



MCG Journal



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30th Edition

The Marco Consulting Group

Spring 2007

This edition of the MCG Journal highlights our new products and people. The Fiduciary Services Group was created to manage the complex nature of investment programs. The Fiduciary Services Group is the culmination of the Marco Consulting Group's investment experience and insight. As pension plans find it harder to meet the required "actuarial assumed rate of return", MCG is able to put its insight and abilities to work faster and more efficiently in rapidly changing markets to help achieve a pension plan's investment goals.

In addition, as MCG continues to enhance its capabilities and staff, we would like to introduce our new Director of Research, Jodie Gunzberg. As Director of Research, Ms. Gunzberg will supervise a staff of nine and be responsible for the manager search process, general research and the analysis of investment products.

Traditionally, MCG has advised clients in areas of asset allocation and manager selection. Reviewing performance, interviewing multiple managers, approving managers, and maintaining an investment program takes months even without any scheduling problems. The follow through of approved items may add on additional time due to legal, custodial, and manager process set ups.

In 2004, after a meeting where nine different managers presented, Jack Marco had a conversation with his client suggesting ways this process could be alleviated. Soon after, the Fiduciary Services Group (FSG) was created. FSG is comprised of four members who carry out specialized client investing and reporting needs. It is an extra service group that implements the Management Committee's decisions and assists in all aspects of the investment program.

How FSG service differs from the traditional consulting service is that it empowers MCG to make the decision and implement it faster and more efficiently. In this relationship, the lead consultant, the Management Committee, and FSG work in tandem (see *Exhibit 1*). The Management Committee makes the investment decision on behalf of the client and FSG puts the plan to work. Supported by all the resources within MCG, FSG is capable of reducing the investment process from months to weeks. The end result saves the client time and money and places the client plan in a position to earn better returns. Instead of meeting quarterly for hours at a time, FSG client meetings are scheduled to meet the client's situation. Reporting is generated monthly. Some FSG clients prefer monthly updates while others meet quarterly. The program is customized for each client.

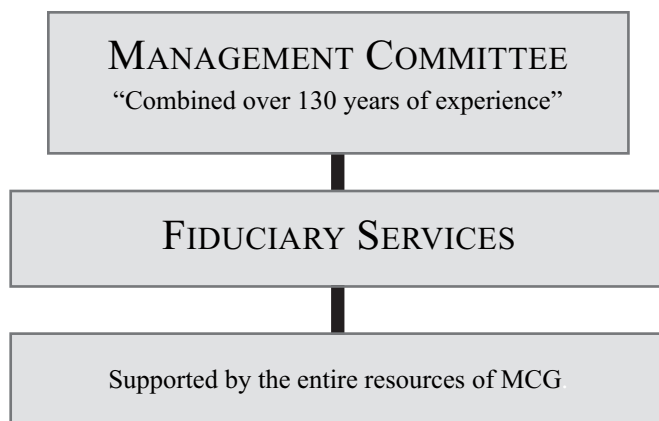


Exhibit 1

NEW ADDITION

MCG would like to announce the newest member of the MCG staff, Jodie Gunzberg. Jodie will be the new Director of Research.

Ms. Gunzberg had been Vice President/Portfolio Manager, Hedge Funds at Morningstar/Ibbotson prior to joining MCG. She previously held analytical/research positions at Driehaus Capital Management and Chicago Capital Management.

As Director of Research, Ms. Gunzberg will supervise a staff of nine and be responsible for the manager search process, general research and the analysis of investment products. She will report to Richard Graf, MCG's Chief Executive Officer.

"In addition to her research, analytical and managerial skills, we believe Jodie's familiarity with alternative asset class products will be a great benefit to our clients who are increasingly interested in such investment vehicles," Graf said.

Ms. Gunzberg is a Chartered Financial Analyst Charterholder. She has a Bachelor of Science degree in mathematics from Emory University and a Master of Business Administration degree from the University of Chicago.

FSG came to fruition based on the strengths that Marco Consulting has developed in six main areas:

COMMUNICATION

Marco Consulting is the lead communicator in its FSG relationships and coordinates all the parties involved including clients, managers and custodians. Years of experience enables us to be better versed to handle all aspects of the investment process. All investment decisions and market events are made aware to clients at scheduled meetings.

