, the Penn endowment was suffering the consequences of having largely avoided growth stocks, tech companies, buyouts and venture capital. Absolute returns were very good—Penn compounded at 16% per year in the five years through June 1999—but relative returns were terrible as Penn lagged many of its Ivy League peers by 700 basis points per year.

Marks recognized that there was a role for some of the aforementioned asset classes in the

endowment's portfolio, but he was reluctant to add any of them at then-prevailing stratospheric valuations. The Board decided that they would increase the target weight to such investments but that they would implement these changes gradually, which they proceeded to do over the course of the following decade. The Penn Board's conservatism ultimately paid off, as the endowment outperformed its peers during the early 2000s tech bust and the 2008/2009 financial crisis.

Viewed over the full decade of June 30, 2000 to June 30, 2010, Marks' stewardship of the Penn endowment looks like a success. Penn's returns over this period were only modestly lower than those of its best-performing peers, and they achieved these results with considerably less downside than other large endowments. But what if Marks had taken the job two years earlier? As he puts it, “now my tenure would have included the horrendous FY2000, with Penn's 3,000 basis point underperformance. And it would have omitted FY2009, in which Penn lost 1,200 basis points less than many peers and avoided being hamstrung. If I had led Penn's endowment to take the same actions in FY1999-2008 as it did in FY2001-2010, which is quite likely, I'd be considered a very average chairman . . . at best.”

Marks' experience at Penn offers a few valuable lessons:

- Expectations matter. Alumni and other important constituents of the University in 1994 would have eagerly taken a deal earning a 16% compounded return over the ensuing five years. Yet they were highly critical of these results in 1999 simply because peers did better. The University was fortunate that Marks largely ignored the Endowment's critics in 2000 and avoided the path of least resistance. A less confident Chairman may have followed the herd to poor results.
- The endpoints one chooses when examining a track record—even a very long one—play an



enormous role in perceptions of success or failure.

- In a bull market, a cautious investor can be wrong for a long time before being proven right. For most of Marks' tenure, the Penn Board's more conservative allocation left them trailing their benchmark. Marks believed they would eventually be vindicated for pursuing a more conservative strategy but it took over eight years for this active decision to bear fruit.
- The bottom line is that the value added by a money manager or investment advisor can be extremely lumpy. In our experience, this is especially true during periods when equity markets are rising sharply, like the late 1990s or mid-2000s. Many investors who behaved cautiously during those rallies saw years of outperformance vanish in a couple of quarters as their conservative portfolios stagnated in a parabolic market. By the same token, an investor who managed to protect capital in 2008 and play offense when markets were at their most dislocated had the opportunity to earn a decade worth of outperformance in a few quarters.

Presidio speaks from experience on this topic. Like the Penn endowment, the portfolios of clients who were with us in late 2006 and early 2007 trailed their benchmarks and peers as most of our equity managers lagged the passive indices. As befits our process, we turned to our money managers for insights into the market environment, which we shared in our Q3 2006 Capital Markets Review. We concluded that financial stocks had become a disproportionately large share of the capitalization-weighted equity indices as their stock prices hit all-time highs. Owners of these companies were presuming that benign credit conditions would continue indefinitely and ignored the risks on the horizon. Presidio's equity managers took the opposite view and sold nearly all of their financial exposure. While we were not pleased with our

underperformance, we thought it was for the right reasons and made the following prediction in the conclusion of that quarter's Capital Market Review:

"So far, these managers look poor on a relative basis, though they will look like heroes if their theses play out . . . In the long run, we think you would rather experience short-term under-performance than long-term capital impairment. The next couple of years will determine if our conservatism pays off or if we were naïve in our conclusion."

Presidio was a relatively young firm at the time—most of our clients had been with us at most a few years—and our track record was heavily influenced by the underperformance of 2006 and 2007. This changed drastically by early 2009, as our conservative stance allowed us to weather the storm when financial stocks were at the epicenter of the worst bear market in over 70 years.

We see some parallels between market conditions today and those in late 2006. Many parts of the equity market look overvalued, which is unsurprising in the context of a five year bull market and a 2013 rally of over 30% for the S&P 500. In response, most of our equity managers have grown increasingly conservative, which has made it difficult to keep up with the passive indices as stocks levitate. Judging by recent results, one might be tempted to replace active managers with index funds and to ramp up exposure to equities, as many investors chose to do in 2006 and 2007. **To repeat the phrase we used in 2006, we believe our clients are better served experiencing short term underperformance in order to reduce the likelihood of permanent capital losses over the longer term.**

PROCESS VERSUS OUTCOMES

Howard Marks' case study on the Penn Endowment concludes with the question: "Were the actions taken at Penn right? Wrong? Or right for the wrong reason?" The performance numbers that Penn put up over a decade offer some evidence, but they do



not settle the question of whether Marks and his Board did a good job as financial stewards. The only way to really answer that question is to drill into the decisions that they made during his tenure and understand why they made them.

