

## Nesting an Investment Strategy within a Financial Plan

Gordon B. Fowler, Jr., Executive Vice President and Chief Investment Officer



Investing and financial planning are often treated as separate disciplines. In fact, they are closely linked. Investing, on its own, is the art of maximizing return and minimizing risk.

Financial Planning, in part, is the process of defining objectives and developing a strategy that best ensures that those objectives are met. When combined, these two disciplines try to answer the question, "What is the investment strategy that will best achieve my financial planning goals and objectives?"

At Glenmede, we firmly believe that an asset allocation and investment strategy should be wrapped around a very clear understanding of a client's financial plans. Given our outlook for fairly volatile markets, we would recommend that our clients not only review their investment strategy but also review, do, or redo their financial plan with their relationship management team.

### A very volatile market outlook

By most historical measures, the equity market is selling at very attractive levels. For long-term investors, this should be a good time to put money into the markets. Having said this, we are facing extraordinary economic conditions, and it is quite possible that we could see either a further decline in the market or a sustained period of flat stock market performance. While it would be nice if we could see the coming years' markets with perfect certainty, we can only tell you what is likely to happen rather than what will happen.

Investing without planning for the possibility that a significant downturn from current levels may occur is a bit like living in a house without fire insurance. Hopefully, in both cases, your worst fears will not be realized, and caution is

merely a cost. Even so, sleeping may be a little difficult. By designing an investment strategy that fits within a financial plan, you may not be able to eliminate portfolio volatility. You can know, however, with greater certainty that you can reach your goals.

### Knowing your objectives

The first step in creating a financial plan is actually the most important: knowing your financial goals. Financial planning goals can often be broken down into three general categories.

**a. Personal Spending:** How much do you plan to spend per year personally?

**b. Legacy:** How much would you like to leave to family members and other beneficiaries of your estate?

**c. Charitable:** How much would you like to leave to charitable causes, and at what point would you like to make these gifts?

With these amounts in hand (along with some basic information concerning your assets, liabilities, and your estate plan), we can begin to create a financial plan. From that financial plan, an investment plan can be developed.

### Investing with an eye towards meeting financial goals

So, how do we determine whether your investment strategy is going to be able to meet your financial goals? In a comprehensive financial plan, we project your spending, examine your assets, and estimate the probability of meeting your goals. For most of our clients, this is a worthwhile exercise every two or three years or after major changes in their personal plans or in the financial markets. There are, however, some simple ways of approaching this issue particularly as it relates to whether you will have enough money to meet personal spending goals.

## Strategic Hires



Our last issue of Perspectives discussed several advantages of our private ownership structure; one being our ability to attract thought

leaders and industry experts. During 2008, Glenmede augmented our investment and wealth services expertise through several significant additions to our staff.

- **Ben Alimansky**, the new managing director of Glenmede's Manager Alliances Program, monitors outside hedge funds and other opportunistic investment strategies.
- **Adam Psichos** brings over twenty years of experience in many facets of wealth management as he oversees Glenmede's Morristown office and manages individual investment portfolios.
- To enhance our trust and estate capabilities, **Richard Auth** and **Wendy Lewis** joined Glenmede's Ohio office.
- **Gale Terrill** brings an extensive background in the Philadelphia-area wealth advisory community to individual trust and estate management.
- With a career spanning over thirty years, **John Wright** joined Glenmede's Princeton office to manage investment portfolios.

While many financial advisors have trimmed staff recently, bringing these people on board exemplifies our ongoing commitment to stand behind our clients' needs.

**Howard E. N. Wilson**  
Executive Vice President  
and Director of Client Services

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The traditional way of linking financial planning to investing is to create an asset mix that produces enough income to meet your personal spending needs. This old approach has some advantages. First if you have a diversified portfolio, the interest and dividend income it produces will



probably be fairly stable even though the market value may swing quite significantly. This approach, which allowed many investors to ride through the downturn, can give you the ability to withstand difficult periods and benefit from stock market growth over time.

The disadvantage of this approach is that it may lead investors into an

inappropriate amount in fixed income securities. Bonds are wonderful investments when the market declines. They will probably not, however, appreciate much over time and may not be able to compensate for the loss of purchasing power due to inflation.

The more modern, alternative approach is to find an asset mix where the expected total return (income plus capital appreciation) will meet your goals. A simple example of implementing this approach is to determine your spending rate (spending divided by assets) and to make an estimate of inflation. This sum equals the expected return you would need from an asset mix to meet your current spending needs, your spending needs as they grow with inflation, and the inflation-adjusted value of the assets that you might leave to charity or the family members in your estate.

