

# WURTS ASSOCIATES

INSTITUTIONAL INVESTMENT CONSULTANTS

Part 2A of Form ADV

## Firm Brochure

March 31, 2011

This brochure provides information about the qualifications and business practices of Wurts & Associates. If you have any questions about the contents of this brochure, please contact us at 206.622.3700. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Wurts & Associates is also available on the SEC's website at [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov).

WURTS & ASSOCIATES PROVIDES RESEARCH-DRIVEN INVESTMENT SOLUTIONS THAT ENABLE INSTITUTIONAL INVESTORS TO PRUDENTLY DISCHARGE THEIR FIDUCIARY RESPONSIBILITY. THROUGH INDEPENDENT, CONFLICT-FREE ADVICE AND INVESTMENT EXPERTISE, OUR PROFESSIONALS STRIVE TO BE THE DRIVING FORCE THAT EMPOWERS CLIENTS TO ACHIEVE THEIR INVESTMENT OBJECTIVES.

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## ADVISORY BUSINESS



William Wurts founded Wurts & Associates in Seattle in 1986 as a provider of independent, institutional consulting services. Four years later, we opened a second office in Los Angeles to better serve our growing client base in the southwestern United States.

2011 marks the 25<sup>th</sup> anniversary of our founding and signals an important milestone in our history. We continue to grow and now advise on more than \$30 billion in assets throughout the Western United States, including over \$460 million in discretionary assets under management as of March 2011. We remain dedicated to bringing a thoughtful and independent approach to investment consulting.

In 2006, William Wurts transitioned majority ownership to our current CEO and President, Jeffrey MacLean. Mr. Wurts remains a minority owner along with five other key professionals within the firm. Employee ownership is an important differentiator of ours, as it directly aligns the interests of our employees and our firm with those of our clients. This ensures that the firm you know today remains stable in philosophy, personnel, and process for many years to come.

To maintain our independent business model, we lack any affiliates, subsidiaries, or business partners and we do not belong to a parent organization. Our only line of business is in providing investment consulting services. This allows us to focus entirely on helping you fulfill your investment objectives. Our ownership structure and our exclusive consulting focus enable us to deliver independent, research-driven investment solutions which will empower you to prudently fulfill your fiduciary responsibility.

## SERVICES

- **Investment Research**

We use a forward looking, top down approach to developing ten year macroeconomic and capital markets outlooks, alongside holistic integration of managers, to achieve institutional portfolio goals. We encourage you to visit our website at <http://www.wurts.com/knowledge> to peruse our recent Quarterly Research Reports, Topics of Interest papers, as well as listen into our Quarterly Research Conference Calls in order to gain a greater understanding of how integral research is to our philosophy and investment consulting process. Our Semi-Annual Active Management Environment offers a thoughtful and rational intellectual framework for decisions.

- **Risk Management**

We assess portfolio risk to provide an understanding of the portfolio's sensitivity to the economy and key capital markets valuations. We examine potential return scenarios over various time periods, as well as the factors that will drive those returns, demonstrating the portfolio's risk exposures to various capital markets and macroeconomic factors and analyzing the portfolio's active managers and how their investment styles interact with capital markets conditions.

- **Investment Management Research and Selection**

Evaluating managers is far more complicated than looking at an arbitrary benchmark and is more about each manager's role in overall portfolio design. Our research considers macroeconomic factors to make educated estimations regarding future performance for active managers. Our investment manager due diligence effort includes an extensive evaluation of both quantitative and qualitative attributes. The objective of this entire process is to provide relevant, in-depth due diligence on a broad cross section of highly regarded investment managers which can help you select a firm that most appropriately suits your particular requirements.

- **Trustee / Investment Committee Education**

As consultants, we are dedicated to educating you on the various investments, strategies, economic developments, and financial trends that are pertinent to your financial situation and objectives. It is our goal to allow clients to leverage our knowledge to make sound decisions for the plans they serve. We will provide education on various investment related topics including strategic asset allocation, alternative investments, fiduciary best practices, and operational efficiencies. We also provide a Quarterly Research Report, mid-cycle memos, topics of interest papers, asset class outlooks, and conduct conference calls to keep you updated on significant events that may affect your plan, including any pertinent changes to the investments within the plan.