Thoughtful investors recognize the role that uncertainty and randomness play in markets. Just because an event does not occur does not mean that one was wrong to have considered the possibility and perhaps to have hedged an unwanted risk. After all, a homeowner who buys insurance

usually does not expect a fire to ravage his house. If he never collects on the insurance, does that mean it was a bad decision to pay the premium every year?

Most people can quickly ascertain that paying several hundred dollars in annual premiums to cover one's home is a prudent financial decision.

Conversely, most of us understand that the blackjack table is on average a money-losing proposition, but we also know that it is perfectly possible for a

gambler to walk away with more chips than he started with.

Despite this knowledge, we have a tendency to judge investments solely on their outcomes rather than on a comprehensive tally of the decisions made and the logic behind them. In doing so, we fail to give credit to the prudent homeowner whose house never burned down and wrongly celebrate the skill of the blackjack player on a lucky streak.

***"The truth is rarely pure and never simple."
- Oscar Wilde***

Focusing on an advisor's process rather than just the outcome can be hard work. It requires both an understanding of how the advisor proposes to add value (see

sidebar below for a summary of the strategies employed by Presidio) and clear communication with regard to the decisions made and the rationale behind them. This demands a greater degree of engagement from the client, but the benefits of making the extra effort can be significant.

HOW PRESIDIO SEEKS TO ADD VALUE

Different investment advisors may employ a variety of tools in their efforts to outperform their benchmarks. To properly evaluate an advisor's performance, clients must first understand how the advisor proposes to add value. Armed with an understanding of what types of decisions their advisor is making, the client is better equipped to judge the efficacy of these decisions. To that end, we review here the main areas in which Presidio seeks to add value in our clients' investment programs. By explaining to you before the fact why we take these actions and communicating their impact on portfolio results, we hope to provide you with the context required to assess our performance more effectively.

1. Better Asset Allocation: There are a number of attractive investment strategies for which no passive implementation options exist. Some examples include municipal inflation-protected bonds, non-rated municipal bonds, and private equity. We believe that some of these strategies can play a valuable role in a long-term investment program. However, by investing in these strategies we are by definition deviating from the passive DIY portfolio, which may cause performance to diverge from the benchmark over a given period.

2. High Conviction Managers: The empirical evidence on active money managers is damning: the average manager fails to outperform his benchmark and is therefore not worth the higher fees. However, just as the average basketball player will not play in the NBA and few will be All-Stars, exceptional talents do exist and can be identified early if you know what you are looking for (just as several experts predicted a young LeBron James would eventually be a superstar when he was in high school). Because most money managers care more about asset-gathering than performance, it is not enough to find a manager with extraordinary insights. The manager must also be willing to capitalize on these insights by holding a concentrated, benchmark-indifferent portfolio. The small group of fund managers who do so can be well worth the fees. The corollary is that their performance will often diverge widely from the passive indices, at times for the worse.

3. Rebalancing: This is the most straightforward and least controversial of the value-added services we offer. The benefits of harvesting winners and adding to underperformers are clearly supported by the academic literature. While clients could certainly do this on their own and for free, in our experience most either forget or



A mantra that bears repeating is that **no strategy, manager, or investment program succeeds in all environments**. At some point every portfolio experiences a period of poor results, either relative or absolute. Deciding what to do at this inflection point can have a meaningful impact on subsequent performance. It may be that the investment has underperformed for the right reasons—that the advisor has simply acted early to seize an opportunity or to avoid a risk. The proper response in this case is to hold and possibly to add to the investment. On the other hand, the investment may have performed poorly because the advisor has strayed from his original strategy or assumed outsized risks.¹ In this case the correct course of action is to terminate the advisor immediately. Numbers alone will not provide the right answer.

In pointing this out we are not suggesting that clients completely ignore the numbers. Money managers and investment advisors should be held accountable, and ultimately their mission is to deliver performance that meets clients' objectives.

However, we believe that all investors should take to heart the advice of Cliff Asness, founder of money management firm AQR, who has urged investors to “elevate judgment (not minute-by-minute judgment but judgment in portfolio and strategy selection) and a consistent philosophy to be more equal partners with data.”

This is the approach that Presidio's investment group follows in our evaluation and ongoing monitoring of money management firms. Drawing on our own experience, we would like to share a checklist of key topics that clients should review during a quarterly update with their investment advisor.

- **Business/organization**—Is the team of investment decision-makers stable, committed to the firm and aligned with the interests of clients? Are there changes in ownership, personnel or employee responsibilities that could affect the team going forward?