For example, if you spend, on average, 4% of your assets each year and inflation is 3%, you will need a combination of stocks and bonds that earns a 7% rate of return over time. At present, we estimate that a mix with 56% or more in equities would be able to achieve this return.

A more complex analysis may need to be done if you are spending more than your estimated total return. In this case, you will be reducing the size of your assets over time. At this point, a financial analysis can be used to calculate the probability that you may outlive your assets.

The critical problem with the "total return" approach to planning is that it assumes that portfolios will not just produce income but also see capital appreciation. This is usually true but certainly not the case over exceptional periods like the last ten years. An issue that can arise is that either your personal spending will need to decrease if the market declines; or, if you don't adjust your spending, you will need to liquidate a greater percentage of your assets during a time when stocks are relatively cheap.

Many people end up finding that it makes sense to marry the two approaches. For example, they may choose to invest from a total return perspective for the long term but set aside their estimated spending needs over the next year or two in cash or short-term fixed income securities. Regardless of how you and your relationship management team approach your situation, it makes sense to update your financial plan once every two or three years and evaluate whether your investment strategy is in line with your financial goals.

*To discuss if your current asset allocation aligns with your financial plan (or to develop a plan if you do not already have one), please contact your Relationship Manager.*

## Adjusting our Focus



Glenmede has always taken pride in adding value to the communities where we do business. This has been

demonstrated over many years through the volunteer efforts of our employees and the financial support we provide to organizations dedicated to cultural, educational, human service, and conservation pursuits. We believe that this is in keeping with the spirit of our founders.

With these thoughts in mind, we periodically assess the focus of our charitable contribution program. It is appropriate to reaffirm our commitments, while also being mindful of shifting priorities and interests. Glenmede community and charitable support has traditionally fallen into two categories: direct contributions to key non-profit partners and client social events held in non-profit venues.

This year, we will continue to support and enhance our key partnerships with several non-profit organizations. In Philadelphia, this includes

The Barnes Foundation, The Curtis Institute of Music, the Jewish Federation of Greater Philadelphia, and the United Way, to name a few. Our regional offices each have similar alliances. Glenmede recognizes the enormous positive impact these organizations have on their respective communities, and we remain dedicated to their success.

The focus of Glenmede's client events will be modified this year. Increased client communications and market updates will replace select client social events. We will

continue our regular client conference calls with Gordon Fowler, our Chief Investment Officer. We recently introduced the Glenmede Economic + Market Outlook program. This periodic forum will feature Gordon and other senior investment professionals and will include timely, insightful analysis of the current economic landscape and financial markets. These presentations are planned across all locations.

Finding innovative ways to address new situations always presents both challenges and opportunities. Our

# Still Thinking Green

Laura A. Williamson, Executive Vice President and Chief Operating Officer



Glenmede values our history and the ideals of our founders that, over the years, have been the cornerstone of the Company's business practices. As a natural

outgrowth of those values, at the heart of which is social responsibility, we have become increasingly attuned to environmental responsibility.

Sustainability, which is receiving heightened focus today, is evident in businesses that promote "green" activities in transportation and building practices as well as zero waste and emissions in manufacturing. Glenmede also recognizes its responsibility to serve as a more effective steward of natural resources. Toward this aim, we will be proactive in adopting business practices and behaviors in response to advances in technology that are consistent with this objective. In addition, we will raise awareness among our key stakeholders about the avenues available to them to join us in this effort.

commitment to our clients and the communities where we do business remains as firm as ever. In these demanding economic times, we are equally committed to providing a high level of communication and timely information. Our clients, colleagues, and friends expect and deserve no less.

**A.E. Piscopo**  
President and  
Chief Executive Officer

Currently, our sustainability initiatives are demonstrated in a few key areas:

**Communication:** replacing electronic means for paper where appropriate. This is facilitated by proactive adoption and maintenance of highly secure technology practices. To further these goals, we encourage

- Clients and intermediaries to opt for electronic account statements through WebView rather than paper statements
- Email distribution of newsletters such as Perspectives and Insights

**Materials choices:** utilizing FSC\*-certified paper products and minimizing the use of plastics. To accomplish this, we have