## ■ Investment Policy Review and Development

An investment policy should enhance investment performance by providing a clearly defined strategic direction for all plan assets. We understand the relationship between risk and return, and the ability to translate risk tolerances into meaningful investment guidelines. We create an investment policy designed to:

- Establish meaningful risk / return objectives for the plan and each manager
- Clearly specify decision-making responsibilities
- Achieve investment manager accountability by providing clearly defined performance objectives and investment guidelines
- Protect the plan sponsor from inappropriate investments
- Satisfy applicable fiduciary requirements

## ■ Asset Allocation Modeling

We provide asset allocation modeling services to help our clients determine a proper mix of assets. We model a number of potential asset class mixes and evaluate them against a variety of scenarios that incorporate macroeconomic research, market conditions, asset class correlations, and investment risks. We have enhanced our asset allocation methodology by utilizing our proprietary Macroeconomic Scenario Modeling. The conventional approach to asset allocation relies almost exclusively on Mean Variance Optimization which uses historic data, historic risk premiums, historic correlations, and past returns as the drivers of inputs. We know future returns are not driven by past returns and risk premiums fluctuate over time. To get around the limitation of relying on past data, we have designed a model that is driven by current and prospective valuations, GDP growth, inflation, and potential valuations that could occur during various economic scenarios.

## ■ Asset-Liability Modeling

Through our many years of experience performing asset-liability studies, we have developed a well defined and structured approach in conducting these studies. It begins with the development of the study objectives. The next step in the process is an evaluation of the most recent actuarial valuation. We work specifically with the demographics of the fund's participants and our professionals start by interviewing the actuary to determine if there are any special issues that should be considered that are not readily apparent in their actuarial valuation. The third step is begin modeling liabilities and assets. Based on liability files, we check the projections with the actuary employed by the client to make sure that our results are consistent with their projections. The fourth step is to load our capital market assumptions into the model. These assumptions are developed annually and are used for all of our studies in any given year. The consultant then applies the strategic objectives determined earlier. Different asset mixes are modeled using our proprietary Scenario Analysis and liability hedges are valued.

- **Quarterly Performance Measurement and Analysis**

We utilize a proprietary performance measurement system to calculate client portfolio performance and provide the most relevant performance reports to our clients. Our system calculates and measures investment performance using a number of metrics including rate of return, peer group universe rankings, performance attribution, style analysis, as well as many other risk-based and comparative analytics.

- **Service Provider Search and Analysis**

We have a highly evolved and well-defined process in place for selecting custodians and third party providers. At the same time, we have developed a methodology that is successful at analyzing third-party pricing and evaluating it against industry norms and comparable plans. Both of these elements combine to ensure the you will receive the highest level of service at the most competitive pricing available.

- **Customized Target Date Funds**

We design and implement target-date models for participant-directed plans to help simplify the decision making process, improve flexibility, and improve costs for plan participants. We use the existing mutual fund line-up in your plan to create funds aligned with expected retirement dates. Funds are rebalanced quarterly to reflect changing risk tolerances as participants near retirement. Participants simply elect the model closest to their target retirement date, contribute periodically, and we take care of critical decisions such as asset allocation modeling, investment option selection, rebalancing, and long-term investment strategy.

- **Discretionary and Non-discretionary Consulting**

This service removes administrative burden and ensures quick implementation. We can adapt the level of decision making and permissions to your comfort level. We manage funds in accordance with the investment policy statement, rebalancing on a discretionary or nondiscretionary basis. As of March 2011, we manage over \$460,900k in discretionary and \$498,700k in non-discretionary assets.

## CUSTOMIZATION

We tailor our services to fit your needs. You receive customized research projects, educational presentations, mid-cycle memos, topics of interest papers, asset class outlooks, and conference calls to keep you updated on significant events that may affect your plan. We develop customized tools to assist with implementing investment strategies in light of your unique risk framework.

It is important to evaluate risk on a variety of economic scenarios in addition to evaluating on a normal distribution of returns (as mean-variance optimization may dictate). This type of analysis provides more meaningful downside risk scenarios and educates staff and board members on reasonable expectations for an investment portfolio. Our consultants leverage our asset allocation and scenario modeling capabilities to develop a strategic cash management strategy that fits your objectives and priorities, including screening for socially responsible investing and environmentally friendly investing.

