
Johnson Custom Strategies, Inc.

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Custom Strategies

Investment Consulting

Johnson Custom Strategies, Inc.

*An Introduction
To Consulting and Investment Services*

Introduction

- JCS was founded by Mary Ann Johnson in 1992 to provide customized consulting and investment services to a limited number of clients.
- Client Assets \$2.9 billion (25 clients)
- Most clients have come to firm through referrals.
- JCS is registered with the SEC as an Investment Advisor under the Investment Advisor's Act of 1940.
- Most recent SEC Examination was 2003.
- No conflicts of interest – only source of revenue is consulting fees.

Mission Statement & Services

➤ **Mission Statement:** Provide customized, tailored consulting services that meet the investment objectives of a limited number of institutional and private investors.

➤ **Services:**

- ❖ Statement of Investment Policy and Objectives
- ❖ Asset Allocation
- ❖ Manager Research, Due Diligence and Evaluation
- ❖ Ongoing Monitoring vs Policy Guidelines
- ❖ Performance Measurement and Quarterly Reporting
- ❖ Staff Support – (very close client relationships)
- ❖ *Pro-Active Recommendations – Investment Opportunities*

1986 – Hedge Funds

1989 – Distressed Securities

1998 – Diversified Core Equity Index

2003 – Opportunistic Fixed Inc. & International

2008-'09 – Mortgage Sec. & Convertible Bonds

2009-'10 – Inflation Strategies (current research)

Key Professionals

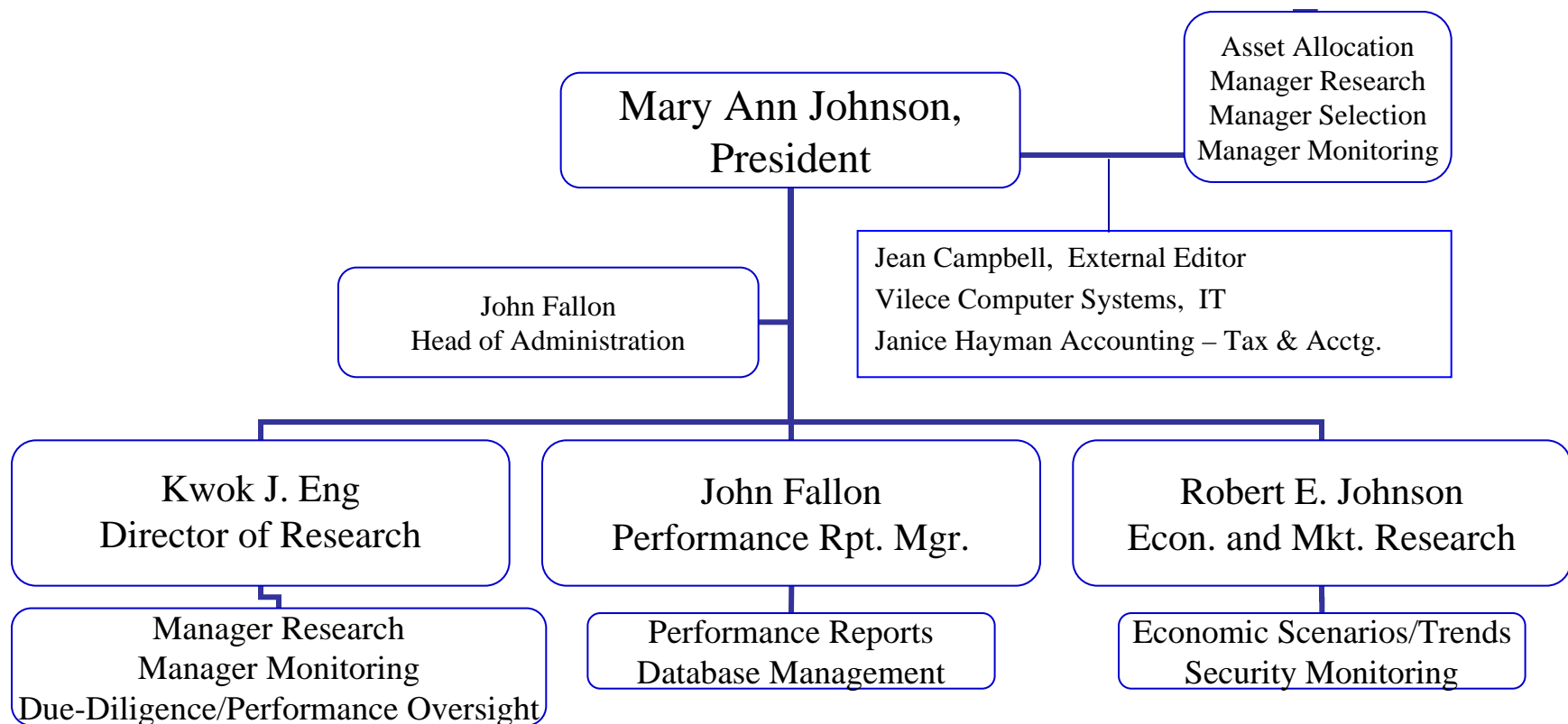
Mary Ann Johnson, President – Founded JCS in 1992. Formerly Director, Whitehead/Sterling (a family office), President of Tremont Partners and Principal of the consulting firm Rogers, Casey & Barksdale, Inc. In 1981 Ms. Johnson was intimately involved with manager selection for the Special Equity Group Trust, the first institutional Group Trust in the U.S. In 1986, Ms. Johnson designed one of the first fund-of-hedge funds for a prominent New York family. Ms. Johnson graduated from the University of Redlands in Redlands, CA with a B.A. Degree in business and economics. She is a founding member of The Greenwich Roundtable, has written articles for Pensions & Investments and *Managing Hedge Fund Risk*, published by Risk Books in 2000. Avoiding Granite Partners LP led to her appearance on *The Wall Street Journal Report's* 1995 special on hedge fund leverage.