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lack the contrarian discipline to sell what has gone up and buy more of what has gone down. As a simple thought experiment, ask yourself how many investors you know trimmed their bonds to buy stocks in recent years. The mutual fund flow statistics tracked by the Investment Company Institute show that most retail investors did exactly the opposite.

For an investment program that is within the exposure limits outlined in the Investment Policy Statement, there is no hard and fast rule for how frequently rebalancing should occur. However, our view is that advisors should review client holdings at least three or four times a year for opportunities to trim winners and add to losers.

4. Opportunistic/Tactical Investments: Usually markets are roughly in equilibrium. This means that an investor who hopes to earn a higher level of return must assume more risk, and that the tradeoff between incremental prospective return and risk is roughly proportional. However, markets sometimes stray from equilibrium, providing investment opportunities that offer abnormally high expected returns for the risks taken. Conversely, the “risk-on/risk-off” movements in the capital markets have at certain times caused investments traditionally

considered to be safe havens, such as gold or US Treasuries, to become so overvalued that they posed significant risks to investors.

Over the past few years we have made a handful of tactical shifts in client portfolios in response to heightened risks or opportunities for abnormally high returns. Examples include shifts into corporate credit and mortgage strategies in late 2008 and 2009, the addition of Master Limited Partnerships in 2009, the reduction of investment grade fixed income exposure since the middle of 2012, and reductions in US equity exposure during 2013.

Each of these four sources of added value is unpredictable, unstable, and cyclical. We fully expect to experience quarters or years during which one or more categories fail to pay off. Conversely, there are years when a single component has a disproportionate impact on our relative performance. Examples on the positive side of the ledger include asset allocation in 2008 and the value added by our high conviction managers in 2009. On the negative side of the ledger, our tactical bias against real estate and private equity cost us in 2006. More recently, the defensive positioning of many of our equity managers detracted from relative performance in 2013.

1. An equally difficult but important task is vetting and avoiding money managers who may take outsized risks and who may be “winning” for all the wrong reasons.



- **Investment program objectives**—What are the long-term return targets for the portfolio and its components? Are they achievable given current market pricing and my tolerance for risk? Is the advisor aware of any changes in my objectives or circumstances that could affect the portfolio's design?
- **Key economic developments and their impact on the investment program**—How have macroeconomic conditions (GDP growth, inflation, etc.) changed since our last meeting? Given the portfolio's positioning, how should we have expected it to perform in light of these economic factors and what does actual performance look like? Has the performance of the money managers in my portfolio been in line with expectations (to the downside and the upside)? If not, what measures are you taking to address the problem?
- **Investment outlook/tactics**—How do you expect economic conditions to unfold in coming quarters? Given current market prices and expected conditions, what opportunities and risks do you see? How are the underlying managers responding to these risks and opportunities? Do we need to make any additional changes to the portfolio beyond what the managers themselves are doing?

Clients should keep a running tally of their advisor's answers to these questions while tracking how the manager's decisions affect performance. It is the advisor's responsibility to facilitate this process for the client by providing timely reporting and communication regarding changes in investment views and positioning. At Presidio, we provide this information through a variety of channels. Our quarterly Capital Markets Review and Mosaic webcast are the primary tools we use to communicate our outlook for the economy and markets. We prepare quarterly investment reports tracking the performance of individual managers against their benchmarks, as well as the performance of the overall investment program against broad market indices. We also maintain a history of rebalancing activity and

tactical shifts taken in each account that clients can consult to evaluate the effectiveness of these decisions. Please see Appendix A for what we call the Presidio Code of Responsibility, a detailed list of action items for which Presidio should be held accountable by its clients. As a complement to the Presidio Code of Responsibility, we have also included in Appendix B a list of "Client Best Practices for Long-Term Success." This list summarizes the client behaviors which in our experience characterize our most successful advisory relationships.

CONCLUSION

In prior white papers we have repeatedly stressed the role that judgment plays in Presidio's investment philosophy and approach to risk management. It should come as no surprise, then, that we urge clients to focus on judgment rather than just data when evaluating the performance of their investment advisor. We recognize that this is not an easy task, because it requires the client to deal with nuance and to track qualitative information over a long period of time.