Our internally developed, proprietary performance measurement system can provide fully customizable reports to meet your demands. We do not charge additional fees to customize reports and we are not dependent on any outside supplier for this capability.



## FEES AND COMPENSATION

100% of our revenue comes directly from our plan sponsor clientele. Neither the Firm, nor any of its employees, receives compensation from any other source. We do not accept soft dollars, directed brokerage commissions, or engage in revenue sharing arrangements.

We negotiate fees prior to the inception of our service and take into the consideration the complexity of the client's manager structure, the servicing requirements, and consultant time and travel expenses. Due to these variables, fee size may vary between clients who receive the same services. Clients may pay us by project, by service or on a full service retainer basis.

Non-discretionary clients pay a flat annual retainer fee, a percentage of assets, a fee per fund, or a combination of these. Discretionary clients pay a percentage of assets. All transaction, brokerage, and custodian fees are paid by the client directly to the custodian, broker, or investment fund.

We bill monthly or quarterly in arrears. We avoid prepayment of fees from clients. Clients or Wurts may terminate services with 30 days written notice and terminate services, without penalty, within five business days of the date of the initial execution of a contract. We avoid collecting fees in advance and fees can be paid by check or EFT. Managed client accounts may select to have fees direct debited from their account.

## PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

We avoid performance-based fees and conflicts of interest related to side-by-side management.

## TYPES OF CLIENTS

We serve a broad array of institutional investors including: Endowments and Foundations; Public Pension Plan Sponsors; Corporate Plan Sponsors; Non-Profits; Taft-Hartley Trusts; and select substantial net worth families.

# METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

## ASSESS

- ▶ Strategic Mission
- ▶ Fund Objectives
- ▶ Client Risk Tolerance
- ▶ Funding Requirements
- ▶ Existing Manager Structure
- ▶ Spending Policy

## EVALUATE

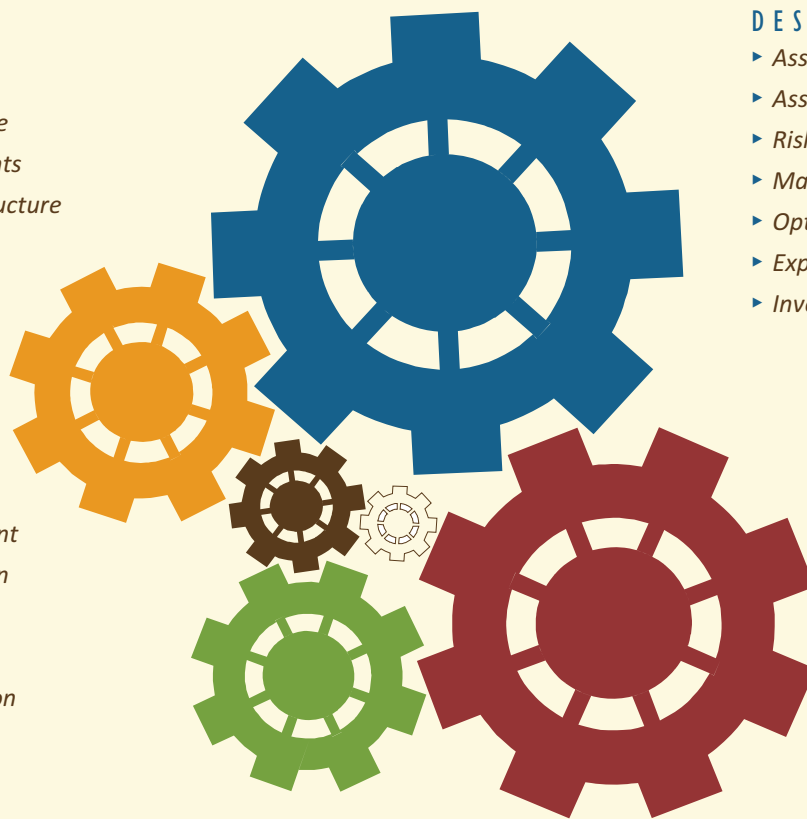
- ▶ Market Environment
- ▶ Portfolio Evaluation
- ▶ Manager Review
- ▶ Risk Assessment
- ▶ Research / Education