Kwok J. Eng, CFA, Director of Research and Analytics – Prior to joining JCS in 2003, Mr. Eng spent five years at the Commonfund where he was responsible for the identification and evaluation of international equity managers. He became expert in performance analytics and security research at Credit Suisse Asset Management (formerly BEA Associates) from 1992 to 1997, and Effron Enterprises from 1988 to 1992 where he was an analyst for Plan Sponsor Network, an institutional manager database. Mr. Eng is a graduate of Colgate University in Hamilton, NY with a B.A. Degree in mathematics and economics.

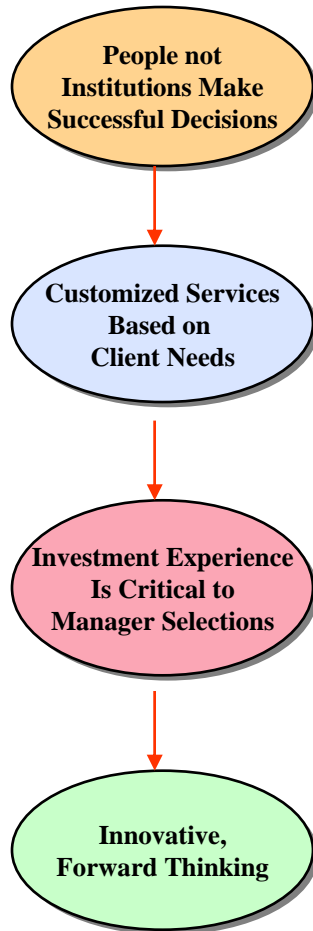
Robert E. Johnson, Economic and Market Research – Prior to joining JCS in 2002, Mr. Johnson was President of Johnson Capital Management, Inc. from 1994 to 2001, and served as the Chief Investment Officer for Westinghouse Pension Investment Services from 1990 to 1994. His extensive investment experience also includes institutional sales at Smith Barney & Co. and Senior Investment Officer at J. & W. Seligman. Mr. Johnson received a B.S. Degree in economics from Columbia College.

