Investment Strategies

Mesirow Financial's PrecisionAlpha® process is at the forefront of the industry, combining talent, discipline, rigorous fund selection criteria and ongoing due diligence to select managers and build portfolios that truly seek out alpha. Our process utilizes a time-tested methodology as the foundation for creating asset class models, and adds proprietary manager research designed to enhance performance.

PrecisionAlpha® more accurately accounts for a manager's true potential for success and level of active risk.

What is PrecisionAlpha®

Unlike traditional strategies, PrecisionAlpha® uses a unique quantitative measure to more precisely estimate an investment manager's skill and probability of achieving alpha, or the excess return a manager generates above the market through skillful security selection. Through this rigorous quantitative approach, the PrecisionAlpha® process provides a framework to optimally blend investments into portfolios that maintain core risk and reward targets, yet seek to outperform the market.

PrecisionAlpha® seeks to maximize portfolio potential by:

- Incorporating a broader scope of managers:
  - While traditional industry research methods evaluate managers based on either past performance or style, PrecisionAlpha® considers both of these elements in its analysis. Considering both style-pure and multi-style managers enables more alpha-generating managers to remain in the selection universe. As a result, great managers can be rewarded with exposure on platforms and in models, and popular funds and fund families that might otherwise be excluded based on style can be used to implement an asset allocation policy.
- Evaluating manager skill versus luck:
  - Utilizing advanced statistical techniques, PrecisionAlpha® more accurately accounts for a manager's true potential for success and level of active risk. The primary goal of the PrecisionAlpha® process is to better separate luck from skill in choosing good managers.

PrecisionAlpha® has Broad and Granular Coverage of the Manager Universe

The PrecisionAlpha® process is currently applied to analyze and rank a total of fifty eight peer groups, including style-pure and multi-style peer groups for:

- Nine U.S. equity styles for style pure manager peer groups
- Nine U.S. equity styles for multi-style manager peer groups
- Eight international equity peer groups
- Three world equity peer groups
- Six equity sector peer groups

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Traditional Methods vs. the PrecisionAlpha® Process

The PrecisionAlpha® Process improves upon traditional methods in a number of areas:

Investment Process Feature	Traditional Methods	The PrecisionAlpha® Process
Manager Style Purity and Consistency	The conventional approach to implementing strategic asset allocation utilizes only style-pure managers for each asset class in a model portfolio and excludes managers without pure exposure, despite their potentially superior performance.	The PrecisionAlpha® process categorizes managers into separate style-pure and multi-style peer groups, so that allocation to each asset class includes both style-pure managers and alpha hunting managers that may exhibit multiple styles and capitalizations or style variation over time.
Style Analysis Method	Traditional Returns-Based Style Analysis (RBSA) uses a "Standard R-Squared" regression approach to measure the success of a fixed set of asset class benchmarks in order to explain manager returns. The downside to this approach is that the standard R-Squared statistic becomes inflated with the addition of (typically highly correlated) benchmarks, and can give the appearance of an accurate manager style assessment regardless of how well the individual bench-marks explain manager returns.	The PrecisionAlpha® methodology uses an "Adjusted R-Squared" approach, which takes into account the number of benchmarks used to find the most accurate measure of asset class exposure. The result is a more accurate custom RBSA style benchmark (the manager "beta"), which in turn provides a more accurate estimate of manager alpha.
Peer Grouping Method	The typical approach for assigning managers to peer groups employs either a holdings-based analysis or the standard R-Squared returns-based analysis. Holdings-based peer grouping often relies on a snapshot of a manager's holdings at a single point in the recent past, while returns-based peer grouping typically uses a single long-term period or rolling period analysis that can fail to capture the subtleties of a manager's strategy.	The PrecisionAlpha® peer grouping procedure combines RBSA and holdings-based analysis, with holdings-based categorization as the starting point and a statistical precision-weighted average of Single Period and Rolling Period regressions as the trigger to actively peer group managers. The rolling-period RBSA captures dynamic and recent style changes more effectively than the single-period RBSA alone, and the combined measure captures how a manager has acted both long-term and as time has progressed.
Alpha Estimation	Conventional performance forecasts rely on purely historical alpha estimates that can be misleading and unstable over time, with some managers achieving stellar performance and ranking highly after getting lucky with a few security picks, while lacking the consistent skill that a long-term manager choice should possess.	The PrecisionAlpha® calculation applies a confidence measure to more accurately explain as much of a manager's return as possible and identify managers that have demonstrated skill consistently over time. The final PrecisionAlpha® value is a performance forecast combining a sophisticated regression analysis of historical returns, and Bayesian statistical methods to enhance the precision of the alpha estimate. Managers demonstrating positive PrecisionAlpha®scores are typically historical winners, and they are also the winners most likely to repeat over the next 12 to 18 months.

Considering both style-pure and multi-style managers enables more alpha-generating managers to remain in the selection universe.

- Twelve U.S. government/credit bond peer groups
- Four U.S. specialty bond peer groups
- Three international/multi-sector bond peer groups
- Four asset/world allocation peer groups

The granularity with which the process subdivides the universe enhances the likelihood that the managers within each group are suitable for "apples to apples" comparisons, and in turn enhances the integrity of both the peer groups and the absolute and risk-adjusted performance rankings that they generate.

Investment Strategies Division

The Investment Strategies group at Mesirow Financial is an independent, third-party investment consultant that provides robust asset allocation strategies and fund selection to defined contribution providers, insurance companies, broker/dealers and mutual fund companies.

About Mesirow Financial

Mesirow Financial is a diversified financial services firm headquartered in Chicago. Founded in 1937, it is an independent, employee-owned firm with approximately 1,200 employees globally. With expertise in Investment Management, Global Markets, Insurance Services and Consulting, Mesirow Financial strives to meet the financial needs of institutions, public sector entities, corporations and individuals. For more information about Mesirow Financial, visit its website at mesirowfinancial.com..

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Innovative Solutions.