## DESIGN

- ▶ Asset / Liability Study
- ▶ Asset Allocation Study
- ▶ Risk Budgeting
- ▶ Manager Structure
- ▶ Optimal Plan Structure
- ▶ Expense Management
- ▶ Investment Policy

## IMPLEMENT

- ▶ Manager Research
- ▶ Vendor Selection
- ▶ Fee Negotiation
- ▶ Transition Management
- ▶ Contract Review



### ■ Assess

Thoroughly understanding the existing condition of your investment program is essential to a productive consulting relationship. This involves a continuous appraisal of the existing manager structure as well as an understanding of the rationale behind previous investment decisions. We endeavor to understand the funding requirements of your assets, risk tolerances, and how the investment program fits into your strategic mission for the institution and the plan.

We look at each component of the investment portfolio, quantitatively assessing investment manager skill and evaluating their organizations from a qualitative perspective. The final component of the assessment of our consulting process is determining if the overall objectives of the client are in line with the existing manager structure

### ■ Design

We introduce appropriate strategic solutions consistent with your objectives to improve upon the existing investment program. The practical application of our extensive macroeconomic and capital markets research comes into play here. We continually evaluate the appropriateness of the

existing investment policy with special consideration given to the risk management language contained within the document. Another important issue considered is the application of passive management and index funds versus active management. While index funds lack the potential for excess returns, they do offer cost savings through reduced investment management fees. We consider all possible fund options when designing the investment structure of the plan and recommend funds that provide the best opportunity for returns given the investment management fees and risk tolerance.

We present expense management techniques to you during this phase of the consulting process. We also assess record keeping, transactional, custodial, and revenue sharing fee arrangements for potential cost savings.

#### ■ Implement

This phase is vitally important to the successful execution of prudent fund management. We work with you to implement the decisions made during the Design Phase of the consulting process. Our manager research team identifies skilled investment managers that fit your requirements. We utilize our experience to identify other appropriate vendors such as corporate co-trustees, commission recapture brokers, and transition managers.

Successful implementation does not end with the selection of an investment manager. Our professionals are experts at utilizing our buying power within the market to negotiate favorable fee arrangements and appropriate contract language. We work with new managers and the custodian to minimize transition costs associated with a change in investment managers. Finally, we amend the investment guidelines to reflect the revised nature of the portfolio.

#### ■ Evaluate

This is an ongoing process where we review the market environment, analyze the portfolio, and assess the various risks within the fund. You have access to our research and educational resources in a continuing effort to increase awareness of current fund management issues and increase your ability to effectively meet your fiduciary responsibility. We utilize our proprietary portfolio evaluation system that is linked to a daily reconciliation platform with leading custodial banks to provide the most timely and accurate information possible.

This final step leads back to the Assessment Phase of the consulting process. Successful fund sponsors continually seek improvement against the backdrop of changing circumstances. It is critically important that we are prepared to revisit previous investment decisions and proactively introduce new strategies and insights.

We provide advice on domestic and international equities, warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, government securities, real estate, diversified strategy fund of funds, single strategy limited partnerships, and private equity. We take a long term approach to asset allocation, generally looking at decisions from a ten year perspective. We obtain capital market information such as index returns and characteristics from

State Street Bank & Trust Company. For comparative information versus similar portfolios, we are a member of the Independent Consultants Cooperative (I.C.C.). The ICC is comprised of consulting firms from around the United States that pool performance data from their clients' custodial data. State Street Bank & Trust Company maintains this pooled information. We obtain information regarding institutional investment management firms and their various strategies from eVestment Alliance and use the eVestment Alliance database for screening purposes when identifying potential investment strategies. Additionally, we use the eVestment Alliance database to monitor firm and strategy asset levels, investment team turnover, firm ownership and overall portfolio characteristics.

We work with you to determine the appropriate overall asset allocation model for your portfolio. This will often involve investments in large and small U.S. equities, international equities, fixed income and, at times, real estate and alternative investments. We use an optimization model to determine what, in our opinion, is the best combination of these asset classes for you at a risk level that you are comfortable with. Using this data, we will perform investment manager searches to select the most appropriate managers for each asset class. Investing involves risk of loss that you should be prepared to bear. The use of this optimization model does not guarantee future results, performance or a particular outcome.