Organizational Chart

- No conflicts of interest – only source of revenue is consulting fees.
- No recent personnel changes.



Our Consulting Philosophy



- **We invest with people who make successful investment decisions. We focus on accountability.**
- **We individually structure each client's asset allocation and manager roster to reflect the client's unique situation.**
- **Direct investment experience is key to our ability to *intelligently* evaluate investment managers from an *investment* perspective.**
- **Focus on the future. Successful investment programs must evolve to incorporate investment opportunities.**

Investment Biases

- **People, Not Institutions, Make Successful Investment Decisions**
- **Passive versus Active**
 - ❖ Support the use of passive and quantitative strategies for U.S. Equity.
 - ❖ Designed the Diversified Equity Core Index (DECI), 1998.
 - ❖ Less inclined to index International Equity and never Fixed Income.
- **Capitalization**
 - ❖ Active management focuses primarily on mid-cap and small-cap equities.
 - ❖ Favor concentrated, non-benchmark-like portfolios versus index huggers.
- **Style**
 - ❖ Governed by client's risk tolerance.
 - ❖ Conservative emphasizes various value and GARP approaches.
- **Hedge Funds**
 - ❖ Favor individual hedge funds versus funds-of-funds.
 - ❖ Favor multi-strategy or opportunistic strategies over equity market-neutral.

Ideal Client Specific Manager Search

➤ **Define Search Parameters (including search process)**

- ❖ Asset Class and Investment Mandate including candidate qualifications, account size, who will interview, where interviews will occur, # of finalists, etc.

➤ **Develop Candidate List**

- ❖ Assemble maximum # of candidates: current managers, managers closely monitored, custom internal peer groups and manager database.
- ❖ Typical number of candidates/search: 5 to 30.
- ❖ Update/Obtain Proprietary “Manager & Product Profile” (written format) for each.

➤ **Candidate Performance Evaluation**

- ❖ Review performance, statistics, correlations, etc.