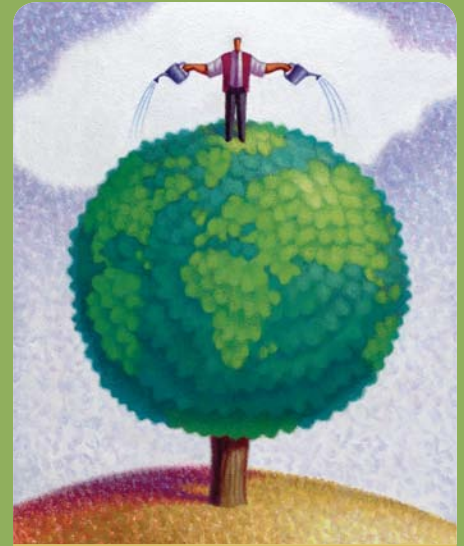
- Redesigned the client report package using FSC\*-certified products while reducing paper volume and eliminating plastics
- Eliminated the routine use of bottled water

**Technology:** applying energy-awareness in equipment choices. In this regard, we have

- Upgraded data networks to energy-efficient data servers, both onsite and at our recovery site
- Used motion-sensor light switches at Glenmede offices for over 14 years

**Workspace design:** seeking vendors with a commitment to sustainability in the manufacture of office furniture and fixtures and who employ sustainable design principles. Our initiatives in this area include

- Replacing all office chairs with a product that is award-winning in its manufacturing practices and its ergonomic design and is composed of materials that are 98% recyclable
- "Recycling" vintage furniture and equipment to nonprofit organizations or, in the case of replaced computer equipment, our colleagues



As a natural outgrowth of our values we have become increasingly attuned to environmental responsibility.

These initiatives result from our heightened awareness and understanding that even small steps can make a difference. In addition, we hope to show that we have heard and addressed client environmental concerns, and we welcome further commentary. We trust that both our employees and clients will help us be more environmentally aware by asking questions and making suggestions. By raising shared awareness, we can work together to protect and enhance the planet.

*\*FSC (Forest Stewardship Council) sets forth principles, criteria, and standards that span economic, social, and environmental concerns. The FSC standards represent the world's strongest system for guiding forest management toward sustainable outcomes. FSC standards for forest management have now been applied in over 57 countries around the world.*

# Too Good To Be True? How Glenmede Conducts Manager Due Diligence

Ben Alimansky, First Vice President and Director, Manager Alliances Program



Glenmede researches and identifies talented public securities investment managers through its Manager Alliances Program (MAP). In light of volatility in the

market and the Madoff scandal, the new head of MAP, Ben Alimansky, discusses Glenmede's approach toward manager due diligence.

The importance of performing thorough due diligence on investment managers is a key component of a wealth management organization. Glenmede employs two different perspectives when analyzing an investment manager.

The first perspective we use, investment due diligence, examines the manager's investment strategy and the skill of its team. We engage the fund manager in detailed discussions to understand the underlying processes used to find attractive investment ideas. We want to know what investment characteristics the manager finds important. This should be supported through numerous examples which demonstrate consistency of the approach over time.

Understanding how a manager practices risk management is a critical aspect of investment due diligence. This may include reviewing both explicit rules, such as constraints on the size of individual positions, and implicit rules, which cover how the manager makes buy and sell decisions. Furthermore, the

manager should have a clear rationale for the number of positions in the portfolio and the relative size of each security to the overall portfolio. Information on different aspects of the strategy should be generally transparent, available on a regular basis, and viewed as part of ongoing due diligence.

A careful examination of the fund's historical track record should reflect the stated investment approach. It should be intuitive, both for a traditional long-only fund or complex hedge fund. We are skeptical of outsized performance and never hesitate to ask, "Is the performance too good to be true?"

The second perspective looks at the manager as a business. Mutual funds, hedge funds, and separate account strategies are businesses where talented professionals practice their craft. The success (or perhaps more importantly, resistance to failure) of the fund or strategy depends on its success as a business. We examine how the fund manager has structured the organization, both in terms of staffing and operations.

With regard to staffing, we want to see that the business is staffed to meet its objectives, both in terms of research and analysis as well as back office and operations. We want to see stability in the organization, rather than turnover. We also want to understand how key decisions are made, how analysts contribute ideas, but who has the final say

and responsibility. We consider whether the fund is staffed appropriately for the strategy being executed—and that there is capacity for future investment.

In conclusion, due diligence should follow one's intuition. It is iterative and often requires multiple meetings and

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conversations with a manager and its employees. We use our judgment, gained over years of investing experience, and ask probing questions, not relying purely on any one particular piece of information. Finally, we continually monitor the manager to ensure that it continues to meet objectives and sticks to its original mandate over the course of the investment.

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