

# SMA MANAGER DUE DILIGENCE CHEAT SHEET

The 5 Ps: Philosophy | People | Process | Performance | Platform

**NAUMAN STRATEGIC PARTNERS PRINCIPLE** | Don't select the manager with the best story or track record. Select the manager whose philosophy, people, process, performance and platform align with the client's objectives.

## 01 PHILOSOPHY

### *What does the manager believe?*

- |                                                                                       |                                                                                         |
|---------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| <input type="checkbox"/> What is the manager's investment philosophy?                 | <input type="checkbox"/> Where does the team believe market inefficiencies exist?       |
| <input type="checkbox"/> Is the philosophy consistent across market environments?     | <input type="checkbox"/> How does the manager behave when the strategy is out of favor? |
| <input type="checkbox"/> Does the team's expertise align with the client's objective? | <input type="checkbox"/> Do holdings align with the client's objectives and values?     |
| <input type="checkbox"/> What is the manager's sell discipline?                       | <input type="checkbox"/> Are fees clear, transparent and fully understood?              |

**RED FLAG** | The manager's stated philosophy and actual portfolio don't match.

## 02 PEOPLE

### *Who is actually making the decisions?*

- |                                                                                   |                                                                                     |
|-----------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| <input type="checkbox"/> How long has the portfolio manager managed the strategy? | <input type="checkbox"/> Is the strategy managed by an individual or a team?        |
| <input type="checkbox"/> How dependent is the strategy on one individual?         | <input type="checkbox"/> Is there a documented succession plan?                     |
| <input type="checkbox"/> Who are the key investment professionals?                | <input type="checkbox"/> How many research analysts support the strategy?           |
| <input type="checkbox"/> Has there been meaningful investment-team turnover?      | <input type="checkbox"/> Is the team adequately staffed for current and future AUM? |

**RED FLAG** | Historical performance depends heavily on a portfolio manager who is no longer running the strategy.

## 03 PROCESS

### *How does the philosophy become a portfolio?*

- |                                                                                       |                                                                                                 |
|---------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> How are investment ideas generated and securities evaluated? | <input type="checkbox"/> How are positions sized and risk managed?                              |
| <input type="checkbox"/> What triggers a sell decision?                               | <input type="checkbox"/> How much discretion does the portfolio manager have?                   |
| <input type="checkbox"/> What is systematic versus discretionary?                     | <input type="checkbox"/> How are portfolio changes implemented?                                 |
| <input type="checkbox"/> How does the SMA differ from the firm's other vehicles?      | <input type="checkbox"/> How are client restrictions, customization and tax management handled? |

**RED FLAG** | The process is difficult to explain, inconsistent or overly dependent on judgment without a repeatable framework.

## 04 PERFORMANCE

### Does the evidence support the story?

- ☐ Is performance appropriately presented and, where applicable, GIPS compliant?
- ☐ Does the history represent the strategy being evaluated?
- ☐ Do risk analytics align with the client's objective?
- ☐ Review drawdown, downside/upside capture and downside deviation.
- ☐ Review tracking error and active share where appropriate.
- ☐ Is the strategy truly active, or is it a closet index?
- ☐ Is the strategy style-consistent? Are there unexplained outliers?
- ☐ How did it perform across cycles, drawdowns and versus appropriate peers?
- ☐ Have you read the performance disclosures and footnotes?

**RED FLAG | Performance, risk profile or portfolio characteristics don't match the manager's stated objective.**

## 05 PLATFORM

### Can the firm actually deliver?

- ☐ Are there material regulatory, compliance, legal or disciplinary issues?
- ☐ Has there been significant senior-management turnover?
- ☐ How committed is the firm to the SMA business?
- ☐ How accessible is the investment team?
- ☐ Does the firm have adequate trading, technology and operational resources?
- ☐ Can the platform support tax management and customization?
- ☐ Can the firm handle an influx of new assets and accounts?
- ☐ Can it scale without sacrificing service or investment quality?

**RED FLAG | The strategy is strong, but the firm lacks the infrastructure, resources or commitment to deliver it effectively.**

## THE FINAL NAUMAN STRATEGIC PARTNERS TEST

### Do the 5 Ps tell the same story?

| AREA        | CORE QUESTION                                     | ADVISOR ASSESSMENT         |
|-------------|---------------------------------------------------|----------------------------|
| Philosophy  | Clear, repeatable investment belief?              | Strong / Neutral / Concern |
| People      | Experience and resources to execute?              | Strong / Neutral / Concern |
| Process     | Disciplined process from philosophy to portfolio? | Strong / Neutral / Concern |
| Performance | Evidence supports objective and risk profile?     | Strong / Neutral / Concern |
| Platform    | Can the firm consistently deliver?                | Strong / Neutral / Concern |

**DON'T JUST ASK: "How did it perform?" ASK: "Is this the right manager for this client's objectives, constraints, and risk?"**

**Which manager gives my client the best probability of achieving their objective for the amount and type of risk they are taking?**