➤ **Develop On-Site Interview Schedule**

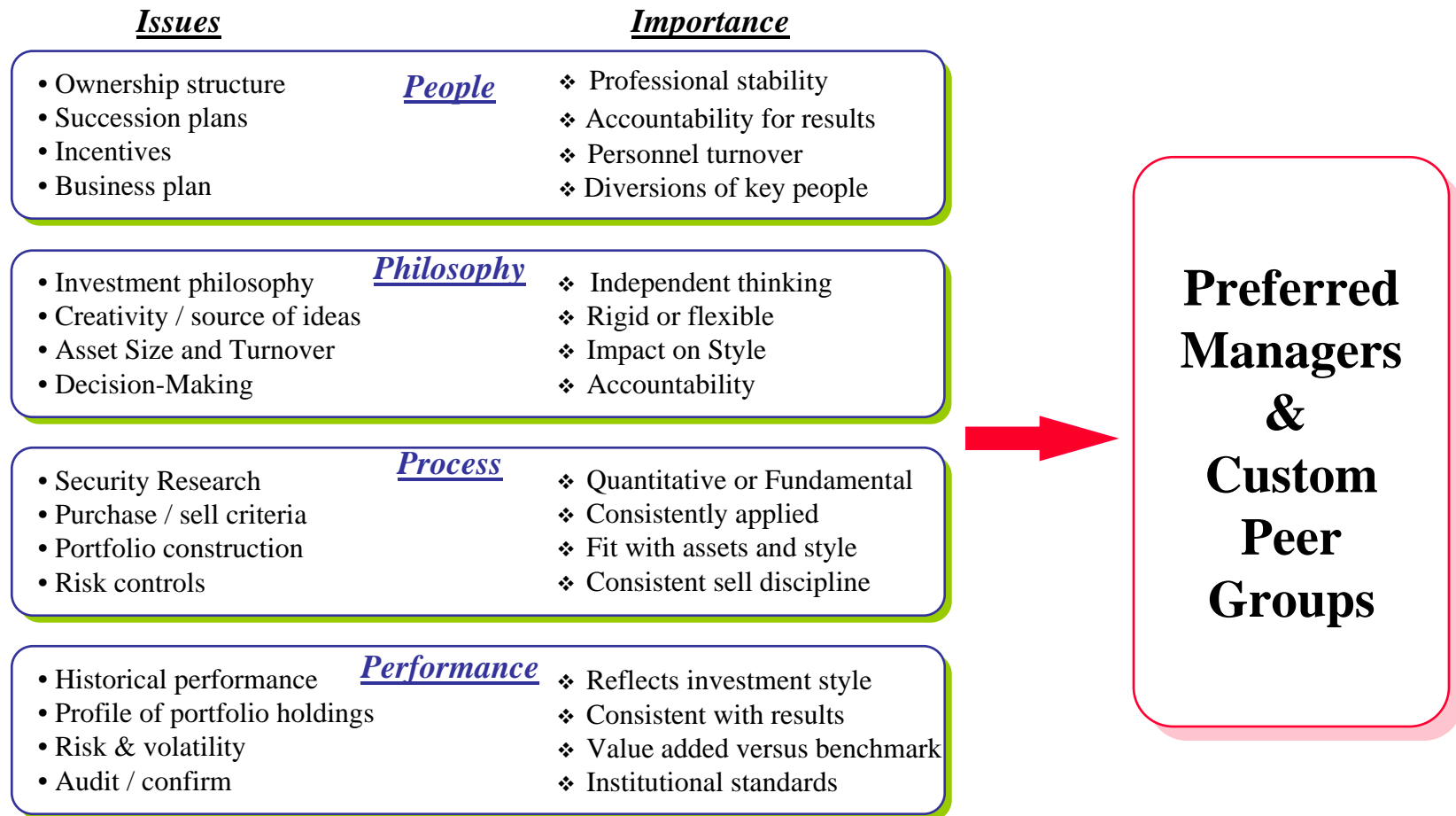
- ❖ Review Manager Profiles and Performance with client: determine candidates to visit.
- ❖ Accompany client for on-site interviews (each lasts 1 ½ hours, same agenda).

➤ **Determine 2-3 Finalists for Investment Committee Presentations**

Who will best
accomplish
the objectives?

Manager Evaluation and Selection

Qualitative Manager Assessment Criteria



Who will best
accomplish
the objectives?

Manager Research And Selection

In-Depth Assessments are Complex

Internal Manager Research

- Independent identification, research & monitoring
 - Equity
 - Fixed Income
- Hedge Funds researched since 1986
- Ongoing face-to-face interviews and on-site manager meetings
- Continuous updating & monitoring

Data is Cheap

External Database Resources

Updated Monthly

- Zephyr/Style Advisor
 - 1,500 firms (representing 7,130 investment products)
 - 3,260 fund families, 17,800+ mutual funds
- Credit Suisse Database
 - 5,000 + hedge funds
- + Client Manager Proprietary Return Data
- Portfolio Holdings Analytics

JCS “Preferred” manager list.
Very well-known, actively monitored= 125

Performance Measurement and Evaluation

➤ Performance Measurement

- ❖ *Proprietary internal data collection and performance reporting system* based on custodian asset and transaction statements.
- ❖ All returns are time-weighted, calculated monthly and stored in our proprietary manager database.
- ❖ Manager Guideline and Account Restriction Compliance:
 - Separate account portfolio holdings are reviewed monthly.
 - Mutual fund holdings are reviewed when released.
 - Hedge Funds - transparency varies by manager and is tracked as released.
- ❖ Asset Allocation: Internal data collection system tracks cash flows and asset allocation compliance monthly versus policy.