ASSET ALLOCATION STUDY

Asset allocation is the single most important factor in determining potential returns from investing. Determining the optimal asset mix is crucial in successfully reaching a plan's investment goals. In a traditional approach, "efficient" scenarios are constructed and presented to clients. These options are discussed by trustees and a static asset mix is adopted. This



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process is then repeated every 2-5 years. In the FSG approach, the options are revisited at least on a quarterly basis and are actively adjusted based on market outlooks. For example, within an equity strategy, weights can be altered toward value or growth based on recent economic news or outlooks. These alterations can be immediately implemented rather than left open for discussion at an upcoming meeting.

MANAGER STRUCTURE

After the determination of the optimal asset mix, FSG will diversify the manager structure to maximize return and control risk. The enhancement that FSG provides to this step is that it is maintained in a timely and efficient manner. Typically, the introduction of a new asset class or manager can take a month to identify managers, schedule interviews, have an approval meeting, and maintain the program. In an FSG relationship, such changes can take place in a fraction of that time. FSG continually reviews investment programs and if changes need to be made, they can occur in less than a month avoiding the typical time delay. In addition, changes are not driven by human emotion. If FSG feels a manager needs to be terminated or if an adjustment needs to be made based on current market environments, it can take action immediately.

MANAGER SELECTION

The key to implementing and maintaining the most optimal manager structure in a timely and efficient manner is the commitment of resources that have been made to FSG to perform the continual due diligence and monitoring of viable manager candidates.

The traditional MCG manager search approach is utilized in combination with the involvement of FSG. This extra layer performs more customized and deeper client specific analysis of manager candidates, such as:

- Correlation analysis within the context of all of the clients managers
- Market environment and cyclical performance based analysis
- Rolling period alpha/value added analysis
- Holdings based—overlap of holdings with other manager portfolios

After performing this analysis, FSG and Manager Search groups present the most viable candidates identified to the Management Committee. It is this committee that brings its collective experience to the table for the final selection of the manager candidate that is the best fit. Over 130 years of investment experience puts the Committee in an ideal position to choose the best managers.

IMPLEMENTATION

Once final decisions are made by the Management Committee, it is time to implement. This is a highly coordinated task and any inefficiencies may be costly to a benefit plan. FSG coordinates all of the parts of the implementation including legal, custodian, and complete management.

MONITORING & REPORTING

MCG has 20 years experience in monitoring and reporting and continually makes enhancements to the process. Different from the traditional consulting role, FSG client reporting is conducted on a monthly basis with additional written commentary included at quarter end.

FSG is involved in the monitoring and reporting process at multiple levels:

- **Daily** – monitor cash accounts to ensure full knowledge of cash flows
- **Monthly** – generate monthly reports, work with fund staff to meet cash requirements for benefits
- **Quarterly** – Prepare quarterly summary with written commentary; Review manager invoices and facilitate payments when necessary
- **Semi-annually** – Conduct face to face meetings with all investment managers. This is in addition to numerous discussions, conference calls, and other communication that occurs more frequently
- **Yearly** – attend manager meetings for year end performance results and outlook

In addition, FSG leverages the resources of MCG to incorporate any specialized needs or issues. For example, should issues arise involving non- traditional assets or custodians, FSG will incorporate the respective MCG professionals on these topics.

FSG Client Performance

Return	Large Plan		Percentile Rank	Large Plan	
	1Yr	2Yr		1Yr	2Yr
2005	7.4%	N/A	2005	47%	N/A
2006	15.5%	11.4%	2006	1%	11%

Exhibit 2

FSG EXPERIENCE

FSG started working with its first client in 2005. The initial manager and asset changes were implemented over the first year. The end result was a 7.4% return placing them at the 47th percentile plans in the MCG population. The benefits of being an FSG client became clear after the initial transition. In 2006, their plan earned a 15.5% return. This placed them as the top performer among large plans on a one year basis and in the 11th percentile for large plans on a two year basis. (see *Exhibit 2*)

OUTLOOK

FSG is getting a lot of interest and attention from MCG clients. To date, FSG has just over \$3.5 billion assets under management and the outlook is positive. FSG services are ideal for plans of all sizes and investment goals. Based on client comments, our current estimates are that the FSG asset base could double to triple in the next few years.

SAVE THE DATE

Marco Consulting Group's IFEBP Breakfast
Sunday, November 4, 2007