## DISCIPLINARY INFORMATION

Wurts & Associates and its management have not been involved in any legal or disciplinary events material to a client or prospective client including criminal or civil action, administrative proceeding before any regulatory agency, or self-regulatory organization proceeding.

## OTHER FINANCIAL INDUSTRY ACTIVITIES OR AFFILIATIONS

We lack any affiliate, subsidiaries, or business partners and we do not belong to a larger organization that provides other services such as investment management or internally managed fund-of-funds. Wurts & Associates and its management avoid any other activities, related persons, or affiliations related to the financial industry other than the services described in this brochure. Our only means of compensation come from clients for advising to their portfolios. We avoid compensation derived directly or indirectly from advisors, broker dealers, third party administrator or other financial service providers.

## CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

As a matter of policy and practice, and consistent with industry best practices and SEC requirements, we follow a written Code of Ethics covering all supervised persons. Our Code of Ethics requires high standards of business conduct, compliance with federal securities laws, reporting and recordkeeping of personal securities transactions and holdings, reviews, and sanctions. It allows employees to maintain personal securities accounts provided any personal investing by an employee in any accounts in which the employee has a beneficial interest, including any accounts for any immediate family or household members, is consistent with our duty to our clients and consistent with regulatory requirements. Each advisory employee must identify any personal investment accounts and report all reportable transactions and investment activity on at least a quarterly basis to the firm's Compliance Officer.

As this is only a summary of our policy, we would be happy to furnish a complete copy of our Code of Ethics to any client upon request.

We avoid a material interest in securities or funds that we recommend, buy or sell. We do not invest in the same securities that we recommend to clients.

## BROKERAGE PRACTICES

We avoid any direct or indirect compensation in connection with client transactions. Instead, we recommend specific custodian and broker dealers based on your need for such services. In choosing the custodians and brokers, we consider general reputation, size, activity within the brokerage commission rebate business, and rebate rate.

We assist some clients with the implementation of their investment policy and/or rebalancing of accounts on a non-discretionary and on a discretionary basis. These clients designate Wurts & Associates as the investment advisor with the broker-dealer. We are unable to negotiate transaction costs or commissions. The broker-dealer and money manager retain the duty to ensure that the transaction costs (including price and commission per share) are competitive with those available to them through their brokerage channels. We cannot guarantee that execution costs charged by broker dealers recommended by us are lower than those which could be obtained in the marketplace by other broker dealers. Lower fees for comparable services may be available from other sources. Personal securities transactions for our employees may be similar or inconsistent with the investment advice given to clients.

ERISA clients that designate us as their advisor must add us as an additional insured on their ERISA bond and send a certificate of insurance to our Chief Compliance Officer. We only places trades in a few accounts on an infrequent basis. Therefore, we cannot aggregate or allocate trades. We will not assist clients with the purchase of securities issued in an IPO. We will not be liable to clients for any loss resulting from an inaccurate or erroneous trade unless the loss is due to the gross negligence or intentional misconduct of Wurts or our employees.

We review custodian trade execution and fees each quarter and document the review. We do not receive any portion of the trading fees.



## REVIEW OF ACCOUNTS

Maintaining a continuous review of your investment policies is part of our holistic consulting process. Each part of the process functions with another in order to achieve your investment objectives and requirements. During the “Design” phase of our process, we review the policies in place, how those policies were developed, and we evaluate how it affects the implementation of your investment strategy. Taking a step back, our entire methodology enables us to properly understand your unique issues, design an intelligent strategy that matches your specific requirements, prudently implement investment decisions, and evaluate the investment program’s effectiveness on an ongoing basis.

Our process begins with the assessment phase where our professionals seek to understand past investment decisions as well as the soundness of your plan. In the design phase, we evaluate the current investment strategy against alternatives to find the most efficient means to achieve your plan’s overall objectives. We then implement the strategic allocation through the application of our due diligence and contract negotiation resources. Lastly, we evaluate the portfolio to make sure that all of the components of the portfolio are properly fulfilling their role. This Consulting Process is circular as our advice will change as the capital markets evolve and the circumstances confronting your plan change.