Are the objectives
being met?

Performance Measurement and Evaluation

➤ Performance Monitoring

- ❖ Returns monitored versus benchmarks monthly and over multiple periods. Return-based statistics are monitored for strategy consistency. Portfolio composition is evaluated to confirm style/risk/strategy.
- ❖ External Attribution Analysis: Either custodian provides data, or JCS has negotiated a bulk rate with BNY/Mellon Analytics for separate account analytics.
- ❖ External Portfolio Analysis and Internal Style Integrity: Holdings based characteristics provided by custodian or BNY/Mellon, plus internal return-based Style Mapping capability.

Are the objectives
being met?

Performance Measurement and Evaluation

➤ Performance Reporting

- ❖ Performance is calculated monthly. Reports are generated internally and are customized to focus on critical factors.
- ❖ Timing of report delivery varies from 24 hours to four weeks following quarter end. Delivery depends on custodian, source of statements and report content.
- ❖ All custodians provide online access to daily positions. JCS clients currently use: Northern Trust, State Street, BNY Mellon, SunTrust, Bank of America, Fidelity and Charles Schwab.
- ❖ Monthly Flash and Quarterly Performance Reports can be delivered electronically, or via hard copy, at client's behest.
- ❖ Current Market Summaries are available on the website. Proprietary Position Papers are not on website. Website: www.customstrategies.com

Asset Allocation Model

- **Zephyr Associates' AllocationADVISOR uses mean-variance optimization to determine the efficient frontier.**

Using historical return forecasts in asset allocation often results in highly concentrated and unintuitive portfolios.

- ❖ The Black-Litterman Model overcomes these shortcomings and makes asset allocation, and specifically mean-variance optimization, a functional and intuitive tool.
- ❖ The Black-Litterman Model allows us to incorporate our opinions, or *views*, into the return forecasts.

- **Monte Carlo simulations are run on selected portfolios along the efficient frontier simulation to produce the probability of various outcomes under different allocation scenarios.**

- ❖ Future cash flows can be incorporated into the model.

Efficient frontier modeling is an educational tool to stimulate discussion and focus on the long-term. Modeling helps eliminate emotion and market timing.

What Differentiates Johnson Custom Strategies, Inc.?

➤ **Highly Customized, Individual Attention – Performance Oriented**

- ❖ Individual solutions for each client – Proactive.
- ❖ Senior professionals work directly with clients.
- ❖ Senior professionals *conduct manager research*.

➤ **Depth of Knowledge and Experience**

- ❖ Unique knowledge of investment business and managers.
- ❖ State-of-the-art quantitative systems and databases.

➤ **Integrity and No Conflicts of Interest**

- ❖ Registered Investment Adviser with the Securities & Exchange Commission.
- ❖ No revenues or rebates from investment managers.
- ❖ We actively negotiate with managers for the best fee for our clients.

Fee Structure – Institutional Consulting

- **Institutional consulting services** (minimum annual fee \$60,000)
 - ❖ 40 basis points on the first \$15 million
 - ❖ 20 basis points on the next \$15 million
 - ❖ 10 basis points over \$30 million
 - ❖ Fixed fees are negotiated for large institutional clients

- **Travel costs for on-site manager visits are reimbursed.**

Fee Structure – Non-Discretionary Advisory

➤ Investment services

- ❖ 1.00% on the first \$10 million in assets
- ❖ 1/2 (0.50) of 1% on the next \$10 million in assets
- ❖ 1/4 (0.25) of 1% over \$20 million

➤ Services Includes

- ❖ Asset Allocation
- ❖ Investment Manager Evaluation and Selection
- ❖ Performance Reporting

➤ Special Projects

- ❖ Fees for any separate consulting project are negotiated based on specific requirements of the project.