We believe that clients who take the time to employ the comprehensive approach to performance evaluation outlined in this paper will be rewarded for their efforts. Armed with a clear understanding of an advisor's process, clients should be able to develop more precise expectations for their own investment program. They will be equipped to judge when the advisor is wrong for the right reasons and when he is flat-out wrong, and they should be more capable of detecting the subtle warning signs if the advisor strays from his investment disciplines. When clients are empowered in this way and advisors are confident that they are being judged on more than just last quarter's returns, the prospects for a successful long-term partnership are strong. □



APPENDIX A-PRESIDIO CODE OF RESPONSIBILITY

1. **Understanding the client's financial situation.** We will work to thoroughly understand your assets, liabilities, risk tolerance, investment constraints, tax status, income needs, investment objectives, and other relevant considerations before recommending a potential solution.
2. **Investment Policy Statement (IPS).** Presidio will collaborate with you to draft an investment policy statement that codifies your financial profile, Presidio's solution, and the expectations and risks associated with the investment program. The IPS must be approved by you before implementation, and will be revisited every few years to verify that the previous assumptions remain valid. Changes in your circumstances or in Presidio's capital market assumptions will also trigger a review.
3. **Expectations for money managers.** The role of each money manager will be explained including the types of market regimes in which each is likely to outperform and underperform, and the benchmark that best represents the manager's investment approach.
4. **Communication of investment views.** On a quarterly basis we will communicate our views on economic and market conditions, portfolio positioning as appropriate to your holdings, and recommended changes.
5. **Performance reports.** On a quarterly basis we will provide performance reports so that you can view your overall allocation and performance. Where actual performance is not available we will do our best to provide estimates.
 - A. The performance of the overall investment program will be the highest priority. While individual asset classes, managers and securities are important, they must be analyzed in the context of the aggregate program.
 - B. Performance will be measured on both an absolute and relative level. We will emphasize longer time frames as a full market cycle is a necessary condition for performance data to be relevant.
 - C. We will provide index returns that may be used to benchmark the overall portfolio as well as specific fund managers. In cases where indices have significant flaws, we will explain those shortcomings objectively.
6. **Investment process/context.** Presidio will clearly communicate each element of its investment process, including the logic behind the strategic asset allocation, the criteria for selection of individual managers, and the rationale for periodic rebalancing and tactical shifts. This will allow you to assess our investment process and judgment in addition to our returns.



APPENDIX B-CLIENT BEST PRACTICES FOR LONG-TERM SUCCESS

1. **Financial overview.** The likelihood of crafting a successful investment program is greatly increased when clients are willing to share with their advisor a comprehensive balance sheet encompassing all assets and liabilities. Additional information, including direct investments, tax planning, liquidity constraints, estate planning, future assets and liabilities, etc. are critical to formulating a customized long-term plan.
2. **Avoiding the “cold-to-hot empathy gap.”** Humans are cognitively biased to underestimate the degree to which visceral forces such as fear and greed drive their decision-making in times of stress. The most successful relationships are those in which clients recognize this bias from the outset and strive to assess their investment goals and risk tolerance honestly and objectively. As time passes and markets fluctuate, successful clients resist the tendency to adjust their goals and risk tolerance in direct response to market conditions.
3. **Accepting tradeoffs.** An investor who hopes to achieve a higher long-term expected return must be willing to tolerate larger fluctuations in the value of his portfolio. It is unrealistic to expect strong absolute returns in bear markets and high relative returns in bull markets.
4. **Constraints.** Clients who choose not to follow portions of the investment advice that their advisor provides should be aware that constraints on the investment program may harm performance. This applies not only during initial implementation but over the course of the relationship as portfolio recommendations are rejected or deferred.
5. **Responding to current events.** Clients should resist the urge to make sweeping portfolio changes in response to newspaper headlines, which are usually reflected in market prices too quickly for individual investors to profit from trading on them. Similarly, they should be skeptical of the performance claims of friends and relatives. Paying heed to “cocktail chatter” tends to make investors behave emotionally rather than analytically.
6. **Managing one’s wealth like a business.** The most effective way to monitor the qualitative factors which are critical to the proper evaluation of an investment advisor is through face-to-face discussions. At Presidio our most successful relationships are those in which the client sets aside time for an in-depth portfolio review on at least a semi-annual basis. We also recommend that clients review our letters and publications, as well as periodic reports covering portfolio performance.
7. **Asking questions.** Relationships rarely prosper if concerns are allowed to fester without being addressed. We encourage clients to pose questions to their advisor as they arise. An advisor with engaged, inquisitive clients benefits from this sort of dialogue over time.
8. **Focusing on process in addition to outcomes.** In evaluating their advisor’s performance, clients should make an effort to complement hard data on outcomes with qualitative information on investment process. To properly assess the advisor’s process, the client needs to be engaged and informed about ongoing investment decisions and the reasoning behind them.



DEFINITIONS OF INDICES

Lipper General Municipal Debt Fund Index - The Lipper General Municipal Debt Index represents average performance of the largest general municipal debt funds tracked by Lipper Analytical Services.

MSCI All Country World Index - The MSCI All Country World Index is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 45 country indices comprising 24 developed and 21 emerging-market country indices.

HFRX Absolute Return Index - The HFRX Absolute Return Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. Hedge Fund Research, Inc utilizes a methodology based on defined and predetermined rules and objective criteria to select and rebalance components to maximize representation of the Hedge Fund Universe.



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