Consultants typically meet with clients to review their investment programs on a quarterly or semi-annual basis. More frequent meetings are called when specific issues or needs arise. These may include qualitative developments with a client's investment manager, or other issues pertinent to portfolios.

Our investment performance evaluation services assist you with satisfying your fiduciary responsibility of monitoring your portfolio's performance. The written analysis report presented contains general market data about the recent developments within the various capital markets. It also includes relevant plan structure information designed to monitor the adherence to investment guidelines and strategy. Our system evaluates the total fund and each individual component against the most appropriate passive benchmarks and peer group universes. The report contains risk measurements using standard deviation, performance in up versus down markets, beta, alpha and R2. Other analysis includes portfolio characteristics for each manager and attribution system that explains the sources of portfolio performance. Reports may be presented on a quarterly or semi-annual basis. Clients also receive monthly statements of activity and portfolio positions from their bank or broker/dealer custodian.

## CLIENT REFERRALS AND OTHER COMPENSATION

We do not pay any third party for client referrals. We occasionally receive referrals from our investment management associates. Although these relationships do not affect our inclusion of money managers in client searches, they do represent a possible conflict of interest. However, we reject compensation from any source other than our clients.

## CUSTODY

We custody some accounts to insulate our clients from the administrative burden of wiring funds to approved money managers and administrators and debit fees. Qualified custodians hold all client funds and provide account statements. We encourage you to review your account statements and compare them to the performance reporting we provide.

## INVESTMENT DISCRETION

We assist some clients with the implementation of their investment policy and/or rebalancing of accounts on a non-discretionary and on a discretionary basis. Discretionary clients designate Wurts & Associates as the investment advisor with the broker-dealer and allow us custody. For non-discretionary clients, we execute trades on behalf of clients as a Limited Power Financial Advisor. Upon receipt of signed authorization, we will implement trades as soon as reasonably possible but do not guarantee same-day execution. Trade orders are invalid if received via telephone calls or messages. This service is entirely voluntary and we will accommodate any reasonable authority or limitation you request.

## VOTING CLIENT SECURITIES

We may accept voting responsibility for discretionary clients. As a matter of policy and as a fiduciary to our clients we vote proxies for portfolio securities consistent with the best economic interests of our clients. We maintain written policies and procedures as to the handling, research, voting and reporting of proxy voting. Our policy and practice includes the responsibility to monitor corporate actions, receive and vote client proxies, disclose any potential conflicts of interest and maintain all relevant and required records.

In the absence of specific voting guidelines from the client, we vote all proxies from an issuer the same way for each client. Clients can place reasonable restrictions on our voting authority. We generally vote in favor of routine corporate housekeeping proposals such as the election of directors and selection of auditors. In reviewing proposals, we consider the opinion of management and the effect on management, and the effect on shareholder value and the issuer's business practices. We identify any conflicts between our interests and your interest by reviewing our relationship with the issuer of each security to determine if any financial, business or personal relationship exists. If a material conflict of interest exists, we will determine whether it is appropriate to disclose the conflict to the affected clients, to give the clients an opportunity to vote the proxies themselves, or to address the voting issue through other objective means such as voting in a manner consistent with a predetermined voting policy.

Specific information about our policies and procedures and the voting of proxies for your portfolio is available upon request.

We will not vote proxies for non-discretionary clients. Clients will receive their proxies and other solicitations directly from their custodian or a transfer agent. We may provide opinions on how clients should vote their proxies but acknowledge that we may be unaware all of the facts and circumstances that should be considered by a non-discretionary client.

## FINANCIAL INFORMATION

After a quarter of a century in business we are financially stable with measured growth throughout our history. We are unaware of any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.

Our stability and growth allows us to reinvest firm revenues into our greatest resources, our staff. We offer competitive salaries, profit sharing, 401(k) plan, and medical/dental coverage to all employees. Annual bonuses are awarded to employees based on their embodiment of the firm's mission and values.

As evidence of our financial and organizational stability, several of the investment professionals recently invested their own personal capital in the firm as part of our continued efforts to diversify the ownership of the company.